

AXIM BIOTECHNOLOGIES, INC.  
Form 10-Q  
August 14, 2018

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended June 30, 2018**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-54296

**AXIM Biotechnologies, Inc.**

(Exact name of registrant as specified in its charter)

**Nevada**

**27-4029386**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

**45 Rockefeller Plaza, 20<sup>th</sup> Floor, Suite 83**

**New York, NY 10111**

(Address of principal executive offices)

**(212) 751-0001**

(Registrant's telephone number, including area code)

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(Former name, former address and former fiscal year, if changed since last report)

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 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 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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated Filer  Accelerated Filer  Non-accelerated filer  Smaller reporting Company  Emerging growth Company

(Do not check if smaller reporting company)

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 [X]

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APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Exchange Act of 1934 after the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 58,080,749 of common stock, par value \$0.0001 per share, outstanding as of August 10, 2018.

**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**AXIM BIOTECHNOLOGIES, INC.**

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**AXIM BIOTECHNOLOGIES, INC.**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

|   | <b>June 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---|--------------------------|------------------------------|
| <b>ASSETS</b>   |                          |                              |
| Current assets:   |                          |                              |
| Cash  | \$ 515,171               | \$ 2,057,843                 |
| Inventory   | 6,099                    | 8,765                        |
| Prepaid expenses  | 91,626                   | 40,986                       |
| Loan receivable   | 5,000                    | 5,000                        |
| Total current assets  | 617,896                  | 2,112,594                    |
| Property and equipment, net of accumulated depreciation of \$9,509 and \$7,831, respectively.   | 7,271                    | 8,949                        |
| Other Assets:   |                          |                              |
| Acquired intangible asset - intellectual property licensing agreement, net  | 53,692                   | 63,167                       |
| Security deposits   | 7,440                    | 7,440                        |
| Total other assets  | 61,132                   | 70,607                       |
| <b>TOTAL ASSETS</b>   | <b>\$ 686,299</b>        | <b>\$ 2,192,150</b>          |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  |                          |                              |
| Current liabilities:  |                          |                              |
| Accounts payable and accrued liabilities  | \$ 372,714               | \$ 441,753                   |
| Due to shareholder  | 12,500                   | 5,000                        |
| Due to first insurance funding  | 69,841                   | 22,807                       |
| Due to related party  | 1,605,520                | 1,605,520                    |
| Promissory note - related party (including accrued interest of \$127,218 and \$114,126 respectively)  | 1,007,218                | 994,126                      |
| Convertible note payable (including accrued interest of \$21,082 and \$90,487 respectively) net of unamortized debt discount of \$275,607 and \$714,573, respectively (see note 10) | 3,821,905                | 4,635,914                    |
| Total current liabilities   | 6,889,698                | 7,705,120                    |

## Long-term liabilities:

|  |                    |                     |
|--|--------------------|---------------------|
| Convertible note payable (including accrued interest of \$92,150 and \$84,041 respectively) net of unamortized debt discount of \$857,610 and \$1,224,117 , respectively (see note 10) | 764,018            | 771,523             |
| Total long-term liabilities  | 764,018            | 771,523             |
| <b>TOTAL LIABILITIES</b>   | <b>7,653,716</b>   | <b>8,476,643</b>    |
| <b>STOCKHOLDERS' DEFICIT</b>   |                    |                     |
| Preferred stock, \$0.0001 par value, 5,000,000 shares authorized;  |                    |                     |
| Series B Convertible Preferred Stock, \$0.0001 par value 500,000 shares designated,  | 50                 | 50                  |
| 500,000 and 500,000 shares issued and outstanding, respectively  |                    |                     |
| Series C Convertible Preferred Stock, \$0.0001 par value 500,000 shares designated,  | 50                 | 50                  |
| 500,000 and 500,000 shares issued and outstanding, respectively  |                    |                     |
| Common stock, \$0.0001 par value, 300,000,000 shares authorized  |                    |                     |
| 57,541,228 and 54,564,441 shares issued and outstanding, respectively;   | 5,755              | 5,457               |
| Additional paid in capital   | 19,544,305         | 15,923,789          |
| Common stock to be issued  | 162,320            | 24,000              |
| Accumulated deficit  | (26,679,897)       | (22,237,839)        |
| <b>TOTAL STOCKHOLDERS' DEFICIT</b>   | <b>(6,967,417)</b> | <b>(6,284,493)</b>  |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   | <b>\$ 686,299</b>  | <b>\$ 2,192,150</b> |

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

**AXIM BIOTECHNOLOGIES, INC.**  
**Condensed Consolidated Statement of Operations**  
**(Unaudited)**

|                                     | <b>For the<br/>Three<br/>Months<br/><br/>Ended<br/>June 30,<br/>2018</b> | <b>For the<br/>Three<br/>Months<br/><br/>Ended<br/>June 30,<br/>2017</b> | <b>For the<br/>Six Months<br/><br/>Ended<br/>June 30,<br/>2018</b> | <b>For the<br/>Six<br/>Months<br/><br/>Ended<br/>June 30,<br/>2017</b> |
|-------------------------------------|--|--|--|--|
| Revenues                            | \$ 8,174   | 3,738  | \$ 22,422  | \$ 22,358  |
| Cost of goods sold                  | 2,281  | 1,486  | 3,989  | 40,416   |
| Gross profit (loss)                 | 5,893  | 2,252  | 18,433   | (18,058)   |
| Operating Expenses:                 |  |  |  |  |
| Research and development expenses   | 672,743  | 62,949   | 1,351,398  | 203,314  |
| Selling, general and administrative | 673,313  | 375,713  | 2,042,556  | 690,514  |
| Depreciation                        | 839  | 839  | 1,678  | 1,678  |
| Total operating expenses            | 1,346,895  | 439,501  | 3,395,632  | 895,506  |
| Loss from operations                | (1,341,002)  | (437,249)  | (3,377,199)  | (913,564)  |
| Other (Income) expenses:            |  |  |  |  |
| Interest Income                     | -  | -  | -  | (1,597)  |
| Amortization of Debt Discount       | 224,811  | 84,995   | 805,474  | 109,867  |
| Interest expense                    | 112,753  | 42,493   | 259,385  | 67,053   |
| Total other (income) expenses       | 337,564  | 127,488  | 1,064,859  | 175,323  |
| Loss before provision of income tax | (1,678,566)  | (564,737)  | (4,442,058)  | (1,088,887)  |
| Provision for income tax            | -  | -  | -  | -  |
| NET LOSS                            | \$ (1,678,566)   | (564,737)  | \$ (4,442,058)   | \$ (1,088,887)   |



|  |    |             |    |            |    |             |    |             |
|--|----|-------------|----|------------|----|-------------|----|-------------|
| NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS                   | \$ | (1,678,566) | \$ | (564,737)  | \$ | (4,442,058) | \$ | (1,088,887) |
| Loss per common share - basic and diluted                      | \$ | (0.03)      | \$ | (0.01)     | \$ | (0.08)      | \$ | (0.02)      |
| Weighted average common shares outstanding - basic and diluted |    | 56,930,136  |    | 52,568,174 |    | 55,985,893  |    | 52,542,308  |

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

**AXIM BIOTECHNOLOGIES, INC.**  
**Condensed Consolidated Statement of Stockholders' Deficit**  
**For the Six Months Ended June 30, 2018**  
**(Unaudited)**

|  | Common Stock |         | Preferred Stock |        | Series A<br>Convertible<br>Preferred Stock |        | Series B<br>Convertible<br>Preferred Stock |        | Series C<br>Convertible<br>Preferred Stock |        | Common<br>Stock<br>to be<br>Issued | Addition<br>Paid In<br>Capita |
|--|--------------|---------|-----------------|--------|--|--------|--|--------|--|--------|------------------------------------|-------------------------------|
|  | Shares       | Amount  | Shares          | Amount | Shares                                     | Amount | Shares                                     | Amount | Shares                                     | Amount |                                    |                               |
| Balance at<br>December<br>31, 2017                                   | 54,564,441   | \$5,457 | -               | \$-    | -  | \$-    | 500,000                                    | \$50   | 500,000                                    | \$50   | \$24,000                           | \$15,923                      |
| Common<br>stock issued<br>against<br>common<br>stock to be<br>issued | 2,179        | -       | -               | -      | -  | -      | -  | -      | -  | -      | (15,000)                           | 15                            |
| Common<br>shares<br>issued in<br>redemption<br>of note               | 1,925,830    | 193     | -               | -      | -  | -      | -  | -      | -  | -      | -                                  | 403                           |
| Common<br>stock issued<br>for<br>consulting<br>services              | 174,000      | 17      | -               | -      | -  | -      | -  | -      | -  | -      | -                                  | 817                           |
| Common<br>stock to be<br>issued for<br>consulting<br>services        | -            | -       | -               | -      | -  | -      | -  | -      | -  | -      | 28,320                             |                               |
| Common<br>stock to be<br>issued to<br>Board of                       | -            | -       | -               | -      | -  | -      | -  | -      | -  | -      | 125,000                            |                               |

Directors

Common  
stock issued  
under  
registration  
statement  
on Form  
S-3

|         |    |   |   |   |   |   |   |   |   |   |   |       |
|---------|----|---|---|---|---|---|---|---|---|---|---|-------|
| 670,000 | 67 | - | - | - | - | - | - | - | - | - | - | 1,784 |
|---------|----|---|---|---|---|---|---|---|---|---|---|-------|

Common  
stock issued  
per stock  
purchase  
agreement

|         |    |   |   |   |   |   |   |   |   |   |   |     |
|---------|----|---|---|---|---|---|---|---|---|---|---|-----|
| 204,778 | 21 | - | - | - | - | - | - | - | - | - | - | 599 |
|---------|----|---|---|---|---|---|---|---|---|---|---|-----|

Net loss

|   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| - | - | - | - | - | - | - | - | - | - | - | - | - |
|---|---|---|---|---|---|---|---|---|---|---|---|---|

Balance at  
June 30,  
2018

|            |         |   |     |   |             |              |              |              |          |
|------------|---------|---|-----|---|-------------|--------------|--------------|--------------|----------|
| 57,541,228 | \$5,755 | - | \$- | - | \$- 500,000 | \$50 500,000 | \$50 500,000 | \$50 162,320 | \$19,544 |
|------------|---------|---|-----|---|-------------|--------------|--------------|--------------|----------|

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

**AXIM BIOTECHNOLOGIES, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

|   | <b>For the<br/>Six Months<br/>ended<br/>June 30, 2018</b> | <b>For the<br/>Six Months<br/>ended<br/>June 30, 2017</b> |
|---|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |   |   |
| Net loss  | \$ (4,442,058)  | \$ (1,088,887)  |
| Adjustments to reconcile net loss to cash provided by (used in ) in operating activities: |   |   |
| Depreciation  | 1,678   | 1,678   |
| Stock based compensation  | 971,120   | 31,800  |
| Amortization of prepaid insurance   | 42,150  | 41,917  |
| Amortization of debt discount   | 805,474   | 109,867   |
| Amortization of Intangible Assets   | 9,475   | -   |
| Changes in operating assets & liabilities:  |   |   |
| Increase in prepaid expenses  | (7,790)   | -   |
| Increase in prepaid insurance   | (85,000)  | (85,000)  |
| Decrease in Inventory   | 2,666   | (25,236)  |
| Increase in due to First Insurance Funding  | 47,034  | -   |
| Decrease in accounts payable and accrued expenses   | (95,882)  | (28,230)  |
| Increase in Security Deposits   | -   | (7,440)   |
| Net cash used in operating activities   | (2,751,133)   | (1,049,531)   |
| <b>CASH FLOW FROM FINANCING ACTIVITIES:</b>   |   |   |
| Proceeds from due to shareholders   | 7,500   | -   |
| Repayment of convertible notes  | (1,183,571)   | -   |
| Proceeds from loans receivable  | -   | 500,000   |
| Proceeds from convertible notes   | -   | 3,940,000   |
| Common stock issued under registration statement on Form S-3                              | 1,784,532   | -   |
| Common stock issued per stock purchase agreement  | 600,000   | -   |
| Net cash provided by financing activities   | 1,208,461   | 4,440,000   |
| Net increase in cash and cash equivalents   | (1,542,672)   | 3,390,469   |

|  |    |                |                     |
|--|----|----------------|---------------------|
| Comprehensive income (loss)                      |    | -              | -                   |
| Cash and cash equivalents at beginning of period |    | 2,057,843      | 713,346             |
| Cash and cash equivalents at end of period       | \$ | <b>515,171</b> | <b>\$ 4,103,815</b> |

