Acacia Diversified Holdings, Inc.
Form 10-Q
November 05, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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

For the transition period from __________________ to ______________

Commission file number: 001-14088

Acacia Diversified Holdings, Inc.

(Exact name of small business issuer as specified in its charter)

Texas	**75-2095676**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
13575 58th St. North #138 Clearwater, FL	**33760**
(Address of principal executive offices)	(Zip Code)

(727) 678-4420

(Registrant's telephone number)

(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. (1) Yes No (2) Yes No

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller Reporting Company
Emerging growth company	

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of November 2, 2018 is 21,653,625 common shares.

Table of Contents

TABLE OF CONTENTS

		Page
PART I. Financial Information		
Item 1.	Financial Statements	F-1
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	1
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	7
Item 4.	Controls and Procedures	7
PART II. Other Information		
Item 1.	Legal Proceedings	8
Item 1A.	Risk Factors	8
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	8
Item 3.	Defaults Upon Senior Securities	8
Item 4.	Mine Safety Disclosures	8
Item 5.	Other Information	8
Item 6.	Exhibits	9
Signatures		10

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACACIA DIVERSIFIED HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (UNAUDITED)	December 31, 2017 (AUDITED)
ASSETS		
CURRENT ASSETS:		
Cash	$ 50,878	$ 28,417
Accounts receivable, net of allowance for doubtful accounts of $17,450 in 2018 and 2017	4,895	22,820
Inventories	45,241	57,257
Prepaid expenses and other current assets	10,346	11,034
Total Current Assets	111,360	119,528
PROPERTY AND EQUIPMENT,		
net of accumulated depreciation of $239,637 and $172,783 in 2018 and 2017, respectively	444,831	483,931
DEPOSITS	4,201	3,341
TOTAL ASSETS	$ 560,392	$ 606,800
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 241,736	$ 452,710
Current portion of long-term debt	4,359	-
Convertible note payable	140,800	-
Notes payable to related party	742,400	558,400
Payable to related parties	63,500	81,058

Total Current Liabilities	1,192,795	1,092,168
LONG-TERM LIABILITY:		
Long-term debt	16,309	-
Derivative liability	155,126	-
Total Long-term Liability	171,435	-
Total Liabilities	1,364,230	1,092,168
Commitments and contingencies	-	-
STOCKHOLDERS' DEFICIT		
Common stock, $0.001 par value; 150,000,000 shares authorized; 21,663,625 and 17,539,982 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	21,663	17,540
Additional paid-in capital	5,652,166	4,451,038
Accumulated deficit	(6,477,667)	(4,953,946)
Total Stockholders' Deficit	(803,838)	(485,368)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 560,392	$ 606,800

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

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
REVENUE	$29,931	$63,772	$134,516	$344,133
COSTS OF GOODS SOLD				
Costs of goods sold	49,338	700	115,451	129,338
Depreciation expense	18,124	18,297	54,012	54,400
	67,462	18,997	169,463	183,738
GROSS PROFIT (LOSS)	(37,531)	44,775	(34,947)	160,395
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES				
Employee compensation expenses	125,024	101,941	393,802	540,902
General and administrative expenses	208,658	83,418	873,336	569,754
Depreciation expense	10,803	969	11,841	4,227
	344,485	186,328	1,278,979	1,114,883
LOSS FROM OPERATIONS	(382,016)	(141,553)	(1,313,926)	(954,488)
OTHER INCOME (EXPENSE)				
Bad debt recovery	7,000	-	14,000	-
Derivative expense	(155,126)	-	(155,126)	-
Loss on sale of assets	-	-	(12,362)	-
Loss on sale of equipment to related party	-	(13,178)	-	(4,249)
Interest expense	(30,294)	-	(56,307)	(416,311)
Other income (expense)	-	513	-	1,512
TOTAL OTHER EXPENSE	(178,420)	(12,665)	(209,795)	(419,048)
NET LOSS BEFORE INCOME TAXES	$(560,436)	$(154,218)	$(1,523,721)	$(1,373,536)
Income taxes	-	-	-	-
NET LOSS	$(560,436)	$(154,218)	$(1,523,721)	$(1,373,536)
	$(0.03)	$(0.01)	$(0.09)	$(0.08)

NET LOSS PER COMMON SHARE, BASIC AND DILUTED				
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	19,450,674	17,528,342	17,544,648	17,330,720

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

F-2

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(1,523,721)	$(1,373,536)
Adjustments to reconcile net loss to net cash and cash equivalents		
used by operating activities:		
Depreciation	65,853	58,627
Common stock issued for services	633,908	337,469
Common stock issued from employee stock plan	37,069	44,738
Common stock issued for interest expense	-	366,400
Original issue discount on convertible note payable	15,800	-
Amortization of debt discount	-	15,000
Derivative expense	155,126	-
Loss on sale of equipment	12,362	-
Loss on sale of equipment to related party	-	4,249
(Increase) decrease in:		
Accounts receivable	17,925	(59,470)
Inventories	12,016	5,614
Prepaid expenses and other current assets	(172)	46,965
Increase (decrease) in:		
Accounts payable and accrued expenses	235,652	(28,889)
Payable to related parties	6,091	89,984
Net cash used by operating activities	(332,091)	(492,849)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment to related party for leasehold improvement	(6,000)	-
Proceeds from sale of property	38,361	-
Acquisition of property and equipment	(55,683)	(6,196)
Net cash used by investing activities	(23,322)	(6,196)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	70,000	-
Proceeds from convertible note payable	125,000	85,000
Repayment on convertible note payable	-	(100,000)
Proceeds from payable to related party	-	130,050

