

ALKAME HOLDINGS, INC.

Form 10-Q

January 08, 2016

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, 2015**

☐ 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: **333-175044**

Alkame Holdings, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation organization)

98-0661455

(I.R.S. Employer Identification No.)

3651 Lindell Road, Suite D #356, Las Vegas, NV 89103

(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: **702-273-9714**

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

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

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 198,485,547 as January 6, 2016.

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ALKAME HOLDINGS, INC.

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements.

Forward Looking Statements

This quarterly report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential” or “continue” or the negative of these terms or comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, any of which may cause our company’s or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks include, by way of example and not in limitation:

- the uncertainty that we will not be able to successfully execute our business plan;
- risks related to the large number of established and well-financed entities that are actively seeking suitable business opportunities;
- risks related to the failure to successfully manage or achieve growth of a new business opportunity; and
- other risks and uncertainties related to our business strategy.

This list is not an exhaustive list of the factors that may affect any of our forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on our forward-looking statements.

Forward looking statements are made based on management’s beliefs, estimates and opinions on the date the statements are made and we undertake no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our unaudited condensed consolidated financial statements are stated in United States dollars (US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended June 30, 2015, are not necessarily indicative of the results that can be expected for the full year.

In this quarterly report, unless otherwise specified, all dollar amounts are expressed in United States dollars and all references to “common stock” refer to the common shares in our capital stock.

As used in this quarterly report, the terms “we”, “us”, “our”, “our company” and “Alkame” mean Alkame Holdings, Inc., unless otherwise stated.

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ALKAME HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash	\$ 1,782	\$ 172,730
Accounts receivable (net of reserve for bad debts of \$25,000 and \$23,000, respectively)	205,260	82,510
Pre-Acquisition loans to Xtreme due from former shareholders	18,022	—
Accounts receivable other	23,957	—
Prepaid expenses - current	86,000	260,000
Inventory	154,681	70,243
Total current assets	489,702	585,483
Fixed and intangible assets:		
Manufacturing equipment, net	135,493	11,149
Software	13,496	17,995
Intangible assets, net	1,334,036	4,509
Goodwill	658,187	—
Total fixed and intangible assets, net	2,141,212	33,653
Other assets:		
Deferred finance costs	23,340	63,375
Investments	25,630	68,400
Total other assets	48,970	131,775
Total assets	\$ 2,679,884	\$ 750,911
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	\$ 598,269	\$ 544,530
Accrued interest	200,628	146,046
Accrued compensation	420,000	—
Loans from officer	26,456	3,489
Notes payable	889,735	762,000
Note due Xtreme Shareholders	284,000	—
Convertible debentures (net of debt discount of \$208,397 and \$280,288, respectively)	327,604	168,961
Derivative instrument liability	1,220,600	1,018,782
Series C Convertible Preferred Stock to be issued	1,425,000	—
Total current liabilities	5,392,292	2,643,808
Long-term liabilities:		
Notes payable - long term	—	131,490
Convertible debt - long term (net of debt discount of \$91,192 and \$132,254), respectively	36,030	22,968

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Total long-term liabilities	36,030	154,458
Total liabilities	5,428,322	2,798,266
Commitment and contingencies	—	—
Stockholders' deficit		
Preferred stock - \$0.001 par value, authorized - 20,000,000 shares;		
Series A Convertible Preferred stock - \$0.001 par value, 12,000,000 shares designated;	12,000	12,000
issued and outstanding - 12,000,000 and 12,000,000 shares, respectively		
Series B Preferred stock - \$0.001 par value, 70,000,000 shares designated; issued and	65,398	65,398
outstanding 65,398,334 and 65,398,334 shares, respectively		
Common stock - \$0.001 par value, authorized - 900,000,000 shares; issued and	161,504	74,046
outstanding - 161,503,259 and 74,045,606 shares, respectively		
Common stock to be issued	13,500	13,500
Additional paid-in capital	6,849,761	6,259,050
Accumulated deficit	(9,850,601)	(8,471,350)
Total stockholders' deficit	(2,748,438)	(2,047,355)
Total liabilities and stockholders' deficit	\$2,679,884	\$750,911

See accompanying notes to the unaudited condensed consolidated financial statements

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ALKAME HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the three months ended		For the six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Revenues	\$ 307,245	\$ 69,820	\$ 601,251	\$ 99,011
Cost of goods sold	235,250	63,737	459,903	95,623
Gross profit	71,995	6,083	141,348	3,388
Operating expenses:				
Selling expenses	171,534	191,765	443,286	399,865
General and administrative	228,746	84,768	540,548	150,770
Depreciation and amortization	47,197	711	83,934	1,422
Total operating expenses	447,477	277,244	1,067,768	552,057
Loss from operations	(375,481)	(271,161)	(926,419)	(548,669)
Other Income / (Expenses):				
Amortization of deferred financing costs	(16,914)	(10,625)	(63,369)	(16,250)
Interest expense	(31,970)	(21,250)	(75,422)	(40,553)
Amortization of beneficial conversion feature	(159,055)	—	(466,787)	—
(Loss) gain on change in fair value of derivative liability	(30,631)	—	152,015	—
(Gain) loss on settlement of debt	(7,043)	—	731	—
Total other expenses	(245,613)	(31,875)	(452,832)	(56,803)
Net loss applicable to common stock holders	\$(621,094)	\$(303,036)	\$(1,379,251)	\$(605,472)
Per share data				
Net Loss per share - basic and diluted	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.01)
Weighted average number of shares outstanding- basic and diluted	149,919,869	69,878,939	121,014,696	79,606,503

