

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: **June 30, 2020**

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: **001-38190**

**Exactus, Inc.**

*(Exact name of registrant as specified in its charter)*

**Nevada**  
*(State or other jurisdiction of  
incorporation or organization)*

**27-1085858**  
*(I.R.S. Employer  
Identification No.)*

**80 NE 4th Avenue, Suite 28, Delray Beach, FL 33483**  
*(Address of principal executive offices, Zip Code)*

**(800) 881-9352**  
*(Registrant's telephone number, including area code)*

*(Former Name, Former Address and Former Fiscal Year if Changed Since Last Report)*

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

| <u>Title of each class</u> | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|----------------------------|--------------------------|--|
| N/A                        | N/A                      | N/A  |

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

Emerging growth company

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 51,912,604 shares of common stock, par value \$0.0001 per share, outstanding as of August 17, 2020.



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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements.

Our financial statements included in this Form 10-Q are as follows:

Condensed Consolidated Balance Sheets as June 30, 2020 (unaudited) and December 31, 2019;  
Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2020 and 2019 (unaudited);  
Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and six months ended June 30, 2020 and 2019 (unaudited);  
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019 (unaudited);  
Notes to Unaudited Condensed Consolidated Financial Statements.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the SEC instructions to Form 10-Q. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended June 30, 2020 are not necessarily indicative of the results that can be expected for the full year.

**Exactus, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**

|   | <b>June 30,<br/>2020</b> | <b>December 31,<br/>2019</b>   |
|---|--------------------------|--------------------------------|
|   | (Unaudited)              | (As Restated -<br>see Note 14) |
| <b>ASSETS</b>   |                          |                                |
| <b>Current Assets:</b>  |                          |                                |
| Cash and cash equivalents   | \$ 298,754               | \$ 18,405                      |
| Accounts receivable, net  | 42,895                   | 55,725                         |
| Accounts receivable - related party   | 107,660                  | 18,860                         |
| Inventory, net  | 340,528                  | 1,337,809                      |
| Prepaid expenses and other current assets - current   | 60,114                   | 248,776                        |
| Prepaid expenses and other current assets - related party - current   | 622,159                  | 622,160                        |
| Due from related parties  | -                        | 127,500                        |
| <b>Total current assets</b>   | <b>1,472,110</b>         | <b>2,429,235</b>               |
| <b>Other Assets:</b>  |                          |                                |
| Deposits  | -                        | 80,000                         |
| Prepaid expenses and other current assets - long-term   | 9,589                    | -                              |
| Prepaid expenses and other current assets - related party - long-term   | 2,175,000                | 2,492,045                      |
| Property and equipment, net   | 405,775                  | 477,433                        |
| Intangible assets, net  | 1,656,894                | 2,147,311                      |
| Operating lease right-of-use assets, net (see Note 7)   | 310,694                  | 390,810                        |
| <b>Total other assets</b>   | <b>4,557,952</b>         | <b>5,587,599</b>               |
| <b>TOTAL ASSETS</b>   | <b>\$ 6,030,062</b>      | <b>\$ 8,016,834</b>            |
| <b>LIABILITIES AND EQUITY</b>   |                          |                                |
| <b>Current Liabilities:</b>   |                          |                                |
| Accounts payable  | \$ 2,026,841             | \$ 1,442,409                   |
| Accounts payable - related parties  | 454,511                  | 454,511                        |
| Accrued expenses  | 589,148                  | 238,010                        |
| Unearned revenue - related party  | -                        | 215,000                        |
| Notes payable - current portion   | 90,755                   | -                              |
| Note payable - related parties  | 78,017                   | 55,556                         |
| Subscription payable  | 250,000                  | 250,000                        |
| Convertible notes, net of discounts   | 575,979                  | 85,906                         |
| Derivative liability  | 468,387                  | 880,410                        |
| Interest payable  | 39,332                   | 16,677                         |
| Due to related party  | 84,500                   | -                              |
| Operating lease liabilities, current portion (see Note 7)   | 178,541                  | 169,869                        |
| <b>Total current liabilities</b>  | <b>4,836,011</b>         | <b>3,808,348</b>               |
| <b>Long Term Liabilities:</b>   |                          |                                |
| Convertible notes payable   | -                        | 100,000                        |
| Notes payable - long-term portion   | 244,755                  | -                              |
| Operating lease liabilities, long-term portion (see Note 7)   | 132,154                  | 220,942                        |
| <b>Total long term liabilities</b>  | <b>376,909</b>           | <b>320,942</b>                 |
| <b>TOTAL LIABILITIES</b>  | <b>5,212,920</b>         | <b>4,129,290</b>               |
| <b>Commitment and contingencies (see Note 11)</b>   |                          |                                |
| <b>Equity:</b>  |                          |                                |
| <b>Exactus, Inc. Stockholders' Equity</b>   |                          |                                |
| Preferred stock: 50,000,000 shares authorized; \$0.0001 par value, 5,266,466 undesignated shares  |                          |                                |
| Preferred stock Series A: 1,000,000 shares designated; \$0.0001 par value,<br>323,019 and 353,109 shares issued and outstanding, respectively | 32                       | 35                             |
| Preferred stock Series B-1: 32,000,000 shares designated; \$0.0001 par value,<br>1,650,000 shares issued and outstanding                      | 165                      | 165                            |
| Preferred stock Series B-2: 10,000,000 shares designated; \$0.0001 par value,<br>7,516,000 shares issued and outstanding                      | 752                      | 752                            |
| Preferred stock Series C: 1,733,334 shares designated; \$0.0001 par value,<br>none shares issued and outstanding                              | -                        | -                              |
| Preferred stock Series D: 200 shares designated; \$0.0001 par value,<br>18 shares issued and outstanding                                      | -                        | -                              |
| Preferred stock Series E: 10,000 shares designated; \$0.0001 par value,<br>10,000 shares issued and outstanding                               | 1                        | 1                              |
| Common stock: 650,000,000 shares authorized; \$0.0001 par value,<br>50,266,956 and 43,819,325 shares issued and outstanding, respectively     | 5,027                    | 4,382                          |
| Common stock to be issued (287,500 and 664,580 shares to be issued, respectively)   | 28                       | 66                             |
| Additional paid-in capital  | 26,905,565               | 25,343,293                     |
| Due from related parties  | (127,500)                | -                              |
| Accumulated deficit   | (25,119,016)             | (20,923,681)                   |
| <b>Total Exactus Inc. Stockholders' Equity</b>  | <b>1,665,054</b>         | <b>4,425,013</b>               |

|  |                     |                     |
|--|---------------------|---------------------|
| Non-controlling interest in subsidiary | <u>(847,912)</u>    | <u>(537,469)</u>    |
| <b>Total Stockholders' Equity</b>      | <u>817,142</u>      | <u>3,887,544</u>    |
| <b>TOTAL LIABILITIES AND EQUITY</b>    | <u>\$ 6,030,062</u> | <u>\$ 8,016,834</u> |

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

**Exactus, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**

|  | <b>Three Months Ended June 30,</b> |                  | <b>Six Months Ended June 30,</b> |                  |
|--|------------------------------------|------------------|----------------------------------|------------------|
|  | <b>2020</b>                        | <b>2019</b>      | <b>2020</b>                      | <b>2019</b>      |
|  | (Unaudited)                        | (Unaudited)      | (Unaudited)                      | (Unaudited)      |
|  | (As Restated -<br>see Note 14)     |                  |                                  |                  |
| Net revenues   | \$ 531,240                         | \$ 99,164        | \$ 1,051,440                     | \$ 115,144       |
| Net revenues - related party   | -                                  | 40,519           | 315,800                          | 40,519           |
| <b>Total net revenues</b>  | <b>531,240</b>                     | <b>139,683</b>   | <b>1,367,240</b>                 | <b>155,663</b>   |
| Cost of sales  | 562,270                            | -                | 1,604,743                        | -                |
| Cost of sales - related party  | 60,000                             | 103,187          | 417,783                          | 115,787          |
| <b>Total cost of sales</b>   | <b>622,270</b>                     | <b>103,187</b>   | <b>2,022,526</b>                 | <b>115,787</b>   |
| Gross profit (loss)  | (91,030)                           | 36,496           | (655,286)                        | 39,876           |
| Operating Expenses:  |                                    |                  |                                  |                  |
| General and administration   | 760,306                            | 622,079          | 1,820,893                        | 1,274,288        |
| Selling and marketing expenses   | 132,110                            | 176,602          | 413,000                          | 228,480          |
| Professional and consulting  | 552,197                            | 330,891          | 1,280,068                        | 2,211,038        |
| Research and development   | -                                  | 11,975           | -                                | 26,975           |
| <b>Total Operating Expenses</b>  | <b>1,444,613</b>                   | <b>1,141,547</b> | <b>3,513,961</b>                 | <b>3,740,781</b> |
| Loss from Operations   | (1,535,643)                        | (1,105,051)      | (4,169,247)                      | (3,700,905)      |
| Other Income (expenses):   |                                    |                  |                                  |                  |
| Derivative gain (loss)   | 249,982                            | -                | 356,468                          | (1,454,729)      |
| Gain on extinguishment of debt, net  | 39,142                             | -                | 39,142                           | -                |
| (Loss) gain on settlement of debt, net   | (16,500)                           | -                | (23,000)                         | 3,007,629        |
| Interest expense   | (420,675)                          | (2,519)          | (709,141)                        | (369,432)        |
| <b>Total Other Income (Expenses), net</b>  | <b>(148,051)</b>                   | <b>(2,519)</b>   | <b>(336,531)</b>                 | <b>1,183,468</b> |
| Loss Before Provision for Income Taxes   | (1,683,694)                        | (1,107,570)      | (4,505,778)                      | (2,517,437)      |
| Provision for income taxes   | -                                  | -                | -                                | -                |
| Net Loss   | (1,683,694)                        | (1,107,570)      | (4,505,778)                      | (2,517,437)      |
| Net Loss attributable to non-controlling interest  | 154,624                            | 152,344          | 310,443                          | 187,948          |
| Net Loss Attributable to Exactus, Inc.   | (1,529,070)                        | (955,226)        | (4,195,335)                      | (2,329,489)      |
| Deemed dividend on Preferred Stock   | -                                  | -                | -                                | (904,450)        |
| Net Loss available to Exactus, Inc. common stockholders                                      | \$ (1,529,070)                     | \$ (955,226)     | \$ (4,195,335)                   | \$ (3,233,939)   |
| Net Loss per Common Share - Basic and Diluted  | \$ (0.03)                          | \$ (0.03)        | \$ (0.10)                        | \$ (0.09)        |
| Net Loss attributable to non-controlling interest per Common Share - Basic and Diluted       | \$ (0.00)                          | \$ (0.00)        | \$ (0.01)                        | \$ (0.01)        |
| Net Loss available to Exactus, Inc. common stockholders per Common Share - Basic and Diluted | \$ (0.03)                          | \$ (0.03)        | \$ (0.09)                        | \$ (0.12)        |
| Weighted Average Number of Common Shares Outstanding:  |                                    |                  |                                  |                  |
| Basic and Diluted  | 48,203,183                         | 35,203,356       | 46,757,076                       | 27,227,822       |

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

**Exactus, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**For the Three and Six Months Ended June 30, 2020 and 2019**  
**(Unaudited)**

|  | Preferred Stock - Series A |              | Preferred Stock - Series B-1 |               | Preferred Stock - Series B-2 |               | Preferred Stock - Series C |        | Preferred Stock - Series D |        | Preferred Stock - Series E |        | Common Stock |        | Common Stock - Unissued |        | Paid in Capital | Due from Related Parties | Accumulated Deficit | Non-controlling Interest |             | Total |
|--|----------------------------|--------------|------------------------------|---------------|------------------------------|---------------|----------------------------|--------|----------------------------|--------|----------------------------|--------|--------------|--------|-------------------------|--------|-----------------|--------------------------|---------------------|--------------------------|-------------|-------|
|  | Shares                     | Amount       | Shares                       | Amount        | Shares                       | Amount        | Shares                     | Amount | Shares                     | Amount | Shares                     | Amount | Shares       | Amount | Shares                  | Amount |                 |                          |                     | Deficit                  | Interest    |       |
| <b>Balance, December 31, 2019</b>  | <u>353,109</u>             | <u>\$ 35</u> | <u>1,650,000</u>             | <u>\$ 165</u> | <u>7,516,000</u>             | <u>\$ 752</u> | -                          | \$ -   | 18                         | \$ -   | 10,000                     | \$ 1   | 43,819,323   | \$ 382 | 664,580                 | \$ 66  | \$ 5,343,293    | \$ -                     | \$ 20,923,681       | \$ 537,469               | \$ 887,544  |       |
| Common stock issued for private placement  | -                          | -            | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | 500,000      | 50     | -                       | -      | 99,950          | -                        | -                   | -                        | 100,000     |       |
| Common stock issued for unissued common stock                                    | -                          | -            | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | 287,500      | 29     | (287,500)               | (29)   | -               | -                        | -                   | -                        | -           |       |
| Conversion of Series A Preferred Stock to Common Stock                           | (30,090)                   | (3)          | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | 150,450      | 15     | -                       | -      | (12)            | -                        | -                   | -                        | -           |       |
| Common stock issued for services   | -                          | -            | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | 765,000      | 77     | -                       | -      | 378,446         | -                        | -                   | -                        | 378,523     |       |
| Stock-based compensation in connection with restricted common stock award grants | -                          | -            | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | 209,727      | 21     | (68,750)                | (7)    | 117,889         | -                        | -                   | -                        | 117,903     |       |
| Stock options granted for services   | -                          | -            | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | -            | -      | -                       | -      | 140,866         | -                        | -                   | -                        | 140,866     |       |
| Net Loss for the period  | -                          | -            | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | -            | -      | -                       | -      | -               | -                        | (2,666,265)         | (155,819)                | (2,822,084) |       |
| <b>Balance, March 31, 2020</b>   | <u>323,019</u>             | <u>\$ 32</u> | <u>1,650,000</u>             | <u>\$ 165</u> | <u>7,516,000</u>             | <u>\$ 752</u> | -                          | \$ -   | 18                         | \$ -   | 10,000                     | \$ 1   | 45,732,004   | \$ 574 | 308,330                 | \$ 30  | 26,080,432      | \$ -                     | (23,589,946)        | (693,288)                | 1,802,752   |       |
| Common stock issued for private placement  | -                          | -            | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | 2,500,000    | 250    | -                       | -      | 249,750         | -                        | -                   | -                        | 250,000     |       |
| Common stock issued upon conversion of convertible debt and accrued interest     | -                          | -            | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | 811,588      | 81     | -                       | -      | 99,492          | -                        | -                   | -                        | 99,573      |       |
| Common stock issued in connection with forbearance agreement                     | -                          | -            | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | 500,000      | 50     | -                       | -      | 89,950          | -                        | -                   | -                        | 90,000      |       |
| Stock-based compensation in connection with restricted common stock award grants | -                          | -            | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | 723,366      | 72     | (20,830)                | (2)    | 279,263         | -                        | -                   | -                        | 279,333     |       |
| Stock options granted for services   | -                          | -            | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | -            | -      | -                       | -      | 106,678         | -                        | -                   | -                        | 106,678     |       |
| Due from related parties reclassified to equity                                  | -                          | -            | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | -            | -      | -                       | -      | -               | (127,500)                | -                   | -                        | (127,500)   |       |
| Net Loss for the period  | -                          | -            | -                            | -             | -                            | -             | -                          | -      | -                          | -      | -                          | -      | -            | -      | -                       | -      | -               | -                        | (1,529,070)         | (154,624)                | (1,683,694) |       |
| <b>Balance, June 30, 2020</b>  | <u>323,019</u>             | <u>\$ 32</u> | <u>1,650,000</u>             | <u>\$ 165</u> | <u>7,516,000</u>             | <u>\$ 752</u> | -                          | \$ -   | 18                         | \$ -   | 10,000                     | \$ 1   | 50,266,956   | \$ 627 | 287,500                 | \$ 28  | \$ 26,905,563   | \$ 127,500               | \$ 25,119,016       | (847,912)                | \$ 17,142   |       |

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|   | Preferred Stock-Series A |        | Preferred Stock-Series B-1 |        | Preferred Stock-Series B-2 |        | Preferred Stock-Series C |        | Preferred Stock-Series D |        | Preferred Stock-Series E |        | Common Stock |        | Common Stock - Unissued |        | Paid in Capital | Due from Related Parties | Accumulated Deficit | Non-controlling Interest | Total       |
|---|--------------------------|--------|----------------------------|--------|----------------------------|--------|--------------------------|--------|--------------------------|--------|--------------------------|--------|--------------|--------|-------------------------|--------|-----------------|--------------------------|---------------------|--------------------------|-------------|
|   | Shares                   | Amount | Shares                     | Amount | Shares                     | Amount | Shares                   | Amount | Shares                   | Amount | Shares                   | Amount | Shares       | Amount | Shares                  | Amount |                 |                          |                     |                          |             |
| <b>Balance, December 31, 2018</b>                                     | -                        | \$ -   | 2,800,000                  | \$280  | 8,684,000                  | \$868  | 1,733,334                | \$173  | 45                       | \$ 1   | -                        | \$ -   | 6,233,524    | \$623  | -                       | \$ -   | \$1,111,445     | \$ -                     | \$10,537,892        | -                        | \$3,424,502 |
| Preferred stock issued upon conversion of convertible debt            | 849,360                  | 84     | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | -            | -      | -                       | -      | 849,276         | -                        | -                   | -                        | 849,360     |
| Preferred stock issued for private placement                          | 55,090                   | 6      | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | -            | -      | -                       | -      | 55,084          | -                        | -                   | -                        | 55,090      |
| Common stock issued for private placement                             | -                        | -      | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | 15,382,090   | 1,538  | -                       | -      | 3,308,115       | -                        | -                   | -                        | 3,309,653   |
| Common Stock issued for Master Supply                                 | -                        | -      | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | 8,385,691    | 839    | -                       | -      | (839)           | -                        | -                   | -                        | -           |
| Common stock issued for debt settlement                               | -                        | -      | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | 203,080      | 20     | -                       | -      | 40,596          | -                        | -                   | -                        | 40,616      |
| Common stock issued for purchase of membership interest in subsidiary | -                        | -      | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | 937,500      | 94     | -                       | -      | 989,906         | -                        | -                   | -                        | 990,000     |
| Conversion of Series A Preferred Stock to Common Stock                | (296,441)                | (30)   | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | 1,482,205    | 148    | -                       | -      | (118)           | -                        | -                   | -                        | -           |
| Conversion of Series B-1 Preferred Stock to Common Stock              | -                        | -      | (400,000)                  | (40)   | -                          | -      | -                        | -      | -                        | -      | -                        | -      | 50,000       | 5      | -                       | -      | 35              | -                        | -                   | -                        | -           |
| Conversion of Series B-2 Preferred Stock to Common Stock              | -                        | -      | -                          | -      | (1,000,000)                | (100)  | -                        | -      | -                        | -      | -                        | -      | 125,000      | 13     | -                       | -      | 87              | -                        | -                   | -                        | -           |
| Conversion of Series D Preferred Stock to Common Stock                | -                        | -      | -                          | -      | -                          | -      | -                        | -      | (4)                      | (1)    | -                        | -      | 100,000      | 10     | -                       | -      | (9)             | -                        | -                   | -                        | -           |
| Common stock issued upon conversion of convertible debt               | -                        | -      | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | 250,000      | 25     | -                       | -      | 195,975         | -                        | -                   | -                        | 196,000     |
| Stock warrants granted for services                                   | -                        | -      | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | -            | -      | -                       | -      | 1,114,062       | -                        | -                   | -                        | 1,114,062   |
| Stock options granted for services                                    | -                        | -      | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | -            | -      | -                       | -      | 891,799         | -                        | -                   | -                        | 891,799     |
| Deemed dividend on Preferred Stock                                    | -                        | -      | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | -            | -      | -                       | -      | 904,450         | -                        | (904,450)           | -                        | -           |
| Net Loss for the period   | -                        | -      | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | -            | -      | -                       | -      | -               | -                        | (1,374,263)         | (35,604)                 | (1,409,867) |
| <b>Balance, March 31, 2019</b>  | 608,009                  | 60     | 2,400,000                  | 240    | 7,684,000                  | 768    | 1,733,334                | 173    | 41                       | -      | -                        | -      | 33,149,090   | 3,315  | -                       | -      | 15,459,864      | -                        | (12,816,605)        | (35,604)                 | 2,612,211   |
| Common stock issued and unissued for private placement                | -                        | -      | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | 1,282,175    | 128    | 2,606,958               | 261    | 2,168,796       | -                        | -                   | -                        | 2,169,185   |
| Common stock unissued for services                                    | -                        | -      | -                          | -      | -                          | -      | -                        | -      | -                        | -      | -                        | -      | -            | -      | 20,000                  | 2      | 19,498          | -                        | -                   | -                        | 19,500      |



|  |                |              |                  |              |                  |              |                  |              |           |             |          |             |                   |               |                  |              |                    |             |                     |                  |                    |
|--|----------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|-----------|-------------|----------|-------------|-------------------|---------------|------------------|--------------|--------------------|-------------|---------------------|------------------|--------------------|
| Common stock<br>unissued for<br>purchase of<br>membership<br>interest in<br>subsidiary | -              | -            | -                | -            | -                | -            | -                | -            | -         | -           | -        | -           | -                 | 503,298       | 50               | 449,950      | -                  | -           | -                   | 450,000          |                    |
| Stock options<br>granted for<br>services   | -              | -            | -                | -            | -                | -            | -                | -            | -         | -           | -        | -           | -                 | -             | -                | 58,279       | -                  | -           | -                   | 58,279           |                    |
| Net Loss for the<br>period   | -              | -            | -                | -            | -                | -            | -                | -            | -         | -           | -        | -           | -                 | -             | -                | -            | -                  | (955,226)   | (152,344)           | (1,107,570)      |                    |
| <b>Balance, June<br/>30, 2019</b>  | <u>608,009</u> | <u>\$ 60</u> | <u>2,400,000</u> | <u>\$240</u> | <u>7,684,000</u> | <u>\$768</u> | <u>1,733,334</u> | <u>\$173</u> | <u>41</u> | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> | <u>34,431,263</u> | <u>\$,443</u> | <u>3,130,256</u> | <u>\$313</u> | <u>\$8,156,383</u> | <u>\$ -</u> | <u>\$13,771,831</u> | <u>\$187,948</u> | <u>\$1,201,605</u> |

