

AXIM BIOTECHNOLOGIES, INC.  
Form 10-Q  
August 21, 2017

**FORM 10-Q**

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

**For the quarterly period ended June 30, 2017**

OR

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

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

Commission file number 000-54296

**AXIM Biotechnologies, Inc.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**27-4029386**

(I.R.S. Employer Identification Number)

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

**New York, NY 10111**

(Address of principal executive offices)

**(212) 751-0001**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X]

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

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

Large accelerated Filer [ ]    Accelerated Filer [ ]    Non-accelerated filer [ ]    Smaller reporting Company [X]    Emerging growth Company [ ]  
(Do not check if smaller reporting company)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 52,569,441 of common stock, par value \$0.0001 per share, outstanding as of August 15, 2017.

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**AXIM BIOTECHNOLOGIES, INC.**

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**AXIM BIOTECHNOLOGIES, INC.**  
**(Formerly AXIM International, Inc.)**  
**Condensed Consolidated Balance Sheets**

	<b>June 30</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash	\$ 4,103,815	\$ 713,346
Inventory	63,682	38,446
Reservation fee deposit	76,155	76,155
Prepaid expenses	83,836	40,753
Loan receivable	5,000	505,000
Total current assets	4,332,488	1,373,700
Property and equipment, net of accumulated depreciation of \$6,152 and \$4,474, respectively.	10,627	12,305
Other Assets:		
Acquired intangible asset - intellectual property licensing agreement, net	63,167	63,167
Security deposits	7,440	-
Total other assets	70,607	63,167
<b>TOTAL ASSETS</b>	<b>\$ 4,413,722</b>	<b>\$ 1,449,172</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 328,914	\$ 401,220
Due to shareholder	5,000	5,000
Due to first insurance funding	-	22,978
Due to related party	1,619,067	1,619,067
Promissory note - related party (including accrued interest of \$100,818 and \$88,564 respectively)	980,818	968,564
Convertible note payable -current portion	2,000,000	-
Total current liabilities	4,933,799	3,016,829
Long-term liabilities:		
Convertible notes payable due to shareholder (including accrued interest of \$1,601 and \$792, respectively)	46,601	45,793
	2,016,732	-

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Convertible note payable (including accrued interest of \$16,609) net of unamortized debt discount of \$1,259,877 and \$0, respectively) less current portion (see note 9)		
Convertible note payable (including accrued interest of \$53,029 and \$15,646 respectively) net of unamortized debt discount of \$1,273,862 and \$1,323,606, respectively (see note 9)	845,267	758,140
Total long-term liabilities	2,908,600	803,933
<b>TOTAL LIABILITIES</b>	<b>7,842,399</b>	<b>3,820,762</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized;		
Series A Convertible Preferred stock, \$0.0001 par value, -0- and -0- shares designated respectively, -0- and -0- shares issued and outstanding; respectively	-	-
Undesignated Preferred stock, \$0.0001 par value, 4,000,000 shares authorized, 0- and -0- shares issued and outstanding, respectively	-	-
Series B Convertible Preferred Stock, \$0.0001 par value 500,000 shares designated, 500,000 and 500,000 shares issued and outstanding, respectively	50	50
Series C Convertible Preferred Stock, \$0.0001 par value 500,000 shares designated, 500,000 and 500,000—shares issued and outstanding, respectively	50	50
Common stock, \$0.0001 par value, 300,000,000 shares authorized 52,569,441 and 52,506,441 shares issued and outstanding, respectively;	5,257	5,251
Additional paid in capital	15,724,489	15,672,631
Common stock to be issued	-	20,064
Accumulated deficit	(19,158,523)	(18,069,636)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(3,428,677)</b>	<b>(2,371,590)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 4,413,722</b>	<b>\$ 1,449,172</b>

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

**AXIM BIOTECHNOLOGIES, INC.**  
**(Formerly AXIM International, Inc.)**  
**Condensed Consolidated Statement of Operations**  
**(unaudited)**

	<b>For the Three Months  Ended June 30, 2017</b>	<b>For the Three Months  Ended June 30, 2016</b>	<b>For the Six Months  Ended June 30, 2017</b>	<b>For the Six Months  Ended June 30, 2016</b>
Revenues	\$ 3,738	\$ 11,241	\$ 22,358	\$ 25,246
Cost of goods sold	1,486	12,082	40,416	27,296
Gross profit (loss)	2,252	(841)	(18,058)	(2,050)
Operating Expenses:				
Research and development expenses	62,949	45,049	203,314	76,229
Selling, general and administrative	375,713	444,756	690,514	1,353,708
Depreciation	839	839	1,678	1,678
Total operating expenses	439,501	490,644	895,506	1,431,615
Loss from operations	(437,249)	(491,485)	(913,564)	(1,433,665)
Other (Income) expenses:				
Interest Income	-	-	(1,597)	-
Amortization of debt discount	84,995	-	109,867	-
Loss on extinguishment of debt	-	1,385,000	-	1,385,000
Interest expense	42,493	12,087	67,053	24,009
Total other (income) expenses	127,488	1,397,087	175,323	1,409,009
Loss before provision of income tax	(564,737)	(1,888,572)	(1,088,887)	(2,842,674)
provision for income tax	-	-	-	-
NET LOSS	\$ (564,737)	\$ (1,888,572)	\$ (1,088,887)	\$ (2,842,674)
Less: Dividend on preferred stocks	-	-	-	-
	\$ (564,737)	\$ (1,888,572)	\$ (1,088,887)	\$ (2,842,674)

NET LOSS ATTRIBUTABLE TO COMMON  
SHAREHOLDERS

Loss per common share - basic and diluted	\$	(0.01)	\$	(0.05)	\$	(0.02)	\$	(0.07)
Weighted average common shares outstanding								
-basic and diluted		52,568,174		39,762,659		52,542,308		39,736,261