Payment on due to related parties	-	(28,000)
Payment on long-term debt	(1,126)	-
Proceeds from issuance of notes payable to related party	184,000	405,000
Net cash provided by financing activities	377,874	492,050
Net change in cash and cash equivalents	22,461	(6,995)
Cash and cash equivalents, beginning of the year	28,417	43,878
Cash and cash equivalents, end of the year	$50,878	$36,883
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$-	$5,000
Cash paid for income taxes	$-	$-
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Common stock issued to related party for leasehold improvement	$17,649	
Acquisition of equipment with long-term debt	$21,794	
Common stock issued to settle related party accrued expense	$446,625	
Common stock issued for acquisition of property		$50,723
Common stock issued for deferred offering cost		$240,900
Consolidation of notes payable to related party, including accrued interest		$153,400

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

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(UNAUDITED)

NOTE 1 – THE COMPANY

Acacia Diversified Holdings, Inc. ("Acacia" or the "Company") has four wholly-owned subsidiaries, MariJ Pharmaceuticals, Inc. ("MariJ Pharma"), Canna-Cures Research & Development Center, Inc. ("Canna-Cures"), and Eufloria Medical of Tennessee, Inc. ("EMT"), a company incorporated in the state of Tennessee. In July 2018, the Company also announced the completion of its acquisition of Medahub Operations Group, Inc. and Medahub, Inc., technology companies ("Medahub"), complete with a current compounding pharmacy license in Florida. The Medahub acquisition allows the Company to be fully HIPAA compliant and cloud based on an HL7 platform. The Company can now offer licensing agreements for other cannabis companies wanting to be HIPAA compliant from left to right or seed to sale and Doctor to Patient.

The Company's primary source of revenue is from the extraction of medicinal hemp oil, from a non-psychoactive cannabis plant. All extraction services are currently provided in states where such services are deemed legal. The Company's subsidiary EMT has been invited to be part of the hemp pilot program in Tennessee. This program provides the Company the license to grow, manufacture, and dispense organic hemp oil in Tennessee. The Company plans on participating in this pilot program through this new, wholly-owned subsidiary.

The Company will also begin to open its retail store in Tennessee this year. Revenue generated from retail sales is not expected to be material to the Company based on current operating model.

NOTE 2 – GOING CONCERN

The Company has not generated profit to date. The Company expects to continue to incur operating losses as it proceeds with its extraction, growing and manufacturing activities in Tennessee and research and development activities and continues to navigate through the regulatory process. The Company expects general and administrative costs to increase, as the Company adds personnel and other administrative expenses associated with its current efforts.

As such, and without substantially increasing revenue or finding new sources of capital, the Company will find it difficult to continue to meet its obligations as they come due. The Company continues to seek working capital but there can be no assurance that the Company will be successful in its efforts to raise capital, or if it were successful in raising capital, that it would be successful in meeting its business plans. These factors raise substantial doubt as to the ability of the Company to continue as a going concern. Management's plans include securing additional extraction contracts and opening a retail store in Tennessee, attempting to start new businesses outside of Colorado, finding additional operational businesses to buy, and attempting to raise funds from the public through an equity offering of the Company's common stock. Management intends to make every effort to identify and develop all these sources of funds, but there can be no assurance that Management's plans will be successful.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred losses for all periods presented and has a substantial accumulated deficit. As of September 30, 2018, these factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

ACACIA DIVERSIFIED HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(UNAUDITED)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and reflect all adjustments, which consist solely of normal recurring adjustments, needed to fairly present the financial results for these periods. The consolidated financial statements and notes thereto are presented as prescribed by Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted. The accompanying consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2017 and notes thereto in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the Securities and Exchange Commission on April 2, 2018. Operating results for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the entire fiscal year. In the opinion of management, all adjustments have been made, which consist only of normal recurring adjustments necessary for a fair statement of (a) the results of operations for the three-month and nine-month periods ended September 30, 2018 and 2017, (b) the financial position at September 30, 2018 and (c) cash flows for the nine-month periods ended September 30, 2018 and 2017.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Acacia Diversified Holdings, Inc. and its wholly-owned subsidiaries, MariJ Pharmaceuticals, Inc, Canna-Cures Research & Development Center, Inc., Eufloria Medical of Tennessee, Inc., Medahub Operations Group, Inc. and Medahub, Inc. All significant intercompany accounts and transactions are eliminated in consolidation.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The actual results may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

MEDAHUB ACQUISITION

In July 2018, the Company announced the completion of its acquisition of Medahub Operations Group, Inc. and Medahub, Inc., technology companies ("Medahub"), which includes a current compounding pharmacy license in Florida. The Medahub acquisition allows the Company to be fully HIPAA compliant and cloud based on an HL7 platform. The Company can now offer licensing agreements for other cannabis companies wanting to be HIPAA compliant from left to right or seed to sale and Doctor to Patient. The Company issued 600,000 shares of its restricted common stock to the principal of Medahub as consideration of the acquisition, valued at $126,000.

When determining the accounting of the acquisition, the Company concluded that the acquisition does not constitute the acquisition of a business since there was no inputs, processes or outputs within Medahub. In addition, although the Company acquired certain software and technology from Medahub, the most significant asset it acquired was Medahub's principal's commitment to provide support, guidance and direction for implementing this technology. Without the principal's commitment of his time, the Company will not be able to implement the technology and begin generating cash flows. Therefore, the Company believes that the value of the purchase is concentrated on the service provided by Medahub's principal. As a result, the Company allocated the entire purchase price to the service provided and accounted for it as professional fee expense.

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(UNAUDITED)

REVENUE RECOGNITION

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which replaces numerous requirements in U.S. GAAP, including industry specific requirements, and provides a single revenue recognition model for recognizing revenue from contracts with customers. The Company adopted this standard effective January 1, 2018.

