

FORM 10-Q

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

For Quarterly Period Ended June 30, 2019

or

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

VITALIBIS, INC.

(Exact name of registrant issuer as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

30-0828224

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

3960 Howard Hughes Parkway Suite 500
Las Vegas, NV 89169

(Address of principal executive offices)

702-944-9620

Registrant's phone number, including area code

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding twelve months (or shorter period that the registrant was required to submit such files). YES NO

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new 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

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

Class

Common Stock, \$.001 par value

Outstanding at June 30, 2019

31,423,900

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PART I - FINANCIAL INFORMATION

ITEM I — FINANCIAL STATEMENTS

VITALIBIS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2019

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VITALIBIS, INC.
BALANCE SHEETS
(UNAUDITED)

	<u>June 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
ASSETS		
Current assets:		
Cash	\$ 12,010	\$ 171,979
Prepaid expenses	12,074	60,608
Inventory	<u>293,183</u>	<u>188,717</u>
Total current assets	<u>317,267</u>	<u>421,304</u>
Long term assets		
Website development, net	<u>119,741</u>	<u>149,103</u>
Total assets	<u>\$ 437,008</u>	<u>\$ 570,407</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 101,066	\$ 63,841
Deferred revenue	-	105,159
Unsecured notes payable	-	11,389
Derivative Liability	264,961	-
Convertible notes payable, net	<u>418,153</u>	<u>-</u>
Total current liabilities	<u>784,180</u>	<u>180,389</u>
Total liabilities	<u>784,180</u>	<u>180,389</u>
COMMITMENTS AND CONTINGENCIES		
Stockholders' equity (deficit):		
Preferred stock; \$.001 par value, 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock; \$.001 par value, 112,500,000 shares authorized, 31,423,900 shares issued and 29,638,900 shares issued outstanding as of June 30, 2019 and December 31, 2018, respectively	31,423	29,639
Additional paid-in capital	5,675,619	2,913,903
Accumulated deficit	<u>(6,054,214)</u>	<u>(2,553,524)</u>
Total stockholders' equity (deficit)	<u>(347,172)</u>	<u>390,018</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	<u>\$ 437,008</u>	<u>\$ 570,407</u>

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

VITALIBIS, INC.
STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue	\$ 40,204	\$ 6,396	\$ 179,789	\$ 6,396
Cost of Goods Sold	(18,284)	(1,628)	(106,781)	(1,628)
Gross Profit	21,920	4,768	73,008	4,768
Operating expenses:				
Selling, general and administrative expenses	756,416	410,003	3,204,822	948,807
Professional fees	81,700	41,439	129,541	60,348
Loss from operations	(816,196)	(446,674)	(3,261,355)	(1,004,387)
Derivative loss	(116,208)	-	(116,208)	-
Other expenses, net	(119,787)	-	(123,127)	-
Loss before provision for income taxes	(1,052,191)	(446,674)	(3,500,690)	(1,004,387)
Provision for income taxes	-	-	-	-
Net loss	<u>\$ (1,052,191)</u>	<u>\$ (446,674)</u>	<u>\$ (3,500,690)</u>	<u>\$ (1,004,387)</u>
Net loss per common share – basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>	<u>\$ (0.11)</u>	<u>\$ (0.04)</u>
Weighted average common shares outstanding – basic and diluted	<u>30,889,916</u>	<u>28,326,659</u>	<u>30,541,704</u>	<u>27,823,420</u>

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

VITALIBIS, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(UNAUDITED)

	Share Capital		Additional paid-in capital	Accumulated deficit	Total
	Number of Shares	Amount			
Balance at December 31, 2018	29,638,900	\$ 29,639	\$ 2,913,903	\$ (2,553,524)	\$ 390,018
Shares and warrants issued for services	857,500	857	2,230,534	–	2,231,391
Net loss	–	–	–	(2,448,499)	(2,448,499)
Balance at March 31, 2019	<u>30,496,400</u>	<u>\$ 30,496</u>	<u>\$ 5,144,437</u>	<u>\$ (5,002,023)</u>	<u>\$ 172,910</u>
Shares and warrants issued for services	927,500	927	531,182	–	532,109
Net loss	–	–	–	(1,052,191)	(1,052,191)
Balance at June 30, 2019	<u><u>31,423,900</u></u>	<u><u>\$ 31,423</u></u>	<u><u>\$ 5,675,619</u></u>	<u><u>\$ (6,054,214)</u></u>	<u><u>\$ (347,172)</u></u>

	Share Capital		Additional paid-in capital	Accumulated deficit	Total
	Number of Shares	Amount			
Balance at December 31, 2017	27,010,000	\$ 27,010	\$ 291,725	\$ (324,904)	\$ (6,169)
Shares issued for cash	301,000	301	300,699	–	301,000
Shares issued for services	600,000	600	524,230	–	524,830
Deemed distribution	200,000	200	(200)	–	–
Contribution from shareholders	–	–	200	–	200
Net loss	–	–	–	(557,713)	(557,713)
Balance at March 31, 2018	<u>28,111,000</u>	<u>\$ 28,111</u>	<u>\$ 1,116,654</u>	<u>\$ (882,617)</u>	<u>\$ 262,148</u>
Shares issued for cash	270,000	270	269,730	–	270,000
Shares issued for services	350,000	350	353,384	–	353,734
Shares issued for prepaid services	30,000	30	53,970	–	54,000
Net loss	–	–	–	(446,674)	(446,674)
Balance at June 30, 2018	<u><u>28,761,000</u></u>	<u><u>\$ 28,761</u></u>	<u><u>\$ 1,793,738</u></u>	<u><u>\$ (1,329,291)</u></u>	<u><u>\$ 493,208</u></u>

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

VITALIBIS, INC.
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(UNAUDITED)

	For the Six Months Ended June 30,	
	2019	2018
Cash flow from operating activities:		
Net loss	\$ (3,500,690)	\$ (1,004,387)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization expense	29,362	-
Amortization of debt discount	109,906	-
Derivative loss	116,208	-
Stock-based compensation	2,763,500	878,564
Changes in operating assets and liabilities:		
Inventory	(104,466)	(73,399)
Prepaid expenses	48,534	(13,519)
Deferred revenue	(105,159)	10,500
Accounts payable and accrued liabilities	37,225	39,173
Net cash used in operating activities	(605,580)	(163,068)
Cash flow from investing activities:		
Purchase of assets	-	(83,513)
Net cash used by investing activities	-	(83,513)
Cash flow from financing activities:		
Contribution of cash by officer	-	200
Proceeds from convertible debt issuance	466,000	-
Payment of deferred financing costs	(9,000)	-
Repayments on unsecured notes payable	(11,389)	-
Proceeds from equity issuance	-	571,000
Net cash provided by financing activities	445,611	571,200
	(159,969)	324,619
NET CHANGE IN CASH	171,979	-
CASH AT BEGINNING OF PERIOD	171,979	-
CASH AT END OF PERIOD	\$ 12,010	\$ 324,619
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 240	\$ -
Cash paid for income taxes	\$ -	\$ -
Non-cash transactions		
Common stock issued for asset acquisition	\$ -	\$ 200
Common stock issued for prepaid expenses	\$ -	\$ 54,000
Website development cost paid by accounts payable	\$ -	\$ 16,000
Notes payable issued for prepaid expenses	\$ -	\$ 4,688
Discount on convertible notes payable	\$ 148,753	\$ -

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

VITALIBIS, INC.