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

**Exactus, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**

|   | <b>Six Months Ended June 30,</b> |                    |
|---|----------------------------------|--------------------|
|   | <b>2020</b>                      | <b>2019</b>        |
|   | (Unaudited)                      | (Unaudited)        |
| <b>Cash Flows From Operating Activities:</b>  |                                  |                    |
| Net loss  | \$ (4,505,778)                   | \$ (2,517,437)     |
| Adjustments to reconcile net loss to cash used in operating activities:                               |                                  |                    |
| Depreciation  | 53,787                           | 11,851             |
| Derivative (gain) loss  | (356,468)                        | 1,454,729          |
| Gain on extinguishment of debt, net   | (39,142)                         | -                  |
| Stock-based compensation  | 1,023,303                        | 2,083,638          |
| Bad debt expense  | 51,470                           | -                  |
| Impairment expense  | 57,871                           | -                  |
| Inventory reserve   | 660,000                          | -                  |
| Amortization of prepaid stock-based expenses  | 378,138                          | -                  |
| Amortization of discount and debt issuance costs for convertible notes                                | 579,115                          | 339,806            |
| Amortization of intangible assets   | 490,417                          | 299,355            |
| Amortization of operating lease right-of-use assets   | 80,116                           | -                  |
| Non-cash interest expense   | 90,000                           | -                  |
| Loss (gain) on settlement of debt   | 23,000                           | (3,007,629)        |
| Changes in operating assets and liabilities:  |                                  |                    |
| (Increase) decrease in operating assets:  |                                  |                    |
| Accounts receivable   | (38,640)                         | (69,914)           |
| Accounts receivable - related party   | (88,800)                         | (40,519)           |
| Inventory   | 337,281                          | (1,047,781)        |
| Advance to supplier - related party   | -                                | (820,108)          |
| Prepaid expenses and other current assets - current   | 127,570                          | (289,227)          |
| Prepaid expenses and other current assets - long term   | (9,589)                          | -                  |
| Deposit   | 40,000                           | -                  |
| Increase (decrease) in operating liabilities:   |                                  |                    |
| Accounts payable  | 561,432                          | 105,400            |
| Accounts payable - related party  | -                                | 6,762              |
| Accrued expenses  | 351,138                          | -                  |
| Unearned revenues   | (215,000)                        | -                  |
| Interest payable  | 28,815                           | 6,746              |
| Operating lease liabilities   | (80,116)                         | -                  |
| <b>Net Cash Used In Operating Activities</b>  | <b>(400,080)</b>                 | <b>(3,484,328)</b> |
| <b>Cash Flows From Investing Activities:</b>  |                                  |                    |
| Purchase of membership interest in subsidiary   | -                                | (1,000,000)        |
| Purchase of property and equipment  | -                                | (385,382)          |
| <b>Net Cash Used in Investing Activities</b>  | <b>-</b>                         | <b>(1,385,382)</b> |
| <b>Cash Flows From Financing Activities:</b>  |                                  |                    |
| Advances from related party   | 97,000                           | 30,000             |
| Repayments on related party advances  | (12,500)                         | -                  |
| Proceeds from sale of common stock  | 350,000                          | 5,478,838          |
| Payments of principal on notes payable  | -                                | (11,129)           |
| Proceeds from issuance of notes payable   | 355,929                          | 14,229             |
| Payments of principal on convertible notes  | (110,000)                        | (186,443)          |
| Proceeds from issuance of convertible notes, net of issuance cost                                     | -                                | 206,900            |
| <b>Net Cash Provided By Financing Activities</b>  | <b>680,429</b>                   | <b>5,532,395</b>   |
| <b>Net increase in cash and cash equivalents</b>  | <b>280,349</b>                   | <b>662,685</b>     |
| <b>Cash and cash equivalents at beginning of year</b>   | <b>18,405</b>                    | <b>1,960</b>       |
| <b>Cash and cash equivalents at end of period</b>   | <b>\$ 298,754</b>                | <b>\$ 664,645</b>  |
| <b>Supplemental Cash Flow Information:</b>  |                                  |                    |
| Cash paid for interest and finance charges  | \$ 11,211                        | \$ 22,890          |
| Cash paid for taxes   | \$ -                             | \$ -               |
| <b>Non-Cash investing and financing activities:</b>   |                                  |                    |
| Proceeds from sale of Series A preferred stock paid directly to settle debts                          | \$ -                             | \$ 55,090          |
| Convertible notes and interest payable settled by Series A preferred stock issued                     | \$ -                             | \$ 849,360         |
| Note payable, accrued expense and interest payable settled by common stock issued                     | \$ 83,160                        | \$ 40,616          |
| Convertible notes settled by common stock issued  | \$ -                             | \$ 196,000         |
| Common stock issued for purchase of membership interest in subsidiary                                 | \$ -                             | \$ 1,440,000       |
| Increase in intangible assets for subscription payable  | \$ -                             | \$ 1,650,000       |
| Initial beneficial conversion feature and debt discount on convertible notes                          | \$ -                             | \$ 206,910         |
| Preferred deemed dividend   | \$ -                             | \$ 904,450         |
| Operating lease right-of-use assets and operating lease liabilities recorded upon adoption of ASC 842 | \$ -                             | \$ 506,506         |

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

**EXACTUS, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 - NATURE OF ORGANIZATION**

***Organization and Business Description***

Exactus, Inc. (the “Company”) was incorporated on January 18, 2008 as an alternative energy research and development company. During much of its history the Company had designed solar monitoring and charging systems which were discontinued in 2016 to focus on developing point-of-care diagnostic devices. The Company has recently added to the scope of its activities efforts to produce, market and sell products made from industrial hemp containing cannabidiol (“CBD”).

On January 8, 2019 the Company began pursuing hemp-derived CBD as a new business segment after passage of the Agriculture Improvement Act of 2018, also known as the 2018 Farm Bill. The 2018 Farm Bill declassified industrial hemp as a Schedule I substance, shifted regulatory authority from the Drug Enforcement Administration to the Department of Agriculture, and provided autonomy for states to regulate the industry. The 2018 Farm Bill did not change the Food and Drug Administration’s oversight authority over CBD products. The 2018 Farm Bill defined industrial hemp as a variety of cannabis containing an amount equal to or lower than 0.3% tetra-hydrocannabinol (THC) and allowed farmers to grow and sell hemp under state regulation. Industry reports indicate that 41 states have set up cultivation and production programs to regulate the production of hemp.

Following passage of the 2018 Farm Bill, the Company entered into a Master Product Development and Supply Agreement (the “Development Agreement”) with Ceed2Med, LLC (“C2M”). Under the Master Agreement, C2M agreed to provide to the Company up to 2,500 kilograms of products (isolate or distillate) for manufacture into consumer products such as tinctures, edibles, capsules, topical solutions and animal health products. The Company believes manufacturing, testing and quality akin to pharmaceutical products is important when distributing hemp-based products. The Company’s products originate from third party manufacturers and farms at which the Company oversee all stages of plant growth and are manufactured under contract arrangements with third-parties.

The Company identified the rapidly growing hemp-based CBD market as a valuable target for a new company focus. On January 8, 2019, the Company entered into the Master Product Development and Supply Agreement with C2M. In consideration for the Development Agreement (see Note 11), C2M was issued 8,385,691 shares of our Common Stock. Additionally, the Company granted immediately vested 10-year options to purchase 750,000 shares of Common Stock, with exercise price of \$0.32 per share to three C2M founders. As a result, C2M became the Company’s largest shareholder holding (inclusive of the vested options held by its founders) approximately 51% of the Company’s outstanding Common Stock as of the date of the Development Agreement which has subsequently been reduced to approximately 13% as of June 30, 2020. Consequently, such transaction resulted in a change of control whereby, C2M obtained majority control through its Common Stock ownership (See Note 11). In connection with this agreement, the Company received access to expertise, resources, skills and experience suitable for production of CBD rich ingredients including isolates, distillates, water soluble, and proprietary formulations. Under the Development Agreement, the Company was allotted a minimum of 50 and up to 300 kilograms per month, and up to 2,500 kilograms annually, of CBD rich ingredients for resale and had placed a \$1 million purchase order for products in fiscal 2019. The Company currently offers products such as tinctures, edibles, capsules, topical solutions and animal health products manufactured for the Company as branded and white-label products.

On March 11, 2019, with the assistance of C2M and assignment of rights, the Company acquired a 50.1% limited liability membership interest in Exactus One World, LLC (“EOW”), an Oregon limited liability company formed on January 25, 2019, in order to farm industrial hemp for its own use. Prior to the acquisition, EOW had no operating activities. The Company acquired its 50.1% limited liability membership interest pursuant to a Subscription Agreement and a Membership Interest Purchase Agreement (See Note 3). Following the events described above, the Company entered into the business of production and selling of industrial hemp grown for its own use and for sale to third-parties.

On January 11, 2019, the Board of Directors of the Company approved a reverse stock split of the Company’s Common Stock at a ratio of 1-for-8 (the “Reverse Stock Split”) including shares issuable upon conversion of the Company’s outstanding convertible securities. All share and per share values of the Company’s Common Stock for all periods presented in this Report and in the accompanying unaudited condensed consolidated financial statements are retroactively restated for the effect of the Reverse Stock Split.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation and principles of consolidation**

The Company’s unaudited condensed consolidated financial statements include the financial statements of its 50.1% subsidiary, EOW and 51% subsidiary, Paradise Medlife. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission for interim financial information, which includes consolidated unaudited interim financial statements and present the consolidated unaudited interim financial statements of the Company and its majority-owned subsidiary as of June 30, 2020. All intercompany transactions and balances have been eliminated. In the opinion of management, all adjustments necessary to present fairly our financial position, results of operations, stockholders’ equity (deficit) and cash flows as of June 30, 2020 and 2019, and for the periods then ended, have been made. Those adjustments consist of normal and recurring adjustments. Certain information and note disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019 and footnotes thereto included in the Company’s Report on Form 10K filed with the SEC on May 22, 2020. The results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of the results to be expected for the full year.

**Going concern**

These unaudited condensed consolidated financial statements are presented on the basis that the Company 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 the Company’s assets and the carrying amount of its liabilities based on the going concern uncertainty. As reflected in the accompanying unaudited condensed consolidated financial statements, the Company had a net loss attributable to Exactus Inc. common stockholders of \$4,195,335 for the six months ended June 30, 2020. The net cash used in operating activities was \$400,080 for the six months ended June 30, 2020. Additionally, the Company had an accumulated deficit of \$25,119,016 and working capital deficit of \$3,363,901 at June 30, 2020. These factors raise substantial doubt about the Company’s ability to continue as a going concern for a period of twelve months from the issuance date of this report. Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. The Company is seeking to raise capital through additional debt and/or equity financings to fund its operations in the future. Although the Company has historically raised capital from sales of common and preferred shares and from the issuance of convertible promissory notes, there is no assurance that it will be able to continue to do so. If the Company is unable to raise additional capital or secure additional lending in the near future, management expects that the Company will need to curtail its operations. These unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Over the last several months the Company and its advisors have been evaluating numerous opportunities and relationships to increase shareholder value. The Company expects to realize revenue through its efforts, if successful, to sell wholesale and retail products to third parties. However, as the Company is in a start-up phase, in a new business venture, in a rapidly evolving industry, many of its costs and challenges are new and unknown. In order to fund the Company’s activities, the Company will need to raise additional capital either through the issuance of equity and/or the issuance of debt. During the six months ended June 30, 2020, the Company received proceeds from the sale of the Company’s Common Stock of approximately \$350,000, related party advances of \$97,000 and issuance of a note of \$355,929.

In March 2020, the outbreak of COVID-19 (coronavirus) caused by a novel strain of the coronavirus was recognized as a pandemic by the World Health Organization, and the outbreak has become increasingly widespread in the United States, including in each of the areas in which the Company operates. The COVID-19 (coronavirus) outbreak has had a notable impact on general economic conditions, including but not limited to the temporary closures of many businesses, “shelter in place” and other governmental regulations, reduced business and consumer spending due to both job losses and reduced investing activity, among many other effects attributable to the COVID-19 (coronavirus), and there continue to be many unknowns. While to date the Company has not been required to stop operating, management is evaluating its use of its office space, virtual meetings and the like. The Company continues to monitor the impact of the COVID-19 (coronavirus) outbreak closely. The extent to which the COVID-19 (coronavirus) outbreak will impact the Company’s operations, ability to obtain financing or future financial results is uncertain.

**EXACTUS, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**Use of Estimates**

The Company prepares its unaudited condensed consolidated financial statements in conformity with GAAP which 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 reported amounts of revenues and expenses during the reporting period. In preparing the unaudited condensed consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet, and revenues and expenses for the period then ended. Actual results may differ significantly from those estimates. Significant estimates made by management include, but are not limited to the fair value of derivative liabilities, useful life of property and equipment and intangible assets, fair value of right of use assets, assumptions used in assessing impairment of long-term assets, contingent liabilities, and fair value of non-cash equity transactions.

**Fair Value Measurements**

The Company adopted the provisions of Accounting Standard Codification (“ASC”) Topic 820, “Fair Value Measurements and Disclosures”, which defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value, and expands disclosure of fair value measurements. The guidance 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.

The Company measures certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at June 30, 2020 and December 31, 2019:

| Description            | At June 30, 2020 |         |            | At December 31, 2019 |         |            |
|------------------------|------------------|---------|------------|----------------------|---------|------------|
|                        | Level 1          | Level 2 | Level 3    | Level 1              | Level 2 | Level 3    |
| Derivative liabilities | —                | —       | \$ 468,387 | —                    | —       | \$ 880,410 |

A roll forward of the level 3 valuation financial instruments is as follows:

|  | <b>For the Six<br/>Months Ended<br/>June 30, 2020</b> |
|--|---|
| Balance at beginning of period   | \$ 880,410  |
| Transfers out due to conversions of convertible notes into common shares | (55,555)  |
| Change in fair value included in derivative gain                         | (356,468)   |
| Balance at end of period   | <u>\$ 468,387</u>                                     |

As of June 30, 2020, the Company has no assets that are re-measured at fair value.

**Cash and Cash Equivalents**

The Company considers 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. The Company has not experienced any losses on such accounts and do not believe the Company is exposed to any significant credit risk. The Company had \$0 cash balances in excess of FDIC insured limits at June 30, 2020 and December 31, 2019, respectively. Cash and cash equivalents were \$298,754 and \$18,405 at June 30, 2020 and December 31, 2019, respectively.

**EXACTUS, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

***Accounts receivable and allowance for doubtful accounts***

The Company has a policy of providing an allowance for doubtful accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to bad debt expense and included in the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. As of June 30, 2020 and December 31, 2019, allowance for doubtful accounts amounted to \$65,461 and \$13,991, respectively. Bad debt expense amounted \$51,470 and \$0 during the six months ended June 30, 2020 and 2019, respectively.

***Prepaid Expenses and Other Current Assets***

Total prepaid expenses and other current assets - current amounted to \$60,114 and \$248,776 at June 30, 2020 and December 31, 2019, respectively. Total prepaid expenses and other current assets – long term amounted to \$9,589 and \$0 at June 30, 2020 and December 31, 2019, respectively. Prepaid expenses to C2M who is a related party, amounted to \$622,159 – current portion and \$2,175,000 – long-term portion at June 30, 2020. Prepaid expenses to C2M who is a related party, amounted to \$622,160 – current portion and \$2,492,045 – long-term portion at December 31, 2019. Prepaid expenses consist primarily of costs paid for future services with terms ranging within a year up to 5 years. Prepaid expenses may include prepayments in cash and equity instruments for an operating lease, consulting, and insurance fees which are being amortized over the terms of their respective agreements.

***Inventory***

The Company values inventory, consisting of raw materials, growing plants and finished goods, at the lower of cost or net realizable value. Cost is determined on the first-in and first-out (“FIFO”) method. The Company reduces inventory for the diminution of value, resulting from product obsolescence, damage or other issues affecting marketability, equal to the difference between the cost of the inventory and its estimated net realizable value. Factors utilized in the determination of the estimated net realizable value include (i) estimates of future demand, and (ii) competitive pricing pressures. In accordance with ASC 905, “Agriculture”, all direct and indirect costs of growing hemp are accumulated until the time of harvest and are reported at the lower of cost or net realizable value. Included in inventory is the Company’s hemp crop under cultivation on farm acreage leased by the Company. The cost of the hemp crop under cultivation is determined based upon costs to purchase industrial hemp seed and industrial hemp cuttings, plus farm labor, fertilizer, water and power, the cost to harvest and cost for drying services. The costs of planting, cultivating and harvesting the Company’s hemp crop are capitalized to hemp crop inventory under cultivation, when incurred. The Company determined the cost allocation of the hemp crop (hemp flowers and hemp cuttings) based upon a proforma Market Value Method. However, based upon current actual sales prices and after reviewing national sales trends, the Company established an inventory reserve to write down the inventory to net realizable value which is the estimated selling prices in the ordinary course of business, less reasonable predictable costs of completion, disposal and transportation or shipping. The Company recorded impairment expense on inventory of it finished goods- hemp flowers of \$660,000 (see Note 4) during the six months ended June 30, 2020 and was included in cost of sales as reflected in the accompanying unaudited condensed consolidated statements of operations.

***Property and Equipment***

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired, or disposed of, the cost and accumulated depreciation are removed, and any resulting gains or losses are included in the unaudited condensed consolidated statement of operations.

***Impairment of long-lived assets***

In accordance with ASC Topic 360, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset’s estimated fair value and its book value. The Company recorded impairment expense of \$57,871 related to leasehold improvement cost (see Note 5) and impairment of security deposit related to the termination of a commercial lease agreement (see Note 7).

**EXACTUS, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

***Derivatives and Hedging- Contracts in Entity's Own Equity***

In accordance with the provisions of ASC 815 "Derivatives and Hedging" the embedded conversion features in the convertible notes (see Note 9) are not considered to be indexed to the Company's stock. As a result, these are required to be accounted for as derivative financial liabilities and have been recognized as liabilities on the accompanying consolidated balance sheets. The fair value of the derivative financial liabilities is determined using a binomial model with Monte Carlo simulation and is affected by changes in inputs to that model including the Company's stock price, expected stock price volatility, the expected term, and the risk-free interest rate. The derivative financial liabilities are subject to re-measurement at each balance sheet date and any changes in fair value is recognized as a component in other income (expenses).

***Revenue Recognition***

On January 1, 2018, the Company adopted ASC Topic 606 and the related amendments, Revenue from Contracts with Customers, which requires revenue to be recognized in a manner that depicts the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company recognizes revenue by applying the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company's performance obligations are satisfied at the point in time when products are shipped or delivered to the customer, which is when the customer has title and the significant risks and rewards of ownership. Therefore, the Company's contracts have a single performance obligation (shipment of product). The Company primarily receives fixed consideration for sales of product. Payments received from customers that are related to unshipped or undelivered products are recorded as unearned revenue until the shipment of product.

***Cost of Sales***

The primary components of cost of sales include the cost of the product, and, indirect cost such as utilities, farm lease expenses, and depreciation expenses on farming equipment related to production and harvesting period.

***Research and Development Expenses***

The Company follows ASC 730-10, "Research and Development," and expenses 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. Indirect costs are allocated based on percentage usage related to the research and development. Research and development costs of \$0 and \$26,975 were incurred for the six months ended June 30, 2020 and 2019, respectively, and \$0 and \$11,975 were incurred for the three months ended June 30, 2020 and 2019, respectively, which are included in operating expenses on the accompanying unaudited condensed consolidated statements of operations.

***Advertising Costs***

The Company applies ASC 720 "Other Expenses" to account for advertising related costs. Pursuant to ASC 720-35-25-1, the Company expenses the advertising costs the first time the advertising takes place. Advertising costs were \$61,133 and \$238,154 for the six months ended June 30, 2020 and 2019, respectively, and \$4,083 and \$187,623 for the three months ended June 30, 2020 and 2019, respectively, which are included in selling and marketing expenses on the accompanying unaudited condensed consolidated statement of operations.

***Shipping and Handling Costs***

The Company accounts for shipping and handling fees in accordance with ASC 606. The amounts charged to customers for shipping products are recognized as revenues and the related costs of shipping products are classified in selling and marketing expenses as incurred. Shipping costs included in selling and marketing expenses were \$20,152 and \$1,959 for the six months ended June 30, 2020 and 2019, respectively, and \$3,564 and \$1,411 for the three months ended June 30, 2020 and 2019, respectively.



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**Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation. The reclassified amounts have no impact on the Company's previously reported financial position or results of operations.

**Stock-Based Compensation**

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718 which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Through March 31, 2018, pursuant to ASC 505-50 - Equity-Based Payments to Non-Employees, all share-based payments to non-employees, including grants of stock options, were recognized in the consolidated financial statements as compensation expense over the service period of the consulting arrangement or until performance conditions are expected to be met. Using a Black Scholes valuation model, the Company periodically reassessed the fair value of non-employee options until service conditions are met, which generally aligns with the vesting period of the options, and the Company adjusts the expense recognized in the consolidated financial statements accordingly. In June 2018, the FASB issued ASU No. 2018-07, Improvements to Nonemployee Share-Based Payment Accounting, which simplifies several aspects of the accounting for nonemployee share-based payment transactions by expanding the scope of the stock-based compensation guidance in ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. ASU No. 2018-07 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted, but entities may not adopt prior to adopting the new revenue recognition guidance in ASC 606. The Company adoption did not have any material impact on its consolidated financial statements.

The expense is recognized over the vesting period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company records compensation expense based on the fair value of the award at the reporting date. The awards to consultants and other third-parties are then revalued, or the total compensation is recalculated, based on the then current fair value, at each subsequent reporting date.

**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. For the six months ended June 30, 2020 and 2019, the following potentially dilutive shares were excluded from the computation of diluted earnings per shares because their impact was anti-dilutive:

|  | <b>2020</b>        | <b>2019</b>        |
|--|--------------------|--------------------|
|  | <b>(Unaudited)</b> | <b>(Unaudited)</b> |
| Stock Options                              | 4,781,697          | 5,684,375          |
| Stock Warrants                             | 2,014,299          | 1,154,500          |
| Restricted stock to be issued upon vesting | 6,461,536          | -                  |
| Convertible Preferred Stock                | 9,460,845          | 5,542,212          |
| Convertible Debt                           | 8,143,768          | 250,000            |
| Total                                      | 30,862,145         | 12,631,087         |

**EXACTUS, INC. AND SUBSIDIARIES**  
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***Income Taxes***

The Company accounts for income taxes pursuant to the provision of ASC 740-10, "Accounting for Income Taxes" ("ASC 740-10"), which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach require the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

The Company follows the provision of ASC 740-10 related to Accounting for Uncertain Income Tax Positions. When tax returns are filed, there may be uncertainty about the merits of positions taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions.

Tax positions that meet the more likely than not recognition threshold are measured at the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefit associated with tax positions taken that exceed the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company believes its tax positions are all more likely than not to be upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

The Company has adopted ASC 740-10-25, "Definition of Settlement", which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits and provides that a tax position can be effectively settled upon the completion and examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. The federal and state income tax returns of the Company are subject to examination by the IRS and state taxing authorities, generally for three years after they are filed.

***Non-controlling interests in consolidated financial statements***

In December 2007, the FASB issued ASC 810-10-65, "Non-controlling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). This ASC clarifies that a non-controlling (minority) interest in subsidiaries is an ownership interest in the entity that should be reported as equity in the consolidated financial statements. It also requires consolidated net income to include the amounts attributable to both the parent and non-controlling interest, with disclosure on the face of the consolidated income statement of the amounts attributed to the parent and to the non-controlling interest. In accordance with ASC 810-10-45-21, those losses attributable to the parent and the non-controlling interest in subsidiaries may exceed their interests in the subsidiary's equity. The excess and any further losses attributable to the parent and the non-controlling interest shall be attributed to those interests even if that attribution results in a deficit non-controlling interest balance. On March 11, 2019, the Company acquired a 50.1% limited liability membership interest in EOW, pursuant to a Subscription Agreement and a Membership Interest Purchase Agreement (see Note 3) and has the right to appoint a manager of the limited liability company. Additionally, on July 5, 2019, the Company acquired a 51% limited liability membership interest in Paradise Medlife (see Note 3).

***Gain (Loss) on Modification/Extinguishment of Debt***

In accordance with ASC 470, "Gain (Loss) on Modification/Extinguishment of Debt", a modification or an exchange of debt instruments that adds or eliminates a conversion option that was substantive at the date of the modification or exchange is considered a substantive change and is measured and accounted for as extinguishment of the original instrument along with the recognition of a gain or loss. Additionally, under ASC 470, a substantive modification of a debt instrument is deemed to have been accomplished with debt instruments that are substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument. A substantive modification is accounted for as an extinguishment of the original instrument along with the recognition of a gain/loss.

