Quest Solution, Inc.
Form 10-Q
August 20, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2018

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

For the transition period from to

Commission File Number: 000-09047

QUEST SOLUTION, INC

(Exact name of registrant as specified in its charter)

Delaware	20-3454263
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

860 Conger Street

Eugene, OR 97402
(Address of principal executive offices) (Zip Code)

(714) 899-4800

(Registrant's telephone number, including area code)

N/A

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

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 [X] NO [ ]

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

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer (Do not check if a smaller reporting company)	[ ]	Smaller reporting company	[X]
Emerging growth company	[ ]		

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. YES [ ] NO [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common equity, as of the latest practicable date: 48,701,931 shares of common stock, $0.001 par value, as of August 17, 2018**.**

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUEST SOLUTION, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	As of June 30, 2018 **(UNAUDITED)**	December 31, 2017
ASSETS		
Current assets		
Cash	$30,799	$24,634
Restricted Cash	665,477	684,610
Accounts receivable, net	8,975,241	6,387,734
Inventory, net	1,049,045	439,720
Prepaid expenses	278,099	476,840
Other current assets	23,448	126,187
Total current assets	11,022,109	8,139,725
Fixed assets, net	69,589	92,803
Goodwill	10,114,164	10,114,164
Trade name, net	2,070,981	2,359,481
Customer Relationships, net	4,748,581	5,310,938
Other assets	34,962	39,512
Total assets	$28,060,386	$26,056,623
LIABILITIES AND STOCKHOLDERS' EQUITY / (DEFICIT)		
Current liabilities		
Accounts payable and accrued liabilities	$14,826,921	$13,239,810
Accrued interest on note payable	-	38,430
Line of credit	4,954,169	3,667,417
Accrued payroll and sales tax	3,129,622	1,531,233
Deferred revenue, net	4,360	761,194
Current portion of note payable	2,062,940	3,429,025
Notes payable, related parties	319,500	106,500
Other current liabilities	173,126	121,117
Total current liabilities	25,470,638	22,894,726

Long term liabilities		
Note payable, related party	1,810,500	3,222,900
Accrued interest, related party	4,880	165,014
Long term portion of note payable	130,294	130,294
Deferred revenue, net	-	452,024
Other long term liabilities	383,218	439,833
Total liabilities	27,799,530	27,304,791
Stockholders' equity / (deficit)		
Series A Preferred stock; $0.001 par value; 1,000,000 shares designated and 0 shares outstanding as of June 30, 2018 and December 31, 2017, respectively.	-	-
Series B Preferred stock; $0.001 par value; 1 share designated and 0 shares outstanding as of June 30, 2018 and December 31, 2017, respectively.	-	-
Series C Preferred stock; $0.001 par value; 15,000,000 shares designated, 4,828,530 shares outstanding as of June 30, 2018 and December 31, 2017, respectively, liquidation preference of $1.00 per share and a cumulative dividend of $0.06 per share.	4,829	4,829
Common stock; $0.001 par value; 100,000,000 shares designated, 48,433,472 and 36,828,371 shares outstanding of June 30, 2018 and December 31, 2017, respectively.	48,434	36,828
Common stock to be repurchased by the Company	(230,490)	(230,490)
Additional paid-in capital	38,279,186	34,495,659
Accumulated (deficit)	(37,841,103)	(35,554,994)
Total stockholders' equity / (deficit)	260,856	(1,248,168)
Total liabilities and stockholders' equity / (deficit)	$28,060,386	$26,056,623

The accompanying unaudited notes to the financials should be read in conjunction with these condensed consolidated financial statements.

F-1

QUEST SOLUTION, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (UNAUDITED)

	For the three months ending June 30, 2018	For the three months ending June 30, 2017	For the six months ending June 30, 2018	For the six months ending June 30, 2017
Revenues				
Total Revenues	$13,777,187	$13,485,145	$28,957,734	$27,922,701
Cost of goods sold				
Cost of goods sold	10,927,850	10,685,448	22,942,304	22,131,057
Total costs of goods sold	10,927,850	10,685,448	22,942,304	22,131,057
Gross profit	2,849,337	2,799,697	6,015,430	5,791,644
Operating expenses				
General and administrative	560,154	414,162	1,037,009	827,107
Salary and employee benefits	2,258,777	1,840,807	4,861,342	3,786,690
Depreciation and amortization	435,179	441,512	872,577	883,912
Professional fees	513,058	138,147	805,920	241,424
Total operating expenses	3,767,168	2,834,628	7,576,848	5,739,133
Income (loss) from operations	(917,831)	(34,931)	(1,561,418)	52,511
Other income (expenses):				
Interest expense	(364,852)	(376,398)	(659,617)	(732,056)
Other (expenses) income	(1,126,841)	(17,917)	(1,124,297)	(23,959)
Total other expenses	(1,491,693)	(394,315)	(1,783,914)	(756,015)
Net Loss Before Income Taxes	(2,409,524)	(429,246)	(3,345,332)	(703,504)
Provision for Income Taxes				
Current	(45,848)	(19,210)	(59,044)	(76,110)
Total Provision for Income Taxes	(45,848)	(19,210)	(59,044)	(76,110)
Net Loss attributable to Quest Solution Inc.	$(2,455,372)	$(448,456)	$(3,404,376)	$(779,614)
Less: Preferred stock – Series C dividend	(46,826)	(47,024)	(94,950)	(93,531)
Net loss attributable to the common stockholders	$(2,408,546)	$(401,432)	$(3,309,426)	$(686,083)
Net (loss) per share - basic	$(0.06)	$(0.01)	$(0.08)	$(0.02)
Net loss per share from continuing operations - basic	$(0.06)	$(0.01)	$(0.08)	$(0.02)
	41,856,966	35,795,675	42,099,171	35,472,251

Weighted average number of common shares outstanding
- basic

The accompanying unaudited notes to the financials should be read in conjunction with these condensed consolidated financial statements.

F-2

QUEST SOLUTION, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(UNAUDITED)

	For the six months ended June 30 2018	2017
Cash flows from continuing operating activities:		
Net loss	$(3,404,376)	$(779,614)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Stock based compensation	1,084,133	149,045
Topic 606 Cumulative Adjustment	1,213,217	-
Debt Settlement	1,264,237	-
Depreciation and amortization	872,577	883,912
Loss on fixed asset disposal	(36,088)	-
Inventory write off	50,310	-
Restructuring expenses	-	26,880
Changes in operating assets and liabilities:		
(Increase) / decrease in accounts receivable	(2,587,507)	3,903,803
(Increase) / decrease in prepaid	198,741	(38,958)
(Increase) in inventory	(659,635)	18,998
Increase / (decrease) in accounts payable and accrued liabilities	1,587,111	403,492
Increase in accrued interest and accrued liabilities, related party	(1,081)	339,744
(Decrease) in deferred revenue, net	(1,208,858)	(146,245)
Increase / (decrease) in accrued payroll and sales taxes payable	1,598,389	(301,700)
Decrease in other assets	107,289	571,344
Increase / (decrease) in other liabilities	(99,556)	(121,523)
Net cash (used in) provided by operating activities	(21,097)	4,909,178
Cash flows from investing activities:		
Increase / (decrease) in restricted cash	-	(19,390)
Purchase of property and equipment	37,582	(7,997)
Net cash provided by investing activities	37,582	(27,387)
Cash flows from financing activities:		
Proceeds from shares sold	-	14,390
Increase in notes funding	-	85,000
Proceeds (payments) from line of credit	1,286,752	(1,916,802)
Payment of notes/loans payable	(1,316,205)	(3,074,598)
Net cash provided by (used) in financing activities	29,453	(4,892,010)
Net increase (decrease) in cash	(12,968)	(10,219)
Cash, beginning of period	709,244	289,480
Cash, end of period	$696,276	$279,261

Cash paid for interest	$-	$334,385
Cash paid for taxes	$-	$-
Supplementary for non-cash flow information:		
Stock issued for services	$261,800	$65,901
Stock options issued	$816,047	$83,144
Stock issued for debt settlement	$45,000	$-
Shares to be repurchased	$(230,490)	$(230,490)

The accompanying unaudited notes to the financials should be read in conjunction with these condensed consolidated financial statements.

QUEST SOLUTION, INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The interim consolidated financial statements of Quest Solution, Inc. include the combined accounts of Quest Marketing, Inc., an Oregon Corporation, and Quest Exchange Ltd., a Canadian based holding company.

On December 31, 2016, the Company merged BCS in Quest Marketing to form one US legal entity as part of its streamlining efforts.

The interim consolidated financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these interim financial statements be read in conjunction with the financial statements of the Company for the year ended December 31, 2017 and notes thereto included in the Company's Form 10-K filed with the SEC on May 8, 2018. The Company follows the same accounting policies in the preparation of interim reports, except for the adoption of ASC Topic 606, Revenue from Contracts with Customers. The Company operates in one segment.