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

**CASH PAID DURING THE PERIOD FOR:**

|                                  |    |         |      |
|----------------------------------|----|---------|------|
| Interest                         | \$ | 282,680 | \$ - |
| Income taxes - net of tax refund | \$ | -       | \$ - |

**NON-CASH INVESTING AND FINANCING ACTIVITIES**

|  |    |         |              |
|--|----|---------|--------------|
| Common stock issued against common stock to be issued              | \$ | 15,000  | \$ 20,064    |
| Common stock issued against conversion of debt and interest        | \$ | 403,482 | \$ -         |
| Debt discount and initial derivative liability at issuance of note | \$ | -       | \$ 1,320,000 |

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

**AXIM BIOTECHNOLOGIES, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

**NOTE 1: ORGANIZATION**

The Company was originally incorporated in Nevada on November 18, 2010, as Axim International Inc. On July 24, 2014, the Company changed its name to AXIM Biotechnologies, Inc. to better reflect its business operations. The Company's principal executive office is located at 45 Rockefeller Plaza 20th Floor, Suite 83, New York, NY 10111. On August 7, 2014, the Company formed a wholly owned Nevada subsidiary named Axim Holdings, Inc. This subsidiary will be used to help facilitate the anticipated activities planned by the Company. On May 11, 2015 the Company acquired a 100% interest in Can Chew License Company a Nevada incorporated licensing Company, through the exchange of 5,826,706 shares of its common stock.

**NOTE 2: BASIS OF PRESENTATION:**

The unaudited condensed consolidated financial statements of AXIM Biotechnologies, Inc. (formerly Axim International, Inc.) as of June 30, 2018, and for the three and six months period ended June 30, 2018 and 2017 have been prepared in accordance with United States generally accepted accounting principles ("US GAAP").

The following (a) balance sheets as of June 30, 2018 (unaudited) and December 31, 2017, which have been derived from audited financial statements, and (b) the unaudited interim statements of operations and cash flows of AXIM Biotechnologies, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2018 are not necessarily indicative of results that may be expected for the year ending December 31, 2018. These unaudited financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC") on March 15, 2018.

**NOTE 3: GOING CONCERN**

The Company's unaudited condensed consolidated financial statements have been presented assuming that the Company will continue as a going concern. As shown in the unaudited condensed consolidated financial statements, the Company has negative working capital of \$6,271,802 and has an accumulated deficit of \$26,679,897 has cash used in operating activities of continuing operations \$2,751,133 and presently does not have the resources to accomplish its objectives during the next twelve months. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue in operation.

The Company intends to raise additional capital through private placements of debt and equity securities, but there can be no assurance that these funds will be available on terms acceptable to the Company or will be sufficient to enable the Company to fully complete its development activities or sustain operations. If the Company is unable to raise sufficient additional funds, it will have to develop and implement a plan to further extend payables, reduce overhead, or scale back its current business plan until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful.

**NOTE 4: SIGNIFICANT ACCOUNTING POLICIES**

**Use of estimates**

The preparation of the unaudited financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expenses during reporting periods. Actual results could differ from these estimates.

### **Cash equivalents**

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

### **Inventory**

Inventory consists of finished goods available for sale and raw materials owned by the Company and are stated at the lower of cost or market. As of June 30, 2018, the finished goods inventory totaled \$6,099 and raw materials in production totaled \$-0-.

### **Property and equipment**

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using straight-line method over the estimated useful life. New assets and expenditures that extend the useful life of property or equipment are capitalized and depreciated. Expenditures for ordinary repairs and maintenance are charged to operations as incurred. For the six months ended June 30, 2018 and 2017 the Company recorded \$1,678 of depreciation expense for each of these periods.

### **Intangible Assets**

As required by generally accepted accounting principles, trademarks and patents are not amortized since they have an indefinite life. Instead, they are tested annually for impairment. Intangible assets as of June 30, 2018 amounted to \$53,692 net of accumulated impairment losses of \$661,740.

### **Revenue Recognition**

On January 1, 2018 the Company adopted guidance contained in Topic 606 (FASB ASC 606). The core principle of Topic 606 (FASB ASC 606) is that an entity should recognize revenue to depict the transfer of goods or services to



customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The revenue recognition guidance contained in Topic 606, to follow the five-step revenue recognition model along with other guidance impacted by this standard: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transportation price; (4) allocate the transportation price; (5) recognize revenue when or as the entity satisfies a performance obligation. Previous practices were broadly consistent with this approach, and the company determined the amount of revenue based on the amounts customer paid or promised to pay.

In April 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) “ASU 2016 – 10 Revenue from Contract with Customers: identifying Performance Obligations and Licensing”. The amendments in this Update clarify the two following aspects (a) contracts with customers to transfer goods and services in exchange for consideration and (b) determining whether an entity’s promise to grant a license provides a customer with either a right to use the entity’s intellectual property (which is satisfied at a point in time) or a right to access the entity’s intellectual property (which is satisfied over time). The amendments in this Update are intended to reduce the degree of judgment necessary to comply with Topic 606. The Company adopted this guidance.

Revenues from continuing operations recognized for the six months ended June 30, 2018 and 2017 amounted to \$22,422 and \$22,358, respectively.

### **Principles of Consolidation**

The consolidated financial statements include the accounts of Axim Biotechnologies, Inc. and its wholly owned subsidiaries Axim Holdings, Inc. Can Chew License Company, and Axim Biotechnologies (the Netherland company) as of June 30, 2018. All significant intercompany transactions and balances have been eliminated in consolidation.

### **Derivative Liabilities**

The Company assessed the classification of its derivative financial instruments as of June 30, 2018, which consist of convertible instruments and rights to shares of the Company’s common stock and determined that such derivatives meet the criteria for liability classification under ASC 815.

ASC 815 generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to the requirement of ASC 815. ASC 815 also provides an exception to this rule when the host instrument is deemed to be conventional, as described.

### **Fair Value of Financial Instruments**

Effective January 1, 2008, the Company adopted FASB ASC 820-Fair Value Measurements and Disclosures, or ASC 820, for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements established a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of ASC 820 did not have an impact the Company's financial position or operating results but did expand certain disclosures.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The Company did not have any Level 2 or Level 3 assets or liabilities as of June 30, 2018, with the exception of its convertible notes payable and derivative liability. The carrying amounts of these liabilities at June 30, 2018 approximate their respective fair value based on the Company's incremental borrowing rate.

Cash is considered to be highly liquid and easily tradable as of June 30, 2018 and therefore classified as Level 1 within our fair value hierarchy.

In addition, FASB ASC 825-10-25 Fair Value Option, or ASC 825-10-25, was effective for January 1, 2008. ASC 825-10-25 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value options for any of its qualifying financial instruments.

### **Convertible Instruments**

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with professional standards for “Accounting for Derivative Instruments and Hedging Activities”.

Professional standards generally provide three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instruments are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as “The Meaning of “Conventional Convertible Debt Instrument”.

The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with professional standards when “Accounting for Convertible Securities with Beneficial Conversion Features,” as those professional standards pertain to “Certain Convertible Instruments.” Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

ASC 815-40 provides that, among other things, generally, if an event is not within the entity's control could or require net cash settlement, then the contract shall be classified as an asset or a liability.

## **Income Taxes**

The Company follows Section 740-10, Income tax ("ASC 740-10") Fair Value Measurements and Disclosures of the FASB Accounting Standards Codification, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent management concludes it is more likely than not that the assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Statements of Operations in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that the Company believes that these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including reversals of any existing taxable temporary differences, projected future taxable income, tax planning strategies, and the results of recent operations. If the Company determines that it would be able to realize a deferred tax asset in the future in excess of any recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company adopted section 740-10-25 of the FASB Accounting Standards Codification ("Section 740-10-25"). Section 740-10-25 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under Section 740-10-25, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent (50%) likelihood of being realized upon ultimate settlement. Section 740-10-25 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. The Company had no liabilities for unrecognized income tax benefits according to the provisions of Section 740-10-25.

## **Concentrations of Credit Risk**

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents. The Company places its cash and temporary cash investments with credit quality institutions. At times, such amounts may be in excess of the FDIC insurance limit. The Company does not have accounts receivable and allowance for doubtful accounts on June 30, 2018 and December 31, 2017.

### **Net Loss per Common Share**

Net loss per common share is computed pursuant to section 260-10-45 Earnings Per Share (“ASC 260-10”) of the FASB Accounting Standards Codification. Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding and the member potentially outstanding during each period. In periods when a net loss is experienced, only basic net loss per share is calculated because to do otherwise would be anti-dilutive.

There were 14,793,272 common share equivalents on June 30, 2018 and 15,587,904 common shares at December 31, 2017. For the six months ended June 30, 2018 and 2017 these potential shares were excluded from the shares used to calculate diluted earnings per share as their inclusion would reduce net loss per share.

### **Stock Based Compensation**

All stock-based payments to employees and to nonemployee directors for their services as directors, including any grants of restricted stock and stock options, are measured at fair value on the grant date and recognized in the statements of operations as compensation or other expense over the relevant service period. Stock-based payments to nonemployees are recognized as an expense over the period of performance. Such payments are measured at fair value at the earlier of the date a performance commitment is reached, or the date performance is completed. In addition, for awards that vest immediately and are non-forfeitable the measurement date is the date the award is issued.

### **Cost of Sales**

Cost of sales includes the purchase cost of products sold and all costs associated with getting the products to the customers including buying and transportation costs.

### **Research and Development**

The Company accounts for research and development costs in accordance with the Accounting Standards Codification subtopic 730-10, Research and Development (“ASC 730-10”). Under ASC 730-10, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company incurred research and development expenses of \$672,743 and \$62,949 for the three months ended June 30, 2018 and 2017 respectively. The Company incurred research and development expenses of \$1,351,398 and \$203,314 for the six months ended June 30, 2018 and 2017 respectively.

### **Shipping Costs**

Shipping and handling costs billed to customers are recorded in sales. Shipping costs incurred by the company are recorded in general and administrative expenses.

### **Recently Issued Accounting Standards**

In July 2018, the FASB issued ASU 2018-09, “Codification Improvements.” This ASU makes changes to a variety of topics to clarify, correct errors in, or make minor improvements to the Accounting Standards Codification. The majority of the amendments in ASU 2018-09 will be effective for the Company for fiscal years beginning after December 15, 2018. The Company expects to adopt ASU 2018-09 in the first quarter of 2019. The Company is evaluating the impact of the standard and does not expect the guidance to have a material effect on its financial statements.

In September 2017, the FASB issued ASU 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842). The effective date for ASU 2017-13 is for fiscal years beginning after December 15, 2018.

In July 2017, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): Part 1 – Accounting for Certain Financial Instruments with Down Round Features and Part 2 – Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with Scope Exception (“ASU No. 2017-11”). Part 1 of ASU No. 2017-11 addresses the complexity of accounting for certain financial instruments with down round features. Down round features are provisions in certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of ASU No. 2017-11 addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification®. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. For public business entities, the amendments in Part I of this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The amendments in Part II of this update do not require any transition guidance because those amendments do not have an accounting effect. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This new standard clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This new standard is effective for the Company as of January 1, 2018.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350)* that will eliminate the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, impairment charge will be based on the excess of a reporting unit's carrying amount over its fair value. The guidance is effective for the Company in the first quarter of fiscal 2023. Early adoption is permitted. The Company does not anticipate the adoption of this guidance to have a material impact on its consolidated financial statements, absent any goodwill impairment.