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 – ORGANIZATION AND GOING CONCERN

Vitalibis, Inc. (the “Company”) was formed on April 11, 2014 as a Nevada corporation, under the name of Crowd 4 Seeds, Inc. We plan to focus on the development, sale and distribution of hemp oil-based products that contain naturally occurring cannabinoids, including cannabidiol (“CBD”) and other products containing CBD-rich hemp oil (“Legal Hemp”). We leverage our proprietary technology platform to maximize our innovative micro-influencer sales model, which fosters engaged customer connections.

On January 18, 2018, our Board of Directors approved an agreement and plan of merger to merge with and into our wholly-owned subsidiary, Vitalibis, Inc., a Nevada corporation, and our name changed from Sheng Ying Entertainment Corp. to Vitalibis, Inc. Vitalibis, Inc. was formed solely to effect the change of name and conducted no operations.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered recurring losses and generated negative cash flows from operations since inception. Due to these conditions, it raised substantial doubt about its ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with existing cash on hand, loans, loans from directors and, or, the sale of common stock. The financial statements do not include any adjustments that may result should the Company be unable to continue as a going concern.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the financial statements are as follows:

Basis of Presentation

The unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission. Accordingly, they do not contain all information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. In the opinion of the Company’s management, the accompanying unaudited financial statements contain all the adjustments necessary (consisting only of normal recurring adjustments) to present the financial position of the Company as of June 30, 2019 and the results of operations and cash flows for the periods presented. The results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the operating results for the full fiscal year. These financial statements should be read in conjunction with the financial statements and related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the most recent year ended December 31, 2018 have been omitted.

Inventories

Inventory is manufactured at third party facilities. Inventories are stated at the lower of cost or net realizable value, using the first-in, first-out method. The Company reviews its inventory for obsolescence and any inventory identified as obsolete is reserved or written off. The Company’s determination of obsolescence is based on assumptions about the demand for its products, product expiration dates, estimated future sales, and management’s future plans.

As of June 30, 2019 and December 31, 2018, inventory consists of the following components:

	June 30, 2019	December 31, 2018
Raw materials and supplies	\$ 25,200	\$ 1,836
Finished products	267,983	186,881
Total inventory	<u>\$ 293,183</u>	<u>\$ 188,717</u>

The Company recognized a prepaid expense of \$0 and \$30,431 related to purchases of inventory that had not yet transferred into the control of the Company as of June 30, 2019 and December 31, 2018, respectively.

Revenue Recognition

The Company recognizes revenue in accordance with ASC Topic 606, Revenue From Contracts With Customers, which was adopted on January 1, 2018 using the modified retrospective method, with no impact to the Company's comparative financial statements. Revenues are recognized when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration the Company expects to be entitled to in exchange for transferring those goods or services. Revenue is recognized based on the following five step model:

- Identification of the contract with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

All of the Company's revenue is currently generated from the sales of similar products. As such no further disaggregation of revenue information is provided.

During the six months ended June 30, 2019, approximately \$105,159, or 58%, of the Company's sales were to a single customer.

Performance Obligations

Product sales are recognized all of the following criteria are satisfied: (i) a contract with an end user exists which has commercial substance; (ii) it is probable the Company will collect the amount charged to the end user; and (iii) the Company has completed its performance obligation whereby the end user has obtained control of the product. A contract with commercial substance exists once the Company receives and accepts a purchase order or once it enters into a contract with an end user. If collectability is not probable, the sale is deferred and not recognized until collection is probable or payment is received. Control of products typically transfers when title and risk of ownership of the product has transferred to the customer. Payment is received before shipment of the product. Net revenues comprise gross revenues less customer discounts and allowances, actual and expected returns. Shipping charges billed to customers are included in net sales. Various taxes on the sale of products and enrollment packages to customers are collected by the Company as an agent and remitted to the respective taxing authority. These taxes are presented on a net basis and recorded as a liability until remitted to the respective taxing authority. The Company allows for customers to return unopened products within 45 days. During the six months ended June 30, 2019, there were a trivial amount of refunds processed for returned product.

Contract Costs

Costs incurred to obtain a customer contract are not material to the Company. The Company elected to apply the practical expedient to not capitalize contract costs to obtain contracts with a duration of one year or less, which are expensed and included within cost of goods and services.

Contract Liabilities

The Company may at times receive payment by credit card at the time customer places an order. Amounts received for undelivered product are considered a contract liability and are recorded as deferred revenue. As of June 30, 2019 and December 31, 2018, the Company had deferred revenue of \$0 and \$105,159, respectively, related to unsatisfied performance obligations.

Cost of Sales

Cost of sales includes all of the costs to purchase and assemble the Company's products. Products are manufactured for the Company by third-party contractors, such costs represent the amounts invoiced by the contractors. Additionally, shipping costs are included in Cost of Sales in the Statements of Operations.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include advertising and promotional costs and research and development costs. Also included in Selling, general and administrative expenses are stock-based compensation, certain warehousing fees, non-manufacturing overhead, personnel and related expenses, rent on operating leases, and professional fees.

Advertising and promotional costs are expensed as incurred and totaled \$30,674 and \$34,522 in the three and six months ended June 30, 2019, respectively, and \$8,183 and \$16,183 during the three and six months ended June 30, 2018, respectively. Research and development costs are expensed as incurred. There were no research and development costs during the six months ended June 30, 2019 and 2018.

