

ALKAME HOLDINGS, INC.
Form 10-K
July 18, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended **December 31, 2015**

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

For the transition period from _____ to _____

Commission file number: **000-55267**

Alkame Holdings, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

98-0661455

(I.R.S. Employer Identification No.)

3651 Lindell Road

Suite D # 356

Las Vegas, Nevada

(Address of principal executive offices)

89103

(Zip Code)

Registrant's telephone number: **(702) 273-9714**

Securities registered under Section 12(b) of the Exchange Act

Edgar Filing: ALKAME HOLDINGS, INC. - Form 10-K

Title of each class **None** Name of each exchange on which registered **not applicable**

Securities registered under Section 12(g) of the Exchange Act:

Title of each class
Common Stock, par value \$0.001

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Edgar Filing: ALKAME HOLDINGS, INC. - Form 10-K

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 provide pursuant to Section 13(a) of the Exchange Act.

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

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrants most recently completed second fiscal quarter. **\$1,622,166**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: **5,500,000,000 common shares as of July 17, 2018.**

Table of Contents

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	8
Item 1B. <u>Unresolved Staff Comments</u>	14
Item 2. <u>Properties</u>	14
Item 3. <u>Legal Proceedings</u>	14
Item 4. <u>Mine Safety Disclosures</u>	14
 <u>PART II</u>	
Item 5. <u>Market for Registrant’s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	4
Item 6. <u>Selected Financial Data</u>	18
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
Item 8. <u>Financial Statements and Supplementary Data</u>	23
Item 9. <u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</u>	66
Item 9A. <u>Controls and Procedures</u>	66
Item 9B. <u>Other Information</u>	67
 <u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	67

Item 11. <u>Executive Compensation</u>	68
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	69
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	69
Item 14. <u>Principal Accountant Fees and Services</u>	70

PART IV

Item 15. <u>Exhibits, Financial Statement Schedules</u>	72
---	----

Table of Contents

PART I

Item 1. Business

Overview

Alkame Holdings, Inc. is a publicly traded health and wellness technology holding company, with a focus on patentable, innovative, and eco-friendly consumer products utilizing a patented unique water treatment technology. The Company's wholly-owned subsidiaries are diligently pursuing multiple applications to utilize its Intellectual Property by focusing our efforts on several emerging business sectors, such as the growing aqua-culture industry, consumer food & beverage products, household pet products, horticulture and agriculture, medical, health & beauty, as well as a number of water based applications to both new and existing business platforms. Our holding company can provide the infrastructure, protective umbrella and transparency of a publicly listed company to acquisition candidates through their incubation and provides the delivery mechanism for these alternative and innovative methods, products, and systems that will lead to healthier lifestyles and result in a more sustainable planet. Our principal executive offices are located at 3651 Lindell Road, Suite D # 356, Las Vegas, Nevada 89103, and our telephone number is (702) 273-9714.

On April 21, 2014, we entered into a Stock Purchase Definitive Agreement (the "Agreement") with Xtreme Technologies, Inc., an Idaho corporation ("Xtreme"). Pursuant to the terms of the Agreement, we agreed to acquire all of the issued and outstanding capital stock of Xtreme in exchange for certain consideration as set forth in the Agreement.

On January 16, 2015, the parties to the Agreement entered into an amendment (the "Amendment") that changed, among other things, the Closing Date of the transaction.

On April 15, 2015, the parties to the Agreement entered into a second amendment (the "Second Amendment") that changed, among other things, the 120-day time period to pay monetary consideration under the Agreement to 240 days after the Closing Date of the transaction.

In accordance with the terms of the Agreement, the Amendment and the Second Amendment, we agreed to purchase all of the outstanding shares of Xtreme for the purchase price of \$2,000,000, payable as follows:

- A cash payment of \$50,000 has been previously paid as a non-refundable deposit;
- The Closing Date is effective as of January 13, 2015;

- An additional cash payment of \$525,000 shall be paid within two hundred and forty (240) days of the Closing Date, which, along with the initial \$50,000 deposit, shall pay the obligations on Xtreme's balance sheet;
- The balance of \$1,425,000 shall be payable by the issuance of shares of the Company's Series C Preferred Stock to be divided *pro rata* among the Company's shareholders of record as of the Closing Date. The Series C Preferred Stock shall include an option to convert each share of Series C Preferred Stock into one share of the Company's Common Stock. The Series C Preferred Stock shall be held in escrow along with the issued and outstanding shares of Xtreme's capital stock pending the full payment of \$525,000. As of the date of this report, the balance of \$525,000 has been fully paid to Xtreme; and
- One of Xtreme's previous officers and directors holds outstanding options to purchase up to 1,009,000 shares of Xtreme's common stock at the price of \$0.10 per share. At the Closing Date, pursuant to Idaho law, Xtreme shall notify this previous officer and director of his 30-day right to exercise any or all of his remaining options. If he elects to exercise any of his options within such 30-day period, the Company agrees to issue additional shares of Series B Preferred Stock in exchange for such Xtreme shares. Xtreme notified the option holder and the 30-day period expired unanswered. The options expired unexercised.

The Amendment also requires that the Company guarantee the obligations on employment agreements for Xtreme's key employees, namely, Keith Fuqua, Timm Ott and Casey Henry. The employment agreements with Messrs. Fuqua, Ott and Henry have the terms set forth in the following table.

Table of Contents

<u>Employee</u>	<u>Position</u>	<u>Term</u>	<u>Compensation</u>	<u>Commission</u>	<u>Benefits</u>	<u>Severance</u>
Keith Fuqua	Operations Director	One year	\$70,000 annually and annual bonus	5% on gross sales made to Walmart	Benefit plans	6 months' severance for termination in certain instances; residual commissions for 1 year
Timm Ott	Sales and Marketing Director and Treasurer	One year	\$2,700 per month salary and annual bonus	\$1.00 per case of product sold	Benefit plans	6 months' severance for termination in certain instances
Casey Henry	Manufacturing Director	One year	\$4,350 per month and annual bonus	\$1.00 per case of product sold	Benefit plans	6 months' severance for termination in certain instances

In addition, after the Closing Date, Xtreme's current officers and directors, namely, Jeffery J. Crandall, John N. Marcheso and Michael J. Bibin, shall continue to serve in that capacity until the \$525,000 is paid in full. Our President and CEO, Robert K. Eakle and two (2) additional representatives of our company shall be appointed as directors of Xtreme and shall serve together with the other directors until the \$525,000 is paid in full. In addition, Mr. Eakle shall be named as President and Chief Executive Officer of Xtreme. Until the \$525,000 is paid in full, the officers and directors of Xtreme shall not make any material change in the company's business and operations without unanimous consent of the directors. By January 2017, the \$525,000 was fully paid and the appointments of Mr. Eakle and the other two representatives as interim officers and directors became permanent. Prior to completion of the payment of \$525,000 in full to Xtreme, all former officers and directors of Xtreme had resigned and full control of Xtreme was be tendered to us. Given that certain representations were accurate, Jeffery J. Crandall, John N. Marcheso and Michael J. Bibin were released by us and Xtreme from any liability as officers and directors of Xtreme for their fiduciary obligations occurring prior to the Closing Date.

We previously held a three-year limited exclusive distribution agreement with Xtreme for the consumer market. We were permitted to distribute the technologically enhanced bottled water in the consumer market in the United States, Canada and Mexico. As a result of the Agreement, Amendment, and Second Amendment, Xtreme became our wholly-owned subsidiary and we acquired the patents on the proprietary process that we believe is the most technologically advanced in water treatment systems for complete hydration. We will now assume the operations of Xtreme and continue its business of distributing technologically enhanced bottled water.

Upon closing of the acquisition, we discovered that Xtreme was operating at a loss for the prior year and that it required a substantial cash infusion. We began a program of upgrading the production line, reorganized personnel, and began an effort to increase sales of the division so that it would return to profitability as quickly as possible. However, as 2015 progressed, it became obvious that changes in contracts negotiated prior to our acquisition were no longer profitable and we terminated the agreements with those customers. In mid-2017, the Company determined that

Xtreme was no longer an asset as an operating company and closed the facility and moved the operations to a new location in the state of Oregon.

Our primary objective now is to introduce, promote, aggressively market and establish channels of distribution to sell a variety of products to a wide range of consumers and business sectors, first in the United States, Canada and Mexico, and then globally. In addition, the Company is moving in the direction of bottling or “co-packing”. To that end, the Company, in 2017 moved to Oregon and started another subsidiary for the production of “hot pack” foods and beverages, and moved its water line to the same location from which it now operates.

We believe that holding the patents will enable us to enhance our position in the investment community, allow us to expand our reach in the distribution of products, and provide us access to other applications the water treatment technology can provide.

Table of Contents

Our Water Product

The public is becoming more aware of the benefits of a “living water”. The mild alkalinity of Alkame is recommended by numerous athletes and doctors because it’s formulated for more effective hydration by supporting an optimal pH balanced water. Alkame water is produced with a patented technology and patented formula that alters the structure of water, producing a combination of unique characteristics.

Today our water is pumped from wells that tap into the Columbia aquifer, the located in the heart of the Willamette Valley in Oregon. Our water is not treated with chlorine, fluorides, or any other harmful contaminants. This source water is then run through up to 14 different filters, reverse osmosis, and UV to remove any particulates and harmful contaminants, rendering a pure, clean, healthier water which can then be used as a base for multiple applications. We believe our water advances beyond other brands once we introduce the technology, which includes manipulation of the pH levels, structure size, ionization, as well as an increased bioavailable oxygen content. This proprietary system creates this unique micro-clustered alkaline water, providing additional benefits.

Alkame Water, our flagship brand and water product, was developed as a vehicle to get the word out about the technology, and that it can be applied across a diverse and wide-ranging spectrum of businesses and water-based applications. Alkame Water started with 3 phases of initial bottled water products and has currently completed 2 of these 3 Phases. 1 was to develop the initial move into the consumer market consisting half liter and one-liter bottles. Phase 2 was the development of new packaging configurations and an increased offering with a full range of sizes to boost the cross marketability, co-branding, and private label options for our products. In phase 2 we rounded out our product lines to now consist of 16.9oz, 20oz, 33.8oz, 50.7oz, 128oz, 135.25oz configurations. Phase 3 has been updated and corrected to reflect the true direction of this unique water brand, how it can be applied to a larger multitude of products and various business sectors. Today we are focused on the development and expansion of its utilization in multiple products through co-packing and private label business, as well as expanding the distribution footprint of the Alkame brand.

The Benefits of the Technology

The Alkame Technology has proven benefits that go way beyond just being “wet”, which is why we trademarked the tagline “The Ultimate Health & Wellness Water”. Our advanced hydration technology is advancing us into other market segments outside of the bottled water consumer markets. Our system will process, clean, and reduce water, lower its TDS (total dissolved solids), increase its pH, provide antioxidant protection, and increase the amount of bio-available oxygen. We believe Alkame is the only product of its kind and stands completely apart from other “waters”.

Alkame Water has an elevated level of dissolved oxygen and lower oxidation reduction potential (ORP) due to passage through an electrolytic cell and has a level of dissolved oxygen additionally elevated due to passage through a sparging unit comprising of 1) dissolved oxygen within the range of 20 to 60 parts per million and 2) an ORP between +100 to -350mV (micro-clustered), and a pH level averaging 8 to 8.5pH (alkaline).

The Alkame Technology helps support an optimum pH balance and reduce the negative impact of acid in the body, provide antioxidant protection from this energy-robbing oxidative damage, and effectively maximize blood oxygen levels with an efficient delivery mechanism to every part of your body allowing for a more complete hydration, especially when that is coupled with electrolyte and other form of enhancements. Maximized blood oxygen levels mean improved metabolic efficiency, which translates into more energy and improved vitality. If you wish to overcome fatigue and boost energy, it is essential that you achieve and maintain optimal hydration. By maximizing your blood oxygen saturation, and an alkaline pH, and antioxidant support, you can improve digestion, metabolic function, immune response, and healing. Supporting an efficient metabolism will help you maintain the level of

energy and vitality desired. When free radicals become too numerous they become very destructive, damaging cells and tissues of muscles and vital organs. If your body's processes are impaired, the first place you start to feel the effects is in your vitality and energy levels. Alkame is a powerful source, which boosts the immune system, improves aerobic capacity, is good for overall health, and enhances energy and overall vitality.

Today, this technology is being applied to multiple companies across a diverse spectrum of applications in the consumer market segment. To continue our cross-marketing efforts, there has been a wide array of products being released into the market by our manufacturing subsidiaries, co-branded with a "Powered by Alkame Technology" icon. This has helped us both further our reach, as well as enable more people to enjoy the benefits of our technology.