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



**AXIM BIOTECHNOLOGIES, INC.**

**(Formerly AXIM International, Inc.)**

**Condensed Consolidated Statement of Stockholders' Deficit**

**For the Six Months Ended June 30, 2017**

**(unaudited)**

Common Stock		Preferred Stock		Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock to be Issued	Additional Paid In Capital	Accumulated Deficit
Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
52,506,441	\$5,251	-	\$ -	-	\$ -	500,000	\$50	500,000	\$50	20,064	\$15,672,631	\$(18,069,636)
60,000	6	-	-	-	-	-	-	-	-	(20,064)	20,058	-
3,000	-	-	-	-	-	-	-	-	-	-	31,800	-
-	-	-	-	-	-	-	-	-	-	-	-	(1,088,887)
52,569,441	\$5,257	-	\$ -	-	\$ -	500,000	\$50	500,000	\$50	-	\$15,724,489	\$(19,158,523)

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

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**AXIM BIOTECHNOLOGIES, INC.**  
**(Formerly AXIM International, Inc.)**  
**Condensed Consolidated Statements of Cash Flows**  
**(unaudited)**

	<b>For the Six Months ended June 30, 2017</b>	<b>For the Six Months ended June 30, 2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,088,887)	\$ (2,842,674)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	1,678	1,678
Amortization of prepaid services	-	736,438
Amortization of prepaid insurance	41,917	42,616
Amortization of debt discount	109,867	-
Loss on extinguishment of debt	-	1,385,000
Stock based compensation	31,800	176,948
Inventory written off	-	9,753
Changes in operating assets and liabilities:		
(Decrease) increase Accounts payable and accrued expenses	(96,018)	1,706
(Increase) decrease in prepaid insurance	(85,000)	(85,000)
Increase in inventory	(25,236)	(40,673)
Increase in credit card payable	286	-
Increase in royalty fee payable	449	-
Increase in accrued interest payable	67,053	23,614
Due to first insurance funding	-	45,036
Increase in Security Deposits	(7,440)	-
Net cash used in operating activities	(1,049,531)	(545,558)
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Net cash used in investing activities	-	-
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Proceeds from due to related party	-	430,000
Proceeds from convertible notes	3,940,000	-
Proceeds from loan receivable	500,000	-
Net cash provided by financing activities	4,440,000	430,000

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Net increase (decrease) in cash and cash equivalents	\$	3,390,469	\$	(115,558)
Cash and cash equivalents at beginning of period		713,346		134,170
Cash and cash equivalents at end of period	\$	4,103,815	\$	18,612

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

CASH PAID DURING THE PERIOD FOR:

Interest	\$	-	\$	302
Income taxes - net of tax refund	\$	-	\$	-

NON-CASH INVESTING AND FINANCING ACTIVITIES

Common stock issued against common stock to be issued	\$	20,064	\$	52,500
Common stock issued against conversion of debt and interest	\$	-	\$	159,000
Conversion of Series A convertible preferred stock into common stock	\$	-	\$	100
Debt discount and initial derivative liability at issuance of note	\$	1,320,000	\$	-

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

**AXIM BIOTECHNOLOGIES, INC.**

**(FORMERLY AXIM INTERNATIONAL, INC.)**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017 and 2016**

**NOTE 1: ORGANIZATION**

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

**NOTE 2: BASIS OF PRESENTATION:**

The unaudited condensed consolidated financial statements of AXIM Biotechnologies, Inc. (formerly Axim International, Inc.) as of June 30, 2017, and for the six months period ended June 30, 2017 and 2016 have been prepared in accordance with United States generally accepted accounting principles ("US GAAP").

The following (a) balance sheets as of June 30, 2017 (unaudited) and December 31, 2016, which have been derived from audited financial statements, and (b) the unaudited interim statements of operations and cash flows of AXIM Biotechnologies, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of results that may be expected for the year ending December 31, 2017. These unaudited financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2016 included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC") on April 14, 2017.

**NOTE 3: SIGNIFICANT ACCOUNTING POLICIES**

**Use of estimates**

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

**Cash equivalents**

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

**Inventory**

Inventory consists of finished goods available for sale and raw materials owned by the Company and are stated at the lower of cost or market. During the six months ended June 30, 2017, the Company wrote off finished goods inventory worth \$ -0-. As of June 30, 2017 the finished goods inventory totaled \$0 and raw materials in production totaled \$46,795 and raw materials for clinical trials totaled \$16,887.

**Property and equipment**

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using straight-line method over the estimated useful life. New assets and expenditures that extend the useful life of property or equipment are capitalized and depreciated. Expenditures for ordinary repairs and maintenance are charged to operations as incurred. For both the three and six months ended June 30, 2017 and 2016 the Company recorded \$839 and \$1,678 of depreciation expense, respectively.

## **Intangible Assets**

As required by generally accepted accounting principles, trademarks and patents are not amortized since they have an indefinite life. Instead, they are tested annually for impairment. Intangible assets as of June 30, 2017 amounted to \$63,167 net of accumulated impairment losses of \$652,265.

## **Revenue Recognition**

The Company recognizes revenue on four basic criteria that must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the fee charged for services rendered and products delivered and the collectability of those fees. Revenue is generally recognized upon shipment.

Revenues from continuing operations recognized for the three and six months ended June 30, 2017 and 2016 amounted to \$3,738 and \$11,241 and \$22,358 and \$25,246, respectively.

## **Principles of Consolidation**

The consolidated financial statements include the accounts of Axim Biotechnologies, Inc. and its wholly owned subsidiaries Axim Holdings, Inc. and Can Chew License Company as of June 30, 2017. All significant intercompany transactions and balances have been eliminated in consolidation.