**EXACTUS, INC. AND SUBSIDIARIES**  
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***Leases***

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, *Leases* (Topic 842). The updated guidance requires lessees to recognize lease assets and lease liabilities for most operating leases. In addition, the updated guidance requires that lessors separate lease and non-lease components in a contract in accordance with the new revenue guidance in ASC 606. The updated guidance is effective for interim and annual periods beginning after December 15, 2018.

On January 1, 2019, the Company adopted ASU No. 2016-02, applying the package of practical expedients to leases that commenced before the effective date whereby the Company elected to not reassess the following: (i) whether any expired or existing contracts contain leases and; (ii) initial direct costs for any existing leases. For contracts entered into on or after the effective date, at the inception of a contract the Company assessed whether the contract is, or contains, a lease. The Company’s assessment is based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether we obtain the right to substantially all the economic benefit from the use of the asset throughout the period, and (3) whether it has the right to direct the use of the asset. The Company will allocate the consideration in the contract to each lease component based on its relative stand-alone price to determine the lease payments.

Operating lease ROU assets represents the right to use the leased asset for the lease term and operating lease liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date. As most leases do not provide an implicit rate, the Company use an incremental borrowing rate based on the information available at the adoption date in determining the present value of future payments. Lease expense for minimum lease payments is amortized on a straight-line basis over the lease term and is included in general and administrative expenses in the consolidated statements of operations.

***Recent Accounting Pronouncements***

In January 2017, the FASB issued Accounting Standards Update 2017-04, “Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment” (ASU 2017-04). The standard simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the amendments of ASU 2017-04, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value, but the loss cannot exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 is effective for the calendar year ending December 31, 2020. The amendments require a prospective approach to adoption and early adoption is permitted for interim or annual goodwill impairment tests. The adoption of this guidance had no impact on the Company’s unaudited condensed consolidated financial statements.

The Company has 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.

***Recent Accounting Updates Not Yet Effective***

In December 2019, the FASB issued ASU 2019-12, “Simplifying the Accounting for Income Taxes.” This guidance, among other provisions, eliminates certain exceptions to existing guidance related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. This guidance also requires an entity to reflect the effect of an enacted change in tax laws or rates in its effective income tax rate in the first interim period that includes the enactment date of the new legislation, aligning the timing of recognition of the effects from enacted tax law changes on the effective income tax rate with the effects on deferred income tax assets and liabilities. Under existing guidance, an entity recognizes the effects of the enacted tax law change on the effective income tax rate in the period that includes the effective date of the tax law. ASU 2019-12 is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this guidance.

**NOTE 3 – ACQUISITION OF ASSETS AND OWNERSHIP**

***Exactus One World***

On March 11, 2019, the Company acquired a 50.1% limited liability membership interest in Exactus One World, LLC (“EOW”), an Oregon limited liability company, formed on January 25, 2019 which since inception, had no operations.

**EXACTUS, INC. AND SUBSIDIARIES**  
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The Company acquired 50.1% limited liability membership interest pursuant to a Subscription Agreement (the “Subscription Agreement”) and a Membership Interest Purchase Agreement (the “Purchase Agreement”). Under the terms of the Subscription Agreement, the Company acquired a 30% interest in EOW, and an additional 20.1% was acquired from existing members pursuant to the terms of the Purchase Agreement. The existing members are considered third parties. The Company has the right to appoint a Manager of the limited liability company and has appointed its President. Under the Operating Agreement for EOW, as amended, the Company has the right to appoint, and remove and replace, if desired, one of three managers of EOW, with each manager having the full rights to control the business and affairs of EOW. The Company appointed its Interim Chief Executive Officer, Emiliano Aloï, as its Manager of EOW.

Under the term of the Subscription Agreement, the Company acquired 30% of membership interest in EOW in consideration for cash of \$2,700,000 were payable as follows:

- \$400,000 paid previously for purchase of Hemp Seeds;
- \$100,000 upon execution of the LLC Operating Agreement;
- \$500,000 on or before April 1, 2019;
- \$500,000 on or before May 1, 2019;
- \$300,000 on or before August 1, 2019;
- \$450,000 on or before September 1, 2019 and,
- \$450,000 on or before October 1, 2019

The acquisition of the 30% membership interest is deemed to be an investment in and capital contribution to EOW and shall be eliminated upon consolidation. The Company fully paid the \$2,700,000 purchase price during fiscal 2019.

Under the term of the Purchase Agreement, the Company acquired 20.1% of EOW from existing members for aggregate consideration of \$2,940,000 consisting of total cash payments of \$1,500,000, 937,500 shares of the Company’s Common Stock, and \$450,000 worth of shares of Common Stock on June 14, 2019. Pursuant to the terms of the Purchase Agreement, the Company issued 937,500 shares of its Common Stock valued at \$990,000, or \$1.056 per share, the fair value of the Company’s Common Stock based on the quoted trading price on the date of the Purchase Agreement. No goodwill was recorded since the Purchase Agreement was accounted for as an asset purchase.

During fiscal 2019, the Company fully paid the consideration and was paid to the sellers as follows:

- \$300,000 cash and 937,500 shares of the Company’s Common Stock to the sellers upon execution, which was paid during the year ended December 31, 2019;
- \$700,000 on April 20, 2019 which was paid on April 18, 2019;
- On June 10, 2019, the Company was required to issue and issued the sellers an additional \$450,000 of shares of Common Stock of the Company based upon the 20 day volume weighted average price per share on the date of issue which was equivalent to \$0.89 per share or 503,298 shares of the Company’s Common Stock and was issued in August 2019; and
- \$500,000 on September 1, 2019 which was fully paid by November 2019.

Pursuant to ASU 2017-01 and ASC 805, the Company analyzed the operations of EOW and the related agreements to determine if the Company acquired a business or acquired assets. Based on this analysis, it was determined that the Company acquired assets, primarily consisting of the value of two farm leases for approximately 200 acres of farmland in southwest Oregon for growing and processing industrial hemp, with lease terms of one year, and a license to operate such farms. The leases are renewable on a year-to-year basis at the option of the Company. Accordingly, the transaction was not considered a business.

The relative fair value of the assets acquired were based on management’s estimates of the fair values on March 11, 2019. Based upon the purchase price allocation, the following table summarizes the estimated relative fair value of the assets acquired at the date of acquisition:

|  |                            |
|--|----------------------------|
| Intangible asset – Hemp farming license    | \$ 10,000                  |
| Intangible assets – farm leases            | 2,930,000                  |
| <b>Total assets acquired at fair value</b> | <b><u>2,940,000</u></b>    |
| Total purchase consideration               | <b><u>\$ 2,940,000</u></b> |

Additionally, the Company recorded the acquisition of 50.1% of membership interest in EOW under the FASB issued ASC 810-10-65, “Non-controlling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51” (“SFAS No. 160”). As of June 30, 2020, the Company recorded a non-controlling interest balance of \$(847,912) in connection with the majority-owned subsidiary, EOW as reflected in the accompanying unaudited condensed consolidated balance sheet and losses attributable to non-controlling interest of \$310,443 and \$187,948 during the six months ended June 30, 2020 and 2019, respectively, and \$154,624 and \$152,344 during the three months ended June 30, 2020 and 2019, respectively, as reflected in the accompanying unaudited condensed consolidated statements of operations.

**EXACTUS, INC. AND SUBSIDIARIES**  
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***Paradise Medlife, LLC***

On July 5, 2019, the Company entered into an Operating Agreement (the “Operating Agreement”) with Paradise Medlife, LLC (“Paradise Medlife”) and Paradise CBD, LLC. Paradise Medlife is a Florida Limited Liability Company, organized on April 12, 2019 with no operations since inception. The Company shall contribute capital of \$50,000 in the form of CBD products in exchange for 51% ownership of Paradise Medlife. Consequently, Paradise Medlife became a majority owned subsidiary of the Company. To date, Paradise Medlife has no operations. At June 30, 2020, the Company has not yet contributed the capital of \$50,000. The Company anticipates that it will contribute the capital in the form of CBD products during fiscal 2020.

***Green Goddess Extracts, LLC***

On July 31, 2019 the Company entered into an Asset Purchase Agreement (the “Green Goddess Purchase Agreement”) with Green Goddess Extracts, LLC (“Green Goddess”), a Florida contract manufacturer and formulator of hemp and vape products. Under the Green Goddess Purchase Agreement, the Company acquired the assets of Green Goddess consisting principally of its right and interest in the Green Goddess brand, inventory, customer list, intellectual property including IP addresses and trademarks, and entered into an option to acquire the seller’s vape assets, and entered into an employment agreement with the founder (the “Founder”) of Green Goddess. Green Goddess manufactures and distributes a premium line of hemp-derived products sold through distributors and online. Green Goddess has been a contract manufacturer for C2M and the Company.

Under the terms of the Green Goddess Purchase Agreement the Company agreed to issue 250,000 shares of the Company’s Common Stock and pay \$250,000 cash for the acquisition to be paid in six installments. The first installment of \$41,667 shall be due within 90 days of the closing and the five additional installments shall be paid starting on October 12, 2019 and continuing on the first day of each following month. At June 30, 2020 and December 31, 2019, the Company has an outstanding balance of \$250,000 to the seller which is included in subscription payable as reflected on the consolidated balance sheets. The Company is currently in default under the Asset Purchase Agreement. However, there are no penalty interest or charges from the default pursuant to the Asset Purchase Agreement.

The shares vest 1/24 on the closing date and an additional 1/24 vests on the first day of each month thereafter provided that the Company and the Executive under the Employment Agreement discussed below are neither in breach of this Green Goddess Purchase Agreement or the Employment Agreement. In addition, the Company entered into an agreement under which the Company may become obligated to issue up to an additional \$250,000 of Common Stock (the “Additional Stock Consideration”) based upon the volume weighted average price per share (“VWAP”) for the 20 days prior to issuance, in the event that sales of products utilizing seller’s flavored products exceed \$500,000 monthly for a three month average period. The Additional Stock Consideration shall vest 1/24 on the signature or execution date of this Green Goddess Purchase Agreement and an additional 1/24 vests on the first day of each month thereafter provided that the Company and the Executive under the Employment Agreement discussed below are neither in breach of this Green Goddess Purchase Agreement or the Employment Agreement.

Additionally, on July 1, 2019, the Company entered into an Executive Employment Agreement (the “Employment Agreement”) with Alejandro De La Espriella (the “Executive”) who is the managing member of Green Goddess Extracts, LLC. The term of the Employment Agreement shall be for two years and shall be automatically renewed for successive one-year periods unless either party provides a written notice of non-renewal. The Company agrees to pay the Executive an initial base salary of \$120,000 per year subject to annual adjustments determined by the board of directors of the Company and such Executive shall also be eligible for annual bonus, performance bonus and equity awards as defined in the Employment Agreement.

Pursuant to ASU 2017-01 and ASC 805, the Company analyzed the operations of Green Goddess and the related agreements to determine if the Company acquired a business or acquired assets. The gross assets include the intellectual property (the related trademark, brand, and IP addresses are determined to be a single intangible asset), the inventory, customer list, non-compete/non-solicitation and the excess of the consideration transferred over the fair value of the net assets acquired. The Company concluded that substantially all of the fair values of the gross assets acquired is not concentrated in a single identifiable asset or group of similar identifiable assets.

The set has outputs through the continuation of revenues, and the Company considered the criteria in paragraph 805-10-55-5E to determine whether the set includes both inputs and a substantive process that together significantly contribute to the ability to create outputs. The set is not a business because: 1) It does not include an organized workforce that could meet the criteria in paragraph 805-10-55-5E (a) through (b), 2) There are no acquired processes that could meet the criteria in paragraph 805-10-55-5E(c) through (d), and 3) It does not include both an input and a substantive process. Accordingly, the transaction was not considered a business.

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Additionally, in accordance with ASC 805-10, the 250,000 shares of common stock and the Additional Stock Consideration are tied to continued employment of the Company and as such are recognized as compensation expenses in the post combination period under Share-Based Payment Topic of ASC 718 which requires recognition in the financial statements of the cost of employee and services received in exchange for an award of equity instruments over the period the employee is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and services received in exchange for an award based on the grant-date fair value of the award.

The relative fair value of the assets acquired were based on management's estimates of the fair values on July 31, 2019. Based upon the purchase price allocation, the following table summarizes the estimated relative fair value of the assets acquired at the date of acquisition:

|                                     |                   |
|-------------------------------------|-------------------|
| Intangible asset – trademark        | \$ 3,500          |
| Intangible assets – customer list   | 212,529           |
| Inventory                           | 33,971            |
| Total assets acquired at fair value | <u>250,000</u>    |
| Total purchase consideration        | <u>\$ 250,000</u> |

During fiscal year 2019 the Company fully impaired the assets and resulted in an impairment loss of \$186,025 related to the Green Goddess intangible asset.

The Company, Green Goddess and the founder of Green Goddess have each asserted various claims against the other for breach of contract although no proceedings have been commenced. Currently, the Company has suspended efforts to market and sell CBD products under the Green Goddess brand and Green Goddess has suspended delivery of the Company's inventory due to the disputes which involve, among other things, the amounts that were due and owing Green Goddess from C2M for orders placed prior to the asset purchase, the nature and going concern value of the assets purchased by the Company and representations concerning the operation of the business and performance by the founder under the employment agreement. There can be no assurance the parties will resolve their differences or that the prior agreements will not be terminated. The CBD products with a cost of \$837,153 held in inventory had been written down to a value of \$0 due to the age and questionable salability of the product. During fiscal 2019, the Company fully impaired the finished goods related to CBD products and resulted in an impairment loss of \$837,153.

#### ***Levor, LLC***

On September 30, 2019 the Company entered into an Asset Purchase Agreement (the "Levor Purchase Agreement") with Levor, LLC ("Levor") and the sole owner and manager of Levor (the "Seller"). Under the Levor Purchase Agreement, the Company acquired the asset of Levor consisting principally of its rights and interest in the cosmetic brand collection, "Levor Collection", which is an all-virtual brand that offers cannabinoid-infused cosmetic products. Under the terms of the Levor Purchase Agreement, the Company agreed to issue 100,000 shares of the Company's Common Stock at closing. In addition, the Company entered into an agreement under which the Company may become obligated to issue additional shares of the Company's common stock to be earned and payable to the Seller on the 12-month anniversary of the closing date which value is equivalent to 35% of the total annual net revenue of the Levor brand divided by the then closing bid price of the common stock on the 12-month anniversary (the Earn-out Consideration"). The Seller of Levor has been an employee of the Company since July 24, 2019.

Pursuant to ASU 2017-01 and ASC 805, the Company analyzed the operations of Levor and the related agreements to determine if the Company acquired a business or acquired assets. Based on this analysis, it was determined that the Company acquired assets, primarily consisting of its rights and interest in the cosmetic brand collection, "Levor Collection". The Company concluded that substantially all of the fair values of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. Accordingly, the transaction was not considered a business.

Pursuant to the terms of the Levor Purchase Agreement, the Company granted 100,000 shares of its Common Stock valued at \$70,000, or \$0.70 per share, the fair value of the Company's Common Stock based on the sale of common stock in the recent private placement.

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Additionally, in accordance with ASC 805-10, the Earn-out Consideration is deemed as contingent payment to an employee and the Company determined that the arrangement is compensatory in nature and as such are recognized as compensation expenses in the post combination period under Share-Based Payment Topic of ASC 718 which requires recognition in the financial statements of the cost of employee and services received in exchange for an award of equity instruments over the period the employee is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and services received in exchange for an award based on the grant-date fair value of the award.

The relative fair value of the assets acquired were based on management's estimates of the fair values on September 30, 2019. Based upon the purchase price allocation, the following table summarizes the estimated relative fair value of the assets acquired at the date of acquisition:

|                                     |                  |
|-------------------------------------|------------------|
| Intangible asset – Brand            | \$ 70,000        |
| Total assets acquired at fair value | <u>70,000</u>    |
| Total purchase consideration        | <u>\$ 70,000</u> |

During fiscal 2019 the Company fully impaired the remaining carrying value and recorded an impairment expense of \$64,167 related to the Levor intangible asset.

**NOTE 4 – INVENTORY**

Inventory, net consisted of the following:

|   | <u>June 30, 2020</u><br><u>(Unaudited)</u> | <u>December 31,</u><br><u>2019</u> |
|---|--|------------------------------------|
| Finished goods – CBD products                   | \$ -                                       | \$ -                               |
| Finished goods – hemp flowers and hemp cuttings | <u>340,528</u>                             | <u>1,337,809</u>                   |
|   | <u>\$ 340,528</u>                          | <u>\$ 1,337,809</u>                |

During the three and six months ended June 30, 2020, the Company recorded a reserve or inventory write-off related to damaged inventory of \$106,560 and \$660,000, respectively, due to mold and is included in cost of sales as reflected in the accompanying unaudited condensed consolidated statements of operations.

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**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

|                                | <u>Estimated life</u> | <u>As of<br/>June 30, 2020<br/>(Unaudited)</u> | <u>As of<br/>December 31, 2019</u> |
|--------------------------------|-----------------------|--|------------------------------------|
| Greenhouse                     | 10 years              | \$ 34,465                                      | \$ 34,465                          |
| Fencing and storage            | 5 years               | 44,543   | 44,543                             |
| Irrigation                     | 5 years               | 387,975  | 387,975                            |
| Office and computer equipment  | 3 years               | 40,834   | 40,834                             |
| Farming Equipment              | 5 years               | 11,500   | 11,500                             |
| Leasehold improvement          | 5 years               | 21,886   | 21,886                             |
| Total                          |                       | <u>541,203</u>                                 | <u>541,203</u>                     |
| Less: Accumulated depreciation |                       | (117,557)                                      | (63,770)                           |
| Less: Impairment expense       |                       | (17,871)                                       | -                                  |
|                                |                       | <u>\$ 405,775</u>                              | <u>\$ 477,433</u>                  |

Depreciation expense amounted to \$53,787 and \$11,851 for the six months ended June 30, 2020 and 2019, respectively and \$27,060 and \$11,851 for the three months ended June 30, 2020 and 2019, respectively. During the six months ended June 30, 2020, the Company recorded impairment expense of \$17,871 which was equivalent to the remaining net book value of leasehold improvement related to a commercial lease with Skybar Holding, LLC. During the second quarter of fiscal 2020, the Company has determined that the commercial lease is unenforceable and should not have been accounted for under ASC 842 (see Note 14).



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**NOTE 6 – INTANGIBLE ASSET**

At June 30, 2020 and December 31, 2019, intangible asset consisted of the following:

|                                | Useful life | June 30, 2020<br>(Unaudited) | December 31,<br>2019 |
|--------------------------------|-------------|------------------------------|----------------------|
| Farm leases - EOW              | 3 year      | \$ 2,930,000                 | \$ 2,930,000         |
| Hemp operating license - EOW   | 1 year      | 10,000                       | 10,000               |
| Trademark – Green Goddess      | 3 year      | -                            | 3,500                |
| Customer list – Green Goddess  | 3 year      | -                            | 212,529              |
| Brand - Levor                  | 3 year      | -                            | 70,000               |
| Total                          |             | 2,940,000                    | 3,226,029            |
| Less: Accumulated amortization |             | (1,283,106)                  | (828,526)            |
| Less: Impairment expense       |             | -                            | (250,192)            |
|                                |             | <u>\$ 1,656,894</u>          | <u>\$ 2,147,311</u>  |

For the six months ended June 30, 2020, amortization of intangible assets amounted to \$490,417 and \$299,355, respectively. For the three months ended June 30, 2020, amortization of intangible assets amounted to \$244,167 and \$246,667, respectively. During fiscal 2019, the Company fully impaired the intangible assets related to the Green Goddess and Levor brands. As of June 30, 2020, the Company offset fully amortized intangible assets of \$35,937 against accumulated amortization.

Amortization of intangible assets attributable to future periods is as follows:

| Year ending December 31: | Amount              |
|--------------------------|---------------------|
| 2020 (remainder)         | \$ 488,333          |
| 2021                     | 976,667             |
| 2022                     | 191,894             |
|                          | <u>\$ 1,656,894</u> |

**NOTE 7 - OPERATING LEASE RIGHT-OF-USE ASSETS AND OPERATING LEASE LIABILITIES**

On March 1, 2019, the Company, through its majority-owned subsidiary, EOW, entered into a farm lease agreement for a lease term of one year. The lease premise is located in Cave Junction, Oregon and consists of approximately 100 acres. The lease requires the Company to pay 5% of the net income realized by the Company from the operation of the lease farm. Accordingly, the Company recognized \$0 Right-of-use asset (“ROU”) and lease liabilities on this farm lease as the Company has not determined when it will generate net income from this lease. The lease shall continue in effect from year to year except for at least a 30-day written notice of termination. The Company has not paid any lease payments under this agreement for the six months ended June 30, 2020 and for fiscal 2019. EOW is in the process of arranging a sub-lease agreement with the affiliated company.

On March 1, 2019, the Company, through its majority-owned subsidiary, EOW, entered into a farm lease agreement for a lease term of one year. The lease premise is located in Grants Pass, Oregon and consists of approximately 100 acres. The lease requires the Company to pay \$120,000 per year, whereby \$50,000 was payable upon execution and \$70,000 shall be payable prior to planting for agricultural use or related purposes. The lease shall continue in effect from year to year except for at least a 30-day written notice of termination. EOW is in the process of arranging a sub-lease agreement with the affiliated company.

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On April 30, 2019, the Company, through its majority-owned subsidiary, EOW, entered into a farm lease agreement for a lease term of one year. The lease premise is located in Cave Junction, Oregon and consists of approximately 38 acres. The lease requires the Company to pay \$76,000 per year, whereby \$38,000 was payable upon execution and \$38,000 shall be payable on September 15, 2019 and 2% of the net income realized by the Company from the operation of the leased farm. The lease shall continue in effect from year to year for five years except for at least a 30-day written notice of termination. The Company has paid the initial payment of \$26,000 and the remaining \$12,000 was paid directly to the landlord by an affiliated company who is renting the portion of the lease property from the Company. The affiliated company is owned by two managing members of EOW. EOW is in the process of arranging a sub-lease agreement with the affiliated company.

On July 9, 2019, the Company entered into a Commercial Lease Agreement (the “Lease”) with Skybar Holdings, LLC, a Florida limited liability company. Pursuant to the Lease, the Company will rent the entire first floor (consisting of approximately 4,000 square feet) of a property located in Delray Beach, Florida (the “Premises”). The Company plans to develop the Premises to create a hemp-oriented health and wellness retail venue, including education, clothing and cosmetics, and explore franchise opportunities. The initial term of the Lease is 5 years commencing August 1, 2019, with two 5-year extension options. The Lease includes a right of first refusal in favor of the Company to lease any space that becomes available on the 2nd and 3rd floor of the Premises and a right of first refusal to purchase the Premises. Pursuant to the Lease, the Company will pay rent equal to \$40,000 per month in advance in addition to all applicable Florida sales and/or federal taxes and security deposit of \$40,000. Effective one year from the lease commencement date and each year thereafter, the rent shall increase at least three percent (3%) per year. The lessor of the Premises is a limited liability company owned or controlled by Vladislav (Bobby) Yampolsky, the manager and controlling member of C2M, the Company’s largest stockholder. During the second quarter of fiscal 2020, the Company has determined that the commercial lease with Skybar Holding, LLC is not in compliance with current laws or regulations in the City of Delray Beach and does not represent an enforceable contract and was void from the moment of execution. As a result, the Company has restated its prior year financial information to correct this accounting error (see Note 14). Additionally, on August 6, 2020, the Company submitted a written termination letter to Skybar Holdings, LLC. During the six months ended June 30, 2020, the Company fully impaired the security deposit of \$40,000.