See accompanying notes to the unaudited condensed consolidated financial statements

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ALKAME HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the six months ended	
	June 30, 2015	June 30, 2014
Cash flows from operating activities:		
Net loss	\$(1,379,251)	\$(605,472)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debts	2,000	—
Depreciation and amortization	85,454	1,601
Amortization of beneficial conversion feature	466,787	—
Gain on change in fair value of derivative liability	(152,014)	—
Amortization of prepaid assets	174,000	309,500
Amortization of deferred financing costs	63,369	16,250
Changes in operating asset and liability account balances:		
Accounts receivable	(69,453)	(77,215)
Accounts receivable - other	(23,611)	—
Pre-acquisition loans to Xtreme due from former shareholders	(18,022)	—
Deposits	—	1,156
Inventory	(9,258)	15,617
Prepaid expenses	—	(10,000)
Accrued interest	73,602	40,556
Accounts payable and accrued expenses	352,525	144,443
Total adjustments	945,379	441,908
Net cash used in operating activities	(433,873)	(163,564)
Cash flows from investing activities		
Payment of purchase consideration to Xtreme Technologies, Inc.	(45,100)	—
Cash acquired from Xtreme Technologies, Inc.	13,287	—
Funds spent on potential Joint Venture	(12,130)	—
Purchase of equipment	(43,395)	(7,168)
Net cash used in investing activities	(87,338)	(7,168)
Cash flows from financing activities:		
Proceeds from officer loans	22,967	—
Payment of financing costs	(22,783)	(10,000)
Proceeds from notes payable	353,833	100,000
Payments of notes payable	(3,754)	(5,000)
Net cash provided by financing activities	350,263	85,000

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Net decrease in cash	(170,948)	(85,732)
Cash at beginning of period	172,730	128,258
Cash at end of period	\$1,782	\$42,526
Supplemental Schedule of Cash Flow Information:		
Cash paid for interest	\$2,246	\$—
Cash paid for income taxes	\$—	\$—
Supplemental Schedules of Noncash Investing and Financing Activities:		
Conversion of notes payable and accrued interest into common stock	\$314,653	\$—
Common stock issued to settle accounts payable	\$363,515	\$—
Payment made by EROP to noteholders on Company's behalf	\$241,000	\$—
Assets taken over and liabilities assumed from Xtreme Technologies, Inc.	\$2,050,000	\$—
Conversion of common shares in Series B convertible preferred stock	\$—	\$65,211
Beneficial conversion feature on convertible debt	\$353,832	\$—

See accompanying notes to the unaudited condensed consolidated financial statements

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Alkame Holding, Inc. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

1. Organization and Nature of Operations

Alkame Holdings, Inc. (the "Company", "we", "us" or "our") was incorporated under the laws of the State of Nevada on April 19, 2010.

The Company is in the business of distributing bottled/canned alkaline, antioxidant and oxygenated water.

On June 24, 2013, the Company entered into a share exchange agreement with Alkame Water, Inc. ("Alkame") and the shareholders of all of the issued and outstanding shares of Alkame. On June 25, 2013, the Company acquired 100% of the members' shares of Alkame, a Company incorporated in the state of Nevada on March 1, 2012, in exchange for 150,000,000 common shares, comprised of 116,666,667 common shares privately transacted from the President of Company and the issuance of 33,333,333 common shares to shareholders of Alkame. Effectively, Alkame held 71% of the issued and outstanding common shares of the Company and the transaction has been accounted for as a reverse merger, where Alkame is deemed to be the acquirer and or the surviving entity for accounting purposes.

As part of the acquisition transaction, all assets and liabilities of Alkame Holdings, Inc. at the date of acquisition were assumed by the former management.

The transaction is accounted for using the purchase method of accounting. As a result of the recapitalization and change in control, Alkame is the acquiring entity in accordance with ASC 805, Business Combinations. Accordingly, the historical financial statements are those of Alkame, the accounting acquirer, immediately following the consummation of the reverse merger.

Stock Purchase Definitive Agreement with Xtreme Technologies, Inc.

On April 21, 2014, the Company entered into a Stock Purchase Definitive Agreement with Xtreme Technologies, Inc., an Idaho corporation. In accordance with the terms of the Agreement, the Company will purchase all of the outstanding shares of Xtreme for the purchase price of \$2,050,000.00, payable as follows:

- An initial cash deposit of \$50,000 was converted into a non-refundable payment to extend the closing date;
 - An additional \$50,000 deposit payment was made at the date of extension;
 - An additional cash payment of \$525,000 shall be paid on or before the Closing Date (defined below), which, along with the additional \$50,000 deposit, shall pay specific obligations on Xtreme's balance sheet;
- As amended per agreement on December 9, 2015, the balance of \$1,425,000.00 shall be payable by the issuance of shares of the Company's Series C Preferred Stock with a stated value of \$1.00 per share to be divided pro rata among the Company's shareholders of record as of the Closing Date. The Series C Preferred Stock includes an option to convert such shares of Series C Preferred Stock into the Company's Common Stock at the market price on the day prior to conversion; and
- One of Xtreme's previous officers and directors holds outstanding options to purchase up to 1,009,000 shares of Xtreme's common stock at the price of \$0.10 per share. At the Closing Date, pursuant to Idaho law, Xtreme shall notify this previous officer and director of his 30-day right to exercise any or all of his remaining options. If he elects

to exercise any of his options within such 30-day period, the Company agrees to issue additional shares of Series C Preferred Stock in exchange for such Xtreme shares.

o After proper notice, the holder permitted the options to expire unexercised.

