

BIOCUBE, INC.
BALANCE SHEET

	<u>31-Jul-16</u>	<u>31-Jan-16</u>
	(unaudited)	
ASSETS		
Investment in Joint Venture	\$ 100,000	\$ 100,000
Total Assets	<u>\$ 100,000</u>	<u>\$ 100,000</u>
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 693,158	\$ 573,313
Accrued interest payable	394,581	319,495
Convertible notes payable, net	1,503,344	1,519,344
Total Current Liabilities	<u>\$ 2,591,083</u>	<u>\$ 2,412,152</u>
STOCKHOLDERS' DEFICIT:		
Preferred stock - Series A at \$0.001 par value: 21,000 shares designated; 21,000 shares issued and outstanding	21	21
Common stock par value \$0.001: 300,000,000 shares authorized; 64320,700 and 58,342,700 shares issued and outstanding, respectively	64,343	58,343
Additional paid-in capital	1,263,832	1,071,432
Accumulated deficit	<u>(3,819,279)</u>	<u>(3,441,948)</u>
Total Stockholders' deficiency	<u>(2,491,083)</u>	<u>(2,312,152)</u>
Total Liabilities and Stockholders' Deficiency	<u>\$ 100,000</u>	<u>\$ 100,000</u>

See accompanying notes to the unaudited financial statements

BIOCUBE, INC.
STATEMENT OF OPERATIONS

	Three Months Ended	Six Months Ended
	7/31/2016	
	(unaudited)	
OPERATING EXPENSES:		
Consulting fees	\$ 13,860	\$ 118,920
Professional fees	2,000	7,000
Officer salaries	41,250	173,700
Other expenses	<u>375</u>	<u>2,625</u>
 Total operating expenses	57,485	302,245
LOSS FROM OPERATIONS	(57,485)	(302,245)
OTHER (INCOME) EXPENSE:		
Interest expense, net	<u>36,902</u>	<u>75,086</u>
 Total other (income) expense	36,902	75,086
Net loss	<u>\$ (94,387)</u>	<u>\$ (377,331)</u>
Net loss per common share		
- Basic and diluted:	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding		
- basic and diluted	<u>#####</u>	<u>60,276,402</u>

See accompoanying notes to the unaudited finncial statements

BIOCUBE, INC.
STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JULY 31, 2016

(unaudited)

CASH FLOWS USED IN OPERATING ACTIVITIES:

Net loss	\$ (377,331)
Adjustments to reconcile net loss to net cash used in operating activities:	
Noncash compensation	182,400
Changes in operating assets and liabilities:	
Accounts payable and accrued expenses	119,845
Accrued interest payable	<u>75,086</u>

NET CASH USED IN OPERATING ACTIVITIES

-

NET CHANGE IN CASH

-

CASH - BEGINNING OF THE PERIOD

-

CASH - END OF THE PERIOD

\$ -

**Supplemental disclosure of non-cash investing and
financing activities:**

Conversion of notes payable- related party for common stock	\$ 16,000
Noncash compensation in the form of comon stock and options	182,400

See accompanying notes to unaudited financial statements

BIOCUBE, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
(unaudited)

	<u>PREFERRED STOCK</u>		<u>COMMON STOCK</u>		<u>ADDITIONAL</u>	<u>ACCUMULATED</u>	<u>TOTAL</u>
	<u>SHARES</u>	<u>AMOUNT</u>	<u>SHARES</u>	<u>AMOUNT</u>	<u>PAID IN</u>	<u>DEFICIT</u>	<u>STOCKHOLDERS'</u>
					<u>CAPITAL</u>		<u>DEFICIENCY</u>
Balance - January 31, 2016	21,000	\$ 21	58,342,700	\$ 58,343	\$ 1,071,432	\$ (3,441,948)	\$ (2,312,152)
Issuance of stock options to Directors					26,000		26,000
Issuance of common stock for services			4000000	4000	152400		156400
Conversion of note payable - related party			2,000,000	2,000	14,000		16,000
Net loss - year ended January 31, 2016						(377,331)	(377,331)
Balance - July 31, 2016	<u>21,000</u>	<u>\$ 21</u>	<u>64,342,700</u>	<u>\$ 64,343</u>	<u>\$ 1,263,832</u>	<u>\$ (3,819,279)</u>	<u>\$ (2,491,083)</u>

See accompanying notes to the unaudited financial statements

BioCube, Inc.
Notes to the Financial Statements
July 31, 2016
(unaudited)

Note 1. Description of Business

BioCube, Inc. (the “Company”) through its partially-owned subsidiary IUT Technologies Inc. (“IUT”) plans to market and distribute in North America certain devices for the detection of THC and marijuana on a user’s breath and other devices based upon trace gas analyzers for industrial- and environmental monitoring and for solutions in the homeland security and building protection. The Company previously had operated several other marketing and distribution businesses for electrical surge protection devices; aerosol based decontamination systems; and batteries utilizing a proprietary and patented process. These businesses were terminated as each new venture was commenced.

