
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2018

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: 333-183360

EXACTUS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada

(State or Other Jurisdiction of Incorporation)

27-1085858

(I.R.S. Employer Identification Number)

4870 Sadler Road, Suite 300

Glen Allen, VA

(Address of Principal Executive Offices)

23060

(Zip Code)

(804) 205-5036

(Registrant's Telephone Number, Including Area Code)

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 checkmark whether the Registrant has submitted electronically any Interactive Data File required to be submitted pursuant to Rule 405 of regulation S-T (Section 232.405) of this chapter during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See 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

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The registrant had 39,775,689 shares of Common Stock, par value \$0.0001 per share, outstanding as of November 14, 2018.

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Exactus, Inc.
(formerly known as Spiral Energy Tech, Inc.)
Condensed Consolidated Balance Sheets

	September 30, 2018	December 31, 2017
	<u>(Unaudited)</u>	<u></u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,291	\$ 161,215
Prepaid expenses	11,792	11,458
Total current assets	<u>13,083</u>	<u>172,673</u>
TOTAL ASSETS	<u>\$ 13,083</u>	<u>\$ 172,673</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	847,750	735,051
Accrued expenses	1,241,232	582,236
Note payable	49,900	48,000
Convertible loan notes, net	345,640	57,796
Derivative liability	1,502,000	930,000
Settlement payable	17,000	20,000
Interest payable	42,660	15,232
Total Current Liabilities	<u>4,046,182</u>	<u>2,388,315</u>
Long Term Liabilities		
Notes Payable	100,000	-
Total Long Term Liabilities	<u>100,000</u>	<u>-</u>
TOTAL LIABILITIES	<u>4,146,182</u>	<u>2,388,315</u>
Commitments and contingencies (see note 9)		
Stockholders' Deficit		
Preferred stock: 50,000,000 authorized; \$0.0001 par value 0 shares issued and outstanding	-	-
Preferred stock Series A: 5,000,000 authorized; \$0.0001 par value 4,558,042 shares issued and 0 shares outstanding	-	-
Preferred stock Series B-1: 32,000,000 authorized; \$0.0001 par value 2,800,000 issued and outstanding	280	280
Preferred stock Series B-2: 10,000,000 authorized; \$0.0001 par value 8,684,000 shares issued and outstanding, respectively	868	868
Preferred stock Series C: 1,733,334 authorized; \$0.0001 par value 1,733,334 shares issued and outstanding	173	173
Preferred stock Series D: 200 authorized; \$0.0001 par value 45 and 0 shares issued and outstanding, respectively	1	-
Common stock: 200,000,000 shares authorized; \$0.0001 par value 39,775,689 and 35,071,862 shares issued and outstanding, respectively	3,977	3,507
Additional paid-in capital	5,291,002	3,980,103
Accumulated deficit	(9,429,400)	(6,200,573)
Total Stockholders' Deficit	<u>(4,133,099)</u>	<u>(2,215,642)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 13,083</u>	<u>\$ 172,673</u>

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

Exactus, Inc.
(formerly known as Spiral Energy Tech, Inc.)
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended Sept 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	\$ -	\$ -	\$ -	\$ -
Operating Expenses				
General and administration	301,859	293,540	1,446,867	900,478
Professional	49,068	59,667	179,658	365,962
Research and development	75,000	87,000	225,000	281,076
Impairment loss	-	50,000	-	50,000
Total operating expenses	<u>425,927</u>	<u>490,207</u>	<u>1,851,525</u>	<u>1,597,516</u>
Net loss from operations	(425,927)	(490,207)	(1,851,525)	(1,597,516)
Other Income (loss)				
Derivative (loss) gain	(818,355)	(210,250)	(517,205)	(210,250)
Loss on stock settlement	(223,825)	-	(477,126)	-
Amortization of discount and debt issuance costs for convertible notes	(112,325)	-	(345,013)	-
Interest expense	(14,839)	(17,362)	(37,958)	(17,362)
Total other (loss) income	<u>(1,169,344)</u>	<u>(227,612)</u>	<u>(1,377,302)</u>	<u>(227,612)</u>
Net loss before income taxes	(1,595,271)	(717,819)	(3,228,827)	(1,825,128)
Provision for income tax	-	-	-	-
Net Loss	<u>\$ (1,595,271)</u>	<u>\$ (717,819)</u>	<u>\$ (3,228,827)</u>	<u>\$ (1,825,128)</u>
Basic and Diluted Loss per Common Share	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>	<u>\$ (0.09)</u>	<u>\$ (0.05)</u>
Weighted Average Number of Common Shares Outstanding	<u>38,499,588</u>	<u>33,571,862</u>	<u>37,178,323</u>	<u>33,667,112</u>

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

Exactus, Inc.
(formerly known as Spiral Energy Tech, Inc.)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended	
	September 30,	
	2018	2017
	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Net loss	\$ (3,228,827)	\$ (1,825,128)
Adjustments to reconcile net loss to cash used in operations:		
Derivative expense	517,205	210,250
Officer and director bonuses paid in stock	500,000	
Stock option expense	99,835	
Amortization of discount and debt issuance costs for convertible notes	345,013	14,012
Impairment	-	50,000
Loss on debt settlement in stock	477,126	-
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Prepaid expenses	(334)	(512)
Increase (decrease) in operating liabilities:		
Accounts payable	112,699	79,071
Accrued expenses	744,931	265,379
Settlement payable	(3,000)	-
Interest payable	27,428	2,810
Net Cash Used In Operating Activities	<u>(407,924)</u>	<u>(1,204,118)</u>
Cash Flows From Investing Activities:		
Net Cash Provided by Investing Activities	<u>-</u>	<u>-</u>
Cash Flows From Financing Activities:		
Proceeds from sale of Series B-2 Preferred Stock	-	25,000
Proceeds from sale of Series D Preferred Stock	50,000	-
Proceeds from notes payable	101,900	48,000
Payments on convertible loan notes	(25,000)	-
Proceeds from convertible loan notes	121,100	108,750
Net Cash Provided By Financing Activities	<u>248,000</u>	<u>181,750</u>
Net (decrease) increase in cash and cash equivalents	(159,924)	(1,022,368)
Cash and cash equivalents at beginning of period	<u>161,215</u>	<u>1,055,336</u>
Cash and cash equivalents at end of period	<u>\$ 1,291</u>	<u>\$ 32,968</u>
Supplemental Cash Flow Information:		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for taxes	<u>\$ -</u>	<u>\$ -</u>
Non-Cash transactions investing and financing activity:		
Debt settled by Preferred Series D stock issued, March 28, 2018	<u>\$ 500,000</u>	<u>\$ -</u>
Debt settled by common stock issued, February 2, 2018	<u>\$ 85,934</u>	<u>\$ -</u>
Convertible loan notes settled by common stock	<u>\$ 34,120</u>	<u>\$ -</u>
Initial beneficial conversion feature and debt discount on convertible notes	<u>\$ 151,000</u>	<u>\$ 137,500</u>
Initial derivative liability on convertible notes	<u>\$ 282,000</u>	<u>\$ 286,000</u>

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

Exactus, Inc.
(Formerly known as Spiral Energy Tech, Inc.)
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2018

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and note disclosures required by accounting principles generally accepted in the United States (“GAAP”). The financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the Securities and Exchange Commission (the “SEC”) by Exactus, Inc. (formerly known as Spiral Energy Tech, Inc. and Solid Solar Energy, Inc.) (“Exactus”, “our”, “us”, “we” or the “Company” refer to Exactus, Inc. and its wholly-owned subsidiary, unless the context otherwise requires) on April 2, 2018. On February 29, 2016, after acquiring all the issued and outstanding capital stock of Exactus BioSolutions, Inc., the Company changed its business focus from drone technology to a life science company. In the opinion of management, this interim information includes all material adjustments, which are of a normal and recurring nature, necessary for fair presentation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the entire year or for any other period.

We adopted early application of Accounting Standards Update No. 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements effective September 30, 2014, therefore, inception-to-date information and other remaining disclosure requirements of Topic 915 are not presented or disclosed.

NOTE 2. BUSINESS DESCRIPTION AND GOING CONCERN

Organization and Business Description

Exactus was incorporated on January 18, 2008 as “Solid Solar Energy, Inc.” in the State of Nevada as a for-profit Company. On May 16, 2013, we filed a certificate of amendment to the Company’s amended and restated articles of incorporation to change our name to “Spiral Energy Tech., Inc.” from Solid Solar Energy, Inc. On February 29, 2016, we acquired all of the issued and outstanding capital stock of Exactus BioSolutions, Inc. (“Exactus BioSolutions”) pursuant to a Share Exchange Agreement, dated February 29, 2016, with Exactus BioSolutions (the “Share Exchange”). The Company issued 30 million shares of newly-designated Series B-1 Preferred Stock to the shareholders of Exactus BioSolutions in the Share Exchange, representing approximately 87% of voting control of the Company upon consummation of the Share Exchange. As a result of the Share Exchange, Exactus BioSolutions became a wholly-owned subsidiary of Exactus, Inc. Effective March 22, 2016, we changed our corporate name to “Exactus, Inc.” via a merger with our wholly-owned subsidiary, Exactus Acquisition Corp.

Following the Share Exchange, we became a life science company based in Glen Allen, Virginia that plans to develop and commercialize Point-of-Care (“POC”) diagnostics for measuring proteolytic enzymes in the blood based on a novel detection platform developed by Dr. Krassen Dimitrov, PhD. Our products will employ a disposable assay test strip combined with a portable and easy to use hand held detection unit that provides a result in as little as 30 seconds.

The first product, the FibrLyzer, will be used to assay fibrinolysis, which is the process by which clots in the blood are dissolved. The rate of fibrinolysis is carefully regulated in circulation; too little fibrinolysis leads to the formation of clots (thrombosis) and too much fibrinolysis prevents normal coagulation and can lead to excessive bleeding (hemorrhage). An elevated level of fibrinolysis is associated with many pathological conditions including myocardial infarction, pulmonary embolisms/deep vein thrombosis (PE/DVT) and ischemic stroke. Further, complications associated with surgical procedures and trauma can induce a hyperfibrinolytic state, leading to hemorrhage. In all of these medical situations, time is of the essence, and we believe current diagnostic technologies cannot return an actionable result in the time frame necessary to provide timely therapeutic intervention.

