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**United States**  
**Securities and Exchange Commission**  
Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period: September 30, 2019

Or

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

For the transition period ended:

**Q2Earth, Inc.**

(Exact name of Registrant as specified in its Charter)

Delaware  
\_\_\_\_\_  
(State or Other Jurisdiction  
of Incorporation)

000-55148  
\_\_\_\_\_  
(Commission  
File Number)

20-1602779  
\_\_\_\_\_  
(I.R.S. Employer  
Identification No.)

**420 Royal Palm Way, #100**  
**Palm Beach, FL 33480**  
(Address of Principal Executive Offices)

(561) 693-1423  
(Registrant's Telephone Number, including area code)

(Former name or former address, if changed since last report.)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.0001

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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.  
(1) Yes  No ; (2) Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

November 13, 2019: Common – 51,997,460

Documents incorporated by reference: None.

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**Q2EARTH, INC.**  
**FORM 10-Q**  
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## JUMPSTART OUR BUSINESS STARTUPS ACT DISCLOSURE

We qualify as an “emerging growth company,” as defined in Section 2(a)(19) of the Securities Act by the Jumpstart Our Business Startups Act (the “JOBS Act”). An issuer qualifies as an “emerging growth company” if it has total annual gross revenues of less than \$1.0 billion during its most recently completed fiscal year, and will continue to be deemed an emerging growth company until the earliest of:

- the last day of the fiscal year of the issuer during which it had total annual gross revenues of \$1.0 billion or more;
- the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the issuer pursuant to an effective registration statement;
- the date on which the issuer has, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt; or
- the date on which the issuer is deemed to be a “large accelerated filer,” as defined in Section 240.12b-2 of the Exchange Act.

As an emerging growth company, we are exempt from various reporting requirements. Specifically, we are exempt from the following provisions:

- Section 404(b) of the Sarbanes-Oxley Act of 2002, which requires evaluations and reporting related to an issuer’s internal controls;
- Section 14A(a) of the Exchange Act, which requires an issuer to seek shareholder approval of the compensation of its executives not less frequently than once every three years; and
- Section 14A(b) of the Exchange Act, which requires an issuer to seek shareholder approval of its so-called “golden parachute” compensation, or compensation upon termination of an employee’s employment.

Under the JOBS Act, emerging growth companies may delay adopting new or revised accounting standards that have different effective dates for public and private companies until such time as those standards apply to private companies.

### Smaller Reporting Company

We are subject to the reporting requirements of Section 13 of the Exchange Act, and subject to the disclosure requirements of Regulation S-K of the SEC, as a “smaller reporting company.” That designation will relieve us of some of the informational requirements of Regulation S-K.

### Sarbanes/Oxley Act

Except for the limitations excluded by the JOBS Act discussed under the preceding heading “Emerging Growth Company,” we are also subject to the Sarbanes-Oxley Act of 2002. The Sarbanes/Oxley Act created a strong and independent accounting oversight board to oversee the conduct of auditors of public companies and strengthens auditor independence. It also requires steps to enhance the direct responsibility of senior members of management for financial reporting and for the quality of financial disclosures made by public companies; establishes clear statutory rules to limit, and to expose to public view, possible conflicts of interest affecting securities analysts; creates guidelines for audit committee members’ appointment, compensation and oversight of the work of public companies’ auditors; management assessment of our internal controls; prohibits certain insider trading during pension fund blackout periods; requires companies and auditors to evaluate internal controls and procedures; and establishes a federal crime of securities fraud, among other provisions. Compliance with the requirements of the Sarbanes/Oxley Act will substantially increase our legal and accounting costs.

### Exchange Act Reporting Requirements

Section 14(a) of the Exchange Act requires all companies with securities registered pursuant to Section 12(g) of the Exchange Act like we are to comply with the rules and regulations of the SEC regarding proxy solicitations, as outlined in Regulation 14A. Matters submitted to shareholders at a special or annual meeting thereof or pursuant to a written consent will require us to provide our shareholders with the information outlined in Schedules 14A (where proxies are solicited) or 14C (where consents in writing to the action have already been received or anticipated to be received) of Regulation 14, as applicable; and preliminary copies of this information must be submitted to the SEC at least 10 days prior to the date that definitive copies of this information are forwarded to our shareholders. We are also required to file annual reports on Form 10-K and quarterly reports on Form 10-Q with the SEC on a regular basis, and will be required to timely disclose certain material events (e.g., changes in corporate control; acquisitions or dispositions of a significant amount of assets other than in the ordinary course of business; and bankruptcy) in a Current Report on Form 8-K.

### Reports to Security Holders

You may read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may also find all of the reports that we have filed electronically with the SEC at their Internet site [www.sec.gov](http://www.sec.gov).

**PART I – FINANCIAL INFORMATION****ITEM 1: FINANCIAL STATEMENTS****Q2EARTH, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2019 (unaudited)	December 31, 2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 3,404	\$ 160,035
Prepaid expenses and other assets	11,914	-
<b>TOTAL CURRENT ASSETS</b>	<b>15,318</b>	<b>160,035</b>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>-</b>	<b>354</b>
<b>TOTAL ASSETS</b>	<b>\$ 15,318</b>	<b>\$ 160,389</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 145,222	\$ 166,125
Accrued bonus expense	150,000	-
Note payable - related party	425,000	-
Debentures	165,000	165,000
Convertible bridge notes, current portion	2,829,488	-
Contract liabilities – related parties	244,111	117,667
Contract liabilities	-	10,064
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,958,821</b>	<b>458,856</b>
Convertible bridge notes, at fair value, less current portion	77,512	2,960,000
<b>TOTAL LIABILITIES</b>	<b>4,036,333</b>	<b>3,418,856</b>
Redeemable convertible preferred stock - Series A; \$0.0001 par value, 1,500 designated Series A, 600 shares issued and outstanding (liquidation preference of \$739,530)	739,530	712,604
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock, \$0.0001 par value; 5,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.0001 par value, 100,000,000 shares authorized, 51,997,460 shares issued and outstanding at September 30, 2019 and December 31, 2018	5,199	5,199
Additional paid-in capital	6,483,536	6,394,748
Subscription receivable	(3,787)	(3,787)
Accumulated deficit	(11,245,493)	(10,367,231)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(4,760,545)</b>	<b>(3,971,071)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 15,318</b>	<b>\$ 160,389</b>

See notes to the condensed consolidated financial statements.

**Q2EARTH INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
REVENUES - Related parties	\$ 245,864	\$ -	672,556	-
<b>EXPENSES</b>				
Payroll and employee related expenses	311,499	182,558	1,186,736	343,421
Professional fees	63,228	450,238	285,825	787,804
General and administrative	30,279	39,918	133,644	112,911
Total Expenses	405,006	672,714	1,606,205	1,244,136
LOSS FROM OPERATIONS	(159,142)	(672,714)	(933,649)	(1,244,136)
<b>OTHER INCOME (EXPENSE)</b>				
Interest expense	(136,954)	(95,110)	(413,104)	(239,966)
Change in fair value of convertible bridge notes	735,805	(254,893)	490,079	90,431
Loss on equity method investment	-	-	(21,588)	-
Total Other Income (Expense), net	598,851	(350,003)	55,387	(149,535)
INCOME (LOSS) BEFORE INCOME TAXES	439,709	(1,022,717)	(878,262)	(1,393,671)
INCOME TAXES	-	-	-	-
NET INCOME (LOSS)	439,709	(1,022,717)	(878,262)	(1,393,671)
<b>PREFERRED STOCK</b>				
Series A convertible contractual dividends	(9,074)	(9,073)	(26,926)	(31,694)
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 430,635	\$ (1,031,790)	\$ (905,188)	\$ (1,425,365)
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS: BASIC AND DILUTED	\$ 0.01	\$ (0.02)	(0.02)	\$ (0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING: BASIC AND DILUTED	51,997,460	50,497,460	51,997,460	49,148,470

See notes to the condensed consolidated financial statements.

**Q2EARTH INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018**  
**(UNAUDITED)**

	Preferred Stock		Common Stock		Additional Paid In Capital	Subscription Receivable	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Value	Shares	Value				
Balance, December 31, 2018	-	\$ -	51,997,460	\$ 5,199	\$ 6,394,748	\$ (3,787)	\$ (10,367,231)	\$ (3,971,071)
Stock based compensation for services	-	-	-	-	115,714	-	-	115,714
Series A, preferred stock contractual dividends	-	-	-	-	(8,876)	-	-	(8,876)
Net loss period ended March 31, 2019	-	-	-	-	-	-	(505,274)	(505,274)
Balance, March 31, 2019	-	\$ -	51,997,460	\$ 5,199	\$ 6,501,586	\$ (3,787)	\$ (10,872,505)	\$ (4,369,507)
Series A, preferred stock contractual dividends	-	-	-	-	(8,976)	-	-	(8,976)
Net loss period ended June 30, 2019	-	-	-	-	-	-	(812,697)	(812,697)
Balance, June 30, 2019	-	\$ -	51,997,460	\$ 5,199	\$ 6,492,610	\$ (3,787)	\$ (11,685,202)	\$ (5,191,180)
Series A, preferred stock contractual dividends	-	-	-	-	(9,074)	-	-	(9,074)
Net Income period ended September 30, 2019	-	-	-	-	-	-	439,709	439,709
Balance, September 30, 2019	-	\$ -	51,997,460	\$ 5,199	\$ 6,483,536	\$ (3,787)	\$ (11,245,493)	\$ (4,760,545)
Balance, December 31, 2017	-	\$ -	48,384,009	\$ 4,838	\$ 6,046,749	\$ (3,787)	\$ (9,969,974)	\$ (3,922,174)
Amortization of stock option grants and restricted units	-	-	-	-	34,579	-	-	34,579
Series A, preferred stock contractual dividends	-	-	-	-	(13,644)	-	-	(13,644)
Net income period ended March 31, 2018	-	-	-	-	-	-	121,532	121,532
Balance, March 31, 2018	-	\$ -	48,384,009	\$ 4,838	\$ 6,067,684	\$ (3,787)	\$ (9,848,442)	\$ (3,779,707)
Amortization of stock option grants and restricted units	-	-	-	-	62,270	-	-	62,270
Series A, preferred stock contractual dividends	-	-	-	-	(8,976)	-	-	(8,976)
Conversion of bridge subscription to equity	-	-	613,451	61	57,603	-	-	57,664
Net loss period ended June 30, 2018	-	-	-	-	-	-	(492,486)	(492,486)
Balance, June 30, 2018	-	\$ -	48,997,460	\$ 4,899	\$ 6,178,581	\$ (3,787)	\$ (10,340,928)	\$ (4,161,235)
Series A, preferred stock contractual dividends	-	-	-	-	(9,073)	-	-	(9,073)
Stock issued for services	-	-	3,000,000	300	337,786	-	-	338,086
Net loss period ended September 30, 2018	-	-	-	-	-	-	(1,022,717)	(1,022,717)
Balance, September 30, 2018	-	\$ -	51,997,460	\$ 5,199	\$ 6,507,294	\$ (3,787)	\$ (11,363,645)	\$ (4,854,939)