Table of Contents

The Market

With the massive influx of new eco-friendly products, consumers are going green, both externally as well as internally. The well-being generation and beyond has become increasingly aware of what they are consuming, and this new technology for water treatment is quite the prized possession for those looking to optimize their health. Our ability to incorporate other elements from electrolytes to supplements including hemp is where we believe we'll see the expansion over the next few years. We expect Alkame to be a significantly improved delivery mechanism due to its micro-clustered structure. The market for these types of products are gaining traction and becoming synonymous with good health and proper hydration, and we intend to be the first household technology name for superior products utilizing this type of water treatment technology.

The market for this technology is expansive since there are so many products and businesses that utilize water and water treatment technology in one form or another. We have driven into the human and household pet sectors, with brands we created, co-branded products, and private label business. The hemp space is huge, and we are one of the top production houses for manufacturing these types of products. We delved into the aquaculture market with a lot of scientific research on the efficacy of this application, which looks very promising. We recently received our aquaculture license from the state of Oregon and are looking to have a small active fish farm to be utilized as a proof of concept to show large format producers for the scalability of the technology and its introduction into the aquaculture sector. We are now exploring medical applications which are also looking very promising.

As of 2017 we began to make some very strategic moves behind the scenes to position ourselves as the wheel house and primary incubator for both new and emerging product and brand development. Our move to Oregon, and the added influx of capabilities and options, are really the driving factor in the success we are seeing now. As the manufacturer, our ability to create brands and products for both ourselves and others really creates an almost limitless amount of opportunities in a multitude of markets and sectors. We are seeing expansion on all fronts because of this strong move towards expanding the production capabilities. Our ability to get hemp-based products through both the state process authorities as well as the FDA makes us a force to be reckoned with in today's markets.

Competition and Feasibility

The Company competes on the basis of product quality and customer service. The Company believes that the products' Alkaline, Antioxidant and Oxygenated features, along with its superior taste, and attractive packaging options are significant factors in maintaining the Company's competitive position. We believe we have a superior product with more features and sell on the benefits and functions, not the price. We believe our ability to incorporate additional supplemental materials using this water as the base can provide a more efficient delivery mechanism, has enabled us to exploit this technology by offering it to others to be utilized in their products. Co-branding with the "Powered by Alkame Technology" enables us to continue to utilize all of these products as vehicles to get the word out about the technology, and not solely on our brand alone. Since we have repositioned ourselves as the production house, the competition dynamic changes dramatically in our favor.

Experiments on the Technology

The technology for alkaline bottled water has undergone separate double-blind placebo, peer backed research. One was with HIV patients and the other was on Exercise Tolerance. The feasibility of the product is clearly evident, and we believe there is no major competition to date.

Based on the study with HIV patients undergoing antiretroviral therapy have concluded that drinking sufficient quantities of Alkame improves important parameters of health in individuals infected with HIV. Drinking Alkame

provides a significant boost to the immune system as shown by an increase in CD4 T cells (which are the primary targets of HIV and are crucial for immune defense against infections) and a decrease in the total virus load of HIV patients.

Based on the Exercise Tolerance study, the amount and the type of water consumed during rehab revealed a difference in the patient's aerobic endurance. We found that drinking one liter of electrolyzed alkaline water is more beneficial than drinking three liters of plain water, which is great news for chronic obstructive pulmonary disease patients with congestive heart failure. In light of our study, Kern Rehab henceforth furnishes one liter of electrolyzed alkaline water for each patient participating in our comprehensive outpatient pulmonary rehab facility. The reason being, 3 liters of plain water per day exhibited 12.4% MET improvement in the exercise and fitness level per 6-minute walk /12-week program, whereas, 1-liter of electrolyzed alkaline water exhibited 17.8% MET improvement.

Table of Contents

Effects of Alkame Water on blood lactate following exercise in a recent double-blind study conducted by Athletic Lab in North Carolina, under the supervision of Mike Young provided scientific evidence that Alkame Water will lower lactic acid accumulation during repetitive sprints/ interval training. Blood lactate was taken before and after the conclusion of the sprints using a Lactate Plus monitor from Nova Biomedical under a standardized warm up and exercise protocol. Results of the T-tests showed that hydrating your workout with Alkame water lowers maximum exercise heart rate and lactic acid accumulation during repetitive sprints/ interval training. Less fatigue, quicker recovery between intervals and less soreness after your workouts means you'll be training hard, longer while staying hydrated.

Outside of the effects on consumers, the company also tested the water treatment technology in aquaculture fish farming by studying its effects on Tilapia specifically. The major advantage of Alkame technology is that it can completely or partially destroy organics in water by converting them into various harmless intermediates and end products. Alkame's advanced system and design ensures that high concentrations of dissolved oxidants are released to the water when circulated across the cells, reducing Nitrites by 50 %. Clarity and solids were also substantially reduced from 4 inches to over 20 inches after oxidation within 48 hours. Tannins and Lignin's from feed leaching were removed with the Alkame process along with organic solids creating clearer and healthier water conditions. These factors could substantially reduce the size and costs of bio-filtration design for intensive recirculation systems. Our studies show that the Alkame Technology aids in the overall health of the water, which in turn creates a healthier environment to raise the fish. The Tilapia benefit by lowering the mortality rate (less than 2% mortality), accelerating growth (1 gram to about 38 to 50 grams in less than 60 days), and by reducing the size and cost to the bottom line of bio-filtration efficiency. Producing a cleaner healthier water for the Tilapia is a game changer for Aquaculture systems, and the industry worldwide.

Sales and Marketing

Originally, our primary focus was on exposing the product and building brand name recognition and technology awareness through Alkame's utilization of celebrity and athletic ambassadors, cross-marketing and co-branding, and via sponsorships of key existing and potential clients (mostly in the health & wellness fields and athletic markets). A special and unique emphasis is placed on action sports to build on its cool factor. Although these techniques did not directly translate into sales and distribution, the utilization of mass media and celebrity endorsement provided our sales teams with the most essential marketing and sales tools and support needed to move product to distributors, as well as drive it through three main channels of on premise, off-premise, and special events.

Advertising, public relations and promotions are the life blood of any company and by far one of our strongest attributes. As we developed new product lines, the icons associated with our new products and brand trademarks was used consistently and accurately to achieve the goal we set. How we visually communicated our product to the world, the market, and our potential clients was an integral part of the success we are seeing now. Consistent usage of style and identity gave the world an impression that can be easily remembered through these various media and materials such as product placement, endorsements, sponsorships, advertorials and editorials, advertisements, marketing collateral, signage, the web, etc. Current trends and new marketing techniques utilizing out of the box thinking, and targeted promotional strategies to increase publicity and public relations awareness has been an essential tool for us, along with the high level of service we use in marketing our products and services to our customers. The combined concentration of expertise and experience of the Alkame team is the key to giving us a real shot at being able to compete with the biggest players in the industry. The other key component, and by far the most invaluable to our success, is our customers. With the rapidly growing awareness of health and longevity, Alkame is a perfect fit.

Governmental Regulation

The Federal Food and Drug Administration (FDA) regulates bottled water as a “food.” Accordingly, our bottled water must meet and we do meet FDA requirements of safety for human consumption, of processing and distribution under sanitary conditions and of production in accordance with the FDA “good manufacturing practices.” To assure the safety of bottled water, the FDA has established quality standards that address the substances that may be present in water which may be harmful to human health as well as substances that affect the smell, color and taste of water. These quality standards also require public notification whenever the microbiological, physical, chemical or radiological quality of bottled water falls below standard. The labels affixed to bottles and other packaging of the water is subject to FDA restrictions on health and nutritional claims for foods under the Fair Packaging and Labeling Act. In addition, all drinking water must meet Environmental Protection Agency standards established under the Safe Drinking Water Act for mineral and chemical concentration and drinking water quality and treatment that are enforced by the FDA.

We are subject to the food labeling regulations required by the Nutritional Labeling and Education Act of 1990. We believe we are in compliance with these regulations.

Table of Contents

We are subject to periodic, unannounced inspections by the FDA. Upon inspection, we must be in compliance with all aspects of the quality standards and good manufacturing practices for bottled water, the Fair Packaging and Labeling Act, and all other applicable regulations that are incorporated in the FDA quality standards. We believe that we meet the current regulations of the FDA. All of our plants and distribution locations are registered with the FDA under the "Public Health Security and Bioterrorism Preparedness and Response Act of 2002". Most recently, the FDA put into effect the Bottled Water Microbial Rule to monitor water sources for E. coli bacteria. We have been in compliance with the testing requirements for this rule prior to and since its inception in December 2009.

We also must meet state regulations in a variety of areas to comply with purity, safety, and labeling standards. From time to time, our facilities and sources are inspected by various state departments and authorities.

Our product labels are subject to state regulation (in addition to federal requirements) in each state where the water products are sold. These regulations set standards for the information that must be provided and the basis on which any therapeutic claims for water may be made.

In recent years, there has been an increasing amount of proposed legislative and executive action in state and local governments that would ban the use of bottled water in municipal buildings, enact local taxes on bottled water, and limit the sale by municipalities of water supplies to private companies for resale. Such regulation could adversely affect our business and financial results. For additional information, see "Risk Factors" below.

The laws that regulate our activities and properties are subject to change. As a result, there can be no assurance that additional or more stringent requirements will not be imposed on our operations in the future. Although we believe that our water supply, products and bottling facilities are in substantial compliance with all applicable governmental regulations, failure to comply with such laws and regulations could have a material adverse effect on our business.

Other Applications

We are exploring other uses of our water so that we can diversify our portfolio of products to include other specialty uses outside of the bottled water and health water markets.

Employees

We currently are working with various independent consultants and sales representatives, with a total infrastructure of approximately 25 people.

Item 1A. Risk Factors

The following are certain identifiable risk factors for our business operations.

Because our auditor has issued a going concern opinion regarding our company, there is an increased risk associated with an investment in our company.

We have earned nominal revenue since our inception, which makes it difficult to evaluate whether we will operate profitably. We have an accumulated deficit of \$12,978,256 and have incurred a net loss of \$4,506,906 for the year ended December 31, 2015. We have not attained profitable operations and are dependent upon obtaining financing or generating revenue from operations to continue operations for the next twelve months. As of December 31, 2015, we

had -\$0- cash on hand, which is insufficient for operations during the next 12 months. Our future is dependent upon our ability to obtain financing or upon future profitable operations. We reserve the right to seek additional funds through private placements of our common stock and/or through debt financing. Our ability to raise additional financing is unknown. We do not have any formal commitments or arrangements for the advancement or loan of funds. For these reasons, our auditors stated in their report that they have substantial doubt we will be able to continue as a going concern. As a result, there is an increased risk that you could lose the entire amount of your investment in our company.

We have substantial indebtedness. The amount of our outstanding indebtedness continues to increase and our ability to make payments towards such indebtedness could have adverse consequences on future operations.

Our outstanding indebtedness at December 31, 2015 was \$3,522,398, which was comprised of a variety of short-term and long-term borrowings; convertible debentures; accounts payable; accrued expenses and interest; and related party loans. The level of indebtedness we have affects our operations in a number of ways. We will need to use a portion of our cash flow to pay principal and interest and meet payables commitments, which will reduce the amount of funds we will have available to finance our operations. This lack of funds could limit our flexibility in planning for or reacting to changes in our business and the industry in which we operate and could limit our ability to make funds available for other purposes, such as inventory purchases, payroll, development or acquisition activities. Our ability to meet our debt service obligations and reduce our total indebtedness will depend upon our future performance. Our future performance, in turn, is dependent upon many factors that are beyond our control such as general economic, financial and business conditions. We cannot guarantee that our future performance will not be adversely affected by such economic conditions and financial, business and other factors.

Table of Contents

Our failure to raise additional capital or generate cash flows necessary to expand our operations could reduce our ability to compete successfully and adversely affect our results of operations.

We may need to raise additional funds to achieve our future strategic objectives, and we may not be able to obtain additional debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our security holders may experience significant dilution of their ownership interests and the value of shares of our common stock could decline. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness, force us to maintain specified liquidity or other ratios or restrict our ability to pay dividends or make acquisitions. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop and enhance our existing products and services;
- continue to expand our operations;
- hire, train and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

Our inability to do any of the foregoing could reduce our ability to compete successfully and adversely affect our results of operations.

Because we have a limited operating history related to our current business strategy, we are subject to the risks of failure associated with any new business ventures.

We have a limited operating history related to our current business strategy on which potential investors can assess our performance and prospects. Potential investors should be aware that there is a substantial risk of failure associated with any new business strategy as a result of problems encountered in connection with their commencement of new operations. These include, but are not limited to, the entry of new competition, unknown or unexpected additional costs, and expenses that may exceed estimates.