Operating results for the six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ended December 31, 2018.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Quest Solution, Inc. is presented to assist in understanding the Company's consolidated financial statements. The consolidated financial statements and notes are representations of the Company's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Adoption of New Accounting Pronouncement in Fiscal 2018

In May 2014, the FASB issued new revenue recognition guidance under ASU 2014-09 that supersedes the existing revenue recognition guidance under U.S. Generally Accepted Accounting Principles ("GAAP"). The new standard, ASC Topic 606, focuses on creating a single source of revenue guidance for revenue arising from contracts with customers for all industries. The objective of ASC Topic 606, the new standard, is for companies to recognize revenue when it transfers the promised goods or services to its customers at an amount that represents what the company expects to be entitled to in exchange for those goods or services. Since the issuance of the original standard, the FASB has issued several other subsequent updates including the following: 1) clarification of the implementation guidance on principal versus agent considerations (ASU 2016-08); 2) further guidance on identifying performance obligations in a contract as well as clarifications on the licensing implementation guidance (ASU 2016-10); 3) rescission of several SEC Staff Announcements that are codified in Topic 605 (ASU 2016-11); and 4) additional guidance and practical expedients in response to identified implementation issues (ASU 2016-12). The Company took into the guidance provided in these ASUs related to revenue recognition.

Accordingly, the Company has adopted ASC Topic 606 as of January 1, 2018 using the modified retrospective transition approach, in which the cumulative effect of applying the standard would be recognized at the date of initial application. An adjustment to decrease deferred revenue in the amount of $1,213,218 was established on the date of adoption relating to amounts deferred related to extended service contract sales through December 31, 2017. Prior to adoption of ASC Topic 606 net revenue from the sales of these contracts would be recognized immediately since the Company has no continuing obligation related to the sale of these products if the new guidance had been applied in the past. As a result of the adoption the Company recognizes revenue from extended service contracts on a net versus gross basis in the consolidated statements of operations. The Company recognized the cumulative effect of initially applying ASC Topic 606 as an adjustment of $1,213,218 of net deferred revenue to the opening balance of accumulated deficit.

Deferred net revenue on December 31, 2017	$1,213,217
Accumulated deficit on December 31, 2017	$(35,554,994)
Accumulated deficit on January 1, 2018	$(34,341,777)
Net loss on June 30, 2018	$(3,404,376)
Less: Preferred stock - Series C dividend	$(94,950)
Accumulated deficit on June 30, 2018	$(37, 841,103)

Under this approach, revenue for 2017 is reported in the consolidated statements of operations and comprehensive income on the historical basis, and revenue for 2018 is reported in the consolidated statements of operations and comprehensive income under ASC Topic 606. A comparison of revenue for 2018 periods to the historical basis is included below. The Company acknowledges that the required adoption of ASC Topic 606 could have a material effect on annual revenue or net income from continuing operations on an ongoing basis.

	For the six months ended June 30					
	Topic 606 2018	Topic 605 2018	%	2017	Topic 606 Variance from 2017	Topic 605 Variance from 2017
Revenues						
Total revenues	28,957,734	28,450,981	1.78 %	27,922,701	1,035,033	528,280
Total costs of goods sold	22,942,304	23,174,988	(1.00 %)	22,131,057	811,247	1,043,931
Gross profit	6,015,430	5,275,993	14.012 %	5,791,644	223,786	(515,651)

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2018, the FASB issued ASU 2018-10 *Leases (Topic 842),Codification Improvements* and ASU 2018-11 *Leases (Topic 842), Targeted Improvements*, to provide additional guidance for the adoption of Topic 842. ASU 2018-10 clarifies certain provisions and correct unintended applications of the guidance such as the application of implicit rate, lessee reassessment of lease classification, and certain transition adjustments that should be recognized to earnings rather than to stockholders' equity. ASU 2018-11 provides an alternative transition method and practical expedient for separating contract components for the adoption of Topic 842. In February 2016, the FASB issued ASU 2016-02 *Leases (Topic 842)* which requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases with terms greater than 12 months. ASU 2018-11, ASU 2018-10, and ASU 2016-02 (collectively, "the new lease standards") are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the effect the new lease standards will have on its Condensed Consolidated Financial Statements; however, the Company anticipates recognizing assets and liabilities arising from any leases that meet the requirements under the new lease standards on the adoption date and including qualitative and quantitative disclosures in the Company's Notes to the Condensed Consolidated Financial Statements.

In July 2018, the FASB issued ASU 2018-09, *Codification Improvements.* The amendments in ASU 2018-09 affect a wide variety of Topics in the FASB Codification and apply to all reporting entities within the scope of the affected accounting guidance. The Company has evaluated ASU 2018-09 in its entirety and determined that the amendments related to Topic 718-740, *Compensation-Stock Compensation-Income Taxes,* are the only provisions that currently apply to the Company. The amendments in ASU 2018-09 related to Topic 718-740, *Compensation-Stock Compensation-Income Taxes,* clarify that an entity should recognize excess tax benefits related to stock compensation transactions in the period in which the amount of the deduction is determined. The amendments in ASU 2018-09 related to Topic 718-740 are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company does not expect the adoption of the new standard to have a material impact on the Company's Condensed Consolidated Financial Statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting,* to expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees and supersedes the guidance in Subtopic 505-50, *Equity - Equity-Based Payments to Non-Employees*. Under ASU 2018-07, equity-classified nonemployee share-based payment awards are measured at the grant date fair value on the grant date. The probability of satisfying performance conditions must be considered for equity-classified nonemployee share-based payment awards with such conditions. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of the new standard on the Company's Condensed Consolidated Financial Statements.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. This standard amends Accounting Standards Codification 740, Income Taxes (ASC 740) to provide guidance on accounting for the tax effects of the Tax Cuts and Jobs Act (the Tax Reform Act) pursuant to Staff Accounting Bulletin No. 118, which allows companies to complete the accounting under ASC 740 within a one-year measurement period from the Tax Act enactment date. This standard is effective upon issuance. As described in the footnotes to the Annual Report on Form 10-K, the Company's accounting for the tax effects of enactment of the Tax Reform Act is being assessed; however, in certain cases, as described below, we made a reasonable estimate of the effects on our existing deferred tax balances and valuation allowance. The

Company determined that the $62.9 million recorded in connection with the re-measurement of certain deferred tax assets and liabilities, and corresponding valuation allowance was a provisional amount and a reasonable estimate at December 31, 2017. The Company has not completed the accounting with regard to the tax effects associated with an intra-entity transfer of certain intellectual property rights with the enactment of Tax Reform Act. Our accounting for the intra-entity transfer reflects the utilization of net operating losses on the basis of the laws in effect before the Tax Reform Act. The Company is evaluating the impact under Tax Reform Act on the Company’s global business structure. In all aspects, the Company will continue to make and refine calculations as additional analysis is completed. The Company expects to complete the accounting assessment during the one year measurement period provided by SAB 118.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350)* that will eliminate the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, impairment charge will be based on the excess of a reporting unit's carrying amount over its fair value. The guidance is effective for the Company in the first quarter of fiscal 2023. Early adoption is permitted. The early adoption of this guidance did not have a material impact on its consolidated financial statements, absent any goodwill impairment.

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

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): *Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). ASU 2016-15 reduces diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in ASU 2016-15 provide guidance on specific cash flow issues including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017. The adoption did not materially impact our consolidated financial statements and results of operations

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses* ("ASU 2016-13"). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, held-to-maturity debt securities and loans, and requires entities to use a new forward-looking expected loss model that will result in the earlier recognition of allowance for losses. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for a fiscal year beginning after December 15, 2018, including interim periods within that fiscal year. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We are currently assessing the potential impact of ASU 2016-13 on our consolidated financial statements and results of operations.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses* ("ASU 2016-13"). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, held-to-maturity debt securities and loans, and requires entities to use a new forward-looking expected loss model that will result in the earlier recognition of allowance for losses. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for a fiscal year beginning after December 15, 2018, including interim periods within that fiscal year. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first

reporting period in which the guidance is adopted. We are currently assessing the potential impact of ASU 2016-13 on our consolidated financial statements and results of operations.

In February 2016, the FASB issued ASU 2016-02 amended the existing accounting standards for lease accounting and requiring lessees to recognize lease assets and lease liabilities for all leases with lease terms of more than 12 months, including those classified as operating leases. Both the asset and liability will initially be measured at the present value of the future minimum lease payments, with the asset being subject to adjustments such as initial direct costs. Consistent with current U.S GAAP, the presentation of expenses and cash flows will depend primarily on the classification of the lease as either a finance or an operating lease. The new standard also requires additional quantitative and qualitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases in order to provide additional information about the nature of an organization's leasing activities. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 and requires modified retrospective application. Early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

The Company has evaluated other recent pronouncements and believes that none of them will have a material effect on the Company's financial statements.

CASH

Cash consists of petty cash, checking, savings, and money market accounts. For the purpose of the statements of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. There were no cash equivalents as of June 30, 2018 and December 31, 2017.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federal insured limits.

The Company has restricted cash on deposit with a federally insured bank in the amount of $665,477 at June 30, 2018. This cash is security and collateral for a corporate credit card agreement with a bank and for deposit against a letter of credit issued for executive life insurance policies owned by the Company.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Certain accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. The Company evaluates its estimates and assumptions on a regular basis. The Company uses historical experience and various other assumptions that are believed to be reasonable under the circumstances to form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates and assumptions used in preparation of the consolidated financial statements.