In October 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-16-Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 will require the tax effects of intercompany transactions, other than sales of inventory, to be recognized currently, eliminating an exception under current GAAP in which the tax effects of intra-entity asset transfer are deferred until the transferred asset is sold to a third party or otherwise recovered through use. The guidance will be effective for the first interim period of our 2019 fiscal year, with early adoption permitted.

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) ASU N. 2016-15, “Classification of Certain Cash Receipts a Cash Payments” (“ASU 2016-15”). ASU 2016-15 provides guidance regarding the classification of certain items within the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017 and was adopted by the Company.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) 2016-02, which amends the guidance in U.S. GAAP on accounting for operating leases, a lessee will be required to recognize assets and liabilities for operating leases with lease terms of more than 12 months on the balance sheet. The new standard is effective for fiscal years and interim periods beginning after December 15, 2018, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted. The Company is currently evaluating the impact of adopting this guidance.

The amendments also clarify that the guidance in Topic 275, Risks and Uncertainties, is applicable to entities that have not commenced planned principal operations.

Other recent accounting pronouncements issued by the FASB and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements

#### **NOTE 5: PREPAID EXPENSES**



Prepaid expenses consist of the following as of June 30, 2018 and December 31, 2017:

|                        | <b>June 30,</b> | <b>December 31,</b> |
|------------------------|-----------------|---------------------|
|                        | <b>2018</b>     | <b>2017</b>         |
| Prepaid Consulting Fee | \$ 6,758        | \$ -                |
| Prepaid insurance      | 83,836          | 40,986              |
|                        | \$ 90,594       | \$ 40,986           |

For the three and six months ended June 30, 2018 and 2017, the Company recognized amortization of prepaid expense of 21,192, 20,959, \$42,150 and \$41,917, respectively.

**NOTE 6: RESERVATION FEE DEPOSIT**

The Company does not have active reservation fee deposit as of June 30, 2018.

**NOTE 7: PROMISSORY NOTE - RELATED PARTY**

On August 8, 2014 the Company entered into a Promissory Note Agreement with Can Chew Biotechnologies, LLC (CCB), a related party (the owners of CCB also own a majority of the outstanding shares of the Company), under which it borrowed \$1,000,000 to fund working capital. The original loan was a demand note bearing interest at the rate of 7% per annum, which amount, along with principal, was payable upon demand. The demand note was amended effective January 1, 2015 to reduce the annual interest rate to 3%. All other terms and conditions shall remain in full force and effect. The Company is in discussions to have the demand note modified or exchanged for a longer term, fixed maturity note.

The following table summarizes promissory note payable as of June 30, 2018 and December 31, 2017:

|   | <b>June 30,</b> | <b>December</b> |
|---|-----------------|-----------------|
|   | <b>2018</b>     | <b>31,</b>      |
|   |                 | <b>2017</b>     |
| Promissory note payable, due on demand, interest at 3% p.a. | \$ 880,000      | \$ 880,000      |
| Accrued Interest  | 127,218         | 114,126         |
|   | \$ 1,007,218    | \$ 994,126      |

For the three and six months ended June 30, 2018 and 2017 the Company recognized interest expense of \$6,582, 6,581, \$13,092 and \$12,253, respectively on this note.

#### **NOTE 8: RELATED PARTY TRANSACTIONS**

The Company has received working capital advances from Can Chew Biotechnologies totaling \$1,605,520 as of June 30, 2018, which includes \$0 received during the six months ended June 30, 2018. The advances currently bear no interest and are payable on demand. The Company is in discussions to have the advances reduced to a longer term, fixed maturity note.

The Company owes \$5,000 to the president of the Company for a working capital advance of \$5,000 made in May of 2014.

On August 15, 2016 the Company issued 1,000,000 shares of its Series A Convertible Preferred Stock in exchange for 1,000,000 shares of its Undesignated Preferred Stock (see Footnote 11 - "Preferred Stock" for a discussion of the Company's preferred stock). The Undesignated Preferred Stock was held by Sanammad Foundation and MJNA Investment Holdings, LLC (500,000 shares each), which parties together own a majority of the common stock of the Company. Under the terms of the exchange, the 1,000,000 shares of Series A Convertible Preferred received in the exchange were immediately converted into 5,000,000 restricted shares of the Company's common stock (2,500,000 shares for each of Sanammad Foundation and MJNA Investment Holdings, LLC). As a result, the Series A Convertible Preferred Stock is retired and no longer available for future issuance. The three members of the Sanammad Foundation also serve as the current three directors of the Company and Sanammad, along with MJNA Investment Holdings, LLC, hold a majority of the outstanding stock of the Company.

On August 18, 2016 the Company issued all 500,000 shares of its newly designated Series B Preferred Stock to Sanammad Foundation in exchange for cash of \$50,000. As the holders of the Series B Preferred Stock, Sanammad has designated the current directors, Dr. George E. Anastassov, Dr. Philip A. Van Damme and Mr. Lekhram Changoer as their three Series B Directors.

On August 18, 2016 the Company issued all 500,000 shares of its newly designated Series C Preferred Stock to MJNA Investment Holdings, LLC in exchange for cash of \$65,000. As the holders of the Series C Preferred Stock, MJNA Investment Holdings, LLC has designated Dr. Timothy R. Scott, John W. Huemoeller II, Robert Cunningham and Blake Schroeder as their four

Series C Directors.

**NOTE 9: DUE TO FIRST INSURANCE FUNDING**

On June 25, 2018, the Company renewed its D&O insurance policy with total premiums, taxes and fees for \$85,000. A cash down payment of \$17,000 was paid on June 25, 2018. Under the terms of the insurance financing, payments of \$7,760, which include interest at the rate of 6.45% per annum, are due each month for nine months commencing on July 25, 2018. For the six months ended June 30, 2018, the Company recognized insurance expense of \$42,151.

**NOTE 10: CONVERTIBLE NOTES PAYABLE**

The following table summarizes convertible note payable- shareholder as of June 30, 2018 and December 31, 2017

|  | <b>June 30,</b>  | <b>December 31,</b> |
|--|------------------|---------------------|
|  | <b>2018</b>      | <b>2017</b>         |
| Convertible note payable, due on July 1, 2028, interest at 3.5% p.a. | \$ 45,000        | \$ 45,000           |
| Accrued interest   | 3,176            | 2,384               |
|  | <b>\$ 48,176</b> | <b>\$ 47,384</b>    |

On November 26, 2012, the Company entered into an interest free \$50,000 convertible loan payable maturing on December 31, 2014. The note was convertible into the Company's common stock at a conversion price of \$0.10 per share. The Company was unable to repay the loan as of December 31, 2014 and obtained multiple extensions until December 31, 2015. The Company had paid no interest or other consideration in return for the extensions of the loan. Unable to obtain further extension of the maturity date, on June 29, 2016, the Company entered into a Debt Exchange Agreement with the note holder whereby the Company exchange the note having a balance due of \$50,000 as of December 31, 2015, for a long-term convertible note in the amount of \$50,000. The new Convertible Note ("Note") bears interest at the rate of 3.5% per annum, payable annually beginning on July 1, 2017, and matures on July 1, 2028. The Note is convertible, in whole or in part at any time at the option of the holder, into the Company's common stock at a conversion price of \$0.01, provided however, the holder of the Note is not permitted to convert an amount of the Note that would result in the holder and its affiliates owning more than 4.9% of the Company's outstanding common stock. The Company determined fair value of new debt \$1,435,000 and as result was recorded \$1,385,000 as a loss on debt extinguishment at the year-end December 31, 2016. On June 30, 2016, the holder of the Note converted \$5,000 face value into 500,000 shares of the Company's common stock. The balance on the Note as of June 30, 2018 is \$48,176, including interest accrued thereon of \$3,176.

The following table summarizes convertible note payable as of June 30, 2018 and December 31, 2017

|   | <b>June 30,</b> | <b>December</b> |
|---|-----------------|-----------------|
|   | <b>2018</b>     | <b>31,</b>      |
|   |                 | <b>2017</b>     |
| Convertible note payable, due on April 21, 2025, interest at 4% p.a.    | \$ -            | \$ 16,600       |
| Convertible note payable, due on October 1, 2029, interest at 3.5% p.a. | 484,478         | 850,000         |
| Convertible note payable, due on October 1, 2029, interest at 3.5% p.a. | 1,000,000       | 1,000,000       |
| Convertible note payable, due on December 12, 2018, interest at 8% p.a. | 3,261,144       | 4,210,000       |
| Finance premium costs payable, due on December 12, 2018                 | 815,286         | 1,050,000       |
| Accrued interest  | 110,056         | 172,143         |
| Total   | 5,670,964       | 7,298,743       |
| Less: unamortized debt discount/finance premium costs                   | (1,133,217)     | (1,938,690)     |
| Convertible note payable, net   | 4,537,747       | 5,360,053       |
| Less: current portion   | (3,821,905)     | (4,635,914)     |
| Long term portion   | \$ 715,842      | \$ 724,139      |

The Company has outstanding convertible note payable having a balance due of \$- and \$16,600, as of June 30, 2018 and December 31, 2017; respectively, including interest. The Note bears interest at the rate of 4% per annum which accrues until maturity at April 21, 2025. The Note was issued in April of 2015 to a third-party as a non-refundable payment for consultancy services to be provided to the Company for a period of at least one year. The Note is convertible, in whole or in part at any time at the option of the holder, into shares of the Company's common stock at a

conversion price of \$0.10, provided however, the holder of the Note is not permitted to convert an amount of the Note that would result in the holder and its affiliates owning more than 4.9% of the Company's outstanding common stock. On June 30, 2016 the holder of the Note converted \$154,000 due under the Note, including interest of \$19,490, into 1,540,000 shares of the Company's common stock. On December 29, 2016 the holder of the Note converted \$29,900 due under the Note including interest of \$20,100 into 500,000 shares of the Company's common stock. On August 18, 2017 the holder of the Note converted \$199,500 due under the Note, including interest of \$0, into 1,995,000 shares of the Company's common stock. On August 18, 2017, the Company repaid accrued interest \$5,522. On March 8, 2018, the holder of the note converted \$16,980 due under the Note, including interest of \$380 into 169,800 shares of the Company's common stock. The balance on the Note as of June 30, 2018 is \$-0-, including interest accrued thereon of \$-0-.

On September 16, 2016, we entered into a convertible note purchase agreement (the "Convertible Note Purchase Agreement" or "Agreement") with a third-party investor. Under the terms of the Convertible Note Purchase Agreement the investor may acquire up to \$5,000,000 of convertible notes from the Company. With various closings, under terms acceptable to the Company and the investor as of the time of each closing. Pursuant to the Agreement, on September 16, 2016 the investor provided the Company with \$850,000 secured convertible note financing pursuant to four (4) Secured Convertible Promissory Notes (the "Notes"). Each of the Notes matures on October 1, 2029, and pay 3.5% compounded interest paid bi-annually. The Note are secured by the assets of the Company, may not be pre-paid without the consent of the holder, and are convertible at the option of the holder into shares of the Company common stock at a conversion price equal to (i) \$0.2201 or (ii) 80% of closing price of the Company's common stock as of the date of conversion. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$1,062,500 of the embedded derivative. On October 20, 2016, the terms of a above Convertible note was modified into convertible note with fixed conversion price of \$0.2201. The derivative liability balance on the Note as of modified date is \$1,274,422 re-classified into additional paid in capital.

On March 8, 2018, the holder converted \$210,422 note, which included \$10,422 interest into 956,030 restricted shares of the Company's common stock. On March 13, 2018 the holder converted \$176,080 of convertible note, which included \$10,558 interest, into 800,000 shares of the Company's common stock. As of June 30, 2018, the balance of secured convertible notes was \$513,368 which included \$28,890 accrued interest.