Website Development Cost

The Company capitalizes certain development costs associated with internal use software incurred during the application development stage. The Company expenses costs associated with preliminary project phase activities, training, maintenance and any post-implementation period costs as incurred. Capitalization of qualifying application development cost begins when management authorized and commits to funding the project and it is probable that the project will be completed for the function intended. Capitalized internal use software costs are normally amortized over estimated useful lives ranging from 2 to 5 years once the related project has been completed and deployed for customer use. At time the software is considered to have be an indefinite lived asset in which case it is evaluated for impairment at least annually. During the year ended December 31, 2018, the Company capitalized \$176,177 related to software under the criteria discussed in this paragraph. These costs are related to the development of our website and customer portal. The Company amortizes capitalized costs over an estimated useful life of three years. Amortization expense for the six months ended June 30, 2019 was \$29,362. The Company had not placed the website and customer portal in service during the six months ended June 30, 2018 and did not recognized any amortization expense during that period.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company adopted this standard on January 1, 2019 using the modified retrospective method, and adopted the package of practical expedients that allows it to (i) not reassess whether an arrangement contains a lease, (ii) carry forward its lease classification as operating or capital leases and (iii) not reassess its previously recorded initial direct costs. The Company made an accounting policy election to treat leases with a minimum term of 12 months or less as short-term leases. The adoption of ASC 842 had no impact to the Company's consolidated financial statements, due to the Company's current rental agreements for office space having minimum terms of less than 12 months. The Company currently has no right of use assets or liabilities recognized on its balance sheet related to lease agreements.

The Company does not believe that any other recently issued effective pronouncements, or pronouncements issued but not yet effective, if adopted, would have a material effect on the accompanying financial statements.

NOTE 3 – UNSECURED NOTE PAYABLE

During the year ended December 31, 2018, the Company entered into two insurance financing arrangements. The first agreement was for a value of \$6,676, bearing an interest rate of 12.6%. The Company made a down payment of \$1,988 and makes monthly payments of \$549 through March 2019. There was no outstanding balance for this agreement as of June 30, 2019. The second agreement was for a value of \$25,954, bearing an interest rate of 7.75%. The Company made a down payment of \$6,676 and makes monthly payments of \$1,997 through May 2019. There was no outstanding balance for this agreement as of June 30, 2019.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

Our principal office is part of a group of executive suites. We pay \$130 per month for our offices, on a month-to-month basis. In July 2018, the Company also began renting a shared office space for \$175 per month on a month to month basis.

In April 2018, the Company entered into an agreement with a third party for a subscription to its e-commerce platform. The Company paid \$3,000 for implementation and pays \$2,000 per month, with an initial term of one year. After the initial term, the monthly fee may increase depending on the Company's level of sales through the platform

The Company has entered into three independent contractor agreements whereby the Company will pay each contractor \$5,000 per month for a period of one year. These contractors may also receive shares of common stock depending on certain performance targets as discussed in Note 6.

NOTE 5 – CONVERTIBLE NOTES PAYABLE

On January 10, 2019, the Company entered into a convertible promissory note, with a principal amount of \$126,000. The Company received net cash proceeds of \$102,000 after an original issue discount of \$21,000 and fees of \$3,000. The convertible note bears interest at 8% and matures on January 10, 2020, with interest accruing at a rate of 22% if the Company is in default. Beginning six months after the issuance of the note, the holder may convert the note at any time through the maturity date into shares of common stock, to the extent and provided that no holder of these notes was or will be permitted to convert such notes to the extent that the holder or any of its affiliates would beneficially own in excess of 4.99% of the Company's common stock after such conversion. The conversion price is determined based on 85% of the lowest trading price during the 15 trading days prior to the conversion date. Unamortized discount and deferred financing costs were \$12,757 as of June 30, 2019 related to this convertible note.

On February 7, 2019, the Company entered into a convertible promissory note, with a principal amount of \$83,000. The Company received net cash proceeds of \$80,000 after payment fees of \$3,000. The convertible note bears interest at 8% and matures on February 7, 2020, with interest accruing at a rate of 22% if the Company is in default. Beginning six months after the issuance of the note, the holder may convert the note at any time through the maturity date into shares of common stock, to the extent and provided that no holder of these notes was or will be permitted to convert such notes to the extent that the holder or any of its affiliates would beneficially own in excess of 4.99% of the Company's common stock after such conversion. The conversion price is determined based on 65% of the lowest trading price during the 15 trading days prior to the conversion date. Unamortized discount and deferred financing costs were \$1,825 as of June 30, 2019 related to this convertible note.

On March 29, 2019, the Company entered into an unsecured convertible promissory note, with a principal amount of \$250,000. In April 2019, the Company received net cash proceeds of \$200,000 after an original issue discount of \$50,000. The convertible note bears interest at 8% and matures on September 30, 2019, with interest accruing at a rate of 22% if the Company is in default. Beginning at the issuance of the note, the holder may convert the note at any time through the maturity date into shares of common stock, to the extent and provided that no holder of these notes was or will be permitted to convert such notes to the extent that the holder or any of its affiliates would beneficially own in excess of 4.99% of the Company's common stock after such conversion. The conversion price is the lesser of \$2 or 70% of the lowest trading price during the 30 trading days prior to the conversion date. On April 3, 2019, the Company issued 35,000 shares to this lender and recognized expense of \$45,500.

The Company determined that the conversion feature should be accounted for as a derivative liability. The Company estimated the fair value of the derivative liability at issuance to be \$148,753 using a Black Scholes model and the following assumptions: volatility of 58% based on a peer group of comparable companies, a dividend yield of 0%, an expected term of six months, an exercise price of \$1.20 based on the lowest trading price during the previous 30 days, and a risk-free rate of 2.45%. The initial value of the derivative liability was recorded as debt discount. The derivative liability is adjusted to fair value at each reporting period, with the Company recognizing a loss of \$116,208 during the three months ended June 30, 2019. Unamortized discount related to this convertible note was \$101,585 as of June 30, 2019.

On May 22, 2019, the Company entered into a convertible promissory note, with a principal amount of \$78,000. The Company received net cash proceeds of \$75,000 after payment fees of \$3,000. The convertible note bears interest at 10% and matures on May 22, 2020, with interest accruing at a rate of 22% if the Company is in default. Beginning six months after the issuance of the note, the holder may convert the note at any time through the maturity date into shares of common stock, to the extent and provided that no holder of these notes was or will be permitted to convert such notes to the extent that the holder or any of its affiliates would beneficially own in excess of 4.99% of the Company's common stock after such conversion. The conversion price is determined based on 65% of the lowest trading price during the 15 trading days prior to the conversion date. Unamortized discount and deferred financing costs were \$2,680 as of June 30, 2019 related to this convertible note.