The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. The Company's revenues from extraction activities and from retail sales are recognized at a point in time.

The ASU requires the use of a new five-step model to recognize revenue from customer contracts. The five-step model requires that the Company (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocate the transaction price to the respective performance obligations in the contract, and (v) recognize revenue when (or as) the Company satisfies the performance obligation. The application of the five-step model to the revenue streams compared to the prior guidance did not result in significant changes in the way the Company records its revenues.

The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application to accumulated deficit. Additionally, incremental footnote disclosures are required to present the 2018 revenues under the prior standard. Under the modified retrospective method, an entity may also elect to apply the standard to either (i) all contracts as of January 1, 2018, or (ii) only to contracts that are not completed as of January 1, 2018. The Company elected to adopt this guidance using the modified retrospective method at January 1, 2018 which did not result in an adjustment to accumulated deficit. Additionally, upon adoption, the Company evaluated its revenue recognition policy for all revenue streams within the scope of the ASU under previous standards and using the five-step model under the new guidance and confirmed that there were no differences in the pattern of revenue recognition.

DEBT DISCOUNT

During the nine months ended September 30, 2018, the Company incurred $12,800 of debt discount related to the issuance of a convertible promissory note, as described in Note 6. The discount was recognized in its entirety as interest expense rather than amortized over the life of the convertible promissory note. The immediate recognition did not yield materially different result.

DEBT ISSUANCE COSTS

During the nine months ended September 30, 2018, the Company incurred direct costs associated with the issuance of convertible promissory note, as described in Note 6, and recorded $3,000 of debt issuance costs. The Company recognized this amount as interest expense for the nine months ended September 30, 2018.

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(UNAUDITED)

STOCK BASED COMPENSATION

The Company accounts for stock-based compensation under *Accounting Standards Codification 718 - Compensation-Stock Compensation* (“ASC 718”). ASC 718 requires that all stock-based compensation be recognized as expense in the financial statements and that such cost be measured at the fair value of the award at the grant date and recognized over the period during which an employee is required to provide services (requisite service period). An additional requirement of ASC 718 is that estimated forfeitures be considered in determining compensation expense. Estimating forfeitures did not have a material impact on the determination of compensation expense during the three and nine months ended September 30, 2018 and 2017.

The Company accounts for stock based awards based on the fair market value of the instrument using a 10-day volume weighted adjusted price (VWAP) and accounts for stock options issued using the Black-Scholes option pricing model and utilizing certain assumptions including the followings:

Risk-free interest rate – This is the yield on U.S. Treasury Securities posted at the date of grant (or date of modification) having a term equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Expected life—years – This is the period of time over which the options granted are expected to remain outstanding. Options granted by the Company had a maximum term of ten years. An increase in the expected life will increase compensation expense.

Expected volatility – Actual changes in the market value of stock are used to calculate the volatility assumption. An increase in the expected volatility will increase compensation expense.

Dividend yield – This is the annual rate of dividends per share over the exercise price of the option. An increase in the dividend yield will decrease compensation expense. The Company does not currently pay dividends and has no immediate plans to do so in the near future.

The Company accounts for stock-based compensation issued to non-employees and consultants in accordance with the provisions of *Accounting Standards Codification 505-50, Equity – Based Payments to Non-Employees*. Measurement of share-based payment transactions with non-employees is based on the fair value of whichever is more reliably measurable: (a) the goods or services received; or (b) the equity instruments issued. The value of the common stock is measured at the earlier of (i) the date at which a firm commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete.

During the nine months ended September 30, 2018, the board of directors approved issuances of the Company's restricted common stock to consultants, employees, and directors for services rendered:

1. 2,000 shares to a consultant for services rendered, valued at $1,420.
2. 15,000 shares to the Company's SEC counsel for services rendered, valued at $10,650.
3. 1,000,000 shares to a consultant as payment on a consulting contract, valued at $485,600. In February 2018, the Company filed a Form S-8 with the SEC to register these shares.
4. 10,000 shares each of the three directors, total 30,000 shares for their service to the Company, valued at a total of $10,239.
5. 7,500 shares to employees from the restricted stock plan valued at $37,069.
6. 36,018 shares to a company owned by an independent director for leasehold improvements at the Tennessee store, valued at $17,649 on commitment date. The Company reduced related party payable when the shares were issued.
7. 600,000 shares to the principal of Medahub for services performed, valued at $126,000.
8. 2,233,125 shares to the Company's CEO to settle accrued salary, bonus and expenses in the amount of $446,625.

ACACIA DIVERSIFIED HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(UNAUDITED)

FAIR VALUE ESTIMATES – The Company measures assets and liabilities it acquires at fair value in accordance with *Accounting Standards Codification 820 – Fair Value Measurement* (“ASC 820”). The objective of ASC 820 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820 specifies a valuation hierarchy based on whether the inputs to those valuation techniques are observable or unobservable.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s own assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets;

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the Company to minimize the use of unobservable inputs and to use observable market data, if available, when estimating fair value. The Company has liability measured at fair value on a recurring basis due to the issuance of convertible note payable as described in Note 6.