## **Derivative Liabilities**

The Company assessed the classification of its derivative financial instruments as of June 30, 2017, which consist of convertible instruments and rights to shares of the Company's common stock, and determined that such derivatives meet the criteria for liability classification under ASC 815.

ASC 815 generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that

embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to the requirement of ASC 815. ASC 815 also provides an exception to this rule when the host instrument is deemed to be conventional, as described.

## **Fair Value of Financial Instruments**

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

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

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

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

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

The company did not have any Level 2 or Level 3 assets or liabilities as of June 30, 2017, with the exception of its convertible notes payable and derivative liability. The carrying amounts of these liabilities at June 30, 2017 approximate their respective fair value based on the Company's incremental borrowing rate.

Cash is considered to be highly liquid and easily tradable as of June 30, 2017 and therefore classified as Level 1 within our fair value hierarchy.



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

### **Convertible Instruments**

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

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

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

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

### **Income Taxes**

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

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

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

## **Concentrations of Credit Risk**

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents. The Company places its cash and temporary cash investments with credit quality institutions. At times, such amounts may be in excess of the FDIC insurance limit. The Company does not have accounts receivable and allowance for doubtful accounts at June 30, 2017 and December 31, 2016.

## **Net Loss per Common Share**

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

There were 17,120,567 common share equivalents at June 30, 2017 and 16,216,652 common shares at December 31, 2016. For the three and six months ended June 30, 2017 and 2016 these potential shares were excluded from the shares used to calculate diluted earnings per share as their inclusion would reduce net loss per share.

## **Stock Based Compensation**

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

## **Cost of Sales**

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

## **Research and Development**

The Company accounts for research and development costs in accordance with the Accounting Standards Codification subtopic 730-10, Research and Development (“ASC 730-10”). Under ASC 730-10, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company incurred research and development expenses of \$62,949 and \$45,049 and \$203,314 and \$76,229 for the three and six months ended June 30, 2017 and 2016; respectively.

## **Shipping Costs**

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

## **Recently Issued Accounting Standards**

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

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

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

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

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU N. 2016-15, "Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 provides guidance regarding the classification of certain items within the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017 with early adoption permitted.

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

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

ASU 2016-01 addresses certain aspect of recognition, measurement, presentation, and disclosure of financial instruments. Among other provisions, the new guidance requires the fair value measurement of investments in certain

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

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

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

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

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

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

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

**NOTE 4: PREPAID EXPENSES**

Prepaid expenses consist of the following as of June 30, 2017 and December 31, 2016:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Prepaid interest and insurance	\$ 83,836	\$ 40,753
	\$ 83,836	\$ 40,753

For the three and six months ended June 30, 2017 and 2016, the Company recognized amortization of prepaid expense of \$20,959, \$159,506 and \$41,917 and \$779,054, respectively.

**NOTE 5: RESERVATION FEE DEPOSIT**

The Company entered into a reservation agreement with the Municipality of Almere in the Netherlands. In October 2015 the Company paid the reservation fee in the amount of \$65,170. The reservation fee deposit gives the company an exclusive right to purchase the building land for a purchase price of €1,110,000. Starting in October 2015 the second reservation period was extended for a period of twelve (12) months expiring September 2016. Starting in October 2016 the second reservation period was extended to October 20, 2017 under the same terms as the previous period. If the company proceeds to purchase the building land the reservation fee will be offset against the purchase price. The Company is not entitled to a refund of the reservation fee if the current agreement is terminated by the Company in the event of insolvency or a moratorium on the transfer or assignment of rights or in the event of a failure to notify or notify on time. The agreement is not transferable. The rights and obligations of this agreement cannot be assigned. The municipality is entitled to terminate the agreement by means of a registered letter if during the reservation period compelling objections exist or arise, or through the insolvency of the Company.

**NOTE 6: PROMISSORY NOTE - RELATED PARTY**

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



The following table summarizes promissory note payable as of June 30, 2017 and December 31, 2016:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Promissory note payable, due on demand, interest at 3% p.a.	\$ 880,000 \$	880,000
Accrued Interest	100,818	88,564
	\$ 980,818 \$	968,564

For the three months ended June 30, 2017 and 2016 the Company recognized interest expense of \$6,581 and \$12,087, respectively on this note.

For the six months ended June 30, 2017 and 2016 the Company recognized interest expense of \$12,254 and \$24,009, respectively.

#### **NOTE 7: RELATED PARTY TRANSACTIONS**

The Company has received working capital advances from CCB totaling \$1,619,067 as of June 30, 2017, which includes \$0 and \$0 received during the three and six months ended June 30, 2017; respectively. The advances currently bear no interest and are payable on demand. The Company is in discussions to have the advances reduced to a longer term, fixed maturity note.

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

On August 15, 2016 the Company issued 1,000,000 shares of its Series A Convertible Preferred Stock in exchange for 1,000,000 shares of its Undesignated Preferred Stock (see Footnote 10 - "Preferred Stock" for a discussion of the Company's preferred stock). The Undesignated Preferred Stock was held by Sanammad Foundation and MJNA Investment Holdings, LLC (500,000 shares each), which parties together own a majority of the common stock of the Company. Under the terms of the exchange, the 1,000,000 shares of Series A Convertible Preferred received in the exchange were immediately converted into 5,000,0000 restricted shares of the Company's common stock (2,500,000 shares for each of Sanammad Foundation and MJNA Investment Holdings, LLC). As a result, the Series A Convertible Preferred Stock is retired and no longer available for future issuance. The three members of the Sanammad Foundation also serve as the current three directors of the Company and Sanammad, along with MJNA Investment Holdings, LLC, hold a majority of the outstanding stock of the Company.

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

On August 18, 2016 the Company issued all 500,000 shares of its newly designated Series C Preferred Stock to MJNA Investment Holdings, LLC in exchange for cash of \$65,000. At this time the holders of the Series C Preferred Stock have decided not to elect any Series C Directors.