See notes to the condensed consolidated financial statements.

**Q2EARTH INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	For the nine months ended	
	September 30,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (878,262)	\$ (1,393,671)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation	354	199
Loss on equity investment	21,588	-
Stock based compensation expense	115,714	164,937
Change in fair value of convertible bridge notes	(490,079)	(90,431)
Amortization of preferred stock discount	-	1,062
Amortization of debt issuance costs	3,750	3,750
Restricted shares issued for outside services	-	270,000
Paid-in-kind interest - convertible bridge notes	403,329	234,345
Changes in operating assets and liabilities		
(Increase) decrease in prepaid expenses and other current assets	(11,914)	5,250
Increase (decrease) in accounts payable and accrued expenses	(42,491)	45,491
Increase in accrued bonuses	150,000	-
Increase in contract liabilities – related parties	126,444	-
Decrease in contract liabilities	(10,064)	-
Net cash used in operating activities	(611,631)	(759,068)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Deposit toward GBWA purchase	-	(50,000)
Net cash used in investing activities	-	(50,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable - related parties, net of issuance costs	425,000	-
Proceeds from convertible bridge notes, net of issuance costs	30,000	940,000
Net cash used in financing activities	455,000	940,000
<b>NET INCREASE (DECREASE) IN CASH</b>	(156,631)	130,932
<b>CASH - Beginning of period</b>	160,035	298,673
<b>CASH - End of period</b>	\$ 3,404	\$ 429,605
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>		
Payment of income taxes	\$ -	\$ -
Payment of interest in cash	\$ -	\$ 1,247
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Conversion of convertible bridge notes and accrued interest to 613,451 shares of common stock	\$ -	\$ 57,664
Accrual of contractual dividends on Series A convertible preferred stock	\$ 26,926	\$ 31,695
Investment purchased with a subscription payable	\$ 21,588	\$ -

See notes to the condensed consolidated financial statements.

**Q2EARTH INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS**

Q2Earth, Inc. (hereinafter the “Company” or “we”, “our”, “us”), incorporated in Delaware on August 26, 2004, is currently engaged in the business of managing compost and soil manufacturing facilities, and is pursuing a plan of strategic acquisitions and investments in this sector through an unconsolidated investee called Earth Property Holdings LLC, a Delaware limited liability company (“EPH”). Through EPH, the Company completed one acquisition in November 2018 and a second in January 2019. As of September 30, 2019, the Company owns approximately a 19% equity interest in EPH, although such ownership percentage is expected to decrease as EPH raised additional capital, and manages all of its operations pursuant to an eight-year management contract which is subject to termination at-will by EPH. In May 2019, the Company signed a second services agreement with Community Eco Power, LLC (“CECO”), a waste-to-power company, to assist CECO to complete an acquisition and transition management operations over the following six months. Two officers and directors of the Company own a minority stake in CECO. Formerly, the Company’s name was Q2Power Technologies, Inc., and before that, Anpath Group, Inc. (“Anpath”).

Q2Power Corp. (the “Subsidiary” or “Q2P”) operated as an R&D company focused on the conversion of waste to energy and other valuable “reuse” products since July 2014. The operations of the Company have from 2014 until early 2017 been essentially those of the Subsidiary. In May 2016, the Company began exploring other synergistic business lines such as compost and soil manufacturing from wastewater biosolids and other waste feedstocks. In 2017, the Company formally shifted its focus from waste-to-energy technology R&D, including selling its technology to a licensee in August 2017, to facilitating the acquisition of, investment in, and managing the operations of facilities that manufacture compost and sustainable soils from waste resources.

**NOTE 2 – BASIS OF PRESENTATION AND GOING CONCERN**

Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission for interim financial information, which includes condensed consolidated financial statements and present the consolidated financial statements of the Company and its wholly-owned subsidiary as of September 30, 2019. All intercompany transactions and balances have been eliminated. Accordingly, the condensed consolidated financial statements do not include all the information and notes necessary for a comprehensive presentation of financial position and results of operations and should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2018 and included in the form 10-K filed with the SEC on April 1, 2019. It is management’s opinion that all material adjustments (consisting of normal recurring adjustments) have been made, which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year ending December 31, 2019.

Going Concern

For the nine months ended September 30, 2019 the Company had cash used in operating activities of \$611,631 and incurred a loss of \$878,262. The accumulated deficit since inception was \$11,245,493, which was comprised of operating losses and other expenses. Additionally, certain of the Company’s debentures and redeemable convertible preferred stock matured on July 1, 2019 and are currently in default. Management is in discussions with the holders to either extend the maturity dates or find an alternate settlement solution. The total principal due on the debentures as of September 30, 2019 is \$165,000. As of September 30, 2019, \$2,829,488 of our convertible bridge notes, plus accrued and capitalized interest will mature beginning in March 2020 through September 2020. As of September 30, 2019, the Company had a working capital deficit of \$3,943,503. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. There is no guarantee whether the Company will be able to generate revenue and/or raise capital sufficient to support its operations. The ability of the Company to continue as a going concern is dependent on management’s plans which include implementation of its business model to facilitate the acquisition of and investment in cash-flowing businesses, grow revenue and earnings of those companies which may result in added management fees for the Company, and continue to raise funds for the Company through debt or equity offerings. Alternatively, the Company would need to find another line of business if such current activities cannot support ongoing operations, which may become likely.



The condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. The Company has concluded that EPH is an equity method investment. The primary investor, and not the Company, has ultimate control over major decisions affecting EPH and the greatest economic risk.

On March 31, 2017, the Company completed the first \$1,050,000 tranche of a convertible bridge note offering (the "Bridge Offering"). Through the end of 2017, the Company closed an additional \$600,000 of follow-on investments in the Bridge Offering. In 2018, the Company raised an additional \$980,000 in convertible notes on substantially same terms as the Bridge Offering with three accredited investors and one institutional investor (the "Follow-On Bridge Offering"). In 2019, the Company raised an additional \$30,000 under the Follow-On Bridge Offering. As of September 30, 2019, a total principal amount of \$2,801,908 and approximately \$919,000 of accrued interest remains due on the Bridge Offering notes.

In July 2018, the Company signed a Stock Purchase Agreement for the purchase of all of the outstanding capital stock of George B. Wittmer Associates Inc. ("GBWA") of Callahan, Florida, from its sole shareholder. On November 9, 2018, the Company transferred the agreement to acquire GBWA to EPH, and through EPH, consummated the GBWA acquisition. Concurrently with the GBWA closing: (i) the Company signed an eight-year Management Agreement (the "Management Agreement") with EPH to oversee all of the operations of EPH and its acquired subsidiaries for an initial annual fee of \$200,000 (which was subsequently increased by amendment to \$700,000, \$300,000 of which is provided for the management of GBWA); (ii) appointed the Company's CEO and President to serve as President and Secretary, respectively, of EPH; and (iii) pursuant to the terms of EPH's Limited Liability Company Agreement (the "LLC Agreement") acquired 124,999 Class B Membership Units of EPH, equal to 19.9% of the voting interests of EPH, for \$50,000. To complete the GBWA acquisition, EPH raised \$4.4 million from one institutional investor for 500,000 Class A Membership Units, equal to 80.1% of the voting interest of EPH.

On January 18, 2019, EPH completed its second acquisition of Employee Owned Nursery Enterprises Ltd., a Texas limited partnership d/b/a Organics "by Gosh" ("OBG"). Concurrently with the OBG acquisition, the Company: (i) acquired an additional 53,970 Class B Membership Units in EPH for \$21,588 through a subscription payable which is included in accounts payable and accrued expenses on the consolidated balance sheets; and (ii) received an additional annual management fee of \$500,000 plus expenses in connection with the transaction.

In May 2019, the Company signed a services agreement with Community Eco Power, LLC ("CECO") to assist that company complete an acquisition of two waste-to-power facilities in New England, and to assist management transition operations over the following six months. The acquisition closed on May 15, 2019. Two of the Company's officers and directors each own minority equity stakes in CECO. The fee for the Company's services was \$250,000, of which a portion was recognized as revenue upon closing and the balance is recorded as contract liabilities on the Company's condensed consolidated balance sheet.

