

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

Mark One

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

For the quarterly period ended **June 30, 2018**

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

For the transition period from _____ to _____

Commission file number **000-55787**

VET ONLINE SUPPLY, INC.

(Exact name of registrant as specified in its charter)

(VET ONLINE SUPPLY INC LOGO)

Florida	47-0990750	5047
(State or Other Jurisdiction of Incorporation or Organization)	IRS Employer Identification Number	Primary Standard Industrial Classification Code Number
6500 Live Oak Drive Kelseyville, CA 95451 Tel: 503-308-9173		
(Address and telephone number of principal executive offices)		

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 8, 2018, there were 2,653,441,892 shares of the registrant's \$0.001 par value common stock issued and outstanding.

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FORWARD LOOKING STATEMENTS

Statements made in this Form 10-Q that are not historical or current facts are “forward-looking statements.” These statements often can be identified by the use of terms such as “may,” “will,” “expect,” “believe,” “anticipate,” “estimate,” “approximate” or “continue,” or the negative thereof. We intend that such forward-looking statements be subject to the safe harbors for such statements. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Any forward-looking statements represent management’s best judgment as to what may occur in the future. However, forward-looking statements are subject to risks, uncertainties and important factors beyond our control that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated events.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 210 8-03 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. Operating results for the six months ended June 30, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, refer to the financial statements and footnotes thereto included in our company’s Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission on April 2, 2018.

REPORTED IN UNITED STATES DOLLARS

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VET ONLINE SUPPLY INC. BALANCE SHEETS

	June 30, 2018	December 31, 2017
ASSETS		
(unaudited)		
Current Assets		
Cash	\$ 46,526	\$ 16,820
Prepaid expenses	1,000	—
Inventory	38,805	—
Total Current Assets	86,331	16,820
TOTAL ASSETS	\$ 86,331	\$ 16,820
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 124,444	\$ 79,031
Convertible notes payable, interest	27,877	6,233
Convertible notes payable, net of discount	237,667	65,225
Derivative liabilities	2,618,641	625,214
Liability for unissued shares	190,825	190,825
Related party liabilities	20,100	10,182
Sales tax payable	29	—
Total Current Liabilities	3,219,583	976,710
Total Liabilities	3,219,583	976,710
Commitments and contingencies	—	—
SHAREHOLDERS' EQUITY (DEFICIT)		
Preferred stock, Series B: \$0.001 par value 10,000,000 shares authorized	1	1
1,000 shares issued and outstanding at June 30, 2018		
1,000 shares issued and outstanding at December 31, 2017		
Common stock, \$0.001 par value 10,000,000,000 authorized	2,537,426	669,209
2,537,426,611 shares issued and outstanding at June 30, 2018		
669,209,173 shares issued and outstanding at December 31, 2017		
Treasury stock, 0 shares at \$0.001, 19,000 as of December 31, 2017	—	19
Additional paid in capital	3,389,549	3,235,487
Accumulated deficit	(9,060,228)	(4,864,606)
Total Shareholders' Equity (Deficit)	(3,133,252)	(959,890)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	\$ 86,331	\$ 16,820

The accompanying notes are an integral part of these financial statements

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**VET ONLINE SUPPLY INC.
STATEMENT OF OPERATIONS**

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
Sales	\$ 2,046	\$ 2,160	\$ 3,014	\$ 2,787
Cost of sales	1,093	934	1,525	1,475
Gross profit (loss)	953	1,226	1,489	1,312
Operating expenses:				
Consulting fees	196,762	445,626	606,593	574,615
G&A expenses	12,712	28,967	46,204	29,587
Professional fees	36,769	9,460	66,929	18,080
Salaries and wages	9,000	—	18,000	—
Total Operating expenses	255,243	484,053	737,726	622,282
Loss from operations	(254,290)	(482,827)	(736,237)	(620,970)
Other income (expense):				
Gain (loss) on debt settlement	—	50,000	—	50,000
Gain (loss) on derivative liability valuation	405,673	(169,800)	(2,745,197)	(216,200)
Interest expenses	(392,901)	(50,939)	(714,188)	(52,567)
Total other income/expenses	12,772	(170,739)	(3,459,385)	(218,767)
Net loss before income taxes	(241,518)	(653,566)	(4,195,622)	(839,737)
Income tax expense	—	—	—	—
Net loss	\$ (241,518)	\$ (653,566)	\$ (4,195,622)	\$ (839,737)
Per share information				
Weighted number of common shares outstanding, basic and diluted	2,256,213,474	194,661,758	1,746,044,703	193,370,055
Net loss per common share	(0.00011)	(0.0034)	(0.00240)	(0.0043)

The accompanying notes are an integral part of these financial statements

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**VET ONLINE SUPPLY INC.
STATEMENTS OF CASH FLOWS**

	For the six months ended June 30,	
	2018	2017
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net profit (loss)	\$ (4,195,622)	\$ (839,737)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	—	73
Amortization of convertible debt discount	625,679	47,908
New derivatives recorded as loan fees	3,984,178	—
Preferred stock issued for services	—	21,000
Common stock issued for services	49,389	178,500
Gain on debt settlement	—	(50,000)
Change in derivative liability	(1,238,982)	216,200
Liability for unissued shares due to agreements	—	120,825
Decrease (increase) in operating assets		
Accounts receivable	—	—
Inventory	(38,805)	—
Prepaid expenses	(1,000)	(3,000)
Increase (decrease) in operating liabilities		
Accounts payable	45,413	52,534
Accrued interest	78,259	—
Deferred revenue	—	134
Sales tax payable	29	—
Net cash used in operating activities	(691,462)	(255,563)
Cash flows from investing activities		
Additions to property, plant and equipment	—	(20,620)
Net cash used from investing activities	—	(20,620)
Cash flows from financing activities:		
Proceeds from convertible notes payable, net	711,250	280,275
Proceeds from (payments to) related parties, net	9,918	—
Proceeds from promissory notes payable	—	1,500
Net cash provided (used) by financing activities	721,168	281,775
Net increase (decrease) in cash	29,706	5,592
Cash, beginning of year	16,820	319
Cash, end of year	\$ 46,526	\$ 5,911
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ —	\$ —
Cash paid for interest	\$ —	\$ —

VET ONLINE SUPPLY INC.
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of Business

Vet Online Supply Inc. (the "Company") is a Florida corporation incorporated on May 31, 2014. The Company engages in the online sale of its own holistic product line for pets, as well as targeting the larger Big-Box Pet retail suppliers, and during the first quarter of 2018, discontinued its legacy veterinarian supplies lines. The company discontinued its legacy line of products to increase margins and profitability with its own brand-name holistic products. These new holistic pet products are designed to help with arthritis, compromised immune systems, stress responses, aggression and digestive issues and may also be useful in treating acute ailments like sprains and strains, torn ligaments, bone breaks and even during post-operative care to reduce swelling, pain and stiffness. The Company's web-based eCommerce platform with our products is on our website, www.vetonline-supplies.com. The website gives our potential clients the ability to purchase quality pet products by placing their order any time of day at their convenience.

Distribution channels include its existing online retail sales platform and fulfillment, and direct sales through its global manufacturing sales representative network. Although selling pet products online is not entirely new to the company, we anticipate that this medium will continue to grow as our brand continues to achieve recognition. We believe that by providing high quality holistic pet products at competitive prices and to customers online, Vet Online Supply hopes to become a 'go-to' solution for pet owners everywhere. In addition, online vs. catalogue has the benefit of, among other things, search tools and accounts that remember previous purchases, and expedited ordering.

During August 2015 the Company filed amended articles with the Florida Secretary of State to:

- Set a series of preferred stock, each one share being convertible into one share of common stock and with no voting rights;
- Set par value for each of the preferred and common stock at \$0.001 per share.

On July 25, 2016, the Company filed a Certificate of Amendment with the State of Florida to increase the authorized Common Stock, par value \$0.001, to 8,000,000,000 common shares, and to affect a forward split of 150 shares for each 1 share of the Company's issued Common Stock ("Forward Split"). The effective date of the Forward Split is July 28, 2016.

All share and per share data contained in these financial statements reflects the retroactive application of the aforementioned forward share split.

On August 28, 2017 the Board of Directors accepted the resignation of Mr. Edward Aruda as the Chief Executive Officer, President, Secretary and Treasurer. The resignations of Mr. Aruda were not due to any disagreements with the Company on any matter relating to its operations, policies or practices.

On August 28, 2017 the Board of Directors appointed Mr. Daniel Rushford as the Chief Executive Officer, President, Secretary, Treasurer, and a Member of the Board of Directors.

On November 9, 2017, the Company filed a Certificate of Amendment to increase the number of authorized common shares from 1,000,000,000 to 3,000,000,000 with a par value of \$0.001.

On December 13, 2017, the Company received a customer order for \$202,184.00 in merchandise. The order is expected to ship during the second quarter of 2018, at which time the Company will recognize the revenue on its income statement.

On December 14, 2017, the Company filed a Certificate of Amendment to increase the number of authorized common shares from 3,000,000,000 to 10,000,000,000 with a par value of \$0.001.

On February 6, 2018, the Company filed a Certificate of Amendment to increase the number of authorized common shares from 10,000,000,000 to 15,000,000,000 with a par value of \$0.001.

On February 7, 2018, the Company received a customer order for \$529,790.00 in merchandise. The order is expected to ship in the third quarter of 2018 at which time the Company will recognize the revenue on its income statement.

On February 22, 2018, the Company filed a Certificate of Amendment to increase the number of authorized common shares from 15,000,000,000 to 25,000,000,000 with a par value of \$0.001.

On February 23, 2018, the Company entered into an Exclusive Agreement for Distribution with a west coast distributor, whereby the distributor will exclusively distribute on the west coast for the company's CDB Products. The distributor has committed to and submitted a purchase order for \$3,000,000 of product at negotiable prices for a period of 24 months for distribution.

On March 15, 2018, the Company announced that its Board of Directors has determined that it is in the best interests of the Corporation to initiate a program to reacquire certain shares of stock from its stockholders, and to thereafter retire said shares as non-voting Treasury stock. The Corporation has approved a Share Repurchase Program (the "Program") to accomplish this. The Corporation hereby will make an offer of redemption to its shareholders in accordance with the terms of the Program. The specific timing, price and size of purchases will depend on prevailing stock prices, general economic and market conditions, and other considerations. The Program does not obligate the Company to acquire any particular amount of stock, and the Program may be suspended or discontinued at any time at the Company's discretion.

On April 3, 2018, the Company agreed to enter in to a 12-month exclusive agreement with a west coast distributor, whereas the distributor has agreed to purchase \$6,500,000 of Oral Pet Sprays from Vet Online Supply Inc. during the next 12 months. The Company is allowing the distributor an exclusive agreement to purchase and place our CBD Pet products in California marijuana dispensaries through April 3, 2019.

On April 30, 2018, the Company filed a Certificate of Amendment to increase the number of authorized common shares from 25,000,000,000 to 50,000,000,000 with a par value of \$0.001.

To date, our activities have been limited to formation, the raising of equity capital, and the initial stages of implementation of our business plan. We filed a Form S-1 Registration Statement with the U.S. Securities and Exchange Commission, received a notice of effect and trade on the OTC Markets, PINK under the symbol VTNL. We are continuing to explore additional sources of capital. We anticipate incurring operating losses as we continue to implement our business plan.

Financial Statement Presentation

The audited financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America

Fiscal year end

The Company has selected December 31 as its fiscal year end.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be based upon amounts that differ from these estimates.

Cash Equivalents

The Company considers all highly liquid investments with maturities of 90 days or less from the date of purchase to be cash equivalents.

Revenue Recognition and Related Allowances

The Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09") as amended, as of January 1, 2018 with no material impact. The Company primarily generates net revenue through product sales to distributors and to retail customers on its website. Revenue is recognized upon transfer of control of promised products to customers which is generally upon shipment in an amount that reflects the consideration we expect to receive in exchange for those products or services. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at the amount that management expects to collect from outstanding balances. Bad debts and allowances are provided based on historical experience and management's evaluation of outstanding accounts receivable. Management evaluates past due or delinquency of accounts receivable based on the open invoices aged on due date basis. The allowance for doubtful accounts at June 30, 2018 and December 31, 2017 is \$0.

Inventories

The Company is a manufacturer of premium CBD infused holistic pet products and as such will maintain inventory on site. The company directly drops ships to customers when ordered. The Company has wholesale distributors that purchase products in bulk inventory.

Warranty

The Company is a manufacturer of products which are shipped to our customers directly from the company and as a result, there are costs that may be incurred by the Company under the terms of the limited warranty provided by the company directly to the purchasers. We provide provisions for obligations which may arise under manufacturer's warranties and therefore incur liabilities. We warranty the product for packaging and shipping.

Advertising and Marketing Costs

The company provides website online marketing of its products, as well as wholesalers who market the product. The company also utilizes various public press releases to provide public information about its product line and future products under development. Advertising and marketing costs are expensed as incurred and were \$0 during the six months ended June 30, 2018 (\$0 – June 30, 2017).

Fair Value of Financial Instruments

Fair value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including our own credit risk.

In addition to defining fair value, the standard expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs is expanded. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels and which is determined by the lowest level input that is significant to the fair value measurement in its entirety.

These levels are:

Level 1 - inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 - inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Financial assets and liabilities measured at fair value on a recurring basis:

	Input Level	June 30, 2018 Fair Value	December 31, 2017 Fair Value
Derivative Liability	3	\$ 2,618,641	\$ 625,214
Total Financial Liabilities		\$ 2,618,641	\$ 625,214

In management's opinion, the fair value of convertible notes payable and advances payable is approximate to carrying value as the interest rates and other features of these instruments approximate those obtainable for similar instruments in the current market. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, exchange or credit risks arising from these financial instruments. As of June 30, 2018 and December 31, 2017, the balances reported for cash, accounts receivable, prepaid expenses, accounts payable, and accrued liabilities, approximate the fair value because of their short maturities.

The Company has adopted SFAS No. 109 – “Accounting for Income Taxes”. ASC Topic 740 requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method of ASC Topic 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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.

Basic and Diluted Loss Per Share

In accordance with ASC Topic 280 – “Earnings Per Share”, the basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted loss per common share is computed similar to basic loss per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which replaces existing revenue recognition guidance. The updated guidance requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the standard on January 1, 2018, using a modified retrospective approach, with the cumulative effect of initially applying the standard recognized in retained earnings at the date of adoption.

While the Company does not expect the adoption of this standard to have a material impact on the Company’s net *Revenues* in the Consolidated Statements of Income, the Company anticipates revenues for certain wholesale transactions and substantially all digital commerce sales will be recognized upon shipment rather than upon delivery to the customer.