In adopting ASC Topic 842, Leases (Topic 842), the Company has elected the ‘package of practical expedients’, which permit it not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. In addition, the Company elected not to apply ASC Topic 842 to arrangements with lease terms of 12 month or less. The Company is reasonably certain that it will exercise its option to extend the three farm leases for a period of three years and the Company used 5 years lease term for the commercial lease.

The Company adopted ASC Topic 842 on January 1, 2019. Between March 2019 and April 2019, which are the execution dates of various lease agreements, the Company recorded right-of-use assets totaling \$506,506 and total lease liabilities of \$506,506 based on an incremental borrowing rate of 10%. The Company recorded lease expense of \$86,200 and \$52,667 for the six months ended June 30, 2020 and 2019, respectively, and \$46,640 and \$42,667 for the three months ended June 30, 2020 and 2019, respectively. During the three and six months ended June 30, 2020, lease expenses of \$0 was included in cost of sales. During the three and six months ended June 30, 2020, \$46,640 and \$86,200 was included in general and administrative expenses as reflected in the accompanying unaudited condensed consolidated statements of operations.

The cash outflows from operating leases for the six months ended June 30, 2020 was \$98,004. The weighted average remaining lease term and the incremental borrowing rate for operating leases at June 30, 2020 were 2.32 years and 10%, respectively.

Right of Use (“ROU”) Asset is summarized below:

|                                | <b>As of<br/>June 30, 2020</b> | <b>As of<br/>December 31,<br/>2019</b> |
|--------------------------------|--------------------------------|--|
|                                | <b>(Unaudited)</b>             | <b>(As Restated-<br/>see Note 14)</b>  |
| Farm lease, ROU Asset          | \$ 506,506                     | \$ 506,506                             |
| Less: Accumulated amortization | (195,812)                      | (115,696)                              |
| Balance of ROU asset           | <u>\$ 310,694</u>              | <u>\$ 390,810</u>                      |

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Operating lease liability related to the ROU asset is summarized below:

|   | <b>As of<br/>June 30, 2020</b> | <b>As of<br/>December 31,<br/>2019</b> |
|---|--------------------------------|--|
|   | <b>(Unaudited)</b>             | <b>(As Restated-<br/>see Note 14)</b>  |
| Farm lease                                  | \$ 506,506                     | \$ 506,506                             |
| Reduction of lease liability                | (195,811)                      | (115,695)                              |
| <b>Total</b>                                | <b>310,695</b>                 | <b>390,811</b>                         |
| Less: current portion                       | (178,541)                      | (169,869)                              |
| <b>Long term portion of lease liability</b> | <b>\$ 132,154</b>              | <b>\$ 220,942</b>                      |

Minimum lease payments under non-cancelable operating lease at June 30, 2020 are as follows:

|   |                   |
|---|-------------------|
| Year ended December 31, 2020  | \$ 196,000        |
| Year ended December 31, 2021  | 196,000           |
| Year ended December 31, 2022  | 45,336            |
| <b>Total</b>  | <b>437,336</b>    |
| Less: undiscounted payments during the six months ended June 30, 2020           | (98,004)          |
| <b>Total undiscounted future minimum lease payments due as of June 30, 2020</b> | <b>339,332</b>    |
| Imputed interest  | (28,637)          |
| <b>Total operating lease liability</b>  | <b>\$ 310,695</b> |

**NOTE 8 - NOTES PAYABLE**

*Notes Payable*

Notes payable to unrelated parties is summarized below:

|  | <b>As of<br/>June 30, 2020</b> | <b>As of<br/>December 31,<br/>2019</b> |
|--|--------------------------------|--|
|  | <b>(Unaudited)</b>             |  |
| Principal amount                         | \$ 335,510                     | \$ -                                   |
| Less: current portion                    | (90,755)                       | -                                      |
| <b>Notes payable - long term portion</b> | <b>\$ 244,755</b>              | <b>\$ -</b>                            |

Minimum principal payments under notes payable to unrelated parties at June 30, 2020 are as follows:

|   |                   |
|---|-------------------|
| Year ended December 31, 2020                | \$ 11,859         |
| Year ended December 31, 2021                | 155,501           |
| Year ended December 31, 2022                | 68,392            |
| Year ended December 31, 2023                | 2,091             |
| Year ended December 31, 2024 and thereafter | 97,667            |
| <b>Total principal payments</b>             | <b>\$ 335,510</b> |

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*U.S. Small Business Administration Loan*

On May 28, 2020, the Company received a Secured Disaster Loan in the amount of \$99,100 from the U.S. Small Business Administration. The loan carries interest at a rate of 3.75% per year, requires monthly payments of principal and interest, and matures in thirty (30) years. Installment payments, including principal and interest, of \$483 monthly, will begin Twelve (12) months from the date of the promissory Note. The SBA loan is secured by a security interest in our tangible and intangible assets. The loan proceeds are to be used as working capital to alleviate economic injury caused by the Covid-19 disaster occurring in the month of January 31, 2020 and continuing thereafter. As of June 30, 2020, the principal balance of this note amounted to \$99,100 and accrued interest of \$326. During the six months ended June 30, 2020, the Company recognized \$326 of interest expense.

*Paycheck Protection Program Funding*

On May 22, 2020, the Company received federal funding in the amount of \$236,410 through the Paycheck Protection Program (the "PPP"). PPP funds have certain restrictions on use of the funding proceeds, and generally must be repaid within two (2) years at 1% interest. The PPP loan may, under circumstances, be forgiven. There shall be no payment due by the Company during the six months period beginning on the date of this note ("Deferral Period"). Commencing one month after the expiration of the Deferral Period, the Company shall pay the lender monthly payments of principal and interest, each in equal amount required to fully amortize by the maturity date. If a payment on this note is more than ten days late, the lender shall charge a late fee of up to 5% of the unpaid portion of the regularly scheduled payment. As of June 30, 2020, the principal balance of this note amounted to \$236,410 and accrued interest of \$253. During the six months ended June 30, 2020, the Company recognized \$253 of interest expense.

*Notes Payable – Related Parties*

During October 2019, the Company entered into two short-term promissory notes (the "Notes") for an aggregate principal amount of \$94,056 and gross cash proceeds of \$85,000 (original issue discount of \$9,056). A note with principal amount of \$55,556 was subscribed by Andrew Johnson, an officer of the Company. The Notes became due and payable between October 18, 2019 and December 16, 2019 and bear interest at a rate of twelve (12%) percent per annum prior to the maturity date, and eighteen (18%) per annum if unpaid following the maturity date. The Notes are unsecured obligations of the Company. In addition, the Notes carry a 10% original issue discount of \$9,056 which have been amortized and recorded in interest expense on the accompanying consolidated statements of operations. In December 2019, the Company repaid one of the notes with principal amount of \$38,500 and accrued interest of \$770. The Company is currently negotiating to extend the maturity date of the related party note. As of June 30, 2020, the principal balance of this note amounted \$55,556 and is currently in default.

During February 2020, the Company entered into a short-term promissory note for principal amount of \$22,461 and gross cash proceeds of \$20,419 (original issue discount of \$2,042) with a certain stockholder of the Company. The note became due and payable on March 8, 2020 and bears interest at a rate of eighteen (18%) percent per annum prior to the maturity date, and eighteen (18%) per annum if unpaid following the maturity date. The note is unsecured obligation of the Company. In addition, the note carries a 10% original issue discount of \$2,042 which have been amortized and recorded in interest expense on the accompanying unaudited condensed consolidated statements of operations. The Company is currently negotiating to extend the maturity date of the related party note. As of June 30, 2020, the principal balance of this note amounted to \$22,461 and is currently in default.

During the six months ended June 30, 2020 and 2019, the Company recognized \$5,495 and \$1,072, respectively, of interest expense. During the three months ended June 30, 2020 and 2019, the Company recognized \$3,256 and \$548, respectively, of interest expense. As of June 30, 2020 and December 31, 2019, the notes had accrued interest balances of \$6,195 and \$1,278, respectively. As of June 30, 2020 and December 31, 2019, the principal balance under the notes was \$78,017 and \$55,556, respectively.

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**NOTE 9 - CONVERTIBLE NOTES PAYABLE**

The Company's convertible notes, net of debt discount, consisted of the following as of June 30, 2020 and December 31, 2019:

|  | <b>June 30, 2020</b> | <b>December 31,</b> |
|--|----------------------|---------------------|
|  | <b>(Unaudited)</b>   | <b>2019</b>         |
| <p>Convertible Notes in the aggregate amount of \$100,000, issued on March 22, 2018. 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 \$0.40 per Share. The Notes offer 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 of the shares of Company's Common Stock into which the Notes are convertible. The Company shall send a written conversion notice to the lender pursuant to the note agreement during fiscal 2020 and as such the principal balance of the convertible note remains outstanding as of June 30, 2020 and December 31, 2019. The Company reclassified the principal balance to current portion as of June 30, 2020.</p>  | \$ 100,000           | \$ 100,000          |
| <p>Convertible Note in the amount of \$833,333, issued on November 27, 2019. The Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with a single institutional investor (the "Purchaser"), pursuant to which the Company agreed to sell to Purchaser in a series of 3 closings up to \$1,944,444 in aggregate principal amount of the Company's senior secured convertible promissory notes (the "Notes") and warrants to purchase shares of the Company's Common Stock (the "Warrants"). On November 27, 2019 (the "Initial Closing Date"), the Company issued a Note in the principal amount of \$833,333, and a two-year Warrant to purchase 275,612 shares of Common Stock at an exercise price of \$0.756 per share (see Note 10). The Notes will be issued at a 10% original issue discount and bear an interest rate of 8%. The Notes mature one year after their issuance unless accelerated due to an event of default. The Notes are redeemable, in whole or in part, at any time at the discretion of the Company. At the Initial Closing Date, the Company received net proceeds, after the original issue discount and the Purchaser's counsel fees, of \$730,000. Each note is convertible at the option of the note holder at any time into shares of our common stock at the fixed conversion rate of \$0.50 per share. However, the conversion rate is subject to adjustment in the event of default, redemption and upon the occurrence of certain events affecting stockholders generally, such as stock splits and recapitalizations. The Company must pay amortization redemption payments equaling one-ninth of the original principal amount due on each note commencing 90 days after issuance and continuing during the following eight months (each an "Amortization Redemption"). The note holder may at its option accelerate up to six future amortization redemption payments, in which case the note holder may demand the accelerated amortization amounts be paid in shares of the Company's common stock at the lesser of i) the fixed conversion rate of \$0.50 per share of common stock, or (ii) the rate equal to 80% of the lowest volume weighted average price, or VWAP, during the 10 trading days immediately before the applicable date of the amortization redemption payment ("Amortization Conversion Rate"). Amortization redemption payment amount is equivalent to 110% of the sum of (i) one-ninth (1/9th) of the Original Principal Amount of this Note, (ii) 100% of all accrued and unpaid interest on the principal amount of this Note that is subject to such Amortization Redemption, (iii) 100% of the Make-Whole Amount payable in respect of the principal amount of this Note that is subject to such Amortization Redemption (as applicable), and (iv) all liquidated damages, costs of collection and other amounts payable in respect of this Note as of the applicable amortization redemption payment Date for such Amortization Redemption. If the Company fails to make a redemption payment, the note holder may demand the amortization amounts be paid in shares of the Company's common stock at the lesser of fixed conversion rate of \$0.50 per share of common stock or the Amortization Conversion Rate. In addition, in the event of a subsequent issuance of the Company's common stock or debt, the Company is subject to mandatory redemption provisions as defined in the note agreement. The Company may not issue shares of the Company's common stock to third parties at a price lower than the fixed conversion rate of \$0.50 per share of common stock without the consent of the note holder. At this time, the Company is delinquent in its payments under the initial convertible note, with the May 1, 2020, April 1, 2020, and a portion of the February 25, 2020 payments currently in arrears. The Company intends to make these payments and the upcoming monthly payments with receipts from product sales and/or the proceeds of additional equity funding. The Company paid original issuance cost of \$83,333, cash commission and loan fees of \$92,055, and recorded redemption premium of \$88,889 related to the amortization redemption payment in connection with this note payable and are being amortized over the term of the note. On the Initial Closing Date, certain FINRA broker-dealers who acted on behalf of the Company were paid aggregate cash commissions of approximately \$72,055 and were granted a four-year warrant to acquire an aggregate of 84,187 shares of Common Stock at an exercise price of \$0.792 per share of common stock at any time before the close of business four years after their issuance, subject to adjustment in the event of stock dividends, splits, fundamental transactions, or other changes in our capital structure.</p> | 475,979              | 85,906              |
| Carrying Amount of Convertible Debt, net of debt discount  | \$ 575,979           | \$ 185,906          |
| Less: Current Portion, net of debt discount  | (575,979)            | (85,906)            |
| Convertible Notes, Long Term   | \$ -                 | \$ 100,000          |

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The following is a summary of the carrying amounts of convertible notes as of June 30, 2020 and December 31, 2019:

|   | <b>June 30, 2020</b> | <b>December 31,</b> |
|---|----------------------|---------------------|
|   | <b>(Unaudited)</b>   | <b>2019</b>         |
| Principal Amount  | \$ 933,333           | \$ 933,333          |
| Add: amortization of redemption premium                                       | 63,902               | 8,280               |
| Less: principal payments and conversions                                      | (187,000)            | -                   |
| Less: unamortized debt discount and debt issuance costs                       | (234,256)            | (755,707)           |
| Total convertible debt less unamortized debt discount and debt issuance costs | <u>\$ 575,979</u>    | <u>\$ 185,906</u>   |

*Conversion of Notes*

On May 27, 2020, the Company issued 247,588 shares of its common stock at a contractual conversion price of \$0.13, as a result of the conversion of principal of \$30,000 and interest of \$2,400 of the convertible note.

On June 10, 2020, the Company issued 564,000 shares of its common stock at a contractual conversion price of \$0.09, as a result of the conversion of principal of \$47,000 and interest of \$3,760 of the convertible note.

*Notice of Delinquent Payment*

At this time, the Company is delinquent in its payments under the initial convertible note executed on November 27, 2019 (see Note 9), with the May 1, 2020 and April 1, 2020 payments currently in arrears. The Company intends to make these payments and the upcoming monthly payments with receipts from product sales and/or the proceeds of additional equity funding. On May 20, 2020, the Company entered into a Forbearance Agreement with the investor (the "Holder") regarding the initial convertible note. Under the Forbearance Agreement, the investor has agreed to forebear from exercising any default-related rights and remedies subject to the following conditions and material terms:

- The Company has paid the Holder \$60,000 in cash before July 1, 2020. Additional monthly payments required under the Amortization Schedule for the note shall continue to be due on or before the first day of each calendar month thereafter, commencing with the \$110,000 payment originally due April 1, 2020 now due on or before August 1, 2020, and the subsequent monthly payments listed on the Amortization Schedule to be paid monthly in the sequence listed. Interest shall continue to accrue on the principal balance of the Note at the rate(s) stated therein, with all additional accrued interest resulting from this extension of payment deadlines to be paid as part of the last monthly payment. The Company paid the \$110,000 on August 1, 2020.
- The payments that are in arrears from February, April and May can be paid in whole or in part at any time at the sole election of the Holder in shares of common stock at the Amortization Conversion Price (defined as 80% of the lowest volume weighted average price, or VWAP, during the 10 trading days immediately before the applicable date of the amortization redemption payment).
- Unless or until a default under the Forbearance Agreement occurs, the fixed conversion price under the note will remain \$0.50 per share, and the note shall continue to bear interest at the non-default rate of 8% per annum.
- Unless or until a default under the Forbearance Agreement occurs, the contractual limit on issuances of shares to issue shares of common stock or options to employees, officers, directors, consultants, advisors or contractors will be increased from 5% to 10% or our issued an outstanding common stock.
- The Company has issued the Holder 500,000 shares of the Company's common stock in consideration for the forbearance.

*Derivative Liabilities Pursuant to Securities Purchase Agreement*

In connection with the issuance of notes during fiscal 2019, on the initial measurement date of the notes, the fair values of the embedded conversion option of \$1,457,290 was recorded as derivative liabilities of which \$786,823 was charged to current period operations as initial derivative expense and \$670,467 was recorded as a debt discount which was amortized into interest expense over the term of the note.

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The Company recognized change in fair value of derivative liabilities of \$249,982 and \$356,468 during the three and six months ended June 30, 2020, respectively. Upon conversions during the six months ended June 30, 2020, the derivative liability was marked to fair value at the conversion, and then a related fair value amount of \$55,555 relating to the portion of debt converted was reclassified to other income as part of gain on debt extinguishment. Additionally, the Company recorded loss on debt extinguishment of \$16,413, in connection with the conversions (see Note 10) during the six months ended June 30, 2020 resulting in a net gain on extinguishment of debt of \$39,142 during the six months ended June 30, 2020, as reflected in the accompanying unaudited condensed consolidated statements of operations.

The Company recognized gain on extinguishment of debt due to repayment and conversions of notes into shares of common and preferred stock of \$3,007,629 and change in fair value of derivative liabilities of \$896,000 during the six months ended June 30, 2019. The Company determined that the conversion options embedded in the convertible notes 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, with certain notes 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. For the six months ended June 30, 2020 and 2019, the Company measured the fair value of the embedded derivatives using a binomial model and Monte Carlo simulations, and the following assumptions:

|                     | <b>June 30, 2020<br/>(Unaudited)</b> | <b>December 31,<br/>2019</b> |
|---------------------|--------------------------------------|------------------------------|
| Expected Volatility | 228.22 to<br>230.26%                 | 376.76% to<br>567.11%        |
| Expected Term       | 0.41 to 0.66<br>Years                | 0.25 to 1.0<br>Years         |
| Risk Free Rate      | 0.15% to 0.18%                       | 2.41% to 2.54%               |
| Dividend Rate       | 0.00%                                | 0.00%                        |

During the six months ended June 30, 2020 and 2019, the Company recognized \$34,431 and \$25,780, respectively, of interest expense. During the three months ended June 30, 2020 and 2019, the Company recognized \$16,555 and \$1,246, respectively, of interest expense. During the six months ended June 30, 2020 and 2019, the Company amortized debt discount of \$579,115 and \$339,806, respectively, of interest expense. During the three months ended June 30, 2020 and 2019, the Company amortized debt discount of \$312,807 and \$0, respectively, of interest expense.

As of June 30, 2020 and December 31, 2019, the notes had accrued interest balances of \$32,559 and \$15,399, respectively.

**NOTE 10 - STOCKHOLDERS' EQUITY (DEFICIT)**

On January 11, 2019, the Board of Directors of the Company approved a reverse stock split of the Company's Common Stock at a ratio of 1-for-8 (the "Reverse Stock Split") including shares issuable upon conversion of the Company's outstanding convertible securities. All share and per share values of the Company's Common Stock for all periods presented in the accompanying consolidated financial statements are retroactively restated for the effect of the Reverse Stock Split.

In January 2019, the Company approved the 2019 Equity Incentive Plan (the "2019 Plan") which 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 2019 Plan provides for a share limit equal to 15% of the total of the number of the issued and outstanding shares of the Company's Common Stock and all shares of Common Stock issuable upon conversion or exercise of any outstanding securities of the Company.

**Preferred Stock**

The Company's authorized preferred stock consists of 50,000,000 shares with a par value of \$0.0001.

Series A - 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 per share.

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On December 21, 2018, the Company filed a Certificate of Cancellation of its previously filed Certificate of Designation of Preferences, Rights and Limitations of Series A Preferred Stock in order to designate 1,000,000 shares as a new Series of Preferred Stock for issuance to former Holders of the Company's Notes under the Exchange Agreements (See Note 8), and filed a new Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock.

Pursuant to the Series A Preferred Certificate of Designation, the Company issued shares of Series A Preferred. Each share of Series A Preferred has a stated value of \$1.00 per share. In the event of a liquidation, dissolution or winding up of the Company, each share of Series A Preferred Stock will be entitled to a payment as set forth in the Certificate of Designation. The Series A Preferred is convertible into such number of shares of the Company's common stock, par value \$0.0001 per share equal to the Stated Value of \$1.00, divided by \$0.20, subject to adjustment in the event of stock split, stock dividends, and recapitalization or otherwise. Pursuant to the Exchange Agreements each holder of Notes shall be issued Series A Preferred in the amount of the purchase price paid for such Notes by the buyer under the Exchange Agreement, including any penalty, interest and premium payments. Each share of Series A Preferred entitles the holder to vote on all matters voted on by holders of Common Stock as a single class. With respect to any such vote, each share of Series A Preferred entitles the holder to cast such number of votes equal to the number of shares of Common Stock such share of Series A Preferred is convertible into at such time, but not in excess of the conversion limitations set forth in the Series A Preferred Certificate of Designation. The Series A Preferred will be entitled to dividends to the extent declared by the Company.

On January 20, 2020, the Company converted 30,090 Series A Preferred Stock into 150,450 shares of Common Stock.

There are 323,019 and 353,109 shares of Series A Preferred Stock outstanding as of June 30, 2020 and December 31, 2019, respectively.

Series B-1 - 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 32,000,000 shares, par value \$0.0001 per share. 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 at a conversion rate of 0.125 shares for 1 share 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.

There are 1,650,000 shares of Series B-1 preferred stock outstanding, which are convertible into 206,250 shares of common stock, as of June 30, 2020 and December 31, 2019.

Series B-2 - 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 10,000,000 shares, par value \$0.0001 per share, 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 at a conversion rate of 0.125 shares for 1 share 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.

There are 7,516,000 shares of Series B-2 preferred stock outstanding, which were convertible into 939,500 shares of common stock as of June 30, 2020 and December 31, 2019.

Series C - On June 30, 2016, 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 per share. The Series C Preferred Stock ranks equally with the Company's Common Stock with respect to liquidation rights and is convertible to Common Stock at a conversion rate of 0.125 shares for 1 share 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 the Company's 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.



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As of June 30, 2020 and December 31, 2019, there were no shares of Series C Preferred Stock issued and outstanding.

Series D - On March 1, 2018, the Company's Board of Directors voted to designate a class of preferred stock entitled Series D Convertible Preferred Stock consisting of up to 200 shares, par value \$0.0001 per share, to offer for sale to certain accredited investors, including affiliates of the Company, with a maximum offering amount of \$2,200,000. 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, each share of Series D automatically converts into 25,000 shares of Common Stock. Upon the liquidation, dissolution or winding up of the Company, each holder of Series D Convertible Preferred Stock shall be entitled to receive, for each share of Series D Convertible Preferred Stock held, \$10,000 per share payable pari passu with the Company's Series B-2 Convertible 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. At no time may shares of Series D Convertible Preferred Stock be converted if such conversion would cause the holder to hold in excess of 4.99% of our issued and outstanding Common Stock, subject to an increase in such limitation up to 9.99% of the issued and outstanding Common Stock on 61 days' written notice to the Company.

There are 18 shares of Series D preferred stock outstanding which were convertible into 450,000 shares of common stock as of June 30, 2020 and December 31, 2019.

Series E - On August 1, 2019 the Company issued 10,000 shares of newly designated Series E 0% Convertible Preferred Stock, par value \$0.0001 per share (the "Series E Preferred") to C2M pursuant to the MSA. Under the terms of the Series E Preferred, C2M may only convert such shares of Series E Preferred into shares of the Company's Common Stock, if the closing price of Common Stock on the principal trading market, shall exceed \$2.00 per share for 5 consecutive trading days. Once vested, the shares of Series E Preferred held by C2M are intended to either be converted at \$1.60 per share of Common Stock or optionally redeemed out of the proceeds of future financings, at the option of C2M.