Our net loss resulted largely from our funding of activities related to the execution of our business strategy of facilitating the acquisition of and investment in and managing compost manufacturing businesses, including conducting due diligence and incurring consulting and professional expenses and hiring additional employees to support these operations, as well as ongoing general and administrative expenses.

Management is aware of the Company's liquidity and going concern issues and is taking steps to improve its negative cashflow. Management may be able to facilitate additional acquisitions through EPH in 2019, and upon the completion of such transactions, may receive additional management fees to oversee the operations of EPH and its subsidiaries. However, this agreement can be terminated at-will by EPH. Further, management is pursuing other revenue producing contracts and opportunities for the Company including licensing or developing soil science and product brands that can generate revenue through sublicenses and soil sales either from EPH or other companies, looking at synergistic business lines in agricultural technology and new crops such as hemp, and also utilizing its experience in completing acquisitions to help facilitate non-competitive transactions for third parties for a fee. In the second quarter of 2019, the Company successfully licensed soil technology called ABS from Agrarian Technologies, Inc., for which the Company is currently pursuing sales and distributorship agreements, but has not yet been able to generate any material revenue from these activities. The Company pays a minimum royalty under this license agreement to the licensor of \$7,500 per quarter commencing in the current period, which has been accrued but not paid; and then pays royalties on the sales of the ABS product based on volume sold to the extent such volume royalties exceed the minimum royalties. The Company also signed a services agreement with CECO in the second quarter of 2019, providing an additional \$250,000 in revenue as discussed above. Management may also seek to raise additional capital through equity and debt offerings.

### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Principles of Consolidation**

The condensed consolidated financial statements include the accounts of the Company and its Subsidiary. All significant inter-company transactions and balances have been eliminated in consolidation. References herein to the Company include the Company and its Subsidiary, unless the context otherwise requires.

#### **Cash**

The Company considers cash, short-term deposits, and other investments with original maturities of no more than ninety days when acquired to be cash and cash equivalents for the purposes of the statement of cash flows. The Company held no cash equivalents as of September 30, 2019 and December 31, 2018. The Company maintains cash balances at one financial institution in multiple accounts and has experienced no losses with respect to amounts on deposit.

#### **Revenue Recognition**

On January 1, 2018, the Company adopted ASC Topic 606, “Revenue from Contracts with Customers (“ASC 606”) and all the related amendments. The Company elected to adopt this guidance using the modified retrospective method. The adoption of this guidance did not have a material effect on the Company’s financial position, results of operations, or cash flows.

The core principle of ASC 606 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASC 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than previously required under U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

During the nine months ended September 30, 2019, revenue consists of management services performed by the Company for our equity method investment, EPH, as well as revenue from the services agreement with CECO. In its review of contracts with customers, management identifies that a contract exists with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to the performance obligations in the contract, and then recognizes revenue when the Company satisfies a specific performance obligation. Payments received before all the relevant criteria for revenue recognition are satisfied are recorded as contract liabilities.

The management services to be provided to our equity method investment and CECO are performance obligations satisfied evenly over a period of time. Therefore, revenue from these management service agreements are recognized on a straight-line basis over the applicable service period, which is one year for our equity method investment and six months for CECO.

#### **Stock Based Compensation**

The Company applies the fair value method of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 718, “*Share Based Payment*”, in accounting for its stock-based compensation. This standard states that compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. The Company values stock-based compensation at the market price for the Company’s common stock and other pertinent factors at the grant date.

The Black-Scholes option pricing valuation method is used to determine fair value of stock options consistent with ASC 718, *'Share Based Payment'*. Use of this method requires that the Company make assumptions regarding stock volatility, dividend yields, expected term of the awards and risk-free interest rates.

The Company accounts for transactions in which services are received from non-employees in exchange for equity instruments based on the fair value of the equity instruments exchanged, in accordance with ASC 505-50, *"Equity Based payments to Non-employees"*. The Company measures the fair value of the equity instruments issued based on the fair value of the Company's stock on contract execution.

#### **Equity Method Investment**

Investments in partnerships, joint ventures and less-than majority-owned subsidiaries in which we have significant influence are accounted for under the equity method. The Company's consolidated net income includes the Company's proportionate share of the net income or loss of our equity method investee. When we record our proportionate share of net income, it increases income (loss) — net in our consolidated statements of operations and our carrying value in that investment. Conversely, when we record our proportionate share of a net loss, it decreases income (loss) — net in our consolidated statements of income and our carrying value in that investment. The Company's proportionate share of the net income or loss of our equity method investees includes significant operating and nonoperating items recorded by our equity method investee. These items can have a significant impact on the amount of income (loss) — net in our consolidated statements of operations and our carrying value in those investments.

#### **Property and Equipment**

Property and equipment are recorded at cost. Depreciation is computed on the straight-line method, based on the estimated useful lives of the assets as follows:

	<u>Years</u>
Furniture and equipment	7
Computers	5

Expenditures for maintenance and repairs are charged to operations as incurred.

#### **Impairment of Long-Lived Assets**

The Company continually evaluates the carrying value of its long-lived assets to determine whether there are any impairment losses. If indicators of impairment are present and future cash flows are not expected to be sufficient to recover the assets' carrying amount, an impairment loss would be charged to expense in the period identified. To date, the Company has not recognized any impairment charges.

#### **Income Taxes**

Income taxes are accounted for under the asset and liability method as stipulated by FASB ASC 740, *"Income Taxes"* ("ASC 740"). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. 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. Under ASC 740, the effect on deferred tax assets and liabilities or a change in tax rate is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced to estimated amounts to be realized by the use of a valuation allowance. A valuation allowance is applied when in management's view it is more likely than not (50%) that such deferred tax will not be utilized.

In the event that an uncertain tax position exists in which the Company could incur income taxes, the Company would evaluate whether there is a probability that the uncertain tax position taken would be sustained upon examination by the taxing authorities. Reserves for uncertain tax positions would be recorded if the Company determined it is probable that a position would not be sustained upon examination or if payment would have to be made to a taxing authority and the amount is reasonably estimated. As of September 30, 2019, the Company does not believe it has any uncertain tax positions that would result in the Company having a liability to the taxing authorities; however, federal returns have not been filed since the Company's inception in 2014. Such delinquencies are being resolved by management and a retained tax expert. Interest and penalties related to any unrecognized tax benefits is recognized in the consolidated financial statements as a component of income taxes.

### **Fair Value Measurement**

The Company measures fair value in accordance with a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The Company's convertible Bridge Notes are valued by using Monte Carlo Simulation methods and discounted future cash flow models. Where possible, the Company verifies the values produced by its pricing models to market prices. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit spreads, measures of volatility and correlations of such inputs. These convertible Bridge Notes do not trade in liquid markets, and as such, model inputs cannot generally be verified and do involve significant management judgment. Such instruments are typically classified within Level 3 of the fair value hierarchy.

### **Basic and Diluted Loss Per Share**

Net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share is calculated by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period plus any potentially dilutive shares related to the issuance of stock options, shares from the issuance of stock warrants, shares issued from the conversion of redeemable convertible preferred stock and shares issued for the conversion of convertible debt.

At September 30, 2019, there were the following potentially dilutive securities that were excluded from diluted net loss per share because their effect would be anti-dilutive: 8,515,480 shares from common stock options, 5,337,345 shares from common stock warrants, 1,650,000 shares from the conversion of debentures, 45,590,781 shares that may be converted from Bridge Notes (based upon an assumed conversion price at September 30, 2019 of \$0.082 per share), and 6,000,000 shares from the conversion of redeemable convertible preferred stock (not inclusive of cumulative dividends which may be converted to shares of common stock under certain conditions). At September 30, 2018, there were the following potentially dilutive securities that were excluded from diluted net loss per share because their effect would be anti-dilutive: 6,915,480 shares from common stock options, 5,187,345 shares from common stock warrants, 1,100,000 shares from the conversion of debentures (not inclusive of shares that may be converted from Bridge Notes, as the valuation and corresponding share price were not determinable at such time), and 4,000,000 shares from the conversion of redeemable convertible preferred stock.

### **Significant Estimates**

U.S. Generally Accepted Accounting Principles ("GAAP") requires the Company to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, the reported amounts of revenues and expenses, cash flows and the related footnote disclosures during the period. On an on-going basis, the Company reviews and evaluates its estimates and assumptions, including, but not limited to, those that relate to the fair value of stock based compensation, the fair value of derivative liabilities and convertible bridge notes, and the assessment and recognition of income taxes and contingencies. Actual results could differ from these estimates.

### **Reclassifications**

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

### **Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*", requiring management to recognize any right-to-use-asset and lease liability on the statement of financial position for those leases previously classified as operating leases. The criteria used to determine such classification is essentially the same as under the previous guidance, but it is more subjective. The lessee would classify the lease as a finance lease if certain criteria at lease commencement are met. This ASU is effective for fiscal years beginning after December 15, 2018. Effective January 1, 2019 the Company adopted ASU 2016-02 which did not have an impact on our condensed interim financial statements as the Company has no leases that meet the scope of ASC 842.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting*, which is intended to simplify the accounting for nonemployee share-based payment transactions by expanding the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2018. Early adoption is permitted, but no earlier than an entity's adoption date of ASC 606. Effective January 1, 2019 the Company adopted ASC 2018-07 and it did not have an impact on our interim financial statements.