The following amendments were entered in relation the Xtreme acquisition:

1. Effective January 16, 2015, the sellers of Xtreme were given the option to rescind and terminate the transaction if the debt was not paid within 120 days of the closing date.

Effective April 15, 2015, the 120-day deadline was extended to 240 days after the closing date. Such deadline will
2. be automatically extended by additional 30 day increments, provided that payments from EROP have been made to escrow within 60 days of the 240-day expiration period.

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Effective December 9, 2015, the securities deliverable to the sellers of Xtreme was amended from Series B Preferred Stock to Series C Preferred Stock.

On January 13, 2015, the Company completed the acquisition of Xtreme Technologies, Inc., an Idaho corporation.

Under the Agreement, Amendment, and Second Amendment, Xtreme became our wholly-owned subsidiary and we acquired the patents on the proprietary process that we believe is the most technologically advanced in water treatment systems for complete hydration. We assumed the operations of Xtreme and continue its business of distributing technologically enhanced bottled water.

Upon closing of the acquisition, we discovered that Xtreme was operating at a loss for the prior year and that it required a substantial cash infusion. We have begun a program of upgrading the production line, reorganized personnel, and began an effort to increase sales of the division so that it returns to profitability as quickly as possible.

Our primary objective now is to introduce, promote, aggressively market and establish channels of distribution to sell our product to a wide range of consumers, first in the United States, Canada and Mexico, and then globally.

We believe that holding the patents will enable us to enhance our position in the investment community, allow us to expand our reach in the distribution of product, and provide us access to other applications the water treatment technology has available. We are exploring other uses of our water so that we can diversify our portfolio of products to include other specialty uses outside of the bottled water and health water markets.

The Company's fiscal year end is December 31.

2. Going Concern

These accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which implies that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. For the six months ended June 30, 2015, the Company recognized \$601,251 in revenue, and as of June 30, 2015 had an accumulated deficit of \$9,850,601. The continuation of the Company as a going concern is dependent upon the continued financial support from its management, and its ability to identify future investment opportunities and obtain the necessary debt or equity financing, and generating profitable operations from the Company's future operations. However, there can be no assurance that these arrangements will be sufficient to fund its ongoing capital expenditures, working capital, and other cash requirements. The outcome of these matters cannot be predicted at this time. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These accompanying unaudited condensed consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

3. Basis of Presentation

These unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP") for financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by generally accepted accounting principles 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, 2015 are not necessarily indicative of the results that may be expected for any interim period or an entire year. The Company applies the same accounting policies and methods in its interim financial statements as those in the most recent audited annual financial statements. The financial statements and notes included herein should be read in conjunction with the annual financial statements and notes for the year ended December 31, 2014 included in the Company's filing on Form 10-K.

The financial statements of the Company have been prepared in accordance with US GAAP and are expressed in U.S. dollars. All inter-company accounts and transactions have been eliminated. The Company's fiscal year end is December 31.

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4. Summary of Significant Accounting Policies

a) Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with US GAAP 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 and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to the deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Alkame Water, Inc. and Xtreme Technologies, Inc. All significant inter-company transactions are eliminated.

c) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes demand deposits, saving accounts and money market accounts. The Company considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents.

d) Accounts receivable and concentration of credit risk

Because the Company currently uses distributors as their main source of product sales and placement, there is an inherent risk that the distributor could experience difficulty in their payments for accounts they ship to. The result, may be that they, while collecting from the stores and chains they supply, they do not process through the payments to us. Although in the past the Company did see significant credit risk associated with the trade receivables, repayment is dependent upon the financial stability of the various distributors and customers to which shipment takes place. As a result, the Company is looking more closely at the credit worthiness of its customer and how large a footprint and

customer base various distributors have, and is attempting to limit how much of our business is conducted through any one customer or distributor. Our concentration risk will is being reevaluated on a quarterly basis.

e) Allowance for doubtful accounts

The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts and the aging of the accounts receivable. The Company regularly reviews the adequacy of the Company's allowance for doubtful accounts through identification of specific receivables where it is expected that payments will not be received. The Company also establishes an unallocated reserve that is applied to all amounts that are not specifically identified. In determining specific receivables where collections may not have been received, the Company reviews past due receivables and gives consideration to prior collection history and changes in the customer's overall business condition. The allowance for doubtful accounts reflects the Company's best estimate as of the reporting dates.

At June 30, 2015 and December 31, 2014, the Company had an allowance for bad debts in the amount of \$25,000 and \$23,000 respectively.