Each share of Series E Preferred is convertible into 625 shares of the Company's Common Stock and have a stated value of \$1,000 per share. The conversion ratio is subject to adjustment in the event of stock splits, stock dividends, combination of shares and similar recapitalization transactions. The Company is prohibited from effecting conversions of the Series E Preferred to the extent that, as a result of such conversion, the holder beneficially owns more than 4.99% (which may be increased to 9.99% upon 61 days' written notice), in the aggregate, of the issued and outstanding shares of Common Stock calculated immediately after giving effect to the issuance of shares of Common Stock upon the conversion of the Series E Preferred. Holders of the Series E Preferred shall be entitled to vote on all matters submitted to shareholders and shall be entitled to the number of votes equal to the number of shares of Common Stock into which the shares of Series E Preferred Stock are convertible, subject to applicable beneficial ownership limitations. The Series E Preferred Stock provides a liquidation preference equal to par value.

The Series E Preferred has a no mandatory redemption rights however, in the event that we raise \$5,000,000 from a capital raising transaction involving any equity or equity-linked financing during any fiscal quarter in an amount which would cause the Company's cash or cash equivalents to exceed \$5,000,000 (a "Fundamental Transaction"), the Company is required from the proceeds of such offering, to offer C2M a right to redeem Series E Preferred then outstanding as follows:

- (A) 0% percent of the net proceeds of the Fundamental Transaction, after deduction of the amount of net proceeds required to leave the Company (together with our existing cash on hand immediately prior to the completion of the Fundamental Transaction) with cash on hand of \$5,000,000; plus
- (B) 10% percent of the next \$5,000,000 of net proceeds of the Fundamental Transaction; plus
- (C) 100% of the net proceeds of the Fundamental Transaction thereafter (until the Series E Preferred is redeemed in full).

The shares of Series E Preferred are convertible into Common Stock, once vested, at a price of \$1.60 per share. The Company is not obligated to file a registration statement with respect to the shares of Common Stock into which Series E Preferred shares may be converted. The Company believes that the occurrence of the Fundamental Transaction is considered a conditional event and as a result the instrument does not meet the definition of mandatorily redeemable financial instrument based from ASC 480-10-25, "Distinguishing Liabilities from Equity". This financial instrument was assessed at each reporting period to determine whether circumstances have changed such that the instrument met the definition of a mandatorily redeemable instrument (that is, the event is no longer conditional). If the event has occurred, the condition is resolved, or the event has become certain to occur, the financial instrument will be reclassified as a liability.

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On July 31, 2019, the Company granted 10,000 Series E Preferred in connection with a Management and Services Agreement (the “MSA”) with C2M, the Company’s largest shareholder (see Note 11). The Company valued the 10,000 Series E Preferred shares which is equivalent into 6,250,000 common shares at a fair value of \$0.54 per common share or \$3,375,000 based on the sales of common stock on recent private placements on the dates of grant. During the six months ended June 30, 2020, the Company recorded stock-based compensation of \$158,523 and prepaid expense – related party of \$2,955,681 to be amortized over the term of the MSA.

As of June 30, 2020 and December 31, 2019, there were 10,000 shares of Series E Preferred Stock issued and outstanding which were convertible into 6,250,000 shares of common stock.

***Common Stock***

The Company’s authorized Common Stock consists of 650,000,000 shares with a par value of \$0.0001 per share.

*Sale of Common Stock for private placement*

During the six months ended June 30, 2020, the Company sold an aggregate of 3,000,000 shares of Common Stock for total proceeds of \$350,000.

*Conversion of Series A Preferred stock into Common Stock*

On January 20, 2020, the Company converted 30,090 Series A Preferred Stock into 150,450 shares of Common Stock.

*Conversion of Notes into Common Stock*

On May 27, 2020, the Company issued 247,588 shares of its common stock at a contractual conversion price of \$0.13, as a result of the conversion of principal of \$30,000 and interest of \$2,400 of the convertible note.

On June 10, 2020, the Company issued 564,000 shares of its common stock at a contractual conversion price of \$0.09, as a result of the conversion of principal of \$47,000 and interest of \$3,760 of the convertible note.

These shares of common stock had an aggregate fair value of \$99,573 and the Company recorded \$16,413 of loss on debt extinguishment related to these note conversions (see Note 9).

*Common Stock pursuant to Forbearance Agreement*

On May 20, 2020, the Company entered into a Forbearance Agreement with the note holder regarding the initial convertible note executed on November 27, 2019 (see Note 9). The Company has issued the Holder 500,000 shares of the Company’s common stock in consideration for the forbearance and valued the shares of Common Stock at the fair value of approximately \$0.18 per common share or \$90,000 based on the quoted trading price on the date of grant. The Company recorded interest expense of \$90,000 during the six months ended June 30, 2020.

*Common Stock for services*

On January 23, 2020, the Company issued 250,000 shares of Common Stock for legal services to be rendered in fiscal 2020 and valued the shares of Common Stock at the fair value of approximately \$0.4948 per common share or \$123,700 based on the quoted trading price on the date of grant. The Company recorded stock-based compensation of \$123,700 during the six months ended June 30, 2020.

On January 23, 2020, the Company issued an aggregate of 515,000 shares of Common Stock to two officers and three employees of the Company for services in fiscal 2020 and as an incentive to retain such employees and valued the shares of Common Stock at the fair value of approximately \$0.4948 per common share or \$254,823 based on the quoted trading price on the date of grant. The Company recorded stock-based compensation of \$254,823.

*Common Stock issued for Vested Restricted Common Stock Award*

During the six months ended June 30, 2020, the Company issued an aggregate of 933,093 of Common Stock to employees and consultants for vested restricted stock awards (see Restricted Common Stock below).

*Common Stock issued for Unissued Stock*

There were 287,500 shares of common stock issuable which were issued during the six months ended June 30, 2020.

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**Common Stock Warrants**

A summary of the Company's outstanding stock warrants as of June 30, 2020 and changes during the period ended are presented below:

|   | <b>Number of<br/>Warrants</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life (Years)</b> |
|---|-------------------------------|--|--|
| Balance at December 31, 2019                                      | 2,014,299                     | \$ 0.45  | 3.31   |
| Granted   | —                             | —  | —  |
| Cancelled   | —                             | —  | —  |
| Exercised   | —                             | —  | —  |
| Forfeited   | —                             | —  | —  |
| Balance at June 30, 2020  | <u>2,014,299</u>              | <u>\$ 0.45</u>                                 | <u>2.81</u>  |
| Warrants exercisable at June 30, 2020                             | 2,014,299                     | \$ 0.45  | 2.81   |
| Weighted average fair value of warrants granted during the period |                               | \$ —   |  |

As of June 30, 2020, aggregate intrinsic value in connection with exercisable warrants amounted to \$0. During the six months ended June 30, 2020 and 2019, the Company recorded stock-based compensation of \$0 and \$1,114,062, respectively.

**Common Stock Options**

**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.

On January 11, 2019, the Company's shareholders approved the 2019 Equity Incentive Plan (the "2019 Plan"). The purpose of the 2019 Plan is to provide a means for the Company to continue to attract, motivate and retain management, key employees, consultants and other independent contractors, and to provide these individuals with greater incentive for their service to the Company by linking their interests in the Company's success with those of the Company and its shareholders. The 2019 Plan is limited such that the maximum number of shares of Common Stock that may be delivered pursuant to awards granted under the 2019 Plan may not exceed fifteen percent (15%) of the total of: (a) the issued and outstanding shares of our Common Stock, and (b) all shares of common stock issuable upon conversion or exercise of any of our outstanding securities which are convertible or exercisable into shares of Common Stock under the terms thereof.

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Stock option activity for the six months ended June 30, 2020 is summarized as follows:

|                                      | <b>Number of<br/>Options</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life(Years)</b> |
|--------------------------------------|------------------------------|--|---|
| Balance at December 31, 2019         | 4,671,280                    | \$ 0.29  | 7.29  |
| Granted                              | 1,000,000                    | 0.30   | 10.00   |
| Forfeited                            | (889,583)                    | 0.57   | 0.00  |
| Balance at June 30, 2020             | <u>4,781,697</u>             | <u>0.29</u>                                    | <u>8.75</u>   |
| Options exercisable at June 30, 2020 | <u>3,605,916</u>             | <u>\$ 0.25</u>                                 | <u>8.62</u>   |

Weighted average fair value of options granted during the period \$0.33.

As of June 30, 2020, aggregate intrinsic value in connection with exercisable options amounted to \$69,375. As of June 30, 2020, 1,175,781 outstanding options are unvested and there was \$423,219 unrecognized compensation expense in connection with unvested stock options.

In February 2020, the Company granted 1,000,000 options to purchase shares of the Company's Common Stock to Derek Du Chesne, the Company's President in connection with his employment agreement (see Note 11). The options have a 10-year term from the date of grant and was exercisable at an exercise price of \$0.30 per share. The fair value of the options granted amounted to \$0.33 per option or \$332,900.

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 for the options granted during the six months ended June 30, 2020 are presented below:

|                          |       |
|--------------------------|-------|
| Risk-free interest rate  | 1.55% |
| Expected volatility      | 263%  |
| Expected term (in years) | 10    |
| Expected dividend yield  | 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 Company recognized \$247,544 and \$950,078 of compensation expense relate to the vesting of stock options for the six months ended June 30, 2020 and 2019, respectively. The Company recognized \$106,678 and \$58,279 of compensation expense relate to the vesting of stock options for the three months ended June 30, 2020 and 2019, respectively. These amounts are included in general and administrative expenses on the accompanying unaudited consolidated statement of operations.

**EXACTUS, INC. AND SUBSIDIARIES**  
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**Restricted Common Stock**

A summary of the status of the restricted common stock and changes during the six months ended June 30, 2020 is as follows:

|                              | <b>Restricted Stock<br/>Common Stock</b> | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value Per<br/>Share</b> |
|------------------------------|--|---|
| Balance at December 31, 2019 | 3,583,328                                | \$ 0.68   |
| Granted                      | 4,523,800                                | 0.14  |
| Vested and issued            | (933,093)                                | 0.46  |
| Forfeited                    | (712,499)                                | 0.70  |
| Balance at June 30, 2020     | <u>6,461,536</u>                         | <u>\$ 0.38</u>  |

On January 14, 2020, in connection with his appointment to the Board of Directors, Alvaro Daniel Alberttis was awarded \$100,000 worth of restricted common stock, valued at the closing market price of the Company's common stock on the date of the appointment. These shares vest at a rate of 1/24th on the date of grant, and 1/24th per month thereafter, contingent upon his continued service. The Company valued the shares of restricted common stock at the fair value of \$0.36 per common share or \$100,000 based on the quoted trading price on the date of grant.

On April 29, 2020, the Company appointed two new board members and shall each be granted \$100,000 worth of restricted common stock under the 2019 Equity Incentive Plan with vesting period of 1/24th upon date of grant and 1/24th per month on the first day of each calendar month thereafter until fully vested so long as they continue in their service as board of directors of the Company.

On April 29, 2020, the Company appointed a new advisory board member of the Company and shall be granted \$50,000 worth of restricted common stock under the 2019 Equity Incentive Plan with vesting period of 1/24th upon date of grant and 1/24th per month on the first day of each calendar month thereafter until fully vested so long as they continue in their service as member of the Advisory Board of the Company.

On April 29, 2020, Derek Du Chesne accepted his appointment to the additional positions of President and a member of our Board of Directors (see Note 11). Following his appointment as President, the Company granted 1,000,000 shares of restricted common stock as additional compensation, with vesting and other terms to be decided by the Company's Compensation Committee.

On June 11, 2020, the Company appointed Julian Pittam as Board Chairman and has granted Mr. Pittam \$100,000 worth of restricted common stock under the 2019 Equity Incentive Plan with vesting period of 1/24th upon date of grant and 1/24th per month on the first day of each calendar month thereafter until fully vested so long as they continue in their service as board of directors of the Company.

On June 24, 2020, the Company appointed Emiliano Aloï as new board member and has granted Mr. Aloï \$100,000 worth of restricted common stock under the 2019 Equity Incentive Plan with vesting period of 1/24th upon date of grant and 1/24th per month on the first day of each calendar month thereafter until fully vested so long as they continue in their service as board of directors of the Company.

During the six months ended June 30, 2020, the Company recorded stock-based compensation of \$397,236 in connection with vested restricted common stock grants. During the three months ended June 30, 2020, the Company recorded stock-based compensation of \$279,333 in connection with vested restricted common stock grants. As of June 30, 2020, unamortized or unvested stock-based compensation costs related to restricted share arrangements was \$2,738,135 and will be recognized over a weighted average period of 1.01 years.

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**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

***Legal Matters-***

In the ordinary course of business, the Company enters into agreements with third parties that include indemnification provisions which, in its judgment, are normal and customary for companies in the Company's industry sector. These agreements are typically with business partners, clinical sites, and suppliers. Pursuant to these agreements, the Company generally agrees to indemnify, hold harmless, and reimburse indemnified parties for losses suffered or incurred by the indemnified parties with respect to the Company's product candidates, use of such product candidates, or other actions taken or omitted by us. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. The Company has 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, the Company has no liabilities recorded for these provisions as of June 30, 2020 and December 31, 2019.

In July 2018 the Company received notice of the expiration and termination of a license agreement dated January 19, 2016 acquired through the Share Exchange by our subsidiary Exactus BioSolutions, Inc that the Company recognized as an intangible asset from Digital Diagnostics, Inc. ("Digital Diagnostics") related to our FibrLyzer and MatriLyzer technologies. In addition, on December 14, 2018 we received a letter from KD Innovation, Ltd. ("KDI") and Dr. Krassen Dimitrov, our former director seeking payment for alleged past due consulting fees from June 2017 through November 2018 pursuant to a Consulting Agreement dated January 20, 2016. On January 23, 2019, Digital Diagnostics, made a demand for compensation against the Company in connection with an alleged breach of a License Agreement. Under the terms of these agreements, the parties are required to arbitrate claims. Although we dispute the material allegations made by Digital Diagnostics and KDI, if such actions were successful damages could be awarded against us.

On December 14, 2018, the Company received a termination and demand notice from KD Innovation, Ltd, an entity 100% owned by a former Board member, in connection with a consulting agreement KDI entered into with the Company's subsidiary, Exactus Biosolutions, Inc., on or about January 20, 2016. No lawsuit has been filed; however, in the event a lawsuit is filed, the Company intends to vigorously contest the matter. On September 9, 2019, Dr. Krassen Dimitrov, a former director, commenced an arbitration proceeding against the Company and its wholly-owned subsidiary Exactus Biosolutions, Inc. before the American Arbitration Association. The complaint alleges breach of a consulting agreement for services by Dr. Dimitrov during 2017-2019, among other claims, and seeks \$750,000 in damages. The Company has filed an answer denying the claims and asserting numerous counterclaims against Dr. Dimitrov and his affiliated entities, KD Innovation Ltd., and Digital Diagnostics, Inc. An arbitrator has been appointed in the matter and on May 1, 2020 issued a procedural order suspending further proceedings.

On September 25, 2019, Jonathan Gilbert, a former director, filed and served a complaint against the Company in the courts of Nassau County, New York. The complaint alleges that Mr. Gilbert is entitled to retain certain cancelled equity awards and seeks specific performance and damages. In February 2019, the Company granted 1,000,000 options to purchase shares of the Company's Common Stock to a former director of the Company, Jonathan Gilbert, with vesting terms pursuant to the respective stock option agreement. The former director resigned as a director of the Company in August 2019. The options have a term of 10 years from the date of grant and was exercisable at an exercise price at \$0.01. The Company already recognized \$320,000 of compensation expense which relates to the vesting of 500,000 stock options prior to his resignation. After Jonathan Gilbert's resignation, he filed a complaint against the Company disputing his rights to receive the Company's common stock through the exercise of his stock options. In January 10, 2020, Mr. Gilbert and the Company entered into a Settlement and General Release Agreement and both parties agreed to such consideration. The Company will issue to Mr. Gilbert 375,000 shares of the Company's common stock whereby 187,500 shares of common stock shall be issued immediately ("First Tranche") and another 187,500 shares of common stock shall be issued immediately and held by the transfer agent and delivered on the six month anniversary of this agreement ("Second Tranche") (collectively the First and Second Tranche shall be called "Settlement Stock"). The Settlement Stock is by virtue of the exercise of Mr. Gilbert's stock options and any required payments from the exercise of the stock options have been credited or forgiven. The Settlement Stock which is issued under the Stock Option Plan based upon the exercise of the stock options registered pursuant to the Company's registration statement on form S-8 (File no. 333-229025). The Company and Mr. Gilbert have released and discharged each other from all claims and demands. In January 2020, Mr. Gilbert dismissed the lawsuit against the Company. Pursuant to the Settlement and General Release Agreement dated in January 2020, the Company recorded the issuance of 375,000 shares at par value upon the exercise of the 375,000 stock options and cancelled the remaining 625,000 stock options during fiscal 2019.

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On February 26, 2020 a complaint was filed against the Company in the Circuit Court, Palm Beach County, Florida on behalf of two former employees of the Company. The case is entitled Ryan Borchers and Miriam Martinez vs. Exactus, Inc. (Case No. 103978709). These former employees were hired in January 2020. The complaint alleges the Company failed to pay wages and compensation to 2 employees under the Fair Labor Standards Act, breach of contract and violation of various Florida statutes, including allegations on behalf of other similarly situated persons. On May 8, 2020, an amended complaint was filed against the Company in the Circuit Court, Palm Beach County, Florida on behalf of six former employees, with one additional employee added to the suit in June 2020. The amended case is entitled Ryan Borchers, Marc Reiss, Jeannine Boffa, Benjamin Blair, Miriam Martinez and Michael Amoroso vs. Exactus, Inc. (Case No. 50-2020-CA-002274-MB). The other four former employees were hired between April 2019 and December 2019. As of June 30, 2020 and December 31, 2019, the Company has recorded total accrued salaries of \$90,974 and \$26,494 related to these former employees, respectively. The complaint seeks approximately \$106,000 in unpaid wages plus special damages, liquidated damages, interest and attorney's fees. The Company has retained legal representation and intends to vigorously contest the matter.

**Leases**

On March 1, 2019, the Company, through its majority-owned subsidiary, EOW, entered into a farm lease agreement for a lease term of one year. The lease premise is located in Cave Junction, Oregon and consist of approximately 100 acres. The lease requires the Company to pay 5% of the net income realized by the Company from the operation of the lease farm. The lease shall continue in effect from year to year except for at least a 30-day written notice of termination (see Note 7).

On March 1, 2019, the Company, through its majority-owned subsidiary, EOW, entered into a farm lease agreement for a lease term of one year. The lease premise is located in Glendale, Oregon and consist of approximately 100 acres. The lease requires the Company to pay \$120,000 per year, whereby \$50,000 was payable upon execution and \$70,000 shall be payable prior to planting for agricultural use or related purposes. The lease shall continue in effect from year to year except for at least a 30-day written notice of termination (see Note 7).

On April 30, 2019, the Company, through its majority-owned subsidiary, EOW, entered into a farm lease agreement for a lease term of one year. The lease premise is located in Cave Junction, Oregon and consists of approximately 38 acres. The lease requires the Company to pay \$76,000 per year, whereby \$38,000 was payable upon execution and \$38,000 shall be payable on September 15, 2019 and 2% of the net income realized by the Company from the operation of the lease farm. The Company has paid the initial payment of \$26,000 and the remaining \$12,000 was paid directly to the landlord by an affiliated company who is renting the portion of the lease property from the Company. The affiliated company is owned by two managing members of EOW. EOW is in the process of arranging a sub-lease agreement with the affiliated company. The lease shall continue in effect from year to year for five years except for at least a 30-day written notice of termination (see Note 7).

On July 9, 2019, the Company entered into a Commercial Lease Agreement (the "Lease") with Skybar Holdings, LLC, a Florida limited liability company. Pursuant to the Lease, the Company will rent the entire first floor (consisting of approximately 4,000 square feet) of a property located in Delray Beach, Florida (the "Premises"). The Company plans to develop the Premises to create a hemp-oriented health and wellness retail venue, including education, clothing and cosmetics, and explore franchise opportunities. The initial term of the Lease is 5 years commencing August 1, 2019, with two 5-year extension options. The Lease includes a right of first refusal in favor of the Company to lease any space that becomes available on the 2nd and 3rd floor of the Premises and a right of first refusal to purchase the Premises. Pursuant to the Lease, the Company will pay rent equal to forty thousand dollars per month in advance in addition to all applicable Florida sales and/or federal taxes. Effective one year from the lease commencement date and each year thereafter, the rent shall increase at least three percent (3%) per year. The lessor of the Premises is a limited liability company owned or controlled by Vladislav (Bobby) Yampolsky, the manager and controlling member of C2M, the Company's largest stockholder. During the second quarter of fiscal 2020, the Company has determined that the commercial lease with Skybar Holding, LLC is not in compliance with current laws or regulations in the City of Delray Beach and does not represent an enforceable contract and was void from the moment of execution. As a result, the Company has restated its prior year financial information to correct this accounting error (see Note 14). Additionally, on August 6, 2020, the Company submitted a written termination letter to Skybar Holdings, LLC. Because the Lease was void and unenforceable under applicable law, the Company believes that the probability of Skybar Holdings, LLC successfully asserting a claim under the Lease is to be remote.

On July 1, 2019, the Company entered into an office lease agreement for a lease term of six months beginning July 1, 2019 ending December 31, 2019 for a total rental of \$6,052 for six months. The lease premise is located in Delray Beach, Florida. In December 2019, the Company and landlord agreed to extend the lease for another 6-month term from January 2020 to June 2020 with the same terms in the original lease agreement.

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***Master Product Development and Supply Agreement***

On January 8, 2019, the Company entered into a Master Product Development and Supply Agreement (the “Development Agreement”) with Ceed2Med, LLC (“C2M”). C2M has provided the Company access to expertise, resources, skills and experience suitable for producing products with active phyto-cannabinoid (CBD) rich ingredients including isolates, distillates, water soluble, and proprietary formulations. Under the Development Agreement, the Company has been allotted a minimum of 50 and up to 300 kilograms per month, and up to 2,500 kilograms annually, of active phyto-cannabinoid (CBD) rich ingredients for resale. The Company expects to be able to offer tinctures, edibles, capsules, topical solutions and animal health products manufactured for us by C2M to satisfy demand for branded and white-label products that the Company intends to offer to sell in the future. The founders of C2M established their first CBD business in 2014. C2M will also be responsible for overseeing all farming and manufacturing activities of the Company.

Whereas, in consideration for the Development Agreement, C2M was issued 8,385,691 shares of our Common Stock on January 8, 2019. Additionally, the Company granted immediately vested 10-year options to purchase 750,000 shares of Common Stock to founders of C2M and our Interim Chief Executive Officer, Emiliano Aloï, with exercise price of \$0.32 per share. As a result, C2M was our largest shareholder holding (inclusive of the vested options) approximately 51% of our outstanding Common Stock on the date of the Development Agreement.

C2M will provide personnel necessary for the Company's growth. Utilizing C2M employees and facilities, the Company has been able to rapidly access resources and opportunities in the hemp-derived CBD industry. Emiliano Aloï of C2M became a member of the Company's Advisory Board in January 2019 and was appointed President of the Company on March 11, 2019. On August 13, 2019, the Company appointed Mr. Aloï as Interim Chief Executive Officer and on June 24, 2020, the Company appointed Mr. Aloï as a new member of the Board of Directors of the Company.

***Management and Services Agreement***

As previously disclosed, on March 11, 2019, the Company acquired, through our majority-owned subsidiary, EOW, from the Company's largest shareholder, C2M, certain rights to a 50.1% limited liability membership interest in certain farm leases and operations in Oregon in order to enter into the business of hemp farming for the 2019 grow season. During May 2019, the Company appointed Emiliano Aloï, the President of the Company, to the additional position of co-manager of EOW. The Company farmed approximately 200 acres of hemp for harvest and production during 2019.