The Company amortized to interest expense a total of \$104,218 and \$109,906 related to debt issuance costs and debt discount during the three and six months ended June 30, 2019, respectively.

The following table presents information about the Company's liabilities measured at fair value on a recurring basis and the Company's estimated level within the fair value hierarchy of those assets and liabilities as of October 31, 2018:

	Fair value measured at June 30, 2019			
	Total carrying value at June 30, 2019	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
Liabilities:				
Derivative liabilities	\$ 264,961	\$ -	\$ -	\$ 264,961

There were no liabilities measured at fair value on a recurring basis as of December 31, 2018. There were no transfers between Level 1, 2 or 3 during the six months ended June 30, 2019.

The table below presents the change in the fair value of the derivative liability during the six months ending June 30, 2019:

Fair value as of December 31, 2018	\$	–
Fair value on the date of issuance recorded as a debt discount		148,753
Loss on change in fair value of derivatives		116,208
Fair value as of June 30, 2019	\$	<u>264,961</u>

NOTE 6 – STOCKHOLDERS’ DEFICIT

Common Stock

In March 2018, the Company issued 200,000 shares of common stock valued at \$200,000 to acquire a license from VOTOCAST, INC. as discussed in Note 8. It was determined to be a transaction with an entity under common control and the share issuance was determined to be a deemed distribution to the related party for the value of the shares in excess of the historical carry over basis of the asset.

During the year ended December 31, 2018, the Company issued a total of 1,366,500 shares of common stock to consultants and recorded \$1,463,207 of compensation cost. In addition, the Company committed to issue an additional 532,500 of shares that will vest at various dates through June 2019. The Company issued 300,000 of these shares during in February 2019, and there are 22,500 shares remaining that vest upon completion of certain milestones, including sales targets. For those shares that are based on performance targets, no expense was recognized as of June 30, 2019, as the targets being met is not considered probable. Stock-based compensation expense related to these awards during the six months ended June 30, 2019 was \$39,922, and the Company may recognize an additional \$57,075 of compensation expense under these agreements.

In January 2019, the Company entered into three agreements with contractors for services. The contractors may earn up to 377,500 shares depending on the completion of certain milestones and sales targets, through August 2019. Two contractors will also each receive \$5,000 per month of cash compensation for a term of one year. The Company issued 2,500 shares related to one of these agreements in January 2019. The Company recognized compensation expense of \$3,000 related to the shares issued during the current year, and expects to recognize an additional \$256,750 of compensation expense assuming all shares vest.

In June 2019, the Company entered into an additional agreement with a contractor, who received 2,500 shares upon execution and may earn an additional 120,000 shares depending on the completion of certain milestones and sales targets through May 2020. The Company recognized \$1,625 of compensation expense during the six months ended June 30, 2019 and expects to recognize an additional \$78,000 of expense assuming all shares vest.

In February 2019, the Company entered into an agreement for advisory services, and issued 40,000 shares of common stock related to this agreement that vest equally over 12 months. The Company recognized compensation expense of \$35,333 related to the shares issued during the six months ended June 30, 2019, and expects to recognize an additional \$49,467 of expense assuming all shares vest.

In February 2019, the Company entered into an agreement for marketing services, and issued 10,000 shares of common stock as compensation expense under the agreement, with \$21,200 of expense recognized upon issuance.

In February 2019, the Company issued 30,000 shares of common stock related to advisory agreements entered into during the year ended December 31, 2018 and issued an additional 30,000 shares in May 2019. The Company recognized compensation expense of \$83,887 during the six months ended June 30, 2019 and will recognize an additional \$12,968 of expense related to these shares in future periods.

In March 2019, the Company entered into an agreement for consulting services, and issued 125,000 shares of common stock under the agreement for services to be provided over a one-year period. The Company recognized compensation expense of \$69,583 during the six months ended June 30, 2019, and will recognize an additional \$139,167 of expense related to these shares in future periods.

In March 2019, the Company entered into an agreement with a contractor for services. This contractor may earn a total of 1,000,000 shares of common stock and 2,000,000 warrants to purchase common stock. The warrants have an exercise price of \$1.50 per share, and an initial term of 3 years from the date of issuance. The contractor can elect to extend the term for an additional year with 90 days' notice. Of the total awards, 250,000 shares and 334,000 warrants were earned upon execution of the agreement, with the 250,000 shares being issued in April 2019. The Company recognized compensation expense of \$362,500 and \$234,169 related to the initial shares and warrants vesting during the three months ended March 31, 2019. The fair value of the warrants was estimated using the Black-Scholes option pricing model and the following assumptions: expected term of 4 years, risk-free interest rate of 2.22%, dividend yield of 0%, and volatility of 62.7%. The remaining shares and warrants vest upon completion of certain performance-related milestones. As of June 30, 2019, the Company expects to recognize additional compensation cost of \$1,087,500 related to the shares and \$1,168,041 related to the warrants, assuming all instruments vest.

In April 2019, the Company entered into an agreement with a contractor for services. This contractor received 100,000 shares of common stock at execution, and the Company recognized compensation expense of \$100,000. The contractor may earn up to 450,000 warrants to purchase common stock of the Company if certain performance targets are met. The warrants have an exercise price of \$1.50 per share, an initial term of 3 years from the date of issuance. The contractor can elect to extend the term for an additional year with 90 days' notice. The fair value of the warrants was estimated using the Black-Scholes option pricing model and the following assumptions: expected term of 4 years, risk-free interest rate of 2.26%, dividend yield of 0%, and volatility of 62.8%. As of June 30, 2019, the Company expects to recognize additional compensation cost of \$173,991 related to the warrants, assuming all instruments vest.

In May 2019, the Company entered into an agreement with a consulting who received 10,000 shares of common stock. The Company recognized \$5,670 of compensation expense during the six months ended June 30, 2019 related to these shares and will recognize an additional \$3,780 of expense over the remaining service period.

On December 31, 2018, the Company entered into a business alliance agreement with Bruce Lee Beverage, LLC. ("BLB"). Under the terms of the agreement, the parties will develop a new product utilizing the intellectual property of BLB, with an initial term of five years and automatic five-year renewals thereafter unless terminated by either party with 120 days' prior written notice. The Company issued 150,000 shares of common stock to BLB on December 31, 2018, and an additional 350,000 shares in January 2019. The Company recognized compensation expense of \$581,000 for the shares issued in January 2019.