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The Company computes net loss per share in accordance with ASC 260, Earnings per Share. ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive. Such securities, shown below, presented on a common share equivalent basis and outstanding as of June 30, 2015 and 2014 have been excluded from the per share computations:

	As of	
	June 30, 2015	June 30, 2014
Series A Convertible Preferred Stock	N00,000,000	N00,000,000
Series B Convertible Preferred Stock	N5,398,334	N5,210,834
Series C Convertible Preferred Stock	K56,250,000	-
Convertible notes payable	I17,373,399	-
Warrants	I,587,302	-
EROP conversion of debt	I33,002,991	-

g) Financial Instruments

Pursuant to ASC 820, Fair Value Measurements and Disclosures, an entity is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or

model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company did not have any Level 2 or Level 3 assets or liabilities as of September 30, 2014, with the exception of its convertible notes payable. The carrying amounts of these liabilities at September 30, 2014 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 September 30, 2014 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

h) 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 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. 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".

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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.

i) Derivative Liabilities

The Company assessed the classification of its derivative financial instruments as of March 31, 2015, 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 requirements of ASC 815. ASC 815 also provides an exception to this rule when the host instrument is deemed to be conventional, as described.

j) Income Taxes

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted ASC 740 “Accounting for Income Taxes” as of its inception. Pursuant to ASC 740, the Company

is required to compute tax asset benefits for net operating losses carried forward. The potential benefits of net operating losses have not been recognized in this financial statement because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

k) Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments are effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments are to be applied on a retrospective basis, wherein the balance sheet of each individual period presented is adjusted to reflect the period-specific effects of applying the new guidance. The Company is evaluating possible effect of this guidance on future disclosures.

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In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification and improves current U.S. GAAP by placing more emphasis on risk of loss when determining a controlling financial interest, reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (“VIE”), and changing consolidation conclusions for companies in several industries that typically make use of limited partnerships or VIEs. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2015-02 to have a material effect on our financial position, results of operations or cash flows.

In January 2015, the FASB issued ASU No. 2015-01, “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.” This ASU eliminates from U.S. GAAP the concept of extraordinary items. ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. We do not expect the adoption of ASU 2015-01 to have a material effect on our financial position, results of operations or cash flows.

In November 2014, the FASB issued ASU No. 2014-17, “Business Combinations (Topic 805): Pushdown Accounting.” This ASU provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. ASU 2014-17 was effective on November 18, 2014. The adoption of ASU 2014-17 did not have any effect on our financial position, results of operations or cash flows.

In November 2014, the FASB issued ASU 2014-16, “Derivatives and Hedging (Topic 815).” ASU 2014-16 addresses whether the host contract in a hybrid financial instrument issued in the form of a share should be accounted for as debt or equity. ASU 2014-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. We do not currently have issued, nor are we investors in, hybrid financial instruments. Accordingly, we do not expect the adoption of ASU 2014-16 to have any effect on our financial position, results of operations or cash flows.

The FASB has issued ASU No. 2014-12, *Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. This ASU requires that a performance target that affects vesting, and that could be achieved

after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company has not yet determined the effect of the adoption of this standard.

The FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company has not yet determined the effect of the adoption of this standard and it is not expected to have a material impact on the Company's condensed consolidated financial position and results of operations.

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In August 2014, the FASB issued a new accounting standard which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim reporting period. If substantial doubt exists, additional disclosure is required. This new standard will be effective for the Company for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company expects to adopt this new standard for the fiscal year ending December 31, 2015 and the Company will continue to assess the impact on its consolidated financial statements.

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

l) Revenue Recognition

The Company recognizes revenue in accordance with ASC-605, "Revenue Recognition," which requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or title has passed; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts.

Revenues are recognized upon shipment, provided that a signed purchase order has been received, the price is fixed, title has transferred, collection of resulting receivables is reasonably assured, and there are no remaining significant obligations. Reserves for sales returns and allowances, including allowances for so called "ship and debit" transactions, are recorded at the time of shipment, based on historical levels of returns and discounts, current economic trends and changes in customer demand. Certain Internet generated transactions that are prepaid at time of order, are recognized at the time the merchandise ships from the warehouse to the customer.

Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company will defer any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required.

m) Reclassification

Certain reclassifications have been made to conform the prior period data to the current presentation. These reclassifications had no effect on reported net loss.

5.

Notes Payable

Notes Payable to Stockholders:

The Company owed \$39,736 and \$43,490 at June 30, 2015 and December 31, 2014 respectively to a stockholder.

During the year ended December 31, 2013, the Company had \$63,000 in expenses paid on its behalf by this shareholder which was recorded as a Note. On August 1, 2013, the Company and note holder amended the Note by mutual agreement increasing the principal amount by an additional \$10,000 for other services rendered by the former director. The Note is unsecured, and begin accruing interest August 1, 2014 at 5% per annum on the unpaid principal thereafter. Based on a repayment agreement that calls for monthly payments of \$1,000 per month.

During the six months ended June 30, 2015 and 2014, the Company repaid \$6,000 (\$3,754 principle and \$2,246 accrued interest) and \$5,000 of the Note, respectively.

Notes Payable to Xtreme Shareholders:

In January 2015, an accredited investor group, EROP, filed and received approval by the courts for a 3(a)10 filing under which they acquired various debts, including the note due to the former shareholders of Xtreme Technologies, Inc. Under terms of the court order, they are able to convert the debts into common shares of the Company at a 40% discount to the market.