On July 31, 2019, the Company finalized and entered into a Management and Services Agreement in order to provide the Company project management and various other benefits associated with the farming rights, operations and opportunities with C2M, including assignment by C2M of C2M's agreements and rights to acquire approximately 200 acres of hemp farming. Under the terms of the MSA, C2M agreed to provide further access to the opportunities and know-how of C2M, consented to the appointment of Emiliano Aloï, a seasoned hemp veteran previously an advisor and currently the Company's Interim Chief Executive Officer, and to provide the Company and EOW additional services consisting of, among other things:

- right of participation for further investment and business opportunities in order to rapidly expand our business and operations in hemp-derived CBD;
- executive, sourcing, vendor, product, production and other expertise and resources;
- appointment of Aloï to the position of President;
- introductions to farming and other financing;
- designs for international “Hemp-Café” store design and franchise opportunities including plans, drawings, approvals and authorizations, leads and contacts;
- access to leasing of prime real estate in Delray Beach Florida with an option to purchase, and the continuing assistance of the founder of C2M in connection with management, design, and promotion of the project;
- drawings, designs and specifications for extraction, production and manufacturing facilities and resources;
- brand development and support services.



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The Company finalized the compensation arrangements for C2M as contemplated in connection with the March 2019 transactions and the additional agreements with C2M under the MSA following tax, accounting and legal review including the treatment of the issuance of preferred stock in connection with the transactions. While the assignment initially contemplated a \$9 million payment from the Company to C2M, the parties agreed to payment in a new class of preferred stock, convertible above market. As a further condition to payment of the consideration, the value of the 50.1% interest in EOW was required to be not less than \$25 million, with a third-party valuation and fairness opinion from a third-party prior to payment. The term of the MSA commenced on the date of this agreement.

In October 2019, the Company entered into an amendment to the MSA (the "MSA Amendment"). The MSA Amendment extended the termination date of the MSA to December 31, 2024 and expanded the scope of services to be provided by C2M to the Company. Included in the scope of services was to negotiate with the minority owners of EOW, an amendment to the Operating Agreement of EOW for the distribution and allocation to provide for up to 100% (from 50.1%) of the results of operations of the 2019 harvest or yield resulting from all plants germinated during the calendar year December 31, 2019.

***Distribution and Profit-Sharing Agreement***

On November 20, 2019, the Company entered into the Non-Exclusive Distribution and Profit-Sharing Agreement with Canntab Therapeutics USA (Florida), Inc. Pursuant to the agreement, which has a term of 2 years and is subject to automatic renewal. The Company is a non-exclusive distributor of certain Canntab products throughout the U.S. Canntab will not grant a third-party the right to promote, sell or deliver the products within the U.S. during the term of the agreement, subject to certain exceptions. In addition, the Company agreed to share equally with Canntab in the gross profits received from the sale of their products by the Company. With respect to Canntab's sales of products, the Company will receive 10% of the gross profits. In connection with the Canntab Agreement, the Company also entered into a Supply Agreement with Canntab, which has a term of 2 years and is subject to automatic renewal, pursuant to which the Company agreed to sell hemp extracts to Canntab. Due to a need for additional warehouse space and disruptions caused by the Covid-19 pandemic, the Company has not distributed Canntab products to date.

***Employment Agreements***

Andrew Johnson, the Company's Chief Strategy Officer, is serving under a two-year employment agreement adopted on March 11, 2019 at an annual salary of \$110,000, which was increased to \$150,000 on January 23, 2020. In addition, he will be entitled to an annual cash bonus, in an amount as determined by the board of directors, if the Company meets or exceeds criteria adopted by the Compensation Committee of the Board of Directors. He shall also be eligible for grants of awards under stock option or other equity incentive plans of the Company as the Company's Compensation Committee. For the 2019 year, he received a cash bonus of \$100,000 to be paid in equal installments over the next 12 months which have been recorded in accrued expenses on the consolidated balance sheet as of June 30, 2020 and December 31, 2019.

Derek Du Chesne, the Company's current President, Chief Growth Officer, and a Director, is serving under a two-year employment agreement dated February 18, 2020 and entered into in connection with his service as Chief Growth Officer. Du Chesne's base salary for the initial year of service will be \$150,000, increasing to not less than \$250,000 for the second year of service, subject to annual review by the Board of Directors. He will be entitled to quarterly cash bonuses based on a percentage of our net sales to be determined. In addition, Mr. Du Chesne will be entitled to annual cash bonuses as follows: (1) up to 250% of base salary for the 2020 calendar year, if: (A) Company's net income on a consolidated basis for the 2020 fiscal year is equal to or in excess of \$5,000,000; or (B) Company's net sales on a consolidated basis is equal to or in excess of \$40,000,000 during the 2020 fiscal year; and (2) 200% of base salary for the 2021 calendar year, subject to the satisfaction of performance criteria set by the Board in consultation with a third-party compensation expert and Mr. Du Chesne. He will be eligible to participate in the Company's Equity Incentive Plan during his employment. Upon execution of the Agreement, he was granted options to purchase up to 1,000,000 shares of the Company's common stock at a price of \$0.50 per share. 250,000 of these options were vested immediately, with the remaining 750,000 options to vest in equal installments over the next twenty-four months. The employment agreement with Mr. Du Chesne is intended to provide direct incentives to increase company sales, while providing a reasonable base compensation for his service. Following his appointment as President, he received 1,000,000 shares of restricted common stock as additional compensation, with vesting and other terms to be decided by the Company's Compensation Committee. On March 5, 2020, the Board of directors of the Company approved the repricing of Mr. Du Chesne's stock options to 90% of the market price on the original date of grant or exercise price of \$0.30 per share (see Note 10).

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***Distribution Agreements***

On February 4, 2020, the Company entered into a Supply and Distribution Agreement with HTO Holdings Inc (dba "Hemptown, USA"), enabling the Company to purchase and sell Hemptown's Cannabigerol (CBG) and Cannabidiol (CBD) products, including top flower, biomass and extracts (crude, isolates, distillates, and water soluble). Ceed2Med, LLC, the Company's largest shareholder, is also a significant investor in Hemptown USA and is party to a distribution agreement with the Company. The Interim Chief Executive Officer and C2M, LLC will cooperate in developing plans to coordinate the Company's efforts to introduce CBG and expand its efforts to sell CBD products. This agreement shall remain in force for a period of one year from effective date and shall renew automatically in one-year increments for three years unless either party gives written notice of its intention not to renew at least 60 days prior to expiration. On March 28, 2020, the Company amended the Supply and Distribution Agreement Pursuant to the amendment whereby the Company agreed to also (i) aid Hemptown's management with product compliance requirements, (ii) participate in discussions related to Hemptown's 2020 farming, harvesting and processing plans as well as joint supply scenarios, (iii) interact with Hemptown's ingredient and manufacturing divisions to facilitate development of documents for selected SKUs to service the white label market, and (iv) aid Hemptown's CEO in overseeing the entire supply chain to establish best practices in quality and compliance and lower costs. In addition, Hemptown agrees to pay the Company \$3,500 a month in consulting fees. On July 21, 2020, Hemptown discontinued the consulting arrangement entered into under the March 28, 2020 amendment.

On November 20, 2019, the Company entered into the Non-Exclusive Distribution and Profit-Sharing Agreement with Canntab Therapeutics USA (Florida), Inc. Pursuant to the agreement, which has a term of 2 years and is subject to automatic renewal. The Company is a non-exclusive distributor of certain Canntab products throughout the U.S. Canntab will not grant a third-party the right to promote, sell or deliver the products within the U.S. during the term of the agreement, subject to certain exceptions. In addition, the Company agreed to share equally with Canntab in the gross profits received from the sale of their products by us. With respect to Canntab's sales of products, the Company will receive 10% of the gross profits. In connection with the Canntab Agreement, the Company also entered into a Supply Agreement with Canntab, which has a term of 2 years and is subject to automatic renewal, pursuant to which we agreed to sell hemp extracts to Canntab. Due to a need for additional warehouse space and disruptions caused by the Covid-19 pandemic, the Company has not distributed Canntab products to date.

**NOTE 12 - 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, former director of the Company, provided a notice 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 (See Note 11). The Company paid \$0 during the six months ended June 30, 2020 and 2019. There was no change during the six months ended June 30, 2020.

For the six months ended June 30, 2020 and 2019, \$0 and \$26,975, respectively, was recognized in Research and Development expenses for consulting provided by Dr. Dimitrov, respectively. As of June 30, 2020 and December 31, 2019, \$575,000 was included in accounts payable for both periods to KD Innovation Ltd., an affiliated entity of Dr. Dimitrov. There was no change during the six months ended June 30, 2020.

On January 8, 2019, the Company entered into a Master Product Development and Supply Agreement with C2M (see Note 11). At June 30, 2020 and December 31, 2019, accounts payable to C2M related to purchase of finished products amounted to \$8,342. During the six months ended June 30, 2020, the Company did not purchase any finished products from C2M. C2M is a majority stockholder of the Company. During the six months ended June 30, 2020, the Company recognized revenues from C2M of \$315,800 from sales of flowers and recorded related cost of sales of \$417,783. Additionally, accounts receivable from C2M as of June 30, 2020 amounted to \$94,800.

From time to time, the Company's subsidiary, EOW, receives advances from an affiliated company which is owned by three members of EOW for working capital purposes. The advances are non-interest bearing and are payable on demand. The Company advanced \$127,500 during fiscal 2019 to these related parties which resulted in a receivable or due from related parties of \$127,500 as of June 30, 2020 and December 31, 2019. These advances are short-term in nature, non-interest bearing and due on demand. The Company reclassified the \$127,500 related party receivable to the stockholders' equity section as of June 30, 2020.

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As of June 30, 2020 and December 31, 2019, accounts receivable from a related party customer amounted to \$12,860 and \$18,860, respectively. The customer is an affiliated company which is substantially owned by a managing member of EOW.

On July 9, 2019, the Company entered into a Commercial Lease Agreement (the "Lease") with Skybar Holdings, LLC, a Florida limited liability company. Pursuant to the Lease, the Company will rent the entire first floor (consisting of approximately 4,000 square feet) of a property located in Delray Beach, Florida (the "Premises"). The Company plans to develop the Premises to create a hemp-oriented health and wellness retail venue, including education, clothing and cosmetics, and explore franchise opportunities. The initial term of the Lease is 5 years commencing August 1, 2019, with two 5-year extension options. The Lease includes a right of first refusal in favor of the Company to lease any space that becomes available on the 2nd and 3rd floor of the Premises and a right of first refusal to purchase the Premises. Pursuant to the Lease, the Company will pay rent equal to \$40,000 per month in advance in addition to all applicable Florida sales and/or federal taxes and security deposit of \$40,000. Effective one year from the lease commencement date and each year thereafter, the rent shall increase at least three percent (3%) per year. The lessor of the Premises is a limited liability company owned or controlled by Vladislav (Bobby) Yampolsky, a member of the Board and the founder, manager and controlling member of C2M, the Company's largest stockholder. During the second quarter of fiscal 2020, the Company has determined that the commercial lease with Skybar Holding, LLC is not in compliance with current laws or regulations in the City of Delray Beach and does not represent an enforceable contract and was void from the moment of execution. As a result, the Company has restated its prior year financial information to correct this accounting error (see Note 14). Additionally, on August 6, 2020, the Company submitted a written termination letter to Skybar Holdings, LLC.

As of June 30, 2020 and December 31, 2019, accounts payable from two affiliated companies and C2M totaled to \$454,511 (\$350,000, \$96,169 and \$8,342, respectively) for both periods.

From January 31, 2020 through June 30, 2020, the Company's Interim Executive Chairman, Bobby Yampolsky, made a series of advances to the Company in the approximate total amount of \$97,000 and has been included in due to related party as reflected in the accompanying unaudited condensed consolidated balance sheets. These advances are short-term in nature and non-interest bearing. On June 11, 2020, Mr. Yampolsky tendered his resignation as a member and interim chairman of the board of directors of the Company. Additionally, the Company agreed to pay \$12,500 on June 11, 2020 and a monthly installment payment of approximately \$7,084 beginning July 15, 2020 to June 15, 2021. On June 11, 2020, the Company paid \$12,500 of these related party advances. The Company paid the first monthly installment in July 2020. As of June 30, 2020, due to related party amounted to \$84,500.

**Note 13 – CONCENTRATION OF REVENUE AND SUPPLIER**

During the six months ended June 30, 2020, total sale of CBD products and hemp flowers to two customers represented approximately 83% (60%, and 23% - related party) of the Company's net sales. During the six months ended June 30, 2019, total sale of CBD products to five customers represented approximately 90% (19%, 26% - related party, 24%, 11% and 10%) of the Company's net sales.

As of June 30, 2020, total accounts receivable from two customers represented approximately 86% (23% and 63% - related party) of total accounts receivable. As of December 31, 2019, total accounts receivable, net from two customers and one related party customer represented approximately 82% (18%, 38%, and 26% - related party) of total accounts receivable.

As of June 30, 2020, total accounts payable from two vendors represented approximately 37% (23% and 14%-related party) of total accounts payable. As of December 31, 2019, total accounts payable from two vendors and one affiliated company represented approximately 60% (12%, 30% and 18% -related party) of total accounts payable. The affiliated company is owned by three members of EOW.

During the six months ended June 30, 2020, the Company purchased finished products from one vendor totaling approximately \$846,320 (98% of the purchases). During the six months ended June 30, 2019, the Company purchased finished products from C2M (see Note 11) totaling approximately \$197,117 (100% of the purchases).

**NOTE 14 – RESTATEMENT OF PRIOR FINANCIAL INFORMATION**

Subsequent to the Company's external auditor's periodic review of the Form 10-Q for the Periods Ended September 30, 2019 and March 31, 2020, annual audit for the year ended December 31, 2019 and, in the process of review, the current Form 10-Q for the Period Ended June 30, 2020, the Company conducted further reviews of the consolidated financial statements. Based on such reviews, the following determinations were made:

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Error in Accounting for Operating Lease Right-of-Use Asset and Operating Lease Liabilities

During the second quarter of fiscal 2020, the Company has determined that the commercial lease with Skybar Holding, LLC is not in compliance with current laws or regulations in the City of Delray Beach and does not represent an enforceable contract and was void from the moment of execution. Therefore, the accounting treatment for the recognition of the operating lease right-of-use asset and operating lease liabilities upon adoption of ASC 842 related to this commercial lease was incorrect. As a result of a detailed review of this commercial lease, the Company has made an assessment in the second quarter of fiscal 2020 that the lease is unenforceable and should not have been accounted for under ASC 842. Additionally, the Company reversed previously recorded accrued expenses related to this commercial lease agreement.

In accordance with the guidance provided by the Accounting Standards Codification (“ASC”) 250 – “Accounting Changes and Error Corrections” (“ASC 250”), SEC’s Staff Accounting Bulletin 99, *Materiality* (“SAB 99”) and Staff Accounting Bulletin 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (“SAB 108”), the Company has determined that the impact of adjustments relating to the corrections of this accounting error are not material to previously issued annual audited and unaudited financial statements and as such no restatement was necessary. Correcting prior year financial statements for immaterial errors would not require previously filed reports to be amended. Such correction may be made the next time the registrant files the prior year financial statements. Accordingly, these misstatements were corrected during the period ended June 30, 2020 and will be disclosed prospectively.

The effect on these revisions on the Company’s consolidated balance sheets is as follows:

|                                   | <b>As of March 31, 2020</b> |                    |                     |
|-----------------------------------|-----------------------------|--------------------|---------------------|
|                                   | <b>Previously Reported</b>  | <b>Adjustments</b> | <b>As Corrected</b> |
| <b>Consolidated Balance Sheet</b> |                             |                    |                     |
| Current assets                    | \$ 1,661,211                | \$ -               | \$ 1,661,211        |
| Current liabilities               | \$ 5,338,486                | \$ (564,628)       | \$ 4,773,858        |
| Working capital (deficit)         | \$ (3,677,275)              | \$ 564,628         | \$ (3,112,647)      |
| Total assets                      | \$ 8,458,826                | \$ (1,705,115)     | \$ 6,753,711        |
| Total liabilities                 | \$ 6,985,191                | \$ (2,034,232)     | \$ 4,950,959        |
| Total stockholders' equity        | \$ 1,473,635                | \$ 329,117         | \$ 1,802,752        |

|                                   | <b>As of December 31, 2019</b> |                    |                     |
|-----------------------------------|--------------------------------|--------------------|---------------------|
|                                   | <b>Previously Reported</b>     | <b>Adjustments</b> | <b>As Corrected</b> |
| <b>Consolidated Balance Sheet</b> |                                |                    |                     |
| Current assets                    | \$ 2,429,235                   | \$ -               | \$ 2,429,235        |
| Current liabilities               | \$ 4,190,544                   | \$ (382,196)       | \$ 3,808,348        |
| Working capital (deficit)         | \$ (1,761,309)                 | \$ 382,196         | \$ (1,379,113)      |
| Total assets                      | \$ 9,799,277                   | \$ (1,782,443)     | \$ 8,016,834        |
| Total liabilities                 | \$ 6,117,431                   | \$ (1,988,141)     | \$ 4,129,290        |
| Total stockholders' equity        | \$ 3,681,846                   | \$ 205,698         | \$ 3,887,544        |

|                                   | <b>As of September 30, 2019</b> |                    |                     |
|-----------------------------------|---------------------------------|--------------------|---------------------|
|                                   | <b>Previously Reported</b>      | <b>Adjustments</b> | <b>As Corrected</b> |
| <b>Consolidated Balance Sheet</b> |                                 |                    |                     |
| Current assets                    | \$ 3,255,169                    | \$ -               | \$ 3,255,169        |
| Current liabilities               | \$ 2,052,454                    | \$ (302,196)       | \$ 1,750,258        |
| Working capital (deficit)         | \$ 1,202,715                    | \$ 302,196         | \$ 1,504,911        |
| Total assets                      | \$ 11,449,203                   | \$ (1,858,284)     | \$ 9,590,919        |
| Total liabilities                 | \$ 4,054,527                    | \$ (1,940,563)     | \$ 2,113,964        |
| Total stockholders' equity        | \$ 7,394,676                    | \$ 82,279          | \$ 7,476,955        |

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The effect on these revisions on the Company's consolidated statements of operations is as follows:

|   | <b>For the Three Months Ended<br/>March 31, 2020</b> |                    |                     |
|---|--|--------------------|---------------------|
|   | <b>Previously<br/>Reported</b>                       | <b>Adjustments</b> | <b>As Corrected</b> |
| <b>Consolidated Statements of Operations</b>            |  |                    |                     |
| Revenues  | \$ 836,000   | \$ -               | \$ 836,000          |
| Operating expenses                                      | \$ 2,192,767   | \$ (123,419)       | \$ 2,069,348        |
| Loss from operations                                    | \$ (2,757,023)                                       | \$ 123,419         | \$ (2,633,604)      |
| Other income (expenses)                                 | \$ (188,480)   | \$ -               | \$ (188,480)        |
| Net loss  | \$ (2,945,503)                                       | \$ 123,419         | \$ (2,822,084)      |
| Net Loss available to Exactus, Inc. common stockholders | \$ (2,789,684)                                       | \$ 123,419         | \$ (2,666,265)      |
| Basic & diluted EPS                                     | \$ (0.06)  | \$ 0               | \$ (0.06)           |

|   | <b>For the Year Ended<br/>December 31, 2019</b> |                    |                     |
|---|---|--------------------|---------------------|
|   | <b>Previously<br/>Reported</b>                  | <b>Adjustments</b> | <b>As Corrected</b> |
| <b>Consolidated Statements of Operations</b>            |   |                    |                     |
| Revenues  | \$ 345,680                                      | \$ -               | \$ 345,680          |
| Operating expenses                                      | \$ 9,177,988                                    | \$ (205,698)       | \$ 8,972,290        |
| Loss from operations                                    | \$ (10,878,442)                                 | \$ 205,698         | \$ (10,672,744)     |
| Other income (expenses)                                 | \$ 653,936                                      | \$ -               | \$ 653,936          |
| Net loss  | \$ (10,224,506)                                 | \$ 205,698         | \$ (10,018,808)     |
| Net Loss available to Exactus, Inc. common stockholders | \$ (10,591,487)                                 | \$ 205,698         | \$ (10,385,789)     |
| Basic & diluted EPS                                     | \$ (0.31)                                       | \$ 0               | \$ (0.31)           |

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|   | <b>For the Nine Months Ended<br/>September 30, 2019</b> |                    |                     |
|---|---|--------------------|---------------------|
|   | <b>Previously<br/>Reported</b>                          | <b>Adjustments</b> | <b>As Corrected</b> |
| <b>Consolidated Statements of Operations</b>            |   |                    |                     |
| Revenues  | \$ 215,816  | \$ -               | \$ 215,816          |
| Operating expenses                                      | \$ 5,803,458  | \$ (82,279)        | \$ 5,721,179        |
| Loss from operations                                    | \$ (5,803,847)  | \$ 82,279          | \$ (5,721,568)      |
| Other income (expenses)                                 | \$ 1,178,363  | \$ -               | \$ 1,178,363        |
| Net loss  | \$ (4,625,484)  | \$ 82,279          | \$ (4,543,205)      |
| Net Loss available to Exactus, Inc. common stockholders | \$ (5,168,306)  | \$ 82,279          | \$ (5,086,027)      |
| Basic & diluted EPS                                     | \$ (0.16)   | \$ 0               | \$ (0.15)           |

|   | <b>For the Three Months Ended<br/>September 30, 2019</b> |                    |                     |
|---|--|--------------------|---------------------|
|   | <b>Previously<br/>Reported</b>                           | <b>Adjustments</b> | <b>As Corrected</b> |
| <b>Consolidated Statements of Operations</b>            |  |                    |                     |
| Revenues  | \$ 60,153  | \$ -               | \$ 60,153           |
| Operating expenses                                      | \$ 2,062,677   | \$ (82,279)        | \$ 1,980,398        |
| Loss from operations                                    | \$ (2,102,942)   | \$ 82,279          | \$ (2,020,663)      |
| Other income (expenses)                                 | \$ (5,105)   | \$ -               | \$ (5,105)          |
| Net loss  | \$ (2,108,047)   | \$ 82,279          | \$ (2,025,768)      |
| Net Loss available to Exactus, Inc. common stockholders | \$ (1,934,367)   | \$ 82,279          | \$ (1,852,088)      |
| Basic & diluted EPS                                     | \$ (0.05)  | \$ 0               | \$ (0.05)           |

The revisions had no effect in the cash used in operating activities on the Company's consolidated statements of cash flows.

**NOTE 15 - SUBSEQUENT EVENTS**

In accordance with authoritative guidance, the Company has evaluated any events or transactions occurring after June 30, 2020, the balance sheet date, through the date of filing of this report and note that there have been no such events or transactions that would require recognition or disclosure in the unaudited condensed consolidated financial statements as of and for the quarter ended June 30, 2020, except as disclosed below.

*Common Stock issued for services*

On July 1, 2020, the Company entered into a consulting agreement for corporate legal advisor services. The consultant shall receive compensation of 750,000 shares of the Company's Common Stock for services rendered and to be rendered until September 30, 2020.

*Conversion of Notes*

On July 17, 2020, the Company issued 708,148 shares of its common stock at a contractual conversion price of approximately \$0.09, as a result of the conversion of principal of \$47,000 and interest of \$3,760 of the convertible note.

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

### **Forward-Looking Statements**

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements." These forward-looking statements generally are identified by the words "believes," "project," "expects," "anticipates," "estimates," "intends," "strategy," "plan," "may," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on our operations and future prospects on a consolidated basis include, but are not limited to, changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

### **Business Overview**

We are a Nevada corporation organized under the name Solid Solar Energy, Inc in 2008 and renamed Exactus, Inc. in 2016. We began to pursue opportunities in Cannabidiol, which we refer to as CBD, in 2019.