The FibrLyzer is expected to provide a simple, rapid and affordable means to assess the fibrinolytic state of a patient in a broad range of applications including (i) the management of hyperfibrinolytic states associated with surgery and trauma, (ii) obstetrics, (iii) diagnosis of acute events such as myocardial infarction and ischemic stroke, (iv) diagnosis of pulmonary embolism and deep vein thrombosis, (v) chronic coronary disease management, and (vi) as a monitoring device to evaluate the effectiveness of coagulation therapy. We anticipate that the use of FibrLyzer will provide the basis for improving management of patients who are at-risk of hemorrhage, expediting treatment, potentially improving patient outcomes, and saving money.

We plan to follow up FibrLyzer with a similar technology to detect collagenase levels in the blood. This product, MatriLyzer, is intended to be used to detect the recurrence (or initial occurrence in high risk patients) of cancer and can be used as an at-home monitoring device or during routine office visits. The appearance of elevated levels of collagenase, the enzyme that degrades collagen, have been proven to be an early biomarker of recurrent cancer. For patients that have been previously treated for cancer, specifically, solid tumors, if and when the tumor recurs is of paramount importance. Once a tumor has begun to grow and spread, we believe that MatriLyzer can be used to detect this event at an early stage. If desired, our device will be designed to communicate directly with the attending oncologist via a smart phone application to ensure that the tests are being used properly and, when collagenase levels are elevated, both patient and physician will know the patient should have a more thorough examination.

Prior to our acquisition of Exactus BioSolutions pursuant to the Share Exchange, our primary business focus was on developing and commercializing drone technology (the "Former Business").

As of September 30, 2018, we had no products available for sale. There can be no assurance that our technology will be approved for sale or, if approved for sale, be commercially successful. In addition, we operate in an environment of rapid change in technology and are dependent upon the continued services of our current consultants and subcontractors.

As of September 30, 2018, we had \$1,291 of cash. These funds will not be sufficient to enable us to complete the development of any potential products, including the FibrLyzer, to pay our debts as they become due, including pursuant to our convertible promissory notes (discussed in Note 6). Accordingly, we will need to obtain further funding through public or private equity offerings, debt financing, collaboration arrangements or other sources in order to continue our business. The issuance of any additional shares of common stock, preferred stock or convertible securities could be substantially dilutive to our shareholders. In addition, adequate additional funding may not be available to us on acceptable terms, or at all. If we are unable to raise capital, we would be forced to delay, reduce or eliminate our research and development programs and may not be able to continue as a going concern.

These financial statements are presented on the basis that we will continue as a going concern. The going concern concept contemplates the realization of assets and satisfaction of liabilities in the normal course of business. No adjustment has been made to the carrying amount and classification of our assets and the carrying amount of our liabilities based on the going concern uncertainty. We have considered Accounting Standards Update ("ASU") 2014-15 in consideration of reporting requirements of the going concern financial statements.

The audit report prepared by our independent registered public accounting firm relating to our financial statements for the year ended December 31, 2017 includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. We have concluded that the circumstances described above continue to raise substantial doubt about our ability to continue as a going concern as of September 30, 2018.

The Company's headquarters are located at 4870 Sadler Road, Suite 300, Glen Allen, Virginia 23060. The Company's fiscal year end is December 31.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited interim financial statements have been prepared in accordance with GAAP and pursuant to the rules and regulations of the SEC. Certain information and note disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

Cash and Cash Equivalents

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The carrying value of those investments approximates their fair market value due to their short maturity and liquidity. Cash and cash equivalents include cash on hand and amounts on deposit with financial institutions, which amounts may at times exceed federally insured limits. We have not experienced any losses on such accounts and we do not believe we are exposed to any significant credit risk.

Cash and cash equivalents were \$1,291 and \$161,215 at September 30, 2018 and December 31, 2017, respectively.

Derivatives and Hedging- Contracts in Entity's Own Equity

In accordance with the provisions of ASC 815 "Derivatives and Hedging" the embedded beneficial conversion features in the Convertible Loan Notes (Note 6) are not considered to be indexed to our stock. As a result, these are required to be accounted for as a derivative financial liability and have been recognized as a liability on the balance sheets. The fair value of the derivative financial liability is determined using the Monte Carlo valuation model and is affected by changes in inputs to that model including the Company's stock price, expected stock price volatility, the contractual term, and the risk-free interest rate. The derivative financial liability is subject to re-measurement at each balance sheet date and any changes in fair value is recognized as a component in other income (expenses) (Note 7).

Revenue Recognition

We recognize revenue when it is realized or realizable and estimable in accordance with ASC 605, "Revenue Recognition."

Research and Development Expenses

We follow ASC 730-10, "Research and Development," and expense research and development costs when incurred. Accordingly, third-party research and development costs, including designing, prototyping and testing of product, are expensed when the contracted work has been performed or milestone results have been achieved. Research and development costs of \$75,000 and \$87,000 were incurred for the three months ended September 30, 2018 and 2017 and \$225,000 and \$281,076 for the nine months ended September 30, 2018 and 2017, respectively.

Stock-Based Compensation

Compensation expense related to stock options granted is measured at the grant date based on the estimated fair value of the award and is recognized on a straight-line basis over the requisite service period. Forfeitures are recognized as a reduction of stock-based compensation expense as they occur.

Related Parties

We follow ASC 850, "Related Party Disclosures," for the identification of related parties and disclosure of related party transactions.

Earnings per Share

We compute basic and diluted earnings per share amounts in accordance with ASC Topic 260, “*Earnings per Share*.” Basic earnings per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share reflects the potential dilution that could occur if preferred stock converted to common stock and warrants are exercised. Preferred stock and warrants are excluded from the diluted earnings per share calculation if their effect is anti-dilutive.

As of September 30, 2018, the Company had 35,907,776 potential shares, options, and warrants that were excluded from our calculation of diluted earnings per share because their effect would have been anti-dilutive. As of December 31, 2017, the Company had 14,884,001 shares that were considered to be anti-dilutive.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. The Company is required to record all components of comprehensive income (loss) in the financial statements in the period in which they are recognized. Net income (loss) and other comprehensive income (loss), are reported net of their related tax effect, to arrive at comprehensive income (loss). The Company had no other comprehensive income or loss for the three and nine months ended September 30, 2018 and 2017, respectively.

Recent Accounting Pronouncements

We have reviewed the FASB issued ASU accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. We have carefully considered the new pronouncements that alter previous generally accepted accounting principles and do not believe that any new or modified principles will have a material impact on the Company’s reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of the Company’s financial management.

NOTE 4. AGREEMENTS

Through the Share Exchange, the Company acquired an exclusive license agreement (the “Licensing Agreement”) between Exactus BioSolutions and Digital Diagnostics Inc. (“Digital Diagnostics”) that the Company recognized as an intangible asset. Pursuant to the Licensing Agreement, Digital Diagnostics granted to Exactus BioSolutions an exclusive license to develop, produce and commercialize certain diagnostic products, including the FibriLyzer and MatriLyzer, that utilize certain intellectual property rights owned or licensed by Digital Diagnostics. The Licensing Agreement provides for Exactus BioSolutions and Digital Diagnostics to collaborate through the various steps of the product and device development process, including the development, regulatory approval and commercialization stages. Exactus BioSolutions is required to pay Digital Diagnostics, in cash and/or stock, an initial signing payment, milestone fees triggered by the first regulatory clearance or approval of each of the FibriLyzer and the MatriLyzer, and various sales thresholds, and royalty payments based on the net sales of the products, calculated on a product-by-product basis. In 2016, the Company paid \$50,000 to Digital Diagnostics as part of the initial signing payment under the Licensing Agreement and \$21,659 in legal expenses. As of December 31, 2016, the Company accrued an additional \$171,033 in licensing fees due to closing a financing transaction in the fourth quarter of 2016, of which \$75,000 was paid during the first quarter of 2017. The Company accrued the remaining \$30,000 due for the initial signing fee during the third quarter of 2017. The Company has also accrued interest, per the Licensing Agreement, of \$9,802 for the remaining balance due as of December 31, 2017. As of December 31, 2017, \$134,802 remained due to Digital Diagnostics. In the first quarter of 2018, the Company paid the entire balance due to Digital Diagnostics. No milestones have been met and no milestone fees have been paid or accrued through September 30, 2018.

The License Agreement is effective until such time as neither Digital Diagnostics nor Exactus Biosolutions has any obligation to the other under the Licensing Agreement in any country with respect to any product. The Licensing Agreement may be terminated by the Company effective upon at least six (6) months written notice if regulatory approval has been obtained in the U.S. or in the European Union, or upon at least three (3) months written notice if regulatory approval has not been obtained in the U.S. or in the European Union. Either party may terminate the Licensing Agreement in the event the other party materially breaches the Licensing Agreement or becomes insolvent.

On July 16, 2018, the Company received Notice from Digital Diagnostics, Inc. of the Licensor's intent to terminate the Licensing Agreement. The Company disputes the validity of the Notice and maintains that the Agreement is in full force and effect until January 19, 2019 (the "Expiration Date") and that the Company maintains the right to use the license and intellectual property granted to the Company under the Agreement until the Expiration Date. The Company has retained counsel to represent the Company with regard to the enforceability of the Agreement and related matters arising from the Notice and is in compliance with the Dispute Resolution and arbitration provisions of the Agreement.

