

U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

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

For the transition period from _____ to _____

Synergy CHC Corp.

Nevada

(State or other jurisdiction
of Incorporation)

000-55098

(Commission
File Number)

99-0379440

(IRS Employer
Identification Number)

865 Spring Street
Westbrook, Maine 04092
(Address of principal executive offices)

(615) 939-9004
(Issuer's Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every, Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if smaller reporting company)

Emerging Growth Company

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of April 26, 2017, 88,764,357 shares of our common stock were issued and outstanding.



SYNERGY CHC CORP.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Synergy CHC Corp.
Condensed Consolidated Balance Sheets

	<u>March 31, 2017</u>	<u>December 31,</u> <u>2016</u>
	<u>(Unaudited)</u>	
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 1,714,988	\$ 2,517,642
Restricted cash	138,188	100,000
Accounts receivable, net	3,227,134	2,195,391
Prepaid expenses	1,332,483	1,348,602
Inventory, net	740,624	1,102,777
Total Current Assets	<u>7,153,417</u>	<u>7,264,412</u>
Fixes assets, net	276,839	257,386
Goodwill	7,793,240	7,793,240
Intangible assets, net	4,878,181	5,145,434
Total Assets	<u>\$ 20,101,677</u>	<u>\$ 20,460,472</u>
<u>Liabilities and Stockholders' Equity</u>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 3,715,043	\$ 4,558,919
Deferred revenue	8,733	36,000
Provision for income taxes payable	913,901	973,177
Current portion of long-term debt, net of debt discount and debt issuance cost, related party	4,890,792	5,890,903
Current portion of long-term debt	-	750,000
Total Current Liabilities	<u>9,528,469</u>	<u>12,208,999</u>
Long-term Liabilities:		
Royalty payable	295,254	313,752
Note payable, net of debt discount and debt issuance cost, related party	278,589	830,245
Total Long-term Liabilities	<u>573,843</u>	<u>1,143,997</u>
Total Liabilities	<u>10,102,312</u>	<u>13,352,996</u>
Commitments and contingencies		
Stockholders' Equity:		
Common stock, \$0.00001 par value; 300,000,000 shares authorized; 88,764,357 shares issued and outstanding	888	888
Common stock to be issued (125,000 shares)	56,250	56,250
Additional paid in capital	16,739,452	16,400,316
Accumulated other comprehensive income	10,121	16,022
Accumulated deficit	(6,807,346)	(9,366,000)
Total stockholders' equity	<u>9,999,365</u>	<u>7,107,476</u>
Total Liabilities and Stockholders' Equity	<u>\$ 20,101,677</u>	<u>\$ 20,460,472</u>

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

Synergy CHC Corp.

Unaudited Condensed Consolidated Statements of Income and Comprehensive Income

	For the three months ended	
	March 31,	March 31, 2016
	2017	2016
Revenue	\$ 10,788,319	\$ 8,267,751
Cost of sales	2,502,530	2,036,577
Gross profit	8,285,789	6,231,174
Operating expenses		
Selling and marketing	2,897,197	1,447,676
General and administrative	1,937,643	1,868,805
Depreciation and amortization	292,318	278,637
Total operating expenses	5,127,158	3,595,118
Income from operations	3,158,631	2,636,056
Other (income) expenses		
Interest income	(15)	(3,924)
Interest expense	247,364	431,264
Remeasurement loss (gain) on translation of foreign subsidiary	14,243	(240,806)
Gain on change in fair value of derivative liability	-	(1,086,498)
Loss on sale of assets	2,877	-
Amortization of debt discount	-	475,600
Amortization of debt issuance cost	44,041	66,039
Total other expenses (income)	308,510	(358,325)
Net income before income taxes	2,850,121	2,994,381
Income tax expense	291,467	183,905
Net income after tax	\$ 2,558,654	\$ 2,810,476
Net income per share – basic	\$ 0.03	\$ 0.03
Net income per share – diluted	\$ 0.03	\$ 0.03
Weighted average common shares outstanding		
Basic	88,764,357	81,692,954
Diluted	88,889,357	85,380,496
Comprehensive income:		
Net income	2,558,654	2,810,476
Foreign currency translation adjustment	(5,901)	-
Comprehensive income	\$ 2,552,753	\$ 2,810,476

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

Synergy CHC Corp.
Unaudited Condensed Consolidated Statements of Cash Flows

	For the three months ended	
	March 31, 2017	March 31, 2016
Cash Flows from Operating Activities		
Net income	\$ 2,558,654	\$ 2,810,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	292,318	278,637
Amortization of debt issuance cost	44,041	66,039
Loss on sale of assets	2,877	-
Stock based compensation expense	339,136	302,641
Change in the fair value of derivative liability	-	(1,086,498)
Remeasurement loss (gain) on translation of foreign subsidiary	14,243	(240,806)
Foreign currency transaction loss	76,849	-
Non cash implied interest	23,194	42,717
Amortization of debt discount	-	475,600
Changes in operating assets and liabilities:		
Accounts receivable	(1,031,743)	2,361,207
Inventory	362,153	9,815
Prepaid expense	16,119	(80,433)
Accounts payable and accrued liabilities	(994,245)	(1,514,226)
Deferred revenue	(27,267)	-
Net cash provided by operating activities	<u>1,676,330</u>	<u>3,425,171</u>
Cash Flows from Investing Activities		
Payments for acquisition of fixed assets	(53,594)	(62,921)
Proceeds from sale of assets	6,199	-
Restricted cash	(38,188)	448,942
Net cash (used in) provided by investing activities	<u>(85,583)</u>	<u>386,021</u>
Cash Flows from Financing Activities		
Repayment of notes payable	(2,387,500)	(1,137,500)
Payment of earn out liability	-	(2,551,500)
Net cash used in financing activities	<u>(2,387,500)</u>	<u>(3,689,000)</u>
Effect of exchange rate on cash and cash equivalents	(5,901)	-
Net (decrease) increase in cash and cash equivalents	(802,654)	122,192
Cash and Cash Equivalents, beginning of period	<u>2,517,642</u>	<u>3,640,893</u>
Cash and Cash Equivalents, end of period	\$ 1,714,988	\$ 3,763,085
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 243,088	\$ 407,560
Income taxes	\$ 411,075	\$ 141,447
Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Reallocation of goodwill related to acquisition of Factor Nutrition to intellectual property	\$ -	\$ 450,000

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

Synergy CHC Corp.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Nature of the Business

Synergy CHC Corp. (“Synergy”, “we”, “us”, “our” or the “Company”) (formerly Synergy Strips Corp.) was incorporated on December 29, 2010 in Nevada under the name “Oro Capital Corporation.” On April 21, 2014, the Company changed its fiscal year end from July 31 to December 31. On April 28, 2014, the Company changed its name to “Synergy Strips Corp.”. On August 5, 2015, the Company changed its name to “Synergy CHC Corp.”

The Company is a consumer health care company that is in the process of building a portfolio of best-in-class consumer product brands. Synergy’s strategy is to grow its portfolio both organically and by further acquisition.

Synergy is the sole owner of five subsidiaries: Neuragen Corp., Breakthrough Products, Inc., NomadChoice Pty Ltd., Synergy CHC Inc. and Sneaky Vaunt Corp. and the results have been consolidated in these statements.

Note 2 – Summary of Significant Accounting Policies

General

The accompanying condensed consolidated financial statements as of March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2017 and 2016 are unaudited. These unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and are presented in accordance with the requirements of Rule S-X of the Securities and Exchange Commission (the “SEC”) and with the instructions to Form 10-Q. 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 (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2017. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2016 and footnotes thereto included in the Company’s Annual Report on Form 10-K filed with the SEC on March 24, 2017.