Additionally, provisions for post-invoice sales discounts, returns and miscellaneous claims will be recognized as accrued liabilities rather than as reductions to *Accounts receivable, net*; and the estimated cost of inventory associated with the provision for sales returns will be recorded within *Prepaid expenses and other current assets* on the Balance Sheets. The Company continues to evaluate the impact of this new standard, including on accounting policies, disclosures, internal control over financial reporting and its contracts with customers.

In February 2016, the FASB issued ASU 2016-02 (ASC Topic 842), *Leases*. The ASU amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of assessing the impact on its consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815)*. Among other provisions, this ASU requires that when determining whether certain financial instruments should be classified as liabilities or equity instruments, an entity should not consider the down round feature. The ASU also recharacterizes as a scope exception the indefinite deferral available to private companies with mandatorily redeemable financial instrument and certain noncontrolling interests, which does not have an accounting effect but addresses navigational concerns within the FASB Accounting Standards Codification. The provisions of the ASU related to down rounds are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company is in the process of assessing the impact on its consolidated financial statements.

2. GOING CONCERN

The Company has experienced net losses to date, and it has not generated sufficient revenue from operations to meet our operational overhead. We will need additional working capital to service debt and for ongoing operations, which raises substantial doubt about our ability to continue as a going concern. Management of the Company is preparing a strategy to meet operational shortfalls which may include equity funding, short term or long-term financing or debt financing, to enable the Company to reach profitable operations. Historically, the Company’s sole officer and director has provided short term loans to meet working capital shortfalls. We have recently entered into financing agreements with various third parties to meet our capital needs in fiscal 2018.

The accompanying financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

3. RESELLER AGREEMENT AND PROMISSORY NOTE

On June 1, 2014 the Company entered into a Reseller Agreement with Concord Veterinary Supplies Inc., (“Concord”), where under Concord has authorized the non-exclusive right to Vet Online Supply, Inc. to market, promote, advertise, sell, distribute and deliver, veterinary products carried by Concord Veterinary Supply, which are listed on www.concord-surgical.com, for a one-time fee of \$50,000. The fee payable has been secured by an interest free convertible promissory note (the “Note”) due within ninety (90) days of the Company getting notice of effect from its S-1 Registration Statement as filed with the Securities and Exchange Commission, which occurred December 22, 2015. At any time prior to maturity of the Note, Concord Veterinary Supply may elect to convert the debt amount into shares of the common stock of the Company at a fixed price of \$0.000667 per share.

There is no beneficial conversion feature resulting from the conversion price compared to market price.

On April 11, 2017 Concord Veterinary Supply agreed to cancel its outstanding promissory note in the amount of \$50,000 for no further consideration. The Company recorded a gain on debt forgiveness of \$50,000.

On March 22, 2018, the Company terminated all contracts with Concord Veterinary Supply for the purchase and distribution of veterinary products.

4. PREPAID EXPENSES

	June 30, 2018	December 31, 2017
Prepaid expenses	\$ 1,000	\$ —

Prepaid fees represent amounts paid in advance for future contractual benefits to be received. Contracting expenses paid in advance are recorded as a prepaid asset and then amortized to the statements of operations when services are rendered, or over the life of the contract using the straight-line method.

During the six months ended June 30, 2018, the Company recorded prepaid expenses of \$1,000 for legal fees billed in advance for July 2018.

5. CONVERTIBLE NOTES PAYABLE

During the six months ending June 30, 2018, the Company received proceeds from new convertible notes of \$711,250. The Company recorded no payments on their convertible notes, and conversions of \$297,119 of convertible note principal. The Company recorded penalties of \$47,727, of which \$32,762 was converted into the Company's common stock. The Company recorded loan fees on new convertible notes of \$116,083, which increased the debt discounts recorded on the convertible notes during the six months ending June 30, 2018. All of the Company's convertible notes have a conversion rate that is variable, and therefore, the Company has accounted for their conversion features as derivative instruments (see Note 5). As a result of recording derivative liabilities at note inception, the Company increased the debt discount recorded on their convertible notes by \$882,333 during the six months ended June 30, 2018. The Company also recorded amortization of \$552,334 on their convertible note debt discounts and \$73,345 on loan fees. As of June 30, 2018, the convertible notes payable are convertible into 2,675,355,612 shares of the Company's common stock.

During the six months ending June 30, 2017, the Company received proceeds from new convertible notes of \$280,275. The Company recorded no payments on their convertible notes, and no conversion of convertible note principal. The Company recorded loan fees on new convertible notes of \$47,725, which increased the debt discounts recorded on the convertible notes during the six months ending June 30, 2017. The Company's convertible notes have a conversion rate that is variable, and therefore, the Company has accounted for their conversion features as derivative instruments (see Note 5). As a result of recording derivative liabilities at note inception, the Company increased the debt discount recorded on their convertible notes by \$309,780 during the six months ended June 30, 2017. The Company also recorded amortization of \$40,261 on their convertible note debt discounts and \$6,438 on loan fees.

During the six months ended June 30, 2018 and 2017, the Company recorded interest expense of \$30,532 and \$3,954, respectively, on its convertible notes payable. During the six months ended June 30, 2018, the Company recorded conversions of \$8,888 of convertible note interest. As of June 30, 2018, the accrued interest balance was \$27,877.

As of June 30, 2018, we have not attained profitable operations and are dependent upon obtaining financing to pursue any extensive acquisitions and activities.

6. DERIVATIVE LIABILITIES

The following table represents the Company's derivative liability activity for the embedded conversion features for the years ending June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Balance, beginning of period	\$ 625,214	\$ —
Initial recognition of derivative liability	4,866,511	1,086,498
Conversion of derivative instruments to Common Stock	(1,634,102)	(644,469)
Mark-to-Market adjustment to fair value	(1,238,982)	183,185
Balance, end of period	<u>\$ 2,618,641</u>	<u>\$ 625,214</u>

During the six months ended June 30, 2018, the Company recorded derivative liabilities for embedded conversion features related to convertible notes payable of \$4,866,511.

During the six months ended June 30, 2018, in conjunction with convertible notes payable principal and accrued interest being converted into common stock of the Company, derivative liabilities were reduced by \$1,634,102.

For the six months ended June 30, 2018, the Company performed a final mark-to-market adjustment for the derivative liability related to the convertible notes and the carrying amount of the derivative liability related to the conversion feature and recognized a gain on the derivative liability valuation of \$1,238,982.

The Company uses the Black-Scholes option pricing model to estimate fair value for those instruments convertible into common shares at inception, at conversion or extinguishment date, and at each reporting date. During the six months ended June 30, 2018, the company used the following assumptions in their Black-Scholes model: (1) risk free interest rate 1.32% - 2.81%, (2) term of 0.14 years - 5 years, (3) expected stock volatility of -456.68% - 632.79%, (4) expected dividend rate of 0%, (5) common stock price of \$0.0005 - \$0.0047, and (6) exercise price of \$0.00017 - \$0.00081.

These instruments were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. The instruments do not qualify for hedge accounting, and as such, all future changes in the fair value will be recognized in earnings until such time as the instruments are exercised, converted or expire.

7. COMMON AND PREFERRED STOCK

On March 28, 2017, the Company filed an amendment to its articles of incorporation reducing the number of authorized common shares from 8,000,000,000 to 1,000,000,000, par value \$0.001, and designating 20,000 shares of its authorized preferred stock, par value \$0.001 as Series B Voting Preferred Stock. The Series B Voting Preferred Stock shall have the right to vote the shares on any matter requiring shareholder approval on the basis of 4 times the votes of all the issued and outstanding shares of common stock, as well as any issued and outstanding preferred stock.

Preferred Stock

On April 7, 2017, the Company issued 20,000 shares of Series B Voting Preferred Stock to Edward Aruda. The Company obtained a third-party valuation of the preferred stock to determine the fair value as at the date of issue. The report results provided for a value of \$21,000 as stock-based compensation as part of consulting expenses.

On August 28, 2017 the certificate for 20,000 shares of Series B Voting Preferred Stock to Edward Aruda was returned to the Company. On January 12, 2018, the certificate was cancelled and on March 1, 2018, 1,000 shares of Series B Voting Preferred Stock were issued to Daniel Rushford.

As of June 30, 2018, and December 31, 2017, 1,000 and 0 preferred shares were issued and outstanding, respectively.

Common Stock

During the year ended December 31, 2016, the Company has received proceeds totaling \$35,500 from various parties subscribing for a total of 53,250,000 shares at \$0.000667 per share under our Form S-1 registration statement. 53,250,000 shares of the Company's common stock were issued in respect of these subscriptions.

On July 25, 2016, 1,500,000,000 shares of treasury stock were returned.

On December 2, 2016, our sole officer and director, Mr. Edward Aruda, returned 7,361,250,000 shares of the Company's common stock for no consideration. Mr. Aruda was originally issued 7,500,000,000 shares as a signing bonus in fiscal 2015.

On March 28, 2017, the Company approved the issuance of 1,920,000 shares of the Company's common stock for services provided by a consultant, in the form of stock awards which shall vest as of the date of grant. The shares were valued at the fair market value on the date of grant totaling \$96,000, which amount has been

On May 16, 2017, the Company amended the terms of a consulting agreement so that \$15,000 in services payable by shares of common stock shall convert at \$0.01 per share for a total of 1,500,000 common shares. The shares were issued as of the date of the amendment and were valued at \$82,500, or \$0.055 per share based on the fair market value on the date of the agreement. The Company recorded the additional \$67,500 as stock-based compensation which is included in consulting fees.

On October 15, 2017, the Board of Directors of the Company approved the issuance of 20,000,000 restricted common shares with a value of \$200,000 at a price of \$0.01 to Robert Sullivan, pursuant to the Agreement dated October 2, 2017. The shares were issued on November 13, 2017 and were valued at \$220,000 or \$0.011 per share, based on the fair market value on the date of the issuance, and \$20,000 was recorded as a loss on settlement of debt on the statement of operations.

On October 15, 2017, the Board of Directors of the Company approved the issuance of 75,000,000 restricted common shares at a price of \$0.00067 to Samuel Berry to satisfy consulting fees of \$50,000, pursuant his agreement dated June 19, 2017. The shares were issued on November 13, 2017 and were valued at \$1,200,000, or \$0.016 per share based on the market value on the date the shares were approved for issuance, and \$1,150,000 was recorded as a loss on settlement of debt on the statement of operations.

On October 15, 2017, the Board of Directors of the Company approved the issuance of 75,000,000 restricted common shares at a price of \$0.00067 to Matthew Scott to satisfy accrued fees of \$50,000, pursuant his agreement dated April 1, 2017. The shares were issued on November 13, 2017 and were valued at \$1,200,000, or \$0.016 per share based on the market value on the date the shares were approved for issuance, and \$1,150,000 was recorded as a loss on settlement of debt of the statement of operations.

On November 9, 2017, the Company filed a Certificate of Amendment to increase the number of authorized common shares from 1,000,000,000 to 3,000,000,000 with a par value of \$0.001.

On December 14, 2017, the Company filed a Certificate of Amendment to increase the number of authorized common shares from 3,000,000,000 to 10,000,000,000 with a par value of \$0.001.

During the year ended December 31, 2017, the holders of convertible notes converted a total of \$247,822 of principal and interest into 278,798,173 shares of common stock. The common stock was valued at \$898,016 based on the market price of the Company's stock on the date of conversion. The issuance extinguished \$644,469 worth of derivative liabilities, and \$143,452 was recorded as additional paid in capital.

On February 6, 2018, the Company filed a Certificate of Amendment to increase the number of authorized common shares from 10,000,000,000 to 15,000,000,000 with a par value of \$0.001.

On February 22, 2018, the Company filed a Certificate of Amendment to increase the number of authorized common shares from 15,000,000,000 to 25,000,000,000 with a par value of \$0.001.

On March 15, 2018, the Company announced that its Board of Directors has determined that it is in the best interests of the Corporation to initiate a program to reacquire certain shares of stock from its stockholders, and to thereafter retire said shares as non-voting Treasury stock. The Corporation has approved a Share Repurchase Program (the "Program") to accomplish this. The Corporation hereby will make an offer of redemption to its shareholders in accordance with the terms of the Program. The specific timing, price and size of purchases will depend on prevailing stock prices, general economic and market conditions, and other considerations. The Program does not obligate the Company to acquire any particular amount of stock, and the Program may be suspended or discontinued at any time at the Company's discretion.

On March 27, 2018, the Company approved the issuance of 21,743,756 shares of the Company's common stock for services provided by a consultant, in the form of stock awards which shall vest as of the date of grant. The shares were valued at the fair market value on the date of grant totaling \$39,139, which has been expensed as stock-based compensation as part of consulting expenses.

On April 30, 2018, the Company filed a Certificate of Amendment to increase the number of authorized common shares from 25,000,000,000 to 50,000,000,000 with a par value of \$0.001.

During the six months ended June 30, 2018, the holders of convertible notes converted a total of \$349,019 of principal, accrued interest, note fees and penalties into 1,646,950,237 shares of common stock. The common stock was valued at \$2,870,337 based on the market price of the Company's stock on the date of conversion. The issuance extinguished \$1,634,102 worth of derivative liabilities, and \$325,921 was recorded as additional paid in capital.

As of June 30, 2018 and December 31, 2017 there were 2,537,426,611 and 669,209,173 shares issued and outstanding, respectively.

Warrants

On June 19, 2017, the Company executed a Common Stock Purchase Warrant for 850,000 shares. The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price of \$0.03 per share for a term of five years. If the market price of one share of common stock is greater than the Exercise Price, the holder may elect to receive warrant shares pursuant to cashless exercise.

On June 14, 2018, the Company executed a Common Stock Purchase Warrant for 50,000,000 shares. The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price of \$0.001 per share for a term of five years. If the market price of one share of common stock is greater than the Exercise Price, the holder may elect to receive warrant shares pursuant to cashless exercise.

We account for common stock purchase warrants as derivative liabilities and debt issuance costs on the balance sheet at fair value, and changes in fair value during the periods presented in the statement of operations, which is revalued at each balance sheet date subsequent to the initial issuance of the warrant.

During the six months ended June 30, 2018, a warrant holder exercised the warrants and the Company issued 199,523,445 shares of common stock through a cashless exercise of the warrants.

8. RELATED PARTY TRANSACTIONS

Mr. Matthew C. Scott, Director

On April 1, 2017, the Company expanded its board of directors to include Matthew C. Scott. Concurrently, the Company entered into a consulting agreement with Mr. Scott for a term of one year, whereby Mr. Scott shall receive an annual fee of \$100,000 payable in quarterly installments. Furthermore, effective April 1, 2017 the Company agreed to issue Mr. Scott 2,000,000 shares of restricted common stock for his services as a director. The shares upon issue will be held by the Company for a term of six months and are cancelable should Mr. Scott not serve in his capacity as director for a minimum term of six months.