The original balance acquire was \$525,000. As of June 30, 2015 the balance is \$284,000.

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Notes Payable, others:

On March 29, 2013, the Company entered into a two-year promissory note agreement for \$500,000. On April 8, 2013, the Company received \$200,000 and on May 1, 2013, the Company received \$300,000. On September 27, 2013, the note agreement was amended to include an additional advance to the Company of \$250,000. Pursuant to the agreement, the loan is secured with a general security agreement, bears interest at 10% per annum, and \$500,000 is due on March 30, 2015 and \$250,000 is due on September 27, 2015. These notes are currently in technical default. To date, the lender has not declared a default, and continues to forebear on collection.

On March 11, 2014, the Company entered into an additional two-year promissory note agreement for an additional \$100,000 from the same investor group, on the same terms as outlined above.

At June 30, 2015 and December 31, 2014, the Company has accrued interest of \$162,375 and \$119,875, respectively. The original note, and the amendment, each mature two years from date of issuance or amendment.

At June 30, 2015, the Company classified \$850,000 of this note payable as current liability.

The Company paid 10% of proceeds from \$750,000 of the long-term notes payable as financing cost of \$75,000 to a consultant. The Company will amortize this cost over the term of the long-term note payable.

The Company paid 10% of proceeds from the \$100,000 long-term notes payable as financing cost of \$10,000 to a consultant. The Company will amortize this cost over the term of the long-term note payable.

During the six months ended June 30, 2015 and 2014, the Company charged to operations \$63,369 and \$16,250 as amortization of deferred financing costs, respectively. As of June 30, 2015 and December 31, 2014, remaining balance in deferred financing cost of \$23,340 and \$63,375, respectively and is presented as part of other assets.

6.

Convertible debt

At June 30, 2015 and December 31, 2014 convertible notes and debentures consisted of the following:

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	June 30, 2015	December 31, 2014
Convertible notes payable	\$663,222	\$604,472
Unamortized debt discount	(299,589)	(412,543)
Carrying amount	\$363,633	\$191,929
Less: current portion	(327,603)	(168,962)
Long-term convertible notes, net	\$36,030	\$22,968

Note issued on August 6, 2014, fully converted:

On August 6, 2014, the Company entered into a one-year convertible debenture for \$82,500 with an accredited institutional investor. The debenture was convertible at the lesser of \$0.10 per share, or 60% of the lowest trade price in the 25 trading days prior to conversion. The note was issued with an original issue discount of \$7,500 which was charged to current period operations as interest expense during the year ended December 31, 2014.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in August 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$190,451 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield: 0%
Volatility 105%
Risk free rate: 0.48%

The initial fair values of the embedded debt derivative of \$190,451 was allocated as a debt discount up to the proceeds of the note (\$82,500) with the remainder (\$107,951) charged to operations as derivative liability adjustment in during the year ended December 31, 2014.

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During the year ended December 31, 2014, the Company amortized \$17,187 to current period operations as amortization of beneficial conversion feature.

During the six months ended June 30, 2015, the Company amortized the remaining \$65,313 to the current period operations as amortization of beneficial conversion feature upon full conversion of the debenture.

At June 30, 2015, due to full conversion of the debenture, the Company adjusted the recorded fair value of the derivative liability to \$0 resulting in non-cash, non-operating gain of \$142,317 for the six months ended June 30, 2015.

Note issued on August 6, 2014, fully converted:

On August 6, 2014, the Company entered into a nine-month convertible debenture for \$68,000 with an accredited institutional investor. The debenture is convertible at 58% of the average of the three lowest trading prices in the 10 trading days prior to conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in August 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$94,657 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield:	0%
Volatility	105%
Risk free rate:	0.48%

The initial fair values of the embedded debt derivative of \$94,657 was allocated as a debt discount up to the proceeds of the note (\$68,000) with the remainder (\$32,145) charged to operations as derivative liability adjustment during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company amortized \$37,778 to current period operations as amortization of beneficial conversion feature.

During the six months ended June 30, 2015, the Company amortized the remaining \$30,222 to the current period operations as amortization of beneficial conversion feature upon full conversion of the debenture.

At June 30, 2015, due to full conversion of the debenture, the Company adjusted the recorded fair value of the derivative liability to \$0 resulting in non-cash, non-operating gain of \$90,253 for the six months ended June 30, 2015.

Note issued on August 11, 2014, fully converted:

On August 11, 2014, the Company entered into a five-month convertible debenture for \$45,000 with an accredited institutional investor. The debenture is convertible at 50% of the lowest traded price in the 20 days prior to the conversion.

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The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in August 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$131,493 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield:	0%
Volatility	111%
Risk free rate:	0.05%

The initial fair values of the embedded debt derivative of \$131,493 was allocated as a debt discount up to the proceeds of the note (\$45,000) with the remainder (\$86,493) charged to operations as derivative liability adjustment during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company amortized \$37,500 to current period operations as amortization of beneficial conversion feature.

During the six months ended June 30, 2015, the Company amortized the remaining \$7,500 to the current period operations as amortization of beneficial conversion feature upon full conversion of the debenture.