**NOTE 8: DUE TO FIRST INSURANCE FUNDING**

On June 25, 2017, the Company renewed its D&O insurance policy with total premiums, taxes and fees for \$85,000. A cash down payment of \$17,000 was paid on June 30, 2017. Under the terms of the insurance financing, payments of \$7,736, which include interest at the rate of 5.7% per annum, are due each month for nine months commencing on July 25, 2017. For the six months ended June 30, 2017, the Company recognized insurance expense of \$41,917.

**NOTE 9: CONVERTIBLE NOTES PAYABLE**

The following table summarizes convertible note payable- shareholder as of June 30, 2017 and December 31, 2016

	<b>June 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Convertible note payable, due on July 1, 2028, interest at 3.5% p.a.	\$ 45,000	\$ 45,000
Accrued interest	1,601	793
	<b>\$ 46,601</b>	<b>\$ 45,793</b>

On November 26, 2012, the Company entered into an interest free \$50,000 convertible loan payable maturing on December 31, 2014. The note was convertible into the Company's common stock at a conversion price of \$0.10 per share. The Company was unable to repay the loan as of December 31, 2014, and obtained multiple extensions until December 31, 2015. The Company had paid no interest or other consideration in return for the extensions of the loan. Unable to obtain further extension of the maturity date, on June 29, 2016, the Company entered into a Debt Exchange Agreement with the note holder whereby the Company exchange the note having a balance due of \$50,000 as of December 31, 2015, for a long-term convertible note in the amount of \$50,000. The new Convertible Note ("Note") bears interest at the rate of 3.5% per annum, payable annually beginning on July 1, 2017, and matures on July 1, 2028. The Note is convertible, in whole or in part at any time at the option of the holder, into the Company's common stock at a conversion price of \$0.01, provided however, the holder of the Note is not permitted to convert an amount of the Note that would result in the holder and its affiliates owning more than 4.9% of the Company's outstanding common stock. The Company determined fair value of new debt \$1,435,000 and as result was recorded \$1,385,000 as a loss on debt extinguishment at the year end December 31, 2016. On June 30, 2016, the holder of the Note converted \$5,000 face value into 500,000 shares of the Company's common stock. The balance on the Note as of June 30, 2017 is \$46,601, including interest accrued thereon of \$1,601.

The following table summarizes convertible note payable as of June 30, 2017 and December 31, 2016

	<b>June 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Convertible note payable, due on April 21, 2025, interest at 4% p.a.	\$ 216,100	\$ 216,100
Convertible note payable, due on October 1, 2029, interest at 3.5% p.a.	850,000	850,000
Convertible note payable, due on October 1, 2029, interest at 3.5% p.a.	1,000,000	1,000,000
Convertible note payable, due on December 12, 2018, interest at 8% p.a.	4,210,000	-
Finance premium costs payable, due on December 12, 2018	1,050,000	-
Accrued interest	69,638	15,646
Total	7,395,738	2,081,746
Less unamortized debt discount	(2,533,739)	(1,323,606)
Convertible note payable, net	4,861,999	758,140
Less current portion	2,000,000	-
Long term portion	\$ 2,861,999	\$ 758,140

The Company has outstanding convertible note payable having a balance due of \$220,432 and \$216,100, as of June 30, 2017 and December 31, 2016 respectively. The Note bears interest at the rate of 4% per annum which accrues until maturity at April 21, 2025. The Note was issued in April of 2015 to a third-party as a non-refundable payment for consultancy services to be provided to the Company for a period of at least one year. The Note is convertible, in whole or in part at any time at the option of the holder, into shares of the Company's common stock at a conversion price of \$0.10, provided however, the holder of the Note is not permitted to convert an amount of the Note that would result in the holder and its affiliates owning more than 4.9% of the Company's outstanding common stock. On June 30, 2016 the holder of the Note converted \$154,000 due under the Note, including interest of \$ 19,490, into 1,540,000 shares of the Company's common stock. On December 29, 2016 the holder of the Note converted \$29,900 due under the Note including interest of 20,100 into 500,000 shares of the Company's common stock. The balance on the Note as

of June 30, 2017 is \$220,432, including interest accrued thereon of \$4,332.

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

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

In connection with this convertible note, the Company recorded a \$499,318 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. As of June 30, 2017 this note has not been converted.

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

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

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

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

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

Pursuant to the terms of the SPA the Company is required to reserve and keep available out of its authorized and unissued shares of common stock, a minimum of 2,250,000 shares of common stock. The company has recorded the 25% premium on cash payment as a liability and is amortizing it over the term of the note utilizing the effective interest method.

During the three months ended June 30, 2017 and 2016 the Company amortized the debt discount on all the notes of \$84,995 and \$0, respectively, to other expenses.

During the six months ended June 30, 2017 and 2016 the Company amortized the debt discount on all the notes of \$109,867 and \$0 to other expenses.

**NOTE 10: STOCK INCENTIVE PLAN**

On May 29, 2015 the Company adopted its 2015 Stock Incentive Plan. Under the Plan the Company may issue up to 10,000,000 S-8 shares to officers, employees, directors or consultants for services rendered to the Company or its affiliates or to incentivize such parties to continue to render services. S-8 shares are registered immediately upon the filing of the Plan and are unrestricted shares that are free-trading upon issuance. There were 9,856,000 shares available for issuance under the Plan as of June 30, 2017.

**NOTE 11: STOCKHOLDERS' DEFICIT**

Preferred Stock

The Company has authorized 5,000,000 shares of preferred stock, with a par value of \$0.0001 per share. Of the 5,000,000 authorized preferred shares, 4,000,000 are undesignated "blank check" preferred stock. The Company may issue such preferred shares and designate the rights, privileges and preferences of such shares at the time of designation and issuance. As of June 30, 2017 and December 31, 2016 there are -0- and -0- shares of undesignated preferred shares issued and outstanding, respectively.