NOTE 4 – RELATED PARTY TRANSACTIONS

Notes Payable to Related Party

The Company entered into the following promissory notes payable to its CEO during the year ended December 31, 2017 and during the nine months ended September 30, 2018:

Note Date	**Note Amount**	**Accrued Interest**	**Total**
January 2017 (1)	$300,000	$16,504	$316,504
June 2017 (2)	105,000	2,048	107,048
June 2017 (3)	130,050	2,564	132,614
	535,050	21,116	556,166
Expenses owed to related party			2,234
Principle of note payable to related party after consolidation at December 31, 2017			$558,400
March 2018 (4)	$72,000	-	72,000
April 2018 (5)	$42,000	-	42,000
August 2018 (6)	$70,000	-	70,000
Principle balance of notes payable to related party at September 30, 2018	184,000	-	$184,000
Total principle amount of notes payable to related party at September 30, 2018			$742,400

F-8

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(UNAUDITED)

(1) In January 2017, the Company entered into a note agreement in the amount of $300,000 with the Company’s CEO. The note bears interest at a rate of 8% per annum and specifies no due date. The Company accrued interest of $16,504 through September 25, 2017. Concurrently, the board of directors also approved issuance of 100,000 shares of the Company’s common stock as additional interest. These shares were accounted for as debt issuance costs, valued at $182,000. The costs were expensed at the commitment date of the note as interest expense since the note is a short term capital advance with no stated term. This note was convertible into the shares of the Company’s common stock at $0.50/share and the note holder did not exercise the conversion option.

(2) In June 2017, the Company entered into a note agreement in the amount of $105,000 with the Company’s CEO for short term working capital advance. The note bears interest at a rate of 8% per annum and specifies no due date. The Company accrued interest and recorded interest expense of $2,048 through September 25, 2017. This note was convertible into the shares of the Company’s common stock at $0.50/share and the note holder did not exercise the conversion option.

(3) In June 2017, the Company received a short term working capital advance of $130,050 from its CEO. The advance bears interest at a rate of 8% per annum and specifies no due date. The Company accrued interest and recorded interest expense of $2,564 through September 25, 2017.

On September 25, 2017, the board of directors approved the Company to enter into a consolidated note payable agreement with the Company’s CEO to consolidate the above notes (1) and (2) and advances (3) received from its CEO, including accrued interests on these notes. The total amount of the principle and interest consolidated was $558,400. This consolidated note payable bears 8% interest per annum and is due on demand. Interest expense on this note from September 25, 2017 to December 31, 2017 in the amount of $11,872 and for the nine months ended September 30, 2018 in the amount of $33,412 are included in accrued expenses in Note 7. This note is secured by all of the Company's assets.

(4) In March 2018, the Company entered into three separate unsecured promissory note agreements with its CEO and his spouse, in the amounts of $12,000, $40,000 and $20,000, totaled $72,000. Each of these promissory notes bears interest at a rate of 8% per annum. The principle balance and accrued interest is due 60 days from the date of the note. The Company accrued interest on these notes in the amount of $2,950 for the nine months ended September 30, 2018.

This amount is included in accrued expenses in Note 7.

(5) In April 2018, the Company entered into two separate unsecured promissory note agreements with its CEO and his spouse, in the amounts of $10,000 and $32,000, totaled $42,000. Each of these promissory notes bears interest at a rate of 8% per annum. The principle balance and accrued interest is due 60 days from the date of the note. The Company accrued interest on these notes in the amount of $1,486 for the nine months ended September 30, 2018. This amount is included in accrued expenses in Note 7.

In May 2018, the board of directors approved the Company to enter into a promissory note agreement with the Company's CEO and his spouse to consolidate notes (4) and (5). The total amount of the principle consolidated was $114,000. The amount of interest accrued from the note dates to the date of the consolidation was minimal and therefore was not included in the consolidation. The promissory note accrues interest at 8% from the date of consolidation and is due within 120 days of the note date.

(6) In August 2018, the Company entered into three separate unsecured promissory note agreements with its CEO and his spouse, in the amounts of $25,000, $25,000, and $20,000, totaled $70,000. Each of these promissory notes bears interest at a rate of 8% per annum. The principle balance and accrued interest is due 60 days from the date of the note. The Company accrued interest on these notes in the amount of $757 for the nine months ended September 30, 2018. This amount is included in accrued expenses in Note 7.

As a result, the total amount of notes payable to related party was $742,400 and $558,400, at September 30, 2018 and December 31, 2017, respectively.

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(UNAUDITED)

Payable to Related Parties

Payable to related parties consisted of the followings at September 30, 2018 and December 31, 2017:

	September 30, 2018	**December 31, 2017**
Short term loan from related entity (1)	$ 61,500	$ 41,994
Storage and corporate housing and auto allowances owed to CEO (2)	2,000	10,000
Amount owed to a director (3)	-	29,064
	$ 63,500	$ 81,058

(1) In 2017, the Company received a working capital advance of $74,348 from a related entity. These advances are non-interest bearing and were intended as short term capital advances. The remaining balances have been included in payable to related parties on the consolidated balance sheet as current liabilities at September 30, 2018 and December 31, 2017.

(2) On May 1, 2016, the Company entered into an employment agreement with its CEO. The term of the employment is through December 31, 2019. The agreement provides for a monthly storage and corporate housing allowance of $1,000 for a property owned by the CEO and a monthly automobile allowance of $1,000.

In May 2018, the board of directors approved to discontinue payment of the storage and corporate housing allowance of $1,000 per month, retroactively to January 1, 2018. As a result, expenses accrued during the three months ended March 31, 2018 was reversed during the three months ended June 30, 2018. The automobile allowance remains unchanged at $1,000 per month.

In July 2018, the board of directors approved issuance of 85,000 shares of the Company's restricted common stock to the Company's CEO to settle the accrued storage and corporate housing allowance and automobile allowance in the amount of $17,000. As a result, $2,000 and $10,000 remained owed to the Company's CEO at September 30, 2018 and December 31, 2017, respectively.

During the three and nine months ended September 30, 2018, expenses related to the housing and automobile allowances totaled $3,000 and $9,000, respectively. During the three and nine months ended September 30, 2017, expenses related to the housing and automobile allowances totaled $6,000 and $18,000, respectively.