Our failure to maintain adequate internal controls over our financial and management systems have caused errors in our financial reporting. These errors may cause a loss of investor confidence and result in a decline in the price of our common stock.

On December 11, 2013, we, in consultation with our independent registered public accounting firm, concluded that our unaudited financial statements for the period ended June 30, 2013, filed in a quarterly report on Form 10-Q with the Securities and Exchange Commission on August 19, 2013 contained material misstatements. The financial statements contained material misstatements pertaining to the accounting treatment with respect to the recording of common shares issued by us.

These misstatements were caused by material weaknesses in our internal controls. A material weakness is a significant deficiency, or a combination of significant deficiencies, in internal control over financial reporting such that it is reasonably possible that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Our public company reporting obligations and our anticipated growth will likely continue to strain our financial and management systems, internal controls and our employees. In addition, pursuant to Section 404 of SOX, and the Jumpstart Our Business Startups Act, or JOBS Act, we are required to provide annually an assessment of the effectiveness of our internal controls over financial reporting and, starting with the year after we are no longer an “emerging growth company” as defined in the JOBS Act, our independent registered public accounting firm will be required to provide an attestation on our assessment of our internal controls over financial reporting.

The process required to comply with Section 404 of SOX is time consuming and costly. If during this process we identify one or more material weaknesses in our internal controls, it is possible that our management may not be able to certify that our internal controls are effective by the certification deadline.

Moreover, if we identify any material weaknesses or significant deficiencies in our internal controls we will have to implement appropriate changes to these controls, which may require specific compliance training for our directors, officers and employees, require the hiring of additional finance, accounting, legal and other personnel, entail substantial costs to modify our existing accounting systems and take a significant period of time to complete. Such changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. Effective internal controls are necessary for us to produce reliable financial reports and are important to prevent fraud. As a result, our failure to satisfy the requirements of Section 404 on a timely basis could result in us being subject to regulatory action and a loss of investor confidence in the reliability of our financial statements, both of which in turn could cause the market value of our common stock to decline.

Table of Contents

Because we have a claimant that believe he is entitled to millions of shares in our company, our shareholders may be subject to significant dilution.

In May 2014, we received notice that a complaint was filed in District Court, Clark County, NV alleging that our company and various unnamed defendants are liable to a Mr. Renard Wiggins with regard to commissions and equity purportedly owed Mr. Wiggins, for services allegedly rendered in raising capital on our behalf prior to the reverse merger between Pinnacle Enterprises Inc. (now Alkame Holdings, Inc.) and Alkame Water, Inc. in September 2013. After initial review, we have filed for a dismissal of the case with the District Court, do not believe there is any validity to the claims of Mr. Wiggins, and intend to vigorously continue defending against these claims. To date, all but two claims have been dismissed, and we are in court mandated settlement talks to determine if the remaining counts can be dismissed or will require further litigation. On November 15, 2016, the Company entered into a stipulated settlement agreement to issue 200,000,000 common shares in full and final settlement of this matter and all legal complaints are withdrawn. In June 2018, the Company issued 92,780,388 shares of the agreed upon settlement.

We depend upon maintaining the integrity of our water sources and manufacturing process. If our water sources or bottling processes were contaminated for any reason, our business would be seriously harmed.

Our ability to retain customers and the goodwill associated with our brands is dependent upon our ability to maintain the integrity of our water resources and to guard against defects in, or tampering with, our manufacturing process. The loss of integrity in our water sources or manufacturing process could lead to product recalls and/or customer illnesses that could materially adversely affect our goodwill, market share and revenues. Because we rely upon natural spring sites for sourcing some of our water supply, acts of God, such as earthquakes, could alter the geologic formation of the spring sites, constricting or even contaminating water flow.

Because our business is dependent upon the performance of key employees, the loss of those employees would materially impact our business.

Our business is dependent upon the performance of certain key employees. Competition for these individuals is intense and many of our key employees are at-will employees who are under no legal obligation to remain with us. Our competitors may choose to extend offers to any of these individuals on terms which we may be unwilling to meet. In addition, any or all of our key employees may decide to leave for a variety of personal or other reasons beyond our control.

Also, our business depends upon the continued efforts, abilities and expertise of our officer and director, Robert Eakle. We believe that the unique combination of skills and experience he possesses would be difficult to replace, and his loss could have a material adverse effect on us, including impairing our ability to execute our business strategy. We have a one-year written employment agreement with Mr. Eakle. This furthers the risk that we will not be able to secure his services on a long-term basis. If we lose the services of Mr. Eakle our business will suffer.

We face competition from companies with far greater resources than we have. In addition, methods of competition in the distribution of home and office refreshment products continue to change and evolve. If we are unable to meet these changes, our business could be harmed.

We operate in highly competitive markets. The principal methods of competition in the markets in which we compete are distribution capabilities, brand recognition, quality, reputation, and price. We have a significant number of competitors in our traditional water market, some of which have far greater resources than us. Among our principal competitors are Nestlé Waters North America, large regional brands owned by private groups, and local competitors in the markets that we serve. Price reductions and the introduction of new products by our competitors can adversely affect our revenues, gross margins, and profits.

The bottled water industry is regulated at both the state and federal level. If we are unable to continue to comply with applicable regulations and standards in any jurisdiction, we might not be able to sell our products in that jurisdiction, and our business could be seriously harmed.

The FDA regulates bottled water as a food. Our bottled water must meet FDA requirements of safety for human consumption, labeling, processing and distribution under sanitary conditions and production in accordance with FDA “good manufacturing practices.” In addition, all drinking water must meet Environmental Protection Agency standards established under the Safe Drinking Water Act for mineral and chemical concentration and drinking water quality and treatment, which are enforced by the FDA. We also must meet state regulations in a variety of areas. These regulations set standards for approved water sources and the information that must be provided and the basis on which any therapeutic claims for water may be made. We have received approval for our drinking water in Idaho and Nevada. However, we can give no assurance that we will receive such approvals in the future.

Table of Contents

Changes in laws and regulations relating to beverage containers and packaging could increase our costs and reduce demand for our products.

We intend to offer non-refillable, recyclable containers in the United States. Legal requirements have been enacted in various jurisdictions in the United States and overseas requiring that deposits or certain ecotaxes or fees be charged for the sale, marketing and use of certain non-refillable beverage containers. Other proposals relating to beverage container deposits, recycling, ecotax and/or product stewardship have been introduced in various jurisdictions in the United States and overseas, and we anticipate that similar legislation or regulations may be proposed in the future at local, state and federal levels, both in the United States and elsewhere. Consumers' increased concerns and changing attitudes about solid waste streams and environmental responsibility and related publicity could result in the adoption of such legislation or regulations. If these types of requirements are adopted and implemented on a large scale in any of the markets in which we operate, they could affect our costs or require changes in our distribution model, which could negatively impact our financial condition. In addition, container-deposit laws, or regulations that impose additional burdens on retailers, could cause a shift away from our products to retailer-proprietary brands, which could impact the demand for our products in the affected markets. Fluctuations in the cost of essential raw materials and commodities, including fuel costs, for the manufacture and delivery of our products could significantly impact our business.

Bottle manufacturers use plastic and other petroleum-based products for the manufacturing of our bottles. Increases in the cost of petroleum will likely have an impact on our bottle costs.

We rely on trucking to receive raw materials and transport and deliver our finished products. Consequently, the price of fuel significantly impacts the cost of our products. Limitations on the supply or availability of fuel could inhibit our ability to get raw materials and distribute our products, which in turn could have an adverse effect on our business.

If we are unable to succeed in marketing, making sales and increasing our customer base to support our business operations, we will be unable to achieve profitable operations, and our business may fail.

If we are unable to succeed in marketing, making sales and expanding our customer base to support our business operations, any adverse change by any of our larger volume customers could be detrimental to our profitability. Numerous factors beyond our control may affect the marketability of the products offered. These factors include, but are not limited to, consumer demand and emerging competition. The exact effect of these factors cannot be accurately predicted, but it is possible they may result in our not receiving an adequate return on our invested capital.

Because we are dependent on third parties, should those services be interrupted or become more costly, we may experience a material adverse effect on the acceptance of our brand and on our business, financial condition, and operating results.

There is risk of change in the types of products being manufactured, and our ability to acquire the best products from our suppliers. Because we are dependent on third parties, especially product manufacturers and distributors, we face potential losses if any of these products are interrupted or become more costly. Additionally, any failure on the part of these partners, upon whom we may rely to supply us with products and services, will reflect poorly upon our brand,

and therefore result in reduced revenue.

If we are unable to successfully manage growth, our operations could be adversely affected.

Our progress is expected to require the full utilization of our management, financial and other resources, which to date has occurred with limited working capital. Our ability to manage growth effectively will depend on our ability to improve and expand operations, including our financial and management information systems, and to recruit, train and manage sales personnel. There can be no absolute assurance that management will be able to manage growth effectively.

If we do not properly manage the growth of our business, we may experience significant strains on our management and operations and disruptions in our business. Various risks arise when companies and industries grow quickly. If our business or industry grows too quickly, our ability to meet customer demand in a timely and efficient manner could be challenged. We may also experience development delays as we seek to meet increased demand for our products. Our failure to properly manage the growth that we or our industry might experience could negatively impact our ability to execute on our operating plan and, accordingly, could have an adverse impact on our business, our cash flow and results of operations, and our reputation with our current or potential customers.

Table of Contents

If our products are found to cause injury, have defects, or fail to meet industry standards, we will incur substantial litigation, judgment, product liability, and product recall costs, which will increase our losses and negatively affect our brand name reputation and product sales.

Defects may be found in our products. Any such defects could cause us to incur significant return and exchange costs, re-engineering costs, divert the attention of our engineering personnel from product development efforts, and cause significant customer relations and business reputation problems. Any such defects could force us to undertake a product recall program, which could cause us to incur significant expenses and could harm our reputation and that of our products. If we deliver products with defects, our credibility and the market acceptance and sales of our products could be harmed.

Moreover, we may be subject to liability for any accidents or injury that may occur in connection with the use of our products. We believe we are adequately insured in the event such claims are brought. If we are unable to obtain such insurance, product liability claims could adversely affect our brand name reputation, revenues and ultimately lead to losses. The occurrence of any claims, judgments, or product recalls will negatively affect our brand name image and product sales, as well as lead to additional costs.

Our commercial success depends significantly on our ability to develop and commercialize our potential products without infringing the intellectual property rights of third parties.

Our commercial success will depend, in part, on operating our business without infringing the patents or proprietary rights of third parties. Third parties that believe we are infringing on their rights could bring actions against us claiming damages and seeking to enjoin the development, marketing and distribution of our products. If we become involved in any litigation, it could consume a substantial portion of our resources, regardless of the outcome of the litigation. If any of these actions are successful, we could be required to pay damages and/or to obtain a license to continue to develop or market our products, in which case we may be required to pay substantial royalties. However, any such license may not be available on terms acceptable to us or at all. Ultimately, we could be prevented from commercializing a product or forced to cease some aspect of our business operations as a result of patent infringement claims, which would harm our business.

Because the industry is dependent upon general economic conditions and uncertainties, future developments could result in a material adverse effect on our business.

US trade & industry is subject to economic changes and periodical fluctuations. Prolonged declines in the economy and/or a recession could have a material adverse effect on our business. The national economy is affected by numerous factors and conditions, all of which are beyond our control, including (a) Interest rates; (b) Inflation; (c) Employment levels; (d) Changes in disposable income; (e) Financing availability; (f) Federal and state income tax policies; and (g) Consumer confidence.

Because our articles of incorporation and bylaws and Nevada law limit the liability of our officers, directors, and others, shareholders may have no recourse for acts performed in good faith.

Under our articles of incorporation, bylaws and Nevada law, each of our officers, directors, employees, attorneys, accountants and agents are not liable to us or the shareholders for any acts they perform in good faith, or for any non-action or failure to act, except for acts of fraud, willful misconduct or gross negligence. Our articles and bylaws provide that we will indemnify each of our officers, directors, employees, attorneys, accountants and agents from any claim, loss, cost, damage liability and expense by reason of any act undertaken or omitted to be undertaken by them, unless the act performed or omitted to be performed constitutes fraud, willful misconduct or gross negligence.

New legislation, including the Sarbanes-Oxley Act of 2002, may make it more difficult for us to retain or attract officers and directors.

The Sarbanes-Oxley Act of 2002 was enacted in response to public concerns regarding corporate accountability in connection with recent accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Securities Exchange Act of 1934. As a public company, we are required to comply with the Sarbanes-Oxley Act. The enactment of the Sarbanes-Oxley Act of 2002 has resulted in a series of rules and regulations by the SEC that increase responsibilities and liabilities of directors and executive officers. The perceived increased personal risk associated with these recent changes may deter qualified individuals from accepting these roles. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. We continue to evaluate and monitor developments with respect to these rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

Table of Contents

There is currently a limited public market for our common stock. Failure to develop or maintain a trading market could negatively affect its value and make it difficult or impossible for you to sell your shares.