The Company also issued 1,500,000 warrants in January 2019, with an exercise price of \$1.01 per share, with 500,000 vesting upon issuance. BLB can receive up to an additional 1,000,000 shares of common stock, and vest in the remaining 1,000,000 warrants as follows:

- 500,000 shares of common stock and 500,000 warrants will vest upon approval of co-branded product formula, packaging and marketing strategy; execution of licensing agreement between the two parties; and commencement of a mutually agreed upon marketing campaign. These warrants and shares vested in June 2019.
- 250,000 shares of common stock and 250,000 warrants will vest upon sale of 10,000 units of the new product.
- 250,000 shares of common stock and 250,000 warrants will vest upon sale of 30,000 units of the new product.

The fair value of the warrants was estimated using the Black-Scholes option pricing model and the following assumptions: expected term of 2 years, risk-free interest rate of 2.55%, dividend yield of 0%, and volatility of 60.1%. The company recognized \$175,055 related to the warrants that vested in January 2019.

In June 2019, the Company and BLB executed the license agreement referred to in the first milestone above and the launch of the co-branded product, which began sales in July 2019. The license agreement has a term of 3 years, and specifies that the Company will pay royalties to BLB related to sales of the underlying product as follows:

- 20% of any net sales up to \$499 through BLB's customers;
- 25% of any net sales of between \$500 and \$999 through BLB's customers;
- 30% of any net sales exceeding \$1,000 through BLB's customers;
- 5% of net sales on sales up to \$2,499 by the Company's Level 1 Ambassadors;
- 7% of net sales on sales between \$2,500 and \$4,999 by the Company's Level 1 Ambassadors;
- 10% of net sales on sales exceeding \$5,000 by the Company's Level 1 Ambassadors;
- 5% of net sales on any sales by the Company's Level 2 Ambassadors.

Through June 30, 2019, no royalties were earned by BLB.

The first milestone was satisfied in June 2019, and the Company issued 500,000 shares of common stock and 500,000 warrants to BLB in June 2019. The Company recognized \$830,000 and \$175,055 of stock-based compensation expense for the shares and warrants, respectively.

Under this agreement, the Company expects to recognize additional expense of \$830,000 related to the 500,000 shares and \$175,055 related to the 500,000 warrants which have not yet been issued or vested as of June 30, 2019, assuming all shares and warrants vest.

The following table summarizes warrant activity for the six months ended June 30, 2019:

	Common Stock Warrants		
	Shares	Weighted Average Exercise Price	Weighted average Remaining Life in years
Outstanding at December 31, 2018	—	\$ —	—
Granted	3,950,000	1.31	3.2
Cancelled	—	—	—
Expired	—	—	—
Exercised	—	—	—
Outstanding at June 30, 2019	<u>3,950,000</u>	<u>\$ 1.31</u>	<u>2.9</u>
Exercisable at June 30, 2019	<u>1,334,000</u>	<u>\$ 1.13</u>	<u>2.1</u>

As of June 30, 2019, the outstanding and exercisable warrants had no intrinsic value.

NOTE 7 – LOSS PER COMMON SHARE

The basic net loss per common share is calculated by dividing the Company's net loss available to common shareholders by the weighted average number of common shares during the year. The diluted net loss per common share is calculated by dividing the Company's net loss available to common shareholders by the diluted weighted average number of common shares outstanding during the year. The diluted weighted average number of common shares outstanding is the basic weighted number of common shares adjusted for any potentially dilutive debt or equity. Diluted net earnings (loss) per common share excludes any impact from the 3,950,000 warrants outstanding (including 834,000 that are exercisable as of June 30, 2019) as their impact would be antidilutive.

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Numerator				
Net Loss	\$ (1,052,191)	\$ (3,500,690)	\$ (446,674)	\$ (1,004,387)
Denominator				
Denominator for basic and diluted net loss per common share – weighted average of common shares	30,889,916	30,541,704	28,326,659	27,823,420
Basic and diluted net loss per common share attributed to stockholders	\$ (0.03)	\$ (0.11)	\$ (0.02)	\$ (0.04)

NOTE 8 – TRANSACTION WITH RELATED PARTIES

In March 2018, the Company entered into an Agreement with VOTOCAS, INC. dba newkleus, a California corporation formed and owned by Steven Raack, the President, CEO and a Director of the Company. The Company received an exclusive license in the cannabis industry for the state-of-the-art newkleus™ technology to (1) facilitate Vitalibis' micro-influencer sales model, and (2) enhance and compliment Vitalibis' social media strategy.

The Agreement grants Vitalibis™ an exclusive license for the newkleus patent-pending, user-generated content (UGC) technology for all applications in the cannabis industry. The integration of the newkleus technology allows Vitalibis to create an interactive digital community, while concurrently acquiring valuable user data and content, all of which Vitalibis anticipates will (1) increase customer acquisition and retention and (2) build direct, meaningful and loyal customer relationships.

The Company paid 200,000 shares upon execution of the agreement and a monthly fee ranging from \$0 to \$2,000 depending on volume of usage. In addition, newkleus provides operational and business development consulting services.

During the three months ended March 31, 2018, \$200 of cash was contributed to the Company by the Chief Financial Officer to open the Company's bank account.

NOTE 9 – SUBSEQUENT EVENTS

On July 12, 2019, the Company paid \$157,099 related to the full extinguishment of the January 2019 PowerUp note including accrued interest.

On August 6, 2019, the Company paid \$120,996 related to the full extinguishment of the February 2019 PowerUp note including accrued interest.

In July and August 2019, the Company received \$400,000 of cash proceeds from two additional convertible notes payable including a \$100,000 original issue discount. The convertible notes bear interest at 8% and mature on September 30, 2019, with interest accruing at a rate of 22% if the Company is in default. Beginning at the issuance of the note, the holder may convert the note at any time through the maturity date into shares of common stock, to the extent and provided that no holder of these notes was or will be permitted to convert such notes to the extent that the holder or any of its affiliates would beneficially own in excess of 4.99% of the Company's common stock after such conversion. The conversion price is the lesser of \$2 or 70% of the lowest trading price during the 30 trading days prior to the conversion date.

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

The following discussion contains certain statements that may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements appear in a number of places in this Report, including, without limitation, "Management's Discussion and Analysis of Financial Condition and Results of Operations." These statements are not guarantees of future performance and involve risks, uncertainties and requirements that are difficult to predict or are beyond our control. Forward-looking statements speak only as of the date of this quarterly report. You should not put undue reliance on any forward-looking statements. We assume no responsibility to update the forward-looking statements contained in this quarterly report on Form 10-Q. The following should also be read in conjunction with the unaudited Financial Statements and notes thereto that appear elsewhere in this report.