ACCOUNTS RECEIVABLE

Accounts receivable are carried at their estimated collectible amounts. The Company provides allowances for uncollectible accounts receivable equal to the estimated collection losses that will be incurred in collection of all receivables. Accounts receivable are periodically evaluated for collectability based on past credit history with customers and their current financial condition. The Company's management determines which accounts are past due and if deemed uncollectible, the Company charges off the receivable in the period the determination is made. The Company generally requires no collateral to secure its ordinary accounts receivable. Based on management's evaluation, accounts receivable has a balance in the allowance for doubtful accounts of $12,501 and $12,501 for the six months ended June 30, 2018 and for the year ended December 31, 2017, respectively.

GOODWILL AND INTANGIBLE ASSETS

Intangible assets are stated at cost, net of accumulated amortization. The assets are being amortized on the straight-line method over useful lives ranging from 3 to 10 years. Amortization expense for the period ended June 30, 2018 and December 31, 2017 was $850,858 and $1,701,714, respectively.

	June 30, 2018	**December 31, 2017**
Goodwill	$10,114,164	$10,114,164
Trade Names	4,390,000	4,390,000
Customer Relationships	9,190,000	9,190,000
Accumulated amortization	(6,760,439)	(5,909,581)
Intangibles, net	$16,933,725	$17,784,583

The future amortization expense on the Trade Names and Customer Relationships are as follows:

Years ended December 31,	
2018	$828,741
2019	1,471,714
2020	1,471,714
2021	1,405,792
2022	786,000
Thereafter	855,600
Total	$6,819,561

Goodwill

Goodwill is the excess of the purchase price paid over the fair value of the net assets of the acquired business. Goodwill is tested annually at December 31 for impairment. The annual qualitative or quantitative assessments involve determining an estimate of the fair value of reporting units in order to evaluate whether an impairment of the current carrying amount of goodwill exists. A qualitative assessment evaluates whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step quantitative goodwill impairment test. The first step of a quantitative goodwill impairment test compares the fair value of the reporting unit to its carrying amount including goodwill. If the carrying amount of the reporting unit exceeds its fair value, an impairment loss may be recognized. The amount of impairment loss is determined by comparing the implied fair value of the reporting unit's goodwill with the carrying amount. If the carrying amount exceeds the implied fair value then an impairment loss is recognized equal to that excess. No impairment charges have been recorded as a result of the Company's annual impairment assessments. The Company has adopted the provisions of ASU 2017-04—Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 requires goodwill impairments to be measured on the basis of the fair value of a reporting unit relative to the reporting unit's carrying amount rather than on the basis of the implied amount of goodwill relative to the goodwill balance of the reporting unit. Thus, ASU 2017-04 permits an entity to record a goodwill impairment that is entirely or partly due to a decline in the fair value of other assets that, under existing GAAP, would not be impaired or have a reduced carrying amount. Furthermore, the ASU removes "the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test." Instead, all reporting units, even those with a zero or negative carrying amount will apply the same impairment test. Accordingly, the goodwill of reporting unit or entity with zero or negative carrying values will not be impaired, even when conditions underlying the reporting unit/entity may indicate that goodwill is impaired.

We test our goodwill for impairment annually, or, under certain circumstances, more frequently, such as when events or circumstances indicate there may be impairment. We are required to write down the value of goodwill only when our testing determines the recorded amount of goodwill exceeds the fair value. Our annual measurement date for testing goodwill impairment is December 31.

None of the goodwill is deductible for income tax purposes.

Intangibles

Intangible assets with finite useful lives consist of Trademark and customer lists and are amortized on a straight-line basis over their estimated useful lives, which range from two to seven years. The estimated useful lives associated with finite-lived intangible assets are consistent with the estimated lives of the associated products and may be modified when circumstances warrant. Such assets are reviewed for impairment when events or circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of an asset and its eventual disposition are less than its carrying amount. The amount of any impairment is measured as the difference between the carrying amount and the fair value of the impaired asset. There was no impairment recorded for the six months ended June 30, 2018.

ADVERTISING

The Company generally expenses advertising costs as incurred. During the six month periods ended June 30, 2018 and 2017, the Company spent $75,568 and $92,629 on advertising (marketing, trade show and store front expense), net of co-operative rebates, respectively. The Company received rebates on advertising from co-operative advertising agreements with several vendors and suppliers. These rebates have been recorded as a reduction to the related advertising and marketing expense in the periods they are received.

INVENTORY

Substantially all inventory consists of raw materials and finished goods and are valued based upon first-in first-out (“FIFO”) cost, not in excess of market. The determination of whether the carrying amount of inventory requires a write-down is based on a detailed evaluation of inventory relative to any potential slow moving products or discontinued items as well as the market conditions for the specific inventory items.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received from selling an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants as of the measurement date. Applicable accounting guidance provides a hierarchy for inputs used in measuring fair value that prioritize the use of observable inputs over the use of unobservable inputs, when such observable inputs are available. The three levels of inputs that may be used to measure fair value are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in Markets with insufficient volume or infrequent transactions (less active markets), or model-driven valuations in which all significant inputs are observable or can be derived principally from, or corroborated with, observable market data.

Level 3 - Fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including assumptions and judgments made by the Company.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the observable inputs may result in a reclassification of assets and liabilities within the three levels of the hierarchy outlined above.

NET LOSS PER COMMON SHARE

Net loss per share is provided in accordance with FASB ASC 260-10, “Earnings per Share”. Basic net loss per common share (“EPS”) is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted average shares outstanding, assuming all dilutive potential common shares were issued, unless doing so is anti-dilutive. The weighted-average number of common shares outstanding for computing basic EPS for the six months ended June 30, 2018 and 2017 were 41,856,966 and 35,472,251, respectively. Diluted net loss per share of common stock is the same as basic net loss per share of common stock because the effects of potentially dilutive securities are antidilutive.

Dilutive securities are excluded from the computation of diluted net loss per share because such securities have no anti-dilutive impact due to losses reported.

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements of the Company are presented in U.S. dollars. The functional currency for the Company is U.S. dollars. Transactions in currencies other than the functional currency are recorded using the appropriate exchange rate at the time of the transaction. All of the Company’s continuing operations are conducted in U.S. dollars. The Company owns a non-operating subsidiary in Canada, from which it has no activity since October 1, 2016.

Reclassifications and adjustments — Certain prior year amounts in the condensed consolidated interim financial statements have been reclassified to conform to current year presentation. The impact of the reclassifications made to prior year amounts is not material and did not affect net loss.

NOTE 2 – GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As of June 30, 2018, the Company had a working capital deficit of $14,448,529 and an accumulated deficit of $37,841,103. The Company’s continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis. Management’s plan to eliminate the going concern situation includes, but is not limited to, the continuation of improving cash flow, maintaining moderate cost reductions (subsequent to aggressive cost reduction actions already taken in 2017 and in the first quarter of 2018), the creation of additional sales and profits across its product lines, and the obtaining of sufficient financing to restructure current debt in a manner more in line with the Company's improving cash flow and cost reduction successes.

The matters that resulted in 2017, and a net loss for the six months ended June 30, 2018, having substantial doubt about the Company's ability to continue as a going concern, have been somewhat mitigated by the successful debt reduction settlements finalized in December of 2017 as detailed in the Company's Annual Report on Form 10-K filed on May 8, 2018. The Company was also able to settle anther liability to a related party by the issuance of common stock during the six months ended June 30, 2018. The Company also has had modest growth in revenue during the six months ended June 30, 2018 in comparison to the prior period. The condensed financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 3 – CONCENTRATIONS

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, accounts receivable, and accounts payable. Beginning January 1, 2015, all of our cash balances were insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per depositor at each financial institution. This coverage is available at all FDIC member institutions. The Company uses Wells Fargo Bank, which is an FDIC insured institution. The restricted cash in the amount of $665,477 at June 30, 2018 is in excess of the FDIC limit.

For the six months and year ended June 30, 2018 and December 31, 2017, one customer accounted for 20.51% and 15.7% of the Company's revenues, respectively.

Accounts receivable at June 30, 2018 and December 31, 2017 are made up of trade receivables due from customers in the ordinary course of business. One customer made up 33.84% and another customer 15.7% of the trade accounts receivable balances at June 30, 2018 and December 31, 2017, respectively.

Accounts payable are made up of payables due to vendors in the ordinary course of business at June 30, 2018 and December 31, 2017. One vendor made up 42.3% and 70.1%, respectively of the outstanding balance, which represented greater than 10% of accounts payable at June 30, 2018 and December 31, 2017, respectively.