In December 2018, we expanded our focus to pursue opportunities in hemp-derived CBD. This decision was based in part on the passing of the 2018 Farm Bill, known as the Agriculture Improvement Act of 2018, which will remain in force through 2023. The 2018 Farm Bill authorized the production of hemp and removed hemp and hemp seeds from the Drug Enforcement Administration's, or the DEA's, schedule of Controlled Substances. It also directed the U.S. Department of Agriculture, or the USDA, to issue regulations and guidance to implement a program to create a consistent regulatory framework around production of hemp throughout the United States. On October 31, 2019, the USDA, Agricultural Marketing Services, issued an interim final rule (with request for comments). The rule outlines provisions for the USDA to approve plans submitted by states and Indian tribes. The U.S. Domestic Hemp Production Program establishes federal regulatory oversight of the production of hemp in the U.S. The program authorizes the USDA to approve plans submitted by states and Indian tribes for the domestic production of hemp and establishes a federal plan for producers in states or territories that choose not to administer a state or tribe specific plan, provided the state or tribe does not ban hemp production.

Prior to the 2018 Farm Bill, Cannabis sativa L. with delta-9 tetrahydrocannabinol, or THC, levels greater than 0.3% fell within the definition of "marijuana" under the Controlled Substances Act, or the CSA, and was therefore a Schedule I controlled substance unless it fell under a narrow range of exceptions (e.g., the "mature stalks" of the plant). As a result, many aspects of domestic production of what is now defined as hemp was limited to persons registered under the CSA to do so. Under the Agricultural Act of 2014, which we refer to as the 2014 Farm Bill, State departments of agriculture and institutions of higher education were permitted to produce hemp as part of a pilot program for research purposes. The authority for hemp production provided in the 2014 Farm Bill was extended by the 2018 Farm Bill, which was signed into law on December 20, 2018.

### **Ceed2Med Agreements**

Our goal is to rapidly establish one or more principal sources of supply and to develop wholesale and retail sales channels for CBD end-products to be sold to humans and for animal health, such as nutraceuticals, supplements and pet and farm products.

On January 8, 2019 we entered into a Master Product Development and Supply Agreement (the "Development Agreement") with Ceed2Med, LLC ("C2M"). C2M has provided the Company access to expertise, resources, skills and experience suitable for producing products with active phyto-cannabinoid (CBD) rich ingredients including isolates, distillates, water soluble, and proprietary formulations. Under the Development Agreement, we have been allotted a minimum of 50 and up to 300 kilograms per month, and up to 2,500 kilograms annually, of active phyto-cannabinoid (CBD) rich ingredients for resale. We expect to be able to offer tinctures, edibles, capsules, topical solutions and animal health products manufactured for us by C2M to satisfy demand for branded and white-label products that we intend to offer to sell in the future. The founders of C2M established their first CBD business in 2014. C2M will also be responsible for overseeing all farming and manufacturing activities of the Company.

Whereas, in consideration for the Development Agreement, C2M was issued 8,385,691 shares of our Common Stock on January 8, 2019. Additionally, the Company granted immediately vested 10-year options to purchase 750,000 shares of Common Stock to founders of C2M and our Interim Chief Executive Officer, Emiliano Aloï, with exercise price of \$0.32 per share. As a result, C2M was our largest shareholder holding (inclusive of the vested options held by its founders) approximately 51% of our outstanding Common Stock on the date of the Development Agreement. C2M will provide personnel necessary for our growth. Utilizing C2M employees and facilities, the Company has been able to rapidly access resources and opportunities in the hemp-derived CBD industry. Emiliano Aloï became a member of our Advisory Board in January 2019 and was appointed President of the Company on March 11, 2019. On August 13, 2019, the Company appointed Mr. Aloï as Interim Chief Executive Officer and on June 24, 2020, the Company appointed Mr. Aloï as a new member of the Board of Directors of the Company.

On March 11, 2019, with the assistance of C2M and assignment of rights, we acquired a 50.1% limited liability membership interest in Exactus One World, LLC, (“EOW”), an Oregon limited liability company, newly formed on January 25, 2019, in order to produce industrial hemp for our own use. EOW has leases starting on March 1, 2019 for approximately 200 acres of farmland in southwest Oregon for growing and processing industrial hemp, with a lease term of one year. The leases are renewable on a year-to-year basis. We acquired the 50.1% limited liability membership interest pursuant to a subscription agreement (the “Subscription Agreement”) and a Membership Interest Purchase Agreement (the “Purchase Agreement”). EOW will farm and process industrial hemp to be manufactured into cannabidiol (CBD) and related products. EOW will be responsible for the Company’s initial efforts to pursue agricultural development, including farm soil preparation, planting, harvesting, transportation and drying. We will be responsible for funding and the minority owners will be responsible for management, servicing and operating the farm properties.

On July 31, 2019, we finalized and entered into a Management and Services Agreement in order to provide us project management and various other benefits associated with the farming rights, operations and opportunities with C2M, including assignment by C2M of C2M’s agreements and rights to acquire approximately 200 acres of hemp farming. Under the terms of the MSA, C2M agreed to provide further access to the opportunities and know-how of C2M, consented to the appointment of Emiliano Aloï, a seasoned hemp veteran previously an advisor and currently our Interim Chief Executive Officer, and to provide to us and EOW additional services consisting of, among other things:

- right of participation for further investment and business opportunities in order to rapidly expand our business and operations in hemp-derived CBD;
- executive, sourcing, vendor, product, production and other expertise and resources;
- appointment of Aloï to the position of President;
- introductions to farming and other financing;
- drawings, designs and specifications for extraction, production and manufacturing facilities and resources;
- and
- brand development and support services.

We finalized the compensation arrangements for C2M as contemplated in connection with the March 2019 transactions and the additional agreements with C2M under the MSA following tax, accounting and legal review including the treatment of the issuance of preferred stock in connection with the transactions. On July 31, 2019, we granted 10,000 Series E Preferred in connection with the Management and Services Agreement (the “MSA”) with C2M, our largest shareholder. In October 2019, we entered into an amendment to the MSA (the “MSA Amendment”). The MSA Amendment extended the termination date of the MSA to December 31, 2024 and expanded the scope of services to be provided by C2M to us. The MSA Amendment was approved by a majority of the disinterested directors of the Company.

On October 23, 2019, we amended the Amended and Restated Operating Agreement of EOW. Under the terms of the amendment, the minority members of EOW conveyed their 49.9% membership interest and rights to distributions related to the current 2019 hemp crop underway to the Company. As a result, the Company acquired the right to receive 100% of the distributions of net profit from the 2019 hemp crop on approximately 226 acres of farmland currently growing in Oregon. In addition, the members amended the payment schedule under which farm costs are required to be made by the Company. As consideration for the amendment, the Company agreed to issue 1,223,320 shares of its common stock, par value \$0.0001 per share, to the minority members of EOW.

On November 14, 2019, we entered into a Supply and Distribution Agreement with C2M, pursuant to which C2M agreed to purchase a minimum of 10,000 pounds of our 2019 hemp flower harvest. During the one-year term of the agreement, we have the option to purchase the distribution operations of C2M.



### ***Farming Operations***

On March 11, 2019, we acquired a 50.1% limited liability membership interest in Exactus One World, LLC, an entity formed on January 25, 2019 and which we refer to as EOW, in order to produce hemp. EOW holds one-year leases, which commenced on March 1, 2019, for approximately 200 acres of farmland in southwest Oregon for growing and processing hemp. The leases are renewable on a year-to-year basis. EOW will farm and process hemp to be manufactured into CBD and related products, sold or processed as biomass and other agricultural products. EOW will be responsible for our initial efforts to pursue agricultural development, including farm soil preparation, planting, harvesting, transportation and drying. We have been responsible for funding and the minority owners will be responsible for management, servicing and operating the farm properties.

On October 23, 2019, we amended the Amended and Restated Operating Agreement of EOW. Under the terms of the amendment, the minority members of EOW conveyed their 49.9% membership interest and rights to distributions related to the current 2019 hemp crop to us. As a result, we acquired the right to receive 100% of the distributions of net profit from the 2019 hemp crop. In addition, the members amended the payment schedule under which farm costs are required to be made by us.

Due to declining market prices for industrial hemp and a shortage of available capital, we do not currently intend to farm hemp on the Oregon properties in 2020. Our current plan is to sub-lease the properties for the 2020 growing season to another farmer, although no subleases have been made at this time.

### ***Green Goddess Extracts, LLC***

On July 31, 2019, we entered into an Asset Purchase Agreement with Green Goddess Extracts, LLC (“Green Goddess”) and an Executive Employment Agreement with its founder. Under the agreement, we agreed to acquire the business and assets of Green Goddess relating to the manufacture, marketing and sale of CBD products, including the right to manufacture, warehouse and ship products under the Green Goddess brand, existing, inventory, ingredients and materials, customer lists, websites, intellectual property and trademarks. We also entered into an option to acquire Green Goddess’ vape assets. Under the terms of the Asset Purchase Agreement we agreed to issue 250,000 shares of our restricted Common Stock and pay \$250,000 cash for the acquisition. The shares vest at a rate of 1/24 per month until fully vested. We have issued 62,500 shares under the Agreement to date, and have not made any payments toward the cash component of the purchase price. We are currently in default under the Asset Purchase Agreement however, there are no penalty, interest or charges from the default pursuant to the Asset Purchase Agreement.

The Company, Green Goddess Extracts and the founder have each asserted various claims against the other for breach of contract although no proceedings have been commenced. Currently, the Company has suspended efforts to market and sell CBD products under the Green Goddess brand and Green Goddess has suspended delivery of the Company’s inventory due to the disputes which involve, among other things, the amounts that were due and owing Green Goddess from C2M for orders placed prior to the asset purchase, the nature and going concern value of the assets purchased by the Company and representations concerning the operation of the business and performance by the founder under the employment agreement. There can be no assurance the parties will resolve their differences or that the prior agreements will not be terminated. The product with a cost of \$837,153 currently held in inventory has been written down to a value of \$0 due to the age and questionable salability of the product during fiscal 2019.

### ***Additional Brands***

We have taken steps to introduce Green Goddess™ brands, LeVor Collection™, Paradise CBD™ and Exactus™, for selected markets which, to date, have not resulted in material revenues.

### ***Industrial Hemp***

We seek to take advantage of an emerging worldwide trend to utilize the production of industrial hemp in consumer products. Hemp is being used today in cosmetics, nutritional supplements, and animal feed, where we also intend to focus our efforts. The market for hemp-derived products is expected to increase substantially over the next five years, and we are endeavoring to prepare the Company to be positioned as a significant player in the industry. According to industry reports, CBD is expected to conservatively generate sales of \$16 billion by 2025. In one survey, nearly 7% (of 2,500 respondents) reported using CBD as a supplement in January 2019, with retail sales of CBD consumer products in 2018 estimated as being only between \$600 million and \$2 billion.

According to the report, cannabis' therapeutic potential is attributable to the valuable overlap between phyto-cannabinoids (i.e. plant-derived cannabinoids) and the endogenous cannabinoid system in humans, termed a "therapeutic handshake". Clinical trial results to date demonstrate few adverse effects from oral CBD doses of up to 1,500 mg/day or up to 30 mg IV. The scientific understanding of CBD's clinical effects is based mostly on studies in specific indications, like epilepsy. GW Pharma's Epidiolex (a highly potent, pure formulation of CBD) was approved by the FDA in 2018 for the treatment of seizures associated with Lennox-Gastaut syndrome and Dravet syndrome, and other companies have clinical trials underway in seizure disorders.

### **Healthcare**

CBD products appear to be gaining traction with independent pharmacies. The industry, including the Company, has also been approached by several large chain pharmacies with inquiries concerning sourcing, quality, accountability and volume. According to the report, pharmacies likely find the high-margin profile of CBD attractive, similar to over-the-counter drugs. We believe pharmacies will appreciate our "seed-to-consumer" approach and our cGMP manufacturing focus and our planned QR Code traceability and reporting.

Currently, CBD products are not a covered benefit, or an extra benefit, under managed care, insurance, Medicare, Medicaid or any state programs. This will likely continue to be the case for the intermediate term. Legal issues and confusion concerning legality, lack of FDA regulation and availability as an OTC medication will likely continue for an indefinite period impeding adoption and payor acceptance.

### **Competition**

We believe a multitude (hundreds) of companies, large and small, including mom and pops, have launched or intend to launch retail brands and white label products containing CBD. Many of these are offering CBD and are dependent upon third parties to provide raw material inventory for sale. We believe this makes many of the participants in the industry vulnerable to shortages, quality issues, reliability and pricing variability. Our management team's extensive experience and industry relationships may allow us to build an efficient supply chain that will put us among the few companies that maintain a competitive pricing and supply advantage, poised for revenue growth during 2020 and beyond.

The CBD-based consumer product industry is highly fragmented with numerous companies, many of which are under-capitalized. There are also large, well-funded companies that currently do not offer hemp-based consumer products including large agribusiness companies such as Cargill and Tyson Foods, but may do so in the future and become significant competitors.

Our goal is to rapidly establish one or more principal sources of supply and to develop wholesale and retail sales channels for end-products, such as nutraceuticals, supplements and pet and farm products. We intend to follow regulatorily compliant pathways by adopting practices established by the FDA for CBD and to pursue FDA approval for our activities upon adoption of federal regulations, including conducting independent clinical and non-clinical trials.

Companies such as CV Sciences, Inc. (OTCQB:CVSI) in the US and recent acquisitions by Canadian cannabis producers reflect the growing acceptance of CBD products as a lynchpin for growth. Transactions such as Tilray, Inc. (NASDAQ:TLRY-Manitoba Harvest \$419 million February 2019), cbdMD Inc. (NYSE:YCBD - Cure Based Development LLC December 2018), and Aurora Cannabis, Inc. (OTCQB:ACBFF-Agropro UAB EUR6.5 million) reflect the growing interest and M&A activity in the industry among our competition and increasing consolidation.

Non-CBD Competition. We do not intend to offer and do not compete with companies that offer cannabis products containing high levels of psychoactive THC. Although legal in some states, and in Canada, we do not intend to enter into this market. We may offer our industrial-hemp based products in dispensaries, but will not compete with any medical or recreational marijuana sellers for high THC content sales due to legal and regulatory restrictions and uncertainty in the United States. Because of regulatory challenges facing marijuana companies in the United States, the vast majority of the companies focused on THC are Canadian and foreign, although several have begun to pursue domestic activities in states that permit marijuana sales. Federal law does not generally recognize marijuana (or hemp that exceeds 0.3% THC) as lawful, although that may change in the future. Because of these factors, our competitors that have focused exclusively on CBD are limited.

Retail Competition. Many of our competitors are private companies and as a result, little or no reliable information is available.

### **Retail Strategy**

Our focus will include establishing wholesale and retail distribution by developing our own brands, selling white label branded products to others and making acquisitions of existing businesses engaged in marketing or sales, in both online and retail channels. We may supply to wholesalers, retailers, and distribution centers as we seek to launch our retail strategy. We intend to initially focus on developing products to reach medical and health communities to be sold or promoted by or through medical professionals such as internists, dermatologists, osteopaths, chiropractors, pharmacists, and other holistic or natural products purveyors, but will not be limited to such efforts. We intend to focus on higher margin opportunities utilizing online sales and sales in stores, offices or pharmacies.

### **Environmental Matters**

Compliance with federal, state and local requirements regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, have not had, nor are they expected to have, any direct material effect on our capital expenditures, earnings or competitive position, however such factors could indirectly affect us as well as participants in the supply chain for our products, and our business, operations, vendors or suppliers.

**Recent Developments**

***Private Placement of Convertible Notes and Warrants***

On November 27, 2019, we entered into a Securities Purchase Agreement, referred to as the SPA, with an institutional investor, pursuant to which it agreed to lend us up to \$1,944,444 in three tranches. On November 27, 2019, we issued to the investor an 8% convertible note in the principal amount of \$833,333 and a warrant to purchase 275,612 shares of our common stock at an exercise price of \$0.756, in exchange for payment by the investor of \$750,000. The principal amount of the note reflects the amount invested, plus a 10% original issue discount, or OID. We received gross proceeds of \$750,000 in exchange for the initial tranche note and warrant and \$730,000 net proceeds after the payment of fees and expenses of the sale.

Pursuant to the SPA, a second tranche of funding from the investor is available in the form of a second 8% convertible note in the principal amount of \$277,778 and a warrant to purchase 91,871 shares of our common stock. This additional financing is available within three business days after the date of the filing of a registration statement covering the shares issuable upon conversion of the notes and the warrants, in exchange for payment by the investor of the sum of \$250,000. The principal amount of the second tranche note will reflect the amount invested plus the OID.

Pursuant to the SPA, subject to fulfillment of certain conditions, a third tranche of funding is available from the investor in the form of an 8% convertible note in the principal amount of \$833,333 and a warrant to purchase 275,612 shares of our common stock on the date the registration statement is declared effective by the SEC, in exchange for payment by the investor of the sum of \$750,000. The principal amount of the third tranche note will reflect the amount invested plus the OID.

The notes are fully and unconditionally guaranteed on a senior secured basis by our direct and indirect subsidiaries. The notes and the guarantees are secured by a perfected, first priority security interest in all of our and the guarantors' assets.

Also on November 27, 2019, we issued to an advisor a warrant to purchase 84,187 shares of common stock in connection with the private placement. We agreed to issue to the advisor a warrant to purchase 28,062 shares of our common stock upon the closing of the second tranche.

Below is a summary of the notes and warrants. This summary is not complete and is subject to, and qualified in its entirety by the provisions of the notes and warrants, which are filed as exhibits hereto. We have not completed the second or third tranches, and our completion of these tranches are subject to conditions of the SPA. If we do complete the second or third tranche, the terms of the notes and warrants will be identical to those issued in the first tranche.

At this time, we are delinquent in our payments under the initial convertible note, with the May 1, 2020 and April 1, 2020 payments currently in arrears. We intend to make these payments and the upcoming monthly payments with receipts from product sales and/or the proceeds of additional equity funding. On May 20, 2020, we entered into a Forbearance Agreement with the investor (the "Holder") regarding the initial convertible note. Under the Forbearance Agreement, the investor has agreed to forebear from exercising any default-related rights and remedies subject to the following conditions and material terms:

- We paid the Holder \$60,000 in cash before July 1, 2020. Additional monthly payments required under the Amortization Schedule for the note shall continue to be due on or before the first day of each calendar month thereafter, commencing with the \$110,000 payment originally due April 1, 2020 now due on or before August 1, 2020, and the subsequent monthly payments listed on the Amortization Schedule to be paid monthly in the sequence listed. Interest shall continue to accrue on the principal balance of the Note at the rate(s) stated therein, with all additional accrued interest resulting from this extension of payment deadlines to be paid as part of the last monthly payment. We paid the \$100,000 on August 1, 2020.
- The payments that are in arrears from February, April and May can be paid in whole or in part at any time at the sole election of the Holder in shares of common stock at the Amortization Conversion Price (defined as 80% of the lowest volume weighted average price, or VWAP, during the 10 trading days immediately before the applicable date of the amortization redemption payment).
- Unless or until a default under the Forbearance Agreement occurs, the fixed conversion price under the note will remain \$0.50 per share, and the note shall continue to bear interest at the non-default rate of 8% per annum.
- Unless or until a default under the Forbearance Agreement occurs, the contractual limit on issuances of shares to issue shares of common stock or options to employees, officers, directors, consultants, advisors or contractors will be increased from 5% to 10% or our issued an outstanding common stock.
- We have issued the Holder 500,000 shares of our common stock in consideration for the forbearance.

**Terms of the Notes**

The principal amount of the notes includes an OID of 10%.

Interest on the aggregate unconverted and outstanding principal amount is payable at the interest rate of 8% per annum at our option either:

- in cash; or
- in shares of our common stock, at the lesser of (i) the fixed conversion rate of \$0.50 per share of common stock, or (ii) the rate equal to 80% of the lowest volume weighted average price, or VWAP, during the 10 trading days immediately before the applicable date of the amortization redemption payment, which we refer to as the amortization conversion rate, as described below.

Each note matures one year after its issuance unless accelerated due to an event of default or extended by the investor. Each note is convertible at the option of the investor at any time into shares of our common stock at the fixed conversion rate of \$0.50 per share. However, the conversion rate is subject to adjustment in the event of default, redemption and upon the occurrence of certain events affecting stockholders generally, such as stock splits and recapitalizations.

Included in the amount that the investor may convert into common stock is the sum of:

- the unpaid and unconverted principal amount outstanding on the note;
- 100% of the accrued and unpaid interest on the principal amount of the note to be converted;
- 100% of the make-whole amount (as described below) payable in respect of the principal amount of the note to be converted; and
- all liquidated damages, costs of collection and other amounts payable in respect of the note as applicable.

The make-whole amount is the amount of interest that would have accrued with respect to any principal amount that has been converted or redeemed as if that principal amount was held through the maturity date of the note.

We must pay amortization redemption payments equaling one-ninth of the original principal amount due on each note commencing 90 days after issuance and continuing during the following eight months. The investor may at its option accelerate up to six future amortization redemption payments, in which case the investor may demand the accelerated amortization amounts be paid in shares of our common stock at the lesser of:

- the fixed conversion rate of \$0.50 per share of common stock; and
- the amortization conversion rate, as described above.

In addition, if we fail to make any amortization redemption payment, the investor may convert an amount equal to the sum of:

- one-ninth of the original principal amount of the note;
- 100% of all accrued and unpaid interest on the principal amount of the note that is subject to the amortization redemption;
- 100% of the make-whole amount payable in respect of the principal amount of the note that is subject to the amortization redemption; and
- all liquidated damages payable in respect of the note as of the applicable date of the amortization redemption payment, into our shares of common stock at the lower of (i) the fixed conversion rate of \$0.50 per share of common stock and (ii) the amortization conversion rate.

If we fail to make a redemption payment, the investor may demand the amortization amounts be paid in shares of our common stock at the lesser of fixed conversion rate of \$0.50 per share of common stock or the amortization conversion rate. For the purposes of estimating the number of common stock shares issuable upon conversion of principal and interest under our 8% senior secured convertible notes, we have assumed an amortization conversion rate of \$0.4208, calculated as of November 26, 2019.

In addition, the investor may at its option send a deferral notice and demand that amortization amounts be paid in shares of our common stock at the amortization conversion rate.

We may redeem at our discretion 110% of the outstanding principal amount of the notes, plus accrued but unpaid interest, the make-whole amount, and liquidated damages for cash. In addition, in the event of a subsequent issuance our common stock or debt, we are subject to mandatory redemption provisions. We may not issue shares of common stock to third parties at a price lower than the fixed conversion rate of \$0.50 per share of common stock without the consent of the investor.

The investor may not convert notes to the extent that conversion would, together with its affiliates and attribution parties, cause the investor to beneficially own a number of common shares which would exceed 4.99% of our then outstanding common shares following conversion. The investor may increase its beneficial ownership limitation up to 9.99%.

The notes contain standard and customary events of default, including, but not limited to, failure to make payments when due, failure to observe or perform covenants or agreements contained in the notes, the breach of any material representation or warranty contain therein, our bankruptcy or insolvency, the suspension of trading of our common stock, failure to file required reports with the SEC, and a change of control. If any event of default occurs, subject to a cure period, the full principal amount, together with interest (including default interest of 18% per annum) and other amounts owing in respect thereof to the date of acceleration shall become immediately due and payable in cash.