On June 30, 2016, in order to conduct a clinical trial for the FibrLyzer and other studies, the Company entered into a Master Services Agreement (the "MSA") with Integrium LLC ("Integrium") and PoC Capital, LLC ("PoC Capital"). Under the MSA, Integrium has agreed to perform clinical research services in support of the development of POC diagnostics devices. Integrium is to conduct one or more studies in compliance with FDA regulations and pursuant to the Company's specific service orders. PoC Capital has agreed to fund up to the first \$1,000,000 in study costs and fees due to Integrium, with all fees in costs in excess of that amount being the Company's sole responsibility, in exchange for 1,600,000 shares of the Company's common stock, 1,733,334 shares of Series C Preferred Stock, and 1,666,667 warrants to purchase the Company's common stock at a price of \$0.60 per share exercisable for three years. For the year ended December 31, 2016 the Company had accounted \$1,000,000 as prepaid expenses on the balance sheet which was impaired during the year ended December 31, 2017 due to cash constraints to manufacture materials needed for trial. See Note 5 below for additional information regarding the Company's common stock, Series C Preferred Stock and warrants.

NOTE 5. EQUITY TRANSACTIONS

Recapitalization and Change in Control

On February 29, 2016, the Company consummated the Share Exchange, which resulted in a change in control of the Company. As part of this transaction, the Company acquired a \$50,000 license agreement and \$1,292 in cash and assumed liabilities of \$51,000. The Company initially reported an issuance of 32 million shares of newly designated Series B-1 Preferred Stock to the shareholders of Exactus BioSolutions in the Share Exchange. Due to an anticipated pre-acquisition investment in Exactus BioSolutions that was not made, the final total issued shares of Series B-1 Preferred Stock was 30 million.

The Company has considered the guidance pursuant to Rule 11-01(d) of Regulation S-X and related interpretations and has concluded the acquisition of Exactus BioSolutions pursuant to the Share Exchange is the acquisition of an asset and not of a business. The license agreement and shareholder loans have been accounted for and recorded at historical cost.

Concurrently with the closing of the Share Exchange, the Company closed a private offering of Series B-2 Preferred Stock. The Company sold a total of 2,084,000 shares of Series B-2 Preferred Stock at an offering price of \$0.25 per share, for an aggregate subscription price of \$521,000. The Company originally reported a total of 2,884,000 shares of Series B-2 preferred stock being issued in the offering. Due to: (i) an anticipated investment for 1,000,000 shares which was not made, and (ii) an additional subscription for 200,000 shares for which documentation had not been completed at that time, however, the final total issued shares of Series B-2 Preferred Stock was 2,084,000. The shares sold in the offering included 400,000 shares of Series B-2 preferred stock issued to extinguish a \$100,000 loan and 204,000 shares of Series B-2 preferred stock issued to former creditors of Exactus BioSolutions in exchange for their release of \$51,000 in debt owed by Exactus. After accounting for these issuances, net cash proceeds from the offering were \$370,000. No underwriting discounts or commissions have been or will be paid in connection with the sale of Series B-2 Preferred Stock.

Also on February 29, 2016, the Company entered into exchange agreements with certain holders of common stock holding an aggregate of 393,314 post-split (11,636,170 pre-split) shares of common stock. Under the exchange agreements, these shareholders exchanged their common stock for a total of 4,558,042 shares of Series A Preferred Stock. These exchanges consisted of: (i) thirteen common stock holders holding 10,894,070 (pre-split) shares of common stock who exchanged their common stock for 3,458,042 shares Series A Preferred Stock, resulting in a (pre-split) exchange ratio of approximately 1 for 3.15, and (ii) one shareholder who, under a separately negotiated agreement, exchanged 742,100 (pre-split) shares common stock for 1,100,000 shares of Series A Preferred Stock, resulting at a (pre-split) exchange ratio of approximately 1.48 for 1. Immediately following such share exchanges, the Company repurchased 50,000 shares of Series A Preferred Stock from a shareholder for a total price of \$50,000.

Reverse Stock Split

Effective March 22, 2016, the Company performed a reverse split of common stock on a 1 for 29.5849 basis, pursuant to the prior approval by the Company's Board of Directors ("Board of Directors") and a majority of shareholders. On March 22, 2016, the effective date of the reverse split, the Company had approximately 3,608,715 shares of common stock issued and outstanding, which were split into 121,978 shares of common stock. The par value of the common stock was unchanged at \$0.0001 per share, post-split. All per share information in the condensed financial statements gives retroactive effect to the 1 for 29.5849 reverse stock split that was effected on March 22, 2016.

Preferred Stock

The Company's authorized preferred stock consists of 50,000,000 shares with a par value of \$0.0001. On February 17, 2016, the Board of Directors voted to designate a class of preferred stock entitled Series A Preferred Stock, consisting of up to five million (5,000,000) shares, par value \$0.0001. The shares of Series A Preferred Stock were automatically converted to 4,508,042 shares of common stock on March 30, 2016, thirty (30) days after the closing of the Share Exchange and offering of Series B-2 Preferred Stock. As a result, there are 4,558,042 Series A preferred stock issued and zero outstanding as of September 30, 2018 and December 31, 2017.

Also on February 17, 2016, the Company's Board of Directors voted to designate a class of preferred stock entitled Series B-2 Convertible Preferred Stock ("Series B-2 Preferred Stock"), consisting of up to six million (6,000,000) shares, par value \$0.0001, with a stated value of \$0.25 per share. With respect to rights on liquidation, winding up and dissolution, holders of Series B-2 Preferred Stock will be paid in cash in full, before any distribution is made to any holder of common or other classes of capital stock, an amount of \$0.25 per share. Shares of Series B-2 Preferred Stock have no dividend rights except as may be declared by the Board in its sole and absolute discretion, out of funds legally available for that purpose. Shares of Series B-2 Preferred Stock are convertible, at the option of the holder, into shares of common stock on a one (1) for one (1) basis. Holders of Series B-2 Preferred Stock have the right to vote as-if-converted to common stock on all matters submitted to a vote of the holders of the Company's common stock. For so long as any shares of Series B-2 Preferred Stock are issued and outstanding, the Corporation shall not issue any notes, bonds, debentures, shares of preferred stock, or any other securities that are convertible to common stock unless such conversion rights are at a fixed ratio or a fixed monetary price (Note 9). On February 29, 2016, the Company issued 2,084,000 shares of Series B-2 Preferred Stock.

On August 1, 2016, the Company closed a private offering of Series B-2 Preferred Stock. The Company sold a total of 500,000 shares of Series B-2 Preferred Stock to accredited investors at an offering price of \$0.25 per share, for an aggregate subscription price of \$125,000. No underwriting discounts or commissions have been paid in connection with the sale of the Series B-2 Preferred Stock.

Effective October 13, 2016, the Company amended the Certificate of Designation for its Series B-2 Preferred Stock to increase the number of shares of the Series B-2 Preferred Stock from 6,000,000 to 10,000,000 shares. There were no other changes to the terms of the Company's Series B-2 Preferred Stock.

On October 27, 2016, the Company closed a private offering of Series B-2 Preferred Stock. The Company sold a total of 6,000,000 shares of Series B-2 Preferred Stock to accredited investors at an offering price of \$0.25 per share, for an aggregate subscription price of \$1,500,000. No underwriting discounts or commissions have been or will be paid in connection with the sale of the Series B-2 Preferred Stock.

On January 26, 2017, the Company closed a private offering of Series B-2 Preferred Stock. The Company sold a total of 100,000 shares of Series B-2 Preferred Stock to accredited investors at an offering price of \$0.25 per share, for an aggregate subscription price of \$25,000. No underwriting discounts or commissions have been or will be paid in connection with the sale of the Series B-2 Preferred Stock.

As of September 30, 2018, and December 31, 2017, 8,684,000 shares, respectively, of Series B-2 Preferred Stock are issued and outstanding.

On February 29, 2016, the Company's Board of Directors voted to designate a class of preferred stock entitled Series B-1 Convertible Preferred Stock ("Series B-1 Preferred Stock"), consisting of up to thirty-two million (32,000,000) shares, par value \$0.0001. With respect to rights on liquidation, winding up and dissolution, the Series B-1 Preferred Stock ranks pari passu to the class of common stock. Shares of Series B-1 Preferred Stock have no dividend rights except as may be declared by the Board in its sole and absolute discretion, out of funds legally available for that purpose. Shares of Series B-1 Preferred Stock are convertible, at the option of the holder, into shares of common stock on a one (1) for one (1) basis. Holders of Series B-1 Preferred Stock have the right to vote as-if-converted to common stock on all matters submitted to a vote of holders of the Company's common stock. On February 29, 2016, the Company issued 30,000,000 shares of Series B-1 Preferred Stock, of which 2,800,000 remain outstanding as of September 30, 2018 and December 31, 2017.

On June 30, 2016, pursuant to the MSA summarized in Note 4, the Company's Board of Directors approved a Certificate of Designation authorizing 1,733,334 shares of new Series C Preferred Stock, par value \$0.0001. The Series C Preferred Stock ranks equally with our common stock with respect to liquidation rights and is convertible to common stock on a 1 for 1 basis. The conversion rights of holders of the Series C Preferred Stock are limited such that no holder may convert any shares of preferred stock to the extent that such holder, immediately following the conversion, would own in excess of 4.99% of our issued and outstanding shares of common stock. This limitation may be increased to 9.99% upon 61 days written notice by a holder of the Series C Preferred Stock to the Company. On June 30, 2016, the Company issued 1,733,334 shares of Series C Preferred Stock to PoC Capital valued at \$511,334 as prepaid expenses on the balance sheet. As of September 30, 2018, and December 31, 2017, 1,733,334 shares of Series C Preferred Stock are issued and outstanding.