(3) During the year ended December 31, 2017, a director of the Company incurred time and expenses related to improving the retail space located in Tennessee. These costs have been recorded as leasehold improvements in the Company's consolidated balance sheets. At December 31, 2017, the Company owed this director $29,064, of which $17,648 was paid in February 2018 through issuance of 36,018 shares of the Company's common stock to the director and $6,000 was paid to the director. The remaining amount was paid during the three months ended September 30, 2018.

Other Related Party Transactions

In May 2018, the Company's CEO personally financed the purchase, with the Company's board of directors' approval, a piece of property in Tennessee for the benefit of the Company. The property consists of a 14 acres farm and an indoor growing area. The Company's CEO personally funded the purchase price of the property at $185,000 and closing costs. The board of directors also granted the Company the right to purchase the farm from the Company's CEO at his cost plus 6.09% interest when the Company has sufficient cash flows to do so. At the time of the filing, the Company has not exercised such right.

The board of directors also approved for the Company to enter into a lease to lease this property from the Company's CEO, effective June 1, 2018. The term of the lease is for one year with an automatic renewal term of one year. The lease requires the Company to pay all expenses related to the acquisition and operation of the property, including but not limited to the Company's CEO's personal incremental borrowing costs, repairs and maintenance, real estate taxes, licenses and permits, etc. For the three and nine months ended September 30, 2018, the Company incurred $9,147 and $14,158, respectively, in operating expenses for this property.

ACACIA DIVERSIFIED HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(UNAUDITED)

NOTE 5 – LONG-TERM DEBT

In June 2018, the Company entered into a financing agreement to finance the purchase of a farm tractor. The financing agreement is secured by the tractor. The total amount financed was $21,794 at 0% interest per annum. The first monthly payment of $363 began in July 2018 and continues for 60 months. The following is the total payment amounts for the next five years:

Periods ending December 31,	
2018	$1,052
2019	4,356
2020	4,356
2021	4,356
2022	4,356
2023	2,192
	$20,668

The current and long-term portions of principle amounts due are as follow:

Amount of principle due in the next 12 months	$4,359
Long term portion of principle due	16,309
	$20,668

NOTE 6 – CONVERTIBLE NOTE PAYABLE AND DERIVATIVE LIABILITY

On August 22, 2018, the Company issued a convertible promissory note for $140,800. The note was discounted at $128,000 and the Company received net proceeds of $125,000 after incurring $3,000 of debt issuance costs. The note bears an interest rate at 8% per annum, and principal and accrued interest was due on the maturity date of August 22, 2019. The conversion option price associated with the note has a 25% discount to the market price of the stock. The market price is based on the average of the two lowest trading prices during a ten day period prior to conversion. The note is convertible at any time. As a result of the variable feature associated with the conversion option, pursuant to

ASC Topic 815, the Company bifurcated the conversion option, and utilized the Black Scholes valuation model to determine the fair value of the conversion option. At the issuance date, the Company recorded a derivative expense and derivative liability of $148,211. At September 30, 2018, the Company revalued the derivative liability and recorded additional derivative expense of $6,915. As such, the derivative liability was valued at $155,126 at September 30, 2018.

Liability measured at fair value on a recurring basis by level within the fair value hierarchy as of September 30, 2018 is as follows:

	Fair Value Measurement at September 30, 2018 (1) Using Level 2	**Total**
Liability:		
Derivative liability	$155,126	$155,126
Total liability	$155,126	$155,126

(1) The Company did not have any assets or liabilities measured at fair value using Level 1 or 3 of the fair value hierarchy as of September 30, 2018.

The Company's derivative liabilities are classified within Level 2 of the fair value hierarchy. The Company utilizes the Black-Scholes valuation model to value the derivative liabilities utilizing observable inputs such as the Company's common stock price, the conversion price of the conversion option, and expected volatility, which is based on historical volatility. The Black-Scholes valuation model employs the market approach in determining fair value.

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(UNAUDITED)

The following is a reconciliation of the beginning and ending balances for liabilities measured at fair value on a recurring basis during the nine months ended September 30, 2018:

Balance at December 31, 2017	$-
Variable conversion feature in convertible note payable	148,211
Fair value adjustment	6,915
Balance at September 30, 2018	$155,126

NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the followings at September 30, 2018 and December 31, 2017:

	September 30, 2018	**December 31, 2017**
Accounts payable to vendors	$ 68,202	$ 95,444
Payroll taxes payable	33,780	24,727
Accrued salaries and bonuses	87,773	320,667
Accrued interest on notes payable to related party	51,981	11,872
	$ 241736	$ 452,710

NOTE 8 – INVENTORIES

The Company's inventories consisted of the followings at September 30, 2018 and December 31, 2017:

	September 30, 2018	**December 31, 2017**
Raw materials	$ 27,410	$ 46,880
Finished goods	16,631	10,377
Hemp clones	1,200	-
	$ 45,241	$ 57,257

NOTE 9 – STOCKHOLDERS' DEFICIT

Common Stock

The Company has been authorized to issue 150,000,000 shares of common stock, $.001 par value. Each share of issued and outstanding common stock shall entitle the holder thereof to fully participate in all shareholder meetings, to cast one vote on each matter with respect to which shareholders have the right to vote, and to share ratably in all dividends and other distributions declared and paid with respect to common stock, as well as in the net assets of the corporation upon liquidation or dissolution.