The Company’s activities are subject to significant risks and uncertainties, including failing to secure adequate funding to begin marketing efforts as well as to provide funding, as required, in order to operationalize the technology the Company and its subsidiary has rights to in order to distribute such products in North America before another company develops and/or develops similar technology in this territory.

Note 2. Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which assume the continuation of the Company as a going concern. This basis of accounting contemplates the recovery of the Company’s assets and the satisfaction of liabilities in the normal course of business. Since its formation in April 2009, the Company has been in development stage performing only limited marketing activities for its detection devices, as well as, its prior products (electrical surge protection devices; the aerosol based decontamination system, or batteries) while its principal activities, to date, have been mainly organizational in nature directed towards the raising of capital and initiating a business plan.

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all information and notes 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 interim periods are not necessarily indicative of results to be expected for the entire fiscal year or any other period.

Going Concern

The Company may not be able to execute its current business plan and fund business operations long enough to achieve profitability without obtaining additional financing. The Company's ultimate success depends upon its ability to raise capital. There can be no assurance that funds will be available to the Company when needed from any source or, if available, on terms that are favorable to the Company. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on

the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these uncertainties.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets, as well as in the battery industry and any other parameters used in determining these estimates could cause actual results to differ.

Cash and Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Impairment of Long-Lived Assets

The Company reviews and evaluates long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. The assets are subject to impairment consideration under ASC 360-10-35-17 if events or circumstances indicate that their carrying amounts might not be recoverable. The Company performed impairment analyses using rules of ASC 930-360-35, Asset Impairment, and 360-10-15-3 through 15-5, Impairment or Disposal of Long-Lived Assets and has determined the assets obtained through the its website development contract entered into in July 2014 was impaired due to the change in the Company's business plan when it entered into the Joint Venture Arrangement to distributed equipment in October 2015 (See Note) and recorded a \$65,000 charge to impairment loss in the accompanying statement of operations for the year ended January 31, 2015.

Concentration of Credit Risk

The Company may place its cash with various financial institutions and, at times, cash held in depository accounts at such institutions may exceed the Federal Deposit Insurance Corporation insured limit.

Revenue Recognition

Upon initiation of active operations, the Company will recognize revenues when persuasive evidence of an arrangement exists, product has been delivered or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Revenue will be recognized net of estimated sales returns and allowances.

Income Taxes

The Company accounts for income taxes using a method that requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of the Company's assets and liabilities (commonly known as the asset and liability method). In assessing the ability to realize deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company evaluates its tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as an expense in the applicable year. The Company does not have a liability for any unrecognized tax benefits. Management's evaluation of uncertain tax positions may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

As of January 31, 2016, 2015 and 2014, the Company has approximately \$3,448,000, \$2,913,000 and \$2,483,000 of net operating loss carry forwards and other taxable temporary differences available to affect future taxable income. The Company has established a valuation allowance equal to the tax benefit of the net operating loss carry forwards and other taxable temporary differences as realization of the asset is not assured.

Utilization of net operating loss carry-forwards arising from our predecessor company (not included in the amounts above) are subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code. The annual limitation may result in the expiration of net operating loss carry-forwards before utilization.

Loss per share

Loss per common share is based upon the weighted average number of common shares outstanding during the periods. Diluted loss per common share is the same as basic loss per share for each of the periods presented, as the effect of potentially dilutive securities at September 30, 2016 (options-2,550,000; and convertible debentures-189,918,125) are anti-dilutive.

Outstanding options were issued with an exercise price of \$.0162 (550,000) in February 2015 and \$.0391 (2 million) and 5 year terms in February 2016 to the Company's Directors in connection with the annual Board member compensation program.

New Accounting Pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and does not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations.

Fair Value Measurements

All financial instruments, including derivatives, are to be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired.

The carrying amounts of the Company's other short-term financial instruments, including accounts payable and accrued liabilities, approximate fair value due to the relatively short period to maturity for these instruments.

The fair value of the Company's financial assets and liabilities reflects the Company's estimate of amounts that it would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from sources independent from the Company) and to minimize the use of unobservable inputs (the Company's assumptions about how market participants would price assets and liabilities). The following fair value hierarchy is used to classify assets and liabilities based on the observable inputs and unobservable inputs used in order to value the assets and liabilities:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reported date and includes those financial instruments that are valued using models or other valuation methodologies.