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are assumptions about collection of accounts receivable, useful life of fixed and intangible assets, goodwill and assumptions used in Black-Scholes-Merton, or BSM, valuation methods, such as expected volatility, risk-free interest rate, and expected dividend rate.

Cash and Cash Equivalents

The Company considers all cash on hand and in banks, including accounts in book overdraft positions, certificates of deposit and other highly-liquid investments with maturities of three months or less, when purchased, to be cash and cash equivalents. As of March 31, 2017 the Company had no cash equivalents. The Company maintains its cash and cash equivalents in banks insured by the Federal Deposit Insurance Corporation (FDIC) in accounts that at times may be in excess of the federally insured limit of \$250,000 per bank. The Company minimizes this risk by placing its cash deposits with major financial institutions. At March 31, 2017, the uninsured balance amounted to \$1,255,907.

Capitalization of Fixed Assets

The Company capitalizes expenditures related to property and equipment, subject to a minimum rule, that have a useful life greater than one year for: (1) assets purchased; (2) existing assets that are replaced, improved or the useful lives have been extended; or (3) all land, regardless of cost. Acquisitions of new assets, additions, replacements and improvements (other than land) costing less than the minimum rule in addition to maintenance and repair costs, including any planned major maintenance activities, are expensed as incurred.

Intangible Assets

We evaluate the recoverability of intangible assets periodically and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. All of our intangible assets are subject to amortization except intellectual property of \$1,450,000 acquired as part of Asset Purchase Agreement entered into with Factor Nutrition LLC on January 22, 2015. Intangible assets are amortized on a straight line basis over the useful lives. As of March 31, 2017, our qualitative analysis of intangible assets with indefinite lives did not indicate any impairment.

Long-lived Assets

Long-lived assets include equipment and intangible assets other than those with indefinite lives. We assess the carrying value of our long-lived asset groups when indicators of impairment exist and recognize an impairment loss when the carrying amount of a long-lived asset is not recoverable when compared to undiscounted cash flows expected to result from the use and eventual disposition of the asset.

Indicators of impairment include significant underperformance relative to historical or projected future operating results, significant changes in our use of the assets or in our business strategy, loss of or changes in customer relationships and significant negative industry or economic trends. When indications of impairment arise for a particular asset or group of assets, we assess the future recoverability of the carrying value of the asset (or asset group) based on an undiscounted cash flow analysis. If carrying value exceeds projected, net, undiscounted cash flows, an additional analysis is performed to determine the fair value of the asset (or asset group), typically a discounted cash flow analysis, and an impairment charge is recorded for the excess of carrying value over fair value. As of March 31, 2017, our qualitative analysis of long-lived assets did not indicate any impairment.

Goodwill

An asset purchase is accounted for under the purchase method of accounting. Under that method, assets and liabilities of the business acquired are recorded at their estimated fair values as of the date of the acquisition, with any excess of the cost of the acquisition over the estimated fair value of the net tangible and intangible assets acquired recorded as goodwill. As of March 31, 2017, our qualitative analysis of goodwill did not indicate any impairment. However, as of December 31, 2016, our review of goodwill related to one of our subsidiaries did indicate that the carrying amount of the asset may not be recoverable. During the year ended December 31, 2016, the Company fully impaired related goodwill and charged to operations an impairment loss of \$1,983,160.

Revenue Recognition

The Company recognizes revenue in accordance with the Financial Accounting Standards Board's ("FASB"), Accounting Standards Codification ("ASC") 605, Revenue Recognition ("ASC 605"). ASC 605 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred and/or service has been performed; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. The Company believes that these criteria are satisfied upon shipment from its fulfillment centers. Certain of our distributors may also perform a separate function as a co-packer on our behalf. In such cases, ownership of and title to our products that are co-packed on our behalf by those co-packers who are also distributors, passes to such distributors when we are notified by them that they have taken transfer or possession of the relevant portion of our finished goods. Freight billed to customers is presented as revenues, and the related freight costs are presented as cost of goods sold. Cancelled orders are refunded if not already dispatched, refunds are only paid if stock is damaged in transit, discounts are only offered with specific promotions and orders will be refilled if lost in transit.

Accounts receivable

Accounts receivable are generally unsecured. The Company establishes an allowance for doubtful accounts receivable based on the age of outstanding invoices and management's evaluation of collectability. Accounts are written off after all reasonable collection efforts have been exhausted and management concludes that likelihood of collection is remote. Any future recoveries are applied against the allowance for doubtful accounts.

Advertising Expense

The Company expenses marketing, promotions and advertising costs as incurred. Such costs are included in selling expense in the accompanying unaudited condensed consolidated statements of income.

Research and Development

Costs incurred in connection with the development of new products and processing methods are charged to general and administrative expenses as incurred.

Income Taxes

The Company utilizes FASB ASC 740, "Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the tax basis of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is recorded when it is "more likely-than-not" that a deferred tax asset will not be realized.

The Company generated a deferred tax asset through net operating loss carry-forward. However, a valuation allowance of 100% has been established due to the uncertainty of the Company's realization of the net operating loss carry forward prior to its expiration.

NomadChoice Pty Ltd, the Company's wholly-owned foreign subsidiary, is subject to income taxes in the jurisdictions in which it operates. Significant judgment is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The company recognizes liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Synergy CHC Inc. is a wholly-owned foreign subsidiary, is subject to income taxes in the jurisdictions in which it operates. Significant judgment is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The company recognizes liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Net Earnings (Loss) Per Common Share

The Company computes earnings per share under ASC subtopic 260-10, Earnings Per Share. Basic earnings (loss) per share is computed by dividing the net income (loss) attributable to the common stockholders (the numerator) by the weighted average number of shares of common stock outstanding (the denominator) during the reporting periods. Diluted earnings per share is computed by increasing the denominator by the weighted average number of additional shares that could have been outstanding from securities convertible into common stock (using the "treasury stock" method), unless their effect on net loss per share is anti-dilutive. As of March 31, 2017, options to purchase 6,300,000 shares of common stock and warrants to purchase 1,000,000 shares of common stock were outstanding.

The following is a reconciliation of the number of shares used in the calculation of basic earnings per share and diluted earnings per share for the three months ended March 31, 2017, and 2016:

	<u>2017</u>	<u>2016</u>
Net income after tax	\$ 2,558,654	\$ 2,810,476
Weighted average common shares outstanding	88,764,357	81,692,954
Common stock to be issued	125,000	-
Incremental shares from the assumed exercise of dilutive stock options	-	1,669,671
Incremental shares from the assumed exercise of dilutive stock warrants	-	2,017,870
Dilutive potential common shares	<u>88,889,357</u>	<u>85,380,495</u>
Net earnings per share:		
Basic	\$ 0.03	\$ 0.03
Diluted	\$ 0.03	\$ 0.03

The following securities were not included in the computation of diluted net earnings per share as their effect would have been antidilutive:

	<u>2017</u>	<u>2016</u>
Options to purchase common stock	6,300,000	2,000,000
Warrants to purchase common stock	1,000,000	1,000,000
	<u>7,300,000</u>	<u>3,000,000</u>

Going Concern

The Company's unaudited condensed consolidated financial statements are prepared using U.S. GAAP applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company had an accumulated deficit at March 31, 2017 of \$6,807,346. The Company had a working capital deficit of \$2,375,052 as of March 31, 2017. Due to acquisitions during 2015 of revenue-producing products, the Company believes it has established an ongoing source of revenue that is sufficient to cover its operating costs and has income from operations of \$3,158,631.