ACACIA DIVERSIFIED HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(UNAUDITED)

During the nine months ended September 30, 2018, the Company issue 4,123,643 shares of its restricted common stock as follows:

1. 2,000 shares to a consultant for services rendered, valued at $1,420.
2. 15,000 shares to the Company's SEC counsel for services rendered, valued at $10,650.
3. 1,000,000 shares to a consultant as payment on a consulting contract, valued at $485,600. In February 2018, the Company filed a Form S-8 with the SEC to register these shares.
4. 10,000 shares each of the three directors, total 30,000 shares for their service to the Company, valued at a total of $10,239.
5. 7,500 shares to employees from the restricted stock plan valued at $37,069.
6. 36,018 shares to a company owned by an independent director for leasehold improvements at the Tennessee store, valued at $17,649 on commitment date. The Company reduced related party payable when the shares were issued.
7. 600,000 shares to the principal of Medahub for services performed, valued at $126,000.
8. 2,233,125 shares to the Company's CEO to settle accrued salary, bonus and expenses in the amount of $446,625.
9. 200,000 shares to a non-employee director for cash value of $70,000

Warrants and Options

At September 30, 2018, 65,000 options were outstanding and there were no warrants outstanding. The Company did not issue any common stock purchase warrants or options during the nine months ended September 30, 2018 and 2017.

Restricted Stock Awards to Key Employees

In March 2017, the board of directors approved issuance of 100,000 shares of the Company’s restricted common stock to its key employees. The award for the employees are subject to a four or five-year vesting requirements, i.e. the requisite service period. The shares are issued as the vesting restriction lapses. The Company valued these shares at fair value on commitment date which is the date on which the employee accepted the award and recorded stock based compensation expense over the requisite service period. During the six months ended June 30, 2017, the board of directors approved issuance of 10,000 shares of the Company's common stock to one of the key employees as the vesting requirement was met. These shares were valued at $12,800 on commitment date.

Stock based compensation expense for these awards for the three and nine months ended September 30, 2017 was $17,877 and $60,501, respectively. Stock based compensation expense for these awards for the three and nine months ended September 30, 2018 was $11,040 and $37,069, respectively.

NOTE 10 – SUBSEQUENT EVENTS

On October 8, 2018, the Company issued a convertible promissory note for $58,300. The note was discounted at $53,000 and the Company received net proceeds of $50,000 after incurring $3,000 of debt issuance costs. The note bears an interest rate at 8% per annum, and principal and accrued interest was due on the maturity date of October 8, 2019. The conversion option price associated with the note has a 25% discount to the market price of the stock. The market price is based on the average of the two lowest trading prices during a ten day period prior to conversion. The note is convertible at any time. As a result of the variable feature associated with the conversion option, pursuant to ASC Topic 815, the Company will bifurcate the conversion option, and utilize the Black Scholes valuation model to determine the fair value of the conversion option. The Company will record a derivative expense and derivative liability on issuance date and revalue the derivative liability at December 31, 2018.

ACACIA DIVERSIFIED HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(UNAUDITED)

NOTE 11 – RECENT ACCOUNTING PRONOUNCEMENTS

The Security and Exchange Commission ("SEC") recently amended its rules to require an analysis of changes in stockholders' equity in the financial statements included in quarterly reports on Form 10-Q. The analysis, which can be presented as a note or separate statement, is required for the current and comparative quarter and year-to-date interim periods. The amended rules will become effective 30 days after they are published in the Federal Register. The SEC's transition guidance states that the amendments are effective for all filings made on or after the effective date; however, it also states the SEC staff would not object if a filer's first presentation of the changes in stockholders' equity was included in its Form 10-Q for the quarter that begins after the effective date of the amendments. The Company will continue to monitor the status of the amendments and provide financial statements in our quarterly report on Form 10-Q when they become effective.

Except as noted above and in our Form 10-K, the Company's management does not believe that recent codified pronouncements by the Financial Accounting Standards Board ("FASB") (including its EITF), the AICPA or the SEC will have a material impact on the Company's current or future consolidated financial statements.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Information

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains forward-looking statements within the meaning of the Private Litigation Reform Act of 1995 that involve known and unknown risks, significant uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, or implied, by those forward-looking statements. You can identify forward-looking statements by the use of the words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", "may", "will", "should", "could", "predicts", "potential", "proposed", or "continue" or the negative of those terms. These statements are only predictions. In evaluating these statements, you should consider various factors which may cause our actual results to differ materially from any forward-looking statements. Although we believe that the exceptions reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements due to numerous factors, including, but not limited to, availability of financing for operations, successful performance of operations, impact of competition and other risks detailed below as well as those discussed elsewhere in this Form 10-Q and from time to time in the Company's Securities and Exchange Commission filings and reports. In addition, general economic and market conditions and growth rates could affect such statements. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

General

These unaudited interim consolidated financial statements should be read in conjunction with the annual financial statements for the Company most recently completed fiscal year ended December 31, 2017. These unaudited interim consolidated financial statements do not include all disclosures required in annual financial statements, but rather are prepared in accordance with recommendations for interim financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). These unaudited interim consolidated financial statements have been prepared using the same accounting policies and methods as those used by the Company in the annual audited financial statements for the year ended December 31, 2017.

Discussion on the Company's Operations and Recent Event

MariJ Pharmaceuticals, Inc. ("MariJ Pharma")

MariJ Pharma engages in the extraction and processing of very high quality, high-CBD/low-THC content medical grade hemp oils from medical hemp plants. MariJ Pharma specializes in utilizing organic strains of the hemp plant, setting itself apart from the general producers of non-organic products. In addition, MariJ Pharma has the technical expertise and capability to process and formulate the oils and to employ them in its compounding operations. MariJ Pharma will seek to become engaged as owner or co-owner of a grow facility such as to produce its own plants for processing. The Company intends to acquire, through its MariJ Pharma subsidiary, portions or complete ownership of licenses and grow operations in one or more states and seeks to cultivate, organically extract and process its medicinal hemp crops year around in indoor facilities. The acquisition of these licenses is anticipated to provide the Company with the opportunity to compound medicinal products using mixtures of high cannabinoid profile oils that have very little hallucinogenic properties but have significantly improved medicinal properties. This GeoTraking Technology is designed to provide a full-channel patient care tracking system that is fully compliant under today's strict HIPAA regulations that require privacy and security of the patient's information. Beginning with RFID labeling and tracking of every single seed employed in the grow program and continuing through the sale of medicinal products in a sophisticated retail Point of Sale delivery system.