In August 2018, the FASB issued guidance that amends fair value disclosure requirements. The guidance removes disclosure requirements on the transfers between Level 1 and Level 2 of the fair value hierarchy in addition to the disclosure requirements on the policy for timing of transfers between levels and the valuation process for Level 3 fair value measurements. The guidance clarifies the measurement uncertainty disclosure and adds disclosure requirements for Level 3 unrealized gains and losses and significant unobservable inputs used to develop Level 3 fair value measurements. The guidance is effective for fiscal years beginning after December 15, 2019. Entities are permitted to early adopt any removed or modified disclosures upon issuance and delay adoption of the additional disclosures until the effective date. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements and disclosures.

#### **Concentration of Risk**

The Company expects cash to be the asset most likely to subject the Company to concentrations of credit risk. The Company's bank deposits may at times exceed federally insured limits. The Company's policy is to maintain its cash with high credit quality financial institutions to limit its risk of loss exposure.

Approximately 75% of the Company's revenue for the nine months ended September 30, 2019 was from fees earned from its equity method investment, EPH, under a management agreement. This is currently the Company's primary source of on-going revenue, and that agreement is terminable at will by EPH. See Note 4. The remaining 25% of revenues was earned under the Company's services agreement with CECO in the period ended September 30, 2019. During the period ended September 30, 2019, all revenue of the Company was earned from related parties.

#### **NOTE 4 – EQUITY METHOD INVESTMENT**

During November 2018, the Company invested \$50,000 for a 19.9% Class B limited liability membership interest in EPH and recorded this transaction as an equity method investment due to the Company's ability to exercise significant influence over EPH. The carrying value of the investment in EPH was reduced to zero after recording the proportionate share of the investee's net loss for the year. In January 2019, the Company committed an additional \$21,588 through a subscription payable to maintain its 19.9% Class B limited liability interests in EPH, after additional Class A units were sold to investors. The Class B units only receive value after all Class A unit holders receive a full return on their investment plus an 8% annual PIK dividend. The \$21,588 remains due at September 30, 2019 and is included in accounts payable and accrued expenses on the condensed consolidated balance sheets. The carrying value of the investment remains at zero at September 30, 2019. The loss in equity investment has been presented on the consolidated statement of operations for the nine months ended September 30, 2019. There were no distributions received from the equity method investment through the second quarter of 2019.

In May 2019, EPH issued an additional 36,932 Class A Units in consideration for \$325,000 additional investments. The Company did not purchase additional Class B Units at this time, and as a result, its equity stake in EPH was diluted to 19.2%. Management expect this equity percentage to be significantly diluted in the following reporting periods as EPH raises additional capital to further its acquisition strategy. While the Company can invest alongside these new investments, management does not anticipate the Company will have the funds to do so.

For the nine months ended September 30, 2019, EPH generated revenue of \$7,949,215 and recorded a net loss of \$1,028,377. The net loss was due in material part from fees paid to the Company under its Management Agreement, as well as expenses incurred in connection with the OBG closing on January 18, 2019, and related funding activities.

See Note 5 for transactions with our equity method investment during the nine-month period ended September 30, 2019.

#### **NOTE 5 – RELATED PARTY TRANSACTIONS**

The Company currently maintains an executive office in Florida, which is leased by an investment firm in which the Company's President previously served as a Managing Director but never held any equity or voting rights. The Company has no formal agreement for this space and pays no rent.

In May 2018, the Company received \$12,500 from its Chief Executive Officer and a Director in the Follow-On Bridge Offering (see Note 6).

During the nine months ended September 30, 2019, the Company received an additional \$549,000 from its equity method investee (see Note 4) for prepaid management fees. As of September 30, 2019, \$164,286 of these accumulated fees remain as contract liabilities and the Company recognized \$502,381 as revenues during the nine months ended September 30, 2019 based on the service period. As of December 31, 2018, \$117,667 of these fees remained as contract liabilities.

During the nine months ended September 30, 2019, the Company received \$425,000 from EPH as multiple demand notes payable with interest payable at 6% annually. This has been presented as note payable – related party on the condensed consolidated balance sheets.

During the nine months ended September 30, 2019, the Company incurred \$6,543 in legal fees with a related party and during the nine months ended September 30, 2018, the Company incurred approximately \$39,393 from a law firm in which our audit committee chair is an employee. As of September 30, 2019 and December 31, 2018, our accounts payable and accrued expenses include \$0 and \$30,000, respectively, for legal fees incurred in the prior year with this law firm.

During the nine months ended September 30, 2019, the Company earned \$170,175 in service fees under its agreement with CECO and recorded \$79,825 as contract liabilities to be earned through December 31, 2019. Two of the Company's officers and directors each own minority equity stakes in CECO.

#### **NOTE 6 – NOTES PAYABLE AND DEBENTURES**

In March 2017, the Company entered into a Modification and Extension Agreement with two holders of its Original Issue Discount Senior Secured Convertible Debentures (the "Debentures") to extend the maturity date to July 31, 2017, reset the conversion price from \$0.21 to \$0.15, and waive any defaults under the Debentures from the expiration of the maturity date or otherwise. The exercise price of the warrants that were issued with the Debentures (the "Warrants"), which had been reset to \$0.50 per verbal agreement of the parties in the third quarter of 2016, was formally documented under this March 2017 modification agreement. The Debentures do not bear interest but contain an Original Issue Discount of \$20,750. All assets of the Company are secured under the Debentures, including our Subsidiary, Q2Power Corp., and its assets. The Debentures and Warrants contain certain anti-dilutive protection provisions in the instance that the Company issues stock at a price below the stated conversion price of the Debentures, as well as other standard protections for the holder. As of September 30, 2019, and December 31, 2018, the aggregate outstanding principal amount of the two Debentures was \$165,000. In March 2018, the Company and holders extended the maturity date of the Debentures until July 31, 2018 in return for a reduction of the conversion price to \$0.10 per share. In March 2019, the Company and the holders again extended the maturity date of the debentures to July 1, 2019 for no additional consideration. The Debentures are currently in default and the Company is in negotiations with the holders to reach a new modification agreement or other resolution. If a resolution cannot be reached, the holder can accelerate all payments due, demand default interest, foreclose on the assets of the Company, or pursue other legal remedies available to it.

On March 31, 2017, the Company closed the initial \$1,050,000 tranche in a convertible promissory note (the "Bridge Notes") offering (collectively, the "Bridge Offering"). In addition, as part of that initial closing, three of the Company's directors converted \$156,368 and one shareholder converted \$11,784 of prior notes and cash advances, including interest thereon, into the Bridge Offering. As of the end of 2017, an additional \$600,000 was raised under the Bridge Offering and \$23,756 of additional prior notes were converted into this round. In 2018, the Company raised an additional \$980,000 in Follow-On Bridge Offering notes on substantially same terms as the Bridge Offering (but with a two-year maturity) with three accredited investors, one being our Chief Executive Officer and another a Director who each entered into a \$12,500 Bridge Note, and one institutional investor. In 2019, one of these investors provided an additional \$30,000 in Bridge Notes. In June 2018, one of the original Bridge Notes for \$50,000 plus \$7,664 accrued interest was converted by its holder into 613,451 shares of common stock.

The Bridge Notes from the Bridge Offering and the Follow-On Bridge Offering conducted in 2018 convert at a 50% discount to the post-funding valuation of the Company at the closing of its next offering in the minimum amount of \$5,000,000 (the “Equity Offering”). The conversion valuation has a ceiling of \$12,000,000, and a “floor” company value of \$6,000,000 in the event there is no Equity Offering before the Bridge Notes are able to be converted. As of the date of filing, the Company has not completed an Equity Offering defined in the Bridge Notes.

Pursuant to ASC 825-10-25-1, Fair Value Option, the Company made an irrevocable election at the time of issuance to report the Bridge Notes at fair value, with changes in fair value recorded through the Company’s consolidated statements of operations as other income (expense) in each reporting period. The fair value recorded as of September 30, 2019 was \$2,907,000 (see Note 7) and the principal amount due was \$2,801,908. The change in fair value resulted in a gain for the nine months ended September 30, 2019 of \$490,079. The fair value recorded as of December 31, 2018 was \$2,960,000 (see Note 7) and the principal amount due was \$2,771,908.

The Bridge Notes are currently convertible into common stock, or preferred stock if received by investors in the Equity Offering, at the discretion of each holder based on the conversion formula provided in the Bridge Notes. Maturity is 36 months from issuance (24 for the subsequently issued Follow-On Bridge Notes) with 15% annual interest which will be capitalized each year into the principal of the Bridge Notes and paid in kind.

**NOTE 7 – FAIR VALUE MEASUREMENT**

The Company measures fair value in accordance with a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

As disclosed in Note 6, the Bridge Notes are reported at fair value, with changes in fair value recorded through the Company’s consolidated statements of operations as other income (expense) in each reporting period.

The following tables set forth the Company’s consolidated financial assets and liabilities measured at fair value by level within the fair value hierarchy at September 30, 2019 and December 31, 2018. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	<b>Fair value at Sept. 30, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Convertible Bridge Notes	\$ 2,907,000	\$ -	\$ -	\$ 2,907,000
Total	\$ 2,907,000	\$ -	\$ -	\$ 2,907,000

	<b>Fair value at</b>			
	<b>December 31, 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Convertible Bridge Notes	\$ 2,960,000	\$ -	\$ -	\$ 2,960,000
Total	<u>\$ 2,960,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,960,000</u>

The following tables present a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis that use significant unobservable inputs (Level 3) and the related realized and unrealized gains (losses) recorded in the consolidated statement of operations during the periods.