On October 20, 2016 a third-party investor provided the Company with \$1,000,000 secured convertible note financing pursuant to three (3) Secured Convertible Promissory Notes (the "Notes"). Each of the Notes mature on October 1, 2029 and pay 3.5% compounded interest paid bi-annually. The Notes are secured by the assets of the Company, may not be pre-paid without the consent of the holder, and are convertible at the option of the holder into shares of the Company's common stock at a fixed conversion price equal to (i) \$0.2201 or (ii) 80% of closing price of the Company's common stock as of the date of conversion. The investor paid cash of \$500,000 for one of the Notes and issued to the Company two (2) secured promissory notes of \$250,000 each for two (2) Convertible Notes of \$250,000 each. The two secured promissory notes issued by the investor (totaling \$500,000) as payment for two (2) secured Notes totaling \$500,000 mature on February 1, 2017 (\$250,000) and March 1, 2017 (\$250,000), bear interest at the rate of 1% per annum, are full recourse and additionally secured by 10,486,303 shares of Medical Marijuana, Inc. (Pink Sheets symbol: MJNA) and were valued at \$858,828 based upon the closing price of MJNA on October 20, 2016. On October 20, 2016, the terms of a above Convertible note was modified into convertible note with fixed conversion price of \$0.2201. Since the modification happened on the same day, the note was treated to have fixed conversion price and accordingly debt discount was recorded related to beneficial conversion feature.

In connection with this convertible note, the Company recorded a \$499,318 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. As of June 30, 2018, this note has not been converted. As of June 30, 2018, the balance of secured convertible notes was \$1,060,083 which included \$60,083 accrued interest.

On June 12, 2017 (the "Closing Date"), the Company entered into a Securities Purchase Agreement ("SPA") with an institutional accredited investor ("Investor") pursuant to which Investor invested \$4,000,000 (the "Financing").

On the Closing Date, the Company issued to Investor an unsecured Convertible Promissory Note (the "Note") in the principal amount of \$4,210,000, in exchange for payment by Investor of \$4,000,000. The principal sum of the Note reflects the amount invested, plus a \$200,000 "Original Issue Discount" ("OID") and a \$10,000 reimbursement of Investor's legal fees. The Company also paid a placement fee of \$60,000 to a third-party broker-dealer. The SPA and the Note are collectively referred to herein as the "Transaction Documents." The Note matures in 18 months. So long as the Company is not in receipt of redemption notice (discussed below), the Note may be prepaid at any time, in whole or in part in minimum increments of \$50,000, by making payment to Investor in an amount of cash equal to 125% of the amount being prepaid, plus accrued and unpaid interest.

There are no payments of principal or interest due under the Note for the first six months following its issuance. Commencing on the date that is six (6) months from the issuance of the Note, Investor may redeem a portion of the Note in monthly amounts not to exceed \$350,000 in any calendar month. Provided the Company has not suffered an “Event of Default” and is in compliance with certain “Equity Conditions” (unless waived by Investor in either case), the Company, in its sole discretion, may make redemption payments in cash or by the issuance of common stock. If the Company chooses to make redemption payment in cash, the cash payment is subject to a 25% premium. If the Company chooses to make the redemption payment in stock, the number of shares issuable shall be 70% (reduced to 65% if the conversion shares are not DTC eligible for a period of at least 5 days) multiplied by the average of the three (3) lowest closing bid prices in the previous twenty (20) trading days. Payments may be made in a combination of cash and stock.

Events of Default include the events set forth in Section 4.1 of the Note, and include, but are not limited to, failure to make timely payments, failure to deliver conversion shares, bankruptcy, receivership, insolvency, failure to reserve required shares for issuance upon conversion, and failure to be DTC eligible.

Upon an Event of Default under the Note, Investor may accelerate the outstanding principal amount of the Note, plus accrued and unpaid interest, and other amounts owing through the date of acceleration. In the event of such acceleration, the interest rate on the Note shall accrue at the lesser of 22% per annum or the maximum rate permitted under applicable law.

Pursuant to the terms of the SPA the Company is required to reserve and keep available out of its authorized and unissued shares of common stock, a minimum of 2,250,000 shares of common stock. The company has recorded the 25% premium on cash payment as a liability and is amortizing it over the term of the note utilizing the effective interest method. As of June 30, 2018, the balance of this financial premium costs was \$815,286. As of June 30, 2018, the balance of secured convertible notes was \$3,282,226 which included \$21,082 accrued interest.

During the three and six months ended June 30, 2018 and 2017 the Company amortized the debt discount on all the notes of \$224,811, \$84,995, \$805,474 and \$109,867, respectively, to other expenses.

**NOTE 11: STOCK INCENTIVE PLAN**

On May 29, 2015 the Company adopted its 2015 Stock Incentive Plan. Under the Plan the Company may issue up to 10,000,000 S-8 shares to officers, employees, directors or consultants for services rendered to the Company or its affiliates or to incentivize such parties to continue to render services. S-8 shares are registered immediately upon the filing of the Plan and are unrestricted shares that are free-trading upon issuance. There were 9,806,000 shares available for issuance under the Plan as of June 30, 2018.

**NOTE 12: STOCKHOLDERS' DEFICIT**

Preferred Stock

The Company has authorized 5,000,000 shares of preferred stock, with a par value of \$0.0001 per share. Of the 5,000,000 authorized preferred shares, 4,000,000 are undesignated "blank check" preferred stock. The Company may issue such preferred shares and designate the rights, privileges and preferences of such shares at the time of designation and issuance. As of June 30, 2018 and December 31, 2017 there are -0- and -0- shares of undesignated preferred shares issued and outstanding, respectively.

Series A Convertible Preferred Stock

The Company also has authorized 1,000,000 shares of Series A Convertible Preferred Stock, which had been previously issued to Sanammad Foundation and subsequently assigned and transferred by Sanammad to Treo Holdings, LLC ("Treo"). On June 28, 2016 the Company, Sanammad and Treo agreed that the issuance of the Series A Convertible Preferred be rescinded and that such share issuance be cancelled. The Company accounted this cancelation of preferred stock as equity transaction and accordingly the par value of preferred stock adjusted against additional paid in capital account.

Each share of the Series A Convertible Preferred Stock is convertible into five (5) shares of the Company's common stock at any time at the discretion of the holder. The Series A Convertible Preferred Stock provides for a liquidation preference as follows; In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary (a "Liquidation"), the assets of the Company available for distribution to its stockholders shall be distributed as follows. The holders of the Series A Convertible Preferred Stock shall be entitled to receive, prior to the holders of the other series of preferred stock, if any, and prior and in preference to any distribution of the assets or



surplus funds of the Company to the holders of any other shares of stock of the Company by reason of their ownership of such stock: (i) all shares of common stock of any subsidiary of the Company which are held by the Company; and (ii) an amount equal to \$1.00 per share with respect to each share of Series A Convertible Preferred stock, plus all declared but unpaid dividends with respect to such share. The Series A Convertible Preferred Stock also contains super-majority voting rights and a number of protective covenants. As of June 30, 2018 and December 31, 2017 there are -0- and -0- Series A Convertible Preferred shares issued and outstanding; respectively.

On August 15, 2016 the Company issued 1,000,000 shares of its Series A Convertible Preferred Stock in exchange for 1,000,000 shares of its Undesignated Preferred Stock (see Footnote 10 - "Preferred Stock" for a discussion of the Company's preferred stock). The Undesignated Preferred Stock was held by Sanammad Foundation and MJNA Investment Holdings, LLC (500,000 shares each), which parties together own a majority of the common stock of the Company. Under the terms of the exchange, the 1,000,000 shares of Series A Convertible Preferred received in the exchange were immediately converted into 5,000,000 restricted shares of the Company's common stock (2,500,000 shares for each of Sanammad Foundation and MJNA Investment Holdings, LLC). As a result, the Series A Convertible Preferred Stock is retired and no longer available for future issuance. The three members of the Sanammad Foundation also serve as the current three directors of the Company and Sanammad, along with MJNA Investment Holdings, LLC, hold a majority of the outstanding stock of the Company. During the three months ended June 30, 2018, the Company recorded preferred dividend of \$ -0-.

#### Series B Convertible Preferred Stock

On August 17, 2016 the Company designated up to 500,000 shares of a new Series B Convertible Preferred Stock (Series B Preferred Stock). The holders of the Series B Preferred are entitled to elect three members to the Company's board of directors and are entitled to cast 100 votes per share on all other matters presented to the shareholders for a vote. Each share of Series B Convertible Preferred is convertible into one share of the Company's common stock. The Series B Convertible Preferred designation contains a number of protective and restrictive covenants that restrict the Company from taking a number of actions without the prior approval of the holders of the Series B Preferred or the unanimous vote of all three Series B Directors.

On August 18, 2016 the Company issued all 500,000 shares of its newly designated Series B Preferred Stock to Sanammad Foundation in exchange for cash of \$50,000. As the holders of the Series B Preferred Stock, Sanammad has designated the current directors, Dr. George E. Anastassov, Dr. Phillip A. Van Damme and Mr. Lekhram Changoer as their three Series B Directors.

### Series C Convertible Preferred Stock

On August 17, 2016 the Company designated up to 500,000 shares of a new Series C Convertible Preferred Stock (Series C Preferred Stock). The holders of the Series C Preferred are entitled to elect four members to the Company's board of directors and are entitled to cast 100 votes per share on all other matters presented to the shareholders for a vote. Each share of Series C Convertible Preferred is convertible into one share of the Company's common stock. The Series C Convertible Preferred designation contains a number of protective and restrictive covenants that restrict the Company from taking a number of actions without the prior approval of the holders of the Series C Preferred or the unanimous vote of all four Series C Directors. If at any time there are four Series C Directors, one such director must be independent as that term is defined in the Series C designation. Any challenge to the independence of a Series C Director is a right conferred only upon the holders of the Series B Convertible Preferred Stock and may only be made by the holders of the Series B Convertible Preferred Stock.

On August 18, 2016 the Company issued all 500,000 shares of its newly designated Series C Preferred Stock to MJNA Investment Holdings, LLC in exchange for cash of \$65,000. As the holders of the Series C Preferred Stock, MJNA Investment Holdings, LLC has designated Dr. Timothy R. Scott, John W. Huemoeller II, Robert Cunningham and Blake Schroeder as their four Series C Directors.

### Amended and Restated Bylaws

On August 17, 2016 the Company amended its Bylaws to achieve the following: (i) to fix the number of authorized directors at seven (7), comprised of three (3) seats authorized for Series B Directors and four (4) seats authorized for Series C Directors, (ii) ) to set forth that upon there being four Series C Directors, one such director shall be independent as such term is defined in the certificate of designation for the Series C Convertible Preferred Stock and to set forth that the term, conditions and procedures for electing, determining and challenging such director independence are governed by the certificate of designation for the Series C Convertible Preferred Stock, (iii) to set forth that the holders of the Series B Convertible Preferred Stock and the holders of the Series C Convertible Preferred Stock have the right at any time without a meeting and without prior notice to elect their respective Series B and Series C Directors, (iv) that the holders of two-thirds (2/3) of the Series B or Series C Convertible Preferred Stock have the right at any time without a meeting and without prior notice to remove their respective Series B and Series C Directors, (v) to reduce the number of directors needed to constitute a quorum to a majority of the directors then in office, (vi) to subject the right of the board of directors to form a committee to the rights of the holders of the Series B and Series C Convertible Preferred Stock (and to eliminate any committee related provision that might conflict with the rights of the Series B and Series C holders), and (vii) to clarify and set forth that neither the stockholders (other than the holders of the Series B and Series C Convertible Preferred Stock) nor the board of directors has the right to repeal, amend or adopt bylaws without the prior consent of the holders of both the Series B Convertible Preferred Stock and the holders of the Series C Convertible Preferred Stock.

Common Stock

The Company has authorized 300,000,000 shares of common stock, with a par value of \$0.0001 per share. As of June 30, 2018, and December 31, 2017, the Company had 57,541,228 and 54,564,441 shares of common stock issued and outstanding, respectively.