At June 30, 2015, due to full conversion of the debenture, the Company adjusted the recorded fair value of the derivative liability to \$0 resulting in non-cash, non-operating gain of \$58,401 for the six months ended June 30, 2015.

Note issued on September 4, 2014, fully converted:

On September 4, 2014, the Company entered into a nine-month convertible debenture for \$42,500 with an accredited institutional investor. The debenture is convertible at 58% of the average of the three lowest trading prices in the 10 trading days prior to conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in September 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$52,597 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield: 0%
Volatility 131%
Risk free rate: 0.48%

The initial fair values of the embedded debt derivative of \$52,597 was allocated as a debt discount up to the proceeds of the note (\$42,500) with the remainder (\$10,097) charged to operations as derivative liability adjustment during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company amortized \$18,889 to current period operations as amortization beneficial conversion feature.

During the six months ended June 30, 2015, the Company amortized the remaining \$23,611 to the current period operations as amortization of beneficial conversion feature upon full conversion of the debenture.

At June 30, 2015, due to full conversion of the debenture, the Company adjusted the recorded fair value of the derivative liability to \$0 resulting in non-cash, non-operating gain of \$59,207 for the six months ended June 30, 2015.

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Note issued on September 5, 2014:

On September 5, 2014, the Company entered into a one-year convertible debenture for \$52,500 with an accredited institutional investor. The debenture is convertible at 53% of the lowest trading price in the 20 trading days prior to the conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in September 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$578,343 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield:	0%
Volatility	166%
Risk free rate:	0.10%

The initial fair values of the embedded debt derivative of \$578,343 was allocated as a debt discount up to the proceeds of the note (\$52,500) with the remainder (\$525,843) charged to operations as derivative liability adjustment during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company amortized \$17,500 to current period operations as amortization of beneficial conversion feature.

During the six months ended June 30, 2015, the Company amortized \$26,250 to current period operations as amortization of beneficial conversion feature.

The fair value of the described embedded derivative of \$85,715 at June 30, 2015 was determined using the Black-Scholes Model with the following assumptions:

Dividend yield:	0%
Volatility	355%
Risk free rate:	0.01%

At June 30, 2015, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating gain of \$4,462 for the six months ended June 30, 2015.

Note issued on September 11, 2014, fully converted:

On September 11, 2014, the Company entered into a nine-month convertible debenture for \$56,250 with an accredited institutional investor. The debenture is convertible at 55% of the average of the two lowest trading price in the 25 trading days prior to conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in September 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$300,489 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield:	0%
Volatility	240%
Risk free rate:	0.11%

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The initial fair values of the embedded debt derivative of \$300,489 was allocated as a debt discount up to the proceeds of the note (\$56,250) with the remainder (\$244,239) charged to operations as derivative liability adjustment during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company amortized \$25,000 to current period operations as amortization of beneficial conversion feature.

During the six months ended June 30, 2015, the Company amortized the remaining \$31,250 to the current period operations as amortization of beneficial conversion feature upon full conversion of the debenture.

At June 30, 2015, due to full conversion of the debenture, the Company adjusted the recorded fair value of the derivative liability to \$0 resulting in non-cash, non-operating gain of \$84,645 for the six months ended June 30, 2015.

Note issued on October 24, 2014:

On October 24, 2014, the Company entered into a twelve-month convertible debenture for \$55,000 with an accredited institutional investor. The debenture is convertible at 60% of the lowest closing price in the 20 trading days prior to conversion. The note was issued with an original issue discount of \$5,000 which was recorded as part of deferred financing cost and amortized over the term of the note.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in October 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$162,550 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield:	0%
Volatility	260%
Risk free rate:	0.11%

The initial fair values of the embedded debt derivative of \$162,550 was allocated as a debt discount up to the proceeds of the note (\$55,000) with the remainder (\$107,550) charged to operations as derivative liability adjustment during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company amortized \$13,750 to current period operations as amortization of beneficial conversion feature.

During the six months ended June 30, 2015, the Company amortized \$27,500 to current period operations as amortization of beneficial conversion feature.

The fair value of the described embedded derivative of \$86,120 at June 30, 2015 was determined using the Black-Scholes Model with the following assumptions:

Dividend yield:	0%
Volatility	355%
Risk free rate:	0.01%

At June 30, 2015, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating loss of \$905 for six months ended June 30, 2015.

Note issued on October 27, 2014 – Long Term:

On October 27, 2014, the Company entered into a two-year convertible debenture for \$33,000 with an accredited institutional investor. The debenture is convertible at lesser of (a) \$0.15 or (b) 60% of the lowest trading price in the 25 trading days prior to conversion. The note was issued with an original issue discount of \$3,000 which was recorded as part of deferred financing cost and amortized over the term of the note.

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The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in October 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$100,870 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield: 0%
Volatility 260%
Risk free rate: 0.41%

The initial fair values of the embedded debt derivative of \$100,870 was allocated as a debt discount up to the proceeds of the note (\$33,000) with the remainder (\$67,870) charged to operations as derivative liability adjustment during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company amortized \$4,125 to current period operations as amortization of beneficial conversion feature.

During the six months ended June 30, 2015, the Company amortized \$8,250 to current period operations as amortization of beneficial conversion feature.