The Company recorded \$140,000 in share-based compensation in respect of the 2,000,000 shares issuable based on the fair market value on April 1, 2017, which has been recorded on the balance sheet as liabilities for unissued shares. Furthermore, a total of \$140,000 has been expensed in the year ending December 31, 2017 as stock-based compensation as part of consulting expenses. As of the date of this report, the shares have not been issued.

On October 15, 2017, the Board of Directors of the Company approved the issuance of 75,000,000 restricted common shares at a price of \$0.00067 to Matthew Scott to satisfy accrued fees of \$50,000, pursuant his agreement dated April 1, 2017. The shares were issued on November 13, 2017 and were valued at \$1,200,000, or \$0.016 per share based on the market value on the date the shares were approved for issuance, and \$1,150,000 was recorded as a loss on settlement of debt of the statement of operations.

On April 1, 2018, the Company agreed to renew the Consulting Agreement dated April 1, 2017 for one year.

During the six months ended June 30, 2018, the Company accrued consulting fees of \$50,000 and paid \$25,000 in cash, leaving \$25,000 on the Company's balance sheets as account payable – related parties with respect to amounts due to Mr. Scott.

Mr. Samuel Berry, Director

On June 19, 2017, the Company entered into a Consulting Agreement with Mr. Samuel Berry. Mr. Berry will receive an annual salary of \$50,000, payable in quarterly installments at \$12,500 per quarter.

On June 19, 2017 the Board of Directors appointed Mr. Samuel Berry as Director. For accepting the position of Director, Mr. Berry will receive 1,000,000 Shares of the Company's Common Stock, valued at \$0.05 per share. Additionally, Mr. Berry will be paid \$500 for each board meeting for which he is physically present.

The Company recorded \$50,000 in respect to the value of 1,000,000 unissued shares as liabilities for unissued shares and expensed \$50,000 as stock-based compensation as part of consulting expenses in the period ended June 30, 2017. As of the date of this report, the shares have not been issued.

On October 15, 2017, the Board of Directors of the Company approved the issuance of 75,000,000 restricted common shares at a price of \$0.00067 to Samuel Berry to satisfy consulting fees of \$50,000, pursuant his agreement dated June 19, 2017. The shares were issued on November 13, 2017 and were valued at \$1,200,000, or \$0.016 per share based on the market value on the date the shares were approved for issuance, and \$1,150,000 was recorded as a loss on settlement of debt on the statement of operations.

On June 19, 2018, the Company agreed to renew the Consulting Agreement dated June 19, 2017 for one year.

During the six months ended June 30, 2018, the Company accrued \$4,167 in consulting fees, and paid additional fees of \$2,500 for attending five board meetings at \$500 per meeting.

Daniel Rushford, President, CEO, Secretary, Treasurer and Director

On August 28, 2017, the Company entered into an Employment Agreement with Mr. Daniel Rushford with regard to being appointed as the new Chief Executive Officer, President, Secretary, Treasurer and Member of the Board of Directors. Mr. Rushford will receive a monthly salary of \$2,000 to be paid at the end of each month. Unpaid amounts will accrue annual interest of 6%. In addition, Mr. Rushford will receive 25,000,000 shares of restricted common stock and 1,000 Preferred Series B Shares upon signing of this agreement. Further, at the end of the first 12 months the employee will receive \$75,000 of restricted common shares of the company at fair market value. The term of the Consulting Agreement is for two years; renewable upon mutual consent.

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On November 13, 2017, the Company issued 25,000,000 restricted common shares for \$25,000 in share-based compensation that were valued at \$95,000, or \$0.0038 per share based on the market value on the date of issuance, and \$70,000 was recorded as a loss on settlement of debt.

On January 2, 2018, the Company approved an increase in salary to \$3,000 per month.

During the six months ended June 30, 2018, the Company accrued wages of \$18,000 and paid wages of \$18,000. In addition, Mr. Rushford advanced the Company \$2,173, (\$182 – December 31, 2017) and a payment of \$2,255 was made by the Company to satisfy the funds advanced.

9. INCOME TAXES

Deferred income taxes are determined using the liability method for the temporary differences between the financial reporting basis and income tax basis of the Company's assets and liabilities. Deferred income taxes are measured based on the tax rates expected to be in effect when the temporary differences are included in the Company's tax return. Deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

Operating loss carry-forwards generated during the period from May 25, 2014 (date of inception) through June 30, 2018 of approximately \$9,060,228 will begin to expire in 2034. The Company applies a statutory income tax rate of 21%. Accordingly, deferred tax assets related to net operating loss carry-forwards total approximately \$1,902,648 at June 30, 2018.

All tax years since inception are open to examination by the Internal Revenue Service.

10. COMMITMENTS AND CONTINGENCIES

(1). IR Agreement

On March 28, 2017, the Company entered into an investor relations agreement with a third party, whereby the third party will provide advertising, promotional and marketing services for the Company between April 1, 2017 and July 1, 2017. In consideration of the foregoing services performed by the third party, the Company will pay a fee of 1,920,000 restricted shares on or before April 1, 2017. In addition, the third party will remain the owner of at least 1% of the company's outstanding shares for a 1-year period. On April 1, 2018, the Company shall issue additional shares as necessary to bring the total number of shares paid to the third party to equal 1% of the outstanding shares of common stock as of 4/1/2018. In the event the Company does not issue the shares as required under this provision, the Company will be subject to a penalty of \$5,000 per month until the shares are issued.

1,920,000 shares were issued on March 28, 2017 and valued at the fair market value on the date of grant totaling \$96,000, which amount has been expensed as stock-based compensation as part of consulting expenses.

21,743,756 shares were issued on March 27, 2018 and valued at the fair market value on the date of grant totaling \$39,139, which amount has been expensed as stock-based compensation as part of consulting expenses.

In respect to the investor relations agreement, 15,000 additional shares have been allocated for issuance effective May 16, 2017, and \$825 has been expensed as stock-based compensation as part of consulting expenses due to 1,500,000 shares of common stock issued to a consultant.

The 15,000 shares were not issued as of June 30, 2018, and \$825 is recorded on the balance sheet as liabilities for unissued shares.

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(2). Consultant Agreement

On April 1, 2017, the Company expanded its board of directors to include Matthew C. Scott, to assist with development of our internet marketing efforts with a goal

of growing our business. Concurrently we entered into a consulting agreement with Mr. Scott for a term of one year, where under Mr. Scott shall receive an annual fee of \$100,000 payable in quarterly installments. Further effective April 1, 2017 the Company agreed to issue Mr. Scott 2,000,000 shares of restricted common stock for his services as a director. The shares upon issue will be held by the Company for a term of six months and are cancelable should Mr. Scott not serve in his capacity as director for a minimum term of six months.

The Company recorded \$140,000 in respect to the 2,000,000 shares based on the fair market value on April 1, 2017, which has been recorded on the balance sheet as liabilities for unissued shares and expensed \$140,000 as stock-based compensation as part of consulting expenses in the year period ended December 31, 2017. At December 31, 2017, the shares remained unissued.

On October 15, 2017, the Board of Directors of the Company approved the issuance of 75,000,000 restricted common shares at a price of \$0.00067 to Matthew Scott to satisfy accrued fees of \$50,000, pursuant his agreement dated April 1, 2017. The shares were issued on November 13, 2017 and were valued at \$1,200,000, or \$0.016 per share based on the market value on the date the shares were approved for issuance, and \$1,150,000 was recorded as a loss on settlement of debt of the statement of operations.

On April 1, 2018, the Company agreed to renew the consulting agreement for one year.

During the six months ended June 30, 2018, the Company accrued consulting fees of \$50,000 and paid \$25,000 in cash, leaving \$25,000 on the Company's balance sheets as account payable – related parties with respect to amounts due to Mr. Scott.

(3). Consultant Agreement

On April 6, 2017 the Company entered into a consulting agreement with an advisor, where under the advisor will provide access to financing for the Company's business activities. In consideration of the foregoing services performed by the advisor, the Company will pay a fee of 10% of net proceeds on each financing introduced.

During the six months ended March 31, 2019, the Company paid of \$0 (\$14,475 – December 31, 2017) to the advisor in respect of this agreement.

(4). Consultant Agreement

On June 19, 2017, the Company entered into a Consulting Agreement with Mr. Samuel Berry with regard to marketing and distribution of online retail sales for all products. Mr. Berry will receive an annual salary of \$50,000, payable in quarterly payments of \$12,500 per quarter.

On June 19, 2017 the Board of Directors appointed Mr. Samuel L. Berry as Director. For accepting the position of Director, Mr. Berry will receive 1,000,000 shares of the Company's common stock, valued at \$0.05 per share. Additionally, Mr. Berry will be paid \$500 for each board meeting for which he is physically present.

The Company recorded \$50,000 in respect to the value of 1,000,000 unissued shares as liabilities for unissued shares and expensed \$50,000 as stock-based compensation as part of consulting expenses year ending December 31, 2017. At December 31, 2017, the shares remained unissued.

On October 15, 2017, the Board of Directors of the Company approved the issuance of 75,000,000 restricted common shares at a price of \$0.00067 to Samuel Berry to satisfy consulting fees of \$50,000, pursuant his agreement dated June 19, 2017. The shares were issued on November 13, 2017 and were valued at \$1,200,000, or \$0.016 per share based on the market value on the date the shares were approved for issuance, and \$1,150,000 was recorded as a loss on settlement of debt on the statement of operations.

On June 19, 2018, the Company agreed to renew the consulting agreement for one year.

During the six months ended June 30, 2018, the Company accrued consulting fees of \$4,167 and paid additional fees of \$2,500 for attending five board meetings at \$500 per meeting.

(5). Employee Agreement.

On August 28, 2017, the Company entered into an Employment Agreement with Mr. Daniel Rushford with regard to being appointed as the new Chief Executive Officer, President, Secretary, Treasurer and Member of the Board of Directors. Mr. Rushford will receive a monthly salary of \$2,000 to be paid at the end of each month. Unpaid amounts will accrue annual interest of 6%. In addition, Mr. Rushford will receive 25,000,000 shares of restricted common stock and 1,000 Preferred Series B Shares upon signing of this agreement. Further, at the end of the first 12 months the employee will receive \$75,000 of restricted common shares of the company at fair market value. The term of the Consulting Agreement is for two years; renewable upon mutual consent.

On November 13, 2017, the Company issued 25,000,000 restricted common shares for \$25,000 in share-based compensation that were valued at \$95,000, or \$0.0038 per share based on the market value on the date of issuance, and \$70,000 was recorded as a loss on settlement of debt.

On January 2, 2018, the Company approved an increase in salary to \$3,000 per month.

During the six months ending June 30, 2018, the Company accrued wages of \$18,000 and paid wages of \$18,000.

(6). Consultant Agreement

On October 2, 2017 the Company entered into a consulting agreement with Jump Television Studios, LLC, to provide market intelligence and facilitate introductions with the investment banking community. The Company has agreed to pay a fee of \$30,000, and 20,000,000 shares of restricted common stock with a value of \$200,000, issued to Robert Sullivan.

The shares were issued on November 13, 2017 and were valued at \$220,000, or \$0.011 per share, based on the fair market value on the date of the issuance, and \$20,000 was recorded as a loss on settlement of debt.

On March 7, 2018, the Company entered into a Settlement and Release Agreement with Jump Television Studios, LLC, pursuant to the Consulting Agreement dated October 2, 2017, whereby the Company paid a settlement fee of \$4,000 for all considerations due up to March 7, 2018.

(7). Consultant Agreement

On November 15, 2017. the Company entered into a consulting agreement with an advisor, to advise the Company on corporate structure, mergers and acquisitions and corporate finance. The advisor will be compensated \$10,000 a month for a period of three months.

During the six months ending June 30, 2018, the Company paid of \$25,000 to the advisor in respect of this agreement.

(8). Consultant Agreement

On January 24, 2018, the Company entered into a Consulting Agreement with BAS1. The Company has agreed to pay BAS1 a fee of \$10,000 for a 30-day marketing awareness program.

During the six months ending June 30, 2018, the Company paid of \$7,500 to the advisor in respect to this agreement.

(9). Distribution Agreement

On February 23, 2018, the Company entered into an Exclusive Agreement for Distribution with a west coast distributor, whereby the distributor will exclusively distribute all Pet CDB Products owned by the Company. Furthermore, the distributor will purchase \$3,000,000 of product at negotiable prices for a period of 24 months for distribution.

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On April 3, 2018, the Company agreed to enter in to a 12-month exclusive agreement with a west coast distributor, whereas the distributor has agreed to purchase \$6.5M on Oral Pet Sprays from Vet Online Supply Inc. during the next 12 months. Vet Online Supply is allowing you an exclusive agreement to purchase and place our CBD Pet products in California marijuana dispensaries through April 3, 2019.

(10). Consultant Agreement

On March 1, 2018, the Company entered into a Consulting Agreement with Meridian Ventures, LLC. The Company has agreed to pay Meridian Ventures, LLC a retainer of \$30,000 for services focused on implementation and maintenance of a strategic brand medial program.

On June 11, 2018, the Company entered into a Consulting Agreement with Meridian Ventures, LLC. The Company has agreed to pay Meridian Ventures, LLC a retainer of \$10,000 for services focused on implementation and maintenance of a strategic brand medial program.

During the six months ending June 30, 2018, the Company paid of \$40,000 to the advisor in respect to these agreements.

(11). Consultant Agreement

On March 1, 2018, the Company executed a Consulting Agreement whereby the Consultant will receive a retainer of \$50,000 per month for six months to revise an online retail website, Private-Label product contract and distribution for veterinarian supplies and holistic based pet products.

On March 15, 2018, the Company agreed to engage in an additional contract with the consulting for \$200,000.

During the six months ending June 30, 2018, the Company paid of \$407,000 to the advisor in respect of these agreements.

(12). Consultant Agreement

On May 1, 2018, the Company executed a Consulting Agreement whereby the Consultant will provide services and professional expertise as an administrative advisor. The Consultant will receive a fee of \$25,000 for a period of one year.

(13). Consultant Agreement

On June 12, 2018, the Company entered into a Consulting Agreement with TEN Associates, LLC. The Company has agreed to pay TEN Associates a fee of \$4,000 for general corporate and business consulting services for the period on one month.

During the six months ending June 30, 2018, the Company paid of \$4,000 to the advisor in respect to this agreement.

11. SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ending June 30, 2018, the Company had the following non-cash investing and financing activities:

- Issued stock for debt increasing common stock by \$1,646,950, increasing additional paid in capital by \$325,921, reducing notes payable by \$329,881, reducing accrued interest by \$8,888, and reducing derivative liabilities by \$1,643,102.
- Increased debt discount and increased derivative liability by \$882,333 to record derivative liabilities at the inception of new notes.
- Issued warrant shares by cashless exercise increasing common stock by \$199,523 and reducing additional paid in capital by \$199,523.