There has been a limited public market for our common stock and an active public market for our common stock may not develop. Failure to develop or maintain an active trading market could make it difficult for you to sell your shares or recover any part of your investment in us should you decide to convert all or some of your investment. Even if a market for our common stock does develop, the market price of our common stock may be highly volatile. In addition to the uncertainties relating to future operating performance and the profitability of operations, factors such as variations in interim financial results or various, as yet unpredictable, factors, many of which are beyond our control, may have a negative effect on the market price of our common stock.

Because the payment of dividends is at the discretion of the Board of Directors, investors may not realize cash dividends at the frequency or in the amounts they anticipate.

We have never declared or paid any cash dividends on our Common Stock. Our payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including but not limited to our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. Distributions to our stockholders are subordinate to the payment of our debts and obligations. If we have insufficient funds to pay our debts and obligations, distributions to stockholders will be suspended pending the payment of such debts and obligations. Accordingly, investors must rely on sales of their own Common Stock after price appreciation, which may never occur, as the only way to recover their initial investment.

We are an “emerging growth company” and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced financial disclosure obligations, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and any golden parachute payments not previously approved. We may take advantage of these provisions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company upon the earliest to occur of: the last day of the fiscal year in which we have more than \$1.0 billion in annual revenue; the date we qualify as a large accelerated filer, with at least \$700 million of equity securities held by non-affiliates; the issuance, in any three-year period, by us of more than \$1.0 billion in non-convertible debt securities; and the last day of the fiscal year

ending after the fifth anniversary of our initial public offering. We may choose to take advantage of some but not all of these reduced reporting burdens. If we take advantage of any of these reduced reporting burdens in future filings, the information that we provide our security holders may be different than you might get from other public companies in which you hold equity interests. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Rules of the Securities and Exchange Commission concerning low priced securities may limit the ability of shareholders to sell their shares

Our common stock is subject to Rule 15c-9 of the Securities and Exchange Commission which regulates broker/dealer practices in connection with transactions in "penny stocks". Penny stocks generally are equity securities with a price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in that security are provided by the exchange or system. The penny stock rules require a broker/dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document prepared by the Commission that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker/dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker/dealer and its salesperson in the transaction, and if the broker/dealer is the sole market-maker, the broker/dealer must disclose this fact and the broker/dealers presumed control over the market. This information must be provided to the customer orally or in writing before or with the written confirmation of trade sent to the customer. The bid and offer quotations, and the broker/dealer and its salesperson compensation information, must be given to the customer in writing before or with the customer's confirmation. The broker/dealer must make a special suitability determination for purchasers of the securities and receive the purchaser's written agreement to the transaction prior to sale. Monthly statements must be sent by the broker/dealer to the customer disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. These disclosure requirements may reduce the level of trading activity in the market for our common stock and may limit the ability of investors in this offering to sell our common stock in the secondary market.

Table of Contents

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive office is located at 3651 Lindell Road, Suite D # 356, Las Vegas, Nevada 89103. The office is rented on a month to month basis from BSSI for about \$70 per month, primarily to meet the state of Nevada's requirements since Alkame is a virtual organization. This rent is prepaid on an annual basis. All aspects of production are simply drop shipped from our manufacturing facility in Hayden Idaho (source) to the recipients. We believe that our properties are adequate for our current needs, but growth potential may require a facility due to anticipated addition of personnel. We do not have any policies regarding investments in real estate, securities or other forms of property.

Item 3. Legal Proceedings

In April 2014, we were notified that a note holder disputes the balance of his note as recorded on the books of our company. The discrepancy arises from a question regarding expenses that the holder claims were paid on behalf of our company and subsequent payments that we recorded as payments against the note. We have no record of the expenses claimed to be due, and we are in negotiations to settle this matter. We have accrued \$28,000 to cover the potential expenses and adjustments to accrued interest if the claim is substantiated. We believe it has properly accounted for all payments made to the individual and have provided documentation to him substantiating our position.

In May 2014, we received notice that a complaint was filed in District Court, Clark County, NV alleging that we and various unnamed defendants are liable to a Mr. Renard Wiggins with regard to commissions and equity purportedly owed Mr. Wiggins, for services allegedly rendered in raising capital on behalf of our company prior to the reverse merger between Pinnacle Enterprises Inc. (now Alkame Holdings, Inc.) and Alkame Water, Inc. in September 2013. After initial review, we have filed for a dismissal of the case with the District Court, do not believe there is any validity to the claims of Mr. Wiggins, and intend to vigorously continue defending against these claims. At December 31, 2015, all but two claims had been dismissed, and we were in court mandated settlement talks to determine if the remaining counts could be dismissed or would require further litigation. On November 15, 2016, the Company entered into a stipulated settlement agreement to issue 200,000,000 common shares in full and final settlement of this matter and all legal complaints are withdrawn. In June 2018, the Company issued 92,780,388 shares of the agreed upon settlement.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is quoted under the symbol "ALKM" on the OTC Pink operated by OTC Markets Group, Inc. Only a limited market exists for our securities. There is no assurance that a regular trading market will develop, or if developed, that it will be sustained. Therefore, a shareholder may be unable to resell his securities in our company.

The following tables set forth the range of high and low prices for our common stock for the each of the periods indicated as reported by the OTC Markets. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Table of Contents

Year Ending December 31, 2015

	High	Low
December 31, 2015	\$0.006	\$0.0026
September 30, 2015	\$0.0134	\$0.0033
June 30, 2015	\$0.0270	\$0.0039
March 31, 2015	\$0.0036	\$0.0036

Year Ending December 31, 2014

	High	Low
December 31, 2014	\$0.192	\$0.031
September 30, 2014	\$0.459	\$0.060
June 30, 2014	\$1.030	\$0.122
March 31, 2014	\$1.000	\$0.480

Penny Stock

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a market price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the SEC, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation of such duties or other requirements of the securities laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form, including language, type size and format, as the SEC shall require by rule or regulation.

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statement showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written

agreement as to transactions involving penny stocks, and a signed and dated copy of a written suitability statement.

These disclosure requirements may have the effect of reducing the trading activity for our common stock. Therefore, stockholders may have difficulty selling our securities.

Holders of Our Common Stock

As of July 17, 2018, we had 5,500,000,000 shares of our common stock issued and outstanding, held by 32 shareholders of record, with numerous others in street name.

As of the date of this filing, the Company has issued all authorized common shares, and as such, can no longer issue common shares until such time as the Company has received approval from our shareholders, and have filed an increase in the authorized common shares with the State of Nevada.

Dividends

There are no restrictions in our articles of incorporation or bylaws that prevent us from declaring dividends. The Nevada Revised Statutes, however, do prohibit us from declaring dividends where after giving effect to the distribution of the dividend:

1. we would not be able to pay our debts as they become due in the usual course of business, or;
2. our total assets would be less than the sum of our total liabilities plus the amount that would be needed to satisfy the rights of shareholders who have preferential rights superior to those receiving the distribution.

We have not declared any dividends and we do not plan to declare any dividends in the foreseeable future.

Table of Contents

Securities Authorized for Issuance under Equity Compensation Plans

We do not have any equity compensation plans.

Recent Sales of Unregistered Securities

As of December 31, 2015, and 2014, there were 198,485,547 and 74,045,606 shares of common stock issued and outstanding, respectively.

On January 28, 2014, six stockholders exchanged a total of 65,210,834 common shares for 65,210,834 Series B Convertible Preferred Stock.

On September 15, 2014, we issued 4,166,667 common shares at a price of \$0.15 per share to an accredited investor as a commitment fee connected with the application for a \$5.0 million equity line of credit. The shares were issued pursuant to Section 4(a)(2) of the Securities Act and/or Rule 506 promulgated thereunder.

On January 12, 2015, we issued 3,600,000 common shares upon conversion of \$69,336 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.01926 per share.

On February 4, 2015, we issued 3,000,000 common shares upon conversion of \$54,000 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.018 per share.

On February 9, 2015, we issued 2,000,000 common shares upon conversion of \$36,210 of convertible debt. The shares were issued at a price of \$0.01806 per share.

On February 17, 2015, we issued 1,428,571 common shares upon conversion of \$25,000 of convertible debt. The shares were issued at a price of \$0.0175 per share.

On February 20, 2015, we issued 3,500,000 common shares upon conversion of \$56,910 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.01626 per share.

On February 23, 2015, we issued 1,481,481 common shares upon conversion of \$20,000 of convertible debt. The shares were issued at a price of \$0.0135 per share.

On February 24, 2015, we issued 1,750,000 common shares upon conversion of \$17,850 of convertible debt. The shares were issued at a price of \$0.0102 per share.

On February 25, 2015, we issued 2,500,000 common shares upon conversion of \$32,500 of convertible debt. The shares were issued at a price of \$0.013 per share.

Edgar Filing: ALKAME HOLDINGS, INC. - Form 10-K

On February 25, 2015, we issued 2,686,667 common shares upon conversion of \$22,837 of convertible debt and accrued interest. The shares were issued at a price of \$0.0085 per share.

On February 26, 2015, we issued 1,518,333 common shares upon conversion of \$18,220 of convertible debt and accrued interest. The shares were issued at a price of \$0.012 per share.

On March 5, 2015, we issued 1,800,000 common shares upon conversion of \$13,500 of convertible debt. The shares were issued at a price of \$0.0075 per share.

On March 10, 2015, we issued 4,500,000 common shares upon conversion of \$31,860 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.00708 per share.

On March 12, 2015, we issued 3,424,658 common shares upon conversion of \$25,000 of convertible debt. The shares were issued at a price of \$0.0073 per share. The shares were issued pursuant to Section 4(a)(2) of the Securities Act and/or Rule 506 promulgated thereunder.

Table of Contents

On March 12, 2015, we issued 3,653,013 common shares upon conversion of \$25,863 of convertible debt. The shares were issued at a price of \$0.00708 per share. The shares were issued pursuant to Section 4(a)(2) of the Securities Act and/or Rule 506 promulgated thereunder.

On March 12, 2015, we issued 4,955,500 common shares upon conversion of \$33,797 of convertible debt and accrued interest. The shares were issued at a price of \$0.00682 per share. The shares were issued pursuant to Section 4(a)(2) of the Securities Act and/or Rule 506 promulgated thereunder.

On March 12, 2015, we issued 1,736,111 common shares upon conversion of \$12,500 of convertible debt. The shares were issued at a price of \$0.0072 per share. The shares were issued pursuant to Section 4(a)(2) of the Securities Act and/or Rule 506 promulgated thereunder.

On March 16, 2015, we issued 1,000,000 common shares upon conversion of \$6,700 of convertible debt and accrued interest. The shares were issued at a price of \$0.0067 per share. The shares were issued pursuant to Section 4(a)(2) of the Securities Act and/or Rule 506 promulgated thereunder.

On March 18, 2015, we issued 5,000,000 common shares upon conversion of \$21,600 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.00432 per share.

On March 26, 2015, we issued 5,697,909 common shares upon conversion of \$19,886 of convertible debt and accrued interest. The shares were issued at a price of \$0.00349 per share. The shares were issued pursuant to Section 4(a)(2) of the Securities Act and/or Rule 506 promulgated thereunder.

On March 30, 2015, we issued 2,106,545 common shares upon conversion of \$4,880 of convertible debt and accrued interest. The shares were issued at a price of \$0.00231 per share. The shares were issued pursuant to Section 4(a)(2) of the Securities Act and/or Rule 506 promulgated thereunder.

On March 31, 2015, we issued 6,600,000 common shares upon conversion of \$15,048 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.00228 per share.

On April 15, 2015, we issued 6,000,000 common shares upon conversion of \$14,400 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.0024 per share.

On May 4, 2015, we issued 7,400,000 common shares upon conversion of \$29,748 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.00402 per share.

On June 2, 2015, we issued 5,118,865 common shares upon conversion of \$30,713 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.006 per share.

On June 17, 2015, we issued 5,000,000 common shares upon conversion of \$39,900 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.00798 per share.

On August 5, 2015, we issued 8,000,000 common shares upon conversion of \$26,880 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.00336 per share.

On August 25, 2015, we issued 7,000,000 common shares upon conversion of \$21,000 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.003 per share.

On September 28, 2015, we issued 5,482,288 common shares upon conversion of \$10,855 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.00198 per share.

On September 30, 2015 the Company recorded additional \$24,718 as value of shares sold in payment of debt in excess of value in connection with the August and September 2015 settlements under the Section 3(a)10 of the Rules of the SEC.