The fair value of the described embedded derivative of \$64,126 at June 30, 2015 was determined using the Black-Scholes Model with the following assumptions:

Dividend yield: 0%
Volatility 355%
Risk free rate: 0.28%

At June 30, 2015, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating loss of \$6,379 for the six months ended June 30, 2015.

Note issued on October 29, 2014:

On October 29, 2014, the Company entered into a twelve-month convertible debenture for \$55,000 with an accredited institutional investor. The debenture is convertible at lesser of (a) \$0.10 or (b) 60% of the lowest trading price in the 25 trading days prior to conversion. The note was issued with an original issue discount of \$5,000 which was recorded as part of deferred financing cost and amortized over the term of the note.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in October 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$142,870 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield:	0%
Volatility	260%
Risk free rate:	0.11%

The initial fair values of the embedded debt derivative of \$142,870 was allocated as a debt discount up to the proceeds of the note (\$55,000) with the remainder (\$87,870) charged to operations as derivative liability adjustment during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company amortized \$13,750 to current period operations as amortization of beneficial conversion feature.

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During the six months ended June 30, 2015, the Company amortized \$27,500 to current period operations as amortization of beneficial conversion feature.

The fair value of the described embedded derivative of \$86,869 at June 30, 2015 was determined using the Black-Scholes Model with the following assumptions:

Dividend yield: 0%
Volatility 355%
Risk free rate: 0.01%

At June 30, 2015, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating loss of \$1,378 for the six months ended June 30, 2015.

Note issued on November 12, 2014:

On November 12, 2014, the Company entered into a twelve-month convertible debenture for \$75,000 and a 5-year warrant to purchase an aggregate of 1,587,302 shares with an accredited institutional investor. The debenture is convertible at 50% of the lowest trading price in the 20 trading days prior to conversion. The warrant is exercisable at \$0.24 per share subject to adjustments.

In accordance with ASC 470-20, the Company recognized an embedded beneficial conversion feature in the notes. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The Company recognized and measured an aggregate of nil of the proceeds, which is equal to the intrinsic value of the embedded beneficial conversion feature. The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in November 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$324,627 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield: 0%
Volatility 261-275%
Risk free rate: 0.14%

The initial fair values of the embedded debt derivative of \$324,627 was allocated as a debt discount up to the proceeds of the note (\$75,000) with the remainder (\$249,627) charged to operations as derivative liability adjustment during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company amortized \$4,795 to current period operations as amortization of beneficial conversion feature.

During the six months ended June 30, 2015, the Company amortized \$37,500 to current period operations as amortization of beneficial conversion feature.

The fair value of the described embedded derivative of \$167,723 at June 30, 2015 was determined using the Black-Scholes Model with the following assumptions:

Dividend yield:	0%
Volatility	355%
Risk free rate:	0.07-1.65%

At June 30, 2015, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating gain of \$27,616 for the six months ended June 30, 2015.

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Note issued on December 16, 2014 – Long Term:

On December 16, 2014, the Company entered into a two-year convertible debenture for \$39,772 with an accredited institutional investor. The debenture is convertible at 60% of the lowest trading price in the 25 trading days prior to conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in December 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$85,288 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield:	0%
Volatility	275%
Risk free rate:	0.58%

The initial fair values of the embedded debt derivative of \$85,288 was allocated as a debt discount up to the proceeds of the note (\$39,722) with the remainder (\$45,566) charged to operations as derivative liability adjustment during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company amortized \$1,655 to current period operations as amortization of beneficial conversion feature.

During the six months ended June 30, 2015, the Company amortized \$9,930 to current period operations as amortization of beneficial conversion feature.

The fair value of the described embedded derivative of \$76,063 at June 30, 2015 was determined using the Black-Scholes Model with the following assumptions:

Dividend yield:	0%
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Volatility 355%
Risk free rate: 0.28%

At June 30, 2015, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating loss of \$6,075 for the six months ended June 30, 2015.

Note issued on January 22, 2015:

On January 22, 2015, the Company entered into a twelve-month convertible debenture for \$75,000 with an accredited institutional investor. The debenture is convertible at 55% of the lowest trading price in the 20 trading days prior to conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in January 2015. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$210,982 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield: 0%
Volatility 335%
Risk free rate: 0.41%

The initial fair values of the embedded debt derivative of \$210,982 was allocated as a debt discount up to the proceeds of the note (\$75,000) with the remainder (\$135,982) charged to operations as derivative liability adjustment during the six months ended June 30, 2015.

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During the six months ended June 30, 2015, the Company amortized the \$37,500 to the current period operations as amortization of beneficial conversion feature.

The fair value of the described embedded derivative of \$139,546 at June 30, 2015 was determined using the Black-Scholes Model with the following assumptions:

Dividend yield: 0%
Volatility 355%
Risk free rate: 0.11%

At June 30, 2015, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating gain of \$71,436 for the six months ended June 30, 2015.

Note issued on January 29, 2015:

On January 29, 2015, the Company entered into a nine-month convertible debenture for \$28,000 with an accredited institutional investor. The debenture is convertible at 58% of the average of the three lowest trading prices in the 10 trading days prior to conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in January 2015. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$46,247 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield: 0%
Volatility 336%
Risk free rate: 0.11%

The initial fair values of the embedded debt derivative of \$46,247 was allocated as a debt discount up to the proceeds of the note (\$28,000) with the remainder (\$18,247) charged to operations as derivative liability adjustment during the six months ended June 30, 2015.