	<b>Nine Months Ended</b>
	<b>Sept. 30, 2019</b>
Fair value, December 31, 2018	\$ 2,960,000
Issuances of debt	30,000
Accrued interest	403,329
Conversions of debt and accrued interest to shares of common stock	-
Amortization of debt issuance costs	3,750
Net unrealized gain on convertible bridge notes	(490,079)
Fair value, September 30, 2019	<u>\$ 2,907,000</u>
Less: current portion of bridge notes	2,829,488
Fair value, September 30, 2019, less current portion	<u>\$ 77,512</u>

	<b>Nine Months Ended</b>
	<b>Sept. 30, 2018</b>
Fair value, December 31, 2017	\$ 3,270,000
Issuances of debt	290,000
Accrued interest	140,488
Conversions of debt and accrued interest to shares of common stock	(57,664)
Amortization of debt issuance costs	2,500
Net unrealized gain on convertible bridge notes	(345,324)
Fair value, September 30, 2018	<u>\$ 3,300,000</u>

The Company's convertible Bridge Notes are valued by using Monte Carlo Simulation methods and discounted future cash flow models. Where possible, the Company verifies the values produced by its pricing models to market prices. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit spreads, measures of volatility and correlations of such inputs. These convertible Bridge Notes do not trade in liquid markets, and as such, model inputs cannot generally be verified and do involve significant management judgment. Such instruments are typically classified within Level 3 of the fair value hierarchy. The following assumptions were used to value the Company's convertible Bridge Notes at September 30, 2019: dividend yield of -0-%, volatility of 156%, risk free rate of 1.83% and an expected term of 9 months. The valuation model also considers management's estimate of the probability of early redemption of a portion of the Bridge Notes. The fair value of the Bridge Note was estimated based on the present value expected future cash flows using a discount rate of 20%.



## NOTE 8 – STOCKHOLDER DEFICIT

### Redeemable Convertible Preferred Stock

The Company has 600 shares of Preferred Stock issued and outstanding, which currently are convertible at \$0.10 per share of the Company's common stock (the "Conversion Price"), as per the terms of a March 2018 Modification and Extension Agreement (the "2018 Modification"). The Preferred Stock bears a 6% dividend per annum, calculable and payable per quarter in cash or additional shares of common stock as determined in the Certificate of Designation. The Preferred Stock has no voting rights until converted to common stock and has a liquidation preference equal to the aggregate purchase price of \$600,000 plus accrued dividends. In December 2017 and January 2018, the Company was obligated to redeem all of the then outstanding Preferred Stock, for an amount in cash equal to the Two Year Redemption Amount (such redemption, the "Two Year Redemption"). The Company extended the redemption date to July 1, 2019 pursuant to a new modification agreement signed in March 2019. The Preferred Stock is currently in default, and the Company is negotiating a modification with the holders. If a resolution cannot be reached, the holder can accelerate the redemption due, foreclose on the assets of the Company, or pursue other legal remedies available to it. Each share of Preferred Stock received warrants (the "Warrants") equal to one-half of the Purchase Price to purchase common stock in the Company exercisable for five years following closing, currently exercisable at a price of \$0.50 per share.

The Preferred Stock has price protection provisions in the case that the Company issues any shares of stock not pursuant to an "Exempt Issuance" at a price below the Conversion Price. Exempt Issuances include: (i) shares of Common Stock or common stock equivalents issued pursuant to the original merger of the company or any funding contemplated by that transaction; (ii) any common stock or convertible securities outstanding as of the date of closing; (iii) common stock or common stock equivalents issued in connection with strategic acquisitions; (iv) shares of common stock or equivalents issued to employees, directors or consultants pursuant to a plan, subject to limitations in amount and price; and (v) other similar transactions. The Certificate of Designation contains restrictive covenants not to incur certain debt, repurchase shares of common stock, pay dividends or enter into certain transactions with affiliates without consent of holders of 67% of the Preferred Stock. The holders of the Preferred Stock consented to the Bridge Offering.

Management has determined that the Preferred Stock is more akin to a debt security than equity primarily because it contains a mandatory 2-year redemption at the option of the holder, which only occurs if the Preferred Stock is not converted to common stock. Therefore, management has presented the Preferred Stock outside of permanent equity as mezzanine equity, which does not factor in to the totals of either liabilities or equity. In 2016, the proceeds were allocated between the three features of the stock offering: the embedded conversion feature in the Preferred Stock, the warrants, and the Preferred Stock itself. The fair values of the embedded conversion feature and warrants were recorded as a discount against the stated value of the Preferred Stock on the date of issuance. This discount was amortized to interest expense over the term of the redemption period (2 years), which would result in the accretion of the Preferred Stock to its full redemption value.

The Preferred Stock carries a 6% per annum dividend calculated on the stated value of the stock and is cumulative and payable quarterly beginning July 1, 2016. These dividends are accrued at each reporting period. They add to the redemption value of the stock; however, as the Company shows an accumulated deficit, the charge has been recognized in additional paid-in capital.

### Warrants

The following is a summary of all outstanding common stock warrants as of September 30, 2019:

	Number of Warrants	Exercise price per share	Average remaining term in years
Warrants issued in connection with issuance of Debentures	2,033,500	\$ 0.50	0.25
Warrants issued in connection with issuance of Preferred Stock	1,153,845	\$ 0.50	1.30
Warrants issued in connection with a services contract	1,000,000	\$ 0.20	0.73
Warrants issued in connection with a services contract	1,000,000	\$ 0.35	0.73

The following is a summary of all outstanding common stock warrants as of September 30, 2018:

	Number of Warrants	Exercise price per share	Average remaining term in years
Warrants issued in connection with issuance of Debentures	415,000	\$ 0.50	0.50
Warrants issued in connection with issuance of Preferred Stock	1,153,845	\$ 0.50	1.85
Warrants issued in connection with a services contract	1,000,000	\$ 0.20	1.23
Warrants issued in connection with a services contract	1,000,000	\$ 0.35	1.23
Warrants issued in connection with a services contract	150,000	\$ 0.04	4.75

During the year ended December 31, 2018, we committed to issuing warrants to purchase 150,000 shares of common stock at \$.04 per share and expiring in five years, to one of our consultants prior to the consummation of any merger or equity financing of more than \$1,000,000. These warrants are provisional and are not considered outstanding or granted as of September 30, 2019 or December 31, 2018.

#### **NOTE 9 – COMMITMENTS AND CONTINGENCIES**

In April 2017, the Company entered into two Employment Agreements, the first with its Chairman and, as of July 2017, CEO; and the second with its previous CEO and, as of July 2017, President and General Counsel. The annual salaries under these Employment Agreements are \$350,000 and \$220,000, respectively, and agreements have provisions for severances in the instance either executive is terminated without cause or after a change in control (24 months for the CEO and 12 months for the President).

Pursuant to a services agreement signed in 2018, an additional 150,000 warrants with a five-year term and exercisable at \$0.04 per share are issuable to the provider, but were not formally issued in 2018 and remain unissued.

#### **NOTE 10 – SUBSEQUENT EVENTS**

On November 5, 2019, the Company filed a preliminary Form 14A Proxy Statement with the SEC to hold a special meeting of the stockholders to vote on the following matters:

- 1) Increase the number of authorized common shares from 100,000,000 to 300,000,000;
- 2) Authorize the Board of Directors to affect a stock split in the ratio of 1:2 to 1:25 in their discretion;
- 3) Adopt the Company's Amended Omnibus Equity Plan; and
- 4) To authorize an adjournment of the meeting if necessary.

The special meeting of the stockholders is expected to be held in December 2019.

## **ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATIONS**

### **FORWARD LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains certain forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, including or related to our future results, events and performance (including certain projections, business trends and assumptions on future financings), and our expected future operations and actions. In some cases, you can identify forward-looking statements by the use of words such as “may,” “should,” “plan,” “future,” “intend,” “could,” “estimate,” “predict,” “hope,” “potential,” “continue,” “believe,” “expect” or “anticipate” or the negative of these terms or other similar expressions. These forward-looking statements generally relate to our plans and objectives for future operations and are based upon management’s reasonable estimates of future results or trends. In evaluating these statements, you should specifically consider the risks that the anticipated outcome is subject to, including the factors discussed under “RISK FACTORS” in previous filings and elsewhere. These factors may cause our actual results to differ materially from any forward-looking statement. Actual results may differ from projected results due, but not limited to, unforeseen developments, including those relating to the following:

- We fail to raise capital;
- We fail to implement our business plan;
- We fail to complete acquisitions or fail to integrate acquired companies successfully;
- We fail to compete at producing cost effective products;
- Market demand does not materialize for compost and manufactured soils;
- The availability of additional capital at reasonable terms to support our business plan;
- Economic, competitive, demographic, business and other conditions in our markets;
- Changes or developments in laws, regulations or taxes;
- Actions taken or not taken by third-parties, including our suppliers and competitors;
- The failure to acquire or the loss of any license or patent;
- The failure to obtain or loss of a permit or operating license;
- Changes in our business strategy or development plans;
- The availability and adequacy of our cash flow to meet our requirements; and
- Other factors discussed under the section entitled “RISK FACTORS” in previous filings or elsewhere herein.

You should read this Quarterly Report completely and with the understanding that actual future results may be materially different from what we expect. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, future financings, performance, or achievements. Moreover, we do not assume any responsibility for accuracy and completeness of such statements in the future. We do not plan to update any of the forward-looking statements after the date of this Quarterly Report to conform such statements to actual results.

### **Overview**

Our initial subsidiary, Q2P, was originally formed in April 2010 in the state of Florida as a limited liability company called “Cyclone-WHE LLC.” The purpose of the Company at such time was essentially the same as it was through most of 2016: to complete research and development on its waste-to-power technology with the goal of pursuing business opportunities in the clean energy sector. We re-domiciled to Delaware as a corporation in April 2014, formally split from our former parent in July 2014, and changed our name to “Q2Power Corp.” in February 2015. We are licensed to do business in Florida, where we maintain an office.