Table of Contents

On November 12, 2015, we issued 9,000,000 common shares upon conversion of \$17,280 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.00192 per share.

On December 9, 2015, we issued 1,000,000 Series D Preferred shares each to our CEO and a consultant, Kaufman & Associates Inc. The shares were issued at the market price of the common shares on the date of issuance multiplied by the number of common shares into which the Series D Preferred could convert or \$0.03 per preferred share.

On December 29, 2015, we issued 7,500,000 common shares upon conversion of \$18,000 of accounts payable in connection with a settlement under the Section 3(a)10 of the Rules of the SEC. The shares were issued at a price of \$0.0024 per share.

On December 31, 2015 the Company recorded additional \$21,056 as value of shares sold in payment of debt in excess of value in connection with the November and December 2015 settlements under the Section 3(a)10 of the Rules of the SEC.

Item 6. Selected Financial Data

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believes," "project," "expects," "anticipates," "estimates," "intends," "strategy," "plan," "may," "will," "would," "will be," "will continue," "will likely result," and similar expressions. V

such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

Results of Operations for the Years Ended December 31, 2015 and 2014

We generated revenues of \$898,381 for the year ended December 31, 2015, as compared with revenues of \$143,321 for the year ended December 31, 2014. Revenue increased significantly in 2015 with the acquisition of Xtreme who was selling to 2 major retail store chains. We expect that over the coming months our work on establishing distribution channels and marketing efforts will continue to result in increased sales.

Our cost of sales was \$858,477 for the year ended December 31, 2015, as compared with cost of sales of \$212,673 for the year ended December 31, 2014. The current years increase in cost of sales versus the prior year is due to the increase in sales which covered more of the manufacturing overhead. We therefore had a gross profit of \$39,904 for the year ended December 31, 2015, as compared with a gross loss of \$69,352 for the year ended December 31, 2014.

We incurred operating expenses of \$3,863,524 for the year ended December 31, 2015, as compared with \$1,534,516 for the year ended December 31, 2014. Our operating expenses increased primarily as a result of impairment of our patents, goodwill, the customer list and trade names of \$928,572, \$658,187 and \$343,750 respectively, and an increase of \$211,497 in administrative payroll, associated taxes and benefit costs from the acquisition of Xtreme, as compared to the fiscal year ended December 31, 2014.

Table of Contents

We incurred other expenses of \$683,286 for the year ended December 31, 2015, as compared with \$1,394,114 for the year ended December 31, 2014. We incurred interest expense of \$182,242 for the year ended December 31, 2015, as compared with \$121,919 for the year ended December 31, 2014. Borrowings during the years ended December 31, 2015 and 2014, lead to our increased interest expense. The increases in expenses in 2015 was due to the addition of the overhead and expenses assumed in the acquisition of Xtreme at the beginning of the year. During the years ended December 31, 2015 and 2014, we charged to operations \$81,194 and \$665,955 as amortization of deferred financing costs, respectively. We recorded amortization of beneficial conversion feature of \$713,118 and \$191,929 for the years ended December 31, 2015 and 2014, respectively. We also recognized derivative liability adjustments of \$289,994 in income and \$414,311 of expense for the years ended December 31, 2015 and 2014, respectively.

We incurred a net loss of \$4,506,906 for the year ended December 31, 2015, as compared with a net loss of \$2,997,983 for the year ended December 31, 2014. The increased loss is predominantly due to the impairment of goodwill, patents, customer lists and trade names which combined totaled \$1,930,509 as of December 31, 2015 versus \$-0- for the period ended December 31, 2014.

Liquidity and Capital Resources

As of December 31, 2015, we had current assets of \$113,142 and total assets of \$255,143. As of December 31, 2014, we had current assets of \$585,483 and total assets of \$750,911. The overall decrease in current assets is primarily a result of decreases in cash of \$172,730, a decrease in accounts receivable of \$54,272 prepaid expenses of \$253,000, and inventory of \$10,339 offset by an increase in other receivables of \$18,000.

We had current liabilities of \$4,452,468 and total liabilities of \$4,506,527 as of December 31, 2015. As of December 31, 2014, we had current liabilities of \$2,643,808 and total liabilities of \$2,798,266. The increase in liabilities is primarily a result of a net increase in notes payable of \$122,202, accounts payable and accrued expenses of \$182,760, accrued interest of \$126,345, an accrued legal obligation of \$120,000, the issuance of convertible debentures totaling \$362,233 and the recording of a net increase to derivative liability of \$27,853.

As such, we had a working capital deficit of \$4,339,326 and \$2,058,325 as of December 31, 2015 and 2014, respectively.

Cash Flow Analysis:

Operating activities used \$497,304 in cash for the year ended December 31, 2015 as compared to \$508,052 for the year ended December 31, 2014. The \$10,748 decrease in cash used was primarily attributable to increases in the accounts receivable and other receivable of \$46,084, offset by an increase in accounts payable and accrued expenses of \$750,356. Other major changes in this section are offset by the changes in various assets and liabilities acquired with the Xtreme acquisition.

Investing activities used \$87,855 for the year ended December 31, 2015 as compared to \$84,698 for the year ended December 31, 2014. In the year ended December 31, 2015, we made payments to Xtreme shareholders in connection with the acquisition of their shares, as well as purchasing additional equipment for operational needs, this was partially offset by cash acquired in the Xtreme deal. In the year ended December 31, 2014, the Company expensed a non-refundable extension deposit for the pending acquisition of Xtreme Technologies, and acquired additional production equipment and new manufacturing software. We expended \$12,130 on potential joint ventures.

Financing activities provided \$412,429 for the year ended December 31, 2015 as compared to \$637,222 for the year ended December 31, 2014. Financing consisted of loans from officers, shareholders, and third-party lenders.

EROP Settlement

On November 10, 2014, we entered into a Settlement Agreement and Stipulation (the “Settlement Agreement”) with EROP Capital, LLC, a Florida limited liability company (“EROP”), pursuant to which we agreed to issue common stock to EROP in exchange for the settlement of \$796,451.55 (the “Settlement Amount”) of past-due obligations and accounts payable. EROP purchased the obligations and accounts payable from certain of our vendors.

On January 12, 2015, the Circuit Court of the Seventeenth Judicial Circuit for Broward County, Florida (the “Broward Court”), entered an order (the “EROP Order”) approving, among other things, the fairness of the terms and conditions of an exchange pursuant to Section 3(a)(10) of the Securities Act of 1933, as amended (the “Securities Act”), in accordance with a stipulation of settlement, pursuant to the Settlement Agreement between us and EROP, in the matter entitled EROP Capital, LLC v. Alkame Holdings, Inc. (the “EROP Action”). EROP commenced the EROP Action against us to recover an aggregate of \$796,451.55 of past-due obligations and accounts payable (the “EROP Claim”), which EROP had purchased from certain of our vendors pursuant to the terms of separate receivable purchase agreements between EROP and each of such vendors (the “EROP Assigned Accounts”). The EROP Assigned Accounts relate to certain contractual obligations and legal services provided to us. The EROP Order provides for the full and final settlement of the EROP Claim and the EROP Action. The Settlement Agreement became effective and binding upon us and EROP upon execution of the EROP Order by the Broward Court on January 12, 2015.

Table of Contents

Pursuant to the terms of the Settlement Agreement approved by the EROP Order, on January 12, 2015, we agreed to issue to EROP shares (the “EROP Settlement Shares”) of our common stock, \$0.001 par value (the “Common Stock”). The Settlement Agreement provides that the EROP Settlement Shares will be issued in one or more tranches, as necessary, sufficient to satisfy the EROP Settlement Amount through the issuance of freely trading securities issued pursuant to Section 3(a)(10) of the Securities Act. Pursuant to the Settlement Agreement, EROP may deliver a request to us which states the dollar amount (designated in U.S. Dollars) of Common Stock to be issued to EROP (the “EROP Share Request”). The parties agree that the total amount of Common Stock to be delivered by us to satisfy the EROP Share Request shall be issued at forty percent (40%) of the Common Stock over the Valuation Period (as defined in the Settlement Agreement). Additional tranche requests shall be made as requested by EROP until the EROP Settlement Amount is paid in full.

The Settlement Agreement provides that in no event shall the number of shares of Common Stock issued to EROP or its designee in connection with the Settlement Agreement, when aggregated with all other shares of Common Stock then beneficially owned by EROP and its affiliates (as calculated pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the rules and regulations thereunder), result in the beneficial ownership by EROP and its affiliates (as calculated pursuant to Section 13(d) of the Exchange Act and the rules and regulations thereunder) at any time of more than 9.99% of the Common Stock.

As of December 31, 2015, we had reserved up to 30,000,000 shares of Common Stock to provide for issuances upon full satisfaction of the Settlement Amount.

Convertible Debt

We have issued a number of convertible debentures in the aggregate principal amounts of \$362,233 and \$604,472 during the years ended December 31, 2015 and 2014, respectively. These debentures are more fully described in the footnotes to our audited financial statements and attached to our annual report as exhibits, but are summarized below.

1. On August 6, 2014, we borrowed \$68,000 under the terms of a convertible promissory note.
2. On August 6, 2014, we borrowed \$82,500 under the terms of a convertible promissory note.
3. On August 11, 2014, we borrowed \$45,000 under the terms of a convertible debenture.
4. On September 4, 2014, we borrowed \$42,500 under the terms of a convertible debenture.

Edgar Filing: ALKAME HOLDINGS, INC. - Form 10-K

5. On September 5, 2014, we borrowed \$52,500 under the terms of a convertible debenture.
6. On September 11, 2014, we borrowed \$56,250 under the terms of a convertible debenture.
7. On October 24, 2014, we borrowed \$55,000 under the terms of a convertible debenture.
8. On October 27, 2014, we borrowed \$33,000 under the terms of a convertible debenture.
9. On October 29, 2014, we borrowed 55,000 under the terms of a convertible debenture.
10. On November 12, 2014, we borrowed \$75,000 under the terms of a convertible debenture.
11. On December 16, 2014, we borrowed \$39,772 under the terms of a convertible debenture.
12. On January 7, 2015, we borrowed \$28,000 under the terms of a convertible debenture.
13. On January 22, 2015, we borrowed \$75,000 under the terms of a convertible debenture.
14. On February 9, 2015, we borrowed \$108,000 under the terms of a convertible debenture.
15. On February 10, 2015, we borrowed \$22,000 under the terms of a convertible debenture.
16. On February 24, 2015, we borrowed \$35,000 under the terms of a convertible debenture.
17. On February 25, 2015, we borrowed \$33,333 under the terms of a convertible debenture.
18. On March 13, 2015, we borrowed \$52,500 under the terms of a convertible debenture.

On October 7, 2015, we modified the terms of the convertible debenture and increased the principal amount of the 19. debenture by \$8,400, which resulted in the extinguishment of the convertible loan and the issuance of a note payable.

Table of Contents

Despite the steps we have taken to reduce our debt and secure additional financing, as described above, based upon our current financial condition, we do not have sufficient cash to operate our business at the current level for the next twelve months. We intend to fund operations through increased sales and debt and/or equity financing arrangements, which may be insufficient to fund expenditures or other cash requirements. We plan to seek additional financing in a private equity offering to secure funding for operations. There can be no assurance that we will be successful in raising additional funding. If we are not able to secure additional funding, the implementation of our business plan will be impaired. There can be no assurance that such additional financing will be available to us on acceptable terms or at all.

Going Concern

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principle, which contemplate continuation of our company as a going concern. However, we had limited revenues and continuing losses from operations as of December 31, 2015. We currently have not completed our efforts to establish a stabilized source of revenues sufficient to cover operating costs over an extended period of time.

Management anticipates that we will be dependent, for the near future, on additional investment capital to fund operating expenses. We intend to position our company so that we may be able to raise additional funds through the capital markets. In light of management's efforts, there are no assurances that we will be successful in this or any of our endeavors or become financially viable and continue as a going concern.

Critical Accounting Policies

In December 2001, the SEC requested that all registrants list their most "critical accounting policies" in the Management Discussion and Analysis. The SEC indicated that a "critical accounting policy" is one which is both important to the portrayal of a company's financial condition and results, and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We do not believe that any accounting policies currently fit this definition.

Recently Issued Accounting Pronouncements

The FASB has issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. 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.

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 2016-10 is the same as the effective date of ASU 2016-08 and ASU 2014-09 as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within those years.

Effective January 1, 2018, the Company will adopt the requirements of Topic 606 using the modified retrospective method. Upon adoption, the Company will recognize the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. Using the modified retrospective method of adoption, the comparative information for periods prior to 2018 will not be restated and instead will continue to be reported under the accounting standards in effect for those periods.