Company Overview

The Company

Vitalibis is a socially conscious brand focused on people, products and the planet. We are a technology-based formulator of premium, full spectrum phytocannabinoid rich hemp products with naturally occurring cannabidiol (CBD), along with safe personal care and nutritional products. Our Ambassador program combines critical elements of social selling, ecommerce and affiliate marketing into one highly focused business system which empowers our people and social mission-driven ecosystem.

Operations

We market and sell consumer products containing full spectrum phytocannabinoid rich hemp oil with naturally occurring CBD under our Vitalibis™ brand in a range of market sectors including wellness, and personal care. We currently distribute 3 Vitalibis™ branded products and we expect to continue to add new products to our Vitalibis™ portfolio to enhance our line of full spectrum phytocannabinoid rich hemp products with naturally occurring cannabidiol (CBD) and hemp-related consumer products. We also expect to develop and launch new brands under the Vitalibis™ product development umbrella to more effectively market and sell certain products. We also sell water soluble full spectrum phytocannabinoid rich hemp powder with naturally occurring cannabidiol (CBD) acquired through our supply relationships in the United States to various customers that produce products for resale into the market. We also began offering non-exclusive leases of our proprietary Vitalibis technology back-end, which is being offered as a Software as a Service (SaaS) platform.

We seek to take advantage of an emerging worldwide trend to re-energize the production of industrial hemp and to foster its many uses for consumers. Historically cultivated for industrial and practical purposes, hemp is used today for textiles, paper, auto parts, biofuel, cosmetics, animal feed, nutritional supplements, and much more. The market for hemp-derived products is expected to increase substantially over the next five years, and we believe Vitalibis™ is well positioned to have a demonstrable impact on the rapidly emerging hemp industry.

Hemp-derived CBD is one of at least 80 cannabinoids found in hemp, and is non-psychoactive. Our U.S. based supplier oversees our raw material supply chain and raw material processing. Our internal team manages product development and manufacturing, and sales and marketing. We will continue to scale-up our processing capability to accommodate new products in our pipeline.

We expect to realize revenue to fund our working capital needs through the sale of finished products and raw materials to third parties. However, in order to fund our product development efforts, we will need to raise additional capital either through the issuance of equity and/or the issuance of debt. In the event we are unable to raise sufficient additional capital to fund our product development efforts, we may need to curtail or delay such activity.

We are an emerging growth company as defined in Section 2(a)(19) of the Securities Act. We will continue to be an emerging growth company until: (i) the last day of our fiscal year during which we had total annual gross revenues of \$1,000,000,000 or more; (ii) the last day of our fiscal year following the fifth anniversary of the date of the first sale of our common stock pursuant to an effective registration statement under the Securities Act; (iii) the date on which we have, during the previous 3-year period, issued more than \$1,000,000,000 in non-convertible debt; or (iv) the date on which we are deemed to be a large accelerated filer, as defined in Section 12b-2 of the Exchange Act.

As an emerging growth company, we are exempt from:

Section 14A (a) and (b) of the Exchange Act, which requires companies to hold stockholder advisory votes on executive compensation and golden parachute compensation;

The requirement to provide in any registration statement periodic report or other report to be filed with the Securities and Exchange Commission, certain modified executive compensation disclosure under Item 402 of Regulation S-K or selected financial data under Item 301 of Regulation S-K for any period before the earliest audited period presented in our initial registration statement;

Compliance with new or revised accounting standards until those standards are applicable to private companies;

The requirement under Section 404(b) of the Sarbanes-Oxley Act of 2002 to provide auditor attestation of our internal controls and procedures; and

Any Public Company Accounting Oversight Board ("PCAOB") rules regarding mandatory audit firm rotation, or an expanded auditor report and any other PCAOB rules subsequently adopted, unless the Securities and Exchange Commission determines the new rules are necessary for protecting the public.

We have elected to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(1) of the Jumpstart Our Business Startups Act.

Vitalibis, Inc. (the "Company") was formed on April 11, 2014, as a Nevada corporation, under the name Crowd 4 Seeds, Inc. On January 9, 2017, the Company filed a certificate of amendment to its Certificate of Incorporation with the Secretary of State of the State of Nevada in order to change its name to "Sheng Ying Entertainment Corp." On December 16, 2017, new management took over control of the Company and, on February 5, 2018, the Company filed a certificate of amendment to its Certificate of Incorporation with the Secretary of State of the State of Nevada in order to change its name to "Vitalibis, Inc".

As of December 31, 2017, and through current date, most of our resources and work have been devoted to adopting and integrating our new business plan, research and development, seeking capital to finance our operations and complying with our obligations under applicable securities laws, rules and regulations.

We are a public company and, as such, we have incurred and will continue to incur significant expenses for legal, accounting and related services. As a public entity, subject to the reporting requirements of the Exchange Act of 1934, we incur ongoing expenses associated with professional fees for accounting, legal and a host of other expenses including annual reports and proxy statements, if required. We estimate that these costs will range up to \$80,000 per year over the next few years and may be significantly higher if our business volume and transactional activity increases, based on our overall business volume (and financial transactions), and we will not yet be subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 until we exceed \$75 million in market capitalization (if ever). These obligations will certainly reduce our ability and resources to expand our business plan and activities. We hope to be able to use our status as a public company to increase our ability to use non-cash means of settling outstanding obligations (i.e. issuance of restricted shares of our common stock) and compensate independent contractors who provide professional services to us, although there can be no assurances that we will be successful in any of these efforts. We will also reduce compensation levels paid to management (if we attract or retain outside personnel to perform this function) if there is insufficient cash generated from operations to satisfy these costs.

On January 10, 2019, the Company entered into a convertible promissory note, with a principal amount of \$126,000. The Company received net cash proceeds of \$102,000 after an original issue discount of \$21,000 and fees of \$3,000. The convertible note bears interest at 8% and matures on January 10, 2020, with interest accruing at a rate of 22% if the Company is in default. Beginning six months after the issuance of the note, the holder may convert the note at any time through the maturity date into shares of common stock, to the extent and provided that no holder of these notes was or will be permitted to convert such notes to the extent that the holder or any of its affiliates would beneficially own in excess of 4.99% of the Company's common stock after such conversion. The conversion price is determined based on 85% of the lowest trading price during the 15 trading days prior to the conversion date.