Series A Convertible Preferred Stock

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

Each share of the Series A Convertible Preferred Stock is convertible into five (5) shares of the Company's common stock at any time at the discretion of the holder. The Series A Convertible Preferred Stock provides for a liquidation preference as follows; In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary (a "Liquidation"), the assets of the Company available for distribution to its stockholders shall be distributed as follows. The holders of the Series A Convertible Preferred Stock shall be entitled to receive, prior to the holders of the other series of preferred stock, if any, and prior and in preference to any distribution of the assets or surplus funds of the Company to the holders of any other shares of stock of the Company by reason of their ownership of such stock: (i) all shares of common stock of any subsidiary of the Company which are held by the Company; and (ii) an amount equal to \$1.00 per share with respect to each share of Series A Convertible Preferred stock, plus all declared but unpaid dividends with respect to such share. The Series A Convertible Preferred Stock also contains

super-majority voting rights and a number of protective covenants. As of June 30, 2017 and December 31, 2016 there are -0- and -0- Series A Convertible Preferred shares issued and outstanding; respectively.

On August 15, 2016 the Company issued 1,000,000 shares of its Series A Convertible Preferred Stock in exchange for 1,000,000 shares of its Undesignated Preferred Stock (see Footnote 10 - "Preferred Stock" for a discussion of the Company's preferred stock). The Undesignated Preferred Stock was held by Sanammad Foundation and MJNA Investment Holdings, LLC (500,000 shares each), which parties together own a majority of the common stock of the Company. Under the terms of the exchange, the 1,000,000 shares of Series A Convertible Preferred received in the exchange were immediately converted into 5,000,000 restricted shares of the Company's common stock (2,500,000 shares for each of Sanammad Foundation and MJNA Investment Holdings, LLC). As a result, the Series A Convertible Preferred Stock is retired and no longer available for future issuance. The three members of the Sanammad Foundation also serve as the current three directors of the Company and Sanammad, along with MJNA Investment Holdings, LLC, hold a majority of the outstanding stock of the Company. During the six months ended June 30, 2017, the Company recorded preferred dividend of \$ -0-.

#### Series B Convertible Preferred Stock

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

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



## Series C Convertible Preferred Stock

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

On August 18, 2016 the Company issued all 500,000 shares of its newly designated Series C Preferred Stock to MJNA Investment Holdings, LLC in exchange for cash of \$65,000. At this time the holders of the Series C Preferred Stock have decided not to elect any Series C Directors.

## Amended and Restated Bylaws

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

## Common Stock

The Company has authorized 300,000,000 shares of common stock, with a par value of \$0.0001 per share. As of June 30, 2017 and December 31, 2016, the Company had 52,569,441 and 52,506,441 shares of common stock issued and outstanding, respectively.

On June 13, 2014, the Company entered into an employment agreement with Dr. George Anastassov, its Chief Executive Officer, Chief Financial Officer and Secretary. On September 13, 2015 following fifteen (15) months of continuous employment, and every three months thereafter, the Company was obligated to issue 125,000 restricted shares of the Company's common stock based upon the average ten (10) day closing price immediately preceding the grant date, as quoted on Yahoo.com. During the period ended March 31, 2016, the Company issued 125,000 shares of common stock towards common stock to be issued against expenses incurred worth \$52,500 in prior year. On March 13, 2016 and June 13, 2016, the Company was obligated to issue 125,000 restricted shares; respectively, of the Company's common stock based upon the average ten (10) day closing price immediately preceding the grant date, as quoted on Yahoo.com.

During the six months ended June 30, 2017, the Company has issued 60,000 shares of common stock valued at \$20,064 which were shown as stock to be issued. On May 8, 2017, the Company issued 3,000 shares of common stock valued at \$31,800 for consultancy services.

**NOTE 12: COMMITMENT AND CONTINGENCIES**

On June 13, 2014, the Company entered into an employment agreement with Dr. George Anastassov, its Chief Executive Officer. On September 13, 2015 following fifteen (15) months of continuous employment, and every three months thereafter, the Company was obligated to issue 125,000 restricted shares of the Company's common stock based upon the average ten (10) day closing price immediately preceding the grant date, as quoted on Yahoo.com. During the period ended March 31, 2016, the Company issued 125,000 shares of common stock towards common stock to be issued against expenses incurred worth \$52,500 in prior year. On March 13, 2016 and June 13, 2016, the Company was obligated to issue 125,000 restricted shares; respectively, of the Company's common stock based upon the average ten (10) day closing price immediately preceding the grant date, as quoted on Yahoo.com. As of December 31, 2016, the Company has issued these shares. At the year end December 31, 2016 the Company recorded \$115,625 of compensation expense in the accompanying condensed consolidated financial statements, to record for the required issuance of the incentive shares.

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

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

On September 15, 2016 The company entered into an employment agreement with Philip A. Van Damme, its Chief Medical Officer. The agreement does not have a set term and may be terminated at any time by the Company or D. Van A. Damme with proper notice. Under the agreement Dr. Van A. Damme. The shares were issued in the 4<sup>th</sup> quarter 2016. At the year end December 31, 2016 the Company recorded \$48,000 of compensation expense in the accompanying condensed consolidated financial statements to account for the required issuance of the incentive shares.

The Company entered into a reservation agreement with the Municipality of Almere in the Netherlands. In October 2015 the Company paid the reservation fee in the amount of \$65,170. The reservation fee deposit gives the company an exclusive right to purchase the building land for a purchase price of €1,110,000. Starting in October 2016 the second reservation period was extended for a period of twelve (12) months expiring October 2017. The Company may not have the ability to acquire the land prior to the expiration of the extended reservation term. Therefore, in that case, the Company intends to seek another extension of the reservation period, however, there can be no assurance that the

municipality will agree to such an extension in which case the reservation fee would be forfeited.