NOTE 4 – ACCOUNTS RECEIVABLE

At June 30, 2018 and December 31, 2017, accounts receivable consisted of the following:

	June 30, 2018	**December 31, 2017**
Trade Accounts Receivable	$8,987,742	$6,400,235
Less Allowance for doubtful accounts	(12,501)	(12,501)
Total Accounts Receivable (net)	$8,975,241	$6,387,734

NOTE 5 – INVENTORY

At June 30, 2018 and December 31, 2017, inventories consisted of the following:

	June 30, 2018	December 31, 2017
Equipment and clearing service	$1,000,434	$329,003
Raw Materials	1,784	31,697
Finished Goods	46,827	79,020
Total inventories	$1,049,045	$439,720

NOTE 6 – FIXED ASSETS

Fixed assets are stated at cost, net of accumulated depreciation. Depreciation expense for the period ended June 30, 2018 and December 31, 2017 was $85,951 and $92,803, respectively

	June 30, 2018	December 31, 2017
Equipment	$1,762,688	2,909,642
Furniture and Fixtures	194,432	316,853
Leasehold improvements	24,329	151,553
Accumulated depreciation	(1,911,860)	(3,285,245)
Fixed Assets, net	$69,589	92,803

NOTE 7 – OTHER LIABILITIES

At June 30, 2018 and December 31, 2017, other liabilities consisted of the following:

	June 30, 2018	**December 31, 2017**
Unearned Incentive from credit cards	$-	$77,307
Key Man life Insurance liability	-	150,146
Dividend payable	383,218	289,687
Others	203,126	43,811
	586,344	560,951
Less Current Portion	(203,126)	(121,118)
Total long term other liabilities	$383,218	$439,833

NOTE 8 – CREDIT FACILITIES AND LINE OF CREDIT

On July 1, 2016, the Company entered into a Factoring and Security Agreement (the “FASA”) with Action Capital Corporation (“Action”) to establish a sale of accounts facility, whereby the Company may obtain short-term financing by selling and assigning to Action acceptable accounts receivable. Pursuant to the FASA, the outstanding principal amount of advances made by Action to the Company at any time shall not exceed $5,000,000. Action will reserve and withhold an amount in a reserve account equal to 5% of the face amount of each account purchased under the FASA. The balance outstanding under the Action credit line at June 30, 2018 was $4,954,168.96 and at December 31, 2017 $3,667,417 which includes accrued interest.

The per annum interest rate with respect to the daily average balance of unpaid advances outstanding under the FASA (computed on a monthly basis) will be equal to the “Prime Rate” of Wells Fargo Bank N.A. plus 2%, plus a monthly fee equal to 0.75% of such average outstanding balance. The Company shall also pay all other costs incurred by Action under the FASA, including all bank fees. The FASA will continue in full force and effect unless terminated by either party upon 30 days’ prior written notice. Performance of the Company’s obligations under the FASA is secured by a security interest in certain collateral of the Company. The FASA includes customary representations and warranties and default provisions for transactions of this type.

NOTE 9 - NOTES PAYABLE

Notes payable at June 30, 2018 and December 31, 2017, consists of the following:

	June 30, 2018	December 31, 2017
Supplier Note Payable	$1,926,915	$3,208,534
Insurance Note	49,652	-
All Other	216,667	350,785
Total	2,193,234	3,559,319
Less current portion	(2,062,940)	(3,429,025)
Long Term Notes Payable	$130,294	$130,294

Future maturities of notes payable as of June 30, 2018 are as follows;

2018	$2,062,940
2019	130,294
Total	$2,193,234

In connection with the BCS' acquisition the Company assumed a related party note payable to the former CTO of the RFID division of BCS. The note is payable in equal monthly installments of $4,758 beginning October 31, 2014 and ended October 2018. The loan bears interest at 1.89% and is unsecured and subordinated to the Company's bank debt. The balance on this loan at June 30, 2018 was $130,294 of which all of it was classified as long term. In July 2016, the holder of the note signed a subordination agreement with the Supplier of the Secured Promissory Note and Action Capital, whereby the noteholder agrees to subordinate its right to payment of capital and interest until the Supplier with the Secured Promissory Note is reimbursed in full.

On July 18, 2016, the Company and the supplier entered into that certain Secured Promissory Note, with an effective date of July 1, 2016, in the principal amount of $12,492,137. The USD Note accrues interest at 12% per annum and is payable in six consecutive monthly installments of principal and accrued interest in a minimum principal amount of $250,000 each, with any remaining principal and accrued interest due and payable on December 31, 2016.

On November 30, 2016, the Company entered into an Amendment Agreement to the secured Promissory Note whereby the maturity date was extended to June 30, 2017 and the monthly installments of principal and accrued interest were increased to $400,000 commencing December 15, 2016 with any remaining principal and accrued interest due and payable on June 30, 2017. The Amendment also provides that the Company will make an additional principal payment of $300,000 by December 15, 2016.

On June 30, 2017, the Company entered into a Second Amendment Agreement to the secured Promissory Note whereby the maturity date was extended to September 30, 2017 whereby any remaining principal and accrued interest is due and payable on September 30, 2017. The Amendment also provides that the Company will continue to make monthly installments of principal and accrued interest in a minimum principal amount of $400,000 each.

On September 30, 2017, the Company entered into a Third Amendment Agreement to the secured Promissory Note whereby the maturity date was extended to October 31, 2017. The Amendment also provides that the Company will continue to make monthly installments of principal and accrued interest in a minimum principal amount of $600,000 each.

On November 15th, 2017, the Company entered into a Fourth Amendment extending the maturity date to December 31st, and this Fourth Amendment is effective on October 31st, whereby any remaining principal and accrued interest is due and payable on December 31, 2017. The Amendment also provides that the Company will continue to make monthly installments of principal and accrued interest in a minimum principal amount of $600,000 each.

On February 14, 2018 the Company entered into a Fifth Amendment extending the maturity date to June 30st, and this Fifth Amendment is effective on December 31, 2017 whereby any remaining principal and accrued interest is due and payable on March 31, 2018. The Amendment also provides that the Company will continue to make monthly installments of principal and accrued interest in a minimum principal amount of $400,000 each.

As of June 30, 2018, the Company continued negotiations on entering into a new secured Promissory Note with an increased term of six months. The new note will comprise of all remaining principal from the original secured Promissory Note and some past due accounts payable. The Company is currently in default on the existing secured Promissory Note, but with no action taken nor expected from the supplier as a new agreement is finishing negotiations.

NOTE 10 – SUBORDINATED NOTES PAYABLE

Notes and loans payable consisted of the following:

	June 30, 2018	December 31, 2017
Note payable – Quest acquisition restructure	$930,000	$930,000
Note payable – BCS acquisition restructure	1,200,000	1,200,000
Quest Preferred Stock note payable	-	1,199,400
Total notes payable	$2,130,000	$3,329,400

For the six months ended June 30, 2018, the Company extinguished all recorded interest expense in connection with these notes, and on December 31, 2017, the Company recorded interest expense in connection with these notes in the amount of $160,790.

The note payable for acquisition of Quest was issued on January 9, 2014 in conjunction with the acquisition of Quest Marketing, Inc. The initial interest rate was 1.89%, subsequent to December 31, 2015; the interest was increased to 6% and is due in 2018. Principal and interest payments have been postponed. In addition, on June 17, 2016, the Company entered into promissory note conversion agreement with one of the Noteholders whereby $684,000 of the promissory note was converted into 684,000 shares of Series C Preferred Stock. As part of the transaction, the related debt discount of $171,000 was recorded against Additional paid in capital. As part of the acquisition of Quest Marketing, the Company engaged an independent valuation analysis to do a valuation of the purchase accounting. In July 2016, the holders of the notes signed subordination agreements with the Supplier of the Secured Promissory Note and Action, whereby the noteholders agree to subordinate their rights and payments until the Supplier with the Secured Promissory Note is reimbursed in full. As a result, the balance on this loan and related accrued interest at December 31, 2016 were all classified as long term.

The note payable for acquisition of BCS was issued on November 21, 2014 in conjunction with the acquisition of BCS. The current interest is at 1.89% and is due in 2018. This note is convertible into Common Stock at $2.00 per share, subject to board approval such that no debt holder can own more than 5% of the outstanding shares. Principal and interest payments have been postponed. In July 2016, the holders of the notes signed subordination agreements with the Supplier of the Secured Promissory Note and Action, whereby the noteholder agree to subordinate its right and payment of capital and interest until the Supplier with the Secured Promissory Note is reimbursed in full. As a result, the balance on this loan and related accrued interest at December 31, 2016 were all classified as long term.

The Quest preferred stock 6% note payable is in conjunction with the promissory note issued in October 2015 related to the redemption and cancelation of 100% of the issued and outstanding Series A preferred stock as well as 3,400,000 stock options that had been issued to a now former employee. The principal payments have been postponed. In June 2016, the holder of the note granted the Company a forgiveness of debt in the amount of $75,000 which was recorded as an increase in the additional paid in capital because it was a related party transaction. In addition, on June 17, 2016, the Company entered into a Promissory Note Conversion Agreement with the Noteholder whereby $1,800,000 of the promissory note was converted into 1,800,000 shares of Series C Preferred Stock. In July 2016, the holders of the notes signed subordination agreements with the Supplier of the Secured Promissory Note and Action, whereby the noteholder agree to subordinate its right and payment of capital and interest until the Supplier with the Secured Promissory Note is reimbursed in full. As a result, the balance on this loan and related accrued interest at December 31, 2016 were all classified as long term.