Management's plans to continue as a going concern include growing sales revenue on our existing brands, raising additional capital through borrowing and sales of common stock. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Fair Value Measurements

The Company measures and discloses the fair value of assets and liabilities required to be carried at fair value in accordance with ASC 820, Fair Value Measurements and Disclosures. ASC 820 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure.

ASC 825 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. ASC 825 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 825 establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices for identical assets or liabilities in active markets to which we have access at the measurement date.

Level 2 - Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

As of March 31, 2017, the Company has determined that there were no assets or liabilities measured at fair value.

Inventory

Inventory consists of raw materials, components and finished goods. The Company's inventory is stated at the lower of cost (FIFO cost basis) or market. Finished goods include the cost of labor to assemble the items.

Stock-Based Compensation

ASC 718, "Compensation – Stock Compensation," prescribes accounting and reporting standards for all share-based payment transactions in which employee services are acquired. Transactions include incurring liabilities, or issuing or offering to issue shares, options, and other equity instruments such as employee stock ownership plans and stock appreciation rights. Share-based payments to employees, including grants of employee stock options, are recognized as compensation expense in the financial statements based on their fair values. That expense is recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

The Company accounts for stock-based compensation issued to non-employees and consultants in accordance with the provisions of ASC 505-50, "Equity – Based Payments to Non-Employees." Measurement of share-based payment transactions with non-employees is based on the fair value of whichever is more reliably measurable: (a) the goods or services received; or (b) the equity instruments issued. The fair value of the share-based payment transaction is determined at the earlier of performance commitment date or performance completion date.

Foreign Currency Translation

The functional currency of one of the Company's foreign subsidiaries (Nomadchoice Pty Ltd.) is the U.S. Dollar. The Company's foreign subsidiary maintains its records using local currency (Australian Dollar). All monetary assets and liabilities of the foreign subsidiary were translated into U.S. Dollars at quarter end exchange rates, non-monetary assets and liabilities of the foreign subsidiary were translated into U.S. Dollars at transaction day exchange rates. Income and expense items related to non-monetary items were translated at exchange rates prevailing during the transaction date and other incomes and expenses were translated using average exchange rate for the period. The resulting translation adjustments, net of income taxes, were recorded in statements of operations as Remeasurement gain or loss on translation of foreign subsidiary.

The functional currency of the Company's other foreign subsidiary (Synergy CHC Inc.) is the Canadian Dollar (CAD). The Company's foreign subsidiary maintains its records using local currency (CAD). All assets and liabilities of the foreign subsidiary were translated into U.S. Dollars at period end exchange rates and stockholders' equity is translated at the historical rates. Income and expense items were translated using average exchange rate for the period. The resulting translation adjustments, net of income taxes, are reported as other comprehensive income and accumulated other comprehensive income in the stockholder's equity in accordance with ASC 220 – Comprehensive Income.

Translation gains and losses that arise from exchange rate fluctuations from transactions denominated in a

currency other than the functional currency are translated into either Australian Dollars or Canadian Dollars, as the case may be, at the rate on the date of the transaction and included in the results of operations as incurred.

Concentrations of Credit Risk

In the normal course of business, the Company provides credit terms to its customers; however, collateral is not required. Accordingly, the Company performs credit evaluations of its customers and maintains allowances for possible losses which, when realized, were within the range of management's expectations. From time to time, a higher concentration of credit risk exists on outstanding accounts receivable for a select number of customers due to individual buying patterns.

Warehousing costs

Warehouse costs include all third party warehouse rent fees and are charged to selling and marketing expenses as incurred. Any additional costs relating to assembly or special pack-outs of the Company's products are charged to cost of sales.

Product display costs

All displays manufactured and purchased by the Company are for placement of product in retail stores. This also includes all costs for display execution and setup and retail services are charged to cost of sales and expensed as incurred.

Cost of Sales

Cost of sales includes the purchase cost of products sold and all costs associated with getting the products into the retail stores including buying and transportation costs.

Debt Issuance Costs

Debt issuance costs consist primarily of arrangement fees, professional fees and legal fees. These costs are netted off with the related loan and are being amortized to interest expense over the term of the related debt facilities.

Shipping Costs

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

Related parties

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. All transactions with related parties shall be recorded at fair value of the goods or services exchanged.

Segment Reporting

Segment identification and selection is consistent with the management structure used by the Company's chief operating decision maker to evaluate performance and make decisions regarding resource allocation, as well as the materiality of financial results consistent with that structure. Based on the Company's management structure and method of internal reporting, the Company has one operating segment. The Company's chief operating decision maker does not review operating results on a disaggregated basis; rather, the chief operating decision maker reviews operating results on an aggregate basis.

Recent Accounting Pronouncements

ASU 2017-04

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350), which simplifies the goodwill impairment test. The effective date for ASU 2017-04 is for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact of adopting ASU 2017-04 on our consolidated financial statements.

ASU No. 2017-01

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This new standard clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This new standard will be effective for the Company on January 1, 2018; however, early adoption is permitted with prospective application to any business development transaction. We are currently evaluating the impact of adopting ASU 2017-04 on our consolidated financial statements.

ASU 2016-18

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), which requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts shown on the statement of cash flows. The effective date for ASU 2016-18 is for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the impact of adopting ASU 2016-18 on our consolidated financial statements.

ASU 2016-15

In August 2016, the FASB issued AS 2016-15, Classification of Certain Cash Receipts and Cash Payments, which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The effective date for ASU 2016-15 is for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the impact of adopting ASU 2016-18 on our consolidated financial statements.

ASU 2016-10

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which provides further guidance on identifying performance obligations and improves the operability and understandability of licensing implementation guidance. The effective date for ASU 2016-10 is the same as the effective date of ASU 2014-09 as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within those years. The Company has not yet determined the impact of ASU 2016-10 on its consolidated financial statements.

ASU 2016-09

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation, or ASU No. 2016-09. The areas for simplification in this Update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the

minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. We are currently evaluating the impact of adopting ASU No. 2016-09 on our consolidated financial statements.

ASU 2016-08

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) that clarifies how to apply revenue recognition guidance related to whether an entity is a principal or an agent. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer and provides additional guidance about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The effective date for ASU 2016-08 is the same as the effective date of ASU 2014-09 as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within those years. The Company has not yet determined the impact of ASU 2016-08 on its consolidated financial statements.

ASU 2016-01

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

ASU 2015-17

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. Currently deferred taxes for each tax jurisdiction are presented as a net current asset or liability and net noncurrent asset or liability on the balance sheet. To simplify the presentation, the new guidance requires that deferred tax liabilities and assets for all jurisdictions along with any related valuation allowances be classified as noncurrent in a classified statement of financial position. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016, and early adoption is permitted. The Company adopted this guidance in the fourth quarter of the year ended December 31, 2015 on a retrospective basis. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements, and did not have any effect on prior periods due to the full valuation allowance against the Company’s net deferred tax assets.

ASU 2015-16

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement –Period Adjustments. Changes to the accounting for measurement-period adjustments relate to business combinations. Currently, an acquiring entity is required to retrospectively adjust the balance sheet amounts of the acquiree recognized at the acquisition date with a corresponding adjustment to goodwill as a result of changes made to the balance sheet amounts of the acquiree. The measurement period is the period after the acquisition date during which the acquirer may adjust the balance sheet amounts recognized for a business combination (generally up to one year from the date of acquisition). The changes eliminate the requirement to make such retrospective adjustments, and, instead require the acquiring entity to record these adjustments in the reporting period they are determined. The new standard is effective for both public and private companies for periods beginning after December 15, 2015. Adoption of this new standard did not have any impact on the Company’s consolidated financial statements.