On March 8, 2018, the Company issued 956,030 restricted shares of its common stock in exchange for the conversion of \$210,422 of a

convertible note payable, which included \$10,422 in interest.

On March 12, 2018, the Company issued 169,800 restricted shares of its common stock in exchange for the conversion of \$16,980 of a

convertible note payable, which included \$380 in interest.

On March 13, 2018, the Company issued 800,000 restricted shares of its common stock in exchange for the conversion of \$176,080 of

a convertible note payable, which included \$10,558 in interest.

On March 20, 2018 the Company has issued 2,179 shares of common stock valued at \$15,000 which were shown as stock to be issued for consultancy service.

On March 20, 2018, the Company issued 174,000 shares of common stock for certain services and recorded consulting expenses of \$817,800. Closing price of the shares on March 20, 2018 was \$4.7 as quoted on Yahoo.com/finance.

On May 2, 2018 the Company has issued 70,000 shares of common stock valued at \$271,320 pursuant to the Company's Registration Statement on Form S-3. We received \$52,570 in cash and \$218,750 was authorized as payment of redemption notice issued by Atlas LLC ( $\$175,000 \text{ redemption notice} \times 125\% = \$218,750$ ).

On May 15, 2018, the Company issued 204,778 restricted shares of its common stock to Kettner Investment LLC valued at \$600,000 pursuant to the stock purchase agreement. \$218,750 was authorized as payment of redemption notice issued by Atlas LLC (\$175,000 redemption notice x 125% = \$218,750), \$250,000 paid to Cross and Co who paid the redemption notice issued by Atlas LLC. The balance of \$131,250 was paid directly to the company.

On May 16, 2018 the Company has issued 75,000 shares of common stock valued at \$226,756 pursuant to the Company's Registration Statement on Form S-3. The Company received this amount in cash.

On May 24, 2018 the Company has issued 100,000 shares of common stock valued at \$262,950 pursuant to the Company's Registration Statement on Form S-3. The Company received this amount in cash.

On June 4, 2018 the Company has issued 125,000 shares of common stock valued at \$335,755 pursuant to the Company's Registration Statement on Form S-3. The Company received \$117,005 in cash and \$218,750 was authorized as payment of redemption notice issued by Atlas LLC (\$175,000 redemption notice x 125% = \$218,750).

On June 15, 2018 the Company has issued 150,000 shares of common stock valued at \$413,400 pursuant to the Company's Registration Statement on Form S-3. The Company received this amount in cash.

On June 29, 2018 The Company issued 150,000 S-3 shares to Cross & Company for \$2.476 per share, which represented a discount of 12.5% from the Stock's closing price and True-Up adjustment of \$97,050 on that date for a total purchase price of \$274,350. The Company received \$281,850 in cash and recorded \$7,500 liability due to shareholder.

#### **NOTE 13: COMMITMENT AND CONTINGENCIES**

On September 1, 2016, the Company entered into an amended and restated employment agreement with Dr. George Anastassov, its Chief Executive Officer, Chief Financial Officer and Secretary. The agreement does not have a set term and may be terminated at any time by the Company or Dr. Anastassov with proper notice. Under the agreement, Dr. Anastassov receives an annual base compensation of \$240,000 and an incentive payment of 2,000,000 shares of the Company's common stock due upon execution of the agreement. On March 20, 2018 the Company issued 50,000 restrictive shares of its common stock and recorded \$235,000 of compensation expenses in the accompanying condensed consolidated financial statements to account for the issuance of the incentive shares. In addition, Dr. Anastassov is currently receiving an additional \$15,000 per month as bonus compensation.

On September 1, 2016, the Company entered into an amended and restated employment agreement with Mr. Lekharm Changoer, its Chief Technology Officer. The agreement does not have a set term and may be terminated at any time by the Company or Mr. Changoer with proper notice. Under the agreement Mr. Changoer receives an annual base compensation of \$240,000 and an incentive payment of 2,000,000 shares of the Company's common stock due upon execution of the agreement. On March 20, 2018 the Company issued 50,000 restrictive shares of its common stock and recorded \$235,000 of compensation expenses in the accompanying condensed consolidated financial statements to account for the issuance of the incentive shares.

On April 24, 2017 the company entered into an employment agreement with Robert Malasek, its Chief Financial Officer and Secretary. The agreement does not have a set term and may be terminated at any time by the Company or Mr. Malasek with proper notice. The shares were issued in the 1<sup>st</sup> quarter 2018. At the three months ended March 31, 2018 the Company recorded \$235,000 of compensation expense in the accompanying condensed consolidated financial statements to account for the issuance of the incentive shares.

On May 7, 2018, AXIM Biotechnologies, Inc. (the "Company") entered into a Supply Agreement with Noramco, Inc. for the long-term purchase of pharmaceutical grade dronabinol. The agreement outlines an initial purchase of the Active Pharmaceutical Ingredient ("API") dronabinol, which is a synthetic form of tetrahydrocannabinol (THC), to be used in the Company's clinical trials for treatment of chemotherapy-induced nausea/vomiting and anorexia associated with weight loss in patients with cancer or AIDS. The Company intends to microencapsulate the API and formulate it into its proprietary controlled-release chewing gum delivery system, which will go through an open-label bioequivalence study comparing the bioavailability and therapeutic equivalence of the Company's product to the FDA-approved reference listed drug Marinol®.

### **Operating Lease**

The Company is renting an office at 45 Rockefeller Plaza 20<sup>th</sup> Floor Suite 83, New York, NY 10111 on a month to month basis the monthly rent is \$3,720. A security deposit of \$7,440 has been paid.

The Company is renting a warehouse at Boelewerf 32, 2987 VD, Ridderkerk, Netherlands on a month to month basis, monthly rent is EUR 1,458.

## Litigation

As of June 30, 2018, and this report issuing date, the Company is not a party to any pending material legal proceeding. To the knowledge of management, no federal, state or local governmental agency is presently contemplating any proceeding against the Company. To the knowledge of management, no director, executive officer or affiliate of the Company, any owner of record or beneficially of more than five percent of the Company's Common Stock is a party adverse to the Company or has a material interest adverse to the Company in any proceeding.

## NOTE 14: SUBSEQUENT EVENTS

On July 17, 2018 The Company issued 150,000 S-3 shares to Cross & Company for \$2.267 per share, which represented a discount of 12.5% from the Stock's closing price and True-Up adjustment of \$17,550 on that date for a total purchase price of \$322,500. The Company received \$103,750 in cash and \$218,750 was authorized as payment of redemption notice issued by Atlas LLC (\$175,000 redemption notice x 125% = \$218,750).

On August 1, 2018, the Company issued 239,521 restricted shares of its common stock to Kettner Investment LLC valued at \$400,000 pursuant to the stock purchase agreement.

On August 2, 2018 The Company issued 150,000 S-3 shares to Cross & Company for \$1.943 per share, which represented a discount of 12.5% from the Stock's closing price and True-Up adjustment of \$68,100 on that date for a total purchase price of \$223,350. The Company received \$223,350 in cash.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

### **WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the Securities and Exchange Commission (the "SEC"). You may read and copy any document we file with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC's internet site at <http://www.sec.gov>.

On our Internet website, <http://www.aximbiotech.com>, we post the following recent filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act.

*When we use the terms "AXIM", "Company", "we", "our" and "us" we mean Axim Biotechnologies, Inc., a Nevada corporation, and its consolidated subsidiaries, taken as a whole, as well as any predecessor entities, unless the context otherwise indicates.*

### **FORWARD LOOKING STATEMENTS**

This Annual Report on Form 10-Q, the other reports, statements, and information that the Company has previously filed with or furnished to, or that we may subsequently file with or furnish to, the SEC and public announcements that we have previously made or may subsequently make include, may include, or may incorporate by reference certain statements that may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, and that are intended to enjoy the protection of the safe harbor for forward-looking statements provided by that Act. To the extent that any statements made in this report contain information that is not historical, these statements are essentially forward-looking. Forward-looking statements can be identified by the use of words such as "anticipate", "estimate", "plan", "project", "continuing", "ongoing", "expect", "believe", "may", "will", "should", "could", and other words of similar meaning. These statements are subject to risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, without limitation, marketability of our products; legal and regulatory risks associated with trading publicly; our ability to raise additional capital to finance our activities; the future trading of our common stock; our ability to operate as a public company; our ability

to protect our proprietary information; general economic and business conditions; the volatility of our operating results and financial condition; our ability to attract or retain qualified senior management personnel and research and development staff; and other risks detailed from time to time in our filings with the SEC, or otherwise.

Information regarding market and industry statistics contained in this report is included based on information available to us that we believe is accurate. It is generally based on industry and other publications that are not produced for purposes of securities offerings or economic analysis. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. We do not undertake any obligation to publicly update any forward-looking statements. As a result, investors should not place undue reliance on these forward-looking statements.

### *Overview*

Axim Biotechnologies, Inc., a Nevada corporation, is an innovative biotechnology company focusing on research, development and production of pharmaceutical, nutraceutical and cosmetic products, genetically controlled botanical products, and extraction and purification of cannabinoids technologies based on our proprietary technologies. We believe to be setting the standard for cannabinoid bioscience through the discovery and commercialization of new materials and technologies for healthy living. Our common stock is traded on the OTCQB under the symbol “AXIM.”

We were originally incorporated in the State of Nevada on November 18, 2010 under the name AXIM International, Inc. On July 24, 2014, we changed our name to AXIM Biotechnologies, Inc. to better reflect our business operations. On August 7, 2014, we incorporated a wholly owned Nevada subsidiary named Axim Holdings, Inc. to help facilitate the business operations of the Company.

On May 11, 2015, we entered into a 50 year, worldwide, exclusive intellectual property licensing agreement (“Agreement”) with CanChew Biotechnologies, LLC (“CanChew”). As compensation for the Agreement, CanChew received 5,826,706 restricted shares of the Company’s common stock and a royalty fee of approximately 2-3% of all gross sales derived from products produced under the Agreement. So long as we are in compliance with the Agreement, we have the option to purchase the licensed intellectual property after 5 years at a purchase price equal to fifty percent (50%) of the annual royalty fee paid.



In October 2017, we formed a wholly owned subsidiary in the Netherlands for purposes of holding pharmaceutical licenses as required by the Netherlands regulations and laws.

Our principal corporate headquarters are located at 45 Rockefeller Plaza, 20<sup>th</sup> Floor, Suite 83, New York, New York 10111. Our website address is [www.aximbiotech.com](http://www.aximbiotech.com). The information contained on, or that can be accessed through, our website is not a part of this prospectus. The trademarks, trade names and service marks appearing in this prospectus are the property of their respective owners.

### **Current Operations**

The operations of the Company include: the research and development of pharmaceutical products, and extraction and purification of cannabinoids technologies. Over the next 12 months, we anticipate the following activities:

Conducting a clinical trial at the Free University of Amsterdam, The Netherlands for a novel, patented controlled-release delivery form of cannabinoids for treatment of chronic pain and spasticity in patients with multiple sclerosis. The anticipated duration of the trials prior to FDA/ EMA registration is 12 to 18 months.

Conducting a clinical trial at the University of British Columbia, Canada on patients suffering of illicit drug-related psychosis using innovative, (patented) delivery mechanisms containing cannabinoids. This trial is awaiting approval by Health Canada and will result in an NDA.

Development and commercialization of products pending Phase II clinical trial for Restless Leg Syndrome.

Preparations and Development of Axim' pipeline of pharmaceutical products for the following indications: Chronic Neuropathic Pain, bioequivalent product to Marinol (dronabinol) for treatment of chemotherapy induced nausea and vomitus as well as loss of appetite and cachexia in HIV/ AIDS patients.

Completion of contractual agreements for production and export of novel, trademark-protected formulations with partners in Europe, Israel, Asia and South and North America.