On March 1, 2018, The Company's Board of Directors voted to designate a class of preferred stock entitled Series D Convertible Preferred Stock ("Series D Preferred Stock") consisting of up to 200 shares, par value \$0.0001 to offer for sale to certain accredited investors, including affiliates of the Company (collectively the "Investors"), with a maximum offering amount of \$2,200,000 (the "Offering"). Pursuant to the terms of the Series D Subscription Agreement, immediately following the consummation of an offering of the Company's Common Stock for which the gross proceeds of the offering exceed \$5,000,000 (a "Qualified Offering"), each share of Series D automatically converts into 200,000 shares of Common Stock (the "Conversion Shares"). The Company agreed that within 45 days of a Qualified Offering the Company shall file a registration statement with the SEC registering the Conversion Shares for resale by the Investors. With respect to rights on liquidation, winding up and dissolution, the Series D Preferred Stock ranks pari passu to the Series B-2 Preferred Stock. Shares of Series D Preferred Stock have no dividend rights except as may be declared by the Board in its sole and absolute discretion, out of funds legally available for that purpose. Holders of Series D Preferred Stock have the right to vote as-if-converted to common stock on all matters submitted to a vote of holders of the Company's common stock.

On March 28, 2018, the Company issued 45 shares of Series D Preferred Stock, of which 45 remain outstanding as of September 30, 2018. The Company received \$550,000 in connection with the Offering including \$50,000 in cash for 5 shares of Series D Preferred Stock and \$500,000 in debt re-payment to officers and directors for 2016 and 2017 bonuses for 40 shares of Series D Preferred Stock. As of September 30, 2018, 45 shares of Series D Preferred Stock are issued and outstanding.

Common Stock

The Company's authorized common stock consists of 200,000,000 shares with a par value of \$0.0001.

The Company automatically converted all outstanding shares of Series A Preferred Stock to common stock on March 31, 2016. As a result, 4,508,042 shares of common stock were issued in exchange of 4,508,042 shares of Series A Preferred Stock.

Certain shareholders converted their shares of Series B-1 Preferred Stock to common stock on June 15, 2016. As a result, 27,200,000 shares of common stock were issued in exchange of 27,200,000 shares of Series B-1 Preferred Stock.

On June 30, 2016, pursuant to the MSA summarized in Note 4, the Company issued 1,600,000 shares of common stock to PoC Capital valued at \$480,000.

Pursuant to a services agreement with IRTH Communications, LLC ("IRTH") in which IRTH agreed to perform certain investor relations, financial communications, and strategic consulting services, the Company issued \$100,000 of our common stock, or 141,844 shares, to IRTH on November 18, 2016 in partial consideration for those services. On December 13, 2016, the Company issued an additional 500,000 shares of common stock to IRTH pursuant to an addendum to the services agreement and in consideration of certain additional services, including telemarketing and investor outreach services, to be provided by IRTH. On February 22, 2017, the Company and IRTH agreed that IRTH would not provide the additional services pursuant to an addendum to a services agreement and the 500,000 shares of common stock issued on December 13, 2016 were returned to the Company and retired.

On February 9, 2018, the Company issued 1,718,675 shares of its common stock to settle \$85,934 of outstanding legal expenses and accounted for a debt settlement loss of \$253,502.

On June 11, 2018, Morningview converted \$10,000 of the principal of the Initial Note to 181,818 shares of common stock (see Note 6.). The fair value of these shares were \$20,000 resulting in a gain on conversion of \$4,500.

On July 11, 2018, Auctus converted \$3,120 of the principal of the Note to 120,000 shares of common stock (see Note 6.). The fair value of these shares were \$10,800.

On July 13, 2018, Morningview converted \$10,500 of the principal of the Initial Note to 933,334 shares of common stock (see Note 6.). The fair value of these shares were \$112,000.

On August 30, 2018, Morningview converted \$10,500 of the principal of the Initial Note to 1,750,000 shares of common stock (see Note 6.). The fair value of these shares were \$175,000.

The fair value of derivative liability on this converted portion note payable on the date of conversion was \$49,855, which was adjusted with loss of conversion showing net loss on conversion of convertible note as \$223,825.

There were 39,775,689 and 35,071,862 common shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively.

Warrants

On June 30, 2016, pursuant to the MSA summarized in Note 4, the Company issued warrants to purchase 1,666,667 common stock shares for a price of \$0.60 per share exercisable for three years to PoC Capital. These warrants have a grant date fair value of \$0.0052 per warrant, determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 0.71%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 27.2%; and (4) an expected life of the warrants of 3 years. The Company recorded a prepaid expense on these warrants of \$8,667 in June 30, 2016 which was impaired during the year ended December 31, 2017 due to cash constraints to manufacture materials needed for trial.

On March 14, 2018, the Board of Directors of the Company approved the issuance of up to 5,045,404 two-year Warrants to purchase shares of the Company's Common Stock to the holders of the Company's Series B 2 Preferred Stock. The Warrants are exercisable at of \$0.05 per share. Each B-2 Holder shall be issued Warrants to purchase 0.581 shares of Common Stock for each share of Series B-2 Preferred Stock held by the B-2 Holder. On March 30, 2018, 3,486,000 warrants were issued. Subsequently, on August 20, 2018, the 3,486,000 warrants outstanding were cancelled

There were 1,666,667 warrants outstanding at September 30, 2018 and December 31, 2017.

NOTE 6. CONVERTIBLE LOAN NOTES

On August 14, 2017, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") under which it agreed to sell an 8% convertible promissory note in an aggregate principal amount of \$110,000.00 (the "Initial Note") to Morningview Financial, LLC ("Morningview"). The net proceeds of the sale of this Initial Note, after deducting the Morningview's discount and the expenses payable by the Company, were \$87,000. The Note will mature on August 14, 2018.

At any time on or after the earlier of (i) the date on which the Registration Statement (defined below) has become effective or (ii) 170th calendar day after the issue date of the Initial Note, Morningview has the option to convert all or any part of the outstanding and unpaid principal amount and accrued and unpaid interest of the Initial Note into shares of the Company's common stock at the Conversion Price. The "Conversion Price" will be the lesser of (i) \$0.25 and (ii) 60% of the average of the three lowest trading prices of the Company's common stock during the twenty-day trading period prior to the conversion. The Conversion Price is subject to further reduction upon certain events specified in the Initial Note.

On December 18, 2017, the Company further amended the Initial Note to (i) increase the aggregate principal amount of the Initial Note to \$115,000 and (ii) extend the date by which the Company is required to cause the Registration Statement to become effective to January 4, 2018. On January 4, 2018, the Company further amended the Initial Note to (i) increase the aggregate principal amount of the Initial Note to \$125,000 and (ii) extend the date by which the Company is required to cause the Registration Statement to become effective to February 1, 2018. During March 2018, The Company paid \$25,000 towards principal of the Initial Note. On May 7, 2018, the Company further amended the Initial Note to (i) increase the aggregate principal amount of the Initial Note to \$121,481 and (ii) extend the date by which the Company is required to cause the Registration Statement to become effective to May 31, 2018. On June 11, 2018, Morningview converted \$10,000 of the principal of the Initial Note to 181,818 shares of common stock. On July 13, 2018, Morningview converted \$10,500 of the principal of the Initial Note to 9333,334 shares of common stock. On August 30, 2018, Morningview converted \$10,500 of the principal of the Initial Note to 1,750,000 shares of common stock.

On September 27, 2017, pursuant to Securities Purchase Agreement, the Company issued an 8% convertible promissory note (the "Additional Note," and together with the Initial Note, the "Notes") in an aggregate principal amount of \$27,500 to Morningview, with terms and conditions identical to the initial Note. The net proceeds of this sale of the Initial Note, after deducting Morningview's discount and the expenses payable by the Company, were \$21,750.

The terms of the Notes require the Company to have a registration statement permitting Morningview to resell the shares of the Company's common stock into which the Notes may be converted (the "Registration Statement") declared effective by the SEC within 120 days of the issue date of the Initial Note. On December 18, 2017, the Company further amended the Initial Note (the "Second Amendment to Initial Note") to (i) increase the aggregate principal amount of the Initial Note to \$115,000 and (ii) extend the date by which the Company is required to cause the Registration Statement to become effective to January 4, 2018. On January 4, 2018, the Company further amended the Initial Note (the "Third Amendment to Initial Note") to (i) increase the aggregate principal amount of the Initial Note to \$125,000 and (ii) extend the date by which the Company is required to cause the Registration Statement to become effective to February 1, 2018. Starting in March 2018, the Company is repaying the Note \$25,000 a month.

On December 29, 2017, the Company entered into a Securities Purchase Agreement, dated as of December 21, 2017 (the "EMA Securities Purchase Agreement"), under which it agreed to sell a 12% convertible promissory note in an aggregate principal amount of \$65,000 (the "EMA Note") to EMA Financial, LLC ("EMA"). The net proceeds of the sale of the EMA Note, after deducting the expenses payable by the Company, were \$62,400.

The EMA Note and the shares of the Company's common stock issuable upon conversion of the EMA Note have not been, and will not be, registered under the Securities Act. The Company offered and sold the EMA Note to EMA in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act.

The EMA Note is dated December 21, 2017 and provides the terms and conditions of the Company's obligations to EMA. The EMA Note will bear interest at a rate of 12% per annum and will mature on December 21, 2018.

At any time after the 180th calendar day after the issue date of the EMA Note, EMA has the option to convert all or any part of the outstanding and unpaid principal amount and accrued and unpaid interest of the EMA Note into shares of the Company's common stock at the EMA Conversion Price. The "EMA Conversion Price" will be the lesser of (i) the closing sale price of the Company's common stock on the trading day immediately preceding the date of conversion and (ii) 60% of either the lowest sale price of the Company's common stock during the twenty-day trading period prior to the conversion, or the closing bid price, whichever is lower. The EMA Conversion Price is subject to further reduction upon certain events specified in the EMA Note.

On March 28, 2018, the Company amended the EMA Note to increase the aggregate principal amount of the Initial Note to \$71,500 and adjust the conversion price to align the EMA Note with more favorable terms in the Crossover Note dated March 16, 2018.

On December 29, 2017, the Company entered into a Securities Purchase Agreement, dated as of December 26, 2017 (the "Auctus Securities Purchase Agreement"), under which it agreed to sell a 12% convertible promissory note in an aggregate principal amount of \$125,000 (the "Auctus Note") to Auctus Fund, LLC ("Auctus"). The net proceeds of the sale of the Auctus Note, after deducting the expenses payable by the Company, are expected to be \$112,250.