Table of Contents

MariJ Pharma's revenues are anticipated to be generated primarily from several activities, including but not limited to the following:

a. Hemp oil extraction and processing. MariJ Pharma has a unique mobile hemp oil processing and extraction unit designed into a heavy-duty trucks. That unit has already begun performing extractions and processing of medical hemp oils at various sites and is currently developing additional contracts for services.
b. Wholesale sale of raw and processed medical hemp oils.
c. Compounding and manufacturing. MariJ Pharma has begun construction of a mobile laboratory and testing unit, also on a heavy-duty truck chassis, intended to address the growing demand for these services in the medical cannabis industry.
d. Licensing and support of the Company's GeoTraking Technology systems
e. Processing and compounding services for medical grade hemp oils

On September 28, 2016, MariJ Pharmaceuticals, Inc. received an Organic Certification under the U.S. National Organic Program (7 CFR Part 205) for its proprietary CO2 mobile oil extraction process and handling from OneCert, Inc., the issuing authority for that certification. As such, MariJ is now authorized to process directly for certified organic farms and is able to produce ***certified organic*** oils.

The Company is preparing to seek additional investments and financing to pay the costs of building its second mobile oil extraction and processing unit, to finance final construction of its mobile compounding and manufacturing unit for the same industry, and to complete the roll-out of its GeoTraking Technology system. There can be no assurance the Company will be successful in its plans to generate the required capital.

Canna-Cures Research and Development Center, Inc. ("Canna-Cures")

The Company acquired the assets and the business of Canna-Cures Research & Development Center, LLC, a Florida limited liability company, on January 15, 2016. The Company utilizes this subsidiary to engage in research and development activities as well as retail and wholesale distribution of medicinal hemp products and dietary supplements in the state of Colorado, depending upon our ability to comply in each instance with FDA rules and other regulations. Canna-Cures closed its retail operations in 2017 and began to focus its efforts in its development activities in Tennessee.

Eufloria Medical of Tennessee, Inc. ("EMT")

In addition to our current extraction operations, the Company has been invited to be part of the hemp pilot program in Tennessee. This program provides the Company the license to grow, manufacture, and dispense USDA organic hemp oil in Tennessee and represents the first step in moving its operations to the east coast of the United States. The Company plans on participating in this pilot program through this new, wholly-owned subsidiary.

In July 2018, the Company announced that its wholly-owned subsidiary, Eufloria Medical of Tennessee, Inc. (“EMT”), an entity focused on the growing and distribution of new and proprietary medicinal hemp products for patients. EMT intends to utilize MariJ Pharma's USDA certified organic mobile processing and handling solutions for its customers, and technology solutions for the expanding physician market, has leased a 14-acre farm with 32,000 square feet of indoor growing area in southern Tennessee. EMT also acquired an option to purchase the farm upon favorable terms, which option, EMT intends to exercise as soon as possible. The farm will provide the Company’s first grow facility, allowing for improved efficiencies through growing, processing and manufacturing the Company’s own product line and building sales through dedicated distributors. The Company will grow its own plant material, process that plant material through another wholly owned subsidiary, MariJ Pharmaceuticals, Inc. (“MariJ”) and manufacture consumer products with the “EUFLORIA” branding for the dedicated distribution channels.

Table of Contents

EMT will seek to align itself with institutions of higher learning in working to develop new products and to identify and develop additional uses for its medical hemp products. It is anticipated that EMT could generate revenues from the following activities:

1) EMT will seek to enter into product development projects with institutions of higher learning in efforts to develop new and better strains of medical hemp related products for dispensing as medications, nutraceuticals, cosmeceuticals, and probably dietary supplements. EMT anticipates participating in state and federal grants in conjunction with one or more universities as a means to defray part of its costs in these efforts.
2) Private label packaging services - the Company has obtained a majority of the equipment required to engage in the business of packaging and labeling of medical hemp oils, oil-infused products, and related items.
3) Retail sales of medical hemp oils, oil-infused products, and other merchandise through its web-based portal or retail dispensaries planned for that purpose. These activities are dependent in large part upon meeting FDA regulations and criteria relating to the sale and distribution of hemp-infused products, and the Company is currently in the process of determining the status of those criteria.
4) Retail and wholesale sales of cosmeceutical and nutraceutical products and dietary supplements containing its high-quality hemp oil extracts, subject to compliance with FDA and other regulations.
5) Growing high quality hemp plants and extracting oil for sale or for manufacturing of oil-infused products.

The Company will require additional capital to execute these plans and there can be no assurance that the Company will be successful in its plans to generate that capital.

Medahub, Inc. ("Medahub")

In July 2018, the Company announced the completion of its acquisition of Medahub Operations Group, Inc. and Medahub, Inc., technology companies (“Medahub”), complete with a current compounding pharmacy license in Florida. The Medahub acquisition allows the Company to be fully HIPAA compliant and cloud based on an HL7 platform. The Company can now offer licensing agreements for other cannabis companies wanting to be HIPAA compliant from left to right or seed to sale and Doctor to Patient. The Company is continuing to develop the capabilities of this technology ahead of marketing this platform to users.

Operating results for the three months ended September 30, 2018 and 2017:

For the three months ended September 30, 2018, the Company generated revenues of $29,931 from operations, compared to $63,772 for the three months ended September 30, 2017, a decrease of $33,841 or 53%. In 2017, revenues were primarily generated from extraction contracts. Revenues from 2018 were primarily from extraction services performed and sales of the Company's products. The decrease in revenues was due to having fewer extraction contracts and more competitive industry condition in the extraction space driving processing pricing down in 2018.