On February 7, 2019, the Company entered into a convertible promissory note, with a principal amount of \$83,000. The Company received net cash proceeds of \$80,000 after payment fees of \$3,000. The convertible note bears interest at 8% and matures on February 7, 2020, with interest accruing at a rate of 22% if the Company is in default. Beginning six months after the issuance of the note, the holder may convert the note at any time through the maturity date into shares of common stock, to the extent and provided that no holder of these notes was or will be permitted to convert such notes to the extent that the holder or any of its affiliates would beneficially own in excess of 4.99% of the Company's common stock after such conversion. The conversion price is determined based on 65% of the lowest trading price during the 15 trading days prior to the conversion date.

On March 29, 2019, the Company entered into an unsecured convertible promissory note, with a principal amount of \$250,000. In April 2019, the Company received net cash proceeds of \$200,000 after an original issue discount of \$50,000. The convertible note bears interest at 8% and matures on September 30, 2019, with interest accruing at a rate of 22% if the Company is in default. Beginning at the issuance of the note, the holder may convert the note at any time through the maturity date into shares of common stock, to the extent and provided that no holder of these notes was or will be permitted to convert such notes to the extent that the holder or any of its affiliates would beneficially own in excess of 4.99% of the Company's common stock after such conversion. The conversion price is the lesser of \$2 or 70% of the lowest trading price during the 30 trading days prior to the conversion date. On April 3, 2019, the Company issued 35,000 shares to this lender.

On May 22, 2019, the Company entered into a convertible promissory note, with a principal amount of \$78,000. The Company received net cash proceeds of \$75,000 after payment fees of \$3,000. The convertible note bears interest at 10% and matures on May 22, 2020, with interest accruing at a rate of 22% if the Company is in default. Beginning six months after the issuance of the note, the holder may convert the note at any time through the maturity date into shares of common stock, to the extent and provided that no holder of these notes was or will be permitted to convert such notes to the extent that the holder or any of its affiliates would beneficially own in excess of 4.99% of the Company's common stock after such conversion. The conversion price is determined based on 65% of the lowest trading price during the 15 trading days prior to the conversion date. Unamortized discount and deferred financing costs were \$2,680 as of June 30, 2019 related to this convertible note.

Results of Operations

Three months ended June 30, 2019 compared to three months ended June 30, 2018

Revenue and Gross Profit

During the three months ended June 30, 2019, the Company generated \$40,204 in revenue and \$21,920 in gross profit. The Company began generating revenue in the quarter ended June 30, 2018. Revenues amounted to \$6,396 for the three months ended June 30, 2018. Cost of goods sold amounted to \$1,628 for the three months ended June 30, 2018. Revenues increase compared to the prior year period due to the Company's expansion of product offerings and increased marketing efforts.

Selling, General and Administrative Expenses

Selling, general and administrative expenses amounted to \$756,416 and \$410,003, respectively for the three months ended June 30, 2019 and 2018, an increase of \$346,413. The increase was primarily due to higher stock-based compensation expense due to new equity grants awarded in the second half of fiscal year 2018 and the current period, increased officer compensation, increased contractor expense, increased marketing and investor relations expense, and increase general costs associated with the higher level of operations in the current period. Stock-based compensation expense was \$532,109 and \$524,830 during the three months ended June 30, 2019 and 2018, respectively.

Professional fees

Professional fees amounted to \$81,700 and \$41,439 respectively for the three months ended June 30, 2019 and 2018. The increase of \$40,261 was primarily due to increased accounting and audit fees associated with the increased operations of the Company, and legal fees from the filing of the Company's S-1 registration statement in the current period.

Interest expense

Interest expense was \$119,787 for the three months ended June 30, 2019 compared to \$0 for the three months ended June 30, 2018. The interest expense primarily relates to the Company's recently issued convertible notes and the amortization of debt discount and issuance costs related to those notes.

Derivative loss

The derivative loss of \$116,208 during the three months ended June 30, 2019 was due to changes in the fair value of the Company's derivative liability arising from the embedded conversion option on a convertible note entered into during the current period.

Six months ended June 30, 2019 compared to Six months ended June 30, 2018

Revenue and Gross Profit

During the six months ended June 30, 2019, the Company generated \$179,789 in revenue and \$73,008 in gross profit. The Company began generating revenue in the quarter ended June 30, 2018. Revenues and gross profit amounted to \$6,396 and \$4,768, respectively for the six months ended June 30, 2018. The significant increase in revenue is primarily due to a significant sale during the first quarter of 2019 and increased operational activity during the current year driven by new product offerings and increased marketing efforts.

Selling, General and Administrative Expenses

Selling, general and administrative expenses amounted to \$3,204,822 and \$948,807, respectively for the six months ended June 30, 2019 and 2018, an increase of \$2,256,015. The increase was primarily due to increased stock-based compensation as the Company entered into new agreements with consultants, contractors and advisory board members, increased officer compensation from the new management beginning in the middle of 2018, increased contractor expense, increased marketing and investor relations expense, and increase general costs associated with the higher level of operations in the current period.

Professional fees

Professional fees amounted to \$129,541 and \$60,348 respectively for the six months ended June 30, 2019 and 2018. The increase of \$69,193 was due to increased legal, accounting and audit fees associated with the increased operations of the Company, including the filing of the Company's S-1 registration statement in the current year.

Interest expense

Interest expense was \$123,127 for the six months ended June 30, 2019 compared to \$0 for the six months ended June 30, 2018. The interest expense primarily relates to the Company's recently issued convertible notes and the amortization of debt discount and issuance costs related to those notes.

Derivative loss

The derivative loss of \$116,208 during the six months ended June 30, 2019 was due to changes in the fair value of the Company's derivative liability arising from the embedded conversion option on a convertible note entered into during the current period.

Liquidity and Capital Resources

The following is a summary of the Company's cash flows used in operating activities for the six months ended June 30, 2019 and 2018:

	Six Months ended June 30, 2019	Six Months ended June 30, 2018
Net cash used in operating activities	\$ (605,580)	\$ (163,068)
Net cash used in investing activities	-	(83,513)
Net cash provided by financing activities	445,611	571,200

Operating Activities

The cash used in operating activities of \$605,580 for the six months ended June 30, 2019 was primarily due to increased selling, general and administrative costs as the Company increased its operations during the current period. These outflows were partially offset by the cash inflows from sales activity during the current period.

Financing Activities

The cash provided by financing activities of \$445,611 during the six months ended June 30, 2019 was primarily from four convertible debt issuances, which provided proceeds of \$466,000, offset by payments of debt issuance costs of \$9,000 and payments on unsecured notes payable of \$11,389. During the six months ended June 30, 2018, the Company received \$571,000 of cash proceeds from the sale of common stock.