On November 12, 2015, Q2P consummated its Agreement and Plan of Merger (the “Merger Agreement”) with the Company (then called Anpath Group, Inc.) and a newly formed and wholly-owned subsidiary, AnPath Acquisition Sub, Inc., a Delaware corporation (“Merger Subsidiary”), resulting in the Merger Subsidiary merging with and into Q2P. As a result, Q2P was the surviving company and a wholly-owned subsidiary of AnPath (the “Merger”). As a result of the Merger, all outstanding shares of Q2P were exchanged for approximately 24 million shares of our common stock. In addition, we assumed both the Q2P 2014 Founders Stock Option Plan and the 2014 Employees Stock Option Plan (the “Option Plans”), and 1,095,480 options outstanding thereunder. As of the date of the Merger, the officers and directors of Q2P took over the management and Board of Directors of the Company.

In connection with the Merger, we sold the former operating entity of Anpath, ESI, to three former officers and shareholders of Anpath in exchange for the return of 470,560 shares of our common stock and ESI retaining all of the old liabilities of ESI including a litigation judgment. In December 2015, we officially changed our name to Q2Power Technologies, Inc. to reflect our new business direction – that of Q2P – after the Merger. In February 2016, we changed our fiscal year end from March 31 to December 31 to reflect the year-end of our operating Subsidiary, and up-listed our common stock to the OTCQB. The financial statements and footnotes to the financial statements reflect this change of fiscal year end. On August 18, 2017, we changed our name to Q2Earth, Inc.

Since May 2016, management began to pursue opportunities in the business of manufacturing compost and soils from yard waste, food waste, biosolids and other waste streams. In early 2017, we raised funding through our Bridge Offering to implement this change in business model, and sold our waste-to-power technology to a licensee. In late 2018, we commenced the process of acquiring companies in this environmental sector and managing their operations through an affiliated company discussed below.

#### **Current Acquisitions and Agreements with EPH**

On July 27, 2018, we signed a definitive Stock Purchase Agreement (the “GBWA Purchase Agreement”) for the purchase of all of the outstanding capital stock of George B. Wittmer Associates Inc. (“GBWA”) of Jacksonville, Florida, from its sole shareholder. GBWA is a residual waste management and compost manufacturing company that services papermills in the southeast United States. The company’s assets include land and improvements, equipment, inventory, proprietary know-how and tradenames, long-term contracts and extensive customer lists.

On November 9, 2018, we transferred the GBWA Purchase Agreement to Earth Property Holdings LLC, a Delaware limited liability company (“EPH”), plus \$50,000 in non-reimbursed expenses, in return for a 19.9% Class B equity stake and an eight-year Management Agreement to run EPH for an initial annual management fee of \$200,000 (this annual fee was increased to \$700,000 in January 2019). One institutional entity, in which our CEO is an investor and member, provided \$4,400,000 in funding upon transfer of the GBWA Purchase Agreement in return for 500,000 Class A Units equal to 80.1% of the voting equity of EPH. Immediately subsequent to the transfer of the GBWA Purchase Agreement and equity funding, EPH consummated the GBWA acquisition. Our Class B units are subordinated to the Class A equity units in that the Class B units will not receive a dividend or consideration in connection with a liquidation event until the Class A unit holders have received a full repayment of their capital accounts plus all accrued dividends. As such, the Class B units currently have nominal value.

On January 18, 2019, EPH completed the acquisition (the “OBG Acquisition”) of Employee Owned Nursery Enterprises Ltd., a Texas limited partnership d/b/a Organics “by Gosh” (“OBG”). OBG is an organics recycling and compost and soil manufacturing company based in Austin, Texas. In connection with the OBG Acquisition, EPH raised an additional \$1.9 million in Class A equity units and secured a \$6 million mezzanine credit facility, from which EPH drew down \$3 million at closing. Also, the Company acquired an additional 53,970 Class B equity units as a subscription payable for \$21,588 to maintain our 19.9% equity interest in EPH and received an additional \$500,000 annual management fee plus reimbursed expenses. In May 2019, EPH issued an additional 36,932 Class A Units in consideration for \$325,000 additional investments. The Company did not purchase additional Class B Units at this time, and as a result, its equity stake in EPH was diluted to 19.2%. We believe that the percentage of EPH ownership representing by our Class B units will be significantly diluted in the following periods as EPH seeks additional equity capital to continue its acquisition strategy. While we have the right to invest along side new capital to maintain our equity stake, we do not expect to have the funds to do so.

In addition to our investment in EPH and the closing of the GBWA and OBG transactions, which we expect to manage and oversee moving forward, we are currently in negotiations with several other composting facilities to acquire in 2019 through EPH. We can make no guarantee that these additional acquisitions will close due to many factors including failure to raise required funding, failure to reach definitive agreements, and findings of items in the diligence process that would make closing not in the best interests of EPH’s members or our shareholders. Furthermore, if such acquisitions are completed, our equity stake in EPH will likely be significantly diluted. Also, we have no assurances that our Management Agreement will be continued in future periods, as EPH has the right to terminate that agreement at will, with the payment of a one-year severance fee.

## Bridge Offering and Follow-On Bridge

The Company issued a total of \$2,821,908 in Convertible Promissory Notes (the “Bridge Notes”) during 2017 and 2018 (the “Bridge Offering”) and \$30,000 in 2019. Proceeds from the Bridge Notes were used to complete due diligence, negotiate and secure the initial compost acquisitions, as well as for operational expenses and legacy debt repayment. The Bridge Notes convert at a 50% discount to the post-funding valuation of the Company at the closing of its next offering in the minimum amount of \$5,000,000 (the “Equity Offering”). The conversion valuation has a ceiling of \$12,000,000, and a “floor” company value of \$6,000,000 in the event there is no Equity Offering before the Bridge Notes are able to be converted. The Bridge Notes convert into common stock, or preferred stock if received by investors in the Equity Offering, commencing on the soonest of the Equity Offering closing or December 31, 2017, at the discretion of the holder. In 2018, one Bridge Note in the principal amount of \$50,000 was converted into shares of common stock. Maturity is 36 months from issuance (except for certain Bridge Notes issued in 2018, which have a 24-month term) with 15% annual interest which is capitalized each year into the principal of the Notes and paid in kind. The Bridge Notes start maturing in March 2020. Unless we are able to negotiate an extension to the maturity dates for these Bridge Notes, or a conversion to equity in the Company which would be highly dilutive, we may not be able to repay these obligations in 2020 and may be in default. If this were to occur, our ability to operate will be materially adversely affected. As of September 30, 2019, management was working on a solution and believes that a redemption of these Bridge Notes through EPH is possible prior to March 2020, but there is no guaranty that such event will occur, and even if it does, the Company could owe additional debt to EPH or need to issue equity to EPH which would be highly dilutive.

### A. Plan of Operation

Over the last 12 months, our plans for acquiring and overseeing the acquisition of commercial composting and sustainable soils manufacturing companies advanced materially in the opinion of management. These advancements include and culminated in the closing of the GBWA Purchase Agreement through EPH in November 2018, the closing of the OBG Acquisition in January 2019, and the completion of \$5.7 million in equity funding through EPH and \$6 million in a mezzanine debt facility. We have also added to our team, hiring two highly experienced compost facility managers, a product development specialist, and other financial staff on an interim basis.

Management’s plan for the remainder of 2019 and into 2020 is to complete several more acquisitions in the compost space through EPH, which will require raising additional equity and debt from current and future investors. Such new investments through EPH would significantly dilute our equity ownership in that company. We will also be focused on our role managing the operations of EPH and its subsidiary entities, which may lead to additional management fees and other opportunities. This Management Agreement, however, is cancellable at will by EPH and there is no assurance that EPH will continue to operate under that agreement in future periods. We cannot be certain that additional acquisitions will close due to many factors including failure to raise required funding, failure to reach definitive agreements, and findings of items in the diligence process that would make closing not in the best interests of EPH’s members or our shareholders.

In addition to our acquisition and management role on behalf of EPH, we plan to seek other revenue and value creation opportunities for the Company. These may include development, acquisition or licensing of national soil brands and distribution channels outside the immediate markets of EPH facilities, and soil science and research projects that can be used to advance operations of EPH facilities as well as other companies in the US or internationally under sales or license agreements.

Pursuant to this strategy, in May 2019, we signed a worldwide, exclusive license agreement with Agrarian Technologies LLC and its affiliates (“Agrarian”) to sell Agrarian’s proprietary ABS bio-stimulant, an organic, natural compound designed to enhance root formation, increase vascular strength and promote overall plant health through the entire growth cycle. The license agreement covers all ABS formulations, applications and improvements, including a proprietary process to utilize ABS to boost the nutrient and commercial value of compost, engineered soils and wood mulch. The license also provides the Company with the exclusive rights to market soil and mulch products under the Wild Earth® and Mulch Masters® federally registered trademarks. The agreement is 10-years with renewal terms, and provides Agrarian royalties based on the sale of the ABS formula including minimum annual guarantees. ABS, a product of over 50 years of university and private research, meets USDA standards for an organic system plan. Management believes that the license with Agrarian will not only support compost production and sales at the Company’s affiliated EPH but will also provide the Company with an independent business line. Management has commenced marketing of ABS both as a stand-alone product and as a soil and mulch enhancement, although these operations are still in their start-up phase and no material revenue has been generated through these activities.

Also in May 2019, the Company signed a services agreement with Community Eco Power, LLC (“CECO”) to assist that company complete an acquisition of two waste-to-power facilities in New England, and to assist management transition operations over the following six months. The acquisition closed on May 15, 2019. The fee for the Company’s services was \$250,000, of which a portion was recognized as revenue upon closing and the balance is recorded as contract liabilities on the Company’s balance sheet.