Importation from Italy, and the Netherlands of pharmaceutical grade hemp oil to Europe. Some of these products will be converted by AXIM from lipophilic to hydrophilic forms based on proprietary process (patent pending) in a cGMP process.

During the next twelve months we anticipate incurring costs related to: (i) filing Exchange Act reports, (ii) contractual obligations, (iii) clinical trials, and (iv) continued research and development of pharmaceutical formulations.

We believe we will be able to meet these costs through use of funds in our treasury, through deferral of fees by certain service providers and additional amounts, as necessary, to be loaned to or invested in us by our shareholders, management or other investors. As of the date of the period covered by this report, we have limited cash. There are no assurances that we will be able to secure any additional funding as needed. Currently, however our ability to continue as a going concern is dependent upon our ability to generate future profitable operations and/or to obtain the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they come due. Management's plan includes obtaining additional funds by equity financing and/or related party advances; however, there is no assurance of additional funding being available.

We are in our early stages of development and growth, without established records of sales or earnings. We will be subject to numerous risks inherent in the business and operations of financially unstable and early stage or potential emerging growth companies.

## **Research and Development**

We are continuing our research and development at the Free University of Amsterdam with our novel (patent pending) delivery system for treatment of patients with pain and spasticity as a sequence of Multiple Sclerosis. This study will include also the University of Plymouth, UK and academic centers in the US. The study is conducted in strict compliance with FDA/ EMA guidelines and is supervised by QPS as a CRO. The product tested is a pharmaceutical, functional chewing gum containing equal parts of THC and CBD. With our proprietary technology numerous problems related to cannabinoid' water-insolubility due to its lipophilic nature, bypass of first-pass liver metabolism and direct delivery into the systemic circulation have been resolved.

Clinical studies will commence at the University of Wageningen, The Netherlands testing a new (patent pending) delivery systems with novel cannabinoids for treatment of patients with IBS, IBD and Crohn's disease. A new direct as well as controlled slow-release nano-technology delivery methods will be investigated based on our proprietary IP.

New, patent pending cannabinoid extraction techniques as well as pure, water soluble, freeze-dried cannabinoids are being developed in cooperation with Syncom, BV, The Netherlands, which practically solves the issue with very poor absorption of currently available, oil-based cannabinoids.

There are numerous other R&D projects being considered involving our proprietary intellectual property. These will be strategically planned to depend on availability of funds to carry on.

### **Intellectual Property**

Currently, our intellectually property includes patents, trademarks and other proprietary, confidential and/or trade secret information. Our patent applications include twelve (12) patent applications for oral care compositions, sugar alcohol kneading method, cosmetics, antimicrobial compositions, extraction method, nicotine dependence treatment gum, opioid dependence treatment gum, restless leg treatment gum, suppositories, method to treat psoriasis, method to treat atopic dermatitis, and method to treat vitiligo. Nine (9) of our patent applications have entered non-provisional stage in the U.S. and/or international stage while three (3) will enter non-provisional stage in the U.S. and/or international stage from provisional stage. Among our twelve (12) patent applications, we have two (2) allowed applications for THC extraction method and suppositories, which are in the process of final issuance into patents. Our patents include two (2) patents for ophthalmic solutions and method to use the ophthalmic solution to treat glaucoma and conjunctivitis; and one (1) licensed patent (chewing gum containing cannabinoids, covering all cannabinoids, including THC). We are in the process of developing and filing more patent applications.

We have twenty seven (27) trademark applications some of which are registered trademarks, received Notices of Allowance, or are pending in front of the United States Patent and Trademark Office: Axim, A Axim Biotech, Cannanimals, CanQuit, CannaCoal, CanChui, CanShu, Oraximax, ReneCann, CannBelph, OpthoCann, Cannonich, Cannocyn, HempChew, SuppoCann, CanChew, CanChew Hemp CBD Gum, CanChew Rx, MedChew, CanChew Plus, CanQuit OC, MedChew GP, MedChew RL, CanChew +, CanChew +10, CanChew +50, CanChew +100. Corresponding trademark applications have been filed in other jurisdictions have received registration or are pending. Certain additional trademark applications have been filed in other jurisdictions for some of the marks and have either received registration or are pending.

### **Market, Customers and Distribution Methods**

Our focus is on the development of innovative pharmaceutical, nutraceutical and cosmetic products focusing on diseases and conditions for which currently there are no known efficient therapeutic ingredients or delivery systems for known active pharmaceutical ingredients. The body of knowledge regarding therapeutic use of cannabinoid-based formulations is steadily increasing. We plan to be an active player in this field of biosciences with our extensive R&D and pipeline of innovative products.

Our target customers are primarily end consumers via Internet sales, direct-to-consumer health and wellness stores, collectives, cooperatives, affiliate sales and master distributors. Secondly, we are targeting manufacturers of products that can readily replace their raw base materials with our materials, making the products more environmentally friendly and sustainable. Next, we will target retail stores with major distribution companies who have preexisting relationships with major retail chain stores. As we continue to develop our business, these markets may change, be re-prioritized or eliminated as management responds to consumer and regulatory developments.

### **Competition**

There are many developers of hemp-based consumer products, many of which are under-capitalized which we consider to be viable acquisition targets. There are also large, well-funded companies that currently do not offer hemp-based products but may do so in the future.

### **Source and Availability of Raw Materials**

The Company currently has arrangements with multiple reputable suppliers which are expected to meet the projected needs for materials for the upcoming year. These suppliers are based in The Netherlands.

## **Government Regulation**

For the first time since 1937, industrial hemp has been decriminalized at the federal level and can be grown legally in the United States, but on a limited basis. A landmark provision in the recently passed Agricultural Act of 2014 recognizes hemp as distinct from its genetic cousin, marijuana. Federal law now exempts industrial hemp from U.S. drug laws in order to allow for crop research by universities, colleges and state agriculture departments. The new federal law, written by U.S. Rep. Jared Polis (D-CO) and U.S. Sen. Mitch McConnell (R-KY), allows for agricultural pilot programs for industrial hemp “in states that permit the growth or cultivation of hemp.”

## **Employees**

As of March 9, 2018, we have 6 full-time employees and 4 part-time employees. We allow and utilize the services of independent contractors. We will be considering the conversion of some of our part-time employees to full-time positions. We are currently in discussions with qualified individuals to engage them for positions in sales and marketing, research and development, and operations. Management believes the Company has good relationships with its employees.

## **Costs and effects of compliance with environmental laws**

The expense of complying with environmental regulations is of minimal consequence.

## **Results of Operations**

The following discussion of our financial condition and results of operations for the period ended June 30, 2018 should be read in conjunction with the financial statements and the notes to those statements that are included elsewhere in this Report on Form 10-Q. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors. We use words such as “anticipate”, “estimate”, “plan”, “project”, “continuing”, “ongoing”, “expect”, “intend”, “may”, “will”, “should”, “could”, and similar expressions to identify forward-looking statements.

*Comparison of the three and six months ended June 30, 2018 to June 30, 2017.*

For the six month periods ended June 30, 2018 and 2017, our revenues totaled \$22,422 and \$22,358; respectively, from continuing operations.

|                                   | <b>Six Months</b>    | <b>Six Months</b>    |
|-----------------------------------|----------------------|----------------------|
|                                   | <b>Period Ended</b>  | <b>Period Ended</b>  |
|                                   | <b>June 30, 2018</b> | <b>June 30, 2017</b> |
| Legal and other fees              | \$ 211,506           | \$ 58,665            |
| Depreciation                      | 1,678                | 1,678                |
| Audit fees                        | 67,500               | 16,300               |
| Filing fees                       | 8,041                | 3,647                |
| Office/Other expenses             | 66,496               | 61,921               |
| Travel and entertainment expenses | 56,673               | 49,200               |
| Advertising and promotions        | 149,619              | 32,508               |
| Compensation costs                | 817,800              | 20,000               |
| Insurance expense                 | 42,240               | 41,917               |
| Impairment                        | 9,475                | -                    |
| Consulting fees                   | 266,907              | 266,574              |
| Taxes                             | 12,307               | 11,624               |
| Office salary and wages           | 151,615              | 120,000              |
| Directors fees                    | 175,000              | -                    |
| Research and development          | 1,351,398            | 203,314              |
| Licenses and permits              | 7,377                | 8,158                |
| <b>Total</b>                      | <b>\$ 3,395,632</b>  | <b>\$ 895,506</b>    |

Our operating expenses for the six month periods ended June 30, 2018 and 2017, were \$3,395,632 and \$895,506 respectively. The changes for the six month period ended June 30, 2018, was primarily due to a significant increase in compensation costs and increase in research and development expenses, compensation costs, directors' fees, professional, and advertising expenses.

For the three month periods ended June 30, 2018 and 2017, our revenues totaled \$8,174 and \$3,738; respectively, from continuing operations.

|                                   | <b>Three Months</b>  | <b>Three Months</b>  |
|-----------------------------------|----------------------|----------------------|
|                                   | <b>Period Ended</b>  | <b>Period Ended</b>  |
|                                   | <b>June 30, 2018</b> | <b>June 30, 2017</b> |
| Legal and other fees              | \$ 109,221           | \$ 34,117            |
| Depreciation                      | 839                  | 839                  |
| Audit fees                        | 15,000               | 15,800               |
| Filing fees                       | 6,236                | 2,988                |
| Office/Other expenses             | 33,345               | 33,169               |
| Travel and entertainment expenses | 29,815               | 39,036               |
| Advertising and promotions        | 60,979               | 7,752                |
| Compensation costs                | -                    | 20,000               |
| Insurance expense                 | 21,281               | 20,959               |
| Impairment                        | -                    | -                    |
| Consulting fees                   | 146,617              | 129,538              |
| Taxes                             | 7,554                | 6,500                |
| Office salary and wages           | 91,615               | 60,000               |
| Directors fees                    | 150,000              | -                    |
| Research and development          | 672,743              | 62,949               |
| Licenses and permits              | 1,650                | 5,854                |
| <b>Total</b>                      | <b>\$ 1,346,895</b>  | <b>\$ 439,501</b>    |

Our operating expenses for the three month periods ended June 30, 2018 and 2017, were \$1,346,895 and \$439,501 respectively. The changes for the three month period ended June 30, 2018, was primarily due to a significant increase in compensation costs and increase in research and development expenses, directors' fees, professional, and advertising expenses.

**Other (Income) expenses:**

Our interest expense for the three months and six month ended June 30, 2018 and 2017, was \$112,753, \$259,385, \$42,493 and \$67,053 respectively. The Company incurred a \$805,474 amortization expense on debt discount during the six months ended June 30, 2018.

Our interest income for the three and six months ended June 30, 2018 and 2017, was \$0, \$0, \$0, and \$1,597 respectively.

**Going concern**

The Company's unaudited condensed consolidated financial statements have been presented assuming that the Company will continue as a going concern. As shown in the financial statements, the Company has negative working capital of \$6,271,802 and has an accumulated deficit of \$26,679,897, has cash used in operating activities of \$2,751,133 and presently does not have the resources to accomplish its objectives during the next twelve months. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments related to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue in operation.

The Company intends to raise additional capital through private placements of debt and equity securities, but there can be no assurance that these funds will be available on terms acceptable to the Company or will be sufficient to enable the Company to fully complete its development activities or sustain operations. If the Company is unable to raise sufficient additional funds, it will have to develop and implement a plan to further extend payables, reduce overhead, or scale back its current business plan until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful.



Six months ended June 31, 2018 and 2017

*Net Cash Provided by/Used in Operating Activities*

Net cash used in operating activities was \$2,751,133 for the six months ended June 30, 2018, as compared to net cash used of \$1,049,531 for the six months ended June, 2017. The cash used in operating activities is primarily attributable to our net loss from operations of \$4,442,058 and offset by net changes in the balances of operating assets and liabilities and non-cash expenses. For the six months ended June 30, 2018 these non-cash expenses were Stock Based compensation of \$971,120 and amortization of \$805,474. For the six months ended June 30, 2017 Stock Based compensation was \$31,800 and amortization was \$109,867.