### **Operating Lease**

The company is renting an office at 45 Rockefeller Plaza 20<sup>th</sup> Floor Suite 83, New York, NY 10111 on a month to month basis the monthly rent is \$6,635. A security deposit of \$7,440 has been paid.

### **Litigation**

As of June 30, 2017 and this report issuing date, the Company is not a party to any pending material legal proceeding. To the knowledge of management, no federal, state or local governmental agency is presently contemplating any proceeding against the Company. To the knowledge of management, no director, executive officer or affiliate of the Company, any owner of record or beneficially of more than five percent of the Company's Common Stock is a party adverse to the Company or has a material interest adverse to the Company in any proceeding.

**NOTE 13: GOING CONCERN**

The Company's consolidated financial statements have been presented assuming that the Company will continue as a going concern. As shown in the consolidated financial statements, the Company has negative working capital of \$601,311 and has an accumulated deficit of \$19,158,523 has cash used in operating activities of continuing operations \$1,049,531, and presently does not have the resources to accomplish its objectives during the next twelve months. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue in operation.

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

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*Forward Looking Statement Notice*

Certain statements made in this Quarterly Report on Form 10-Q are “forward-looking statements” (within the meaning of the Private Securities Litigation Reform Act of 1995) regarding the plans and objectives of management for future operations. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of AXIM Biotechnologies, Inc. (“we”, “us”, “our” or the “Company”) to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. The Company’s plans and objectives are based, in part, on assumptions involving the continued expansion of business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes its assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance the forward-looking statements included in this Quarterly Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

*Description of Business*

We were incorporated in the State of Nevada on November 18, 2010, as AXIM International, Inc. (Inception). On July 24, 2014, we changed our name to AXIM Biotechnologies, Inc. to better reflect our business operations. On August 7, 2014, we incorporated a wholly owned Nevada subsidiary named Axim Holdings, Inc. This subsidiary will be used to help facilitate the anticipated activities listed below. Our principal executive office is located at 45 Rockefeller Plaza 20th Floor, Suite 83, New York, NY 10111.

In early 2014, we discontinued our organic waste marketable by-product business to focus on our anticipated new business to become an innovative biotechnology company working on the treatment of pain, spasticity, anxiety and other medical disorders with the application of cannabinoids based products as well as focusing on research, development and production of pharmaceutical, nutraceutical, oral health and cosmetic products as well as procurement of genetically and nano-controlled active ingredients.

**Current Operations**

The operations of the Company include: the research and development of pharmaceutical, nutraceutical and cosmetic products, as well as extraction, purification and conversion of cannabinoids technologies. Over the next 12 months, we anticipated the following activities:

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

**2 .** Conducting clinical trials at the university of Wageningen, The Netherlands on patients with irritable bowel syndrome, inflammatory bowel disease, ulcerative colitis and Crohn’s disease using innovative, (patented and patent pending technologies) delivery mechanisms containing various cannabinoids.

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

**4 .** Completing a proof of concept clinical trial at the Dermatological Center Maurits Clinic The Hague, The Netherlands on patients with psoriasis and atopic dermatitis using innovative, (patent pending and patented) delivery mechanisms containing unique cannabinoids.

**5 .** Conducting of a Phase I and a proof of concept clinical trial (Phase II) for treatment of restless leg syndrome in Israel with the company’ IP-based preparation MedChew RL™ .

**6 .** Development of novel (patent pending) pharmaceutical cannabinoid and opioid-agonist/ anatagonist-based preparations “CannQuit™” formulations for tobacco, opioid and cannabis dependence treatment.

**7 .** Initiating Phase I and II pre- and clinical trials for nicotine smoking cessation with company’s IP-based CanQuit® formulation.

**8 .** Development of novel (patent pending) antibacterial “Cannocyn <sup>TM</sup>” and antifungal “Cannonych <sup>TM</sup>” preparations based on unique cannabinoids.

**9 .** Potential commercialization of line of oral healthcare products, “Oraximax<sup>TM</sup>”, based on cannabigerol (patent pending).

**10 .** Potential commercialization of cosmetic care line “Renecann<sup>TM</sup>” (patent pending).

**11 .** Development of ophthalmological pharmaceutical “CannBleph <sup>TM</sup>” and OTC “OphthoCann <sup>TM</sup>” preparations based on unique combinations of cannabinoids (patent pending).

**12 .** Preparations and Development of Axim’ pipeline of pharmaceutical products for the following indications: Chronic Neuropathic Pain, Restless leg syndrome, Psoriasis, Eczema, Vitiligo, PTSD and chronic alcoholism.

**13 .** Completion of contractual agreements for production and export of over 20 novel, trademark-protected formulations with partners in Europe, Israel and South and North America

**14 .** Production of novel pharmaceutical formulations for pharmaceutical companies from the US and Israel. One of these is for a condition designated as an orphan disease. The other is for production of pharmaceutical product based on our proprietary delivery platform utilizing synthetic cannabinoids.

**15 .** Production of a bioequivalent product to Marinol based on synthetic THC (dronabinol) based on AXIM’ patented delivery technologies.

**16 .** Development of new active pharmaceutical ingredient molecules including, prodrug formulations.

**17 .** Completion of a land purchase in the city of Almere, in the province of Flevoland, The Netherlands for building of a state of the art extraction/ purification facility as well as a factory for pharmaceutical, nutraceutical and consumer products preparations as well as an innovative, environmentally-friendly; “box in a box”-design center for R&D and manufacturing for AXIM as well as third parties. This will result in a full vertical integration of the company.



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

**19 .** Development of sustainable biofuel compositions derived from industrial hemp by-products, such as our high-energy output hemp coal “CannaCoal™.”