12. SUBSEQUENT EVENTS

On August 1, 2018, the Company entered into a National Sales Rep Agreement for a period of three years, to recruit and manage new sales representatives. In consideration of services performed, the Company will pay a commission of 25% of gross proceeds to be paid in cash and 10% of gross proceeds to be paid in restricted common stock. The Company will also compensate for the recruitment of sales representatives. In addition, the Company has agreed to pay a fee of \$25,000 in the form of restricted common stock upon signing of the Agreement.

The company is in process of hiring up to 200 manufacturing sales representatives, whereas 100 sales representatives will be allocated and managed by the National Sales Rep, and the remaining 100 sales representatives will be allocated for Europe. In consideration of services performed, the Company will pay a commission of 25% of gross proceeds to be paid in cash and 10% of gross proceeds to be paid in restricted common stock. In addition, the Company has agreed to pay a fee of \$25,000 in the form of restricted common stock upon signing of the Agreement.

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

The following discussion and analysis summarizes the significant factors affecting our consolidated results of operations, financial condition and liquidity position for the six months ended June 30, 2018. This discussion and analysis should be read in conjunction with our audited financial statements and notes thereto included in our Annual Report on Form 10-K for our year-ended December 31, 2017 and the consolidated unaudited financial statements and related notes included elsewhere in this filing. The following discussion and analysis contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements.

FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements relating to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "intends", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors which may cause our or our industry's actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity or performance. You should not place undue reliance on these statements, which speak only as of the date that they were made. These cautionary statements should be considered with any written or oral forward-looking statements that we may issue in the future. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results, later events or circumstances

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

The management’s discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

As used in this quarterly report, the terms “we”, “us”, “our”, and “our company” means Vet Online Supply, Inc., unless otherwise indicated.

Corporate Information

Vet Online Supply Inc. (the “Company”) is a Florida corporation incorporated on May 31, 2014. The Company engages in the online sale of its own holistic product line for pets, as well as targeting the larger Big-Box Pet retail suppliers, and during the first quarter of 2018, discontinued its legacy veterinarian supplies lines. The company discontinued its legacy line of products to increase margins and profitability with its own brand-name holistic products. These new holistic pet products are designed to help with arthritis, compromised immune systems, stress responses, aggression and digestive issues and may also be useful in treating acute ailments like sprains and strains, torn ligaments, bone breaks and even during post-operative care to reduce swelling, pain and stiffness. The Company’s web-based eCommerce platform with our products is on our website, www.vetonlinesupplies.com. The website gives our potential clients the ability to purchase quality pet products by placing their order any time of day at their convenience.

Distribution channels include its existing online retail sales platform and fulfillment, and direct sales through its global manufacturing sales representative network. Although selling pet products online is not entirely new to the company, we anticipate that this medium will continue to grow as our brand continues to achieve recognition. We believe that by providing high quality holistic pet products at competitive prices and to customers online, Vet Online Supply hopes to become a ‘go-to’ solution for pet owners everywhere. In addition, online vs. catalogue has the benefit of, among other things, search tools and accounts that remember previous purchases, and expedited ordering.

We hope to realize our full plan of operations by raising additional capital through the sale of our securities, and other financing strategies to fully implement our marketing plan. While we have designed a full marketing strategy to gain brand awareness, with a goal of developing a large opt-in customer base we have not yet raised sufficient capital to implement this strategy.

Other than as set out herein, we have not been involved in any bankruptcy, receivership or similar proceedings, nor have we been a party to any material reclassification, merger, consolidation or purchase or sale of a significant amount of assets not in the ordinary course of our business.

Liquidity and Capital Resources

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited financial statements for the six months ended June 30, 2018 and audited financial statements for the year ended December 31, 2017, along with the accompanying notes, as filed with the Securities and Exchange Commission on Form 10-K on April 2, 2018.

Results for the Three Months Ended June 30, 2018 Compared to the Three Months Ended June 30, 2017

Revenues:

The Company’s revenues were \$2,046 for the three months ended June 30, 2018 compared to \$2,160 for the three months ended June 30, 2017. The decrease in revenue was due to a decrease in customer orders as the company focused on expanding its revenue potential through new distribution channels. On February 7, 2018, the Company received a customer order for \$529,790.00 in merchandise. The order is expected to ship in the third quarter of 2018 at which time the Company will recognize the revenue on its income statement. On February 23, 2018, the Company entered into an Exclusive Agreement for Distribution with a west coast distributor, whereby the distributor will exclusively distribute on the west coast for the company’s CDB Products. The distributor has committed to and submitted a purchase order for \$3,000,000 of product at negotiable prices for a period of 24 months for distribution.

Cost of Sales:

The Company’s cost of sales was \$1,093 for the three months ended June 30, 2018, compared to \$934 for the three months ended June 30, 2017. The increase was due to an increase in freight charges due to a higher number of orders shipped to customers.

Operating Expenses:

Operating expenses consisted primarily of consulting fees, professional fees, salaries and wages, office expenses and fees associated with preparing reports and SEC filings relating to being a public company. Operating expenses for the three months ended June 30, 2018, and June 30, 2017, were \$255,243 and \$484,053, respectively. The decrease was primarily attributable to share based consulting fees for the management team during the three months ended June 30, 2017.

Other Income (Expense):

Other income (expense) for the three months ended June 30, 2018, and June 30, 2017, was \$12,772 and \$(170,739), respectively. Other income (expense) consisted of gain or loss on derivative valuation and interest expense. The gain or loss on derivative valuation is directly attributable to the change in fair value of the derivative liability. Interest expense is primarily attributable to the initial interest expense associated with the valuation of derivative instruments at issuance and the accretion of the convertible debentures over their respective terms. The decrease primarily resulted from the fluctuation of the Company’s stock price which impacted the valuation of the derivative liabilities on the convertible debt.

Net Loss:

Net loss for the three months ended June 30, 2018, was \$241,518 compared with a net loss of \$653,566 for the three months ended June 30, 2017. The decreased net loss can be explained by the decrease in operating expenses, and the loss in fair value of the derivative instruments in the three months ended June 30, 2017.

Results for the Six Months Ended June 30, 2018 Compared to the Six Months Ended June 30, 2017

Revenues:

The Company’s revenues were \$3,014 for the six months ended June 30, 2018 compared to \$2,787 for the six months ended June 30, 2017. The increase in revenue was due to an increase in customer orders. On February 7, 2018, the Company received a customer order for \$529,790.00 in merchandise. The order is expected to ship in the third quarter of 2018 at which time the Company will recognize the revenue on its income statement. On February 23, 2018, the Company entered into an Exclusive Agreement for Distribution with a west coast distributor, whereby the distributor will exclusively distribute on the west coast for the company’s CDB Products. The distributor has committed to and submitted a purchase order for \$3,000,000 of product at negotiable prices for a period of 24 months for distribution.

Cost of Sales:

The Company's cost of materials was \$1,525 for the six months ended June 30, 2018, compared to \$1,475 for the six months ended June 30, 2017. The increase was due to negotiating prices with exclusive distributor and due to an increase in customer orders.

Operating Expenses:

Operating expenses consisted primarily of consulting fees, professional fees, salaries and wages, office expenses and fees associated with preparing reports and SEC filings relating to being a public company. Operating expenses for the six months ended June 30, 2018, and June 30, 2017, were \$737,726 and \$622,282, respectively. The increase was primarily attributable to an increase in consulting fees and professional fees. During the year ended December 31, 2017, the Company hired multiple consultants, increased investor relation activities, and incurred additional costs to meet SEC reporting requirements.

Other Income (Expense):

Other income (expense) for the six months ended June 30, 2018, and June 30, 2017, was \$(3,459,385) and \$(218,767), respectively. Other income (expense) consisted of gain or loss on derivative valuation and interest expense. The gain or loss on derivative valuation is directly attributable to the change in fair value of the derivative liability. Interest expense is primarily attributable the initial interest expense associated with the valuation of derivative instruments at issuance and the accretion of the convertible debentures over their respective terms. The increase primarily resulted from an increase in convertible notes executed and from the fluctuation of the Company's stock price which impacted the valuation of the derivative liabilities as well as the interest expense incurred on the convertible debt.

Net Loss:

Net loss for the six months ended June 30, 2018, was \$4,195,622 compared with a net loss of \$839,737 for the six months ended June 30, 2017. The increased net loss can be explained by the increase in operating expenses, the increase in the interest expense, and the change in fair value of the derivative instruments in the six months ended June 30, 2018 when compared to the prior year, as explained above.

Impact of Inflation

We believe that the rate of inflation has had a negligible effect on our operations.

Liquidity and Capital Resources

	June 30, 2018	December 31, 2017
	\$	\$
Current Assets	86,331	16,820
Current Liabilities	3,219,583	976,710
Working Capital (Deficit)	(3,133,252)	(959,890)

As of June 30, 2018, we had \$46,525 and \$86,331 in cash and total assets, as well as \$3,219,583 in total liabilities as compared to \$16,820 in cash and total assets, and \$976,710 in total liabilities as of December 31, 2017. The increase in assets was due to an increase in cash on hand and inventory. The increase in total liabilities was primarily attributed to the to increase in in convertible debt.

The Company requires additional capital to fully execute its marketing program and increase revenues. Presently we are relying on short term loans from our sole officer and director to meet operational shortfalls. There can be no assurance that continued funding will be available on satisfactory terms. We intend to raise additional capital through the sale of equity, loans or other short-term financing options.

	June 30, 2018	June 30, 2017
	\$	\$
Cash Flows from (used in) Operating Activities	(691,462)	(255,563)
Cash Flows from (used in) Investing Activities	—	(20,620)
Cash Flows from (used in) Financing Activities	721,168	281,775
Net Increase (decrease) in Cash During Period	29,706	5,592

During the six months ended June 30, 2018, cash used in operating activities was \$(691,462) compared to \$(255,563) for the six months ended June 30, 2017. The increase primarily resulted from an increase in convertible notes executed and from the fluctuation of the Company's stock price which impacted the valuation of the derivative liabilities as well as the interest expense incurred on the convertible debt.

During the six months ended June 30, 2018 cash used in investing activities was \$0 compared to \$(20,620) for the six months ended June 30, 2017. The decrease is due to the disposal of a vehicle pursuant to a settlement agreement in December 2017.

During the six months ended June 30, 2018, cash from financing activity was \$721,168 compared to \$281,775 for the six months ended June 30, 2017. The increase in cash from financing activity primarily resulted from an increase in the proceeds from convertible debt during the six months ended June 30, 2018.

Contractual Obligations

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to stockholders.

Critical Accounting Policies and Estimates

The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances. The results of their evaluation form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions and circumstances. Our significant accounting policies are more fully discussed in the Notes to our Financial Statements, included herein.

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES**Management's Report on Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our president and chief financial officer (our principal executive officer, principal financial officer and principal accounting officer) to allow for timely decisions regarding required disclosure.

As of the end of the quarter covered by this report, we carried out an evaluation, under the supervision and with the participation of our president and chief financial officer (our principal executive officer, principal financial officer and principal accounting officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our president and chief financial officer (our principal executive officer, principal financial officer and principal accounting officer) concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this quarterly report. Our company is in the process of adopting specific internal control mechanisms to ensure effectiveness as we grow, and we will work to retain additional qualified individuals to ensure a proper segregation of duties. We have engaged an outside consultant to assist in adopting new measures to improve upon our internal controls. Future controls, among other things, will include more checks and balances and communication strategies between the management and the board, once we are able to secure additional board members, to ensure efficient and effective oversight over company activities as well as more stringent accounting policies to track and update our financial reporting.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarterly period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

We know of no material, existing or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our company.

ITEM 1A. RISK FACTORS

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Quarterly Issuances**

On March 27, 2018, the Company approved the issuance of 21,743,756 shares of the Company's common stock for services provided by a consultant, in the form of stock awards which shall vest as of the date of grant. The shares were valued at the fair market value on the date of grant totaling \$39,139, which has been expensed as stock-based compensation as part of consulting expenses.

During the six months ended June 30, 2018, the holders of convertible notes converted a total of \$349,019 of principal, accrued interest, note fees and penalties into 1,646,950,237 shares of common stock. The common stock was valued at \$2,870,337 based on the market price of the Company's stock on the date of conversion. The issuance extinguished \$1,634,102 worth of derivative liabilities, and \$325,921 was recorded as additional paid in capital.

In respect of the aforementioned convertible loan agreement(s) and the underlying shares, as well as shares issued to a director and consultant, the Company will claim an exemption from the registration requirements of the Securities Act of 1933, as amended, for the issuance of the shares pursuant to Section 4(2) of the Act and/or Rule 506 of Regulation D promulgated thereunder since, among other things, the transaction does not involve a public offering, the purchasers are "accredited investors" and/or qualified institutional buyers, the purchasers have access to information about the Company and its purchase, the purchasers will take the securities for investment and not resale.

Other than as disclosed above, there were no unregistered securities to report which were sold or issued by the Company without the registration of these securities under the Securities Act of 1933 in reliance on exemptions from such registration requirements, within the period covered by this report, which have not been previously included in a Quarterly Report on Form 10-Q or a Current Report on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Securities Purchase Agreement and Convertible Note with EMA Financial, LLC, dated May 1, 2017
10.2	Securities Purchase Agreement and Convertible Note with Crown Bridge Partners LLC dated May 8, 2017
10.3	Securities Purchase Agreement and Convertible Note with Power Up Lending Group dated May 22, 2017
10.4	Securities Purchase Agreement and Convertible Note with LG Capital dated May 25, 2017
10.5	Securities Purchase Agreement and Convertible Note with Auctus Fund LLC dated June 16, 2017
10.6	Securities Purchase Agreement and Back End Convertible Note with Crown Bridge Partners LLC dated June 19, 2017

10.7	Convertible Promissory Note with LG Capital dated August 10, 2017
10.8	Convertible Promissory Note with APG Capital Holdings LLC dated November 20, 2017
10.9	Convertible Promissory Note with Power Up Lending Group dated November 20, 2017
10.10	Convertible Promissory Note with EMA Financial, LLC dated December 15, 2017
10.11	Convertible Promissory Note with Auctus Fund LLC dated January 1, 2018
10.12	Convertible Promissory Note with Auctus Fund LLC dated February 6, 2018
10.13	Convertible Promissory Note with Emerging Corporate Capital Financing, Inc. dated February 12, 2018
10.14	Convertible Promissory Note with Power Up Lending Group dated February 28, 2018
10.15	Convertible Promissory Note with EMA Financial, LLC dated March 5, 2018
<u>10.16</u>	<u>Convertible Promissory Note with Auctus Fund LLC dated June 14, 2018*</u>
31.1	Certification of the Chief Executive Officer required under Rule 13a-14(a)/15d-14(a) of the Exchange Act*
31.2	Certification of the Chief Financial Officer required under Rule 13a-14(a)/15d-14(a) of the Exchange Act*
32.1	Certification of the Chief Executive Officer and Chief Financial Officer required under Section 1350 of the Exchange Act*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	XBRL Taxonomy Extension Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

* Filed herewith

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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.