*Net Cash Used in Investing Activities*

Net cash used by investing activities during the period ended June 30, 2018 was \$-0- compared to \$-0- for the same period in 2017.

*Net Cash Provided by Financing Activities*

Net cash provided (used) by financing activities during the six months period ended June 30, 2018, was \$1,208,461 compared to \$4,440,000 for the same period in 2017.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

**Contractual Obligations**

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

### **Critical accounting policies**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reported periods. The more critical accounting estimates include estimates related to revenue recognition and accounts receivable allowances. We also have other key accounting policies, which involve the use of estimates, judgments and assumptions that are significant to understanding our results, which are described in Note 4 to our unaudited condensed consolidated financial statements.

### **Recently issued accounting standards**

In September 2017, the FASB issued ASU 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842). The effective date for ASU 2017-13 is for fiscal years beginning after December 15, 2018. We are currently evaluating the impact of adopting ASU 2017-13 on our unaudited consolidated financial statements.

In July 2017, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): Part 1 – Accounting for Certain Financial Instruments with Down Round Features and Part 2 – Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with Scope Exception* (“ASU No. 2017-11”). Part 1 of ASU No. 2017-11 addresses the complexity of accounting for certain financial instruments with down round features. Down round features are provisions in certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of ASU No. 2017-11 addresses the difficulty of navigating *Topic 480, Distinguishing Liabilities from Equity*, because of the existence of extensive pending content in the *FASB Accounting Standards Codification*®. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. For public business entities, the amendments in Part I of this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The amendments in Part II of this update do not require any transition guidance because those amendments do not have an accounting effect. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.



In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This new standard clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This new standard will be effective for the Company on January 1, 2018; however, early adoption is permitted with prospective application to any business development transaction.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350)* that will eliminate the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, impairment charge will be based on the excess of a reporting unit's carrying amount over its fair value. The guidance is effective for the Company in the first quarter of fiscal 2023. Early adoption is permitted. The Company does not anticipate the adoption of this guidance to have a material impact on its consolidated financial statements, absent any goodwill impairment.

In August 2014, the FASB issued ASU 2014-15 requiring management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern, which is currently performed by the external auditors. Management will be required to perform this assessment for both interim and annual reporting periods and must make certain disclosures if it concludes that substantial doubt exists. This ASU is effective for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2016. The adoption of this guidance is not expected to have a material effect on our financial statements.

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-16 - Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 will require the tax effects of intercompany transactions, other than sales of inventory, to be recognized currently, eliminating an exception under current GAAP in which the tax effects of intra-entity asset transfers are deferred until the transferred asset is sold to a third party or otherwise recovered through use. The guidance will be effective for the first interim period of our 2019 fiscal year, with early adoption permitted.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 provides guidance regarding the classification of certain items within the statements of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017 with early adoption permitted.

In connection with its financial instruments project, the FASB issued ASU 2016-13 - Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments in September 2016 and ASU 2016-01 - Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities in January 2016.

ASU 2016-13 introduces a new impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a forward-looking “expected loss” model that will replace the current “incurred loss” model and generally will result in earlier recognition of allowances for losses. The guidance will be effective for the first interim period of our 2021 fiscal year, with early adoption in fiscal year 2020 permitted.

ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Among other provisions, the new guidance requires the fair value measurement of investments in certain equity securities. For investments without readily determinable fair values, entities have the option to either measure these investments at fair value or at cost adjusted for changes in observable prices minus impairment. All changes in measurement will be recognized in net income. The guidance will be effective for the first interim period of our 2019 fiscal year. Early adoption is not permitted, except for certain provisions relating to financial liabilities.

In April 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) “ASU 2016 – 10 Revenue from Contract with Customers: identifying Performance Obligations and Licensing”. The amendments in this Update clarify the two following aspects (a) contracts with customers to transfer goods and services in exchange for consideration and (b) determining whether an entity’s promise to grant a license provides a customer with either a right to use the entity’s intellectual property (which is satisfied at a point in time) or a right to access the entity’s intellectual property (which is satisfied over time). The amendments in this Update are intended to reduce the degree of judgment necessary to comply with Topic 606. This guidance has no effective date as yet. The Company is currently evaluating the impact of adopting this guidance.

In March 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) “ASU 2016 – 09 Improvements to Employee Share-Based Payment Accounting” which is intended to improve the accounting for employee share-based payments. The ASU simplifies several aspects of the accounting for share-based payment award transactions, including; the income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The new standard is effective for fiscal years and interim periods beginning after December 15, 2016, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is permitted. The Company is currently evaluating the impact of adopting this guidance.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) 2016-02, which amends the guidance in U.S. GAAP on accounting for operating leases, a lessee will be required to recognize assets and liabilities for operating leases with lease terms of more than 12 months on the balance sheet. The new standard is effective for fiscal years and interim periods beginning after December 15, 2018, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted. The Company is currently evaluating the impact of adopting this guidance.

In January 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) 2016-01, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Changes to the current guidance primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new standard is effective for fiscal years and interim periods beginning after December 15, 2017, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company is currently evaluating the impact of adopting this guidance.

The amendments also clarify that the guidance in Topic 275, Risks and Uncertainties, is applicable to entities that have not commenced planned principal operations.

Other recent accounting pronouncements issued by the FASB and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

## **Foreign Currency Transactions**

Our Foreign currency expenses were \$4,844 for the six months ended in June 30, 2018, and \$504 for the same period in 2017.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

### **Item 4. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules, regulations and related forms, and that such information is accumulated and communicated to our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2018, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and our principal financial officer of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report.

## **Management's Annual Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in rule 13a-15(f) of the Exchange Act. The Company's internal control system is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's internal control over financial reporting includes those policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitation, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

An evaluation was performed under the supervision and with the participation of the Company's management of the effectiveness of the design and operation of the Company's procedures and internal control over financial reporting as of June 30, 2018. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework of 1992. Based on that evaluation, the Company's management concluded that the Company's internal controls over financial reporting were not effective in that there were material weaknesses as of June 30, 2018. See, Inherent Limitations of Internal Controls for discussion of material weaknesses

A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not



be prevented or detected on a timely basis by the Company's internal controls.

### **Attestation Report of the Registered Public Accounting Firm**

This report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, wherein non-accelerated filers are exempt from Sarbanes-Oxley internal control audit requirements.

### **Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting identified in connection with our evaluation that occurred during the period ended June 30 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Inherent Limitations of Internal Controls**

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention and overriding of controls and procedures. A control system, no matter how well conceived and operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of the control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur due to human error or mistake. Additionally, controls, no matter how well designed, could be circumvented by the individual acts of specific persons within the organization. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all potential future conditions.

Management is aware that there is a lack of segregation of duties and accounting personnel with appropriate qualifications at the Company due to the small number of employees dealing with general administrative and financial matters. This constitutes a deficiency in the internal controls. Management intends to rectify these deficiencies by implementing proper controls and hiring additional personnel with appropriate qualifications to properly segregate duties.

## **PART II — OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

We are not a party to any legal proceedings subject to this Item Number.

### **Item 1A. Risk Factors.**

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On March 8, 2018, the Company issued 956,030 restricted shares of its common stock in exchange for the conversion of \$210,422 of a

convertible note payable, which included \$10,422 in interest.

On March 12, 2018, the Company issued 169,800 restricted shares of its common stock in exchange for the conversion of \$16,980 of a

convertible note payable, which included \$380 in interest.

On March 13, 2018, the Company issued 800,000 restricted shares of its common stock in exchange for the conversion of \$176,080 of

a convertible note payable, which included \$10,558 in interest.

On March 20, 2018, the Company issued 176,179 shares of its common stock as a compensation for certain services provided.

The issuance of securities described above were deemed to be exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act of 1933 and Regulation D as transactions by an issuer not involving any public offering. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and other instruments issued in such transactions. The sales of these securities were made without general solicitation or advertising.

The Company intends to use the proceeds from sale of the securities, if any, for the operations, research and development and clinical trials, and working capital.

There were no underwritten offerings employed in connection with any of the transactions set forth above.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable

**Item 5. Other Information.**

Employment Agreements

On September 1, 2016, the Company entered into an amended and restated employment agreement with Dr. George Anastassov, its Chief Executive Officer, Chief Financial Officer and Secretary. The agreement does not have a set term and may be terminated at any time by the Company or Dr. Anastassov with proper notice. Under the agreement, Dr. Anastassov receives an annual base compensation of \$240,000 and an incentive payment of 2,000,000 shares of the Company's common stock due upon execution of the agreement. Upon the one year anniversary of the agreement, the Company has the direction to grant additional equity awards to Dr. Anastassov. On April 1, 2016 the Company was obligated to issue 120,000 restricted shares of the Company's common stock pursuant to the terms of the June 13, 2014, employment agreement. In addition, Dr. Anastassov is currently receiving an additional \$15,000 per month as bonus compensation.

On September 1, 2016, the Company entered into an amended and restated employment agreement with Mr. Lekhram Changoer, its Chief Technology Officer. The agreement does not have a set term and may be terminated at any time by the Company or Mr. Changoer with proper notice. Under the agreement Mr. Changoer receives an annual base compensation of \$240,000 and an incentive payment of 2,000,000 shares of the Company's common stock due upon execution of the agreement. Upon the one year anniversary of the agreement, the Company has the direction to grant additional equity awards to Mr. Changoer.

On August 3, 2016, all AXIM affiliates, as such term is defined by the Securities Act of 1933, as amended (the "Act"), entered into an agreement whereby each affiliate agreed to be prohibited from selling any Company securities pursuant to Rule 144 of the Act until the later of: (i) twelve (12) months from the date of the agreement; or (ii) twelve (12) months from the date of acquisition of the securities.

On or about June 29, 2016, Robert Malasek was appointed as the Company's Chief Financial Officer and Secretary. In April, 2017 the Company entered in employment agreement with Robert Malasek its, Chief Financial Officer and Secretary. The agreement does not have a set term and may be terminated by any time by the Company or Mr. Robert Malasek with proper notice. Under the agreement Mr. Malasek receives a monthly base compensation of \$1,000 and on March 20, 2018 issued unrestricted 50,000 shares of the Company's common stock.

## Financing

On September 16, 2016, the Company entered into a convertible note purchase agreement (the "Convertible Note Purchase Agreement" or "Agreement") with a third-party investor. Under the terms of Convertible Note Purchase Agreement the investor may acquire up to \$5,000,000 of convertible notes from the Company, with various closings, under terms acceptable to the Company and the investor as of the time of each closing. Pursuant to the Agreement, on September 16, 2016 the investor provided the Company with \$850,000 secured convertible note financing pursuant to four (4) Secured Convertible Promissory Notes (the "Notes"). Each of the Notes mature on October 1, 2029, and pay 3.5% compounded interest paid bi-annually. The Notes are secured by the assets of the Company, may not be pre-paid without the consent of the holder, and are convertible at the option of the holder into shares of the Company's common stock at a fixed conversion price equal to \$0.2201. As of June 30, 2018 the principal balance of this note was \$484,478 and \$24,664 in accrued interest.

On October 20, 2016 a third-party investor provided the Company with \$1,000,000 secured convertible note financing pursuant to three (3) Secured Convertible Promissory Notes (the "Notes"). Each of the Notes mature on October 1, 2029, and pay 3.5% compounded interest paid bi-annually. The Notes are secured by the assets of the Company, may not be pre-paid without the consent of the holder, and are convertible at the option of the holder into shares of the Company's common stock at a fixed conversion price equal to \$0.2201. The investor paid cash of \$500,000 for one of the Notes and issued to the Company two (2) secured promissory notes of \$250,000 each for two (2) Convertible

Notes of \$250,000 each. The two secured promissory notes issued by the investor (totaling \$500,000) as payment for two (2) secured Notes totaling \$500,000 mature on February 1, 2017 (\$250,000) and March 1, 2017 (\$250,000), bear interest at the rate of 1% per annum, are full recourse and additionally secured by 10,486,303 shares of Medical Marijuana, Inc. (Pink Sheets symbol: MJNA) and were valued at \$858,828 based upon the closing price of MJNA on October 20, 2016. The Company received \$250,000 on February 1, 2017 and \$250,000 on March 2, 2017 against the note receivable of \$500,000.