During the next twelve months we anticipate incurring costs related to: (i) filing Exchange Act reports, (ii) contractual obligations, (iii) clinical trials, and (iv) land purchase.

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

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

### **CanChew™ License Agreement**

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

## **Manufacturing Capabilities**

On November 15, 2014, the Company entered into Reservation Agreement with the City of Almere, The Netherlands, whereby the Company was granted an option to purchase 5,328 square meters of land in the City of Almere. The Company intends to construct an office building on the site featuring: a clean laboratory zone, storage areas, office and technical rooms as well as manufacturing facility furnishings. This facility will be fully compliant with GMP, GLP, FDA, EMA and ISO regulations. The purchase price for the land is 1,154,844 Euros. The Company has paid two reservation fees for options to purchase the property. The most recent reservation fee of 57,742 Euros is due and payable and extends the option to purchase until October 20, 2017. Should the Company purchase the property by October 20, 2017, the 23,000 Euros of the most recent reservation fee will be applied to the against the purchase price of the property. The total land surface of the property has been slightly increased by 6,000 square meters.

## **The Industry**

### **Hemp – An Overview**

Hemp is a cousin to cannabis as both are classified under the same botanical category of *Cannabis sativa* L. The major difference between the two is that recreational cannabis has significant amounts of tetrahydrocannabinol (THC) (5–20%), a psychotropic cannabinoid and very little amounts of CBD (cannabidiol) and CBG (cannabigerol), which have no psychotropic properties; whereas industrial hemp has virtually no THC (less than 0.3%). This 0.3% THC in industrial hemp is not enough to provide psychotropic effects, which renders industrial hemp useless for recreational use or abuse. Canada, China and the United Kingdom are examples of major industrialized countries that have grown industrial hemp responsibly deriving maximum economic benefits from its cultivation.

Hemp is a plant easy to cultivate, with predictable harvests and produces overall negative carbon print compared to other agricultural sources used for production of biodiesels among other uses.

Industrial hemp is reach in proteins and essential amino acids, which may render it as a preferred source of food and animal feed.

### **Importation of Hemp Finished Products**

Despite classification of cannabis under Schedule I, hemp finished products, or certain parts of the plant *Cannabis sativa*, are exempted from the definition of marijuana and are considered legal to import since 1937. Under 21 U.S.C. § 802(16), the seeds (incapable of germination) and the mature stalks of the *Cannabis sativa* plant, together with

products made from these parts, are exempted from the definition of cannabis. These products are commonly known as “hemp finished products”, and can be a variety of products as outlined above. Importation of hemp finished products and processing into the United States continues legally, which fuels a hemp market inside the United States. The United States is actually the largest importer of hemp-based products in the world.

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

To understand the market and consumers as well as distribution methods, we have studied all the uses of hemp and its legal structure in the U.S. and abroad. There are more than 25,000 known uses for hemp based products, most of which were used in the past and were replaced by cotton, petroleum\oil, concrete, corn and soybeans. We believe the market potentially represents trillions of dollars in worldwide product sales. We will focus on the products our management feels will have the greatest positive environmental impact, profitability and ease to market. These tend to be new, innovative products as well as the replacement of existing raw base materials for products that exist today, such as pharmaceuticals, nutraceuticals, plastics, fuel, textiles, and medical delivery devices.

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

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

## **Competition**

There are many developers of hemp-based consumer products, many of which are under-capitalized which we consider to be viable acquisition targets. We are currently in early-stage negotiations to purchase existing product lines, sources of industrial-hemp-derived-cannabinoids and other assets from certain competing companies. There are also large, well-funded companies that currently do not offer hemp-based products but may do so in the future.

## **Intellectual Property**

Currently, our intellectual property includes 10 pending patent applications and 29 trademark applications.

Our 10 patent applications include oral care, ophthalmic, sugar alcohol kneading method, cosmetic, extraction method, antimicrobial, nicotine dependence treatment gum, opioid dependence treatment gum, chewing gum with cannabinoids and gabapentin, and suppositories; two (2) licensed patents (chewing gum containing cannabinoids, covering all cannabinoids, including THC). Six (6) of our patent applications have entered nonprovisional stage in the U.S. and international stage. We are in the process of developing and filing more patent applications.

We have 29 trademark applications, some of which are registered trademarks, received Notices of Allowance, or are pending in front of the United States Patent and Trademark Office: Axim, A Axim Biotech, Cannanimals, CanQuit, CannaCoal, CanChui, CanShu, Oraximax, ReneCann, CannBleph, OphthoCann, Cannonich, Cannocyn, HempChew, SuppoCann, CanChew, CanChew Hemp CBD Gum, CanChew Rx, MedChew, CanChew Plus, CanQuit OC, MedChew RL, MedChew GP, CanChew +, CanChew +10, CanChew +50, and CanChew +100. Corresponding trademark applications have been filed in other jurisdictions for some of the marks and have received registration or are pending.

## **Research and Development**

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

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

Pre- and clinical trials in Israel in patients suffering RLS (restless leg syndrome) will be commenced this year. In these trials AXIM' proprietary delivery system containing gabapentin and cannabidiol will be tested.

Pre- and clinical trials in the US for nicotine smoking cessation are anticipated to start this year. These trials will be testing the company' proprietary IP-based product CanQuit®.

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

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

### **Government Regulation**

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

## Employees

As of August 16, 2017 we have 6 full-time employees and 4 part-time employees. We allow and utilize the services of independent contractors. We will be considering the conversion of some of our part-time employees to full-time positions. We are currently in discussions with qualified individuals to engage them for positions in sales and marketing, research and development, and operations. Management believes the Company has good relationships with its employees.