The Auctus Note and the shares of the Company's common stock issuable upon conversion of the Auctus Note have not been, and will not be, registered under the Securities Act. The Company offered and sold the Auctus Note to Auctus in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act.

The Auctus Note is dated December 26, 2017 and provides the terms and conditions of the Company's obligations to Auctus. The Auctus Note will bear interest at a rate of 12% per annum and will mature on September 26, 2018. On July 11, 2018, Auctus converted \$3,120 of the principal of the Note to 120,000 shares of common stock.

At any time after the 180th calendar day after the issue date of the Auctus Note, Auctus has the option to convert all or any part of the outstanding and unpaid principal amount and accrued and unpaid interest of the Auctus Note into shares of the Company's common stock at the Auctus Conversion Price. The "Auctus Conversion Price" will be the lesser of (i) the lowest trading price of the Company's common stock during the twenty-five-day trading period prior to the issue date of the Auctus Note and (ii) 50% of the lowest trading price of the Company's common stock during the twenty-five-day trading period prior to the conversion. The Auctus Conversion Price is subject to further reduction upon certain events specified in the Auctus Note.

On March 22, 2018, the Company entered into a securities purchase agreement, effective March 16, 2018, with an investor pursuant to which the Company issued and sold a convertible promissory note (the "Crossover Note") to the investor in the aggregate principal amount of \$58,500 and received net proceeds of \$41,050 due to original issue discount of \$10,500 and debt issuance costs of \$6,950. The Crossover Note matures on the earlier of (i) December 16, 2018, or (ii) the date in which a registration statement for the shares underlying the Note is declared effective. The Note bears interest at 9% per annum. Beginning June 16, 2018, the investor may elect to convert the Note into shares of common stock of the Company at the lower of (i) \$0.25 per share or (ii) 51% of the lowest trading price of the Company's common stock during the 25 day period prior to the conversion, subject to adjustment.

On June 29, 2018, the Company entered into a securities purchase agreement with an investor pursuant to which the Company issued and sold the June Investor a convertible promissory note (the "June Note") in the aggregate principal amount of \$60,000 and received net proceeds of \$51,900 due to debt issuance costs of \$8,100. The June Note matures on June 29, 2019. The June Note bears interest at 12% per annum, to be paid in shares of the Company's common stock. Beginning December 29, 2018, the June Investor may elect to convert the June Note into shares of common stock of the Company at a conversion price equal to 50% of the lowest price of the Company's common stock for the 20 days prior to, and including, the date of the applicable conversion, subject to adjustment. The June Investor may cause the Company to redeem the June Note in the event of certain triggering events including the transfer or sale of all of the Company's assets, reorganization, or merger. The Company may prepay the June Note until the 180th day after the June Effective Date subject to the prepayment amount being 135% of the June Principal for the first 60 days, 145% of the June Principal from the 61st day until the 120th day, and 150% of the June Principal from the 120th day until the 180th day.

On July 3, 2018, the Company, entered into a securities purchase agreement with an investor (the "July Investor") pursuant to which the Company agreed to issue the July Investor two convertible promissory notes (the "July Notes"), each for a principal amount of \$30,000, for an aggregate principal amount of \$60,000 (the "Principal"). On the July Effective Date, the Company issued the July Investor the July Notes, in the principal amount of \$30,000, and received \$28,000 from the July Investor. In connection with the issuance of one of the July Notes (the "Second Note") the July Investor issued the Company a \$30,000 promissory note (the "Buyer Note"). The July Notes mature on July 3, 2019. The July Notes bears interest at 12% per annum, to be paid in shares of the Company's common stock. The July Investor may elect to convert the July Notes into shares of common stock of the Company at a conversion price equal to 50% of the lowest price of the Company's common stock for the 20 days prior to, and including, the date of the applicable conversion, subject to adjustment. Provided that the July Investor may not convert any of the Second Note until the July Investor has paid off the balance of the Buyer Note to the Company, less \$2,000 in legal fees incurred by the July Investor. The July Investor may redeem the July Notes in the event of certain triggering events including the transfer or sale of all of the Company's assets, reorganization, or merger. The Company may prepay until the 180th day after the July Effective Date subject to the prepayment amount being 135% of the Principal for the first 60 days, 145% of the principal from the 61st day until the 120th day, and 150% of the principal from the 120th day until the 180th day.

	September 30, 2018	December 31, 2017
Convertible Loan Notes		
Principal Amount	\$ 438,380	\$ 332,500
Less unamortized debt discount and debt issuance costs	<u>(92,740)</u>	<u>(274,704)</u>
Current debt less unamortized debt discount and debt issuance costs	\$ 345,640	\$ 57,796

During the three and nine month periods ended September 30, 2018, the Company recognized \$90,726 and \$278,483, respectively, for the amortization of debt discounts and \$21,599 and \$66,530, respectively, for the amortization of deferred issuance costs for the Notes issued on August 14, 2017, September 27, 2017, December 21, 2017, December 26, 2017, March 16, 2018, June 29, 2018, and July 3, 2018.

NOTE 7. FAIR VALUE MEASUREMENT

The guidance regarding fair value measurements prioritizes the inputs used in measuring fair value and establishes a three-tier value hierarchy that distinguishes among the following:

- Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2—Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and models for which all significant inputs are observable, either directly or indirectly.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company has not transferred any liabilities between the classification levels.

The Company estimates fair values of derivative liabilities utilizing Level 3 inputs. The Company uses the Monte Carlo valuation model for derivatives which embodies all of the requisite assumptions (including trading volatility, remaining term to maturity, market price, strike price, risk-free rates) necessary to determine fair value of these instruments. The Company's derivative liabilities are marked-to-market with the changes in fair value recorded as a component of change in fair value of derivative liabilities in the Company's condensed consolidated statements of operations. Estimating fair values of derivative liabilities requires the use of significant and subjective inputs that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors.

The Company identified financial instruments, the conversion options embedded in the Notes discussed in Note 6, which require liability presentation at fair value. Each of these instruments provide the holder with the right to convert into common stock at a fixed discount market, subject to a cap on the conversion price. These clauses cause uncertainty as to the number of shares issuable upon conversion of convertible debt and accordingly require liability presentation on the balance sheet in accordance with US GAAP.

Initial Note

The fair value of the Initial Note on September 30, 2018 and on December 31, 2017 was estimated using the Monte Carlo valuation model. This method of valuation involves using inputs such as the fair value of the Company's common stock, stock price volatility, and risk-free interest rates. Due to the nature of these inputs, the valuation of the Initial Note is considered a Level 3 measurement. The following assumptions were used on September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Volatility	510.6%	333.89%
Risk-free interest rate	2.19%	1.31%
Common stock closing price	\$ 0.04	\$ 0.20

The derivative liability for the Initial Note was adjusted to fair market value of \$187,000 and \$264,000 as of September, 2018 and December 31, 2017.

Additional Note

The fair value of the Additional Note on September 30, 2018 and on December 31, 2017 was also estimated using the Monte Carlo valuation model. The following assumptions were used on September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Volatility	510.6%	326.65%
Risk-free interest rate	2.19%	1.31%
Common stock closing price	\$ 0.04	\$ 0.20

The derivative liability for the Additional Note was adjusted to fair market value of \$71,000 and \$63,000 as of September 30, 2018 and December 31, 2017.

EMA Note

The fair value of the EMA note on September 30, 2018 and on December 31, 2017 was also estimated using the Monte Carlo valuation model. The following assumptions were used on September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Volatility	427.17%	303.97%
Risk-free interest rate	2.19%	1.76%
Common stock closing price	\$ 0.04	\$ 0.20

The derivative liability for the EMA Note was adjusted to fair market value of \$210,000 and \$169,000 as of September 30, 2018 and December 31, 2017.

Auctus Note

The fair value of the Auctus Note on September 30, 2018 and on December 31, 2017 was also estimated using the Monte Carlo valuation model. The following assumptions were used on September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Volatility	510.60%	326.65%
Risk-free interest rate	2.19%	1.53%
Common stock closing price	\$ 0.04	\$ 0.20

The derivative liability for the Auctus Note was adjusted to fair market value of \$565,000 and \$434,000 as of September 30, 2018 and December 31, 2017.

Crossover Note

The fair value of the Crossover Note on September 30, 2018 and on March 31, 2018 was also estimated using the Monte Carlo valuation model. The following assumptions were used on September 30, 2018 and March 31, 2018:

	September 30, 2018	March 31, 2018
Volatility	472.17%	180.53%
Risk-free interest rate	2.19%	1.93%
Common stock closing price	\$ 0.04	\$ 0.12

The derivative liability for the Crossover Note was adjusted to fair market value of \$238,000 and \$119,000 as of September 30, 2018 and March 31, 2018. The initial fair values of the embedded debt derivative were recorded as a \$48,000 debt discount with the remaining \$43,350 charged to first quarter period of operations as derivative expense.

June Note

The fair value of the June Note on September 30, 2018 and on June 30, 2018 was also estimated using the Monte Carlo valuation model. The following assumptions were used on September 30, 2018 and June 30, 2018:

	September 30, 2018	June 30, 2018
Volatility	337.53%	240.05%
Risk-free interest rate	2.59%	2.33%
Common stock closing price	\$ 0.04	\$ 0.064

The derivative liability for the June Note was adjusted to fair market value of \$156,000 and \$120,000 as of September 30, 2018 and June 30, 2018. The initial fair values of the embedded debt derivative were recorded as a \$57,000 debt discount with the remaining \$63,000 charged to current period operations as derivative expense.

July Note

The fair value of the July Note on the date of issuance and on September 30, 2018 was also estimated using the Monte Carlo valuation model. The following assumptions were used on July 3, 2018 (issuance date) and September 30, 2018:

	September 30, 2018	July 3, 2018
Volatility	325.04%	291.96%
Risk-free interest rate	2.59%	2.59%
Common stock closing price	\$ 0.04	\$ 0.12

Based on these assumptions, the Company recorded a \$68,000 derivative liability on the issuance date of the July Note and was adjusted to fair market value of \$75,000 as of September 30, 2018. The initial fair values of the embedded debt derivative were recorded as a \$28,000 debt discount with the remaining \$40,000 charged to current period operations as derivative expense.