Level 3 - Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Derivatives

The Company evaluates embedded conversion features within convertible debt under ASC 815 "*Derivatives and Hedging*" to determine whether the embedded conversion feature should be bifurcated from the host instrument and accounted for as a derivative at fair value with changes in fair value recorded in earnings. The Company uses a Binomial pricing model to estimate the fair value of convertible debt conversion features at the end of each applicable reporting period. Changes in the fair value of these derivatives during each reporting period are included in the statement of operation. Inputs into the Binomial pricing model require estimates, including such items as estimated volatility of the Company's stock, risk-free interest rate and the estimated life of the financial instruments being fair valued.

If the conversion feature does not require derivative treatment under ASC 815, the instrument is evaluated under ASC 470-20 "*Debt with Conversion and Other Options*" for consideration of any beneficial conversion feature.

Note 3. Investment in Joint Venture – IUT Technologies, Inc.

On February 10, 2015, the Company entered into a Joint Venture Agreement with IUT Medical GmbH ("IUT"), a German corporation specializing in the research, development and manufacturing of chemical analytic sensors and devices.

The purpose of the Joint Venture Agreement is to form a separate entity that will exclusively distribute a device capable of detecting marijuana in breath worldwide. In addition, the entity will be the exclusive distributor in the United States and Canada for other products manufactured by IUT. Pursuant to the terms of the Joint Venture Agreement, IUT licensed certain intellectual property and know-how to new entity IUT Technologies, Inc. to facilitate the development of the marijuana detection device. In exchange for IUT's obligations and efforts, the Company issued IUT two million (2,000,000) restricted

shares of its common stock. The initial ownership of IUT Technologies was allocated 51% to the Company and 49% to IUT. The Joint Venture Agreement is for an indefinite term. (See Note 7. Subsequent Events.)

In February 2016, the Board of IUT Technologies, Inc., a subsidiary of the Company, sold 6,500,000 shares of its common stock. As a result of the sale, the Company's ownership percentage was reduced from 51% to 34%.

The investment was recorded based upon the fair value of the Company's shares that were issued in connection with the transaction and since operations have not commenced no adjustment has been recorded.

Note 4. Convertible Notes Payable (including to Related Parties)

The Company has issued a number of convertible promissory notes to various parties, which allow the holder to convert the notes into common stock of the Company, at a discount to the current market price of the common stock at the time of conversion. The following details the significant terms of these convertible notes payable, and the balances due net of debt discounts related to the beneficial conversion feature as of the dates shown:

	\$
Former Officer/Director - due April 1, 2013 ⁽¹⁾	588,387
LeadDog Capital (a related party)- due November 5, 2015 ⁽²⁾	216,298
Former Officer/Director - due April 1, 2015 ⁽¹⁾	225,000
Admetus Capital - due April 26, 2016 ⁽¹⁾⁽³⁾	129,259
Crystal Falls - due May 5, 2015 (2 notes) ⁽²⁾	100,000
Lotus Capital - due January 31, 2015 ⁽⁴⁾	82,800
Blackwater Capital - November 30, 2015 ⁽¹⁾⁽³⁾	59,000
Garnick - due October 31, 2014 ⁽⁵⁾	30,000
Innovative Holdings - due August 25, 2015 ⁽⁶⁾	25,000
Lotus Capital - due January 31, 2015 ⁽⁴⁾	20,000
Whitt - due March 7, 2013 ⁽⁴⁾	21,100

Blue Shoes - due December 14, 2013⁽⁴⁾

6,500
<u>\$</u>
<u>1,503,345</u>

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- (1) On November 1, 2012, August 1, 2013 and October 31, 2014, the Company converted \$663,387, \$140,527 and \$225,000, respectively, of accrued salaries due to Boris Rubizhevsky into convertible notes. On April 27, 2014 and on April 27, 2015, the former officer/ transferred a portion of one of the convertible notes due him in the amount of \$75,000 to Blackwater Capital and one of the outstanding convertible notes payable to him (\$140,527 of principal and \$26,732 of related accrued interest) to Admetus Capital.
- (2) In November 2014, as a result of a default in meeting the terms of Crystal Fall's 2012 acquisition of the Company's indebtedness to LeadDog Capital, LeadDog reacquired \$232,298 indebtedness and related unpaid interest amounting to \$57,331. The balance of the indebtedness to Crystal Fall including another note for \$4,099 note was rolled into 2 notes aggregating \$100,000. In February 2016 LeadDog converted \$16,000 of the Company's indebtedness to it for 2,000,000 shares of the Company's common stock in accordance with the conversion provisions.
- (3) In October 2015, Blackwater and Admetus converted \$16,000 and \$38,000, respectively, of principle related to the convertible notes payable to it for 4,750,000 shares of the Company's common stock.
- (4) At various times during the three year period ended January 31, 2016, the Company borrowed to secure working capital and issued convertible notes payable.
- (5) During the year ended January 31, 2015, The Company entered into a consulting arrangement with Granick which provided for the compensation under the agreement through the issuance of a convertible note for \$30,000.
- (6) In July 2014, the Company engaged Innovative Holdings Inc. to supply the Company with 2 mobile applications to provide to medical marijuana patients with information to locate nearby doctors and dispensaries and information concerning legal status for medical marijuana in the United States and Canada. Compensation for the assets, etc. was 2 million shares of the Company's common stock and a convertible note in the amount of \$25,000. Based upon the quoted market price at the time of the execution of the Agreement, the aggregate purchase price is approximately \$45,000.