On February 28, 2018, the Company finalized two settlement agreements with David and Kathy Marin (the “Marin Settlement Agreements”) which have an effective date of December 30, 2017. Pursuant to the first Marin Settlement Agreement (the “Marin Settlement Agreement I”), the Company and the Marins agreed to reduce the Company’s purchase price for all of the capital stock of Bar Code Specialties, Inc., which was acquired by the Company from the Marins in November 2014. In the 2014 acquisition, the Company had issued David Marin a promissory note for $11,000,000 of which an aggregate of $10,696,465.17 (the “Owed Amount”) was outstanding as of February 26, 2018 which includes accrued interest earned but not paid. Pursuant to the Marin Settlement Agreement I, the amount of the indebtedness owed to Marin was reduced by $9,495,465.17 bringing the total amount owed to $1,201,000. Section 3.1 of the original note was amended to provide that the Company shall pay the Marins 60 monthly payments of $20,000 each commencing the earlier of (i) October 26, 2018 and (ii) the date that the Company’s obligation to Scansource, Inc., currently in the amount of $2,800,000 is satisfied and all amounts currently in default under the credit agreement with Scansource (currently approximately $ 6.0 Million) is reduced to $2.0 million. The Marins agreed to release their security interest against the Company. In connection with the $9,495,465.17 reduction in the purchase price, the Company issued the Marins 3 year warrants to purchase an aggregate of 3,000,000 shares of Common Stock at an exercise price of $0.20 per share.

On February 28, 2018, the Company finalized an additional settlement agreement with the Marins (the "Marin Settlement Agreement II") whereby the Company settled a promissory note owed to the Marins in the original principal amount of $100,000 which currently had a balance of $111,064.69 in its entirety in exchange for an aggregate of 85,000 shares of the Company's Series C Preferred Stock. The Series C Preferred Stock has a liquidation value and conversion price of $1.00 per share and automatically converts into Common Stock at $1.00 per share in the event that the Company's common stock has a closing price of $1.50 per share for 20 consecutive trading days. The preferred stock pays a 6% dividend commencing two years from issuance. During the first two years, the Series C Preferred stock shall neither pay nor accrue the dividend. The Company also agreed to transfer title to a vehicle that was being utilized by Mr. Marin to David Marin. In exchange therefor, the $100,000 Note and the accrued interest thereon was cancelled in its entirety. The effective date of the agreement is December 30, 2017.

On February 22, 2018, the Company finalized a settlement agreement with Kurt Thomet whereby the Company settled its indebtedness to Mr. Thomet in the current amount of $5,437,136.40 in full in exchange for 60 monthly payments of $12,500 each commencing the earlier of (i) October 26, 2018 or (ii) the date when the Company's obligation under its promissory note with Scansource, Inc. currently in the amount of $21,800,000 is satisfied and all amounts currently due under the credit agreement with Scansource (currently approximately $6.0 million) is reduced to $2.0 million. In addition, the Company issued Mr. Thomet an aggregate of 500,000 shares of restricted common stock and 1,000,000 shares of Series C Preferred Stock with the same rights and restrictions as described above in the description of the Marin Settlement II Agreement. The effective date of the agreement is December 30, 2017.

On February 19, 2018, the Company finalized a settlement agreement with George Zicman whereby the Company settled its indebtedness to Mr. Zicman in the current amount of $1,304,198.55 in full in exchange for 60 monthly payments of $3,000 each commencing the earlier of (i) October 26, 2018 or (ii) the date when the Company's obligation under its promissory note with Scansource, Inc. currently in the amount of $2,800,000 is satisfied and all amounts currently due under the credit agreement with Scansource (currently approximately $6.0 million) is reduced to $2.0 million. In addition, the Company issued Mr. Zicman an aggregate of 100,000 shares of common stock and 600,000 shares of Series C Preferred Stock with the same rights and restrictions as described above in the description of the Marin Settlement Agreement II. The effective date of the agreement is December 30, 2017.

On June 7, 2018, the Company authorized the issuance of 8,600,000 shares of common stock to Jason Griffith. The issuance was part of a convertible provision in an existing note held by Jason Griffith. With the issuance of stock, the debt of $1,199,400 and all accrued interest was extinguished.

The repayment of the subordinated notes payable at June 30, 2018 is as follows:

2018	$106,500
2018	426,000
2019	426,000

2020	426,000
Thereafter	745,500
Total	$2,130,000

NOTE 11 – STOCKHOLDERS' DEFICIT

PREFERRED STOCK

Series A

As of June 30, 2018, there were 1,000,000 Series A preferred shares designated and 0 Series A preferred shares outstanding. The board of directors had previously set the voting rights for the preferred stock at 1 share of preferred to 250 common shares.

Series B

As of June 30, 2018 there was 1 preferred share designated and 0 preferred shares outstanding. Effective on September 30, 2016, with the divestiture of Quest Solution Canada Inc., the one share was redeemed by the Company and retired.

Series C

As of June 30, 2018, there were 15,000,000 Series C preferred share authorized and 4,828,530 Series C preferred share outstanding. It has preferential rights above common shares and the Series B preferred shares and is entitled to receive a quarterly dividend at a rate of $0.06 per share per annum. As part of a debt settlement agreement effective December 30, 2017, 1,685,000 shares were issued with the quarterly dividend at a rate of $.06 per share per annum were waived for a period of 24 months, with no dividends being accrued or paid. Each Series C preferred share outstanding is convertible into one (1) share of common stock of Quest Solution, Inc.

COMMON STOCK

In April 2017, the Company issued 640,000 shares to the Chief Executive Officer as a signing bonus under his Employment Agreement. In addition, the Company issued 70,000 shares to the Chief Financial Officer as additional fees pursuant to his Contractor Agreement.

On June 30, 2017, the Company issued 87,500 shares to board members in relation to the vesting schedule agreed to during 4th quarter 2015, which is based on an annual grant of 100,000 restricted shares every October and vesting over 8 quarters per independent board member as compensation.

On August 2, 2017, the Company authorized the issuance of 600,000 shares of common stock as part of a consulting agreement with Carlos Jaime Nissensohn. The shares were issued in November, 2017

On December 30, 2017, the Company authorized the issuance of 600,000 shares of common stock valued at $59,400, as part of a debt extinguishment agreement with two related parties. The common shares were issued on June 9, 2018.

On March 08, 2018 and pursuant to the Plan, the Company granted a grand total of 1,700,000 Shares, as well as options to purchase up to 7,000,000 Shares (the “Options”) with an exercise price equal to the closing price of the Company’s common stock on Wednesday, March 07, 2018, $0.12 per share. A total of 1,000,000 Shares and 3,200,000 Options were issued to the Company’s Board of Directors as follows:

Shai Lustgarten (Chairman of the Board) received 1,000,000 Shares and 2,000,000 Options;
Andrew J. Macmillan received 400,000 Options;

Yaron Shalem received 400,000 Options; and
Niv Nissenson received 400,000 Options.

On March 08, 2018 and pursuant to the Plan, the Company granted 500,000 Shares to its Chief Financial Officer Benjamin Kemper.

On March 08, 2018, the Company issued 500,000 shares of the Company's common stock, par value $0.001, to Mr. Carlos J Nissensohn, who is the father of Niv Nissensohn, a director of the Company, pursuant to a consulting agreement (the "Consulting Agreement") dated August 02, 2017 which was previously filed with the SEC on the Company's Form 8-K dated August, 04, 2017.

On March 08, 2018, the Company issued 200,000 shares of the Company's common stock to the JSM SOC-DIG LP.

On June 7, 2018, the Company authorized the issuance of 8,600,000 shares of common stock to Jason Griffith valued at $2,666,000. The issuance was part of a convertible provision in an existing note held by Jason Griffith. With the issuance of stock, the debt and accrued interest was extinguished. The Company recognized a loss from the conversion in the amount of $1,264,237.

On June 26th, 2018, the Company issued 150,000 shares of stock, valued at $45,000, to Maren Life Reinsurance LTD as part of a debt settlement agreement.

As of June 30, 2018, the Company had 48,433,472 common shares outstanding.

Warrants and Stock Options

On March 08, 2018, the Company adopted an Equity Incentive Plan (the "Plan"), as an incentive, to retain in the employ of and as directors, officers, consultants, advisors and employees to the Company. Ten million (10,000,000) shares of the Corporation's common stock, par value $0.001 (the "Shares"), was set aside and reserved for issuance pursuant to the Plan.