While we intend to focus on the business of compost and engineered soils, moving forward we may also review and pursue other synergistic opportunities in the waste-to-value, recycling, residual management, ag-tech, or cannabis/hemp sectors if approved by our Board of Directors. At the current time, fees from the EPH Management Agreement, which can be cancelled at will by EPH, do not cover our full overhead, and we have had to borrow funds from EPH under several 6% interest demand notes.

To continue operations towards these goals, we will need to raise additional capital for the Company. We have a verbal commitment with the primary investor of EPH that they will continue to provide funding to the Company either as Bridge Notes, other Q2 securities, or advances on management fees, to maintain our operations through at least the end of 2019; however, we do not have any formal written agreement and there can be no guarantee that this investor will continue to fund our operations in the future. While we are cautiously optimistic that we will have funding to maintain our current operations and advance our business plan, management cannot guarantee that additional financing can be completed on terms acceptable to the Company, if at all.

Without additional funding, specifically equity funding, we will continue to face significant challenges pursuing our current business strategy and developing it to a state where we are self-sustaining or profitable. We anticipate that our equity ownership in EPH will be diluted in future periods as that company raises additional equity capital with liquidation preferences ahead of ours. We may never experience a return on our investment in EPH. Further, since our Management Agreement with EPH can be cancelled at will by EPH, we have no assurances that this revenue stream will continue in the future. Management recognizes these uncertainties, and is seeking options to allow us to reduce our significant debt load from the Bridge Notes, convertible notes and preferred stock, and debt owed to EPH; and also allow us to develop business lines that generate revenue which can support our ongoing operations and eventually lead to profitability. These business lines may be those we are already engaged in, or may be new opportunities in agricultural technology, cannabis/hemp, or other non-synergistic businesses. If we are unable to raise additional capital or develop profitable business lines, we may need to reduce materially our overhead, including laying-off employees and officers.

## **B. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **Company Overview**

Between July 2014 and mid-2016, through Q2P we primarily devoted our efforts to commercializing the Q2P engine and CHP system, developing our waste-to-power business model, and recruiting executive management and key employees. Starting in the second half of 2016, we began to phase out our R&D operations, and in August 2017, sold our engine technology to our licensee. We are now focused on promoting our compost manufacturing business model, including providing soil management services and facilitating the acquisition of or investing in other compost manufacturing companies. As a new entity, we have limited current business operations and nominal assets. We currently operate at a loss with minimal revenue.

Starting in the third quarter of 2018, we have increased our operating expenses as new employees have been hired and operations to acquire and invest in compost facilities have increased. We currently have five full time employees, including our CEO, President, and three Vice Presidents in operational and product development roles. Our interim CFO is part-time. Other expenses which have increased recently include legal and accounting, payment of fees for exclusivity and LOIs with acquisition targets, and other general expenses. We have also used equity, including common stock and stock options, to pay some expenses over the last year.

### ***Results of Operations for the three months ended September 30, 2019 and 2018***

We recorded \$245,864 in revenue, all from related parties, during the three months ended September 30, 2019 compared to none for the same period in 2018.

For the three months ended September 30, 2019, we recorded net income of \$439,709, an increase of \$1,462,426 from our net loss of \$1,022,717 for the same period in 2018. Basic and diluted net income per share was \$0.01 for the three-month period ended September 30, 2019, as compared to a basic and diluted net loss per share of \$0.02 in the same period of 2018. The primary underlying reasons for the increase in net income include the decrease in fair value of the convertible bridge notes of \$735,805 for the three months ended September 30, 2019 compared to a \$254,893 gain for the same period in 2018, and a decrease of \$267,708 in operating expenses for the three month period ended September 30, 2019 compared to the same period in 2018. The gain on the change in fair value of the convertible bridge notes was due to management's estimate as of September 30, 2019, that the early redemption of a portion of the notes became more probable.

The majority of the \$267,708 decrease in operating expenses was due to a decrease in professional fees of \$387,010 to \$63,228 for the three-month period ended September 30, 2019 from \$450,238 for the same period in 2018, due to decreased legal and consulting fees. The decrease in professional fees was partially offset by an increase in payroll expenses of \$128,911, or 71%, to \$311,499 for the three-month period ended September 30, 2019 from \$182,558 for the same period in 2018.

### ***Results of Operations for the nine months ended September 30, 2019 and 2018***

We recorded \$672,556 in revenue, all from related parties, during the nine months ended September 30, 2019 compared to none for the same period in 2018.

For the nine months ended September 30, 2019, we recorded a net loss of \$878,262, a decrease of \$515,409 (37%) from our net loss of \$1,393,671 for the same period in 2018. Basic and diluted net loss per share was \$0.02 for the nine-month period ended September 30, 2019, as compared to a basic and diluted net loss per share of \$0.03 in the same period of 2018. The primary underlying reasons for the decrease in net loss include the decrease in fair value of the convertible bridge notes of \$490,079 for the nine months ended September 30, 2019 compared to \$90,431 for the same period in 2018. The gain on the change in fair value of the convertible bridge notes was due to management's estimate as of September 30, 2019, that the early redemption of a portion of the notes became more probable. The decrease in the loss was offset by an increase of \$362,069 in operating expenses for the nine month period ended September 30, 2019 compared to the same period in 2018.

The majority of the \$362,069 increase in operating expenses was due to an increase in payroll and related expenses of \$843,315, or 345%, to \$1,186,736 for the nine-month period ended September 30, 2019 from \$343,421 for the same period in 2018, due to a full nine months of expense in 2019 and accrued bonuses in the first quarter of 2019. The increase in payroll expense was partially offset by a decrease in professional fees of \$501,979 or 57% to \$285,825 for the nine-month period ended September 30, 2019 from \$787,804 due to a decrease in legal fees and consulting fees.

### **Financial Condition, Liquidity and Capital Resources**

For the nine months ended September 30, 2019, cash decreased by \$156,631 from December 31, 2018. This decrease was primarily the result of operating losses.

Net cash used in operating activities was \$611,631 for the nine months ended September 30, 2019, which reflected our net loss during the period of \$878,262, offset by a net increase in operating assets and liabilities of \$211,975 and net non-cash adjustments of \$54,656. The majority of non-cash adjustments consists of a \$490,079 gain on change in fair value of convertible bridge notes, \$115,714 of stock based compensation expense, \$403,329 in paid-in-kind interest related to the Bridge Notes and \$21,588 loss on equity investment.

Our net loss resulted largely from our funding of activities related to the execution of our business strategy of facilitating the acquisition of and investment in and managing compost manufacturing businesses, including conducting due diligence and incurring consulting and professional expenses and hiring additional employees to support these operations, as well as ongoing general and administrative expenses.

Net cash provided by financing activities during the nine months ended September 30, 2019 consisted of \$425,000 from a related party loan from EPH, our equity method investment, and \$30,000 in additional bridge loan funding.

At September 30, 2019, our cash totaled \$3,404. Our cash is currently held at large U.S. banks.

Based on our current strategy and operating plan, we need to raise additional capital to support operations; therefore, there is substantial doubt about our ability to operate as a going concern. See “Note 2 – Basis of Presentation and Going Concern” in our condensed consolidated financial statements.

Since July 2014, we have raised over \$7 million in capital over several financings, inclusive of cash invested and some debt and payables converted to stock, but excluding funds raised through EPH. With these Company funds, we have been able to complete the prototype stage of our original technology, place our first operating pilot unit in the field, recruit a solid engineering and business team, and secure strong Directors with significant industry experience. Specifically, with the closing of our Bridge Offering, described below, we have also been able to pivot our business model to the compost and soil manufacturing business.

**Bridge Financing.** In May 2017, we completed the first round of our Bridge Offering with \$1,450,000 of new cash raised and an additional \$191,908 in old debt converted into the round. In September 2017, we completed an additional \$200,000 follow-up Bridge Offering on the same terms.

The Convertible Promissory Notes (the “Notes”) convert at a 50% discount to the post-funding valuation of the Company at the closing of our next offering in the minimum amount of \$5,000,000 (the “Equity Offering”). The conversion valuation has a ceiling of \$12,000,000, and a “floor” company value of \$6,000,000 in the event there is no Equity Offering before the Notes are able to be converted.

The Notes are currently convertible into our common stock, or preferred stock if received by investors in the Equity Offering, at the discretion of the individual holders. Maturity is 36 months from issuance with 15% annual interest which will be capitalized each year into the principal of the Notes and paid in kind. There are no warrants issued in connection with the Bridge Offering.

The Bridge Offering was led by two accredited investors and joined by approximately 25 additional accredited investors which included our Directors. Management conducted the Bridge Offering and no broker fees were paid in connection with the initial closing. All securities issued in the Bridge Offering and debt settlements were issued pursuant to an exemption from registration under Section 4(a)(2) under the Securities Act of 1933.

In May 2018 through June 2019, we raised an additional \$970,000 in the Follow-On Bridge Offering primarily from the Institutional Bridge Investor. Two Directors and one Board observer also participated in this round. The terms of this Follow-On Bridge Offering are identical to the 2017 Bridge Offering except the notes have a two-year term (instead of three).

Many of the Bridge Notes mature in March 2020. If the Company cannot repay these obligations, or otherwise negotiate an extension to the maturity dates or have the note holders convert into equity, we may be forced to layoff employees, further reduce operations or liquidate the business. Management has recently been discussing a plan for redeeming these Bridge Notes through EPH, but no agreement currently exists and no guaranty can be made that such plan will be consummated on terms acceptable to the Company, if at all. Any such plan would need to be approved by the Bridge Note holders and the members and investors of EPH, in addition to our Board.