VET ONLINE SUPPLY, INC.

Date: August 14, 2018

By: /s/ Daniel Rushford

Name: **Daniel Rushford**

Title: President, Chief Executive Officer, Chief Financial Officer, Director

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EX-10 2 ex10-16.htm CONVERTIBLE PROMISSORY NOTE WITH AUCTUS FUND LLC DATED JUNE 14, 2018

Exhibit 10.16

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

Principal Amount: US\$100,000.00

Issue Date: June 14, 2018

Purchase Price: US\$100,000.00

CONVERTIBLE PROMISSORY NOTE

FOR VALUE RECEIVED, VET ONLINE SUPPLY, INC., a Florida corporation (hereinafter called the "Borrower"), hereby promises to pay to the order of **AUCTUS FUND, LLC**, a Delaware limited liability company, or registered assigns (the "Holder") the sum of US\$100,000.00 together with any interest as set forth herein, on March 14, 2019 (the "Maturity Date"), and to pay interest on the unpaid principal balance hereof at the rate of twelve percent (12%) (the "Interest Rate") per annum from the date hereof (the "Issue Date") until the same becomes due and payable, whether at maturity or upon acceleration or by prepayment or otherwise. This Note may not be prepaid in whole or in part except as otherwise explicitly set forth herein with the written consent of the Holder which may be withheld for any reason or for no reason. Any amount of principal or interest on this Note which is not paid when due shall bear interest at the rate of the lesser of (i) twenty four percent (24%) per annum or (ii) the maximum amount allowed by law from the due date thereof until the same is paid (the "Default Interest"). Interest shall commence accruing on the date that the Note is fully paid and shall be computed on the basis of a 360-day year and the actual number of days elapsed. All payments due hereunder (to the extent not converted into common stock, \$0.001 par value per share (the "Common Stock") in accordance with the terms hereof) shall be made in lawful money of the United States of America. All payments shall be made at such address as the Holder shall hereafter give to the Borrower by written notice made in accordance with the provisions of this Note. Whenever any amount expressed to be due by the terms of this Note is due on any day which is not a business day, the same shall instead be due on the next succeeding day which is a business day and, in the case of any interest payment date which is not the date on which this Note is paid in full, the extension of the due date thereof shall not be taken into account for purposes of determining the amount of interest due on such date. As used in this Note, the term "business day" shall mean any day other than a Saturday, Sunday or a day on which commercial banks in the city of New York, New York are authorized or required by law or executive order to remain closed. Each capitalized term used herein, and not otherwise defined, shall have the meaning ascribed thereto in that certain Securities Purchase Agreement dated the date hereof, pursuant to which this Note was originally issued (the "Purchase Agreement").

This Note is free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Borrower and will not impose personal liability upon the holder thereof.

The following terms shall apply to this Note:

ARTICLE I. CONVERSION RIGHTS

1.1 Conversion Right. The Holder shall have the right from time to time, and at any time following the Issue Date and ending on the later of (i) the Maturity Date and (ii) the date of payment of the Default Amount (as defined in Article III) pursuant to Section 1.6(a) or Article III, each in respect of the remaining outstanding principal amount of this Note to convert all or any part of the outstanding and unpaid principal amount of this Note into fully paid and non-assessable shares of Common Stock, as such Common Stock exists on the Issue Date, or any shares of capital stock or other securities of the Borrower into which such Common Stock shall hereafter be changed or reclassified at the Conversion Price (as defined below) determined as provided herein (a "Conversion"); provided, however, that in no event shall the Holder be entitled to convert any portion of this Note in excess of that portion of this Note upon conversion of which the sum of

(1) the number of shares of Common Stock beneficially owned by the Holder and its affiliates and (2) the number of shares of Common Stock issuable upon the conversion of the portion of this Note with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Regulations 13D-G thereunder, except as otherwise provided in clause (1) of such proviso, provided, further, however, that the limitations on conversion may be waived by the Holder (up to a maximum of 9.99%) upon, at the election of the Holder, not less than 61 days' prior notice to the Borrower, and the provisions of the conversion limitation shall continue to apply until such 61st day (or such later date, as determined by the Holder, as may be specified in such notice of waiver). The number of shares of Common Stock to be issued upon each conversion of this Note shall be determined by dividing the Conversion Amount (as defined below) by the applicable Conversion Price then in effect on the date specified in the notice of conversion, in the form attached hereto as Exhibit A (the "Notice of Conversion"), delivered to the Borrower by the Holder in accordance with Section 1.4 below; provided that the Notice of Conversion is submitted by facsimile or e-mail (or by other means resulting in, or reasonably expected to result in, notice) to the Borrower before 6:00 p.m., New York, New York time on such conversion date (the "Conversion Date"). The term "Conversion Amount" means, with respect to any conversion of this Note, the sum of (1) the principal amount of this Note to be converted in such conversion plus (2) at the Holder's option, accrued and unpaid interest, if any, on such principal amount at the interest rates provided in this Note to the Conversion Date, provided however, that the Borrower shall have the right to pay any or all interest in cash plus (3) at the Holder's option, Default Interest, if any, on the amounts referred to in the immediately preceding clauses (1) and/or (2) plus (4) at the Holder's option, any amounts owed to the Holder pursuant to Sections 1.3 and 1.4(g) hereof.

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1.2 Conversion Price.

Calculation of Conversion Price. Subject to the adjustments described herein, the conversion price (the "Conversion Price") shall equal the lesser of (i) 58% multiplied by the lowest Trading Price (as defined herein) of the Common Stock (representing a discount rate of 42%) during the previous thirty (30) Trading Day period ending on the latest complete Trading Day prior to the date of this Note and (ii) the Variable Conversion Price (as defined herein) (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Borrower relating to the Borrower's securities or the securities of any subsidiary of the Borrower, combinations, recapitalization, reclassifications, extraordinary distributions and similar events). The "Variable Conversion Price" shall mean 50% multiplied by the lowest Trading Price (representing a discount rate of 50%) during the previous twenty-five (25) Trading Day period ending on the latest complete Trading Day prior to the date of conversion (the "Market Price"). "Trading Price" means, for any security as of any date, the lesser of: (i) the lowest trade price on the OTC Pink, OTCQB or applicable trading market as reported by a reliable reporting service ("Reporting Service") designated by the Holder or, if the OTC Pink is not the principal trading market for such security, the trading price of such security on the principal securities exchange or trading market where such security is listed or traded or, if no trading price of such security is available in any of the foregoing manners, the average of the trading prices of any market makers for such security that are listed in the "pink sheets" by the National Quotation Bureau, Inc., or (ii) the closing bid price on the OTC Pink, OTCQB or applicable trading market as reported by a Reporting Service designated by the Holder or, if the OTC Pink is not the principal trading market for such security, the closing bid price of such security on the principal securities exchange or trading market where such security is listed or traded or, if no closing bid price of such security is available in any of the foregoing manners, the average of the closing bid prices of any market makers for such security that are listed in the "pink sheets" by the National Quotation Bureau, Inc. To the extent the Conversion Price of the Borrower's Common Stock closes below the par value per share, the Borrower will take all steps necessary to solicit the consent of the stockholders to reduce the par value to the lowest value possible under law. The Borrower agrees to honor all conversions submitted pending this adjustment. Furthermore, the Conversion Price may be adjusted downward if, within three (3) business days of the transmittal of the Notice of Conversion to the Borrower, the Common Stock has a closing bid which is 5% or lower than that set forth in the Notice of Conversion. If the shares of the Borrower's Common Stock have not been delivered within three (3) business days to the Borrower, the Notice of Conversion may be rescinded. At any time after the Closing Date, if in the case that the Borrower's Common Stock is not deliverable by DWAC (including if the Borrower's transfer agent has a policy prohibiting or limiting delivery of shares of the Borrower's Common Stock specified in a Notice of Conversion), an additional 10% discount will apply for all future conversions under all Notes. If in the case that the Borrower's Common Stock is "chilled" for deposit into the DTC system and only eligible for clearing deposit, an additional 15% discount shall apply for all future conversions under all Notes while the "chill" is in effect. If in the case of both of the above, an additional cumulative 25% discount shall apply. Additionally, if the Company ceases to be a reporting company pursuant to the 1934 Act or if the Note cannot be converted into free trading shares after one hundred eighty-one (181) days from the Issue Date, an additional 30% discount will be attributed to the Conversion Price. If the Trading Price cannot be calculated for such security on such date in the manner provided above, the Trading Price shall be the fair market value as mutually determined by the Borrower and the holders of a majority in interest of the Notes being converted for which the calculation of the Trading Price is required in order to determine the Conversion Price of such Notes. "Trading Day" shall mean any day on which the Common Stock is tradable for any period on the OTC Pink, OTCQB or on the principal securities exchange or other securities market on which the Common Stock is then being traded. The Borrower shall be responsible for the fees of its transfer agent and all DTC fees associated with any such issuance. Holder shall be entitled to deduct \$500.00 from the conversion amount in each Notice of Conversion to cover Holder's deposit fees associated with each Notice of Conversion.

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While this Note is outstanding, each time any 3rd party has the right to convert monies owed to that 3rd party (or receive shares pursuant to a settlement or otherwise), including but not limited to under Section 3(a)(9) and Section 3(a)(10), at a discount to market greater than the Conversion Price in effect at that time (prior to all other applicable adjustments in the Note), then the Holder, in Holder's sole discretion, may utilize such greater discount percentage (prior to all applicable adjustments in this Note) until this Note is no longer outstanding. While this Note is outstanding, each time any 3rd party has a look back period greater than the look back period in effect under the Note at that time, including but not limited to under Section 3(a)(9) and Section 3(a)(10), then the Holder, in Holder's sole discretion, may utilize such greater number of look back days until this Note is no longer outstanding. The Borrower shall give written notice to the Holder within one (1) business day of becoming aware of any event that could permit the Holder to make any adjustment described in the two immediately preceding sentences.

(a) Conversion Price During Major Announcements. Notwithstanding anything contained in Section 1.2(a) to the contrary, in the event the Borrower (i) makes a public announcement that it intends to consolidate or merge with any other corporation (other than a merger in which the Borrower is the surviving or continuing corporation and its capital stock is unchanged) or sell or transfer all or substantially all of the assets of the Borrower or (ii) any person, group or entity (including the Borrower) publicly announces a tender offer to purchase 50% or more of the Borrower's Common Stock (or any other takeover scheme) (the date of the announcement referred to in clause (i) or (ii) is hereinafter referred to as the "Announcement Date"), then the Conversion Price shall, effective upon the Announcement Date and continuing through the Adjusted Conversion Price Termination Date (as defined below), be equal to the lower of (x) the Conversion Price which would have been applicable for a Conversion occurring on the Announcement Date and (y) the Conversion Price that would otherwise be in effect. From and after the Adjusted Conversion Price Termination Date, the Conversion Price shall be determined as set forth in this Section 1.2(a). For purposes hereof, "Adjusted Conversion Price Termination Date" shall mean, with respect to any proposed transaction or tender offer (or takeover scheme) for which a public announcement as contemplated by this Section 1.2(b) has been made, the date upon which the Borrower (in the case of clause (i) above) or the person, group or entity (in the case of clause (ii) above) consummates or publicly announces the termination or abandonment of the proposed transaction or tender offer (or takeover scheme) which caused this Section 1.2(b) to become operative.

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(b) Pro Rata Conversion; Disputes. In the event of a dispute as to the number of shares of Common Stock issuable to the Holder in connection with a conversion of this Note, the Borrower shall issue to the Holder the number of shares of Common Stock not in dispute and resolve such dispute in accordance with Section 4.13.

1.3 Authorized Shares. The Borrower covenants that during the period the conversion right exists, the Borrower will reserve from its authorized and unissued Common Stock a sufficient number of shares, free from preemptive rights, to provide for the issuance of Common Stock upon the full conversion of this Note issued pursuant to the Purchase Agreement. The Borrower is required at all times to have authorized and reserved 10 times the number of shares that is actually issuable upon full conversion of the Note (based on the Conversion Price of the Notes in effect from time to time) (the "Reserved Amount").

The Reserved Amount shall be increased from time to time according to the Borrower's obligations pursuant to Section 3(d) of the Purchase Agreement. The Borrower represents that upon issuance, such shares will be duly and validly issued, fully paid and non-assessable. In addition, if the Borrower shall issue any securities or make any change to its capital structure which would change the number of shares of Common Stock into which the Notes shall be convertible at the then current Conversion Price, the Borrower shall at the same time make proper provision so that thereafter there shall be a sufficient number of shares of Common Stock authorized and reserved, free from preemptive rights, for conversion of the outstanding Notes. The Borrower (i) acknowledges that it has irrevocably instructed its transfer agent to issue certificates for the Common Stock issuable upon conversion of this Note, and (ii) agrees that its issuance of this Note shall constitute full authority to its officers and agents who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of Common Stock in accordance with the terms and conditions of this Note. Notwithstanding the foregoing, in no event shall the Reserved Amount be lower than the initial Reserved Amount, regardless of any prior conversions.

If, at any time the Borrower does not maintain or replenish the Reserved Amount within three (3) business days of the request of the Holder, the principal amount of the Note shall increase by Five Thousand and No/100 United States Dollars (\$5,000) (under Holder's and Borrower's expectation that any principal amount increase will tack back to the Issue Date) per occurrence.

1.4 Method of Conversion.

(a) Mechanics of Conversion. Subject to Section 1.1, this Note may be converted by the Holder in whole or in part at any time from time to time after the Issue Date, by (A) submitting to the Borrower a Notice of Conversion (by facsimile, e-mail or other reasonable means of communication dispatched on the Conversion Date prior to 5:00 p.m., New York, New York time) and (B) subject to Section 1.4(b), surrendering this Note at the principal office of the Borrower.