The Company anticipates that the adoption of the new standard will not result in a material difference between the recognition of revenue under Topic 606 and prior accounting standards. In addition, to meet the disaggregation disclosure requirements under Topic 606, the Company anticipates its disclosure of revenue disaggregation will be by major product group, geographic area and major sales channels.

Table of Contents

Share-Based Compensation: Modification Accounting. In May 2017, the FASB issued an update to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. This authoritative guidance will be applied prospectively to awards modified following adoption and will be effective for Alkame in the first quarter of fiscal 2019 with early adoption permitted. The impact of the adoption of this guidance will depend on whether the Company has any share-based payment awards or makes any future modifications of share-based payment awards.

Retirement Benefits. In March 2017, the FASB issued authoritative guidance which requires companies to present the service cost component of net benefit cost in the same line items in which they report compensation cost. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The authoritative guidance will be effective for Alkame in the first quarter of fiscal 2019 on a retrospective basis, with early adoption permitted. The adoption of this guidance is only expected to result in reclassification of other components of net benefit costs outside of income from operations and is not expected to have a significant impact on Alkame's consolidated financial statements as the Company does not have such a plan at this time.

Business Combinations. In January 2017, the FASB issued authoritative guidance that clarifies the definition of a business to help companies evaluate whether acquisition or disposal transactions should be accounted for as asset groups or as businesses. The authoritative guidance will be effective for Alkame in the first quarter of fiscal 2019 on a prospective basis, with early adoption permitted. The impact of the adoption depends on the facts and circumstances of future acquisition or disposal transactions.

Income Taxes: Intra-Entity Asset Transfers. In October 2016, the FASB issued authoritative guidance that requires entities to recognize at the transaction date the income tax consequences of intercompany asset transfers other than inventory. The authoritative guidance will be effective for Alkame in the first quarter of fiscal 2019, with early adoption permitted. Alkame is currently evaluating the effect of this new guidance on Alkame's consolidated financial statements.

Classification of Certain Cash Receipts and Cash Payments. In August 2016, the FASB issued authoritative guidance which addresses classification of certain cash receipts and cash payments related to the statement of cash flows. The authoritative guidance will be effective for Alkame in the first quarter of fiscal 2019. The adoption of this guidance is not expected to have a significant impact on Alkame's consolidated financial statements.

Share-Based Compensation. In March 2016, the FASB issued authoritative guidance that simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Alkame plans to adopt the authoritative guidance effective in the first quarter of fiscal 2018. Upon adoption, Alkame will elect to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period. The new standard will result in the recognition of excess tax benefits in provision for income taxes rather than paid-in capital prospectively, which is expected to increase volatility in Alkame's results of operations. Alkame will elect to apply the presentation requirements for cash flows related to excess tax benefits retrospectively. The presentation requirements for cash flows related to employee taxes paid for withheld shares will be presented as a financing activity retrospectively, as required. Alkame expects cash flow from operations to increase, with a corresponding decrease in cash flow from financing activity as a result of the changes in the cash flow presentation.

Leases. In February 2016, the FASB issued authoritative guidance for lease accounting, which requires lessees to recognize lease assets and liabilities on the balance sheet for certain lease arrangements that are classified as operating

leases under the previous standard, and to provide for enhanced disclosures. The authoritative guidance will be effective for Alkame in the first quarter of fiscal 2020 and should see Alkame using a modified retrospective approach. Early adoption is permitted. Alkame is currently evaluating the effect of this new guidance on Alkame's consolidated financial statements.

Financial Instruments: Classification and Measurement. In January 2016, the FASB issued authoritative guidance that requires equity investments that do not result in consolidation, and are not accounted for under the equity method, to be measured at fair value, and requires recognition of any changes in fair value in net income unless the investments qualify for a new practicability exception. For financial liabilities measured at fair value, the change in fair value caused by a change in instrument-specific credit risk will be required to be presented separately in other comprehensive income. The authoritative guidance will be effective for Alkame in the first quarter of fiscal 2019. Early adoption is permitted only for the provisions related to the recognition of changes in fair value of financial liabilities caused by instrument-specific credit risk. Alkame is currently evaluating the effect of this new guidance on Alkame's consolidated financial statements.

Table of Contents

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

Off Balance Sheet Arrangements

As of December 31, 2015, there were no off-balance sheet arrangements.

Inflation

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements Required by Article 8 of Regulation S-X:

Audited Financial Statements:

F-1 Report of Independent Registered Public Accounting Firm

F-2 Consolidated Balance Sheets as of December 31, 2015 and 2014

F-3 Consolidated Statements of Operations for the years ended December 31, 2015 and 2014

F-4 Consolidated Statement of Stockholders' Equity (Deficit) for the two years in the period ended December 31, 2015

F-5 Consolidated Statements of Cash Flows for the years ended December 31, 2015 and 2014

F-6 Notes to Consolidated Financial Statements

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

Alkame Holdings, Inc.

We have audited the accompanying consolidated balance sheet of Alkame Holdings, Inc. (the “Company”) as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders’ deficit and cash flows for the two years in the period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alkame Holdings, Inc. at December 31, 2015 and 2014, and the results of its operations and its cash flows for the two years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has sustained net losses from operations and stockholder’s deficit. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ RBSM LLP

July 17, 2018

New York, New York

F-1

Table of Contents

ALKAME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash	\$—	\$ 172,730
Accounts receivable (net of reserve for bad debts of \$161,000 and \$23,000, respectively)	28,238	82,510
Other receivable	18,000	—
Prepaid expenses	7,000	260,000
Inventory	59,904	70,243
Total current assets	113,142	585,483
Fixed and intangible assets:		
Manufacturing equipment, net	122,829	11,149
Software	11,997	17,995
Intangible assets, net	1,662	4,509
Fixed and intangible assets, net	136,488	33,653
Other assets:		
Deferred finance costs	5,513	63,375
Investments	—	68,400
Total other assets	5,513	131,775
Total assets	\$255,143	\$750,911
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Cash overdraft	\$2,448	\$—
Accounts payable and accrued expenses	727,290	304,530
Accrued interest	272,391	146,046
Accrued compensation	513,480	240,000
Customer deposits	17,170	—
Legal obligations	120,000	—
Loans from officer	26,456	3,489
Notes payable (net of debt discount of \$35,095 and \$0, respectively)	991,119	762,000
Note due Xtreme Shareholders	183,000	—
Convertible debentures (net of debt discount of \$27,411 and \$280,288, respectively)	552,479	168,961
Derivative instrument liability	1,046,635	1,018,782
Total current liabilities	4,452,468	2,643,808
Long-term liabilities:		

Edgar Filing: ALKAME HOLDINGS, INC. - Form 10-K

Notes payable - long term	24,573	131,490
Convertible debt - long term (net of debt discount of \$25,847 and \$132,254, respectively)	29,486	22,968
Total long-term liabilities	54,059	154,458
Total liabilities	4,506,527	2,798,266
Commitments and contingencies	—	—
Stockholders' deficit		
Preferred stock - \$0.001 par value, authorized - 100,000,000 shares;		
Series A Convertible Preferred stock - \$0.001 par value, 12,000,000 shares designated; issued and outstanding - 12,000,000 and 12,000,000 shares, respectively	12,000	12,000
Series B Preferred stock - \$0.001 par value, 70,000,000 shares designated; issued and outstanding 65,398,334 and 65,398,334 shares, respectively	65,398	65,398
Series C Preferred stock - \$0.001 par value, 10,000,000 shares designated; issued and outstanding 0 shares	—	—
Series D Preferred stock - \$0.001 par value, 4,000,000 shares designated; issued and outstanding 2,000,000 and 0 shares, respectively	2,000	—
Common stock - \$0.001 par value, authorized - 900,000,000 shares; issued and outstanding - 198,485,547 and 74,045,606 shares, respectively	198,486	74,046
Common stock to be issued	13,500	13,500
Series C Convertible Preferred Stock to be issued	1,425,000	—
Additional paid-in capital	7,010,488	6,259,050
Accumulated deficit	(12,978,256)	(8,471,350)
Total stockholders' deficit	(4,251,384)	(2,047,355)
Total liabilities and stockholders' deficit	\$255,143	\$750,911

See accompanying notes to the consolidated financial statements

Table of Contents

ALKAME HOLDINGS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended	
	December 31, 2015	December 31, 2014
Revenues	\$898,381	\$143,321
Cost of goods sold	858,477	212,673
Gross profit (loss)	39,904	(69,352)
Operating expenses:		
Selling expenses	585,352	939,618
General and administrative	1,211,139	592,055
Depreciation and amortization	136,523	2,844
Impairment of goodwill	658,187	—
Impairment of patents	928,572	—
Impairment customer list and trade names	343,750	—
Total operating expenses	3,863,524	1,534,517
Loss from operations	(3,823,620)	(1,603,869)
Other (Income) / Expenses:		
Amortization of deferred financing costs	81,194	665,955
Interest expense	182,242	121,919
Amortization of beneficial conversion feature	713,118	191,929
Gain on change in fair value of derivative liability	(289,994)	414,311
Gain on extinguishment of debt	(28,904)	—
Loss on disposition of terminated joint ventures	25,630	—
Total other expenses	683,286	1,394,114
Net loss applicable to common stock holders	\$(4,506,906)	\$(2,997,983)
Per share data		
Net Loss per share - basic and diluted	\$(0.03)	\$(0.04)
Weighted average number of shares outstanding- basic and diluted	149,785,191	75,924,202

See accompanying notes to the consolidated financial statements

F-3

Table of Contents

ALKAME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

Series A Convertible Preferred Stock (\$0.001 par value)		Preferred B Stock (\$0.001 par value)		Preferred D Stock (\$0.001 par value)		Common Stock (\$0.001 par value)		Stock To be issued	Additional Paid-In Capital	Accumulated Deficit
Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
2,000,000	\$12,000	—	\$—	—	\$—	135,089,766	\$135,090	\$—	\$5,548,405	\$(5,473,367)
—	—	65,210,834	65,211	—	—	(65,210,834)	(65,211)	—	—	—
—	—	—	—	—	—	4,166,674	4,167	—	620,833	—
—	—	187,500	188	—	—	—	—	—	89,812	—
—	—	—	—	—	—	—	—	13,500	—	—
—	—	—	—	—	—	—	—	—	—	(2,997,983)
2,000,000	12,000	65,398,334	65,398	—	—	74,045,606	74,046	13,500	6,259,050	\$(8,471,350)

—	—	—	37,738,788	37,739	276,914	—				
—	—	—	86,701,153	86,701	416,523	—				
—	—	2,000,000	2,000	—	58,000	—				
—	—	—	—	—	1,425,000	—				
—	—	—	—	—	—	(4,506,906)				
2,000,000	\$12,000	65,398,334	\$65,398	2,000,000	\$2,000	198,485,547	\$198,486	\$1,438,500	\$7,010,488	\$(12,978,250)

See accompanying notes to the consolidated financial statements

Table of Contents

ALKAME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended	
	December 31, 2015	December 31, 2014
Cash flows from operating activities:		
Net loss	\$(4,506,906)	\$(2,997,983)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debts	138,000	23,000
Depreciation and amortization	160,186	3,497
Common stock issued for services	—	625,000
Impairment of intangible assets	1,930,509	—
Amortization of debt discount – Xtreme	16,905	—
Amortization of beneficial conversion feature	713,118	191,929
Change in fair value of derivative liability	(289,994)	414,310
Amortization of prepaid assets	253,000	634,500
Series D/B Convertible Preferred shares issued for services	60,000	90,000
Amortization of deferred financing costs	81,194	40,955
Gain on extinguishment of debt	(28,904)	—
Loss on disposition of terminated joint ventures	25,630	—
Changes in operating asset and liability account balances:		
Accounts receivable	(28,430)	(105,179)
Other receivable	(17,654)	—
Deposits	—	15,032
Inventory	85,519	(24,645)
Prepaid expenses	—	(10,000)
Accrued interest	160,167	109,699
Accounts payable and accrued expenses	750,356	481,833
Total adjustments	4,009,602	2,489,931
Net cash used in operating activities	(497,304)	(508,052)
Cash flows from investing activities		
Payment of purchase consideration to Xtreme Technologies, Inc.	(45,100)	(54,900)
Cash acquired from Xtreme Technologies, Inc.	13,287	—
Funds spent on potential joint venture	(12,130)	—
Purchase of equipment	(43,912)	(29,798)
Net cash used in investing activities	(87,855)	(84,698)
Cash flows from financing activities:		
Cash overdraft	2,448	—
Proceeds from officer loans	22,967	—
Proceeds from notes payable	165,260	100,000
Payments of notes payable	(109,296)	(10,000)

Edgar Filing: ALKAME HOLDINGS, INC. - Form 10-K

Proceeds from convertible notes	353,833	604,472
Payments of convertible notes	(22,783)	(57,250)
Net cash provided by financing activities	412,429	637,222
Net (decrease) increase in cash	(172,730)	44,472
Cash at beginning of year	172,730	128,258
Cash at end of year	\$—	\$172,730
Supplemental Schedule of Cash Flow Information:		
Cash paid for interest	\$20,788	\$—
Cash paid for income taxes	\$—	\$—
Supplemental Schedules of Noncash Investing and Financing Activities:		
Conversion of notes payable and accrued interest into common stock	\$314,653	\$—
Conversion of convertible loans and accrued interest to notes payable	\$36,400	\$—
Common stock to be issued for acquisition	\$—	\$13,500
Common stock issued to settle accounts payable	\$503,225	\$—
Payment made by EROP to noteholders on Company's behalf	\$342,000	\$—
Assets taken over and liabilities assumed from Xtreme Technologies, Inc.	\$2,050,000	\$—
Conversion of Common shares in Series B convertible preferred stock	\$—	\$65,211
Beneficial conversion feature on convertible debt	\$353,832	\$(191,929)

See accompanying notes to the consolidated financial statements

Table of Contents

Alkame Holdings, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

1. Organization and Nature of Operations

Alkame Holdings, Inc. (fka Pinnacle Enterprise Inc.) (the "Company", "we", "us" or "our") was incorporated under the laws of the State of Nevada on April 19, 2010. The Company is in the business of distributing bottled alkaline, antioxidant and oxygenated water.