ASU 2015-14

In August 2015, the FASB issued ASU No. 2015-14, Revenue From Contracts With Customers (Topic 606). The amendments in this ASU defer the effective date of ASU 2014-09. Public business entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are still evaluating the effect of the adoption of ASU 2014-09 on our consolidated financial statements.

ASU 2015-11

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory (Topic 330). ASU 2015-11 simplifies the accounting for the valuation of all inventory not accounted for using the last-in, first-out (“LIFO”) method by prescribing that inventory be valued at the lower of cost and net realizable value. ASU 2015-11 is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 on a prospective basis. We do not expect the adoption of ASU 2015-11 to have a material effect on our consolidated financial statements.

ASU 2015-05

In April 2015, the FASB issued ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40). ASU 2015-05 provides guidance regarding the accounting for a customer’s fees paid in a cloud computing arrangement; specifically about whether a cloud computing arrangement includes a software license, and if so, how to account for the software license. ASU 2015-05 is effective for public companies’ annual periods, including interim periods within those fiscal years, beginning after December 15, 2015 on either a prospective or retrospective basis. Early adoption is permitted. Adoption of this new standard did not have any impact on the Company’s consolidated financial statements.

ASU 2015-07

In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) This guidance eliminates the requirement to categorize investments within the fair value hierarchy if their fair value is measured using the net asset value (“NAV”) per share practical expedient in the FASB’s fair value measurement guidance. The new standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. Adoption of this new standard did not have any impact on the Company’s consolidated financial statements.

ASU 2015-02

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification and improves current U.S. GAAP by placing more emphasis on risk of loss when determining a controlling financial interest, reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (“VIE”), and changing consolidation conclusions for companies in several industries that typically make use of limited partnerships or VIEs. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. Adoption of this new standard did not have any impact on the Company’s consolidated financial statements.

ASU 2015-01

In January 2015, the FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This ASU eliminates from U.S. GAAP the concept of extraordinary items. ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. Adoption of this new standard did not have any impact on the Company’s consolidated financial statements.

ASU 2014-17

In November 2014, the FASB issued ASU No. 2014-17, Business Combinations (Topic 805): Pushdown Accounting. This ASU provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. If pushdown accounting is applied to an individual

change-in-control event, that election is irrevocable. ASU 2014-17 was effective on November 18, 2014. The adoption of this new standard did not have any effect on our consolidated financial statements.

ASU 2014-16

In November 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815). ASU 2014-16 addresses whether the host contract in a hybrid financial instrument issued in the form of a share should be accounted for as debt or equity. ASU 2014-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. We have not previously and do not currently have issued, nor were we or are we investors in, hybrid financial instruments. Adoption of this new standard did not have any impact on the Company's consolidated financial statements.

ASU 2014-15

In August 2014, the FASB issued ASU No. 2014-15 Presentation of Financial Statements-Going Concern. The amendments in this update apply to all reporting entities and require an entity's management, in connection with preparing financial statements for each annual and interim reporting period, to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). This ASU is effective for annual periods ending after December 15, 2016. We adopted this standard for the year ended December 31, 2016. Based on the results of our analysis, no additional disclosures were required.

ASU 2014-12

In June 2014, the FASB issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Adoption of this new standard did not have any impact on the Company's consolidated financial statements.

ASU 2014-09

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). ASU 2014-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. ASU 2014-09 will be effective for the Company in the first quarter of 2018, and early adoption is permitted in the first quarter of 2017. We are still evaluating the effect of the adoption of the new standard on our consolidated financial statements.

ASU 2014-08

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) and Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 amends the definition for what types of asset disposals are to be considered discontinued operations, as well as amending the required disclosures for discontinued operations and assets held for sale. ASU 2014-08 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2014. The adoption of the new standard did not have any effect on our consolidated financial statements.

There were various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's consolidated financial statements.

Note 3 – Inventory

Inventory consists of finished goods, components and raw materials. The Company's inventory is stated at the lower of cost (FIFO cost basis) or market.

The carrying value of inventory consisted of the following:

	March 31, 2017	December 31, 2016
Finished goods	\$ 265,710	\$ 474,420
Components	334,475	431,241
Inventory in transit	47,822	104,500
Raw materials	92,617	92,616
Total inventory	\$ 740,624	\$ 1,102,777

On January 22, 2015, inventory was pledged to Knight Therapeutics under the Loan Agreement (see note

10).

Note 4 – Accounts Receivable

Accounts receivable, net of allowances for sales returns and doubtful accounts, consisted of the following:

	March 31, 2017	December 31, 2016
Trade accounts receivable	\$ 3,227,134	\$ 2,195,391
Less allowances	-	-
Total accounts receivable, net	\$ 3,227,134	\$ 2,195,391

Note 5 – Prepaid Expenses

Prepaid expenses consisted of the following:

	March 31, 2017	December 31, 2016
Advances for inventory	\$ 280,012	\$ 188,980
Media production	199,687	207,555
Insurance	57,748	70,392
Trade shows	29,200	46,700
Deposits	8,728	6,228
Consultants	-	15,000
Rent	4,097	15,452
Promotion - Bloggers	316,734	426,220
License agreement	233,333	258,333
Software subscriptions	78,584	88,782
Clinical Research	53,590	-
Advertising	57,500	-
Miscellaneous	13,269	24,960
Total	\$ 1,332,483	\$ 1,348,602

Note 6 – Concentration of Credit Risk

Cash and cash equivalents

The Company maintains its cash and cash equivalents in banks insured by the Federal Deposit Insurance Corporation (FDIC) in accounts that at times may be in excess of the federally insured limit of \$250,000 per bank. The Company minimizes this risk by placing its cash deposits with major financial institutions. At March 31, 2017 and December 31, 2016, the uninsured balances amounted to \$1,255,907 and \$2,038,985, respectively.

Accounts receivable

As of March 31, 2017, three customers accounted for 96% of the Company's accounts receivable. As of December 31, 2016, three customers accounted for 91% of the Company's accounts receivable.

Major customers

For the three months ended March 31, 2017, three customers accounted for approximately 39% of the Company's net revenue. For the year ended December 31, 2016, three customers accounted for approximately 34% of the Company's net revenues. Substantially all of the Company's business is with companies in the United States.

Major suppliers

For the three months ended March 31, 2017 and the year ended December 31, 2016, our products were made by the following suppliers:

FOCUSfactor	Atrium Innovations - Pittsburgh, PA	Vit-Best Nutrition, Inc. - Tustin, CA
Flat Tummy Tea	Caraway Tea Company, LLC - Highland, NY	-
Neuragen	C-Care, LLC - Linthicum Heights, MD	-
UrgentRx	Capstone Nutrition - Ogden, UT	-

Hand MD
Sneaky Vaunt

HealthSpecialty - Santa Fe Springs, CA
Dongguan Jingrui - China

It is the opinion of management that the products can be produced by other manufacturers and the choice to utilize these suppliers is not a significant concentration.

Note 7 – Fixed Assets and Intangible Assets

As of March 31, 2017 and December 31, 2016, fixed assets and intangible assets consisted of the following:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Property and equipment	\$ 337,931	\$ 308,084
Less accumulated depreciation	(61,092)	(50,698)
Fixed assets, net	<u>\$ 276,839</u>	<u>\$ 257,386</u>

Depreciation expense for the three months ended March 31, 2017 and 2016 was \$25,065 and \$2,227, respectively. During the three months ended March 31, 2017, we sold fixed assets with an aggregate carrying value of \$9,076 for \$6,199 which resulted in loss on sale of fixed assets of \$2,877.