Warrants - The following table summarizes information about warrants granted during the six month periods ended June 30, 2018 and 2017:

	June 30, 2018		June 30, 2017	
	Number of warrants	**Weighted Average Exercise Price**	**Number of warrants**	**Weighted Average Exercise Price**
Balance, beginning of period	5,605,000	$ 0.23	1,405,000	$ 0.52
Warrants granted	200,000	0.28	-	-
Warrants expired	(905,000)	0.25	-	-
Warrants cancelled, forfeited	-	-	-	-
Warrants exercised	-	-	-	-
Balance, end of period	4,900,000	$ 0.21	1,405,000	$ 0.52
Exercisable warrants	4,900,000	$ 0.21	1,405,000	$ 0.52

Outstanding warrants as of June 30, 2018 are as follows:

Range of Exercise Prices	Weighted Average residual life span (in years)	Outstanding Warrants	Weighted Average Exercise Price	Exercisable Warrants	Weighted Average Exercise Price
$0.11	3.09	1,500,000	$ 0.11	1,500,000	$ 0.11
$0.20	2.50	3,000,000	$ 0.20	3,000,000	$ 0.20
$0.28	1.99	200,000	$ 0.28	200,000	$ 0.28
$1.00	0.01	200,000	$ 1.00	200,000	$ 1.00
$0.11 to 1.00	2.48	4,900,000	$ 0.21	4,900,000	$ 0.21

Warrants outstanding at June 30, 2018 and 2017 have the following expiry date and exercise prices:

Expiry Date	Exercise Prices	June 30, 2018	June 30, 2017
June 22,2018	$ 1.00	-	300,000
April 1, 2018	$ 0.25	-	900,000
April 30, 2018	$ 0.25	-	5,000
July 1, 2018	$ 1.00	200,000	200,000
June 26, 2020	$ 0.28	200.000	
December 30, 2020	$ 0.20	3,000,000	-
August 2, 2021	$ 0.11	1,500,000	-
		4.900,000	1,405,000

Share Purchase Option Plan

The Company has a stock option plan adopted in on November 17, 2014, whereby the Board of Directors, may grant to directors, officers, employees, or consultants of the Company shares of common stock as well as options to acquire common shares. The Board of Directors of the Company has the authority to determine the terms, limits, restrictions and conditions of the grant of options, to interpret the plan and make all decisions relating thereto. The plan was adopted by the Company’s Board of Directors in order to provide an inducement and serve as a long-term incentive program. The maximum number of common shares that may be reserved for issuance under the Plan was set at 10,000,000.

The Company adopted an equity incentive plan on March 8, 2018, whereby the Board of Directors, may grant to directors, officers, employees, or consultants of the Company shares of common stock as well as options to acquire common shares. The Board of Directors of the Company has the authority to determine the terms, limits, restrictions and conditions of the grant of options, to interpret the plan and make all decisions relating thereto. The plan was adopted by the Company's Board of Directors in order to provide an inducement and serve as a long-term incentive program. The maximum number of common shares that may be reserved for issuance under the plan was set at 10,000,000.

The equity incentive plan adopted on March 8, 2018 is an separate, additional plan to the Company's stock option plan adopted on November 17, 2014.

The option exercise price is established by the Board of Directors and may not be lower than the market price of the common shares at the time of grant. The options may be exercised during the option period determined by the Board of Directors, which may vary, but will not exceed ten years from the date of the grant. There are 10,000,000 of the Company's common shares which may be issued pursuant to the exercise of share options granted under the Plan. As of June 30, 2018, the Company had issued options, allowing for the subscription of 16,317,000 common shares of its share capital.

Stock Options - The following table summarizes information about stock options granted during the six months ended June 30, 2017 and 2016:

	June 30, 2018		**June 30, 2017**	
	Number of stock options	**Weighted Average Exercise Price**	**Number of stock options**	**Weighted Average Exercise Price**
Balance, beginning of period	16,353,000	$ 0.17	2,3,344,000	$ 0.41
Stock options granted	-	-	-	$ -
Stock options expired	36,000	$ 0.38	-	-
Stock options cancelled, forfeited	-	-	-	-
Stock options exercised	-	-	-	-
Balance, end of period	16,317,000	$ 0.17	3,344,000	$ 0.41
Exercisable stock options	11,100,416	$ 0.219	2,396,084	$ 0.44

Outstanding stock options as of June 30, 2018 are as follows:

Range of Exercise Prices	**Weighted Average residual life span (in years)**	**Outstanding Stock Options**	**Weighted Average Exercise Price**	**Exercisable Stock Options**	**Weighted Average Exercise Price**
$0.075 to 0.09	3.66	2,981,000	$ 0.08	2,220,666	$ 0.08
$0.11	3.09	3,500,000	$ 0.11	2,625,000	$ 0.11
$0.12	4.68	6,800,000	$ 0.12	2,500,000	$ 0.12
$0.145	9.26	500,000	$ 0.145	500,000	$ 0.145
$0.33 to 0.38	0.02	36,000	$ 0.33	36,000	$ 0.3
$0.50	6.40	2,500,000	$ 0.50	2,343,750	$ 0.50
$0.075 to 0.50	4.55	16,317,000	$ 0.17	10,167,666	$ 0.19

Stock options outstanding at June 30, 2018, and 2017 have the following expiry date and exercise prices:

Expiry Date	**Exercise Prices**	**June 30, 2018**	**June 30, 2017**
February 26, 2018	$ 0.37	-	72,000
April 27, 2018	$ 0.38	-	36,000
July 9, 2018	$ 0.33	36,000	36,000
August 2, 2021	$ 0.11	3,500,000	-
February 17, 2022	$ 0.075	760,333	-
February 17, 2022	$ 0.09	1,520,667	-
June 30, 2022	$ 0.09	700,000	700,000
June 5, 2023	$ 0.12	6,800,000	-
November 20, 2024	$ 0.50	2,500,000	2,500,000
October 2, 2027	$ 0.145	500,000	-
		16,353,000	3,344,000

Stock compensation expense is $1,084,133 for the six months ended June 30, 2018 and $149,045 for the six months ended June 30, 2017.

NOTE 12 – LITIGATION

The Company is not a party to any other pending material legal proceeding. To the knowledge of management, no federal, state or local governmental agency is presently contemplating any proceeding against the Company. To the knowledge of management, no director, executive officer or affiliate of the Company, any owner of record or beneficially of more than five percent of the Company's Common Stock is a party adverse to the Company or has a material interest adverse to the Company in any proceeding.

NOTE 13 – RELATED PARTY TRANSACTIONS

The Company leased a building from the former owner of BCS for $9,000 per month, the lease was terminated on April 30, 2018.

In addition, on August 2, 2017, the Company entered into a Consulting agreement with Carlos J. Nissensohn, a family member of a Director of the Company. The terms and condition of the contract are as follows:

24 month term with 90 day termination notice by the Company

A monthly fee of $15,000 and a one-time signatory fee of 600,000 restricted shares

1,500,000 warrants to buy shares at $0.11 having a four year life and a vesting period of 12 months in 4 quarterly and equal installments, subject to Mr. Nissensohn's continuous service to the Company

In case the Company procures debt financing during the term of this agreement, without any equity component, Mr. Nissensohn shall be entitled to 3% of the gross funds raised, however if the Company is required to pay a success fee to another external entity, then Mr. Nissensohn shall be entitled to only 2% of the gross funds raised

In addition to the above, in the event of an equity financing resulting in gross proceeds of at least $3,000,000 to the Company within 24 months of the date the contract, Mr. Nissensohn shall further be entitled to certain warrants to be granted by the Company which upon their exercise pursuant to their terms, Mr. Nissensohn shall be entitled to receive QUEST shares which represent 3% of the QUEST issued share capital immediately prior to the consummation of such investment. The warrants will carry an exercise price per warrant/share representing 100% of the closing price per share as closed in the equity financing. This section and the issue of the warrant by QUEST are subject to the approval of the Board of Directors of QUEST. However, if the Board does not approve the issuance of warrants; then Mr. Nissensohn will be entitled to a fee with the equivalent value based on a Black Scholes valuation

In addition to the above, Mr. Nissensohn will be entitled to a **$** 50,000 onetime payment which shall be paid on the 1st day that the QUEST shares become traded on the NASDAQ or NYSE Stock Market within 24 months of the date of the contract

In addition to the aforementioned, in the event that Company shall close any M&A transaction with a third party target, Mr. Nissensohn shall be entitled to a success fee in the amount equal to 3% of the total transaction price, in any combination of cash and shares that will be determined by QUEST

On February 28, 2018, the Company finalized two settlement agreements with David and Kathy Marin (the "Marin Settlement Agreements") which have an effective date of December 30, 2017. Pursuant to the first Marin Settlement Agreement (the "Marin Settlement Agreement I"), the Company and the Marins agreed to reduce the Company's purchase price for all of the capital stock of Bar Code Specialties, Inc., which was acquired by the Company from the Marins in November 2014. In the 2014 acquisition, the Company had issued David Marin a promissory note for

$11,000,000 of which an aggregate of $10,696,465.17 (the "Owed Amount") was outstanding as of February 26, 2018 which includes accrued interest earned but not paid. Pursuant to the Marin Settlement I Agreement, the amount of the indebtedness owed to Marin was reduced by $9,495,465.17 bringing the total amount owed to $1,201,000. Section 3.1 of the original note was amended to provide that the Company shall pay the Marins 60 monthly payments of $20,000 each commencing the earlier of (i) October 26, 2018 and (ii) the date that the Company's obligation to Scansource, Inc., currently in the amount of $2,800,000 is satisfied and all amounts currently in default under the credit agreement with Scansource (currently approximately $ 6.0 Million) is reduced to $2.0 million. The Marins have agreed to release their security interest against the Company. In connection with the $9,495,465.17 reduction in the purchase price, the Company issued the Marins 3 year warrants to purchase an aggregate of 3,000,000 shares of Common Stock at an exercise price of $0.20 per-share.