During the three and nine months ended September 30, 2018, the Company accrued \$12,534 and \$30,418, respectively, as interest expenses on the above convertible notes.

The following table provides a summary of changes in fair value of the Company's Level 3 financial liabilities as of September 30, 2018:

	Derivative Liability (convertible notes)
Balance, December 31, 2017	\$ 930,000
Initial fair value at note issuances	282,000
On conversion	(64,355)
Mark-to-market at September 30, 2018	354,355
Balance, September 30, 2018	<u>\$ 1,502,000</u>
Net loss for the year included in earnings relating to the liabilities held at September 30, 2018	\$ 354,355
Non- cash interest expenses related to derivative liability	\$ 162,850

NOTE 8. NOTE PURCHASE AGREEMENTS

On March 22, 2018, the Company entered into two note purchase agreements under which the Company issued two convertible promissory notes with a total principal amount of \$100,000. The Notes bear interest at a rate of 5% per annum and will mature on February 1, 2023.

If a qualified financing from which at least \$5 million of gross proceeds are raised occurs prior to the maturity date, then the outstanding principal balance of the notes, together with all accrued and unpaid interest thereon, shall be automatically converted into a number of shares of the Company's common stock at \$0.05 per Share. The Notes offers registration rights wherein the Company agrees that within 45 days of a Qualified Offering, prior to the Maturity Date, the Company shall file a registration statement with the SEC registering for resale the shares of Company's common stock into which the Notes are convertible.

During the three and nine months ended September 30, 2018, the Company accrued \$1,260 and \$2,657, respectively, as interest expenses on the above convertible notes.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Legal Matters

In the ordinary course of business, we enter into agreements with third parties that include indemnification provisions which, in our judgment, are normal and customary for companies in our industry sector. These agreements are typically with business partners, clinical sites, and suppliers. Pursuant to these agreements, we generally agree to indemnify, hold harmless, and reimburse indemnified parties for losses suffered or incurred by the indemnified parties with respect to our product candidates, use of such product candidates, or other actions taken or omitted by us. The maximum potential amount of future payments we could be required to make under these indemnification provisions is unlimited. We have not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. As a result, the estimated fair value of liabilities relating to these provisions is minimal. Accordingly, we have no liabilities recorded for these provisions as of September 30, 2018, and December 31, 2017.

Per clause 7, No Variable Rate Convertible Securities, in the subscription agreements of Series B-2 Preferred Stock, for so long as any shares of Series B-2 Preferred Stock are issued and outstanding, the Corporation shall not issue any notes, bonds, debentures, shares of preferred stock, or any other securities that are convertible to common stock unless such conversion rights are at a fixed ratio or a fixed monetary price. The Company issued variable convertible notes during the year which is in violation of this clause (Note 6). The Company kept the Series B-2 holders informed of the Company's cash needs throughout the year and Series B-2 holders had the opportunity to participate in convertible loan notes. Subsequently, the Company's largest Series B-2 holder participated into two note purchase agreements on March 22, 2018 (Note 8).

On January 20, 2017, Robert F. Parker (the "petitioner") filed a petition in the Supreme Court of the State of New York, County of New York (the "Court"), naming, among others, the Company and Ezra Green, a former shareholder, director and officer of the Company, as respondents. The petition was received by the Company on February 7, 2017. The petitioner previously had a judgment entered in his favor and against Clear Skies Solar, Inc. and its wholly owned subsidiary Clear Skies Group, Inc. (together, "Clear Skies"), in the amount of \$331,132 with interest accruing at a rate of 9% per year from November 21, 2014 (the "Judgment"). The Judgment remains outstanding. The petition alleged, among other things, that through a series of allegedly fraudulent conveyances occurring before the Judgment was entered against Clear Skies, the major assets of Clear Skies, which were comprised of various patents, were transferred from Clear Skies to Carbon 612 Corporation ("Carbon"), and from Clear Skies and Carbon to the Company. The petition further alleged, among other things, that the transfers were without fair consideration and rendered Clear Skies, the judgment-debtor, insolvent. The petitioner sought the entry of a judgment against the Company and the other respondents in the amount of the outstanding Judgment, with all accrued interest, reasonable attorneys' fees and costs and disbursements.

The parties reached an agreement on settlement and the Court entered the parties' joint stipulation of discontinuance with prejudice on September 6, 2017. The settlement agreement requires co-defendant Ezra Green to make an initial payment with subsequent, additional payments over time. The Company has agreed, in exchange for the dismissal of all claims with prejudice, to pay up to \$20,000, at \$1,000 per month beginning in January 2018 at the earliest, if co-defendant Ezra Green defaults on his subsequent payment obligations under the terms of the settlement agreement. The Company's liability is capped at \$20,000 in total, memorialized in a confession of judgment note, plus statutory interest if the plaintiff must file suit against the Company to collect on the confession of judgment note. In management's opinion, we have incurred a probable loss as set forth by accounting principles generally accepted in the United States, estimated the loss to be \$20,000, and recorded the appropriate accounting entries which are reflected in our financial statements. During the nine months ended September 30, 2018, the Company has paid \$3,000 towards the settlement with a remaining balance due of \$17,000.

NOTE 10. RELATED PARTY CONSIDERATIONS

Some of the officers and directors of the Company are involved in other business activities and may, in the future, become involved in other business opportunities that become available. They may face a conflict in selecting between the Company and other business interests. We have not formulated a policy for the resolution of such conflicts.

On November 20, 2017, Dr. Dimitrov provided a notice dated November 21, 2017 to the Company stating that he was resigning from the Board, effective immediately. Dr. Dimitrov indicated that his resignation from the Board was based on the deteriorating relationship between the Company and Digital Diagnostics over the non-payment of fees owed by the Company pursuant to the licensing agreement between the Company and Digital Diagnostics. Dr. Dimitrov currently serves as the President of Digital Diagnostics, and the Company has licensed the right to develop, produce and commercialize certain diagnostic products, including the Fibrilyzer and MatriLyzer, utilizing certain intellectual property rights owned or licensed by Digital Diagnostics. Dr. Dimitrov believes that, in light of these concerns, his role as both a Director of the Company and the President of Digital Diagnostics creates a conflict of interest and has decided to focus his time and energy on doing what is best for the shareholders of Digital Diagnostics. As of September 30, 2018 and December 31, 2017, \$0 and \$126,032, respectively, are shown as accrual under accounts payable. The Company also accrued interest at 3% over the prime rate, per the Licensing Agreement, of \$9,802 for the remaining balance due as of December 31, 2017. In the first quarter of 2018, the Company paid the entire balance due to Digital Diagnostics.

For the three and nine month periods ended September 30, 2018 and 2017, \$75,000 and \$225,000, respectively, was recognized in Research and Development expenses for consulting provided by Dr. Dimitrov. As of September 30, 2018 and December 31, 2017, \$500,000 and \$275,000, respectively, are shown as accrual under accounts payable. During the nine month periods ended September 30, 2018 and 2017, \$0 and \$51,096, respectively, was paid.

On June 28, 2017, the Company issued to two of the Company's executive officers a promissory note in the principal amount up to \$100,000, which amount may be drawn upon by the Company as bridge financing for general working capital purposes. The promissory note accrues interest at a rate of 8.0% per annum and matures on the earlier of (i) one (1) year from the date of the promissory note, and (ii) the closing of the sale of the Company's securities in a single transaction or a series of related transactions from which at least \$500,000 of gross proceeds are raised. As of June 30, 2018, the Company has drawn \$49,900 on the promissory note and recorded as a note payable. During the three and nine months ended September 30, 2018, the Company accrued \$1,045 and \$3,122 as interest expense on the promissory notes. Total interest payable as of September 30, 2018 is \$5,089.

NOTE 11. STOCK OPTION PLAN

Stock Option Plan

In September 2018, the Company's stockholders approved the 2018 Equity Incentive Plan (the "2018 Plan"). The 2018 Plan provides for the issuance of incentive awards in the form of non-qualified and incentive stock options, stock appreciation rights, restricted stock awards, and restricted stock unit awards. The awards may be granted by the Company's Board of Directors to its employees, directors and officers and to consultants, agents, advisors and independent contractors who provide services to the Company or to a subsidiary of the Company. The exercise price for stock options must not be less than the fair market value of the underlying shares on the date of grant. The incentive awards shall either be fully vested and exercisable from the date of grant or shall vest and become exercisable in such installments as the Board or Compensation Committee may specify. Stock options expire no later than ten years from the date of grant. The aggregate number of shares of Common Stock which may be issued pursuant to the Plan is 9,500,000. Unless sooner terminated, the Plan shall terminate in 10 years.

Share-based Compensation

On September 4, 2018, Exactus, Inc. granted a total of 1,675,000 five-year non-qualified stock options to the Company's officers exercisable at \$0.089 per share. Philip Young and Tim Ryan each received 225,000 options, of which 178,125 are fully vested with the remainder vesting monthly in equal increments over a 16 month period beginning on September 1, 2018. Kelley Wendt received 225,000 options, of which 137,500 are fully vested with the remainder vesting monthly in equal increments over a 28 month period beginning on September 1, 2018. James Erickson received 1,000,000 options, of which 625,000 are fully vested with the remainder vesting monthly in equal increments over a 28 month period beginning on September 1, 2018. The stock options are subject to the respective recipient continuing to serve as an officer of the Company on each applicable vesting date and executing the Company's standard stock option agreement.