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
FOCUSfactor intellectual property	\$ 1,450,000	\$ 1,450,000
Intangible assets subject to amortization	5,373,017	5,373,017
Less accumulated amortization	(1,944,836)	(1,677,583)
Intangible assets, net	<u>\$ 4,878,181</u>	<u>\$ 5,145,434</u>

Amortization expense for the three months ended March 31, 2017 and 2016 was \$267,253 and \$276,410, respectively. These intangible assets were acquired through an Asset Purchase Agreement and Stock Purchase Agreements entered into during 2015.

Note 8 – Related Party Transactions

The Company accrued and paid consulting fees of \$41,250 per month, accounting fees of \$12,500 per month and rent of \$1,500 per month to a company owned by Mr. Jack Ross, Chief Executive Officer of the Company. The Company expensed \$165,750 during the three months ended March 31, 2017. As of March 31, 2017, the total outstanding balance was \$90,291 for consulting fees and reimbursements.

On January 22, 2015, the Company entered into a Loan Agreement with Knight Therapeutics (Barbados) Inc. (“Knight”), a related party, for the purchase of the Focus Factor assets. At March 31, 2017, the Company owed Knight \$2,204,096 on this loan, net of debt issuance cost (see Note 10).

On June 26, 2015, the Company entered into a Security Agreement with Knight Therapeutics, Inc., through its wholly owned subsidiary Neuragen Corp., for the purchase of Knight Therapeutics, Inc.’s assets. At March 31, 2017, the Company owed Knight \$612,500 in relation to this agreement (see Note 10).

On August 18, 2015, the Company entered into a Consulting Agreement with Kara Harshbarger, the co-founder of Hand MD, LLC, pursuant to which she will provide marketing and sales related service. The Company pays Ms. Harshbarger \$10,000 a month for one year unless the Consulting Agreement is terminated earlier by either party. The Company has extended this agreement on a month to month basis. Hand MD, LLC is a 50% owner in Hand MD Corp. The Company expensed \$30,000 through payroll for the three months ended March 31, 2017. As of March 31, 2017, the total outstanding balance was \$0.

On November 12, 2015, the Company entered into a Loan Agreement with Knight Therapeutics (Barbados) Inc., a related party, for the purchase of NomadChoice Pty Limited and Breakthrough Products, Inc. At March 31, 2017, the Company owed Knight \$2,677,703 on this loan, net of debt issuance cost (see Note 10).

The Company expensed royalty of \$136,636 during the three months ended March 31, 2017. At March 31, 2017 NomadChoice Pty Ltd., a subsidiary of the Company, owed Knight Therapeutics \$53,934 in connection with a royalty distribution agreement.

The Company expensed royalty of \$27,414 during the three months ended March 31, 2017. At March 31, 2017 Sneaky Vaunt Corp., a subsidiary of the Company, owed Knight Therapeutics \$27,414 in connection with a royalty distribution agreement.

The Company expensed commissions of \$35,622 during the three months ended March 31, 2017. At March 31, 2017 Sneaky Vaunt Corp., a subsidiary of the Company, owed Founded Ventures, owned by a shareholder in the Company, \$35,622 in connection with a commission agreement.

Note 9 – Accounts Payable and Accrued Liabilities

As of March 31, 2017 and December 31, 2016, accounts payable and accrued liabilities consisted of the following:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Accrued payroll	\$ 130,249	\$ 275,913
Accrued legal fees	34,626	37,546
Accounting fees	67,990	-
Commissions	176,116	-
Related party	90,291	-
Professional Fees	60,166	-
Manufacturers	1,746,657	1,459,460
Promotions	247,795	1,244,480
Returns allowance	548,712	860,126
Customers	453,426	401,594
Interest	22,603	31,079
Royalties, related party	81,347	87,677
Warehousing	-	19,080
Others	55,065	141,964
Total	<u>\$ 3,715,043</u>	<u>\$ 4,558,919</u>

Note 10 – Notes Payable

The Company's loans payable at March 31, 2017 and December 31, 2016 are as follows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Loans payable	\$ 5,288,889	\$ 7,634,697
Unamortized debt issuance cost	(119,508)	(163,549)
Total	<u>5,169,381</u>	<u>7,471,148</u>
Less: Current portion	(4,890,792)	(6,640,903)
Long-term portion	<u>\$ 278,589</u>	<u>\$ 830,245</u>

\$6,000,000 January 22, 2015 Loan:

On January 22, 2015, the Company entered into a Loan and Security Agreement (“Loan Agreement”) with Knight Therapeutics (Barbados) Inc. (“Knight”), pursuant to which Knight agreed to loan the Company \$6.0 million (the “Loan”), and which amount was borrowed at closing (the “Financing”) for the purpose of acquiring the Focus Factor Business (defined below). At closing, the Company paid Knight an origination fee of \$120,000 and a work fee of \$60,000 and also paid \$40,000 of Knight's expenses associated with the Loan. The Loan bears interest at a rate of 15% per year; provided, however, that upon the occurrence of an equity or convertible equity offering by the Company of at least \$1.0 million, the interest rate will drop to 13% per year. Interest accrues quarterly and is payable in arrears on March 31, June 30, September 30 and December 31 in each year, beginning on March 31, 2015.

All outstanding principal and accrued and unpaid interest is due on the earliest to occur of either January 20, 2017 (the “Maturity Date”), or the date that Knight, in its discretion, accelerates the Company's obligations due to an event of default. The Company may extend the Maturity Date for two successive additional 12-month periods if at March 31, 2016 and March 31, 2017, respectively, the Company's revenues exceed \$13.0 million and its EBITDA exceeds \$2.0 million for the respective 12-month period then ending. These covenants were achieved, therefore the Company chose to extend the loan for the first 12-month period to January 20, 2018. Principal payments under the Loan Agreement commenced on June 30, 2015 and continue quarterly as set forth on the Repayment Schedule to the Loan Agreement.

Subject to certain restrictions, the Company may prepay the outstanding principal of the Loan (in whole but not in part) at any time if the Company pays a concurrent prepayment fee equal to the greater of (i) the total unpaid annual interest that would have been payable during the year in which the prepayment is made if the prepayment is made prior to the first anniversary of the closing, and (ii) \$300,000. The Company's obligations under the Loan Agreement are secured by a first priority security interest in all present and future assets of the Company. The Company also agreed to not pledge or otherwise encumber its intellectual property assets, subject to certain customary exceptions.

The Loan Agreement includes customary representations, warranties, and affirmative and restrictive covenants, including covenants to attain and maintain certain financial metrics, and to not merge or dispose of assets, acquire other businesses (except for businesses substantially similar or complementary to the Company's business and the aggregate consideration to be paid does not exceed \$100,000) or make capital expenditures in excess of \$100,000 over the Company's annual business plan in any year. The Loan Agreement also includes customary events of default, including payment defaults, breaches of covenants, change of control and material adverse effect default. Upon the occurrence of an event of default and during the continuation thereof, the principal amount of the Loan will bear a default interest rate of an additional 5%.