Interest on the convertible notes payable accrue at rates ranging from 5% to 15. The Company does not recognize the default rate provision on its indebtedness to the former officer/director and no provision for payment of the amount that would accrue under this provision has been included in the accompanying financial statements.

In July 2015, the Company notified all convertible debt holders that it would not honor conversion terms, as applicable, into its common stock at a rate less than \$.008 per share because new management was not able to find appropriate documentation of any other terms. Accordingly, the Company stopped accounting for the *derivative liability* which had been recognized for certain of the

convertible notes and reactively reclassified the liability balance (\$111,000) to *Additional Paid in Capital* in the financial statements for the year ended January 31, 2014.

The convertible notes contain limitations on conversion such that note holders and affiliates generally cannot beneficially own more than 4.99% or 9.99% of the outstanding shares of common stock of the Company

In November, 2012, Crystal Falls assigned \$10,714 in principal related to Company indebtedness to it to each of 6 different parties and replacement notes were issued to each of the parties, on the same terms as the original note. Subsequently, in January 2013, the six assignees each converted the replacement notes into 1,785,714 shares of common stock; however, four of the six assignees failed to pay the agreed consideration for the note assignments and the assignment were rescinded as of April 3, 2013. The shares issued as a result of the conversion of the 4 notes, a total of 7,142,856 common shares, were cancelled and are no longer issued and outstanding.

On March 27, 2013, Asher Enterprises converted \$3,600 in principal on its promissory note into 1,714,286 shares of common stock, leaving a balance due of \$21,100. On April 11, 2013, Asher Enterprises sold the note to Walter D. Whitt.

Note 5. Compensation Arrangements

On February 9, 2016, the Board of Directors approved the following annual compensation arrangement for Board service:

- 2,000,000 restricted shares of the Company's common stock;
- Options to acquire 1,000,000 shares of the Company's common stock at an exercise price of \$.0392 which shall immediately vest and have a term of five (5) years from issuance and shall be exercisable on a cashless basis;
- \$1,500 for each meeting attended in person, including the Annual Meeting of the Shareholders, if on a day other than a scheduled meeting of the Board of Directors;
- \$500 for attendance at a telephonic meeting of the Board of Directors; and
- Maximum of \$1,500 per meeting to cover expenses related to the attendance at Board and/or committee.

The Board also extended the employment agreement with the Company Chief Executive Officer, and the financial advisory agreement, with a Board member for two (2) years from their respective expiration dates of January 31, 2016 and February 8, 2016, with increases in the annual rate of compensation of 10% in each year. In addition, the Board authorized the Company to issue convertible notes payable due one year after issuance with interest at 8 percent annually to the Chief Executive Officer and the Board member if requested, in the amounts of \$187,500 and \$115,500, respectively, for all accrued on unpaid salary due through January 31, 2016. The notes are to provide a provision for the conversion of the notes into shares of the Company's common stock at \$.02 per share.

Note 6. Litigation

In October 2009, Jet One Group, Inc. commenced an action against the Company and several of its former officers, directors and employees in the Supreme Court of New York, Nassau County alleging, among other matters, that the Company fraudulently induced Jet One to enter into a Letter of Intent ("LOI") to acquire Jet One's business and asserts claims for conversion, fraud, tortious interference with contract and violation of the New York consumer fraud statute. The complaint seeks compensatory damages of \$15 million, attorneys' fees of \$100,000 and punitive damages against each of the defendants in the amount of \$45 million. The suit is based on a similar action against the Company and its employees which was dismissed in a Federal Court without prejudice. The State case was dismissed by the Court for failure to prosecute on March 17, 2016. This dismissal also affects the Company's counterclaims against Jet One Jets and its principals. Under the court rules, the plaintiff has one year in which to move to reopen the case. The plaintiff would have to demonstrate good cause for its prolonged failure to prosecute the case.

Except as set forth above, there are no other pending or threatened legal proceedings against the Company and the Company has no claims or other potential matters that could be the subject of legal proceedings by the Company.