### ***Terms of Warrants***

The warrants issued to the investor are exercisable at an exercise price of \$0.756 per share of common stock at any time before the close of business two years after their issuance, subject to adjustment in the event of stock dividends, splits, fundamental transactions, or other changes in our capital structure, and contain provisions that permit cashless exercise if a registration statement covering the resale of the shares issuable pursuant to the warrants is not filed within 180 days of their issuance. The investor may not exercise warrants to the extent that exercise would cause it, together with its affiliates and attribution parties, to beneficially own a number of common shares which would exceed 4.99% of our then outstanding common shares following exercise. The investor may increase its beneficial ownership limitation up to 9.99%.

The warrants issued to the advisor are exercisable at an exercise price of \$ 0.792 per share of common stock at any time before the close of business four years after their issuance, subject to adjustment in the event of stock dividends, splits, fundamental transactions, or other changes in our capital structure. The advisor may not exercise warrants to the extent that exercise would cause it, together with its affiliates and attribution parties, to beneficially own a number of common shares which would exceed 4.99% of our then outstanding common shares following exercise. The advisor may remove this beneficial ownership limitation.

### ***Canntab Agreements***

On November 20, 2019, we entered into the Non-Exclusive Distribution and Profit Sharing Agreement with Canntab Therapeutics USA (Florida), Inc. Pursuant to the agreement, which has a term of 2 years and is subject to automatic renewal We are a non-exclusive distributor of certain Canntab products throughout the U.S. Canntab will not grant a third-party the right to promote, sell or deliver the products within the U.S. during the term of the agreement, subject to certain exceptions. In addition, we agreed to share equally with Canntab in the gross profits received from the sale of their products by us. With respect to Canntab's sales of products, we will receive 10% of the gross profits. In connection with the Canntab Agreement, we also entered into a Supply Agreement with Canntab, which has a term of 2 years and is subject to automatic renewal, pursuant to which we agreed to sell hemp extracts to Canntab. Due to a need for additional warehouse space and disruptions caused by the Covid-19 pandemic, we have not distributed Canntab products to date.

### ***Hemptown USA Agreement***

On February 4, 2020, we entered into a Supply and Distribution Agreement with HTO Holdings Inc (dba "Hemptown, USA"), enabling the Company to purchase and sell Hemptown's Cannabigerol (CBG) and Cannabidiol (CBD) products, including top flower, biomass and extracts (crude, isolates, distillates, and water soluble). Ceed2Med, LLC, the Company's largest shareholder, is also a significant investor in Hemptown USA and is party to a distribution agreement with the Company. The Interim Chief Executive Officer will work to develop plans to coordinate the Company's efforts to introduce CBG and to expand its efforts to sell CBD products. On March 28, 2020, we amended the Supply and Distribution Agreement Pursuant to the amendment, we agreed to also (i) aid Hemptown's management with product compliance requirements, (ii) participate in discussions related to Hemptown's 2020 farming, harvesting and processing plans as well as joint supply scenarios, (iii) interact with Hemptown's ingredient and manufacturing divisions to facilitate development of documents for selected SKUs to service the white label market, and (iv) aid Hemptown's CEO in overseeing the entire supply chain to establish best practices in quality and compliance and lower costs. In addition, Hemptown agrees to pay the Company \$3,500 a month in consulting fees. On July 21, 2020, Hemptown discontinued the consulting arrangement entered into under the March 28, 2020 amendment.

### **Expected Changes In Number of Employees, Plant, and Equipment**

We do not currently plan to purchase specific additional physical plant and significant equipment within the immediate future.

### **Results of Operations**

*Three and Six months ended June 30, 2020 and 2019:*

***Net Revenues*** The Company is principally engaged in the business production and selling of products made from industrial hemp. During the six months ended June 30, 2020, we generated total revenues of \$1,367,240 from the sale of CBD products and hemp flowers, including revenues of \$315,800 from a related party, C2M, who is a majority stockholder of the Company, for the six months ended June 30, 2020 as compared to revenues of \$155,663, including revenues from a related party of \$40,519 from C2M during the six months ended June 30, 2019.

During the three months ended June 30, 2020, we generated total revenues of \$531,240 from the sale of CBD products and hemp flowers, as compared to revenues of \$139,683, including revenues from a related party of \$40,519 from C2M during the three months ended June 30, 2019.

The increase in revenues during the three and six months ended June 30, 2020 was primarily related to a new customer who represented approximately 28% and 60%, respectively, of the Company's net sales.

**Cost of Sales** The primary components of cost of sales include the cost of the CBD product and hemp crops. For the six months ended June 30, 2020, the Company's cost of sales amounted to \$2,022,526 which primarily represents cost of CBD products and hemp flowers sold including cost of hemp flowers sold to C2M for a total of \$417,783 and inventory write-off of hemp flowers of \$660,000 due to damages from mold as compared to cost of sales of \$115,787 during the six months ended June 30, 2019.

For the three months ended June 30, 2020, the Company's cost of sales amounted to \$622,270 which primarily represents cost of CBD products and hemp flowers sold including cost of hemp flowers sold to C2M for a total of \$60,000 as compared to cost of sales of \$103,187 during the six months ended June 30, 2019.

The increase in cost of sales during the three and six months ended June 30, 2020 was primarily due to an increase in Company's net sales and inventory write-off of hemp flowers due to damages from mold.

#### **Operating Expenses**

For the six months ended June 30, 2020, we incurred \$3,513,961 in operating expenses as compared to \$3,740,781 for the six months ended June 30, 2019, a decrease of \$226,820 or 6%. For the three months ended June 30, 2020, we incurred \$1,444,613 in operating expenses as compared to \$1,141,547 for the three months ended June 30, 2019, an increase of \$303,066 or 27%. The increase in operating expenses consisted of the following:

**General and administrative expenses** increased by \$546,605, or 43%, from \$1,274,288 for the six months ended June 30, 2019 to \$1,820,893 for the six months ended June 30, 2020, primarily due to an increase in amortization of intangible asset and depreciation expenses of approximately \$233,000, increase in impairment expense of approximately \$58,000, increase lease expense and rent expense of approximately \$51,000, increase in compensation including employee benefits of approximately \$242,000 and decrease in other general administrative expenses of approximately \$37,000 primarily due to travel expenses, recruiting expenses and office expenses.

An increase in general and administrative expenses by \$138,227, or 22%, from \$622,079 for the three months ended June 30, 2019 to \$760,306 for the three months ended June 30, 2020, primarily due to an increase in amortization of intangible asset and depreciation expenses of approximately \$13,000, increase in impairment expense of approximately \$58,000, increase lease expense and rent expense of approximately \$1,000, and increase in compensation including employee benefits of approximately \$98,000 and decrease in other general administrative expenses of approximately \$32,000 primarily due to travel expenses, recruitment expenses, and office expenses.

**Selling and marketing expenses** increased by \$184,520, or 81%, from \$228,480 for the six months ended June 30, 2019 to \$413,000 for the six months ended June 30, 2020, primarily due to increase in marketing and advertising expenses related to salaries of our sales and marketing staffs. A decrease of \$44,492 or 25% from \$176,602 for the three months ended June 30, 2019 to \$132,110 for the three months ended June 30, 2020, primarily due to decrease in promotions, samples and product awareness.

**Professional and consulting fees** decreased by \$930,970, or 42%, from \$2,211,038 for the six months ended June 30, 2019 to \$1,280,068 for the six months ended June 30, 2020, primarily due to decreased stock-based consulting fees related with the grant of stock options and warrants and issuance of stocks to consultants. An increase of \$221,306, or 67%, from \$330,891 for the three months ended June 30, 2019 to \$552,197 for the three months ended June 30, 2020, primarily due to increased stock-based consulting fees related to restricted common stock grants to our new members of the board.

**Research and development** decreased by \$26,975 or 100%, from \$26,975 for the six months ended June 30, 2019 to \$0 for the six months ended June 30, 2020, and decreased of \$11,975 or 100%, from \$11,975 for the three months ended June 30, 2019 to \$0 for the three months ended June 30, 2020 as the Company delayed projects until additional funds are raised.

## **Other Expenses, net**

*Derivative (loss) gain* decreased by \$1,811,197 or 125%, from \$(1,454,729) for the six months ended June 30, 2019 to \$356,468 for the six months ended June 30, 2020, and increase in derivative gain of \$249,982 or 100% from \$0 for the three months ended June 30, 2019 to \$249,982 for the three months ended June 30, 2020 primarily due to the adjustments to fair value and reflects the decrease of our stock price at quarter end.

*Gain on extinguishment of debt* increased by \$39,142, or approximately 100%, from \$0 for the three and six months ended June 30, 2019 to \$39,142 for the three and six months ended June 30, 2020 primarily due to the conversion of notes and interest into common stock during the second quarter of 2020. We did not have comparable gains or losses during the three and six months ended June 30, 2020.

*(Loss) Gain on stock settlement of debt* increased by \$3,030,629, or approximately 101%, from \$3,007,629 for the six months ended June 30, 2019 to \$(23,000) for the six months ended June 30, 2020 due to the conversion of notes and interest into common and preferred shares during the six months ended June 30, 2019. An increase in loss on settlement of debt of \$16,500 or 100% from \$0 for the three months ended June 30, 2019 to \$16,500 for the three months ended June 30, 2020.

*Interest expense* increased by \$339,709, or 92%, from \$369,432 for the six months ended June 30, 2019 to \$709,141 for the six months ended June 30, 2020. An increase in interest expense of \$418,156, or 16,600%, from \$2,519 for the three months ended June 30, 2019 to \$420,675 for the three months ended June 30, 2020. The increase in interest expense is primarily due to increase in amortization of debt discount and debt issuance cost related to our convertible note payable issued in November 2019.

## **Net Loss**

As a result of the foregoing, we generated a net loss of \$4,505,778 for the six months ended June 30, 2020 as compared to a net loss of \$2,517,437 for the six months ended June 30, 2019 and a net loss of \$1,683,694 for the three months ended June 30, 2020 as compared to a net loss of \$1,107,570 for the three months ended June 30, 2019, as a result of the items discussion above.

As a result of the foregoing, we generated a net loss available to stockholders of \$4,195,335 or \$(0.09) per common share – basic and diluted, for the six months ended June 30, 2020 as compared to a net loss of \$3,233,939 or \$(0.12) per common share – basic and diluted, for the six months ended June 30, 2019 and a net loss available to stockholders of \$1,529,070 or \$(0.03) per common share – basic and diluted, for the three months ended June 30, 2020 as compared to a net loss of \$955,226 or \$(0.03) per common share – basic and diluted, for the three months ended June 30, 2019, as a result of the discussion above.

## **Liquidity and Capital Resources**

These unaudited condensed consolidated financial statements are presented on the basis that the Company 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 the Company's assets and the carrying amount of its liabilities based on the going concern uncertainty. Since our inception in 2008, we have generated losses from operations. As of June 30, 2020, our accumulated deficit was \$25,119,016. As of June 30, 2020, we had \$298,754 in cash and working capital deficit of \$3,363,901. These factors raise substantial doubt about the Company's ability to continue as a going concern for a period of twelve months from the issuance date of this report. Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. 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. These unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.



The Company has various principal outstanding balances for a total of \$746,333 from convertible notes as of June 30, 2020. The convertible notes bear interest at a rate ranging from 5% to 8% per annum and will mature from November 26, 2020 and February 1, 2023. Additionally, the Company has various principal outstanding balances for a total of \$413,527 of notes payable from related and unrelated parties as of June 30, 2020. The notes bear interest at a rate ranging from 1% to 18% per annum and maturity dates from December 2019 to May 2050.

Net cash used in operating activities for the six months ended June 30, 2020 was \$400,080, due to our net loss of \$4,505,778, in addition to non-cash charges related to convertible loan notes derivative gain of \$356,468, gain on extinguishment of debt of \$39,142, offset by amortization of debt discounts and debt issuance cost of \$579,115 amortization of intangible assets of \$490,417, amortization of prepaid stock-based expenses of \$378,138, depreciation expense of \$53,787, inventory reserve of \$660,000, impairment expense of \$57,871, bad debt expense of \$51,470, non-cash interest of \$90,000, loss on settlement of debt of \$23,000 and stock-based compensation of \$1,023,303. Net changes in operating assets and liabilities totaled \$1,094,207, which is primarily attributable to an increase in total accounts receivable of \$38,640, an increase in accounts receivable-related party of \$88,800, an increase in accounts payable of \$561,432, an increase in accrued expenses of \$351,138, decrease in prepaid expense and other current assets of \$127,570, decrease in deposit of \$40,000, and a decrease in unearned revenues of \$215,000.

Net cash used in operating activities for the six months ended June 30, 2019 was \$3,484,328, due to our net loss of \$2,517,437, offset by non-cash charges related to convertible loan notes derivative gain (loss) of \$1,454,729, amortization of debt discounts of \$339,806, amortization of intangible assets of \$299,355, depreciation expense of \$11,851 and stock-based compensation of \$2,083,638 offset by \$3,007,629 for a debt settlement gain. Net changes in assets and liabilities totaled of \$2,148,641, which is primarily attributable to increases in total accounts receivable of \$110,433, inventory of \$1,047,781, advance to supplier-related party of \$820,108, prepaid expenses and other current assets of \$289,227, and accounts payable and accrued expenses of \$112,162.

No cash was used in investing activity for the six months ended June 30, 2020. Net cash used in investing activity for the six months ended June 30, 2019 was \$1,385,382. We paid cash for the purchase of membership interest in subsidiary for \$1,000,000 pursuant to a Purchase Agreement and purchase of equipment for \$385,382.

Net cash provided by financing activities for the six months ended June 30, 2020 was \$680,429, due to proceeds from sale of our Common Stock of \$350,000, related party advances of \$97,000, and net proceeds from the issuance of notes payable and convertible notes \$355,929, offset by total note repayments of \$110,000 and repayments on related party advances of \$12,500.

Net cash provided by financing activities for the six months ended June 30, 2019 was \$5,532,395, due to proceeds from sale of our Common Stock of \$5,478,838, net proceeds the issuance of notes payable and convertible notes \$221,129, advance from related party of \$30,000 offset by note repayments of \$197,572.

The Company had principal outstanding balance of \$100,000 from convertible notes and such principal balance has been reclass to current portion as of June 30, 2020. The convertible 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 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 common stock at \$0.40 per Share. We believe this threshold has been met, and conversion of the note is pending.

In addition, the Company had a principal balance of \$646,333 under senior secured convertible promissory notes issued to an institutional investor under the Securities Purchase Agreement dated November 27, 2019. These notes bear interest at a rate of 8% and mature one year after their issuance. These notes are issued at 10% original issue discount and include 1/3 warrant coverage as additional consideration to the lender. All warrants are exercisable at \$0.756 per share. The notes are convertible at a price of \$0.50 per share. Additional debt financing on the same terms is available under the Securities Purchase Agreement, with: (1) an additional purchase of \$277,778 in notes and associated warrants expected to occur on the third business day after the date of the filing of a registration statement on Form S-1 for the shares issuable upon conversion of the notes as required under a Registration Rights Agreement; and (2) an additional purchase of \$833,333 in notes and associated warrants upon effectiveness of the registration statement. At this time, we are delinquent in our payments under the initial convertible note, with the May 1, 2020 and April 1, 2020 payments currently in arrears. We intend to make these payments and the upcoming monthly payments with receipts from product sales and/or the proceeds of additional equity funding.

We recently received a Secured Disaster Loan in the amount of \$99,100 from the U.S. Small Business Administration. The loan carries interest at a rate of 3.75% per year, requires monthly payments of principal and interest, and matures in thirty (30) years. Installment payments, including principal and interest, of \$483 monthly, will begin Twelve (12) months from the date of the promissory Note. In addition, we recently received federal funding in the amount of \$236,410 through the Paycheck Protection Program (the "PPP"). PPP funds have certain restrictions on use of the funding proceeds, and generally must be repaid within five (5) years at 1% interest. The PPP loan may, under circumstances, be forgiven.



## **Off Balance Sheet Arrangements**

As of June 30, 2020, 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.

## Potential Impacts of the COVID-19 Pandemic on Our Business and Operations

In March 2020, the outbreak of COVID-19 (coronavirus) caused by a novel strain of the coronavirus was recognized as a pandemic by the World Health Organization, and the outbreak has become increasingly widespread in the United States, including in each of the areas in which we operate. The COVID-19 (coronavirus) outbreak has had a notable impact on general economic conditions, including but not limited to the temporary closures of many businesses, “shelter in place” and other governmental regulations, reduced business and consumer spending due to both job losses and reduced investing activity, among many other effects attributable to the COVID-19 (coronavirus), and there continue to be many unknowns. While to date we have not been required to stop operating, management is evaluating its use of its office space, virtual meetings and the like. We continue to monitor the impact of the COVID-19 (coronavirus) outbreak closely. The extent to which the COVID-19 (coronavirus) outbreak will impact our operations, ability to obtain financing or future financial results is uncertain. As discussed above, a need for additional warehouse space and disruptions caused by the Covid-19 pandemic have delayed the progress of our distributor relationship with with Canntab Therapeutics USA (Florida), Inc. and we have not distributed Canntab products to date.

## **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

In January 2017, the FASB issued Accounting Standards Update 2017-04, “Intangibles–Goodwill and Other: Simplifying the Test for Goodwill Impairment” (ASU 2017-04). The standard simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the amendments of ASU 2017-04, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value, but the loss cannot exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 is effective for the calendar year ending December 31, 2020. The amendments require a prospective approach to adoption and early adoption is permitted for interim or annual goodwill impairment tests. The adoption of this guidance had no impact on the Company’s unaudited condensed consolidated financial statements.

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.

### *Recent Accounting Updates Not Yet Effective*

In December 2019, the FASB issued ASU 2019-12, “Simplifying the Accounting for Income Taxes.” This guidance, among other provisions, eliminates certain exceptions to existing guidance related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. This guidance also requires an entity to reflect the effect of an enacted change in tax laws or rates in its effective income tax rate in the first interim period that includes the enactment date of the new legislation, aligning the timing of recognition of the effects from enacted tax law changes on the effective income tax rate with the effects on deferred income tax assets and liabilities. Under existing guidance, an entity recognizes the effects of the enacted tax law change on the effective income tax rate in the period that includes the effective date of the tax law. ASU 2019-12 is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this guidance.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

A smaller reporting company is not required to provide the information required by this Item.

### 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 Interim 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. Our management's evaluation of our internal control over financial reporting was based on the framework in Internal Control-Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 June 30, 2020, 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 June 30, 2020 that have materially affected, or is reasonably likely to materially affect, our internal over financial reporting.

#### *Restatement Relating to lease with Skybar Holding, LLC*

The Company failed to timely discover an error in the accounting of the lease. During the second quarter of fiscal 2020, the Company has determined that the commercial lease with Skybar Holding, LLC is not in compliance with current laws or regulations in the City of Delray Beach and does not represent an enforceable contract and was void from the moment of execution. Therefore, the accounting treatment for the recognition of the operating lease right-of-use asset and operating lease liabilities upon adoption of ASC 842 related to this commercial lease was incorrect. As a result of a detailed review of this commercial lease, the Company has made an assessment in the second quarter of fiscal 2020 that the lease is unenforceable and should not have been accounted for under ASC 842. Additionally, the Company reversed previously recorded accrued expenses related to this commercial lease agreement. Please see Note 14 to our financial statements for additional information.

## PART II—OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

On September 9, 2019, Dr. Krassen Dimitrov, a former director, commenced an arbitration proceeding against the Company and its wholly-owned subsidiary Exactus Biosolutions, Inc. before the American Arbitration Association. The complaint alleges breach of a consulting agreement for services by Dr. Dimitrov during 2017-2019, among other claims, and seeks \$750,000 in damages. The Company has filed an answer denying the claims and asserting numerous counterclaims against Dr. Dimitrov and his affiliated entities, KD Innovation Ltd., and Digital Diagnostics, Inc. An arbitrator has been appointed in the matter and on May 1, 2020 issued a procedural order suspending further proceedings.

On February 26, 2020 a complaint was filed against the Company in the Circuit Court, Palm Beach County, Florida on behalf of two former employees of the Company. The case is entitled Ryan Borchers and Miriam Martinez vs. Exactus, Inc. (Case No. 103978709). These former employees were hired in January 2020. The complaint alleges the Company failed to pay wages and compensation to 2 employees under the Fair Labor Standards Act, breach of contract and violation of various Florida statutes, including allegations on behalf of other similarly situated persons. On May 8, 2020, an amended complaint was filed against the Company in the Circuit Court, Palm Beach County, Florida on behalf of six former employees, with one additional employee added to the suit in June 2020. The amended case is entitled Ryan Bocherds, Marc Reiss, Jeannine Boffa, Benjamin Blair, Miriam Martinez and Michael Amoroso vs. Exactus, Inc. (Case No. 50-2020-CA-002274-MB). The other four former employees were hired between April 2019 and December 2019. As of June 30, 2020 and December 31, 2019, the Company has recorded total accrued salaries of \$90,974 and \$26,494 related to these former employees. The complaint seeks approximately \$106,000 in unpaid wages plus special damages, liquidated damages, interest and attorney's fees. The Company has retained legal representation and intends to vigorously contest the matter.

From time to time, we may become involved in legal proceedings arising in the ordinary course of business. We are unable to predict the outcome of any such matters or the ultimate legal and financial liability, and at this time cannot reasonably estimate the possible loss or range of loss and accordingly have not accrued a related liability.

Please see NOTE 11 - COMMITMENTS AND CONTINGENCIES for additional information.

### ITEM 1A. RISK FACTORS.

A smaller reporting company is not required to provide the information required by this Item. For our most recent risk factors, please consult our Annual Report on Form 10-K filed May 22, 2020.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES OR USE OF PROCEEDS.

Subsequent to the reporting period, on July 17, 2020, the Company issued 708,148 shares of its common stock at a contractual conversion price of approximately \$0.09, as a result of the conversion of principal of \$47,000 and interest of \$3,760 of the convertible note. The original issuance of the convertible note, and the issuance of the conversion shares, were exempt from registration under Rule 506 of Regulation D.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

### ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

### ITEM 5. OTHER INFORMATION.

None.

### ITEM 6. EXHIBITS.

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>   |
|-----------------------|---|
| <a href="#">31.1</a>  | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                             |
| <a href="#">31.2</a>  | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                             |
| <a href="#">32.1</a>  | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101                   | Materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 formatted in Extensible Business Reporting Language (XBRL)                     |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 19, 2020

**Exactus, Inc.**

/s/ Emiliano Aloï

Emiliano Aloï

*Interim Chief Executive Officer and and Principal Executive Officer*

/s/ Kenneth E. Puzder

Kenneth E. Puzder

*Chief Financial Officer and Principal Accounting Officer*

## CERTIFICATIONS

I, Emiliano Aloi, certify that;

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2020 of Exactus, Inc. (the “registrant”);
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 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(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 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 reasonably 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 control over financial reporting.

Date: August 19, 2020

/s/ Emiliano Aloi

By: Emiliano Aloi

Title: Interim Chief Executive Officer

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## CERTIFICATIONS

I, Kenneth Puzder, certify that;

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2020 of Exactus, Inc. (the “registrant”);
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 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(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 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 reasonably 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 control over financial reporting.

Date: August 19, 2020

/s/ Kenneth Puzder  
By: Kenneth Puzder  
Title: Chief Financial Officer

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND  
CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly Report of Exactus, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020 filed with the Securities and Exchange Commission (the "Report"), I, Emiliano Aloi, Interim Chief Executive Officer, and I, Kenneth Puzder, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and the consolidated result of operations of the Company for the periods presented.

By: /s/ Emiliano Aloi  
Name: Emiliano Aloi  
Title: Principal Executive Officer  
Date: Date: August 19, 2020

By: /s/ Kenneth Puzder  
Name: Kenneth Puzder  
Title: Principal Financial Officer  
Date: Date: August 19, 2020

This certification has been furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Principal Financial Officer

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