In connection with the Loan Agreement, the Company issued to Knight a warrant that entitled Knight to purchase 4,595,187 shares of common stock of the Company (“Common Stock”) on or prior to close of business on January 30, 2015 (the “ST Warrant”). The aggregate exercise price of the Common Stock under the ST Warrant is \$1.00. Knight exercised the ST Warrant on January 22, 2015. Also in connection with the Loan Agreement, the Company issued to Knight a warrant to purchase 3,584,759 shares of Common Stock on or prior to the close of business of January 22, 2015 (the “LT Warrant”). The exercise price per share of the Common Stock under the LT Warrant is \$0.34. The LT Warrant provides for cashless exercise. The LT Warrant also provides that in the event the closing price of the Common Stock remains above \$1.00 for six consecutive months, Knight will forfeit the difference between the number of shares acquired under the LT Warrant prior to 90 days after such six-month period, and 25% of the shares purchasable under the LT Warrant.

The beneficial conversion feature of the warrants issued to Knight amounted to \$1,952,953 (ST warrants) and \$1,462,560 (LT warrants), respectively, and was recorded as debt discount of the corresponding debt.

During 2016, this debt discount was fully expensed in conjunction with the cancellation of all warrants and options held by Knight.

The Company also recorded deferred financing costs of \$289,045 with respect to the above loan. The Company recognized amortization of deferred financing costs of \$13,957 during the three months ended March 31, 2017, respectively. Unamortized debt issuance cost as of March 31, 2017 amounted to \$45,904.

The Company recognized and paid interest expense of \$103,740 during the three months ended March 31, 2017, respectively. Accrued interest expense was \$0 as of March 31, 2017. Loan payable balance was \$2,250,000 as of March 31, 2017.

\$1,500,000 January 22, 2015 Loan:

On January 22, 2015, the Company issued a 0% promissory note in a principal amount of \$1,500,000 in connection with an Asset Purchase Agreement. The note has a maturity date of January 20, 2017, with \$750,000 to be paid on or before January 20, 2016 and an additional \$750,000 to be paid on or before January 20, 2017. This loan was paid in full in January 2017.

\$950,000 June 26, 2015 Security Agreement:

On June 26, 2015, the Company, through its wholly owned subsidiary, Neuragen Corp. (“Neuragen”), issued a 0% promissory note in a principal amount of \$950,000 in connection with an Asset Purchase Agreement. The note requires \$250,000 to be paid on or before June 30, 2016, and \$700,000 to be paid in quarterly installments (beginning with the quarter ended September 30, 2015) equal to the greater of \$12,500 or 5% of U.S. net sales, and 2% of U.S. net sales of Neuragen for 60 months thereafter. The payment of such amounts is secured by a security interest in certain assets, undertakings and property (“Collateral”) pursuant to the Security Agreement, which will be released upon receipt of total payments of \$1.2 million.

The Company also recorded deferred financing costs of \$10,486 with respect to the above agreement. The Company recognized amortization of deferred financing costs of \$1,293 during the three months ended March 31, 2017. Unamortized debt issuance cost as of March 31, 2017 amounted to \$1,307. The Company recorded present value of future payments of \$288,889 and \$290,947 as of March 31, 2017 and December 31, 2016, respectively. The Company recorded imputed interest expense of \$10,442 for the three months ended March 31, 2017.

During the three months ended March 31, 2017, the Company made payments of \$31,250 in connection with this Security Agreement.

\$5,500,000 November 12, 2015 Loan:

On November 12, 2015, we entered into a First Amendment to Loan Agreement (“First Amendment”) with Knight, pursuant to which Knight agreed to loan us an additional \$5.5 million, and which amount was borrowed at closing (the “Financing”) for the purpose of acquiring Breakthrough Products, Inc. and NomadChoice Pty Limited through Stock Purchase Agreements. At closing, we paid Knight an origination fee of \$110,000 and a work fee of \$55,000 and also paid \$24,000 of Knight’s expenses associated with the Loan. The Loan bears interest at a rate of 15% per year. The interest rate will decrease to 13% if we meet certain equity-fundraising targets. The New Loan Agreement matures on November 11, 2017.

In connection with the First Amendment, we issued Knight a warrant that entitles Knight to purchase 5,550,625 shares of our common stock (“Knight Warrant Shares”) representing approximately 6.5% of our fully diluted capital, which Knight exercised in full on November 12, 2015. Knight also received a 10-year warrant entitling Knight to purchase up to 4,547,243 shares of our common stock at \$0.49 per share (“Knight Warrants”).

The beneficial conversion feature of the warrants issued to Knight amounted to \$2,553,287 (5,550,625 warrants) and \$2,067,258 (4,547,243 warrants), respectively, and was recorded as debt discount of the corresponding debt in 2015.

During 2016, this debt discount was fully expensed in conjunction with the cancellation of all warrants and options held by Knight.

The Company also recorded deferred financing costs of \$233,847 with respect to the above loan. The Company recognized amortization of deferred financing costs of \$28,791 during the three months ended March 31, 2017. Unamortized debt issuance cost as of March 31, 2017 amounted to \$72,297.

The Company recognized interest expense of \$120,430 during the three months ended March 31, 2017. During the three months ended March 31, 2017, the Company paid interest of \$128,906. Accrued interest was \$22,603 as of March 31, 2017. Loan balance at March 31, 2017 was \$2,750,000.

Note 11 – Stockholders’ Equity

The total number of shares of all classes of capital stock which the Company is authorized to issue is 300,000,000 shares of common stock with \$0.00001 par value.

As of March 31, 2017 and December 31, 2016, there were 88,764,357 shares of the Company’s common stock issued and outstanding.

Note 12 – Commitments & Contingencies

Litigation:

From time to time the Company may become a party to litigation in the normal course of business. Management believes that there are no current legal matters that would have a material effect on the Company’s financial position or results of operations.

Operating leases

In April 2014, a subsidiary entered into an extension of a non-cancellable operating lease for office space that expired on March 31, 2017. Rent expense under this lease for the period from acquisition until March 31, 2017 was \$8,923 per month less a \$3,010 per month sublease through March 2017.

In December 2015, a subsidiary entered into a non-cancellable operating lease for office space through November 2016. This lease was extended until April 2017. Rental payments under this lease are \$5,900 Australian dollars per month, which is approximately \$4,480.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of March 31, 2017:

Year ending December 31:

2017	\$	4,480
Total	\$	4,480

On December 8, 2014, a subsidiary entered into a non-cancellable 36 month phone lease with an estimated cost of \$894 a month.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of March 31, 2017:

Year ending December 31:

2017 – remaining nine months	\$	8,046
Total	\$	8,046

Note 13 – Stock Options

On July 30, 2014, the Company’s board of directors approved the Company’s 2014 Equity Incentive Plan (the “Plan”) and the reservation of 15,525,000 shares of common stock for issuance under the Plan. The Plan was approved by the Company’s shareholders and became effective on August 5, 2015.

On April 2, 2014, the Company granted 1,000,000 options with an exercise price of \$0.25 per share to a company owned by Mr. Jack Ross, Chief Executive Officer of the Company.

On December 14, 2015, the Company granted 1,000,000 options each with an exercise price of \$0.25 per share to two Board members of the Company.

On December 14, 2015, the Company granted 1,000,000 options each with an exercise price of \$0.65 per share to two employees of the Company.

On February 18, 2016, the Company granted 300,000 options with an exercise price of \$0.70 per share to an

employee of the Company.

On April 18, 2016, the Company granted 500,000 options with an exercise price of \$0.70 per share to an employee of the Company.

On July 4, 2016, the Company granted 500,000 options with an exercise price of \$0.70 per share to an employee of the Company.