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Compensation expense related to stock options granted is measured at the grant date based on the estimated fair value of the award and is recognized on a straight-line basis over the requisite service period. The assumptions used in the Black-Scholes model are presented below:

	Nine Months Ended September 30,	
	2018	2017
Risk-free interest rate	2.78%	0%
Expected volatility	343.72%	0%
Expected term (in years)	5	0
Expected dividend yield	0%	0%

The risk-free interest rate is based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. Expected volatility is based on the historical volatility of the Company's common stock. The expected term assumption for stock options granted is the contractual term of the option award. The Company has never declared or paid dividends on its common stock and has no plans to do so in the foreseeable future. Forfeitures are recognized as a reduction of stock-based compensation expense as they occur.

The table below summarizes the total stock-based compensation expense included in the Company's consolidated statements of operations for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Research and development	\$ -	\$ -	\$ -	\$ -
General and administrative	99,835	-	99,835	-
Total stock-based compensation	<u>\$ 99,835</u>	<u>\$ -</u>	<u>\$ 99,835</u>	<u>\$ -</u>

Stock option transactions during the nine months ended September 30, 2018 are presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	-	\$ -	-	-
Granted	1,675,000	0.089	-	-
Forfeited/Cancelled	-	-	-	-
Outstanding at September 30, 2018	<u>1,675,000</u>	<u>\$ 0.089</u>	<u>4.93</u>	<u>\$ -</u>
Vested at September 30, 2018	<u>1,121,875</u>	<u>\$ 0.089</u>	<u>4.93</u>	<u>\$ -</u>
Exercisable at September 30, 2018	<u>1,121,875</u>	<u>\$ 0.089</u>	<u>4.93</u>	<u>\$ -</u>

The aggregate intrinsic value of options at September 30, 2018 is based on the Company's closing stock price on that date of \$0.04 per share. As of September 30, 2018, there was \$49,222 of total unrecognized compensation expense related to unvested stock options, which the Company expects to recognize over the weighted average remaining period of 1.8 years.

Shares Reserved For Future Issuance

As of September 30, 2018, the Company had reserved shares of its common stock for future issuance as follows:

	Shares Reserved
Stock options outstanding	1,675,000
Available for future grants under the 2018 Plan	7,825,000
Warrants outstanding	1,666,667
Total shares reserved	<u>11,166,667</u>

NOTE 12. SUBSEQUENT EVENTS

On October 8, 2018, the Company filed with the Secretary of State of the State of Nevada a Certificate of Amendment to its Articles of Incorporation increasing its authorized capital stock from 250,000,000 to 700,000,000 shares divided into common stock and preferred stock and increasing the total number of authorized shares of common stock from 200,000,000 to 650,000,000.

On November 1, 2018 (the "Effective Date") Exactus, Inc., a Nevada corporation (the "Company") entered into a securities purchase agreement with an investor (the "First Investor"), effective October 23, 2018, pursuant to which the Company issued and sold the First Investor a convertible promissory note (the "First Note") in the aggregate principal amount of \$35,250 (the "First Principal"). The First Note matures on October 23, 2019. The First Note bears interest at 12% per annum. Subject to beneficial ownership limitations, the First Investor may elect to convert the First Note into shares of common stock of the Company at a conversion price equal to the lower of \$0.04 or 60% of the lowest closing or bid price of the Company's common stock for the 20 trading days prior to, and including, the date of the applicable conversion, subject to adjustment. The Company has the option to prepay the First Note in full until April 23, 2019 by paying amounts equal to 135% and 150% of the First principal plus interest on the 90th and 180th day following October 23, 2018, respectively. The First Note provides the holder with purchase rights in the event the Company issues convertible securities while the First Note is outstanding. The holder of the First Note has price protection in the event the Company subsequently issues securities on terms more favorable than those to the First Investor. In connection with First Note, the Company granted the First Investor piggyback rights.

On the Effective Date the Company entered into a securities purchase agreement with an investor (the "Second Investor"), effective October 26, 2018, pursuant to which the Company issued and sold the Second Investor a convertible promissory note (the "Second Note", collectively with the First Note the "Notes") in the aggregate principal amount of \$35,250 (the "Second Principal"). The Second Note matures on October 26, 2019. The Second Note bears interest at 12% per annum. Subject to beneficial ownership limitations, the Second Investor may elect to convert the Second Note into shares of common stock of the Company at a conversion price equal to the lower of (i) the lowest trading price of the Company's common stock for the 20 trading days prior to October 26, 2018, and (ii) 60% of the lowest price of the Company's common stock for the 20 trading days prior to the date of the applicable conversion, subject to adjustment. The Company has the option to prepay the Second Note in full until April 26, 2019 by paying amounts equal to 135% and 150% of the Second principal plus interest on the 90th and 180th day following October 26, 2018, respectively. The Second Note provides the holder with participation rights in the event the Company issues convertible securities while the Second Note is outstanding. The Company granted the Second Investor rights of first refusal in the event of future offerings of the Company's securities.

ITEM 2. MANagements'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations contains information that management believes is relevant to an assessment and understanding of our results of operations. You should read this discussion in conjunction with the Financial Statements and Notes included elsewhere in this report and with the audited financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on April 2, 2018.

Cautionary Language Regarding Forward-Looking Statements

Certain statements set forth in this report constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Statements regarding future events and financial results, including our ability to complete development of the FibriLyzzer, future clinical trials and regulatory approvals, and liquidity, as well as other statements that are not historical facts, are forward-looking statements. These forward-looking statements are generally identified by such words or phrases as "we expect," "we believe," "would be," "will allow," "expects to," "will continue," "is anticipated," "estimate," "project" or similar expressions. While we provide forward-looking statements to assist in the understanding of our anticipated future financial performance, we caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date that we make them. Forward-looking statements are based on current expectations and assumptions that are subject to significant risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Except as otherwise required by law, we undertake no obligation to publicly release any updates to forward-looking statements to reflect events after the date of this quarterly report on Form 10-Q, including unforeseen events.

Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors that could have a material adverse effect on our operations and results of our business include, but are not limited to:

- our history of operating losses and lack of revenues to date;
- our limited cash resources and our ability to obtain additional funding necessary to develop our products and maintain liquidity;
- the success of our clinical trials through all phases of clinical development;
- the need to obtain regulatory approval of our products and any delays in regulatory reviews or product testing;
- market acceptance of, and our ability to commercialize, our products;
- competition from existing products or new products that may emerge;
- changes in technology;
- our dependence on the development and commercialization of our primary product, the FibriLyzzer, to generate revenues in the future;
- our dependence on and our ability to maintain our licensing agreement;
- our ability and third parties' abilities to protect intellectual property rights;
- potential product liability claims;
- our ability to maintain liquidity and adequately support future growth;
- changes in, and our ability to comply with, laws or regulations applicable to the life sciences or healthcare industries;
- our ability to attract and retain key personnel to manage our business effectively; and
- other risks and uncertainties described from time to time, in our filings made with the SEC.

General

On February 29, 2016, the Company consummated a share exchange, which resulted in a change in control of the Company. As part of this transaction, the Company acquired Exactus BioSolutions and its exclusive Licensing Agreement with Digital Diagnostics to develop, produce and commercialize blood diagnostic products that utilize certain intellectual property rights owned or licensed by Digital Diagnostics. The Licensing Agreement provides for Exactus BioSolutions and Digital Diagnostics to collaborate through the various steps of the product and device development process, including the development, regulatory approval and commercialization stages.

As a result of this transaction, Exactus became a life science company that plans to develop and commercialize pursuant to the Licensing Agreement POC diagnostics for measuring proteolytic enzymes in the blood based on a proprietary detection platform (the “New Business”). Our primary product, the FibriLyzer, will employ a disposable test “biosensor” strip combined with a portable and easy to use hand held detection unit that provides a result in less than 30 seconds. The initial markets we intend to pursue for the FibriLyzer are (i) the management of hyperfibrinolytic states associate with surgery and trauma, (ii) obstetrics, (iii) diagnosis of acute events such as myocardial infarction and ischemic stroke, (iv) diagnosis of pulmonary embolism and deep vein thrombosis, (v) chronic coronary disease management and (vi) as a monitoring device to evaluate the effectiveness of coagulation therapy. We expect to follow up the FibriLyzer with similar technology, the MatriLyzer to detect collagenase levels in the blood for the detection of the recurrence of cancer. We intend to file to gain regulatory approval to sell our products in the United States, Canada and Europe. Management intends to primarily focus on the development and commercialization of the FibriLyzer and related technology exclusively licensed pursuant to the Licensing Agreement.

During the first quarter of 2017, we received feedback from the FDA review of our PreSubmission Package which describes our plans for developing our lead program, the FibriLyzer. Through this process, we received confirmation that we are able to proceed with the development of the FibriLyzer via the 510(k) pathway. Additionally, we plan to seek a CLIA waiver.

Results of Operations

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017:

	Three Months Ended September 30,		
	2018	2017	change
Revenue	\$ -	\$ -	\$ -
Operating expenses	425,927	490,207	(64,280)
Net loss from operations	(425,927)	(490,207)	64,280
Other loss	(1,169,344)	(227,612)	(941,732)
Net loss	<u>\$ (1,595,271)</u>	<u>\$ (717,819)</u>	<u>\$ (877,452)</u>

Operating expenses decreased by \$64,280 from \$490,207 for the three months ended September 30, 2017 to \$425,927 for the comparable period ended September 30, 2018. The difference primarily is attributable to \$50,000 impairment loss on our licensing agreement in 2017. We expect operating expenses to decrease the remainder of 2018 until we raise additional funds.

The Company had other loss of \$1,169,344 for the three month period ended September 30, 2018 largely due to \$818,355 derivative loss due to convertible loan note activity, \$223,825 in losses on stock settlement, \$112,325 in amortization of discount and debt issuance costs for convertible notes, and \$14,839 in interest expense. The Company had other loss of \$227,612 for the three month period ended September 30, 2017 largely due to the derivative expense and the amortization of debt discount and debt issuance costs of the newly issued Notes

As a result of the foregoing, we generated a net loss of \$1,595,271 for the three month period ended September 30, 2018 as compared to a net loss of \$717,819 for the three month period ended September 30, 2017, a change of \$877,452.