During the six months ended June 30, 2015, the Company amortized the \$18,666 to the current period operations as amortization of beneficial conversion feature.

The fair value of the described embedded derivative of \$39,595 at June 30, 2015 was determined using the Black-Scholes Model with the following assumptions:

Dividend yield: 0%
Volatility 355%
Risk free rate: 0.01%

At June 30, 2015, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating gain of \$6,652 for the six months ended June 30, 2015.

Note issued on February 9, 2015:

On February 9, 2015, the Company entered into a twelve-month convertible debenture for \$108,000 with an accredited institutional investor. The debenture is convertible at 60% of the lowest trading price in the 20 trading days prior to conversion.

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The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in February 2015. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$181,521 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield:	0%
Volatility	336%
Risk free rate:	0.11%

The initial fair values of the embedded debt derivative of \$181,521 was allocated as a debt discount up to the proceeds of the note (\$108,000) with the remainder (\$73,521) charged to operations as derivative liability adjustment during the six months ended June 30, 2015.

During the six months ended June 30, 2015, the Company amortized the \$45,000 to the current period operations as amortization of beneficial conversion feature.

The fair value of the described embedded derivative of \$192,372 at June 30, 2015 was determined using the Black-Scholes Model with the following assumptions:

Dividend yield:	0%
Volatility	355%
Risk free rate:	0.11%

At June 30, 2015, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating loss of \$10,851 for the six months ended June 30, 2015.

Note issued on February 10, 2015 – Long Term:

On February 10, 2015, the Company entered into a twenty-four-month convertible debenture for \$22,000 with an accredited institutional investor. The debenture is convertible at 60% of the lowest trading price in the 25 trading days prior to conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in February 2015. These embedded derivatives included certain conversion features. The accounting treatment of derivative

financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$41,170 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield:	0%
Volatility	336%
Risk free rate:	0.11%

The initial fair values of the embedded debt derivative of \$41,170 was allocated as a debt discount up to the proceeds of the note (\$22,000) with the remainder (\$19,170) charged to operations as derivative liability adjustment during the six months ended June 30, 2015.

During the six months ended June 30, 2015, the Company amortized the \$5,958 to the current period operations as amortization of beneficial conversion feature.

The fair value of the described embedded derivative of \$43,269 at June 30, 2015 was determined using the Black-Scholes Model with the following assumptions:

Dividend yield:	0%
Volatility	355%
Risk free rate:	0.64%

At June 30, 2015, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating loss of \$2,099 for the six months ended June 30, 2015.

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Note issued on February 19, 2015:

On February 19, 2015, the Company entered into a twelve-month convertible debenture for \$35,000 with an accredited institutional investor. The debenture is convertible at 50% of the lowest trading price in the 20 trading days prior to conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in February 2015. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$53,829 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield: 0%
Volatility 336%
Risk free rate: 0.11%

The initial fair values of the embedded debt derivative of \$53,829 was allocated as a debt discount up to the proceeds of the note (\$35,000) with the remainder (\$18,829) charged to operations as derivative liability adjustment during the six months ended June 30, 2015.

During the six months ended June 30, 2015, the Company amortized the \$14,583 to the current period operations as amortization of beneficial conversion feature.

The fair value of the described embedded derivative of \$75,845 at June 30, 2015 was determined using the Black-Scholes Model with the following assumptions:

Dividend yield: 0%
Volatility 355%
Risk free rate: 0.11%

At June 30, 2015, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating loss of \$22,016 for the six months ended June 30, 2015.

Note issued on February 25, 2015 – Long Term:

On February 25, 2015, the Company entered into a two-year convertible debenture for \$33,333 with an accredited institutional investor. The debenture is convertible at the lower of (a) \$0.10 per share; or (b) 60% of the lowest trading price in the 25 trading days prior to conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in February 2015. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$61,358 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield:	0%
Volatility	340%
Risk free rate:	0.11%

The initial fair values of the embedded debt derivative of \$61,358 was allocated as a debt discount up to the proceeds of the note (\$33,333) with the remainder (\$28,025) charged to operations as derivative liability adjustment during the six months ended June 30, 2015.

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During the six months ended June 30, 2015, the Company amortized \$6,945 to current period operations as amortization of beneficial conversion feature.

The fair value of the described embedded derivative of \$65,638 at June 30, 2015 was determined using the Black-Scholes Model with the following assumptions:

Dividend yield: 0%
Volatility 355%
Risk free rate: 0.64%

At June 30, 2015, the Company adjusted the recorded fair value of the derivative liability to market resulting in non-cash, non-operating loss of \$4,280 for the six months ended June 30, 2015.

Note issued on March 13, 2015:

On March 5, 2015, the Company entered into an eight-month convertible debenture for \$52,500 with an accredited institutional investor. The debenture is convertible at 53% of the lowest trading price in the 20 trading days prior to the conversion.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in March 2015. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$73,432 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield: 0%
Volatility 343%
Risk free rate: