EXOlifestyle, Inc.
Form 10-Q
August 21, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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

For the transition period from _______________ to _______________

000-51935

(Commission file number)

EXOlifestyle, Inc.

(Exact name of registrant as specified in its charter)

Nevada	**90-1119774**

(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

(561) 939-2520

(Issuer’s telephone number)

136 NW 16th Street, Boca Raton Florida 33432

(Address of principal executive offices)

(561) 939-2520

(Registrant’s telephone number, including area code)

Not applicable.

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

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

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[X]
Emerging growth company	[ ]		

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

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

As of August 14, 2017, there were 162,914,899 shares of registrant's common stock outstanding.

EXOLIFESTYLE, INC.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This report and other written and oral statements that we make from time to time contain such forward-looking statements that set out anticipated results based on management's plans and assumptions regarding future events or performance. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will" and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance or results of current and anticipated sales efforts, expenses, the outcome of contingencies, such as legal proceedings, and financial results.

We caution that the factors described herein and other factors could cause our actual results of operations and financial condition to differ materially from those expressed in any forward-looking statements we make and that investors should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of anticipated or unanticipated events or circumstances. New factors emerge from time to time, and it is not possible for us to predict all of such factors. Further, we cannot assess the impact of each such factor on our results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EXOLIFESTYLE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2017 (unaudited)	September 30, 2016
ASSETS		
Current assets:		
Cash	$34,718	$47,224
Accounts receivable, net	1,077	29,874
Royalties receivable	2,100	9,339
Inventory	104,022	107,295
Vendor deposits	22,181	62,253
Prepaid and other current assets	7,975	8,102
Total current assets	172,073	264,087
Property and equipment, net	21,281	48,664
Other assets:		
Intangible assets, net	106,700	111,110
Receivable from litigation settlement	-	8,854
Deposits	2,968	2,968
Goodwill	1,328,182	1,328,182
Total other assets	1,437,850	1,451,114
Total assets	$1,631,204	$1,763,865
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	$1,124,355	$1,028,629
Advances	205,861	218,361
Customer deposits, short term	18,000	6,000
Deferred revenue, short term portion	-	30,000
Notes payable	59,500	60,162
Convertible notes payable, current portion	2,136	37,991
Total current liabilities	1,409,852	1,381,143

Long term debt:		
Convertible notes payable, long term portion	336,597	283,529
Deferred revenue, long term portion	404,210	404,210
Customer deposits	50,000	58,000
Derivative liability	1,170,934	1,043,479
Total long term debt	1,961,741	1,789,218
Total liabilities	3,371,593	3,170,361
Stockholders' deficit:		
Preferred stock, $0.0001 par value, 20,000,000 shares authorized as of June 30, 2017 and September 30, 2016 Series A Preferred Stock, $0.0001 par value; 12,000,000 and 2,000,000 shares designated, 12,000,000 and 2,000,000 shares issued and outstanding as of June 30, 2017 and September 30, 2016, respectively	1,200	200
Common stock, $0.0001 par value; 500,000,000 shares authorized, 162,914,899 and 82,302,455 shares issued and outstanding as of June 30, 2017 and September 30, 2016, respectively	16,291	8,230
Additional paid in capital	11,750,287	11,306,952
Deficit	(13,508,167)	(12,721,878)
Total deficit	(1,740,389)	(1,406,496)
Total liabilities and stockholders' deficit	$1,631,204	$1,763,865

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

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EXOLIFESTYLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Revenues:				
Royalty and franchise income	$7,222	$49,396	$165,520	$122,842
Sales	216,427	93,102	577,134	189,379
Total revenues	223,649	142,498	742,654	312,221
Cost of sales	126,358	57,952	319,828	98,240
Gross profit	97,291	84,546	422,826	213,981
Operating expenses:				
Payroll expenses	138,385	109,373	417,912	330,183
Selling, general and administrative expenses	60,152	106,404	314,209	716,116
Depreciation and amortization	5,095	4,725	16,273	13,750
Total operating expenses	203,632	220,502	748,394	1,060,049
Net loss from operations	(106,341)	(135,956)	(325,568)	(846,068)
Other income (expense):				
(Loss) gain on change in derivative liabilities	(260,711)	(2,652,219)	23,944	(1,193,708)
Other income	-	-	29,974	-
Interest expense	(124,081)	(16,810)	(514,639)	(1,867,821)
Total other income (expense):	(384,792)	(2,669,029)	(460,721)	(3,061,529)
Net loss before income tax provision	(491,133)	(2,804,985)	(786,289)	(3,907,597)
Provision for income taxes	-	-	-	-
NET LOSS	$(491,133)	$(2,804,985)	$(786,289)	$(3,907,597)
Net loss per common share, basic and diluted	$(0.00)	$(0.03)	$(0.01)	$(0.05)
Weighted average number of common shares outstanding, basic and diluted	129,354,476	81,020,404	105,302,247	78,107,470

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

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EXOLIFESTYLE, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT

NINE MONTHS ENDED JUNE 30, 2017

	Series A Preferred stock		Common stock		Additional Paid in	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance, September 30, 2016	2,000,000	$ 200	82,302,455	$ 8,230	$ 11,306,952	$ (12,721,878)	$ (1,406,496)
Sale of Series A Preferred stock	10,000,000	1,000	-	-	-	-	1,000
Common stock issued upon settlement of convertible notes	-	-	80,162,444	8,016	418,200	-	426,216
Common stock issued for services	-	-	450,000	45	1,170	-	1,215
Stock based compensation	-	-	-	-	23,965	-	23,965
Net loss	-	-	-	-	-	(786,289)	(786,289)
Balance, June 30, 2017 (unaudited)	12,000,000	$ 1,200	162,914,899	$ 16,291	$ 11,750,287	$ (13,508,167)	$ (1,740,389)

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

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EXOLIFESTYLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine months ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(786,289)	$(3,907,597)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	16,273	13,750
Amortization of debt discount	240,293	47,594
Gain on settlement of lease	(29,974)	-
Non cash interest	211,514	1,815,591
Gain (loss) on change in fair value of derivative liabilities	(23,944)	1,193,708
Stock based compensation	25,180	396,000
Changes in operating assets and liabilities:		
Accounts and royalties receivable	36,036	(16,449)
Inventory	3,273	(54,129)
Litigation receivable	8,854	15,937
Vendor deposits	40,072	(29,907)
Other prepaid assets	127	(8,211)
Accounts payable and accrued liabilities	140,371	122,393
Customer deposits	4,000	-
Deferred revenue	(30,000)	-
Net cash used in operating activities	(144,214)	(411,320)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash paid to acquire EXO:EXO	-	(22,163)
Purchase of property and equipment	(2,630)	(1,235)
Net cash used in investing activity	(2,630)	(23,398)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from advances	-	12,500
Proceeds from sale of Series A preferred stock	1,000	-
Proceeds from short term notes payable	35,900	7,600
Proceeds from issuance of convertible notes payable	134,000	150,000
Repayments of short term notes payable	(36,562)	-
Net cash provided by financing activities	134,338	170,100
Net decrease in cash	(12,506)	(264,618)
Cash, beginning of the period	47,224	272,785

Cash, end of the period	$34,718	$8,167
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$5,060	$-
Cash paid during the period for income taxes	$-	$-
Non cash investing and financing activities:		
Beneficial conversion feature relating to convertible note payable	$-	$80,769
Common stock issued in settlement of convertible notes	$426,216	$27,719
Common stock issued to acquire EXO:EXO	$-	$1,315,000

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

EXOLIFESTYLE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying unaudited condensed consolidated financial statements follows:

Business and Basis of Presentation

PF Hospitality Group, Inc. (the "Company") was incorporated in Nevada on April 5, 2005 under the name Tomi Holdings, Inc. In October 2005, the Company changed its name to InfraBlue (US), Inc., and in October 2007, changed its name to NextGen Bioscience, Inc. In December 2008, the Company changed its name to Kalahari Greentech, Inc. In May 2015, the Company changed its name to PF Hospitality Group, Inc. Prior to the Company's merger with PF Hospitality Group discussed below, we were a U.S.-based exploration company with a primary focus on projects with prior exploration and production history.

Effective July 1, 2015, the Company merged with Pizza Fusion Holdings, Inc. ("Pizza Fusion"), a franchisor of organic fare pizza restaurants. As a result of the merger, PF Hospitality Group has become a franchisor of pizza restaurants specializing in organic fare free of artificial additives, such as preservatives, growth hormones, pesticides, nitrates and trans fats. Pursuant to the terms of the May 26, 2015 merger agreement, the Company exchanged 17,117,268 shares of its common stock and issued 11,411,512 warrants to purchase the Company's common stock for 100% of the Pizza Fusion common shares. The warrants are exercisable at $0.25 for three years. In addition, the Company issued an aggregate of 2,385,730 warrants to acquire the Company's common stock at $0.25 per share for a period of three years in exchange for previously issued and outstanding warrants of Pizza Fusion Holdings, Inc. Also, Pizza Fusion's two founders purchased 21,441,366 shares of the Company's common stock and 1,000,000 shares of the Company's Series A preferred stock at a price of $.0001 per share. The shares are restricted and subject to the conditions set forth in Rule 144. Holders of convertible debt in the original principal amount of $65,600 agreed as part of the merger to limit the number of shares convertible pursuant to such debt at 40,000,000 shares of our common stock. As the owners and management of Pizza Fusion Holdings, Inc. obtained voting and operating control of PF Hospitality Group, Inc. after the merger and PF Hospitality Group, Inc. was non-operating and did not meet the definition of a business, the transaction has been accounted for as a recapitalization of Pizza Fusion Holdings, Inc., accompanied by the issuance of its common stock for outstanding common stock of PF Hospitality Group, Inc., which was recorded at a nominal value. The accompanying financial statements and related notes give retroactive effect to the recapitalization as if it had occurred on November 6, 2006 (inception date) and accordingly all share and per share amounts have been adjusted.

On December 16, 2015, the Company entered into and closed under the terms of a stock exchange agreement (the "Stock Exchange Agreement") the Company entered into with EXO:EXO, Inc. ("EXO") and Sloane McComb (EXO's sole shareholder) pursuant to which the Company agreed to acquire all of the issued and outstanding shares of EXO from Ms. McComb in exchange for (i) the issuance to Ms. McComb of 500,000 shares of our unregistered common stock, (ii) a payment of $25,000 to Ms. McComb, (iii) the payment of up to $20,000 to a third party for the payment of certain debts of EXO, and (iv) certain contingent performance considerations.

In 2017, the Company dissolved Shaker & Pie, Inc., an inactive wholly owned subsidiary of the Company.

The consolidated financial statements include the accounts of PF Hospitality Group, Inc. and its wholly owned subsidiaries, Pizza Fusion Holdings, Inc. and EXO (hereafter referred to as the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

EXOLIFESTYLE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations (Regulation S-X) of the Securities and Exchange Commission (the “SEC”) and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three and nine months ended June 30, 2017 are not necessarily indicative of the operating results that may be expected for the year ended September 30, 2017. These unaudited condensed consolidated financial statements should be read in conjunction with the September 30, 2016 consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery of the product or service has occurred, all obligations have been performed pursuant to the terms of the agreement, the sales price is fixed or determinable, and collectability is reasonably assured.

Royalty and franchise income

In connection with its franchising operations, the Company receives initial franchise fees, area development fees, franchise deposits and royalties which are based on sales at franchised restaurants.

Franchise fees, which are typically received prior to completion of the revenue of the revenue recognition process, are deferred when received. Such fees are recognized as income when substantially all services to be performed by the Company and conditions related to the sale of the franchise have been performed or satisfied, which generally occurs when the franchised restaurant commences operations.

Development agreements require the developer to open a specified number of restaurants in the development area within a specified time period or the agreements may be cancelled by the Company. Fees from development agreements are deferred when received and recognized as income as restaurants in the development area commence operations on a pro rata basis to the minimum number of restaurants required to be open.

Deferred franchise fees and development fees are classified as current or long term in the financial statements based on the projected opening date of the restaurants. Royalty fees, which are based upon a percentage of franchise sales, are made by the franchisee.

Sales

Sales are generated from an online process either through a web site or through third party providers such as Amazon. Collections are received at the point of sales.

During the nine months ended June 30, 2017, sales were comprised of sports products from the Company's wholly owned subsidiary, EXO.

Inventory

The Company maintains an inventory, which consists primarily of packaged, delivered sports product. The Company acquires its entire inventory in a completed (finished goods) condition. The average cost method is utilized in valuing the inventory, and is stated at the lower of cost or market.

As of June 30, 2017, the Company's inventory was comprised of available for sale athletic sporting goods and apparel, was $104,022.

EXOLIFESTYLE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

Cost of sales

Cost of sales is comprised of cost of product sold, packaging, and shipping costs from the manufacturer.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates include the recoverability and useful lives of long-lived assets, the fair value of the Company's stock, stock-based compensation, debt discounts and the fair values of derivative liabilities. Actual results may differ from these estimates.

Fair Value of Financial Instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of June 30, 2017 and September 30, 2016. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, notes payable, convertible notes payable, derivative liabilities and accounts payable. Fair values were assumed to approximate carrying values for cash and payables because they are short term in nature and their carrying amounts approximate fair values or they are payable on demand.

Impairment of Long-Lived Assets

The Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value.

At September 30, 2016 and 2015, the Company management performed an evaluation of its acquired intangible assets for purposes of determining the implied fair value of the assets at September 30, 2016 and 2015. The tests indicated that the recorded remaining book value of its intangible assets did not exceed its fair value for the years ended September 30, 2016 and 2015; and no impairment was deemed to exist as of September 30, 2016 and 2015. Considerable management judgment is necessary to estimate the fair value. Accordingly, actual results could vary significantly from management's estimates.

Derivative Liability

The Company accounts for derivatives in accordance with ASC 815, which establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other financial instruments or contracts and requires recognition of all derivatives on the balance sheet at fair value, regardless of hedging relationship designation. Accounting for changes in fair value of the derivative instruments depends on whether the derivatives qualify as hedge relationships and the types of relationships designated are based on the exposures hedged. At June 30, 2017 and September 30, 2016, the Company did not have any derivative instruments that were designated as hedges. See Notes 7 and 8 for discussion of the Company's derivative liabilities.

EXOLIFESTYLE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

Convertible Instruments

GAAP requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The 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. An exception to this rule is when the host instrument is deemed to be conventional, as that term is described under applicable GAAP.

When the Company has determined that the embedded conversion options should not be bifurcated from their host instruments, 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 stated date of redemption.

On December 31, 2015, the Company determined that the conversion provisions embedded in issued convertible debentures met the defined criteria of a derivative in such that the net settlement requirement of delivery of common shares did meet the “readily convertible to cash” as described in Accounting Standards Codification 815 and therefore bifurcation is required.

Segment Information

Accounting Standards Codification subtopic Segment Reporting 280-10 (“ASC 280-10”) establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. ASC 280-10 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. The information disclosed herein materially represents all of the financial information related to the Company's only material principal operating segment.

Net Income (Loss) per Share

The Company computes basic net income (loss) per share by dividing net income (loss) per share available to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the "treasury stock" and/or "if converted" methods as applicable.

The computation of basic and diluted income (loss) per share for the nine months ended June 30, 2017 and 2016 excludes potentially dilutive securities when their inclusion would be anti-dilutive, or if their exercise prices were greater than the average market price of the common stock during the period.

EXOLIFESTYLE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

Potentially dilutive securities excluded from the computation of basic and diluted net income (loss) per share are as follows:

	June 30, 2017	June 30, 2016
Convertible notes payable	713,923,040	37,342,215
Options to purchase common stock	2,500,000	-
Warrants to purchase common stock	13,797,242	13,797,242
Totals	730,220,282	51,139,457

Stock-Based Compensation

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on vesting dates and interim financial reporting dates until the service period is complete. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period. Stock-based compensation expense is recorded by the Company in the same expense classifications in the consolidated statements of operations, as if such amounts were paid in cash.

Registration Rights

The Company accounts for registration rights agreements in accordance with the Accounting Standards Codification subtopic 825-20, Registration Payment Arraignments (“ASC 825-20”). Under ASC 825-20, the Company is required to disclose the nature and terms of the arraignment, the maximum potential amount and to assess each reporting period the probable liability under these arraignments and, if exists, to record or adjust the liability to current period operations. On June 30, 2017, the Company determined that possible payments under its registration rights agreement was not probable and therefore did not accrue as interest expense in current period operations for possible liability under the registration rights agreements.

Recent Accounting Pronouncements

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

2. GOING CONCERN AND MANAGEMENT'S LIQUIDITY PLANS

The Company's unaudited condensed consolidated financial statements are prepared using generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred significant recurring losses which have resulted in an accumulated deficit of $13,508,167, net loss of $786,289 and net cash used in operations of $144,214 for the nine months ended June 30, 2017 which raises substantial doubt about the Company's ability to continue as a going concern.

During the nine months ended June 30, 2017, the Company raised $134,000, $35,900 and $1,000 in cash proceeds from the issuance of convertible promissory notes, short term notes and sale of preferred stock, respectively. The Company believes that its current cash on hand will not be sufficient to fund its projected operating requirements through September 2017.

EXOLIFESTYLE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

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

Accordingly, the accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which contemplate continuation of the Company as a going concern and the realization of assets and satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values. The condensed consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

3. DEFERRED INCOME AND CUSTOMER DEPOSITS

The Company has received advances from customers seeking to purchase a franchise. The deposits are classified as customer deposits until a franchise agreement is signed. Once a franchise agreement is signed the advances are nonrefundable and reclassified to deferred income. The franchisee has the responsibility to complete the build out of the restaurant within the time designated in the franchise agreement (generally 5 years). Once the restaurant build out is complete and is operational the Company recognizes the franchise fee as revenues. If the franchisee fails to complete the build out within the required period the franchise fee is forfeited and the Company recognizes the fee as income.

4. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2017 and September 30, 2016 is summarized as follows:

	June 30, 2017	September 30, 2016
Construction in process	$-	$18,150
Equipment	70,627	67,997
Leasehold improvements	12,232	12,232
Furniture and fixtures	42,584	42,584
Subtotal	125,443	140,963
Less accumulated depreciation	(104,162)	(92,299)
Property and equipment, net	$21,281	$48,664

Depreciation expense for the three and nine months ended June 30, 2017 was $3,625 and $11,863, respectively; and $3,255 and $9,340 for the three and nine months ended June 30, 2016, respectively.

During the nine months ended June 30, 2017, the Company settled its outstanding proposed Shaker & Pie operating leases and construction. As such, the Company realized a gain on settlement of $29,974.

EXOLIFESTYLE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

5. INTANGIBLE ASSETS

Intangible assets as of June 30, 2017 and September 30, 2016 are summarized as follows:

	June 30, 2017	September 30, 2016
Franchise and trademark rights	$71,949	$71,949
Trademark costs	45,429	45,429
Website	43,625	43,625
Subtotal	161,003	161,003
Less accumulated depreciation	(54,303)	(49,893)
Intangible assets, net	$106,700	$111,110

Amortization expense for the three and nine months ended June 30, 2017 was $1,470 and $4,410, respectively; and $1,470 and $4,410 for the three and nine months ended June 30, 2016, respectively.

6. NOTES PAYABLE

On July 10, 2014 the Company issued a note payable with face value $50,000, non-interest bearing, due on demand. The balance as of June 30, 2017 and September 30, 2016 was $50,000.

On June 9, 2016, the Company issued an unsecured promissory note with a face value of $7,600 with additional borrowing of 3,800 during the nine months ended June 30, 2017. The promissory note bears interest at 8% and is due six months from advances with monthly payments of $1,347 per month. The balance as of June 30, 2017 and September 30, 2016 was $-0- and $3,502, respectively.

On September 8, 2016, the Company issued an unsecured factoring agreement with a face value of $8,750, bearing an estimated interest rate of 13% whereby the Company will remit daily a portion of their collected receivables until repaid, including interest. The balance as of June 30, 2017 and September 30, 2016 was $-0- and $6,660, respectively.

On June 20, 2017, the Company issued an unsecured note with a face value of $9,500. The note bears interest at 23.09% and is due six months with average monthly payments of $1,710 per month. The balance as of June 30, 2017 and September 30, 2016 was $9,500- and $0-, respectively.

On December 9, 2016, the Company issued an unsecured factoring agreement with a face value of $22,600, bearing an estimated interest rate of 15% whereby the Company will remit daily a portion of their collected receivables until repaid, including interest. The balance as of June 30, 2017 was $-0-.

7. CONVERTIBLE NOTES PAYABLE

Convertible notes payable as of June 30, 2017 and September 30, 2016 is summarized as follows:

	June 30, 2017	September 30, 2016
Notes payable, acquired in recapitalization	$2,136	$37,991
Notes payable, due July 27, 2020, net of unamortized debt discounts of $322,094 and $314,006, respectively	297,457	271,544
Note payable, due July 20, 2020, net of unamortized debt discounts of $86,143 and $190,144, respectively	26,630	9,856
Note payable, due August 5, 2020, net of unamortized debt discount of $43,045 and $53,426	12,510	2,129
Subtotal	338,733	321,520
Less current maturities	(2,136)	(37,991)
Long term portion	$336,597	$283,529

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EXOLIFESTYLE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Under the terms of the securities purchase agreement dated July 27, 2015, the Company issued and sold an aggregate of $1,347,334 principal amount of convertible debentures due July 27, 2020 for a price of $1,214,000. Proceeds from this debenture will be paid to the company as follows: $140,000 upon signing with the balance payable in five consecutive monthly installments of $212,000 commencing on September 1, 2015. The company agreed to pay interest for the first 12 months at the rate of 10% per annum on the amounts advanced payable in cash in six equal tranches, the first of which is due on date the company closed on the financing and remainder will be due on each of the first five monthly anniversaries of such date.

As of June 30, 2017, the Company has received net proceeds of $597,000 under the security purchase agreement and $250,000 not under the security purchase agreement (same terms and conditions).

The terms of the Securities Purchase Agreement contain certain negative covenants by the company, unless consent of purchasers holding at least 75% of the aggregate principal amount of the outstanding debentures, including prohibitions on: incurrence of certain indebtedness and liens, amendment to our articles of incorporation or bylaws, repayment or repurchase of the company’s common stock or debts, sell substantially all of its assets or merger with another entity, pay cash dividends or enter into any related party transactions. The Company granted investors certain pro-rata rights of first refusal on future offerings by the company for as long as the investor(s) beneficially own any of the debentures.

The debentures are convertible into shares of the company’s common stock at a conversion price initially equal to 65% of the lowest traded price of its common stock for the twenty trading days prior to each conversion date subject to adjustment. In July 2016, the percentage was reduced (reset) from 65% to 50% of those notes under the Securities Purchase Agreement. The conversion price of the debentures is subject to proportional adjustment in the event of stock splits, stock dividends and similar corporate events. In addition, the conversion price is subject to adjustment if the company issues or sells shares of its common stock for a consideration per share less than the conversion price then in effect, or issue options, warrants or other securities convertible or exchange for shares of its common stock at a conversion or exercise price less than the conversion price of the debentures then in effect. If either of these events should occur, the conversion price is reduced to the lowest price at which these securities were issued or are exercisable.

At the time of issuance and until December 31, 2015, the Company determined that the conversion provisions embedded in issued convertible debentures did not meet the defined criteria of a derivative in such that the net settlement requirement of delivery of common shares does not meet the "readily convertible to cash" as described in Accounting Standards Codification 815 and therefore bifurcation was not required. There was no established market for the Company's common stock. As of December 31, 2015, the Company determined a market had been established for the Company's common stock and accordingly, reclassified from equity to liability treatment the initial previously recorded beneficial conversion feature of the conversion provision of $270,306.

The Company determined the fair value of the embedded conversion provisions of the debentures of $2,085,898 at December 31, 2015 using the Multinomial Lattice pricing model and the following assumptions: estimated contractual terms, a risk free interest rate of 1.76%, a dividend yield of 0%, and volatility of 56.38%. The fair value derivative liability of $2,085,898 was recorded as a liability at December 31, 2015 and a charge to current period interest of $1,815,591 representing the excess in fair value of the liability from the initially recorded beneficial conversion feature reclassified from equity.

During the nine months ended June 30, 2017, the Company issued an aggregate of $134,000 convertible debentures. The Company determined the initial fair value of the embedded conversion provisions of the debentures of $345,514 at issuance date using the Multinomial Lattice pricing model and the following assumptions: estimated contractual terms, a risk free interest rate of 0.98% to 1.54%, a dividend yield of 0%, and volatility of 61.21% to 62.29%. The determined fair value of the derivative liability of 345,514 was charged as a debt discount up to the net proceeds of the notes with the remainder of $211,514 charged to current period operations as non-cash interest expense.

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At June 30, 2017, the fair value of the embedded conversion provisions of the debentures of $1,170,934 was determined using the Binomial Option Pricing model with the following assumptions: dividend yield: 0%; volatility: 61.11%; risk free rate: 1.55%; and expected life: 3.06 to 3.10 years. The Company recorded a (loss) gain on change in derivative liabilities of $(260,711) and $23,944 during the three and nine months ended June 30, 2017, respectively.

During the nine months ended June 30, 2017, the Company issued an aggregate of 55,678,402 shares of its common stock in settlement of $187,226 of the outstanding convertible notes.

For the three and nine months ended June 30, 2017, the Company amortized $106,943 and $240,293 of debt discount and original issuance discounts to period operations as interest expense, respectively; and for the three and nine months ended June 30, 2016, the Company amortized $16,810 and $47,594 of debt discount and original issuance discounts to period operations as interest expense, respectively.

Under the terms of a Registration Rights Agreement entered into as part of the offering, the company agreed to file a registration statement with the Securities and Exchange Commission within 60 days of the closing date covering the public resale of the shares of common stock underlying the debentures, and to use its best efforts to cause the registration statement to be declared effective within 180 days from the closing date. Should the number of shares of common stock the company is permitted to include in the initial registration statement be limited pursuant to Rule 415 of the Securities Act of 1933, the company further agreed to file additional registration statements with the SEC to register any remaining shares. The Company will pay all costs associated with the registration statements, other than underwriting commissions and discounts. The parties to the Registration Rights Agreement have agreed to defer the Company’s obligation to file a registration statement until further notice by the holders of the convertible debt.

From March 19, 2013 through October 4, 2013, the Company entered into promissory notes for an aggregate of $65,600 in cash. The notes are unsecured, interest bearing at 10% per annum (18% upon default), and matured from September 19, 2013 through April 4, 2014. The notes were initially convertible at the option of the Company at a fixed price of $0.20 per share.

In connection with the recapitalization, the holders of convertible debt in the original principal amount of $65,600 agreed as part of the merger to limit the number of shares convertible pursuant to such debt and accrued interest into 40,000,000 shares of our common stock.

During the nine months ended June 30, 2017, the Company has issued an aggregate of 24,484,042 shares of its common stock in settlement of $35,855 of promissory notes.

8. DERIVATIVE LIABILITIES

As described in Note 7, the Company issued convertible notes that contain conversion features and reset provision. The accounting treatment of derivative financial instruments requires that the Company record fair value of the derivatives as of the inception date and to fair value as of each subsequent reporting date.

9. STOCKHOLDERS' DEFICIT

Preferred stock

The Company is authorized to issue 20,000,000 shares of $0.0001 par value preferred stock as of June 30, 2017 and September 30, 2016. As of June 30, 2017, the Company has designated and sold 12,000,000 shares of Series A Preferred Stock.

Each share of Series A Preferred Stock is entitled to 125 votes on all matters submitted to a vote to the stockholders of the Company, does not have conversion, dividend or distribution upon liquidation rights.

EXOLIFESTYLE, INC.

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Common stock

The Company is authorized to issue 500,000,000 shares of $0.0001 par value common stock as of June 30, 2017 and September 30, 2016. As of June 30, 2017 and September 30, 2016, the Company had 162,914,899 and 82,302,455 common shares issued and outstanding.

During the nine months ended June 30, 2017, the Company issued an aggregate of 55,678,402 shares of its common stock in settlement of $187,226 of the outstanding convertible notes.

During the nine months ended June 30, 2017, the Company has issued an aggregate of 24,484,042 shares of its common stock in settlement of $35,855 of promissory notes.

During the nine months ended June 30, 2017, the Company issued 450,000 shares of its common stock for services valued at $1,215.

Options

On January 10, 2017, the Company issued an option to a key employee to acquire 5,000,000 shares of the Company’s common stock at $0.02 per share. The option vests as to 50% (2,500,000 shares) on July 10, 2017, and as to the remaining 50% (2,500,000 shares) on January 10, 2018. The option period expires on January 10, 2027.

The following assumptions were used in determining the fair value of employee option issued January 10, 2017:

Risk-free interest rate	2.53 %
Dividend yield	0 %
Stock price volatility	62.62 %
Expected life	10 years
Weighted average grant date fair value	$00.76

The following table presents information related to stock options at June 30, 2017:

Options Outstanding			**Options Exercisable**
		Weighted Average	**Exercisable**
Exercise Price	**Number of Options**	**Remaining Life In Years**	**Number of Options**
$0.2	5,000,000	9.54	2,500,0000

A summary of the stock option activity for the nine months ended June 30, 2017 is as follows:

	Shares	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at September 30, 2016	-			
Grants	5,000,000	$ 0.02	10.0	$ -
Exercised	-			
Canceled	-			
Outstanding at June 30, 2017	5,000,000	$ 0.02	9.54	$ -
Exercisable at June 30, 2017	2,500,000	$ 0.02	9.54	$ -

EXOLIFESTYLE, INC.

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The aggregate intrinsic value in the preceding tables represents the total pretax intrinsic value, based on options with an exercise price less than the Company's stock price of $0.0025 as of June 30, 2017, which would have been received by the option holders had those option holders exercised their options as of that date.

Option valuation models require the input of highly subjective assumptions. The fair value of stock-based payment awards was estimated using the Black-Scholes option model with a volatility figure derived from an index of historical stock prices of comparable entities until sufficient data exists to estimate the volatility using the Company's own historical stock prices. Management determined this assumption to be a more accurate indicator of value. The Company accounts for the expected life of options based on the contractual life of options for non-employees.

For employees, the Company accounts for the expected life of options in accordance with the contract terms. The risk-free interest rate was determined from the implied yields of U.S. Treasury zero-coupon bonds with a remaining life consistent with the expected term of the options. The fair value of stock-based payment awards during the nine months ended June 30, 2017 and 2016 was estimated using the Black-Scholes pricing model.

The fair value of all options vesting during the three and nine months ended June 30, 2017 of $12,753 and $23,965, respectively, was charged to current period operations. Unrecognized compensation expense of $14,137 at June 30, 2017 will be expensed in future periods.

Warrants

The following table summarizes information with respect to outstanding warrants to purchase common stock of the Company, all of which were exercisable, at June 30, 2017:

Exercise Price	Number Outstanding	Expiration Date
$ 0.25	13,797,242	July 2018

In Connection with the merger agreement, the Company issued an aggregate of 13,797,242 warrants to acquire the Company's common stock at $0.25 per share for a period of three years. 11,411,512 warrants were issued as part of the exchange consideration to acquire 100% of the common stock of Pizza Fusion and 2,385,730 shares were issued in exchange for previously issued and outstanding warrants of Pizza Fusion Holdings, Inc.

A summary of the warrant activity for the nine months ended June 30, 2017:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2016	13,797,242	$ 0.25	1.75	$ -
Grants	-			
Exercised	-			
Canceled	-			
Outstanding at June 30,2017	13,797,242	$ 0.25	1.00	$ -
Vested and expected to vest at June 30, 2017	13,797,242	$ 0.25	1.00	$ -
Exercisable at June 30, 2017	13,797,242	$ 0.25	1.00	$ -

EXOLIFESTYLE, INC.

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The aggregate intrinsic value in the preceding tables represents the total pretax intrinsic value, based on warrants with an exercise price less than the Company’s management estimated market stock price as of June 30, 2017, which would have been received by the warrant holders had those warrant holders exercised their warrants as of that date.

10. COMMITMENTS AND CONTINGENCIES

Debt assumption/indemnification

In connection with the merger on July 1, 2015, previous officers of PF Hospitality Group, Inc. assumed and indemnified the Company for an aggregate of $590,990 outstanding debt, all of which was considered old, unidentified and considered due by the previous management.

Litigation

The Company is subject at times to legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity. There was no outstanding litigation as of June 30, 2017.

11. RELATED PARTY TRANSACTIONS

The Company’s current and former officers and stockholders advance funds to the Company for travel related and working capital purposes. As of June 30, 2017 and September 30, 2016, there were no related party advances outstanding.

As of June 30, 2017 and September 30, 2016, accrued compensation due officers and executives included in accounts payable was $884,469 and $796,496, respectively.

12. FAIR VALUE MEASUREMENTS

ASC 825-10 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. ASC 825-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 825-10 establishes three levels of inputs that may be used to measure fair value:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and are unobservable.

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Items recorded or measured at fair value on a recurring basis in the accompanying unaudited condensed consolidated financial statements consisted of the following items as of June 30, 2017:

	Level 1	**Level 2**	**Level 3**	**Total**
Long-term investments	$ –	$ –	$–	$–
Total	$ –	$ –	$–	$–
Derivative liabilities	$ –	$ –	$1,170,934	$1,170,934
Total	$ –	$ –	$1,170,934	$1,170,934

The table below sets forth a summary of changes in the fair value of the Company's Level 3 financial liabilities (derivative liability) for the nine months ended June 30, 2017.

Nine months ended June 30, 2017:

	Derivative Liabilities
Balance, October 1, 2016	$1,043,479
Transfers in: from equity the initial beneficial conversion feature From initial fair value of derivative liability upon debenture issuance	134,000
Transfers out: upon payoff or conversion of debentures	(194,115)
Adjustment to interest expense the excess of fair value of fair value of derivative liabilities	211,514
Mark-to-market at June 30, 2017:	(23,944)
Balance, June 30, 2017	$1,170,934
Net income for the period included in earnings relating to the liabilities held at June 30, 2017	$23,944

Level 3 Liabilities were comprised of our bifurcated convertible debt features on our convertible notes (see Note 7).

13. SUBSEQUENT EVENTS

On August 17, 2017, EXOlifestyle, Inc. (the "Company") entered into an Acquisition Agreement with Sun Pacific Power Corp. ("SPPC") whereby 100% of SPPC was purchased for certain shares of common and preferred shares of the Company (the "Agreement"). Pursuant to the Agreement the shareholders of SPPC shall exchange their shares for shares of EXOL as follows:

The holders of Series 1-A Preferred shares of SPPC shall receive exactly 0.9764 share of newly designated Series B Preferred Shares (the "EXOL Series B Shares" described in Item 5.03 below) in exchange for each share of Series 1-A Preferred of SPPC. The EXOL Series B Preferred Shares shall automatically convert at a rate of 30.8565 of common shares for each share of EXOL Series B Preferred Share upon the effectiveness of a reverse stock split of 50:1, which the Board of Directors has recommended to the shareholders. The Series B Preferred Share have voting rights equal to the aggregate common shares upon conversion.

The holders of the Series B Preferred Shares of SPPC shall each receive 1 share of the newly designated Series C Preferred Shares of the Company in exchange for each share of the Series B Preferred Shares of SPPC (described in Section 5.03 below). EXOL Series C Preferred Shares have not voting rights and shall automatically redeem 24 months from issuance.

The holders of common shares of SPPC shall each receive 8.83 shares of common stock of EXOL in exchange for each share of SPPC common stock for a total of 284,248,605 shares.

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EXOLIFESTYLE, INC.

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The closing of the Agreement was further conditioned upon the following:

Randy Romano, current Director of the Company, agreed to exchange all outstanding warrants held by Mr. Romano for 11,685 shares of the newly designated Series B Preferred stock described herein.

Vaugan Dugan, current Director of the Company, agreed to exchange all outstanding warrants held by Mr. Romano for 11,964 shares of the newly designation Series B Preferred stock described herein.

Within 15 days of closing of the Agreement, Mr. Nicholas Campanella, Director and CEO of SPPC, shall enter into a settlement of certain debts owed by SPPC to Mr. Campanella in exchange for a profit sharing arrangement, final terms to be determined.

Upon closing, Randy Romano and Vaughan Dugan shall resign as Directors of the Company and the following persons shall be appointed to the Board of Directors. More detail on the incoming board of directors is provided under Item 5.02, below.

Party	**Position**
Nicholas Campanella	*Director, CEO, President*
Gregory Rodman	*Director*
Vincent Randanzzo	*Director*
Sumair Mitroo	*Director*
William Singer	*Director*

Upon closing of the Agreement, SPPC will become a wholly owned subsidiary of the Company. More details can be found in the Form 8-K filed on August 17, 2017

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

Overview

We are a management firm which creates and cultivates innovative lifestyle brands within the retail industry featuring functional sports apparel brands under our EXO:EXO line of branded products. In addition, we founded the all-natural and organic pizza franchise, Pizza Fusion with locations in selected markets in the United States, Saudi Arabia, and the United Arab Emirates.

EXO:EXO

Through our wholly owned subsidiary EXO:EXO, Inc., (EXO) which we acquired on December 16, 2015, we design and produce compression knee sleeves and other functional sports gear products utilized in weightlifting, CrossFit, powerlifting, Olympic weightlifting, endurance training, boot camps, circuit training programs, and strength training protocols. The brand is currently offered in national fitness retailers and sold through major online stores globally.

As part of our plans to expand the core EXO product lines, on April 5, 2016 we announced the relaunch of EXO’s consumer facing website, www.exosleeve.com, featuring a full portfolio of athletic sleeves, knee and wrist wraps, workout apparel and product information that offers consumers a more user-engaging manner. In an effort to rapidly expand the brand, EXO has also established several wholesale relationships with on-line retailers such as Rogue Fitness and WOD Superstore.

While building EXO’s retail and business-to-business business to grow our wholesale sales channel, EXO has also been developing a new active wear line to include workout shorts, tops, tanks, leggings and sports bras, which are all now available on our updated, consumer-friendly website.

EXO has a strong foothold as the brand of choice for numerous elite functional fitness athletes including Christmas Abbott CrossFit Games Competitor, Olympic Weightlifter, and first female NASCAR Pit Crew member, Noah Ohlsen, and Brooke Ence elite CrossFit Games athletes. Expanding upon its popularity among elite athletes, on April 7, 2016 we announced that 2016 NFL Atlanta Falcon first round draft pick Keanu Neal signed a non-binding memorandum of understanding to become a brand ambassador for EXO’s Athletic Brand division.

Looking towards the future, we are evaluating options for in-house fulfillment and logistics processes and fully expect that EXO will drive solid opportunities for expansion. Our management believes that leveraging the infrastructure and operations teams will lead to further acquisitions of undervalued brands in need of our managerial talent and cost control procedures.

Pizza Fusion Operations

Pizza Fusion was incorporated under the laws of the State of Florida on November 6, 2006. This company franchises restaurants emphasizing the preparation of food with high quality organic and fresh ingredients for pizza and other menu items. Management has made the determination that its Pizza Fusion hospitality operations are not aligned with the company’s fitness apparel operations.

As of June 30, 2017, we franchised a total of 8 Pizza Fusion locations (five in the U.S. and three in Saudi Arabia). Four of the five U.S. locations have ceased paying royalties to the Company, as a result the Company has and will continue to see a reduction in royalty income. We have also seen a reduction of four of the seven locations in Saudi Arabia as a result of weakening demand stemming from reductions in discretionary spending due to continued world-wide reductions in the price of and demand for crude oil. On April 15, 2017 the Ridgewood, New Jersey location closed. In August 2017, we anticipate an additional U.S. location opening on the campus of Old Dominion University in Virginia under our licensing agreement with Aramark Foods. On February 20, 2017, the Company entered into a master development agreement whereby the Company granted exclusive rights to develop the Pizza Fusion brand in certain middle eastern countries (as defined) . In connection with the agreement, the Company received $125,000 as initial fee and is scheduled to receive royalties as restaurants are developed. As a result of the above, royalty income was $165,520 for the nine months ended June 30, 2017, an increase of $42,678 from the same period in 2016.

Results of Operations

Three months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Total Revenue. For three months ended June 30 2017, total revenue increased by $81,151 to $223,649 compared to $142,498 in the same period in fiscal 2016. The increase in revenue for the three months ended June 30, 2017 was related to $123,325 increase in sales from EXO which we acquired in December 2015, net with a decrease in royalty income of 42,174. The reduction of royalty income was due to the closure of five Pizza Fusion locations in Saudi Arabia.

Cost of sales. Cost of sales was $126,358 or 58% of related sales for the three months ended June 30, 2017 giving us a gross profit from sales of $90,069 or 42% as compared to a cost of sales of $57,952 (62%) and a gross profit of $35,150 (38%) for the same period last year.

Total Operating Expenses. For three months ended June 30, 2017, total operating expenses decreased 7.6% to $203,632 compared to $220,502 for same period in fiscal 2016. The decrease is primarily to a decrease in service provider costs from fiscal 2016 to 2017. Our payroll, selling, general and administrative expenses and depreciation increased by $29,392 due to our acquisition of EXO subsidiary in fiscal 2017 as compared to 2016.

Loss on change in fair value of derivative liabilities. Beginning in fiscal 2015, we have issued convertible notes with an embedded derivative, all requiring us to fair value the derivatives each reporting period and mark to market as a non-cash adjustment to our current period operations. This resulted in a loss of $260,711 and $2,652,219 on change in fair value of derivative liabilities for the three months ended June 30, 2017 and 2016, respectively.

Interest expense. Interest expense for the three months ended June 30, 2017 and 2016 was $124,081 and $16,810, respectively. Included in the interest was non-cash amortization of debt discounts and non-cash related to our issued convertible notes of $111,379 for the three months ended June 30, 2017 as compared to $16,810 for the same period last year.

Net Loss. As a result of the above, the net income for three months ended June 30, 2017 decreased $2,313,852, or 82.5%, to $491,133 compared to $2,804,985 in the same period, last year.

Nine months Ended June 30, 2017 Compared to Nine Months Ended June 30, 2016

Total Revenue. For nine months ended June 30 2017, total revenue increased by $430,433 to $742,654 compared to $312,221 in the same period in fiscal 2016. The increase in revenue for the nine months ended June 30, 2017 was related to both a $387,755 increase in sales from EXO which we acquired in December 2015 and an increase in royalty income of 42,678. The increase in royalty income is the result of us signing a master development agreement for certain Middle Eastern countries during the nine months ended June 30, 2017, offset by a reduction of approximately $82,322 in royalty income due to the closure of five Pizza Fusion locations in Saudi Arabia.

Cost of sales. Cost of sales was $319,828 or 55% of related sales for the nine months ended June 30, 2017 giving us a gross profit from sales of $257,306 or 45% as compared to a cost of sales of $98,240 (52%) and a gross profit of $91,139 (48%) for the same period last year. In 2017, we are focusing more towards wholesale with higher volumes, but lower margins.

Total Operating Expenses. For nine months ended June 30, 2017, total operating expenses decreased 29.4% to $748,394 compared to $1,060,049 for same period in fiscal 2016. The decrease is primarily to a decrease from $396,000 to $25,180 in stock based compensation from fiscal 2016 to 2017. Our payroll, selling, general and administrative expenses and depreciation increased by $90,252 due to our acquisition of EXO subsidiary in fiscal 2017 as compared to 2016.

Gain on change in fair value of derivative liabilities. Beginning in fiscal 2015, we have issued convertible notes with an embedded derivative, all requiring us to fair value the derivatives each reporting period and mark to market as a non-cash adjustment to our current period operations. This resulted in a gain (loss) of $23,944 and $(1,193,708) on change in fair value of derivative liabilities for the nine months ended June 30, 2017 and 2016, respectively.

Interest expense. Interest expense for the nine months ended June 30, 2017 and 2016 was $514,639 and $1,867,821, respectively. Included in the interest was non-cash amortization of debt discounts and non-cash related to our issued convertible notes of $451,807 for the nine months ended June 30, 2017 as compared to $1,863,185 for the same period last year.

Net Loss. As a result of the above, the net loss for nine months ended June 30, 2017 decreased $3,121,308, or 79.9%, to $786,289 compared to $3,907,597 in the same period, last year.

Liquidity and Capital Resources

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements.

Nine Months Ended June 30, 2017 Compared to Nine Months Ended June 30, 2016

As of June 30, 2017, our working capital deficit (current liabilities in excess of current assets) amounted to $1,237,779, an increase of $120,723 as compared to working capital deficit of $1,117,056 as of September 30, 2016. This increase is primarily a result of a $28,709 increase in current liabilities and reduction of $92,014 in current assets. Working capital at June 30, 2017 included primarily cash of $34,718, accounts and royalty receivables of $3,177, inventory of $104,022, vendor deposits of $22,181 and prepaid and other current assets of $7,975, offset by accounts payable and accrued liabilities of $1,124,355, advances of $205,861, customer deposits of $18,000, convertible notes payable of $2,136 and $59,500 of notes payable.

Cash used in operating activities of $144,214 during nine months ended June 30, 2017 was primarily attributable to a net loss of $786,289, partially offset by non-cash interest of $211,514, depreciation and amortization of $256,566, and stock based compensation of $25,180, offset by gain on change in derivative liability of $23,944, gain on settlement of lease of $29,974 and changes in operating assets and liabilities of $202,733.

Cash used in investing activities was $2,630 during nine months ended June 30, 2017 comprised purchases of property and equipment.

Cash provided by financing activities of $134,338 during nine months ended June 30, 2017 was attributable to proceeds from issuance of convertible notes of $134,000, $35,900 from issuance of notes payable and $1,000 sale of preferred stock, net with repayments of $36,562. Cash provided by financing activities of $170,100 during nine months ended June 30, 2016 was attributable to proceeds from convertible notes, short term notes and advances of $150,000, $7,600 and $12,500, respectively.

Capital Resources

We expect to incur a minimum of $500,000 in expenses during the next twelve months of operations as we expand our EXO operations. We estimate that this will be comprised of approximately $300,000 towards inventory and marketing costs and approximately $200,000 will be needed for general overhead expenses such as for corporate legal and accounting fees, office overhead and general working capital.

We have not determined the amount of funds needed to finance our growth plans. In the event we run into cost overruns or lower than anticipated revenues, we will have to raise the funds to pay for these expenses. We potentially will have to issue debt or equity, or enter into a strategic arrangement with other third parties.