On June 24, 2013, the Company entered into a share exchange agreement with Alkame Water, Inc. ("Alkame") and the shareholders of all of the issued and outstanding shares of Alkame. On June 25, 2013, the Company acquired 100% of the members' shares of Alkame, a Company incorporated in the state of Nevada on March 1, 2012, in exchange for 150,000,000 common shares, comprised of 116,666,667 common shares privately transacted from the President of the Company and the issuance of 33,333,333 common shares to shareholders of Alkame. Effectively, Alkame held 71% of the issued and outstanding common shares of the Company and the transaction has been accounted for as a reverse merger, where Alkame is deemed to be the acquirer and or the surviving entity for accounting purposes.

As part of the acquisition transaction, all assets and liabilities of Alkame Holdings, Inc. at the date of acquisition were assumed by the former management.

The transaction is accounted for using the purchase method of accounting. As a result of the recapitalization and change in control, Alkame is the acquiring entity in accordance with ASC 805, Business Combinations. Accordingly, the historical financial statements are those of Alkame, the accounting acquirer, immediately following the consummation of the reverse merger.

As a result of the exchange transaction in 2013, our board of directors decided to change our fiscal yearend from January 31 to December 31.

On April 21, 2014, we entered into a Stock Purchase Definitive Agreement (the "Agreement") with Xtreme Technologies, Inc., an Idaho corporation ("Xtreme"). Pursuant to the terms of the Agreement, we agreed to acquire all of the issued and outstanding capital stock of Xtreme in exchange for certain consideration as set forth in the Agreement.

On January 16, 2015, the parties to the Agreement entered into an amendment (the "Amendment") that changed, among other things, the Closing Date of the transaction.

On April 15, 2015, the parties to the Agreement entered into a second amendment (the "Second Amendment") that changed, among other things, the 120-day time period to pay monetary consideration under the Agreement to 240 days after the Closing Date of the transaction.

2.

Going Concern

The accompanying consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has an accumulated deficit of \$12,978,256 and has incurred a net loss of \$4,506,906 for the year ended December 31, 2015. The Company's ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they become due, and to generate profitable operations in the future. Management plans to continue to provide for its capital requirements by seeking long term financing which may be in the form of additional equity securities and debt. The outcome of these matters cannot be predicted at this time and there are no assurances that if achieved, the Company will have sufficient funds to execute its business plan or generate positive operating results.

These matters, among others, raise substantial doubt about the ability of the Company to continue as a going concern. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern.

F-6

Table of Contents

3. Summary of Significant Accounting Policies

a) Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”) and are expressed in U.S. dollars. All inter-company accounts and transactions have been eliminated. The Company’s fiscal year end is December 31.

b) Principles of Consolidation

The consolidated financial statements include the accounts of Alkame Holdings, Inc. (parent), Alkame Water, Inc., and Xtreme Technologies, Inc. our wholly owned subsidiaries which have common ownership and management. All intercompany balances and transactions have been eliminated.

c) Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to the deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company’s estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected. Significant estimates included are assumptions about collection of accounts receivable, useful life of fixed and intangible assets, impairment analysis of goodwill and intangible assets, estimates used in the fair value calculation of stock based compensation, beneficial conversion feature and derivative liability on convertible notes and warrants using Black-Scholes Model.

d) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes demand deposits, saving accounts and money market accounts. The Company considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents.

e) Basic and Diluted Net Loss per Share

The Company computes net loss per share in accordance with ASC 260, Earnings per Share. ASC 260 requires presentation of both basic and diluted earnings per share (“EPS”) on the face of the income statement. Basic EPS is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive.

	As of December 31,	
	2015	2014
Series A Convertible Preferred Stock	600,000,000	600,000,000
Series B Convertible Preferred Stock	65,398,334	65,398,334
Series D Convertible Preferred Stock	20,000,000	—
3(a)10 Shares Issuances	691,349,500	—
Convertible notes payable	392,190,145	35,726,322
Warrants	1,587,302	1,587,302

Table of Contents

f) Financial Instruments

Pursuant to ASC 820, Fair Value Measurements and Disclosures, an entity is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company's financial instruments consist principally of cash, accounts payable and accrued liabilities and amounts due to related parties. Pursuant to ASC 820, the fair value of our cash is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. We believe that the recorded values of all of our other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

g) Income Taxes

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted ASC 740 "Accounting for Income Taxes" as of its inception. Pursuant to ASC 740, the Company is required to compute tax asset benefits for net operating losses carried forward. The potential benefits of net

operating losses have not been recognized in this financial statement because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

h) Revenue Recognition

The Company recognizes revenue in accordance with ASC-605, "Revenue Recognition," which requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or title has passed; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts.

Revenues are recognized upon shipment, provided that a signed purchase order has been received, the price is fixed, title has transferred, collection of resulting receivables is reasonably assured, and there are no remaining significant obligations. Reserves for sales returns and allowances, including allowances for so called "ship and debit" transactions, are recorded at the time of shipment, based on historical levels of returns and discounts, current economic trends and changes in customer demand. Certain internet generated transactions that are prepaid at time of order, are recognized at the time the merchandise ships from the warehouse to the customer.

Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company will defer any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required.

i) Accounts receivable and concentration of credit risk

Because the Company currently uses distributors as their main source of product sales and placement, there is an inherent risk that the distributor could experience difficulty in their payments for accounts they ship to. The result, may be that they, while collecting from the stores and chains they supply, they do not process through the payments to us. Although in the past the Company did see significant credit risk associated with the trade receivables, repayment is dependent upon the financial stability of the various distributors and customers to which shipment takes place. As a result, the Company is looking more closely at the credit worthiness of its customer and how large a footprint and customer base various distributors have, and is attempting to limit how much of our business is conducted through any one customer or distributor. Our concentration risk will be being reevaluated on a quarterly basis.

Table of Contents

j) Allowance for doubtful accounts

The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts and the aging of the accounts receivable. The Company regularly reviews the adequacy of the Company's allowance for doubtful accounts through identification of specific receivables where it is expected that payments will not be received. The Company also establishes an unallocated reserve that is applied to all amounts that are not specifically identified. In determining specific receivables where collections may not have been received, the Company reviews past due receivables and gives consideration to prior collection history and changes in the customer's overall business condition. The allowance for doubtful accounts reflects the Company's best estimate as of the reporting dates.

At December 31, 2015 and 2014, the Company had an allowance for bad debts in the amount of \$161,000 and \$23,000 respectively.

k) Related Party Transactions

The Company considers all officers, directors, senior management personnel, and senior level consultants to be related parties to the Company.

l) Recent Accounting Pronouncements

The FASB has issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application.

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.

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 2016-10 is the same as the effective date of ASU 2016-08 and ASU 2014-09 as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within those years.

Effective January 1, 2018, the Company will adopt the requirements of Topic 606 using the modified retrospective method. Upon adoption, the Company will recognize the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. Using the modified retrospective method of adoption, the comparative information for periods prior to 2018 will not be restated and instead will continue to be reported under the accounting standards in effect for those periods.

The Company anticipates that the adoption of the new standard will not result in a material difference between the recognition of revenue under Topic 606 and prior accounting standards. In addition, to meet the disaggregation disclosure requirements under Topic 606, the Company anticipates its disclosure of revenue disaggregation will be by major product group, geographic area and major sales channels.

Share-Based Compensation: Modification Accounting. In May 2017, the FASB issued an update to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. This authoritative guidance will be applied prospectively to awards modified following adoption and will be effective for Alkame in the first quarter of fiscal 2019 with early adoption permitted. The impact of the adoption of this guidance will depend on whether the Company has any share-based payment awards or makes any future modifications of share-based payment awards.

Table of Contents

Retirement Benefits. In March 2017, the FASB issued authoritative guidance which requires companies to present the service cost component of net benefit cost in the same line items in which they report compensation cost. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The authoritative guidance will be effective for Alkame in the first quarter of fiscal 2019 on a retrospective basis, with early adoption permitted. The adoption of this guidance is only expected to result in reclassification of other components of net benefit costs outside of income from operations and is not expected to have a significant impact on Alkame's consolidated financial statements as the Company does not have such a plan at this time.

Business Combinations. In January 2017, the FASB issued authoritative guidance that clarifies the definition of a business to help companies evaluate whether acquisition or disposal transactions should be accounted for as asset groups or as businesses. The authoritative guidance will be effective for Alkame in the first quarter of fiscal 2019 on a prospective basis, with early adoption permitted. The impact of the adoption depends on the facts and circumstances of future acquisition or disposal transactions.

Income Taxes: Intra-Entity Asset Transfers. In October 2016, the FASB issued authoritative guidance that requires entities to recognize at the transaction date the income tax consequences of intercompany asset transfers other than inventory. The authoritative guidance will be effective for Alkame in the first quarter of fiscal 2019, with early adoption permitted. Alkame is currently evaluating the effect of this new guidance on Alkame's consolidated financial statements.

Classification of Certain Cash Receipts and Cash Payments. In August 2016, the FASB issued authoritative guidance which addresses classification of certain cash receipts and cash payments related to the statement of cash flows. The authoritative guidance will be effective for Alkame in the first quarter of fiscal 2019. The adoption of this guidance is not expected to have a significant impact on Alkame's consolidated financial statements.

Share-Based Compensation. In March 2016, the FASB issued authoritative guidance that simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Alkame plans to adopt the authoritative guidance effective in the first quarter of fiscal 2018. Upon adoption, Alkame will elect to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period. The new standard will result in the recognition of excess tax benefits in provision for income taxes rather than paid-in capital prospectively, which is expected to increase volatility in Alkame's results of operations. Alkame will elect to apply the presentation requirements for cash flows related to excess tax benefits retrospectively. The presentation requirements for cash flows related to employee taxes paid for withheld shares will be presented as a financing activity retrospectively, as required. Alkame expects cash flow from operations to increase, with a corresponding decrease in cash flow from financing activity as a result of the changes in the cash flow presentation.

Leases. In February 2016, the FASB issued authoritative guidance for lease accounting, which requires lessees to recognize lease assets and liabilities on the balance sheet for certain lease arrangements that are classified as operating leases under the previous standard, and to provide for enhanced disclosures. The authoritative guidance will be effective for Alkame in the first quarter of fiscal 2020 and should see Alkame using a modified retrospective approach. Early adoption is permitted. Alkame is currently evaluating the effect of this new guidance on Alkame's consolidated financial statements.

Financial Instruments: Classification and Measurement. In January 2016, the FASB issued authoritative guidance that requires equity investments that do not result in consolidation, and are not accounted for under the equity method, to be measured at fair value, and requires recognition of any changes in fair value in net income unless the investments qualify for a new practicability exception. For financial liabilities measured at fair value, the change in fair value caused by a change in instrument-specific credit risk will be required to be presented separately in other comprehensive income. The authoritative guidance will be effective for Alkame in the first quarter of fiscal 2019. Early adoption is permitted only for the provisions related to the recognition of changes in fair value of financial liabilities caused by instrument-specific credit risk. Alkame is currently evaluating the effect of this new guidance on Alkame's consolidated financial statements.

Inventory: 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. Alkame is currently evaluating the effect of this new guidance on Alkame's consolidated financial statements.