In connection with this convertible note, the Company recorded a \$499,318 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. As of June 30, 2018 this note has not been converted.

On June 12, 2017 (the “Closing Date”), the Company entered into a Securities Purchase Agreement (“SPA”) with an institutional accredited investor (“Investor”) pursuant to which Investor invested \$4,000,000 (the “Financing”).

On the Closing Date, the Company issued to Investor an unsecured Convertible Promissory Note (the “Note”) in the principal amount of \$4,210,000, in exchange for payment by Investor of \$4,000,000. The principal sum of the Note reflects the amount invested, plus a \$200,000 “Original Issue Discount” (“OID”) and a \$10,000 reimbursement of Investor’s legal fees. The Company also paid a placement fee of \$60,000 to a third-party broker-dealer. The SPA and the Note are collectively referred to herein as the “Transaction Documents.” The Note matures in 18 months. So long as the Company is not in receipt of redemption notice (discussed below), the Note may be prepaid at any time, in whole or in part in minimum increments of \$50,000, by making payment to Investor in an amount of cash equal to 125% of the amount being prepaid, plus accrued and unpaid interest. The company has recorded the 25% premium as a liability and it is being amortized over 18 months utilizing the effective interest method.

There are no payments of principal or interest due under the Note for the first nine months following its issuance. Commencing on the date that is six (6) months from the issuance of the Note, Investor may redeem a portion of the Note in monthly amounts not to exceed \$350,000 in any calendar month. Provided the Company has not suffered an “Event of Default” and is in compliance with certain “Equity Conditions” (unless waived by Investor in either case), the Company, in its sole discretion, may make redemption payments in cash or by the issuance of common stock. If the Company chooses to make redemption payment in cash, the cash payment is subject to a 25% premium. If the Company chooses to make the redemption payment in stock, the number of shares issuable shall be 70% (reduced to 65% if the conversion shares are not DTC eligible for a period of at least 5 days) multiplied by the average of the three (3) lowest closing bid prices in the previous twenty (20) trading days. Payments may be made in a combination of cash and stock.

Events of Default include the events set forth in Section 4.1 of the Note, and include, but are not limited to, failure to make timely payments, failure to deliver conversion shares, bankruptcy, receivership, insolvency, failure to reserve required shares for issuance upon conversion, and failure to be DTC eligible. Upon an Event of Default under the Note, Investor may accelerate the outstanding principal amount of the Note, plus accrued and unpaid interest, and other amounts owing through the date of acceleration. In the event of such acceleration, the interest rate on the Note shall accrue at the lesser of 22% per annum or the maximum rate permitted under applicable law.

Pursuant to the terms of the SPA the Company is required to reserve and keep available out of its authorized and unissued shares of common stock, a minimum of 2,250,000 shares of common stock.

On April 16, 2018, we entered into a Stock Purchase Agreement (the “Agreement”) with Cross & Company, a Nevada corporation (the “Investor”), pursuant to which the Investor agreed to purchase, upon our written request, shares of our common stock registered under the Registration Statement on Form S-3 filed by the Company on August 24, 2018, and declared effective by the Securities and Exchange Commission on September 14, 2017 (the “Registration Statement”), for an aggregate purchase price of up to \$50 million. The Investor has the right to terminate the Agreement at any time after having funded at least \$5 million in requests by the Company. The shares sold under the Agreement shall not exceed 12,000,000, which is the number of shares available under the Registration Statement.

At any time during the term of the Agreement, the Company may submit to the Investor one or more written Notices (as defined in the Agreement, a copy of which is attached to this Current Report on Form 8-K as Exhibit 1.1) specifying the number of shares to be sold by the Company and purchased by the Investor. Within one (1) business day after receipt of the Notice, the Investor shall purchase such number of shares; provided, that during any calendar month the Company may not, without the Investor’s written consent, submit Notices for shares having, in the aggregate, a purchase price in excess of \$500,000. The purchase price for the shares subject to Notice shall be equal to 87.5% of the closing price of the Company’s common stock on the date of the Notice.

The purchase price paid by the Investor pursuant to a Notice may be subject to adjustment. Upon the earlier of (i) ten (10) trading days following DWAC receipt by the Investor of the shares purchased pursuant to a Notice, and (ii) the date upon which the sale of all shares pursuant to a Notice have been sold by the Investor (the “Adjustment Period”), the Company shall determine the Adjusted Purchase Price, which is defined in the Agreement as 92.5% of the lowest trading price of the Company’s common stock during the Adjustment Period. If the purchase price paid for the shares by the Investor exceeds the amount of the Adjusted Purchase Price, then the Investor shall be entitled to a True-Up Payment, which is defined as the amount by which the purchase price paid for the shares exceeds the Adjusted Purchase Price.

At its election and in the event a True-Up Payment is due, the Company may make payment to the Investor in cash or delivery of additional shares. If the Company elects to make payment in additional shares, such shares shall be subject to the same true-up mechanism described for the initially issued shares under the Notice.

During the term of the Agreement, neither the Investor nor any of its affiliated persons or entities shall engage in (i) any short sale of any security of the Company, or (ii) any sale of any security of the Company that the Investor does not own, or (iii) any sale which is consummated by the delivery of a security of the Company borrowed by, or for the account of, the Investor.



The term of the Agreement is two (2) years, unless extended by the parties. The Agreement may be terminated by the Company, but not the Investor, at any time in its sole discretion. The Investor may terminate the Agreement only upon the occurrence of specified events, including (1) the Investor has purchased shares from the Company having a minimum purchase price of \$5 million (not including any shares delivered as a True-Up Payment), or (2) (i) there has been a material breach of this Agreement by the Company, (ii) the Company has not timely filed (or obtained extensions in respect thereof) all reports required to be filed by the Company pursuant to the Securities Exchange Act of 1934, as amended; (iii) the Registration Statement, and any supplement or amendment thereof, shall no longer be current and effective or subject to a stop order by the Securities and Exchange Commission; (iv) trading in the Company's common stock has been halted or suspended for more than three (3) trading days; (v) the average daily dollar volume of the Company's common stock for any period of twenty (20) consecutive trading days following the Effective Date is less than \$50,000; (vi) the Company's common stock is not DWAC eligible or is subject to a "DTC chill"; (vii) the price of the Company's common stock closes at or less than \$1.00 per share on three (3) or more trading days (even if non-consecutive trading days) following the Effective Date, or (viii) the Investor cannot locate a FINRA broker-dealer willing or able to accept the shares or true-up shares into "street name" and thereafter transact sales of such shares on behalf of the Investor.

The foregoing description of the Agreement is not complete and is qualified in its entirety by reference to the full text of the Agreement, a copy of which is filed as Exhibit 1.1 to the company's Current Report on Form 8-K filed with the SEC on April 18, 2018, and is incorporated herein by this reference. The Agreement is also incorporated by reference into the Registration Statement.

A copy of the opinion of Procopio Cory Hargreaves & Savitch LLP relating to the legality of the shares of common stock issuable under the Agreement, is filed as Exhibit 5.1 to the company's Current Report on Form 8-K filed with the SEC on April 18, 2018, and is also incorporated by reference into the Registration Statement.

The representations, warranties and covenants contained in the Agreement were made solely for the benefit of the parties to the Agreement. In addition, such representations, warranties and covenants (i) are intended as a way of allocating the risk between the parties to the Agreement and not as statements of fact, and (ii) may apply standards of materiality in a way that is different from what may be viewed as material by stockholders of, or other investors in, the Company. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the Agreement, which subsequent information may or may not be fully reflected in public disclosures.

During the six months ended June 30, 2018, the Company amortized the debt discount on all the notes of \$805,474 as other expense.

During the six months ended June 30, 2017, the Company amortized the debt discount on all the notes of \$109,867 as other expense.

**Item 6. Exhibits.**

**Statements**

Condensed Consolidated Balance Sheets as of June 30, 2018 (unaudited) and December 31, 2017.

Condensed Consolidated Statements of Operations for the six months ended June 30, 2018 and 2017 (unaudited)

Condensed Consolidated Statements of Changes in Shareholders' Deficit for the six months ended June 30, 2018 (unaudited)

Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017 (unaudited)

Notes to Condensed Consolidated Financial Statements (unaudited)

**Schedules**

All schedules are omitted because they are not applicable, or the required information is shown in the Financial Statements or notes thereto.

**Item 15. Exhibits.**

| <b>Exhibits</b>   | <b>Exhibit #</b> | <b>Incorporated by Reference<br/>(Form Type)</b> | <b>Filing Date</b> | <b>Filed with This Report</b> |
|---|------------------|--|--------------------|-------------------------------|
| Articles of Incorporation, as filed with the Nevada Secretary of State on November 18, 2010.  | <u>3.1</u>       | 10-Q   | 11/14/2014         |                               |
| Certificate of Amendment, as filed with the Nevada Secretary of State on July 24, 2014.   | <u>3.2</u>       | 10-Q   | 11/14/2014         |                               |
| Amended and Restated (As of August 17, 2016) Bylaws of AXIM Biotechnologies, Inc.   | <u>3.3</u>       | 10-Q   | 8/22/2016          |                               |
| Certificate of Designation of Series B Preferred Stock  | <u>3.4</u>       | 10-Q   | 8/22/2016          |                               |
| Certificate of Designation of Series C Preferred Stock  | <u>3.5</u>       | 10-Q   | 8/22/2016          |                               |
| Amended and Restated Employment Agreement effective September 1, 2016, by and between AXIM International, Inc. and Dr. George E. Anastassov   | <u>10.1</u>      | 10-Q   | 11/21/2016         |                               |
| Amended and Restated Employment Agreement effective September 1, 2016, by and between AXIM International, Inc. and Lekhram Changoer   | <u>10.2</u>      | 10Q  | 11/21/2016         |                               |
| Employment Agreement effective September 1, 2016, by and between AXIM International, Inc. and Dr. Philip A. Van Damme.  | <u>10.3</u>      | 10-Q   | 11/21/2016         |                               |
| Code of Business Conduct and Ethics   | <u>14.1</u>      | 10-Q   | 11/20/2017         |                               |
| Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | <u>31.1</u>      |  |                    | X                             |

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|   |             |      |            |   |
|---|-------------|------|------------|---|
| Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | <u>31.2</u> |      |            | X |
| Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  | <u>32.1</u> |      |            | X |
| Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  | <u>32.2</u> |      |            | X |
| Nominating and Governance Committee Charter   | <u>99.1</u> | 10-Q | 11/20/2017 |   |
| Compensation Committee Charter  | <u>99.2</u> | 10-Q | 11/20/2017 |   |
| Audit Committee Charter   | <u>99.3</u> | 10-Q | 11/20/2017 |   |
| XBRL Instance Document  | 101.INS     |      |            | X |
| XBRL Taxonomy Extension Schema Document   | 101.SCH     |      |            | X |
| XBRL Taxonomy Extension Calculation Linkbase Document   | 101.CAL     |      |            | X |
| XBRL Taxonomy Extension Definition Linkbase Document  | 101.DEF     |      |            | X |
| XBRL Taxonomy Extension Label Linkbase Document   | 101.LAB     |      |            | X |
| XBRL Taxonomy Extension Presentation Linkbase Document  | 101.PRE     |      |            | X |

**SIGNATURES**

Pursuant to the requirements 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.

**AXIM  
BIOTECHNOLOGIES, INC.**

Dated: August 14, 2018 By: */s/ Dr. George Anastassov*  
Dr. George Anastassov  
President and Director  
  
Principal Executive Officer

Dated: August 14, 2018 By: */s/ Robert Malasek*  
Robert Malasek  
Principal Financial Officer