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(b) Surrender of Note Upon Conversion. Notwithstanding anything to the contrary set forth herein, upon conversion of this Note in accordance with the terms hereof, the Holder shall not be required to physically surrender this Note to the Borrower unless the entire unpaid principal amount of this Note is so converted. The Holder and the Borrower shall maintain records showing the principal amount so converted and the dates of such conversions or shall use such other method, reasonably satisfactory to the Holder and the Borrower, so as not to require physical surrender of this Note upon each such conversion. In the event of any dispute or discrepancy, such records of the Borrower shall, *prima facie*, be controlling and determinative in the absence of manifest error. Notwithstanding the foregoing, if any portion of this Note is converted as aforesaid, the Holder may not transfer this Note unless the Holder first physically surrenders this Note to the Borrower, whereupon the Borrower will forthwith issue and deliver upon the order of the Holder a new Note of like tenor, registered as the Holder (upon payment by the Holder of any applicable transfer taxes) may request, representing in the aggregate the remaining unpaid principal amount of this Note. The Holder and any assignee, by acceptance of this Note, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion of a portion of this Note, the unpaid and unconverted principal amount of this Note represented by this Note may be less than the amount stated on the face hereof.

(c) Payment of Taxes. The Borrower shall not be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock or other securities or property on conversion of this Note in a name other than that of the Holder (or in street name), and the Borrower shall not be required to issue or deliver any such shares or other securities or property unless and until the person or persons (other than the Holder or the custodian in whose street name such shares are to be held for the Holder's account) requesting the issuance thereof shall have paid to the Borrower the amount of any such tax or shall have established to the satisfaction of the Borrower that such tax has been paid.

(d) Delivery of Common Stock Upon Conversion. Upon receipt by the Borrower from the Holder of a facsimile transmission or e-mail (or other reasonable means of communication) of a Notice of Conversion meeting the requirements for conversion as provided in this Section 1.4, the Borrower shall issue and deliver or cause to be issued and delivered to or upon the order of the Holder certificates for the Common Stock issuable upon such conversion within three (3) business days after such receipt (the "Deadline") (and, solely in the case of conversion of the entire unpaid principal amount hereof, surrender of this Note) in accordance with the terms hereof and the Purchase Agreement.

(e) Obligation of Borrower to Deliver Common Stock. Upon receipt by the Borrower of a Notice of Conversion, the Holder shall be deemed to be the holder of record of the Common Stock issuable upon such conversion, the outstanding principal amount and the amount of accrued and unpaid interest on this Note shall be reduced to reflect such conversion, and, unless the Borrower defaults on its obligations under this Article I, all rights with respect to the portion of this Note being so converted shall forthwith terminate except the right to receive the Common Stock or other securities, cash or other assets, as herein provided, on such conversion. If the Holder shall have given a Notice of Conversion as provided herein, the Borrower's obligation to issue and deliver the certificates for Common Stock shall be absolute and unconditional, irrespective of the absence of any action by the Holder to enforce the same, any waiver or consent with respect to any provision thereof, the recovery of any judgment against any person or any action to enforce the same, any failure or delay in the enforcement of any other obligation of the Borrower to the holder of record, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder of any obligation to the Borrower, and irrespective of any other circumstance which might otherwise limit such obligation of the Borrower to the Holder in connection with such conversion. The Conversion Date specified in the Notice of Conversion shall be the Conversion Date so long as the Notice of Conversion is received by the Borrower before 5:00 p.m., New York, New York time, on such date.

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(f) Delivery of Common Stock by Electronic Transfer. In lieu of delivering physical certificates representing the Common Stock issuable upon conversion, provided the Borrower is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer ("FAST") program, upon request of the Holder and its compliance with the provisions contained in Section 1.1 and in this Section 1.4, the Borrower shall use its commercially reasonable best efforts to cause its transfer agent to electronically transmit the Common Stock issuable upon conversion to the Holder by crediting the account of Holder's Prime Broker with DTC through its Deposit Withdrawal At Custodian ("DWAC") system.

(g) DTC Eligibility & Market Loss. If the Borrower fails to maintain its status as "DTC Eligible" for any reason, or, if the Conversion Price is less than \$0.01 at any time while this Note is outstanding, the principal amount of the Note shall increase by Fifteen Thousand and No/100 United States Dollars (\$15,000) (under Holder's and Borrower's expectation that any principal amount increase will tack back to the Issue Date). In addition, the Variable Conversion Price shall be redefined to mean forty percent (40%) multiplied by the Market Price, subject to adjustment as provided in this Note.

(h) Failure to Deliver Common Stock Prior to Delivery Deadline. Without in any way limiting the Holder's right to pursue other remedies, including actual damages and/or equitable relief, the parties agree that if delivery of the Common Stock issuable upon conversion of this Note is not delivered by the Deadline (other than a failure due to the circumstances described in Section 1.3 above, which failure shall be governed by such Section) the Borrower shall pay to the Holder \$2,000 per day in cash, for each day beyond the Deadline that the Borrower fails to deliver such Common Stock until the Borrower issues and delivers a certificate to the Holder or credit the Holder's balance account with OTC for the number of shares of Common Stock to which the Holder is entitled upon such Holder's conversion of any Conversion Amount (under Holder's and Borrower's expectation that any damages will tack back to the Issue Date). Such cash amount shall be paid to Holder by the fifth day of the month following the month in which it has accrued or, at the option of the Holder (by written notice to the Borrower by the first day of the month following the month in which it has accrued), shall be added to the principal amount of this Note, in which event interest shall accrue thereon in accordance with the terms of this Note and such additional principal amount shall be convertible into Common Stock in accordance with the terms of this Note. The Borrower agrees that the right to convert is a valuable right to the Holder. The damages resulting from a failure, attempt to frustrate, interference with such conversion right are difficult if not impossible to qualify. Accordingly the parties acknowledge that the liquidated damages provision contained in this Section 1.4(h) are justified.

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(i) Rescindment of a Notice of Conversion. If (i) the Borrower fails to respond to Holder within one (1) business day from the Conversion Date confirming the details of Notice of Conversion, (ii) the Borrower fails to provide any of the shares of the Borrower's Common Stock requested in the Notice of Conversion within three (3) business days from the date of receipt of the Note of Conversion, (iii) the Holder is unable to procure a legal opinion

required to have the shares of the Borrower's Common Stock issued unrestricted and/or deposited to sell for any reason related to the Borrower's standing, (iv) the Holder is unable to deposit the shares of the Borrower's Common Stock requested in the Notice of Conversion for any reason related to the Borrower's standing, (v) at any time after a missed Deadline, at the Holder's sole discretion, or (vi) if OTC Markets changes the Borrower's designation to 'Limited Information' (Yield), 'No Information' (Stop Sign), 'Caveat Emptor' (Skull & Crossbones), 'OTC', 'Other OTC' or 'Grey Market' (Exclamation Mark Sign) or other trading restriction on the day of or any day after the Conversion Date, the Holder maintains the option and sole discretion to rescind the Notice of Conversion ("Rescindment") with a "Notice of Rescindment."

1.5 Concerning the Shares. The shares of Common Stock issuable upon conversion of this Note may not be sold or transferred unless (i) such shares are sold pursuant to an effective registration statement under the Act or (ii) the Borrower or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration or (iii) such shares are sold or transferred pursuant to Rule 144 under the Act (or a successor rule) ("Rule 144") or (iv) such shares are transferred to an "affiliate" (as defined in Rule 144) of the Borrower who agrees to sell or otherwise transfer the shares only in accordance with this Section 1.5 and who is an Accredited Investor (as defined in the Purchase Agreement). Except as otherwise provided in the Purchase Agreement (and subject to the removal provisions set forth below), until such time as the shares of Common Stock issuable upon conversion of this Note have been registered under the Act or otherwise may be sold pursuant to Rule 144 without any restriction as to the number of securities as of a particular date that can then be immediately sold, each certificate for shares of Common Stock issuable upon conversion of this Note that has not been so included in an effective registration statement or that has not been sold pursuant to an effective registration statement or an exemption that permits removal of the legend, shall bear a legend substantially in the following form, as appropriate:

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"NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES."

The legend set forth above shall be removed and the Borrower shall issue to the Holder a new certificate therefore free of any transfer legend if (i) the Borrower or its transfer agent shall have received an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Common Stock may be made without registration under the Act, which opinion shall be reasonably accepted by the Borrower so that the sale or transfer is effected or (ii) in the case of the Common Stock issuable upon conversion of this Note, such security is registered for sale by the Holder under an effective registration statement filed under the Act or otherwise may be sold pursuant to Rule 144 without any restriction as to the number of securities as of a particular date that can then be immediately sold. In the event that the Borrower does not accept the opinion of counsel provided by the Buyer with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144 or Regulation S, at the Deadline, it will be considered an Event of Default pursuant to Section 3.2 of the Note.

1.6 Effect of Certain Events.

(a) Effect of Merger, Consolidation, Etc. At the option of the Holder, the sale, conveyance or disposition of all or substantially all of the assets of the Borrower, the effectuation by the Borrower of a transaction or series of related transactions in which more than 50% of the voting power of the Borrower is disposed of, or the consolidation, merger or other business combination of the Borrower with or into any other Person (as defined below) or Persons when the Borrower is not the survivor shall either: (i) be deemed to be an Event of Default (as defined in Article III) pursuant to which the Borrower shall be required to pay to the Holder upon the consummation of and as a condition to such transaction an amount equal to the Default Amount (as defined in Article III) or (ii) be treated pursuant to Section 1.6(b) hereof. "Person" shall mean any individual, corporation, limited liability company, partnership, association, trust or other entity or organization.

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(b) Adjustment Due to Merger, Consolidation, Etc. If, at any time when this Note is issued and outstanding and prior to conversion of all of the Notes, there shall be any merger, consolidation, exchange of shares, recapitalization, reorganization, or other similar event, as a result of which shares of Common Stock of the Borrower shall be changed into the same or a different number of shares of another class or classes of stock or securities of the Borrower or another entity, or in case of any sale or conveyance of all or substantially all of the assets of the Borrower other than in connection with a plan of complete liquidation of the Borrower, then the Holder of this Note shall thereafter have the right to receive upon conversion of this Note, upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore issuable upon conversion, such stock, securities or assets which the Holder would have been entitled to receive in such transaction had this Note been converted in full immediately prior to such transaction (without regard to any limitations on conversion set forth herein), and in any such case appropriate provisions shall be made with respect to the rights and interests of the Holder of this Note to the end that the provisions hereof (including, without limitation, provisions for adjustment of the Conversion Price and of the number of shares issuable upon conversion of the Note) shall thereafter be applicable, as nearly as may be practicable in relation to any securities or assets thereafter deliverable upon the conversion hereof. The Borrower shall not affect any transaction described in this Section 1.6(b) unless (a) it first gives, to the extent practicable, thirty (30) days prior written notice (but in any event at least fifteen (15) days prior written notice) of the record date of the special meeting of shareholders to approve, or if there is no such record date, the consummation of, such merger, consolidation, exchange of shares, recapitalization, reorganization or other similar event or sale of assets (during which time the Holder shall be entitled to convert this Note) and (b) the resulting successor or acquiring entity (if not the Borrower) assumes by written instrument the obligations of this Section 1.6(b). The above provisions shall similarly apply to successive consolidations, mergers, sales, transfers or share exchanges.

(c) Adjustment Due to Distribution. If the Borrower shall declare or make any distribution of its assets (or rights to acquire its assets) to holders of Common Stock as a dividend, stock repurchase, by way of return of capital or otherwise (including any dividend or distribution to the Borrower's shareholders in cash or shares (or rights to acquire shares) of capital stock of a subsidiary (i.e., a spin-off)) (a "Distribution"), then the Holder of this Note shall be entitled, upon any conversion of this Note after the date of record for determining shareholders entitled to such Distribution, to receive the amount of such assets which would have been payable to the Holder with respect to the shares of Common Stock issuable upon such conversion had such Holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution.

(d) Adjustment Due to Dilutive Issuance. If, at any time when any Notes are issued and outstanding, the Borrower issues or sells, or in accordance with this Section 1.6(d) hereof is deemed to have issued or sold, except for shares of Common Stock issued directly to vendors or suppliers of the Borrower in satisfaction of amounts owed to such vendors or suppliers (provided, however, that such vendors or suppliers shall not have an arrangement to transfer, sell or assign such shares of Common Stock prior to the issuance of such shares), any shares of Common Stock for no consideration or for a consideration per share (before deduction of reasonable expenses or commissions or underwriting discounts or allowances in connection therewith) less than the Conversion Price in effect on the date of such issuance (or deemed issuance) of such shares of Common Stock (a "Dilutive Issuance"), then immediately upon the Dilutive Issuance, the Conversion Price will be reduced to the amount of the consideration per share received by the Borrower in such Dilutive Issuance.

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The Borrower shall be deemed to have issued or sold shares of Common Stock if the Borrower in any manner issues or grants any warrants, rights or options (not including employee stock option plans), whether or not immediately exercisable, to subscribe for or to purchase Common Stock or other securities convertible into or exchangeable for Common Stock ("Convertible Securities") (such warrants, rights and options to purchase Common Stock or

Convertible Securities herein referred to as “Options”) and the price per share for which Common Stock is issuable upon the exercise of such Options is less than the Conversion Price then in effect, then the Conversion Price shall be equal to such price per share. For purposes of the preceding sentence, the “price per share for which Common Stock is issuable upon the exercise of such Options” is determined by dividing (i) the total amount, if any, received or receivable by the Borrower as consideration for the issuance or granting of all such Options, plus the minimum aggregate amount of additional consideration, if any, payable to the Borrower upon the exercise of all such Options, plus, in the case of Convertible Securities issuable upon the exercise of such Options, the minimum aggregate amount of additional consideration payable upon the conversion or exchange thereof at the time such Convertible Securities first become convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the exercise of all such Options (assuming full conversion of Convertible Securities, if applicable). No further adjustment to the Conversion Price will be made upon the actual issuance of such Common Stock upon the exercise of such Options or upon the conversion or exchange of Convertible Securities issuable upon exercise of such Options.

Additionally, the Borrower shall be deemed to have issued or sold shares of Common Stock if the Borrower in any manner issues or sells any Convertible Securities, whether or not immediately convertible (other than where the same are issuable upon the exercise of Options), and the price per share for which Common Stock is issuable upon such conversion or exchange is less than the Conversion Price then in effect, then the Conversion Price shall be equal to such price per share. For the purposes of the preceding sentence, the “price per share for which Common Stock is issuable upon such conversion or exchange” is determined by dividing (i) the total amount, if any, received or receivable by the Borrower as consideration for the issuance or sale of all such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Borrower upon the conversion or exchange thereof at the time such Convertible Securities first become convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities. No further adjustment to the Conversion Price will be made upon the actual issuance of such Common Stock upon conversion or exchange of such Convertible Securities.