The following table summarizes the options outstanding, option exercisability and the related prices for the shares of the Company's common stock issued to employees and consultants under the Plan at March 31, 2017:

Exercise Prices (\$)	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)	Number Exercisable	Weighted Average Exercise Price (\$)
\$ 0.25 - \$0.70	6,300,000	6.7	\$ 0.47	3,933,332	\$ 0.42

The stock option activity for the three months ended March 31, 2017 is as follows:

	Options Outstanding	Weighted Average Exercise Price
Outstanding at December 31, 2016	6,300,000	\$ 0.47
Granted	-	-
Exercised	-	-
Expired or canceled	-	-
Outstanding at March 31, 2017	6,300,000	\$ 0.47

Stock-based compensation expense related to vested options was \$339,136 during the three months ended March 31, 2017 which is a component of general and administrative expense in the statement of income. The Company determined the value of share-based compensation for options vesting during the period using the Black-Scholes fair value option-pricing model with the following weighted average assumptions: estimated fair value of Company's common stock of \$0.40-0.74, risk-free interest rate of 0.90-2.23%, volatility of 135-160%, expected lives of 3-10 years, and dividend yield of 0%. Stock options outstanding as of March 31, 2017, as disclosed in the above table, have an intrinsic value of \$928,500.

As of March 31, 2017, unrecognized compensation costs related to non-vested stock-based compensation arrangements were \$1,216,279, and is expected to be recognized over a weighted average period of 1.25 years.

Note 14 – Stock Warrants

The following table summarizes the warrants outstanding, warrant exercisability and the related prices for the shares of the Company's common stock at March 31, 2017:

Exercise Prices (\$)	Warrants Outstanding			Warrants Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)	Number Exercisable	Weighted Average Exercise Price (\$)
5.00	1,000,000	1.72	5.00	1,000,000	5.00

The warrant activity for the three months ended March 31, 2017 is as follows:

	Warrants Outstanding	Weighted Average Exercise Price
Outstanding at December 31, 2016	1,000,000	\$ 5
Granted	-	-
Exercised	-	-
Expired or canceled	-	-
Outstanding at March 31, 2017	1,000,000	\$ 5

Warrants outstanding as of March 31, 2017, as disclosed in the above table, have an intrinsic value of \$0.

Note 15 – Segments

Segment identification and selection is consistent with the management structure used by the Company's chief operating decision maker to evaluate performance and make decisions regarding resource allocation, as well as the materiality of financial results consistent with that structure. Based on the Company's management structure and method of internal reporting, the Company has one operating segment. The Company's chief operating decision maker does not review operating results on a disaggregated basis; rather, the chief operating decision maker reviews operating results on an aggregate basis.

Net sales attributed to customers in the United States and foreign countries for the three months ended March 31, 2017 and 2016 were as follows:

	March 31, 2017	March 31, 2016
United States	\$ 9,944,879	\$ 8,198,083
Foreign countries	843,440	69,668
	<u>\$ 10,788,319</u>	<u>\$ 8,267,751</u>

The Company's net sales by product group for the three months ended March 31, 2017 and 2016 were as follows:

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Nutraceuticals	\$ 9,546,446	\$ 7,865,915
Over the Counter (OTC)	503,675	377,063
Consumer Goods	731,548	-
Cosmeceuticals	6,650	24,773
	<u>\$ 10,788,319</u>	<u>\$ 8,267,751</u>

(1) Net sales for any other product group of similar products are less than 10% of consolidated net sales.

Long-lived assets (net) attributable to operations in the United States and foreign countries as of March 31, 2017 and December 31, 2016 were as follows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
United States	\$ 12,930,155	\$ 13,174,461
Foreign countries	18,105	21,599
	<u>\$ 12,948,260</u>	<u>\$ 13,196,060</u>

Note 16 – Income Taxes

Income tax expense was \$291,467 for the three months ended March 31, 2017, respectively, compared to \$183,905 for the same period in 2016. The current provision is attributable to Australian operations and the current tax rate in effect in that country. The Company also has operations in Canada that started at the beginning of 2016 and is currently evaluating its tax position as it pertains to the 2017 year end.

The total deferred tax asset is calculated by multiplying a domestic (US) 34% marginal tax rate by the cumulative net operating loss carryforwards (“NOL”). The Company currently has NOLs, which expire through 2035. Management has determined based on all the available information that a 100% valuation reserve is required.

For U.S. purposes, the Company has not completed its evaluation of NOL utilization limitations under Internal Revenue Code, as amended (the “Code”) Section 382, change of ownership rules. If the Company has had a change in ownership, the NOLs would be limited as to the amount that could be utilized each year, based on the Code.

Note 17 – Subsequent Events

Management evaluated all activities of the Company through the issuance date of the Company's unaudited condensed consolidated financial statements and concluded that no subsequent events except as disclosed below have occurred that would require adjustments or disclosure into the unaudited condensed consolidated financial statements.

The Company paid \$761,935 as consulting fees to a related party (officer) for services rendered in April 2017.

During April 2017, the Company paid \$378,125 in principal and accrued interest on the second loan (November 12, 2015) to Knight Therapeutics.

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

The following discussion and analysis of the results of operations and financial condition of Synergy for the three months ended March 31, 2017 and 2016, should be read in conjunction with the unaudited condensed consolidated financial statements of Synergy, and the notes to those unaudited condensed consolidated financial statements that are included elsewhere in this Form 10-Q. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the caption, "Cautionary Notice Regarding Forward-Looking Statements" and the "Business" section in our Form 10-K filed on March 24, 2017. We use words such as "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions to identify forward-looking statements.

Overview

The Company is in the business of marketing and distributing consumer branded products through various distribution channels primarily in the health and wellness industry. The Company's strategy is to grow both organically and by future acquisition.

Our management's discussion and analysis of our financial condition and results of operations are only based on our current business and should be read in conjunction with our condensed consolidated financial statements. Key factors affecting our results of operations include revenues, cost of revenues, operating expenses and income and taxation.

Non-GAAP Financial Measures

We currently focus on Adjusted EBITDA to evaluate our business relationships and our resulting operating performance and financial position. Adjusted EBITDA is defined as EBITDA (net income plus interest expense, income tax expense, depreciation and amortization), further adjusted to exclude certain non-cash expenses and other adjustments as set forth below. We present Adjusted EBITDA because we consider it an important measure of our performance and it is a meaningful financial metric in assessing our operating performance from period to period by excluding certain items that we believe are not representative of our core business, such as certain non-cash items and other adjustments.

We believe that Adjusted EBITDA, viewed in addition to, and not in lieu of, our reported results in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), provides useful information to investors.

	For the three months ended March 31, 2017
Net income	\$ 2,558,654
Interest income	(15)
Interest expense	247,364
Taxes	291,467
Depreciation	25,065
Amortization	311,294
EBITDA	\$ 3,433,829
Stock-based compensation	339,136
Loss on foreign currency translation and transaction	91,092
Adjusted EBITDA	\$ 3,864,057

EBITDA and Adjusted EBITDA are considered non-GAAP financial measures. EBITDA represents earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA, further adjusted to exclude the impact of higher-than-normal revenue change other activity and certain expenses and transactions that we believe are not representative of our core operating results, including gain on change in fair value of derivative liability; stock-based compensation; one-time expenses for acquisitions; and the gain on foreign currency translation and transaction. The Company's definitions of EBITDA and adjusted EBITDA might not be comparable to similarly titled measures reported by other companies.