On February 28, 2018, the Company finalized an additional settlement agreement with the Marins (the “Marin Settlement Agreement II”) whereby the Company settled a promissory note owed to the Marins in the original principal amount of $100,000 which currently had a balance of $111,064.69 in its entirety in exchange for an aggregate of 85,000 shares of the Company’s Series C Preferred Stock. The Series C Preferred Stock has a liquidation value and conversion price of $1.00 per share and automatically converts into Common Stock at $1.00 per share in the event that the Company’s common stock has a closing price of $1.50 per share for 20 consecutive trading days. The preferred stock pays a 6% dividend commencing two years from issuance. During the first two years, the Series C Preferred stock shall neither pay nor accrue the dividend. The Company also agreed to transfer title to a vehicle that was being utilized by Mr. Marin to David Marin. In exchange therefor, the $100,000 Note and the accrued interest thereon was cancelled in its entirety. The effective date of the agreement is December 30, 2017.

On February 22, 2018, the Company finalized a settlement agreement with Kurt Thomet whereby the Company settled its indebtedness to Mr. Thomet in the current amount of $5,437,136.40 in full in exchange for 60 monthly payments of $12,500 each commencing the earlier of (i) October 26, 2018 or (ii) the date when the Company’s obligation under its promissory note with Scansource, Inc. currently in the amount of $21,800,000 is satisfied and all amounts currently due under the credit agreement with Scansource (currently approximately $6.0 million) is reduced to $2.0 million. In addition, the Company issued Mr. Thomet an aggregate of 500,000 shares of restricted common stock and 1,000,000 shares of Series C Preferred Stock with the same rights and restrictions as described above in the description of the Marin Settlement II Agreement. The effective date of the agreement is December 30, 2017.

On February 19, 2018, the Company finalized a settlement agreement with George Zicman whereby the Company settled its indebtedness to Mr. Zicman in the current amount of $1,304,198.55 in full in exchange for 60 monthly payments of $3,000 each commencing the earlier of (i) October 26, 2018 or (ii) the date when the Company’s obligation under its promissory note with Scansource, Inc. currently in the amount of $2,800,000 is satisfied and all amounts currently due under the credit agreement with Scansource (currently approximately $6.0 million) is reduced to $2.0 million. In addition, the Company issued Mr. Zicman an aggregate of 100,000 shares of common stock and 600,000 shares of Series C Preferred Stock with the same rights and restrictions as described above in the description of the Marin Settlement II Agreement. The effective date of the agreement is December 30, 2017.

Each of the Marins, Thomet and Zicman entered into a voting agreement with the Company whereby they agreed to vote any shares of common stock beneficially owned by them as directed by the Company’s CEO and also agreed to a leakout restriction whereby they each agreed not to sell more than 10% of the common stock beneficially owned during any 30-day period.

On June 7, 2018, the Company authorized the issuance of 8,600,000 shares of common stock to Jason Griffith. The issuance was part of a convertible provision in an existing note held by Jason Griffith. With the issuance of stock the debt and accrued interest was extinguished. The Company recorded a loss of $1,264,237 on the settlement of this debt.

NOTE 14 – SUBSEQUENT EVENTS

On August 1, 2018, the Company issued 200,000 shares of common stock to John Nesbett, having an approximate fair value of $65,000.

On August 1,2018, the Company issued 64,516 shares of common stock to Sichenzia Ross Ference Kesner LLP, having an approximate fair value of 21,000.

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

PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. The reader should understand that several factors govern whether any forward-looking statement contained herein will be or can be achieved. Any one of those factors could cause actual results to differ materially from those projected herein. These forward-looking statements include plans and objectives of management for future operations, including plans and objectives relating to the products and the future economic performance of the Company. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, future business decisions, and the time and money required to successfully complete development projects, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of those assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in any of the forward-looking statements contained herein will be realized. Based on actual experience and business development, the Company may alter its marketing, capital expenditure plans or other budgets, which may in turn affect the Company's results of operations. In light of the significant uncertainties inherent in the forward-looking statements included therein, the inclusion of any such statement should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved.

A complete discussion of these uncertainties are contained in our Annual Financial Statements included in the Form 10-K for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission on May 8, 2018.

Introduction

Quest Solution, Inc., a Delaware corporation ("Quest" or the "Company"), was incorporated in 1973. Prior to 2008, the Company was involved in various unrelated business activities. From 2008-2014, the Company was involved in multiple businesses inclusive of an oil and gas investment company. Due to changes in market conditions, management determined to look for acquisitions which were cash flow positive and would provide immediate shareholder value. In January 2014, the first such acquisition was completed of Quest Marketing Inc. (dba Quest Solution, Inc.) ("Quest Marketing").

Quest is a national mobility systems integrator with a focus on design, delivery, deployment and support of fully integrated mobile solutions. The Company takes a consultative approach by offering end to end solutions that include hardware, software, communications and full lifecycle management services. The professionals simplify the integration process and deliver the solutions to our customers. Motorola, Intermec, Honeywell, Panasonic, AirWatch, Wavelink, SOTI and Zebra are major suppliers which Quest Solution uses in the solutions we provide to our customers.

In May 2014, the Board of Directors voted to get approval from the shareholders of the Company for a name change from Amerigo Energy, Inc. to Quest Solution, Inc. The Company received the approval from a majority of its stockholders and filed the amendment to its Articles of Incorporation with the State of Delaware. The name change became effective by the State of Delaware on May 30, 2014. The Company also requested a new stock symbol as a result of the name change and were assigned our new trading symbol "QUES".

The Company's business strategy developed into leveraging management's relationships in the business world for investments for the Company. The Company intends to continue with its acquisition of existing companies with revenues and positive cash flow.

In November 2014, the Company acquired 100% of the shares of Bar Code Specialties, Inc. ("BCS") located in Southern California. BCS is a national mobility systems integrator and label manufacturer with a focus on warehouse and distribution industries. Since the combination of the two companies, the Company has been exploring efficiencies in all facets of the businesses and learning best practices from both executive teams.

The following is a discussion of the Company's financial condition, results of operations, financial resources and working capital. This discussion and analysis should be read in conjunction with the Company's financial statements contained in this Form 10-Q.

OVERVIEW

On February 28, 2018, the Company finalized settlement agreements with related parties which have an effective date of December 30, 2017. As part of the settlement agreements, the Company authorized the issuance of 600,000 shares of common stock valued at $59,400, 1,685,000 shares of Preferred Stock valued at $0.80 per share and issued 3,000,000 stock warrants with an exercise price of $.20. The total net amount of debt extinguished in these transactions was $15,418,865.

The Company's sales from continuing operations for the six months ended June 30, 2018 were $28,957,734, an increase of $1,035,033, or 3.7% over the six months ended in 2017.

The loss from continuing operations for the six months ended June 30, 2017 was $3,404,376, an increase of $2,624,762 compared with the loss in the comparative prior year of $779,614. Basic loss per share from continuing operations in the first six months of 2018 were ($0.08) versus ($0.02) per share in the first six months of 2017.

GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As of June 30, 2018, the Company had a working capital deficit of $14,488,529 and an accumulated deficit of $37,841,103. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis. Management's plan to eliminate the going concern situation includes, but is not limited to, the continuation of improving cash flow, maintaining moderate cost reductions (subsequent to aggressive cost reduction actions already taken in 2017 and continued in 2018), the creation of additional sales and profits across its product lines, and the obtaining of sufficient financing to restructure current debt in a manner more in line with the Company's improving cash flow and cost reduction successes. The Company has also diversified its sourcing and procurement of materials and finished goods. The addition of two new key vendors increased the Company's purchasing power by adding credit availability in an amount just under $6,000,000. The Company also completed a debt settlement with a related party in exchange for equity, eliminating future needs for cash in servicing debt.

The matters that resulted in 2017, having substantial doubt about the Company's ability to continue as a going concern, have been somewhat mitigated by the successful debt reduction settlements effective in December of 2017. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Results of Operations

The following table sets forth certain selected condensed statement of operations data for the periods indicated in dollars. In addition, we note that the period-to-period comparison may not be indicative of future performance.

	Six months ended June 30		Variance	
	2018	2017	$	%
Revenue	$28,957,734	$27,922,701	1,035,033	3.70
Cost of Goods sold	22,942,304	22,131,057	811,247	3.67
Gross Profit	6,015,430	5,791,644	223,786	3.86
Operating Expenses	7,576,848	5,739,133	1,837,715	32.0
Income (loss) from operations	(1,561,418)	52,511	(1,613,929)	n/m
Net loss from continuing operations	(3,404,376)	(779,614)	(2,624,762)	n/m
Net Loss per common Share	$(0.08)	$(0.02)	(0.06)	n/m

n/m; not meaningful

Revenues

For the six months ended June 30, 2018 and 2017, the Company generated net revenues in the amount of $28,957,734 and $27,922,701, respectively. The 2018 increase was attributable to - a sturdy push from the Company's sales team in taking advantage of the growing customer relationships that continue to gain strength each quarter.

It is important to note that the Company was affected by the adoption of ASC 606, in a manner of only recognizing revenue on a net basis on all service and maintenance contracts sold to customers. By comparison under the old ASC Topic 605 standard, the Company would've recognized revenues of $28,450,981, a decrease of $506,753 from the required standard under ASC Topic 606 in 2018.