## Costs and effects of compliance with environmental laws

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

## Results of Operations

### *Comparison of the three and six months ended June 30, 2017 to June 30, 2016.*

For the six month periods ended June 30, 2017 and 2016, our revenues totaled \$22,358 and \$25,246; respectively, from continuing operations. This is due to our start up business operations and our change in business operations in early 2015.

	<b>Six Months</b>	<b>Six Months</b>
	<b>Period Ended</b>	<b>Period Ended</b>
	<b>June 30, 2017</b>	<b>June 30, 2016</b>
Legal and other fees	\$ 58,665	\$ 80,368
Depreciation	1,678	1,678
Audit fees	16,300	5,000
Filing fees	3,647	1,854
Office/Other expenses	61,921	13,773
Travel and entertainment expenses	49,200	10,052
Advertising and promotions	32,508	46,662
Compensation costs	20,000	910,263

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Insurance expense	41,917	42,616
Impairment	-	9,753
Consulting fees	266,574	85,994
Taxes	11,624	10,018
Officer's salary	120,000	120,000
Research and development	203,314	76,229
Licenses and permits	8,158	17,355
Total	\$ 895,506	\$ 1,431,615

Our operating expenses for the six month periods ended June 30, 2017 and 2016, were \$895,506 and \$1,431,615 respectively. The changes for the six month period ended June 30, 2017, was primarily due to a significant decrease in compensation costs and partially offset by increase in research and development expenses, consulting expenses and office and other expenses.

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For the three month periods ended June 30, 2017 and 2016, our revenues totaled \$3,738 and \$11,241; respectively, from continuing operations. This is due to our start up business operations and our change in business operations in early 2015.

		<b>Three Months Period Ended June 30, 2016</b>
	<b>Three Months Period Ended June 30, 2017</b>	
Legal and other fees	\$ 34,117	\$ 27,799
Depreciation	839	839
Audit fees	15,800	5,000
Filing fees	2,988	1,700
Office/Other expenses	33,169	9,509
Travel and entertainment expenses	39,036	6,547
Advertising and promotions	7,752	15,543
Compensation costs	20,000	244,532
Insurance expense	20,959	21,424
Impairment	-	94
Consulting fees	129,538	44,603
Taxes	6,500	4,821
Officer's salary	60,000	60,000
Research and development	62,949	45,049
Licenses and permits	5,854	3,184
<b>Total</b>	<b>\$ 439,501</b>	<b>\$ 490,644</b>

Our operating expenses for the three month periods ended June 30, 2017 and 2016, were \$439,501 and \$490,644 respectively. The changes for the three month period ended June 30, 2017, was primarily due to a significant decrease in compensation costs and partially offset by increase in research and development expenses, consulting expenses and office and other expenses.

**Other (Income) expenses:**



Our interest expense for the three months and six months ended June 30, 2017 and 2016, was \$42,493, \$67,053, \$12,087 and \$24,009 respectively. The Company incurred a \$109,867 amortization expense on debt discount during the six months ended June 30, 2017.

Our interest income for the three months and six months ended June 30, 2017 and 2016, was \$0, \$0, \$1,597 and \$ -0- respectively.

### **Going concern**

The Company's unaudited condensed consolidated financial statements have been presented assuming that the Company will continue as a going concern. As shown in the financial statements, the Company has negative working capital of \$601,311, and has an accumulated deficit of \$19,158,523 has cash used in operating activities of \$1,049,531 and presently does not have the resources to accomplish its objectives during the next twelve months. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments related to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue in operation.

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

Six months ended June 30, 2017 and 2016

*Net Cash Provided by/Used in Operating Activities*

Net cash used in operating activities was \$1,049,531 for the six months ended June 30, 2017, as compared to net cash used of \$545,558 for the six months ended June 30, 2016. The increase is primarily attributable to our net loss from operations of \$1,088,887 and offset by net changes in the balances of operating assets and liabilities, and net changes in the adjustments to reconcile net loss to cash used in operating activities.

*Net Cash Used in Investing Activities*

Net cash used by investing activities during the period ended June 30, 2017 was \$-0- compared to \$-0- for the same period in 2016.

*Net Cash Provided by Financing Activities*

Net cash provided by financing activities during the six months period ended June 30, 2017, was \$4,440,000 compared to \$430,000 for the same period in 2016. Cash provided by financing activities were primarily a result of the proceeds from the convertible loans.

**Off-Balance Sheet Arrangements**

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

**Contractual Obligations**

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

### **Critical accounting policies**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reported periods. The more critical accounting estimates include estimates related to revenue recognition and accounts receivable allowances. We also have other key accounting policies, which involve the use of estimates, judgments and assumptions that are significant to understanding our results, which are described in Note 3 to our unaudited condensed consolidated financial statements.

### **Recently issued accounting standards**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **Foreign Currency Transactions**

None.

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

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

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

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

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Exchange Act is recorded, processed, summarized and reported within the time

periods specified in the SEC's rules, regulations and related forms, and that such information is accumulated and communicated to our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2017, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and our principal financial officer of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report.

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

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

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

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

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

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

An evaluation was performed under the supervision and with the participation of the Company's management of the effectiveness of the design and operation of the Company's procedures and internal control over financial reporting as of June 30, 2017. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework of 1992. Based on that evaluation, the Company's management concluded that the Company's internal controls over financial reporting were not effective in that there were material weaknesses as of June 30, 2017. See, Inherent Limitations of Internal Controls for discussion of material weaknesses.

A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by the Company's internal controls.

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

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

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

There was no change in our internal control over financial reporting identified in connection with our evaluation that occurred during our the period ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention and overriding of controls and procedures. A control system, no matter how well conceived and operated, can only provide reasonable, not absolute, assurance that the objectives of



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

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

**PART II — OTHER INFORMATION**

**Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

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

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

On May 9, 2017, we issued 3,000 restricted shares of our common to a consultant for payment of services provided.

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