Results of Operations for the Three months Ended March 31, 2017 and 2016

Revenue

For the three months ended March 31, 2017, we had revenue of \$10,788,319 from sales of our products, as compared to revenue of \$8,267,851 for the same period in 2016. The increase is due to a new company launch and a major customer expanding our store count and product line, and is comprised of the following categories:

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Nutraceuticals	\$ 9,546,446	\$ 7,865,915
Over the Counter (OTC)	503,675	377,063
Consumer Goods	731,548	-
Cosmeceuticals	6,650	24,773
	<u>\$ 10,788,319</u>	<u>\$ 8,267,851</u>

Cost of Revenue

For the three months ended March 31, 2017, our cost of revenue was \$2,502,530. Our cost of revenue for the three months ended March 31, 2016, was \$2,036,577. The increase is due to a new company launch and a major customer expanding our store count and product line and is comprised of the following categories:

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Nutraceuticals	\$ 2,416,913	\$ 2,062,935
Over the Counter (OTC)	20,033	(30,784)
Consumer Goods	65,021	-
Cosmeceuticals	563	4,426
	<u>\$ 2,502,530</u>	<u>\$ 2,036,577</u>

Gross Profit

Gross profit was \$8,285,789, or 77% for the three months ended March 31, 2017, as compared to gross profit of \$6,231,174, or 75% for the same period in 2016, an increase of \$2,054,615, or 33%. The increase in gross profit margin is directly related to increase in sales and better negotiated deals with manufacturers, utilizing volume purchasing to avail lower prices and purchasing finished goods instead of buying components.

Operating Expenses

Selling and Marketing Expenses

For the three months ended March 31, 2017, our selling and marketing expenses were \$2,897,197 as compared to \$1,447,676 for the same period in 2016, which is primarily due to marketing our various products in multiple media channels including print, television and online and the launch of our new product line.

General and Administrative Expenses

For the three months ended March 31, 2017, our general and administrative expenses were \$1,937,643. For the three months ended March 31, 2016, our general and administrative expenses were \$1,868,805. The increase is primarily due to increased personnel and operations as our company grew.

Depreciation and Amortization Expenses

For the three months ended March 31, 2017, our depreciation and amortization expenses were \$292,318 as compared to \$278,637 for the same period in 2016.

Other Income and Expenses

For the three months ended March 31, 2017 and 2016 we had other (income) and expense items of the following:

	<u>Three months ended March 31, 2017</u>	<u>Three months ended March 31, 2016</u>
Interest income	\$ (15)	\$ (3,924)
Interest expense	247,364	431,264
Remeasurement loss (gain) on translation of foreign subsidiary	14,243	(240,806)
Gain on change in fair value of derivative liability	-	(1,086,498)
Loss on sale of assets	2,877	-
Amortization of debt discount	-	475,600
Amortization of debt issuance cost	44,041	66,039
Total other expense (income)	\$ 308,510	\$ (358,325)

For the three months ended March 31, 2017, we had interest expense of \$247,364 as compared to \$431,264 for the same period in 2016. The decrease was due to the payoffs and pay downs of the loans. We also issued warrants along with the loans and paid debt issuance cost in 2015 which led to the amortization of debt discount and debt issuance costs. We issued warrants with a reset provision in 2015 which led to the calculation of warrant derivative liability and hence we recorded a gain on change in fair value of derivative liability of \$1,086,498. In 2016 we cancelled those warrants and issued shares.

Net Income

For the three months ended March 31, 2017, our net income was \$2,558,654 as compared to a net income of \$2,810,476 for the same period in 2016.

Liquidity and Capital Resources

Overview

As of March 31, 2017, we had \$1,714,988 cash on hand and a \$2,375,052 working capital deficit. In addition, we also had restricted cash of \$138,188 which is held for credit card collateral.

Going Concern

The Company's unaudited condensed consolidated financial statements are prepared using U.S. GAAP applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company had an accumulated deficit at March 31, 2017 of \$6,807,346. The Company had a working capital deficit of \$2,375,052 as of March 31, 2017. Due to acquisitions during 2015 of revenue-producing products, the Company believes it has established an ongoing source of revenue that is sufficient to cover its operating costs and has income from operations of \$3,158,631.

Management's plans to continue as a going concern include growing sales revenue on our existing brands, raising additional capital through borrowing and sales of common stock. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Three months ended March 31, 2017 and 2016

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months ended March 31, 2017 was \$1,676,330, compared to \$3,425,171 for the same period in 2016. This decrease in net cash provided by operating activities for the three months ended March 31, 2017 was primarily attributable to an increase in accounts receivable and a decrease in accounts payable.

The \$1,676,330 consists of our net income of \$2,558,654 increased by:

Amortization of debt issuance cost	\$	44,041
Depreciation and amortization		292,318
Stock based compensation		339,136
Loss on sale of assets		2,877
Non cash implied interest		23,194
Remeasurement loss on translation of foreign subsidiary		14,243
Foreign currency transaction loss		76,849
Increase in accounts receivable		(1,031,743)
Decrease in inventory		362,153
Decrease in prepaid expenses		16,119
Decrease in deferred revenue		(27,267)
Decrease in accounts payable and accrued expenses		(994,245)

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months ended March 31, 2017 was \$85,583, compared to net cash provided of \$386,021 for the same period in 2016. The increase in cash used in investing activities during 2017 is attributable to the increase in restricted cash.

Payments for acquisition of fixed assets	\$	(53,594)
Proceeds from sale of assets		6,199
Increase in restricted cash		(38,188)

Net Cash Used in Financing Activities

Net cash used in financing activities for the three months ended March 31, 2017 was \$2,387,500, compared to net cash used of \$3,689,000 for the same period in 2016. This is attributable to the repayment of notes.

Repayment of notes payable	\$	(2,387,500)
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Key 2017 Initiatives

During 2017, we have plans for organic growth within our current product lines by developing and launching new products. Our technology center in Halifax, Nova Scotia is in full operation providing

marketing services to all of our brands. We have new marketing campaigns in process and intend to expand our online presence for each product. While we intend to grow further through additional acquisitions, we feel it is important to also develop our existing products.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

None.

Off-Balance Sheet Arrangements

None.

Inflation

The effect of inflation on the Company's operating results was not significant.

Summary of Significant Accounting Policies

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reported periods. The more critical accounting estimates include estimates related to revenue recognition and accounts receivable allowances. We also have other key accounting policies, which involve the use of estimates, judgments and assumptions that are significant to understanding our results, which are described in Note 2 to our unaudited condensed consolidated financial statements appearing elsewhere in this report.

Recent Accounting Pronouncements

Note 2 to our unaudited condensed consolidated financial statements appearing elsewhere in this report includes Recent Accounting Pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, we are not required to provide the information required by this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer (principal executive officer), who is also our Chief Financial Officer (principal financial officer), reviewed the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report and concluded that as of March 31, 2017, (i) the Company's disclosure controls and procedures were not effective to ensure that material information relating to the Company is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the "Commission"), and (ii) the Company's controls and procedures have not been designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

The Company's management does not expect that its disclosure controls or its internal control over financial reporting, when and if effective, will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are

resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings, which arise, in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results.

ITEM 1A. RISK FACTORS

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
31.1	Section 302 Certification by the Corporation’s Chief Executive Officer *
31.2	Section 302 Certification by the Corporation’s Chief Financial Officer *
32.1	Section 906 Certification by the Corporation’s Chief Executive Officer *
32.2	Section 906 Certification by the Corporation’s Chief Financial Officer *
101.INS	XBRL Instance Document* **
101.SCH	XBRL Taxonomy Extension Schema Document* **
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document* **
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document* **
101.LAB	XBRL Taxonomy Extension Label Linkbase Document* **
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document* **

* Filed herewith

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Signatures

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

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jack Ross</u>	Chief Executive Officer and Chief Financial Officer	May 1, 2017