We currently have no agreements, arrangements or understandings with any person to obtain funds through bank loans, lines of credit or any other sources. There can be no assurance that additional capital will be available to us. Since we have no other such arrangements or plans currently in effect, our inability to raise funds for the above purposes that exceed our current working capital will have a severe negative impact on our ability to remain a viable company.

Off-Balance Sheet Arrangements

As of June 30, 2017, EXOlifestyles, Inc. did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term “off-balance sheet arrangement” generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have any obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

Auditor’s Opinion Expresses Doubt About the Company’s Ability to Continue as a “Going Concern”

The independent auditor’s report on our September 30, 2016 consolidated financial statements states that the Company’s historical losses and accumulated deficiency raise substantial doubts about the Company’s ability to continue as a going concern, due to the losses incurred and deficiency. If we are unable to develop our business, we will have to reduce, discontinue operations or cease to exist, which would be detrimental to the value of the Company’s common stock. We can make no assurances that our business operations will develop and provide us with significant cash to continue operations.

In order to continue as a going concern, we will need, among other things, additional capital resources. Management’s plan is to obtain such resources for our capital needs by obtaining capital from management and significant shareholders sufficient to meet its operating expenses and planned expansion and seeking equity and/or debt financing. However, management cannot provide any assurances that we will be successful in accomplishing any of our plans.

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

Critical Accounting Policies

We have identified the following policies below as critical to its business and results of operations. Our reported results are impacted by the application of the following accounting policies, certain of which require management to make subjective or complex judgments. These judgments involve making estimates about the effect of matters that are inherently uncertain and may significantly impact quarterly or annual results of operations. For all of these policies, management cautions that future events rarely develop exactly as expected, and the best estimates routinely require adjustment. Specific risks associated with these critical accounting policies are described in the following paragraphs.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

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Impairment of Long-Lived Assets. The Company continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Fair value of Financial Instruments. The fair value of cash and cash equivalents, royalties receivable, prepaid expenses and other assets, accounts payable and accrued liabilities, deferred income, approximates the carrying amount of these financial instruments due to their short-term nature. The fair value of long-term debt, which approximates its carrying value, is based on current rates at which we could borrow funds with similar remaining maturities.

Derivative Liability. The Company accounts for derivatives in accordance with ASC 815, which establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other financial instruments or contracts and requires recognition of all derivatives on the balance sheet at fair value, regardless of hedging relationship designation. Accounting for changes in fair value of the derivative instruments depends on whether the derivatives qualify as hedge relationships and the types of relationships designated are based on the exposures hedged. At June 30, 2017 and September 30, 2016, the Company did not have any derivative instruments that were designated as hedges.

Stock-based Compensation. The Company follows the provisions of ASC 718 which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. The Company uses the Black-Scholes pricing model for determining the fair value of stock-based compensation.

Revenue Recognition. Revenue is recognized when persuasive evidence of an arrangement exists, delivery of the product or service has occurred, all obligations have been performed pursuant to the terms of the agreement, the sales price is fixed or determinable, and collectability is reasonably assured.

Royalty and franchise income

In connection with its franchising operations, the Company receives initial franchise fees, area development fees, franchise deposits and royalties which are based on sales at franchised restaurants.

Franchise fees, which are typically received prior to completion of the revenue of the revenue recognition process, are deferred when received. Such fees are recognized as income when substantially all services to be performed by the Company and conditions related to the sale of the franchise have been performed or satisfied, which generally occurs when the franchised restaurant commences operations.

Development agreements require the developer to open a specified number of restaurants in the development area within a specified time period or the agreements may be cancelled by the Company. Fees from development agreements are deferred when received and recognized as income as restaurants in the development area commence operations on a pro rata basis to the minimum number of restaurants required to be open.

Deferred franchise fees and development fees are classified as current or long term in the financial statements based on the projected opening date of the restaurants. Royalty fees, which are based upon a percentage of franchise sales, are made by the franchisee.

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Sales

Sales are generated from an online process either through a web site or through third party providers such as Amazon. Collections are received at the point of sales.

During the nine months ended June 30, 2017, sales were comprised of sports products from the Company's wholly owned subsidiary, EXO.

Recent Accounting Pronouncements

We implemented all new accounting standards that are in effect and that may impact its consolidated financial statements. We do not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on the consolidated financial position or results of operations.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act that are designed to ensure that information required to be disclosed in our reports filed or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that information is accumulated and communicated to management, including our Chief Executive Officer and President who acts as our chief financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosures. Our Chief Executive Officer and President evaluated the effectiveness of disclosure controls and procedures as of June 30, 2017 pursuant to Rule 13a-15(b) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and President concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were not effective to ensure that information required to be included in our periodic SEC filings is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms.

Management identified the following material weakness and significant deficiencies in its disclosure controls and procedures as of June 30, 2017:

Material Weakness – The Company did not maintain effective controls over certain aspects of the financial reporting process because we lacked a sufficient complement of personnel with a level of accounting expertise and an adequate supervisory review structure that is commensurate with our financial reporting requirements.

Significant Deficiencies – Inadequate segregation of duties.

We expect to be materially dependent upon a third party to provide us with accounting consulting services for the foreseeable future. Until such time as we have a chief financial officer with the requisite expertise in U.S. GAAP, there are no assurances that the material weaknesses and significant deficiencies in our disclosure controls and procedures and internal control over financial reporting will not result in errors in our financial statements which could lead to a restatement of those financial statements.

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Our management, including our Chief Executive Officer and President, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

Changes in Internal Control over Financial Reporting

No changes were made to our internal control over financial reporting during the three months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Occasionally, we may be involved in litigation matters relating to claims arising from the ordinary course of business. We do not believe that there are any claims or actions pending or threatened against us, the ultimate disposition of which would have a material adverse effect on our business, results of operations and financial condition.

ITEM 1A – RISK FACTORS

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

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

None.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 6 – EXHIBITS

3.1**	Designation of Series B and Series C Preferred shares filed with Nevada on August 11, 2017.
10.1*	Amendment to Original Issue Discount Convertible Debentures Due July 27, 2020 among PF Hospitality Group, Inc. and holders of the debentures dated July 26, 2016.
10.2**	Acquisition Agreement with Sun Pacific Power, dated August 17, 2017.
31.1	Certification of Principal Executive Officer pursuant to 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Taxonomy Label Linkbase
101.PRE	XBRL Taxonomy Presentation Linkbase

* Previously filed

** Filed with Form 8-K on August 17, 2017

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Vaughan Dugan Vaughan Dugan	Chief Executive Officer and Director (principal executive officer)	August 21, 2017
/s/ Randy Romano Randy Romano	President and Director (principal financial and accounting officer)	August 21, 2017