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

Table of Contents

m) Inventory

Inventories are stated at the lower of cost or market, and consist of finished goods produced in accordance with Company specifications, work-in-process as such may exist from time to time at various supplier locations that may work with Company supplied goods and materials, and raw materials that are purchased in connection with upcoming seasonal production of goods.

n) Derivative Liabilities

The Company assessed the classification of its derivative financial instruments as of December 31, 2015, which consist of convertible instruments and rights to shares of the Company's common stock, and determined that such derivatives meet the criteria for liability classification under ASC 815.

ASC 815 generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free-standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to the requirements of ASC 815. ASC 815 also provides an exception to this rule when the host instrument is deemed to be conventional, as described.

o) Convertible Instruments

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

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

that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as “The Meaning of “Conventional Convertible Debt Instrument”.

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

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

p) Long Lived Assets

The Company follows Accounting Standards Codification subtopic 360-10, Property, Plant and Equipment (“ASC 360-10”). ASC 360-10 requires those long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. ASC 360-10 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

Table of Contents

q) Advertising

Advertising is expensed as incurred and is included in selling costs on the accompanying consolidated statements of operations. Advertising and marketing expense for the years ended December 31, 2015 and 2014 was \$22,728 and \$17,331, respectively.

r) Shipping costs

Shipping costs are included in cost of goods sold and totaled \$272,124 and \$50,572 for the years ended December 31, 2015 and 2014, respectively.

4. Acquisition of Xtreme Technologies

On April 21, 2014, we entered into a Stock Purchase Definitive Agreement (the “Agreement”) with Xtreme Technologies, Inc., an Idaho corporation (“Xtreme”). Pursuant to the terms of the Agreement, we agreed to acquire all of the issued and outstanding capital stock of Xtreme in exchange for certain consideration as set forth in the Agreement.

On January 16, 2015, the parties to the Agreement entered into an amendment (the “Amendment”) that changed, among other things, the Closing Date of the transaction.

On April 15, 2015, the parties to the Agreement entered into a second amendment (the “Second Amendment”) that changed, among other things, the 120-day time period to pay monetary consideration under the Agreement to 240 days after the Closing Date of the transaction.

In accordance with the terms of the Agreement, the Amendment and the Second Amendment, we agreed to purchase all of the outstanding shares of Xtreme for the purchase price of \$2,000,000, payable as follows:

§ A cash payment of \$50,000 has been previously paid as a non-refundable deposit;

§ The Closing Date is effective as of January 13, 2015;

§

An additional cash payment of \$525,000 shall be paid within two hundred and forty (240) days of the Closing Date, which, along with the initial \$50,000 deposit, shall pay the obligations on Xtreme's balance sheet;

The balance of \$1,425,000 shall be payable by the issuance of shares of the Company's Series B Preferred Stock to be divided *pro rata* among the Company's shareholders of record as of the Closing Date. The Series B Preferred Stock shall include an option to convert each share of Series B Preferred Stock into one share of the Company's Common Stock. The Series B Preferred Stock shall be held in escrow along with the issued and outstanding shares of Xtreme's capital stock pending the full payment of \$525,000. As of the date of this report, the balance of \$525,000 has been fully paid to Xtreme; and

One of Xtreme's previous officers and directors holds outstanding options to purchase up to 1,009,000 shares of Xtreme's common stock at the price of \$0.10 per share. At the Closing Date, pursuant to Idaho law, Xtreme shall notify this previous officer and director of his 30-day right to exercise any or all of his remaining options. If he elects to exercise any of his options within such 30-day period, the Company agrees to issue additional shares of Series B Preferred Stock in exchange for such Xtreme shares. Xtreme notified the option holder and the 30-day period expired unanswered. The options expired unexercised.

The Amendment also requires that the Company guarantee the obligations on employment agreements for Xtreme's key employees, namely, Keith Fuqua, Timm Ott and Casey Henry. The employment agreements with Messrs. Fuqua, Ott and Henry have the terms set forth in the following table.

<u>Employee</u>	<u>Position</u>	<u>Term</u>	<u>Compensation</u>	<u>Commission</u>	<u>Benefits</u>	<u>Severance</u>
Keith Fuqua	Operations Director	One year	\$70,000 annually and annual bonus	5% on gross sales made to Walmart	Benefit plans	6 months' severance for termination in certain instances; residual commissions for 1 year
Timm Ott	Sales and Marketing Director and Treasurer	One year	\$2,700 per month salary and annual bonus	\$1.00 per case of product sold	Benefit plans	6 months' severance for termination in certain instances
Casey Henry	Manufacturing Director	One year	\$4,350 per month and annual bonus	\$1.00 per case of product sold	Benefit plans	6 months' severance for termination in certain instances

Table of Contents

In addition, after the Closing Date, Xtreme’s current officers and directors, namely, Jeffery J. Crandall, John N. Marcheso and Michael J. Bibin, shall continue to serve in that capacity until the \$525,000 is paid in full. Our President and CEO, Robert K. Eakle and two (2) additional representatives of our company shall be appointed as directors of Xtreme and shall serve together with the other directors until the \$525,000 is paid in full. In addition, Mr. Eakle shall be named as President and Chief Executive Officer of Xtreme. Until the \$525,000 is paid in full, the officers and directors of Xtreme shall not make any material change in the company’s business and operations without unanimous consent of the directors. If the \$525,000 is not paid in full within two hundred and forty (240) days of the Closing Date, as may be extended, then the appointments of Mr. Eakle and the other two representatives as interim officers and directors shall be terminated. Upon payment of \$525,000 in full to Xtreme, all former officers and directors of Xtreme shall resign and full control of Xtreme shall be tendered to us. Provided that certain representations are accurate, Jeffery J. Crandall, John N. Marcheso and Michael J. Bibin shall be released by us and Xtreme from any liability as officers and directors of Xtreme for their fiduciary obligations occurring prior to the Closing Date. As of the date of this filing, the entire payment has been made.

We previously held a three-year limited exclusive distribution agreement with Xtreme for the consumer market. We were permitted to distribute the technologically enhanced bottled water in the consumer market in the United States, Canada and Mexico. As a result of the Agreement, Amendment, and Second Amendment, Xtreme became our wholly-owned subsidiary and we acquired the patents on the proprietary process that we believe is the most technologically advanced in water treatment systems for complete hydration. We will now assume the operations of Xtreme and continue its business of distributing technologically enhanced bottled water.

Upon closing of the acquisition, we discovered that Xtreme was operating at a loss for the prior year and that it required a substantial cash infusion. We began a program of upgrading the production line, reorganized personnel, and began an effort to increase sales of the division so that it returns to profitability as quickly as possible. However, as 2015 progressed, it became obvious that changes in contracts negotiated prior to our acquisition were no longer profitable and we terminated the agreements with those customers.

Our primary objective now is to introduce, promote, aggressively market and establish channels of distribution to sell our product to a wide range of consumers, first in the United States, Canada and Mexico, and then globally. In addition, the Company is moving in the direction of bottling or “co-packing”.

Alkame Holdings, Inc.**Xtreme Technologies, Inc.****Asset Acquired & Liabilities Assumed****January 14, 2015**

	Assets	Liabilities	2015 Impairment
Cash	\$ 13,287	\$	\$
Receivables	55,644		
Inventory	75,180		
Fixed Assets	91,431		
Patent Costs	1,000,000		1,000,000

Edgar Filing: ALKAME HOLDINGS, INC. - Form 10-K

Customer List	250,000		250,000
Trade Names	150,000		150,000
Goodwill	658,187		658,187
Accounts Payable & Accrued Liabilities		243,729	
Purchase consideration (Cash \$625,000 and Series C Convertible Preferred Stock to be issued \$1,425,000)		2,050,000	
	\$2,293,729	\$2,293,729	\$ 2,058,187

As of the date of this filing, the Company has closed down this division, and written the asset values off in their entirety.

F-13

Table of Contents**5. Notes Payable, current and long-term**

At December 31, 2015 and 2014, notes payable consisted of the following:

	December 31, 2015	December 31, 2014
Notes payable - current	\$1,050,787	\$893,490
Note payable Xtreme shareholders	183,000	—
Officer loans	26,456	3,489
Unamortized debt discount	(35,095)	—
Carrying amount	\$1,225,148	\$896,979
Less: current portion	(1,200,575)	(765,489)
Long-term notes payable, net	\$24,573	\$131,490

Current:

During the year ended December 31, 2013, the Company had \$63,000 in expenses paid on its behalf by this shareholder and former director which was recorded as a Note. On August 1, 2013, the Company and Note Holder amended the Note by mutual agreement increasing the principal amount by an additional \$10,000 for other services rendered by the former director. The Note is unsecured, and only began accruing interest August 1, 2014 at 5% per annum on the unpaid principal thereof.

During the years ended December 31, 2015 and 2014, the Company repaid \$10,000 and \$10,000 of the Note respectively.

At December 31, 2015 and 2014, the balance of the Note was \$36,573 and \$43,490, respectively.

Long-term:

On March 29, 2013, the Company entered into a two-year promissory note agreement for \$500,000. On April 8, 2013, the Company received \$200,000 and on May 1, 2013, the Company received \$300,000. On September 27, 2013, the note agreement was amended to include an additional advance to the Company of \$250,000. Pursuant to the agreement, the loan is secured with a general security agreement, bears interest at 10% per annum, and \$500,000 was

due on March 30, 2015 and \$250,000 is due on September 27, 2015. The original note, and the amendment, each mature two years from date of issuance or amendment. The payment due March 30, 2015 has not been declared in default, and the Company was in settlement discussions with the lender.

On March 11, 2014, the Company entered into an additional two-year promissory note agreement for an additional \$100,000 from the same investor group, on the same terms as outlined above.

As of December 31, 2015, the Company classified \$850,000 of this note payable to current liability.

The Company paid 10% of proceeds from \$750,000 of the long-term notes payable as financing cost of \$75,000 to a consultant. The Company will amortize this cost over the term of the long-term note payable.

The Company paid 10% of proceeds from the \$100,000 long-term notes payable as financing cost of \$10,000 to a consultant. The Company will amortize this cost over the term of the long-term note payable.

During the years ended December 31, 2015 and 2014, the Company charged to operations \$81,194 and \$665,955 as amortization of deferred financing costs, respectively. As of December 31, 2015, and 2014, remaining balance in deferred financing cost of \$5,513 and \$63,375, respectively is presented as part of other assets.

In July 2015, the Company borrowed \$70,000 from an accredited investor group on a term loan. The note carries interest at 15% per annum and requires repayment of a total of \$98,000 through daily payments of \$560.

In July 2015, the Company borrowed \$25,000 from an accredited investor group on a term loan. The note carries prepaid interest of 10% of the amount borrowing.

In August 2015, the Company borrowed \$50,000 from an accredited investor group on a term loan. The note carries interest at 15% per annum and requires repayment of a total of \$74,500 through daily payments of \$899.

Table of Contents**6. Convertible debt**

At December 31, 2015 and 2014 convertible notes and debentures consisted of the following:

	December 31, 2015	December 31, 2014
Convertible notes payable	\$635,223	\$604,472
Unamortized debt discount	(53,258)	(412,542)
Carrying amount	\$581,965	\$191,930
Less: current portion	(552,479)	(168,962)
Long-term convertible notes, net	\$29,486	\$22,968

Note issued on August 6, 2014, fully converted:

On August 6, 2014, the Company entered into a one-year convertible debenture for \$82,500 with an accredited institutional investor. The debenture was convertible at the lesser of \$0.10 per share, or 60% of the lowest trade price in the 25 trading days prior to conversion. The note was issued with an original issue discount of \$7,500 which was charged to current period operations as interest expense during the year ended December 31, 2014.

The Company identified embedded derivatives related to the Convertible Promissory Notes entered into in August 2014. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date. At the inception of the Convertible Promissory Note, the Company determined a fair value of \$190,451 of the embedded derivative. The fair value of the embedded derivative was determined using the Black-Scholes Model based on the following assumptions:

Dividend yield:	0 %
Volatility	105 %
Risk free rate:	0.48 %

The initial fair values of the embedded debt derivative of \$190,451 was allocated as a debt discount up to the proceeds of the note (\$82,500) with the remainder (\$107,951) charged to operations as derivative liability adjustment in during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company amortized \$17,187 to current period operations as amortization of beneficial conversion feature.

During the year ended December 31, 2015, the Company amortized the remaining \$65,313 to the current period operations as amortization of beneficial conversion feature upon full conversion of the debenture.

At December 31, 2015, due to full conversion of the debenture, the Company adjusted the recorded fair value of the derivative liability to \$0 resulting in non-cash, non-operating gain of \$142,317 for the year ended December 31, 2015.

Note issued on August 6, 2014, fully converted:

On August 6, 2014, the Company entered into a nine-month convertible debenture for \$68,000 with an accredited institutional investor. The debenture is convertible at 58% of the average of the