(e) Purchase Rights. If, at any time when any Notes are issued and outstanding, the Borrower issues any convertible securities or rights to purchase stock, warrants, securities or other property (the “Purchase Rights”) pro rata to the record holders of any class of Common Stock, then the Holder of this Note will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which such Holder could have acquired if such Holder had held the number of shares of Common Stock acquirable upon complete conversion of this Note (without regard to any limitations on conversion contained herein) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

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(f) Notice of Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price as a result of the events described in this Section 1.6, the Borrower, at its expense, shall promptly compute such adjustment or readjustment and prepare and furnish to the Holder a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Borrower shall, upon the written request at any time of the Holder, furnish to such Holder a like certificate setting forth (i) such adjustment or readjustment, (ii) the Conversion Price at the time in effect and (iii) the number of shares of Common Stock and the amount, if any, of other securities or property which at the time would be received upon conversion of the Note.

1.7 [Intentionally Omitted].

1.8 Status as Shareholder. Upon submission of a Notice of Conversion by a Holder, (i) the shares covered thereby (other than the shares, if any, which cannot be issued because their issuance would exceed such Holder’s allocated portion of the Reserved Amount or Maximum Share Amount) shall be deemed converted into shares of Common Stock and (ii) the Holder’s rights as a Holder of such converted portion of this Note shall cease and terminate, excepting only the right to receive certificates for such shares of Common Stock and to any remedies provided herein or otherwise available at law or in equity to such Holder because of a failure by the Borrower to comply with the terms of this Note. Notwithstanding the foregoing, if a Holder has not received certificates for all shares of Common Stock prior to the tenth (10th) business day after the expiration of the Deadline with respect to a conversion of any portion of this Note for any reason, then (unless the Holder otherwise elects to retain its status as a holder of Common Stock by so notifying the Borrower) the Holder shall regain the rights of a Holder of this Note with respect to such unconverted portions of this Note and the Borrower shall, as soon as practicable, return such unconverted Note to the Holder or, if the Note has not been surrendered, adjust its records to reflect that such portion of this Note has not been converted. In all cases, the Holder shall retain all of its rights and remedies (including, without limitation, (i) the right to receive Conversion Default Payments pursuant to Section 1.3 to the extent required thereby for such Conversion Default and any subsequent Conversion Default and (ii) the right to have the Conversion Price with respect to subsequent conversions determined in accordance with Section 1.3) for the Borrower’s failure to convert this Note.

1.9 Prepayment. Notwithstanding anything to the contrary contained in this Note, the Borrower may prepay the amounts outstanding hereunder pursuant to the following terms and conditions:

(a) At any time during the period beginning on the Issue Date and ending on the date which is ninety (90) days following the Issue Date, the Borrower shall have the right, exercisable on not less than three (3) Trading Days prior written notice to the Holder of the Note to prepay the outstanding Note (principal and accrued interest), in full by making a payment to the Holder of an amount in cash equal to 135%, multiplied by the sum of: (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note plus (y) Default Interest, if any.

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(b) At any time during the period beginning the day which is ninety one (91) days following the Issue Date and ending on the date which is one hundred eighty (180) days following the Issue Date, the Borrower shall have the right, exercisable on not less than three (3) Trading Days prior written notice to the Holder of the Note to prepay the outstanding Note (principal and accrued interest), in full by making a payment to the Holder of an amount in cash equal to 150%, multiplied by the sum of: (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note plus (y) Default Interest, if any.

(c) After the expiration of one hundred eighty (180) days following the date of the Note, the Borrower shall have no right of prepayment.

1.10 Any notice of prepayment hereunder (an “Optional Prepayment Notice”) shall be delivered to the Holder of the Note at its registered addresses and shall state: (1) that the Borrower is exercising its right to prepay the Note, and (2) the date of prepayment which shall be not more than three (3) Trading Days from the date of the Optional Prepayment Notice. On the date fixed for prepayment (the “Optional Prepayment Date”), the Borrower shall make payment of the applicable prepayment amount to or upon the order of the Holder as specified by the Holder in writing to the Borrower at least one (1) business day prior to the Optional Prepayment Date. If the Borrower delivers an Optional Prepayment Notice and fails to pay the applicable prepayment amount due to the Holder of the Note within two (2) business days following the Optional Prepayment Date, the Borrower shall forever forfeit its right to prepay the Note pursuant to this Section 1.9.

ARTICLE II. CERTAIN COVENANTS

2.1 Distributions on Capital Stock. So long as the Borrower shall have any obligation under this Note, the Borrower shall not without the Holder’s written consent (a) pay, declare or set apart for such payment, any dividend or other distribution (whether in cash, property or other securities) on shares of capital stock other than dividends on shares of Common Stock solely in the form of additional shares of Common Stock or (b) directly or indirectly or through any subsidiary make any other payment or distribution in respect of its capital stock except for distributions pursuant to any shareholders’ rights plan which is approved by a majority of the Borrower’s disinterested directors.

2.2 Restriction on Stock Repurchases. So long as the Borrower shall have any obligation under this Note, the Borrower shall not without the Holder’s written consent redeem, repurchase or otherwise acquire (whether for cash or in exchange for property or other securities or otherwise) in any one transaction or series of related transactions any shares of capital stock of the Borrower or any warrants, rights or options to purchase or acquire any such shares.

2.3 Borrowings. So long as the Borrower shall have any obligation under this Note, the Borrower shall not, without the Holder's written consent, create, incur, assume guarantee, endorse, contingently agree to purchase or otherwise become liable upon the obligation of any person, firm, partnership, joint venture or corporation, except by the endorsement of negotiable instruments for deposit or collection, or suffer to exist any liability for borrowed money, except (a) borrowings in existence or committed on the date hereof and of which the Borrower has informed Holder in writing prior to the date hereof, (b) indebtedness to trade creditors financial institutions or other lenders incurred in the ordinary course of business or (c) borrowings, the proceeds of which shall be used to repay this Note.

2.4 Sale of Assets. So long as the Borrower shall have any obligation under this Note, the Borrower shall not, without the Holder's written consent, sell, lease or otherwise dispose of any significant portion of its assets outside the ordinary course of business. Any consent to the disposition of any assets may be conditioned on a specified use of the proceeds of disposition.

2.5 Advances and Loans. So long as the Borrower shall have any obligation under this Note, the Borrower shall not, without the Holder's written consent, lend money, give credit or make advances to any person, firm, joint venture or corporation, including, without limitation, officers, directors, employees, subsidiaries and affiliates of the Borrower, except loans, credits or advances (a) in existence or committed on the date hereof and which the Borrower has informed Holder in writing prior to the date hereof, (b) made in the ordinary course of business or (c) not in excess of \$100,000.

2.6 Section 3(a)(9) or 3(a)(10) Transaction. So long as this Note is outstanding, the Borrower shall not enter into any transaction or arrangement structured in accordance with, based upon, or related or pursuant to, in whole or in part, either Section 3(a)(9) of the Securities Act (a "3(a)(9) Transaction") or Section 3(a)(10) of the Securities Act (a "3(a)(10) Transaction"). In the event that the Borrower does enter into, or makes any issuance of Common Stock related to a 3(a)(9) Transaction or a 3(a)(10) Transaction while this note is outstanding, a liquidated damages charge of 25% of the outstanding principal balance of this Note, but not less than Fifteen Thousand Dollars \$15,000, will be assessed and will become immediately due and payable to the Holder at its election in the form of cash payment or addition to the balance of this Note.

2.7 Preservation of Existence, etc. The Borrower shall maintain and preserve, and cause each of its Subsidiaries to maintain and preserve, its existence, rights and privileges, and become or remain, and cause each of its Subsidiaries (other than dormant Subsidiaries that have no or minimum assets) to become or remain, duly qualified and in good standing in each jurisdiction in which the character of the properties owned or leased by it or in which the transaction of its business makes such qualification necessary.

2.8 Non-circumvention. The Borrower hereby covenants and agrees that the Borrower will not, by amendment of its Certificate or Articles of Incorporation or Bylaws, or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Note, and will at all times in good faith carry out all the provisions of this Note and take all action as may be required to protect the rights of the Holder.

ARTICLE III. EVENTS OF DEFAULT

If any of the following events of default (each, an "Event of Default") shall occur:

3.1 Failure to Pay Principal or Interest. The Borrower fails to pay the principal hereof or interest thereon when due on this Note, whether at maturity, upon acceleration or otherwise.

3.2 Conversion and the Shares. The Borrower (i) fails to issue shares of Common Stock to the Holder (or announces or threatens in writing that it will not honor its obligation to do so) upon exercise by the Holder of the conversion rights of the Holder in accordance with the terms of this Note, (ii) fails to transfer or cause its transfer agent to transfer (issue) (electronically or in certificated form) any certificate for shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, (iii) directs its transfer agent not to transfer or delays, impairs, and/or hinders its transfer agent in transferring (or issuing) (electronically or in certificated form) any certificate for shares of Common Stock to be issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, (iv) fails to remove (or directs its transfer agent not to remove or impairs, delays, and/or hinders its transfer agent from removing) any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note (or makes any written announcement, statement or threat that it does not intend to honor the obligations described in this paragraph) and any such failure shall continue uncured (or any written announcement, statement or threat not to honor its obligations shall not be rescinded in writing) for three (3) business days after the Holder shall have delivered a Notice of Conversion, (v) fails to remain current in its obligations to its transfer agent, (vi) causes a conversion of this Note is delayed, hindered or frustrated due to a balance owed by the Borrower to its transfer agent, (vii) fails to repay Holder, within forty eight (48) hours of a demand from the Holder, any amount of funds advanced by Holder to Borrower's transfer agent in order to process a conversion, and/or (viii) fails to maintain the Reserved Amount.

3.3 Failure to Deliver Transaction Expense Amount. The Borrower fails to deliver the Transaction Expense Amount (as defined in the Purchase Agreement) to the Holder within three (3) business days of the date such amount is due.

3.4 Breach of Covenants. The Borrower breaches any material covenant or other material term or condition contained in this Note and any collateral documents including but not limited to the Purchase Agreement and such breach continues for a period of ten (10) days after written notice thereof to the Borrower from the Holder.

3.5 Breach of Representations and Warranties. Any representation or warranty of the Borrower made herein or in any agreement, statement or certificate given in writing pursuant hereto or in connection herewith (including, without limitation, the Purchase Agreement), shall be false or misleading in any material respect when made and the breach of which has (or with the passage of time will have) a material adverse effect on the rights of the Holder with respect to this Note or the Purchase Agreement.

3.6 Receiver or Trustee. The Borrower or any subsidiary of the Borrower shall make an assignment for the benefit of creditors or commence proceedings for its dissolution, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business, or such a receiver or trustee shall otherwise be appointed for the Borrower or for a substantial part of its property or business without its consent and shall not be discharged within sixty (60) days after such appointment.

3.7 Judgments. Any money judgment, writ or similar process shall be entered or filed against the Borrower or any subsidiary of the Borrower or any of its property or other assets for more than \$50,000, and shall remain unvacated, unbonded or unstayed for a period of twenty (20) days unless otherwise consented to by the Holder, which consent will not be unreasonably withheld.

3.8 Bankruptcy. Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings, voluntary or involuntary, for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against the Borrower or any subsidiary of the Borrower, or the Borrower admits in writing its inability to pay its debts generally as they mature, or have filed against it an involuntary petition for bankruptcy relief, all under federal or state laws as applicable or the Borrower admits in writing its inability to pay its debts generally as they mature, or have filed against it an involuntary petition for bankruptcy relief, all under international, federal or state laws as applicable.

3.9 Delisting of Common Stock. The Borrower shall fail to maintain the listing of the Common Stock on at least one of the OTC Pink, OTCQB,

3.10 Failure to Comply with the Exchange Act. The Borrower shall fail to comply with the reporting requirements of the Exchange Act (including but not limited to becoming delinquent in its filings); and/or the Borrower shall cease to be subject to the reporting requirements of the Exchange Act.

3.11 Liquidation. Any dissolution, liquidation, or winding up of Borrower or any substantial portion of its business.

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3.12 Cessation of Operations. Any cessation of operations by Borrower or Borrower admits it is otherwise generally unable to pay its debts as such debts become due, provided, however, that any disclosure of the Borrower's ability to continue as a "going concern" shall not be an admission that the Borrower cannot pay its debts as they become due.

3.13 Maintenance of Assets. The failure by Borrower to maintain any material intellectual property rights, personal, real property or other assets which are necessary to conduct its business (whether now or in the future), or any disposition or conveyance of any material asset of the Company.

3.14 Financial Statement Restatement. The restatement of any financial statements filed by the Borrower with the SEC for any date or period from two years prior to the Issue Date of this Note and until this Note is no longer outstanding, if the result of such restatement would, by comparison to the unrestated financial statement, have constituted a material adverse effect on the rights of the Holder with respect to this Note or the Purchase Agreement.

3.15 Reverse Splits. The Borrower effectuates a reverse split of its Common Stock without twenty (20) days prior written notice to the Holder.

3.16 Replacement of Transfer Agent. In the event that the Borrower proposes to replace its transfer agent, the Borrower fails to provide, prior to the effective date of such replacement, a fully executed Irrevocable Transfer Agent Instructions in a form as initially delivered pursuant to the Purchase Agreement (including but not limited to the provision to irrevocably reserve shares of Common Stock in the Reserved Amount) signed by the successor transfer agent to Borrower and the Borrower.

3.17 Cessation of Trading. Any cessation of trading of the Common Stock on at least one of the OTC Pink, OTCQB, Nasdaq National Market, Nasdaq Small Cap Market, New York Stock Exchange, NYSE MKT, or an equivalent replacement exchange, and such cessation of trading shall continue for a period of five consecutive (5) Trading Days.

3.18 Cross-Default. Notwithstanding anything to the contrary contained in this Note or the other related or companion documents, a breach or default by the Borrower of any covenant or other term or condition contained in any of the Other Agreements (as defined herein), after the passage of all applicable notice and cure or grace periods, shall, at the option of the Holder, be considered a default under this Note and the Other Agreements, in which event the Holder shall be entitled (but in no event required) to apply all rights and remedies of the Holder under the terms of this Note and the Other Agreements by reason of a default under said Other Agreement or hereunder. "Other Agreements" means, collectively, all agreements and instruments between, among or by: (1) the Borrower, and, or for the benefit of, (2) the Holder (and any affiliate of the Holder) or any other third party, including, without limitation, promissory notes; provided, however, the term "Other Agreements" shall not include the agreements and instruments defined as the Documents. Each of the loan transactions will be cross-defaulted with each other loan transaction and with all other existing and future debt of Borrower to the Holder.

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3.19 Bid Price. The Borrower shall lose the "bid" price for its Common Stock (\$0.0001 on the "Ask" with zero market makers on the "Bid" per Level 2) and/or a market (including the OTC Pink, OTCQB or an equivalent replacement exchange).

3.20 OTC Markets Designation. OTC Markets changes the Borrower's designation to 'No Information' (Stop Sign), 'Caveat Emptor' (Skull and Crossbones), or 'OTC', 'Other OTC' or 'Grey Market' (Exclamation Mark Sign).