Results of Operations

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017:

	Nine Months Ended September 30,		change
	2018	2017	
Revenue	\$ -	\$ -	\$ -
Operating expenses	1,851,525	1,597,516	254,009
Net loss from operations	(1,851,525)	(1,597,516)	(254,009)
Other loss	(1,377,302)	(227,612)	(1,149,690)
Net loss	<u>\$ (3,228,827)</u>	<u>\$ (1,825,128)</u>	<u>\$ (1,403,699)</u>

Operating expenses increased by \$254,009, from \$1,597,516 for the nine months ended September 30, 2017 to \$1,851,525 for the comparable period ended September 30, 2018. The difference primarily is attributable to an increase in general and administration expenses of \$546,389 resulting largely from contractual bonuses and stock options given to management to retain executive staff offset by a decrease in professional expense of \$186,304 due to decreased legal services and a decrease in R&D expense of \$56,076 as the Company delays projects until additional funds are raised. We expect operating expenses to decrease the remainder of 2018 until we raise additional funds.

The Company had other loss of \$1,377,302 for the nine month period ended September 30, 2018 largely due to \$517,205 derivative loss due to convertible loan note activity, \$477,126 in losses on stock settlement, \$345,013 in amortization of discount and debt issuance costs for convertible notes, and \$37,958 in interest expense. The Company had other loss of \$227,612 for the nine month period ended September 30, 2017 largely due to the derivative expense and the amortization of debt discount and debt issuance costs of the newly issued Notes

As a result of the foregoing, we generated a net loss of \$3,228,827 for the nine month period ended September 30, 2018 as compared to a net loss of \$1,825,128 for the nine month period ended September 30, 2017, a change of \$1,403,699.

Liquidity and Capital Resources

Since our inception in 2008, we have generated losses from operations. As of September 30, 2018 our accumulated deficit was \$9,429,400 of which \$736,959 was related to the Former Business. Our net loss for the nine months ended September 30, 2018 and 2017 was \$3,228,827 and \$1,825,128, respectively.

Net cash used in operating activities for the nine months ended September 30, 2018 was \$407,924. We recorded a net loss for the nine month period of \$3,228,827. Increases in accounts payable and accrued expenses increased cash by \$857,630. Other items in uses of funds from operations included non-cash charges of derivative expense, losses on debt settlement in stock, officer and director bonuses paid in Series D stock, stock options expense, amortization of debt discount and debt issuance costs, and loss on debt settlement in stock which collectively totaled \$1,939,179.

Net cash used in operating activities for the nine months ended September 30, 2017 was \$1,204,118. We recorded a net loss for the nine month period of \$1,825,128. Increases in accounts payable and accrued expenses increased cash by \$344,450. Other items in uses of funds from operations included non-cash charges of derivative expense, impairment loss, and amortization of debt discount and debt issuance costs, which collectively totaled \$274,262.

Net cash provided by investing activity for the nine months ended September 30, 2018 and 2017 was \$0.

Net cash provided by financing activities for the nine months ended September 30, 2018 was \$248,000 due to proceeds from our issuance of shares of Series D Preferred Stock, the promissory notes, and convertible loan notes offset by convertible loan payments.

Net cash provided by financing activities for the nine months ended September 30, 2017 was \$181,750 due to proceeds from our issuance of shares of Series B-2 Preferred Stock, the promissory note, and convertible loan notes.

As of September 30, 2018, we had \$1,291 of cash. These funds will not be sufficient to enable us to complete the development of any potential products, including the Fibrilyzer, or to pay our debts as they become due. Accordingly, we will need to obtain further funding through public or private equity offerings, debt financing, collaboration arrangements or other sources. The issuance of any additional shares of common stock, preferred stock or convertible securities could be substantially dilutive to our shareholders. In addition, adequate additional funding may not be available to us on acceptable terms, or at all. If we are unable to raise capital, we will be forced to delay, reduce or eliminate our research and development programs and may not be able to continue as a going concern.

Going Concern

The audit report prepared by our independent registered public accounting firm relating to our financial statements for the year ended December 31, 2017 includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. We have concluded that the circumstances described above continue to raise substantial doubt about our ability to continue as a going concern as of September 30, 2018.

Off-Balance Sheet Arrangements

As of September 30, 2018, we had no material off-balance sheet arrangements.

In the normal course of business, we may be confronted with issues or events that may result in a contingent liability. These generally relate to lawsuits, claims or the actions of various regulatory agencies. We consult with counsel and other appropriate experts to assess the claim. If, in our opinion, we have incurred a probable loss as set forth by accounting principles generally accepted in the United States, an estimate is made of the loss and the appropriate accounting entries are reflected in our financial statements. After consultation with legal counsel, we do not anticipate that liabilities arising out of currently pending or threatened lawsuits and claims will have a material adverse effect on our financial position, results of operations or cash flows.

Critical Accounting Estimates and New Accounting Pronouncements

Critical Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts and related disclosures in the financial statements. Management considers an accounting estimate to be critical if it requires assumptions to be made that were uncertain at the time the estimate was made, and changes in the estimate or different estimates that could have been selected could have a material impact on our results of operations or financial condition.

Application of Significant Accounting Policies

Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the benefits of this extended transition period. Our financial statements may, therefore, not be comparable to those of companies that comply with such new or revised accounting standards.

Recent Accounting Pronouncements

We have reviewed the FASB issued ASU accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. The Company has carefully considered the new pronouncements that alter previous generally accepted accounting principles and does not believe that any new or modified principles will have a material impact on the corporation's reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of our financial management and certain standards are under consideration.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), the Company's principal executive and financial officers, have conducted an evaluation of the design and effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of the end of the period covered by this report. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Our CEO and CFO believe that as of September 30, 2018, our disclosure controls and procedures are not designed at a reasonable assurance level and are ineffective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The conclusion was due to the presence of the following material weaknesses in disclosure controls and procedures due to our small size and limited resources: (i) inadequate segregation of duties and effective risk assessment; (ii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both U.S. GAAP and SEC Guidelines; (iii) inadequate security and restricted access to computer systems including insufficient disaster recovery plans; and (iv) no written whistleblower policy.

Our CEO and CFO plan to review and implement appropriate disclosure controls and procedures to remediate these material weaknesses, including (i) appointing additional qualified personnel to address inadequate segregation of duties and ineffective risk management; (ii) adopting sufficient written policies and procedures for accounting and financial reporting and a whistle blower policy; and (iii) implementing sufficient security and restricted access measures regarding our computer systems and implement a disaster recovery plan.

Changes in Internal Controls over Financial Reporting

There have been no changes in the internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings.

None

ITEM 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in our annual report on Form 10-K for the year ended December 31, 2017.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Defaults upon Senior Securities.

None.

ITEM 4. Mine Safety Disclosures.

Not applicable.

ITEM 5. Other Information.

None

ITEM 6. EXHIBITS

- 31.1* Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2* Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.1* Certification of Principal Executive Officer pursuant to Rule 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.2* Certification of Chief Financial Officer pursuant to Rule 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

101.INS*** XBRL Instance Document

101.SCH***XBRL Taxonomy Extension Schema

101.CAL***XBRL Taxonomy Extension Calculation Linkbase

101.DEF*** XBRL Taxonomy Extension Definition Linkbase

101.LAB***XBRL Taxonomy Extension Label Linkbase

101.PRE*** XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith

*** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Act of 1934 and otherwise are not subject to liability.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Exactus, Inc.

November 14, 2018

/s/ Philip J. Young
Philip J. Young
Chief Executive Officer

/s/ Kelley A. Wendt
Kelley A. Wendt
Chief Financial Officer

EXHIBIT INDEX

- 31.1* Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2* Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.1* Certification of Principal Executive Officer pursuant to Rule 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.2* Certification of Chief Financial Officer pursuant to Rule 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

- 101.INS*** XBRL Instance Document
- 101.SCH***XBRL Taxonomy Extension Schema
- 101.CAL***XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF*** XBRL Taxonomy Extension Definition Linkbase
- 101.LAB***XBRL Taxonomy Extension Label Linkbase
- 101.PRE*** XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith

*** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Act of 1934 and otherwise are not subject to liability.

OFFICER'S CERTIFICATE PURSUANT TO SECTION 302

I, Philip J. Young, certify that:

1. I have reviewed this quarterly report on Form 10Q of Exactus, Inc. (formerly known as Spiral Energy Tech, Inc.).

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a15(e) and 15d15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a 15(f) and 15d15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared.

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation. and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting. and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information. and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 14, 2018

/s/ Philip J. Young

Philip J. Young
Chief Executive Officer
(Principal Executive Officer)

OFFICER'S CERTIFICATE PURSUANT TO SECTION 302

I, Kelley A. Wendt, certify that:

1. I have reviewed this quarterly report on Form 10Q of Exactus, Inc. (formerly known as Spiral Energy Tech, Inc.).

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a15(e) and 15d15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a 15(f) and 15d15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared.

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation. and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting. and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information. and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 14, 2018

/s/ Kelley A. Wendt

Kelley A. Wendt
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANESOXLEY ACT OF 2002**

I, Philip J. Young, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the SarbanesOxley Act of 2002, that the Quarterly Report of Exactus, Inc. (formerly known as Spiral Energy Tech, Inc.) on Form 10Q for the fiscal period ended September 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10Q fairly presents in all material respects the financial condition and results of operations of Exactus, Inc.

Date: November 14, 2018

By: /s/ Philip J. Young

Name: *Philip J Young*

Title: *Chief Executive Officer (Principal Executive Officer)*

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANESOXLEY ACT OF 2002**

I, Kelley A. Wendt, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the SarbanesOxley Act of 2002, that the Quarterly Report of Exactus, Inc. (formerly known as Spiral Energy Tech, Inc.) on Form 10Q for the fiscal period ended September 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10Q fairly presents in all material respects the financial condition and results of operations of Exactus, Inc.

Date: November 14, 2018

By: /s/ Kelley A. Wendt

Name: *Kelley A. Wendt*

Title: *Chief Financial Officer (Principal Financial Officer)*