Cost of Goods Sold

For the six months ended June 30, 2018 and 2017, the Company recognized a total of $22,942,305 and $22,131,057, respectively, of cost of goods sold. Cost of goods sold were 79.2% of net revenues at June 30, 2018 and 79.3% of revenues at June 30, 2017. Variation from prior years is difficult in an ever increasing competitive industry. Due to this the Company is continually reevaluating its current product mix and supply channels to improve margins in 2018.

4

Operating expenses

Total operating expense for the six months ended June 30, 2018 and 2017 recognized was $7,576,848 and $5,739,133, respectively representing a 32.0% increase. The increase is attributable to the adoption of the Company's new Equity Incentive Plan, the increase in sales commission related to the increase in revenue and the increase in professional fees.

***General and Administrative* –** General and administrative expenses for the six months ended June 30, 2018 and 2017 totaled $1,037,009 and $827,107, respectively representing a 25.4% increase. The increase is mostly attributable to travel related expenses due to the Company's strategic consolidation efforts.

Salary and benefits – Salary and employee benefits for the six months ended June 30, 2018 totaled $4,861,342, including $1,077,847 from non-cash stock based compensation, as compared to $3,786,690, including $149,045 from non-cash stock based compensation. The increase in revenue in the first two quarters of 2018 from the prior first two quarters in 2017 comes with an increase in sales commissions of $291,320 paid to and accrued by the Company's sales team. Excluding sales commissions and stock based compensation, the Company reduced salaries by $140,653 in the first six months of 2018 compared to the first six months of 2017.

***Professional Fees* –** Professional fees for the six months ended June 30, 2018 were $805,920 as compared to $241,423 for the six months ended June 30, 2017. The increase is attributable to consulting agreements in connection with the Company's debt restructuring plans and plans to obtain financing for cash flow improvement. Consultants are also engaged to assist with the Company's plans to up list the Company's stock to the NASDAQ stock exchange and to evaluate possible M&A opportunities.

Other income and expenses

***Interest Expense* -** Interest expense for the six months ended June 30, 2018 totaled $659,617, as compared to $732,055 for the six months ended June 30, 2017. The reduction of $72,428 is directly related to the decreasing amount of debt that is paid off from continuing operations.

Net loss from continuing operations

The Company realized a net loss from continuing operations of $3,404,376 for the six months ended June 30, 2018, compared to a net loss of $779,614 for the six months ended June 30, 2017, an increase of $2,624,762. The increase in net loss is mainly attributable to issuances under the Company's equity incentive plan adding $1,077,847 in non-cash expenses, an increase in professional fees, and the conversion of a debt instrument into common stock requiring the Company to recognize a non-cash loss on debt settlement in the amount of $1,264,237.

Liquidity and capital resources

As of June 30, 2018, the Company had cash in the amount of $696,276 of which $665,477 is on deposit and restricted as collateral for a letter of credit and a corporate purchasing card, and a working capital deficit of $14,448,529, compared to cash in the amount of $709,244, of which $684,610 is restricted, and a working capital deficit of $14,755,001 as at December 31, 2017. In addition, the Company had stockholder's equity of $260,856 at June 30, 2018 compared to a deficit of $1,248,168 as of December 31, 2017.

The Company's accumulated deficit was $37,841,103 and $35,554,994 at June 30, 2018 and on December 31, 2017, respectively.

The Company's operations resulted in net cash used of $21,097 during the six months ended June 30, 2018, compared to net cash provided of $4,909,178 during the six months ended June 30, 2017, a decrease of $4,930,275. The changes in the non-cash working capital accounts are primarily attributable to an increase in accounts receivable of $2,587,507 during the six months ended June 30, 2018 and an increase of $1,587,111 in accounts payable.

Net cash provided by investing activities was $37,582 for the six months ended June 30, 2018, compared to net cash used of $27,387 for the six months ended June 30, 2017, an increase of $10,195, attributable to increase in sale of fixed assets.

The Company's financing activities used net cash of $29,453 during the six months ended June 30, 2018, compared to net cash used of $4,892,010 during the six months ended June 30, 2017. For the six months ended June 30, 2018, the Company increased the line of credit to support the demands of a growing backlog of customer orders and decreased the notes payable by $1,316,205.

Inflation

The Company's results of operations have not been affected by inflation and management does not expect inflation to have a material impact on its operations in the future.

Off- Balance Sheet Arrangements

The Company currently does not have any off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as that term is defined in Rule 13a-15(e)) as of June 30, 2018, the end of the period covered by this Quarterly Report on Form 10-Q.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer, (Principal Financial and Accounting Officer) concluded that, as of June 30, 2018, our disclosure controls and procedures were ineffective as of the end of the period covered to ensure that information required to be disclosed in our reports filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. This was due to the following material weaknesses which are indicative of many small companies with limited staff: (i) inadequate segregation of duties and effective risk assessment; and (ii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both United States generally accepted accounting principles and Securities and Exchange Commission guidelines. Management anticipates that such disclosure controls and procedures will not be effective until the material weaknesses are remediated.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Principal Executive Officer, and Principal Financial and Accounting Officer, to allow timely decisions regarding required disclosure.

During 2017, we identified material weaknesses in our internal control over financial reporting, which were disclosed in our annual report on Form 10-K filed with the SEC on May 8, 2018.

6

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting that occurred during the last fiscal quarter, (i.e., the six months ended June 30, 2018), that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of the date of the report there are no material legal proceedings to which we are a party.

ITEM 1A. RISK FACTORS

Not applicable.

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

In April 2017, the Company issued 640,000 shares to the Chief Executive Officer as a signing bonus under his Employment Agreement. In addition, the Company issued 70,000 shares to the Chief Financial Officer as additional fees pursuant to his Contractor Agreement.

On June 30, 2017, the Company issued 87,500 shares to board members in relation to the vesting schedule agreed to during 4th quarter 2015, which is based on an annual grant 100,000 restricted shares every October and vesting over 8 quarters per independent board member as compensation.

On August 2, 2017, the Company granted a total of 1,500,000 stock warrants with an exercise price of $0.11 per share and 600,000 shares of common stock as part of a consulting agreement with Carlos Jaime Nissensohn.

On August 2, 2017, the Company granted a total of 6,481,000 stock options, 2,200,000 stock options were granted to five Board members and 3,781,000 stock options were granted to the Chief Executive Officer pursuant to his Employment Contract and 500,000 to Company's legal counsel, all with an exercise price of $0.11 per share.

On October 2, 2017 the Company granted 500,000 stock options to the Company's CFO as part of the CFO's employment agreement. The options are exercisable at a price of $0.145 per share.

On December 30, 2017 the Company authorized the issuance of 600,000 shares of common stock valued at $59,400 and 1,600,000 shares of Series C Preferred Stock as part of a debt extinguishment agreement with two related parties. The common shares were issued on June 9, 2018. The Series C Preferred Stock was valued at $0.80 per share. The total net amount of debt extinguished in this transaction was $5,811,334.95. The Company also authorized the issuance of 85,000 shares of Series C Preferred Stock and issued 3,000,000 stock warrants with an exercise price of $.20 as part of a separate debt reduction agreement with a different related party. The total net amount of debt forgiven in this transaction was $9,607,529.86.

On March 8, 2018, the Company granted a total of 1,700,000 shares of Common Stock and options to purchase up to 6,800,000 shares of Common Stock under the 2018 Equity Incentive Plan.

On June 7, 2018, the Company authorized the issuance of 8,600,000 shares of common stock to Jason Griffith. The issuance was part of a convertible provision in an existing note held by Jason Griffith. With the issuance of stock the debt and accrued interest was extinguished.

On June 26th, 2018, the Company issued 150,000 shares of stock to Maren Life Reinsurance LTD as part of a debt settlement agreement.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission this Form 10-Q, including exhibits. You may read and copy all or any portion of the registration statement or any reports, statements or other information in the files at SEC's Public Reference Room located at 100 F Street, NE., Washington, DC 20549, on official business days during the hours of 10 a.m. to 3 p.m.

You can request copies of these documents upon payment of a duplicating fee by writing to the Commission. You may call the Commission at 1-800-SEC-0330 for further information on the operation of its public reference room. Our filings, including the registration statement, will also be available to you on the website maintained by the Commission at http://www.sec.gov.

We intend to furnish our stockholders with annual reports which will be filed electronically with the SEC containing consolidated financial statements audited by our independent auditors, and to make available to our stockholders quarterly reports for the first three quarters of each year containing unaudited interim consolidated financial statements.

Quest's website is located at http://www.QuestSolution.com. The Company's website and the information to be contained on that site, or connected to that site, is not part of or incorporated by reference into this filing.

ITEM 6. EXHIBITS

(a) Exhibits.

31.1 Certification of our Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of our Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1	Certification of our Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
32.2	Certification of our Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

8

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.

Date: August 20, 2018

QUEST SOLUTION, INC.

By:*/s/ Shai Lustgarten*
Shai Lustgarten
President and Chief Executive Officer

EXHIBIT INDEX

31.1 Certification of our Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of our Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of our Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

32.2 Certification of our Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)