3.21 Inside Information. Any attempt by the Borrower or its officers, directors, and/or affiliates to transmit, convey, disclose, or any actual transmittal, conveyance, or disclosure by the Borrower or its officers, directors, and/or affiliates of, material non-public information concerning the Borrower, to the Holder or its successors and assigns, which is not immediately cured by Borrower's filing of a Form 8-K pursuant to Regulation FD on that same date.

Upon the occurrence and during the continuation of any Event of Default specified in Sections 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9, 3.10, 3.11, 3.12, 3.13, 3.14, 3.15, 3.16, 3.17, 3.18, 3.19, 3.20, and/or 3.21 exercisable through the delivery of written notice to the Borrower by such Holders (the "Default Notice"), and upon the occurrence of an Event of Default specified the remaining sections of Article III, the Note shall become immediately due and payable and the Borrower shall pay to the Holder, in full satisfaction of its obligations hereunder, an amount equal to (i) 150% (EXCEPT WITH RESPECT TO SECTION 3.2, IN WHICH CASE 150% SHALL BE REPLACED WITH 200%) times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment (the "Mandatory Prepayment Date") plus (y) Default Interest, if any, on the amounts referred to in clauses (w) and/or (x) plus (z) any amounts owed to the Holder pursuant to Sections 1.3 and 1.4(g) hereof (the then outstanding principal amount of this Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "Default Sum") or (ii) at the option of the Holder, the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum in accordance with Article I, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Trading Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "Default Amount") and all other amounts payable hereunder shall immediately become due and payable, all without demand, presentment or notice, all of which hereby are expressly waived, together with all costs, including, without limitation, legal fees and expenses, of collection, and the Holder shall be entitled to exercise all other rights and remedies available at law or in equity. Further, if a breach of Sections 3.9, 3.10 and/or 3.19 occurs or is continuing after the six (6) month anniversary of this Note, then the principal amount of the Note shall increase by Fifteen Thousand and No/100 United States Dollars (\$15,000) (under Holder's and Borrower's expectation that any principal amount increase will tack back to the Issue Date) and the Holder shall be entitled to use the lowest Trading Price during the delinquency period as a base price for the conversion with the Variable Conversion Price shall be redefined to mean forty percent (40%) multiplied by the Market Price (at the option of the Holder), subject to adjustment as provided in this Note. For example, if the lowest Trading Price during the delinquency period is \$0.01 per share and the conversion discount is 50%, then the Holder may elect to convert future conversions at \$0.005 per share. If this Note is not paid at Maturity Date, then the outstanding principal due under this Note shall increase by Fifteen Thousand and No/100 United States Dollars (\$15,000).

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The Holder shall have the right at any time after an Event of Default occurs, to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect (subject to the beneficial ownership limitations contained in this Note). This requirement by the Borrower shall automatically apply upon the occurrence of an Event of Default without the need for any party to give any notice or take any other action.

If the Holder shall commence an action or proceeding to enforce any provisions of this Note, including, without limitation, engaging an attorney, then if the Holder prevails in such action, the Holder shall be reimbursed by the Borrower for its attorneys' fees and other costs and expenses incurred in the investigation, preparation and prosecution of such action or proceeding.

4.2 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Borrower, to:

Vet Online Supply, Inc.
6500 Live Oak Drive
Kelseyville, CA 95451
Attn: Daniel Rushford
E-mail: Daniel@vetonlinesupplies.com

If to the Holder:

Auctus Fund, LLC
177 Huntington Avenue, 17th Floor
Boston, MA 02115
Attn: Lou Posner
Facsimile: (617) 532-6420

With a copy to (which copy shall not constitute notice):

Chad Friend, Esq., LL.M.
Legal & Compliance, LLC
330 Clematis Street, Suite 217
West Palm Beach, FL 33401
e-mail: CFriend@LegalandCompliance.com

4.3 Amendments. This Note and any provision hereof may only be amended by an instrument in writing signed by the Borrower and the Holder. The term "Note" and all reference thereto, as used throughout this instrument, shall mean this instrument (and the other Notes issued pursuant to the Purchase Agreement) as originally executed, or if later amended or supplemented, then as so amended or supplemented.

4.4 Assignability. This Note shall be binding upon the Borrower and its successors and assigns, and shall inure to be the benefit of the Holder and its successors and assigns. Neither the Borrower nor the Holder shall assign this Note or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, the Holder may assign its rights hereunder to any "accredited investor" (as defined in Rule 501(a) of the 1933 Act) in a private transaction from the Holder or to any of its "affiliates", as that term is defined under the 1934 Act, without the consent of the Borrower. Notwithstanding anything in this Note to the contrary, this Note may be pledged as collateral in connection with a bona fide margin account or other lending arrangement. The Holder and any assignee, by acceptance of this Note, acknowledge and agree that following conversion of a portion of this Note, the unpaid and unconverted principal amount of this Note represented by this Note may be less than the amount stated on the face hereof.

4.5 Cost of Collection. If default is made in the payment of this Note, the Borrower shall pay the Holder hereof reasonable costs of collection, including reasonable attorneys' fees.

4.6 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of Nevada without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Note shall be brought only in the state courts of Massachusetts or in the federal courts located in the Commonwealth of Massachusetts. The parties to this Note hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. **THE BORROWER HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTION CONTEMPLATED HEREBY.** The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Note or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

4.7 Certain Amounts. Whenever pursuant to this Note the Borrower is required to pay an amount in excess of the outstanding principal amount (or the portion thereof required to be paid at that time) plus accrued and unpaid interest plus Default Interest on such interest, the Borrower and the Holder agree that the actual damages to the Holder from the receipt of cash payment on this Note may be difficult to determine and the amount to be so paid by the Borrower represents stipulated damages and not a penalty and is intended to compensate the Holder in part for loss of the opportunity to convert this Note and to earn a return from the sale of shares of Common Stock acquired upon conversion of this Note at a price in excess of the price paid for such shares pursuant to this Note. The Borrower and the Holder hereby agree that such amount of stipulated damages is not plainly disproportionate to the possible loss to the Holder from the receipt of a cash payment without the opportunity to convert this Note into shares of Common Stock.

4.8 Purchase Agreement. By its acceptance of this Note, each party agrees to be bound by the applicable terms of the Purchase Agreement.

4.9 Notice of Corporate Events. Except as otherwise provided below, the Holder of this Note shall have no rights as a Holder of Common Stock unless and only to the extent that it converts this Note into Common Stock. The Borrower shall provide the Holder with prior notification of any meeting of the Borrower's shareholders (and copies of proxy materials and other information sent to shareholders). In the event of any taking by the Borrower of a record of its shareholders for the purpose of determining shareholders who are entitled to receive payment of any dividend or other distribution, any right to subscribe for,

purchase or otherwise acquire (including by way of merger or recapitalization) any share of any class or any other securities or property, or to receive any other right, or for the purpose of determining shareholders who are entitled to vote in connection with any proposed sale, lease or conveyance of all or substantially all of the assets of the Borrower or any proposed liquidation, dissolution or winding up of the Borrower, the Borrower shall mail a notice to the Holder, at least twenty (20) days prior to the record date specified therein (or thirty (30) days prior to the consummation of the transaction or event, whichever is earlier), of the date on which any such record is to be taken for the purpose of such dividend, distribution, right or other event, and a brief statement regarding the amount and character of such dividend, distribution, right or other event to the extent known at such time. The Borrower shall make a public announcement of any event requiring notification to the Holder hereunder substantially simultaneously with the notification to the Holder in accordance with the terms of this Section 4.9 including, but not limited to, name changes, recapitalizations, etc. as soon as possible under law.

4.10 Usury. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable provision shall automatically be revised to equal the maximum rate of interest or other amount deemed interest permitted under applicable law. The Borrower covenants (to the extent that it may lawfully do so) that it will not seek to claim or take advantage of any law that would prohibit or forgive the Borrower from paying all or a portion of the principal or interest on this Note.

4.11 Remedies. The Borrower acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder, by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Borrower acknowledges that the remedy at law for a breach of its obligations via facsimile (i) within two (2) Business Days after receipt of the applicable notice giving rise to such dispute to the Borrower or the Holder or (ii) if no notice gave rise to such dispute, at any time after the Holder learned of the circumstances giving rise to such dispute. If the Holder and the Borrower are unable to agree upon such determination or calculation within two (2) Business Days of such disputed determination or arithmetic calculation (as the case may be) being submitted to the Borrower or the Holder, then the Borrower shall, within two (2) Business Days, submit via facsimile (a) the disputed determination of the Conversion Price, the closing bid price, the or fair market value (as the case may be) to an independent, reputable investment bank selected by the Borrower and approved by the Holder or (b) the disputed arithmetic calculation of the Conversion Price, Conversion Amount, any prepayment amount or Default Amount, Default Sum to an independent, outside accountant selected by the Holder that is reasonably acceptable to the Borrower. The Borrower shall cause at its expense the investment bank or the accountant to perform the determinations or calculations and notify the Borrower and the Holder of the results no later than ten (10) Business Days from the time it receives such disputed determinations or calculations. Such investment bank's or accountant's determination or calculation shall be binding upon all parties absent demonstrable error.

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4.12 Severability. In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

4.13 Dispute Resolution. In the case of a dispute as to the determination of the Conversion Price, Conversion Amount, any prepayment amount or Default Amount, Default Sum, Closing or Maturity Date, the closing bid price, or fair market value (as the case may be) or the arithmetic calculation of the Conversion Price or the applicable prepayment amount(s) (as the case may be), the Borrower or the Holder shall submit the disputed determinations or arithmetic calculations via facsimile (i) within two (2) Business Days after receipt of the applicable notice giving rise to such dispute to the Borrower or the Holder or (ii) if no notice gave rise to such dispute, at any time after the Holder learned of the circumstances giving rise to such dispute. If the Holder and the Borrower are unable to agree upon such determination or calculation within two (2) Business Days of such disputed determination or arithmetic calculation (as the case may be) being submitted to the Borrower or the Holder, then the Borrower shall, within two (2) Business Days, submit via facsimile (a) the disputed determination of the Conversion Price, the closing bid price, the or fair market value (as the case may be) to an independent, reputable investment bank selected by the Borrower and approved by the Holder or (b) the disputed arithmetic calculation of the Conversion Price, Conversion Amount, any prepayment amount or Default Amount, Default Sum to an independent, outside accountant selected by the Holder that is reasonably acceptable to the Borrower. The Borrower shall cause at its expense the investment bank or the accountant to perform the determinations or calculations and notify the Borrower and the Holder of the results no later than ten (10) Business Days from the time it receives such disputed determinations or calculations. Such investment bank's or accountant's determination or calculation shall be binding upon all parties absent demonstrable error.

4.14 Terms of Future Financings. So long as this Note is outstanding, upon any issuance by the Borrower or any of its subsidiaries of any security with any term more favorable to the holder of such security or with a term in favor of the holder of such security that was not similarly provided to the Holder in this Note, then the Borrower shall notify the Holder of such additional or more favorable term and such term, at Holder's option, shall become a part of the transaction documents with the Holder. The types of terms contained in another security that may be more favorable to the holder of such security include, but are not limited to, terms addressing conversion discounts, prepayment rate, conversion lookback periods, interest rates, original issue discounts, stock sale price, private placement price per share, and warrant coverage.

4.15 Piggyback Registration Rights. The Borrower shall include on the next registration statement the Borrower files with SEC (or on the subsequent registration statement if such registration statement is withdrawn) all shares issuable upon conversion of this Note. Failure to do so will result in liquidated damages of 25% of the outstanding principal balance of this Note, but not less than Fifteen Thousand and No/100 United States Dollars (\$15,000), being immediately due and payable to the Holder at its election in the form of cash payment or addition to the balance of this Note.

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4.16 Prohibition on Debt and Variable Securities. During the initial ninety (90) day period after the Issue Date, the Borrower shall not, without written consent of the Holder, issue any debt (including, but not limited to any loan, bond, note, debenture, lien, mortgage, debt security, convertible security, or variable rate security) or any Variable Security. A Variable Security shall mean any security issued by the Borrower that (i) has or may have conversion rights of any kind, contingent, conditional or otherwise in which the number of shares that may be issued pursuant to such conversion right varies with the market price of the common stock; (ii) is or may become convertible into common stock (including without limitation convertible debt, warrants or convertible preferred stock), with a conversion or exercise price that varies with the market price of the common stock, even if such security only becomes convertible or exercisable following an event of default, the passage of time, or another trigger event or condition; or (iii) was issued or may be issued in the future in exchange for or in connection with any contract, security, or instrument, whether convertible or not, where the number of shares of common stock issued or to be issued is based upon or related in any way to the market price of the common stock, including, but not limited to, common stock issued in connection with a Section 3(a)(9) exchange, a Section 3(a)(10) settlement, or any other similar settlement or exchange.

[signature page follows]

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IN WITNESS WHEREOF, Borrower has caused this Note to be signed in its name by its duly authorized officer as of the date first above written.

VET ONLINE SUPPLY, INC.

By: _____
Name: Daniel Rushford
Title: Chief Executive Officer

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EXHIBIT A
NOTICE OF CONVERSION

The undersigned hereby elects to convert \$ _____ principal amount of the Note (defined below) together with \$ _____ of accrued and unpaid interest thereto, totaling \$ _____ into that number of shares of Common Stock to be issued pursuant to the conversion of the Note ("Common Stock") as set forth below, of Vet Online Supply, Inc., a Florida corporation (the "Borrower"), according to the conditions of the convertible note of the Borrower dated as of June 14, 2018 (the "Note"), as of the date written below. No fee will be charged to the Holder for any conversion, except

for transfer taxes, if any.

Box Checked as to applicable instructions:

- The Borrower shall electronically transmit the Common Stock issuable pursuant to this Notice of Conversion to the account of the undersigned or its nominee with DTC through its Deposit Withdrawal At Custodian system ("DWAC Transfer").

Name of DTC Prime Broker:
 Account Number:

- The undersigned hereby requests that the Borrower issue a certificate or certificates for the number of shares of Common Stock set forth below (which numbers are based on the Holder's calculation attached hereto) in the name(s) specified immediately below or, if additional space is necessary, on an attachment hereto:

Name: [NAME]
 Address: [ADDRESS]

Date of Conversion: _____
 Applicable Conversion Price: \$ _____
 Number of Shares of Common Stock to be Issued Pursuant to Conversion of the Notes: _____
 Amount of Principal Balance Due remaining Under the Note after this conversion: _____
 Accrued and unpaid interest remaining: _____

[HOLDER]

By: _____
 Name: [NAME]
 Title: [TITLE]
 Date: [DATE]