We are a public company and as such we have incurred and will continue to incur significant expenses for legal, accounting and related services. As a public entity, subject to the reporting requirements of the Exchange Act of 1934, we incur ongoing expenses associated with professional fees for accounting, legal and a host of other expenses including annual reports and proxy statements, if required. We estimate that these costs will increase over the next few years and may be significantly higher if our business volume and transactional activity increases but should be lower for this year in 2017 because our overall business volume (and financial transactions) will be lower, and we will not yet be subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 until we exceed \$75 million in market capitalization (if ever). These obligations will certainly reduce our ability and resources to expand our business plan and activities. We hope to be able to use our status as a public company to increase our ability to use noncash means of settling outstanding obligations (i.e. issuance of restricted shares of our common stock) and compensate independent contractors who provide professional services to us, although there can be no assurances that we will be successful in any of these efforts. We will also reduce compensation levels paid to management (if we attract or retain outside personnel to perform this function) if there is insufficient cash generated from operations to satisfy these costs.

We hope to be able to use our status as a public company to enable us to use non-cash means of settling obligations and compensate persons and/or firms providing services to us, although there can be no assurances that we will be successful in any of those efforts. However, these actions, if successful, will result in dilution of the ownership interests of existing shareholders, may further dilute common stock book value, and that dilution may be material. Such issuances may also serve to enhance existing management's ability to maintain control of the Company because the shares may be issued to parties or entities committed to supporting existing management. The Company may offer shares of its common stock to settle a portion of the professional fees incurred in connection with its registration statement. No negotiations have taken place with any professional and no assurances can be made as to the likelihood that any professional will accept shares in settlement of obligations due to them.

As of June 30, 2019, total liabilities increased to \$784,180 from \$180,389 as of December 31, 2018, mainly due to the convertible debt issued by the Company during the current period and the related derivative liability recognized during the three months ended June 30, 2019.

Going Concern

Our auditor has issued a “going concern” qualification as part of its opinion in the Audit Report for the year ending December 31, 2018, and our unaudited financial statements for the period ended June 30, 2019, include a “going concern” note disclosing that our ability to continue as a going concern is contingent on us being able to raise working capital to grow our operations and generate revenue.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities in the financial statements and accompanying notes. The SEC has defined a company’s critical accounting policies as the ones that are most important to the portrayal of the company’s financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. We believe that our estimates and assumptions are reasonable under the circumstances; however, actual results may vary from these estimates and assumptions.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company adopted this standard on January 1, 2019 using the modified retrospective method, and adopted the package of practical expedients that allows it to (i) not reassess whether an arrangement contains a lease, (ii) carry forward its lease classification as operating or capital leases and (iii) not reassess its previously recorded initial direct costs. The Company made an accounting policy election to treat leases with a minimum term of 12 months or less as short-term leases. The adoption of ASC 842 had no impact to the Company’s consolidated financial statements, due to the Company’s current rental agreements for office space having minimum terms of less than 12 months. The Company currently has no right of use assets or liabilities recognized on its balance sheet related to lease agreements.

The Company does not believe that any other recently issued effective pronouncements, or pronouncements issued but not yet effective, if adopted, would have a material effect on the accompanying financial statements.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources and would be considered material to investors.

Contractual Obligations

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

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 are not required to provide the information under this item.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The term “disclosure controls and procedures”, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (“Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of June 30, 2019, that our disclosure controls and procedures are not effective at a reasonable assurance level and are designed to provide reasonable assurance that the controls and procedures will meet their objectives due to the material weaknesses described below. However, it should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The internal controls for the Company are provided by executive management’s review and approval of all transactions. Our internal control over financial reporting also includes those policies and procedures that:

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with the authorization of our management; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of June 30, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission in Internal Control-Integrated Framework. Management’s assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of these controls.

Based on this assessment, management has concluded that as of September 30, 2017, our internal control over financial reporting was not effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles due to the existence of the following material weaknesses:

- Lack of segregation of duties
- Lack of audit committee and independent directors
- Lack of well established procedures to authorize and approve related party transactions

Although we are unable to meet the standards under COSO because of the limited resources available to a company of our size, we are committed to improving our financial organization. As funds become available, we will undertake to: (1) create a position to segregate duties consistent with control objectives, (2) increase our personnel resources and technical accounting expertise within the accounting function (3) appoint one or more independent directors to our board of directors who shall be appointed to a Company audit committee resulting in a fully functioning audit committee who will undertake the oversight in the establishment and monitoring of required internal controls and procedures; and (4) prepare and implement sufficient written policies and checklists which will set forth procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements.

We will continue to monitor and evaluate the effectiveness of our disclosure controls and procedures and our internal control over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not a party to any legal proceeding or litigation.

Item 1A. Risk Factors.

As a “smaller reporting company”, we are not required to provide the information required by this Item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosure.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

- 31.1 [Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14 and 15d-14.](#)
- 31.2 [Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14 and 15d-14.](#)
- 32.1 [Certification of the Company's Chief Executive Officer and Chief 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 Company's 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 Extension Schema Document
- 101.CAL ** XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF ** XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB ** XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE ** XBRL Taxonomy Extension Presentation Linkbase Document

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

VITALIBIS, INC.

Date: August 9, 2019

By: /s/ Steven Raack

Steven Raack
Chief Executive Officer

VITALIBIS, INC.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULES 13A-14(A) or RULE 15D-14 (A)**

I, Steven Raack, certify that:

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

Date: August 9, 2019

By: /s/ Steven Raack
Steven Raack
Chief Executive Officer

VITALIBIS, INC.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULES 13A-14(A) or RULE 15D-14 (A)**

I, Thomas Raack, certify that:

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

Date: August 9, 2019

By: /s/ Thomas Raack
Thomas Raack
Chief Financial Officer

VITALIBIS, INC.

CERTIFICATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350, CHAPTER 63 OF TITLE 18,
UNITED STATES CODE)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of Title 18, United States Code), the undersigned officer of Vitalibis, Inc. (the "Company") does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), to the best of the undersigned's knowledge that:

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

Date: August 9, 2019

By: /s/ Steven Raack
Steven Raack
Chief Executive Officer

VITALIBIS, INC.

CERTIFICATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350, CHAPTER 63 OF TITLE 18,
UNITED STATES CODE)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of Title 18, United States Code), the undersigned officer of Vitalibis, Inc. (the "Company") does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), to the best of the undersigned's knowledge that:

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

Date: August 9, 2019

By: /s/ Thomas Raack
Thomas Raack
Chief Financial Officer