**Debentures in Default.** The Company is currently in default under its Original Issue Discount Senior Secured Convertible Debentures in the principal amount of \$165,000, which matured on July 1, 2019 pursuant to a March 2019 Modification and Extension Agreement with the holders. The Company is in negotiations with the holders to reach a new modification agreement or other resolution. If a resolution cannot be reached, the holder can accelerate all payments due, demand default interest, foreclose on the assets of the Company, or pursue other legal remedies available to it.

#### **Company's Prior Financings.**

Subsequent to the Merger into the public company, we raised \$600,000 in our Series A 6% Convertible Preferred Stock (the "Preferred Stock") from two separate accredited investors in November 2015 and January 2016, respectively. The Preferred Stock bears a 6% dividend per annum, calculable and payable per quarter in cash or additional shares of common stock as determined in the Certificate of Designation. The Preferred Stock was originally convertible at \$0.26 per share at the discretion of the holders, and contains price protection provisions in the instance that we issue shares at a lower price, subject to certain exemptions. As a result of the July 2016 common stock offering described below, the conversion price for these Preferred Shares automatically reduced to \$0.21 per share, and as a result of the Bridge Offering, the conversion price was reset to \$0.15 per share. Pursuant to the 2018 Modification, the conversion price is currently \$0.10 per share. Preferred Stock holders also received other rights and protections including piggy-back registration rights, rights of first refusal to invest in subsequent offerings, security over our assets (secondary to our debt holders), and certain negative covenant guaranties that we will not incur non-ordinary debt, enter into variable pricing security sales, redeem or repurchase stock or make distributions, and other similar warranties. The Preferred Stock was redeemable on July 1, 2019 per a 2019 modification agreement, and has no voting rights until converted to common stock. The Preferred Stock is currently in default, and the Company is negotiating a new modification and extension agreement with the holder. The Preferred Stock holders also received 50% warrant coverage at an exercise price of \$0.50, with a five-year term and similar price protections as in the Preferred Stock. Pursuant to agreements with the warrant holders, this conversion price remains at \$0.50 as of June 30, 2019.

On March 15, 2016, we entered into a 120-day term loan agreement with one accredited investor in the principal amount of \$150,000. The loan bore 20% interest with interest payments due monthly. The holders of the term loan received 100,000 shares of common stock valued at \$26,000, \$3,000 cash and a second security interest in our assets of in exchange for arranging the financing. The loan was repaid in full in December 2017.

On April 29, 2016, our three independent Directors loaned us a total of \$60,200 pursuant to three convertible notes which were automatically convertible into the equity securities issued in our next financing of at least \$1,000,000 at the same price and same terms. The total principal amount of all three notes was \$66,000. The notes were converted into the Bridge Offering in March 2017. In June 2016, three other shareholders provided an additional \$30,000 us on the same loan terms, which were also subsequently converted into the Bridge Offering.

In July and August 2016, we received subscription agreements from six accredited investors (four of whom were previous shareholders) to purchase 750,000 shares of restricted common at a price of \$0.21 per share for an aggregate of \$157,500, less \$610 in financing costs.

In September 2016, our three independent Board members advanced us \$3,000 for payment of insurance premiums. In the fourth quarter of 2016 and first quarter of 2017, the three Board members advanced an additional \$29,500 to cover expenses. All of these advances were converted into our initial Bridge Offering.

All promissory notes and shares in these offerings were sold pursuant to an exemption from the registration requirements of the Securities Exchange Commission under Regulation D to accredited or sophisticated investors who completed questionnaires confirming their status. Unless otherwise described in this Quarterly Report, reference to "restricted" common stock means that the shares have not been registered and are restricted from resale pursuant to Rule 144 of the Securities Act of 1933, as amended.

#### **Cash and Working Capital**

We have incurred negative cash flows from operations since inception on an annual basis. As of September 30, 2019, we had an accumulated deficit of \$11,245,493 and negative working capital of \$3,943,503.

#### **Critical Accounting Policies**

Our financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP). Disclosures regarding our Critical Accounting Policies are provided in Note 3 – Summary of Significant Accounting Policies of the footnotes to our condensed consolidated financial statements.

#### **Off-Balance Sheet Arrangements**

The Company did not engage in any "off-balance sheet arrangements" (as that term is defined in Item 303(a)(4)(ii) of Regulation S-K) as of September 30, 2019.

### **ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not required for smaller reporting companies.

### **ITEM 4: CONTROLS AND PROCEDURES**

In connection with the preparation of this Quarterly Report, management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Accounting Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Quarterly Report. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. Management concluded that, as of September 30, 2019, the Company's disclosure controls and procedure were not effective based on the criteria in *Internal Control – Integrated Framework* issued by the COSO, version 2013.

#### **Management's Quarterly Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process, under the supervision of the Chief Executive Officer and the Chief Accounting Officer, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles in the United States (GAAP). 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 Company's assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the Board of Directors; 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 limitations, 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.

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2019, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 ("COSO"). As a result of this assessment, management identified certain material weaknesses in internal control over financial reporting. A material weakness is a control deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The identified material weaknesses are disclosed below:

- Due to the size of the Company and available resources, there are limited personnel to assist with the accounting and financial reporting function, which results in a lack of segregation of duties.
- The Company has experienced significant turnover in the role that oversees the day-to-day accounting and financial reporting functions, which increases the risk of a material misstatement in the financial statements.
- The Company lacks knowledge and expertise with accounting for stock -based compensation arrangements.

As a result of the material weakness in internal control over financial reporting described above, management concluded that, as of September 30, 2019, our internal control over financial reporting was not effective based on the criteria in *Internal Control – Integrated Framework* issued by the COSO.

The Company is in the process of addressing and correcting these material weaknesses, including drafting, formalizing and implementing greater internal controls to assure proper financial reporting. As the Company retained but then lost its CFO in 2018, and its Principal Accounting Officer and new acting-CFO have not had the resources to implement proper controls, these weaknesses still exist. Management will be diligent in its efforts to continue to improve the reporting processes of the Company, including the addition of accounting resources and the continued development of proper accounting policies and procedures.

This quarterly report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. We were not required to have, nor have we, engaged our independent registered public accounting firm to perform an audit of internal control over financial reporting pursuant to the rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

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

There were no changes in our internal control over financial reporting in connection with the evaluation required by Rule 13a-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II – OTHER INFORMATION**

**ITEM 1: LEGAL PROCEEDINGS**

We are not a party to any pending legal proceeding and, to the knowledge of our management, no federal, state or local governmental agency is presently contemplating any proceeding against us. No director, executive officer, affiliate of ours, or owner of record or beneficially of more than five percent of our common stock is a party adverse to the Company or has a material interest adverse to us in any proceeding.

When the Company sold the ESI subsidiary to three former shareholders following the Merger, that company had a judgment against it from a litigation brought in the Superior Court of the County of Iredell, North Carolina, seeking payment of wages of approximately \$25,000, together with vacation pay, the value of health insurance benefits and medical expenses. On April 10, 2015, the Court entered judgment against ESI in favor of the plaintiff. Claims made by the plaintiff against AnPath (the Company at that time) and certain of the officers and directors of Anpath at that time were dismissed by the Court. We do not believe we have any liability in this matter, and that the judgment was properly retained by ESI in the sale; however, to management’s knowledge the judgment is still outstanding and management cannot guarantee that it will not be brought back into the litigation or collection efforts in the future.

**ITEM 1A: RISK FACTORS**

Not required for smaller reporting companies.

**ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

We did not issue any shares of common stock in the third quarter of 2019. There were no other sales of unregistered equity securities by us in the second fiscal quarter of 2019 and up to the date of filing that have not been previously reported.

**ITEM 3: DEFAULTS UPON SENIOR SECURITIES**

The Company is in default under its Original Issue Discount Senior Secured Convertible Debentures in the total principal amount of \$165,000. The Company is currently in negotiations with the holders to modify and extend the maturity date on those notes.

**ITEM 4: MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5: OTHER INFORMATION**

- (a) There was no information required to be disclosed in a report on Form 8-K during the period that the Company failed to report.
- (b) None, not applicable.

**ITEM 6: EXHIBITS**

Exhibit Number	Description
31.1	<a href="#">302 Certification of Kevin M. Bolin, CEO</a>
31.2	<a href="#">302 Certification of Kevin M. Bolin, Chief Accounting Officer</a>
32	<a href="#">906 Certification</a>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Q2EARTH INC.

Date: 11/14/19

By: /s/ Kevin M. Bolin  
Kevin M. Bolin  
Chief Executive Officer and Chairman

Date: 11/14/19

By: /s/ Kevin M. Bolin  
Kevin M. Bolin  
Chief Accounting Officer



**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Kevin M. Bolin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Q2Earth, Inc. for the period ending September 30, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 14, 2019

By: /s/ Kevin M. Bolin

Kevin M. Bolin  
Chief Executive Officer  
(Principal Executive Officer)

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**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Kevin M. Bolin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Q2Earth, Inc. for the period ending September 30, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 14, 2019

By: /s/ Kevin M. Bolin

Kevin M. Bolin

Chief Accounting Officer

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

In connection with the Quarterly Report on Form 10-Q for Q2Earth, Inc., (the "Company") for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kevin M. Bolin, Chief Executive Officer and Chief Accounting Officer of the Company certifies pursuant to 18 U.S.C. section 1350 of the Sarbanes-Oxley Act of 2002 that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2019

By: /s/ Kevin M. Bolin  
Kevin M. Bolin  
Chief Executive Officer  
Chief Accounting Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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