Average revenue per pound of processed flower decreased by 40% compared to 2017. The Company will be making every effort possible to acquire extraction contracts on the east coast going forward where markets are unsaturated. The Company began employing a sales force of distributors to market and sell its products and plans on expanding its sales force in the near future. It also plans on opening its retail location in Tennessee to generate additional revenues from retail sales.

For the three months ended September 30, 2018, costs of goods sold was $67,462, compared to $18,997 for the three months ended September 30, 2017, an increase of $48,465, or 255%. Costs of goods sold was lower during the three months ended September 30, 2017 primarily due to the reversal of approximately $24,000 stock based compensation on unvested stock awards granted to an employee. Costs of goods sold in the three months ended September 30, 2018 also included costs related to sale of raw oil which did not exist last year.

As a result of the changes in revenues and costs of goods sold discussed above, the Company's gross profit decreased from $44,775, or 70% of revenue for the three months ended September 30, 2017 to $(37,531), or (125)% of revenue for the three months ended September 30, 2018.

Table of Contents

For the three months ended September 30, 2018, selling, general and administrative expenses were $344,485, compared to $186,328 during the three months ended September 30, 2017, an increase of $158,157, or 85%. The increase in these expenses are attributable to (1) an increase in travel and operating expenses related to our operations in Tennessee, (2) hiring additional personnel for our Tennessee operations, and (3) higher professional fees during the current period, especially from the Medahub acquisition.

During the three months ended September 30, 2018, the Company incurred interest expense of $30,294, compared to $0 for the three months ended September 30, 2017, an increase of $30,294. During the three months ended September 30, 2018, interest expense was primarily related to the notes payable to related party and on convertible note payable. At September 30, 2017, the Company consolidated all outstanding notes payable and the related accrued interest to the Company's CEO, resulting in no interest expense for the three months ended September 30, 2017.

As a result of the changes in revenues, costs and expenses, the Company incurred a net loss of $560,436 for the three months ended September 30, 2018, compared to a net loss of $154,218 for the three months ended September 30, 2017, an increase of $406,218, or 263%.

The future trends of all expenses are expected to be primarily driven by the Company's ability to execute its business plans and the future outcome of its application to obtain operating licenses in other states. As the industry grows, additional expenses are anticipated to be incurred in complying with various state and federal regulatory requirements. The Company's ability to continue to fund operating expenses will depend on its ability to raise additional capital. There can be no assurance that the Company will be successful in doing so.

Operating results for the nine months ended September 30, 2018 and 2017:

For the nine months ended September 30, 2018, the Company generated revenues of $134,516 from operations, compared to $344,133 for the nine months ended September 30, 2017, a decrease of $209,617, or 61%. The decrease in revenues was due to having fewer extraction contracts and more competitive industry condition in the extraction space driving processing pricing down in 2018. Average revenue per pound of processed flower decreased by 40% compared to 2017. The Company will be making every effort possible to acquire extraction contracts on the east coast going forward where markets are unsaturated. The Company began employing a sales force of distributors to market and sell its products and plans on expanding its sales force in the near future. It also plans on opening its retail location in Tennessee to generate additional revenues from retail sales.

For the nine months ended September 30, 2018, costs of goods sold was $169,463, compared to $183,738 for the nine months ended September 30, 2017, a decrease of $14,275, or 8%. The decrease in our costs is primarily related to lower stock based compensation and commissions paid and as a result of completing fewer extraction contracts during the nine months ended September 30, 2018.

As a result of the changes in revenues and costs of goods sold discussed above, the Company's gross profit decreased from $160,395, or 47% of revenues, for the nine months ended September 30, 2017 to $(34,947), or (26%) of revenues, for the nine months ended September 30, 2018.

For the nine months ended September 30, 2018, selling, general and administrative expenses were $1,278,979, compared to $1,114,883 during the nine months ended September 30, 2017, an increase of $164,096, or 15%. The increase in these expenses are attributable to (1) an increase in travel and operating expenses related to our operations in Tennessee, (2) hiring additional personnel for our Tennessee operations, and (3) higher professional fees during the current period, especially from the Medahub acquisition.

During the nine months ended September 30, 2018, the Company incurred interest expense of $56,307, compared to $416,311 for the nine months ended September 30, 2017, a decrease of $360,004, or 86%. During the nine months ended September 30, 2018, the Company accrued interest on its notes payable to related party and its convertible notes payable in the amount of $43,507 and incurred a debt discount in the amount of $12,800 related to its convertible note payable. During the nine months ended September 30, 2017, the Company incurred interest on its notes payable to related party and to a convertible note holder in the amount of $28,962, issued common stock valued at $340,000 as interest on notes payable to related party, and amortized $47,350 of debt discount.

Table of Contents

As a result of the changes in revenues, costs and expenses, the Company incurred a net loss of $1,523,721 for the nine months ended September 30, 2018, compared to a net loss of $1,373,536 for the nine months ended September 30, 2017.

The future trends of all expenses are expected to be primarily driven by the Company's ability to execute its business plans and the future outcome of its application to obtain operating licenses in other states. As the industry grows, additional expenses are anticipated to be incurred in complying with various state and federal regulatory requirements. The Company's ability to continue to fund operating expenses will depend on its ability to raise additional capital. There can be no assurance that the Company will be successful in doing so.

Liquidity and Capital Resources

The Company's cash position at September 30, 2018 increased by $22,461 to $50,878, as compared to a balance of $28,417, as of December 31, 2017. The net increase in cash for the nine months ended September 30, 2018 was attributable to net cash used in operating activities of $332,091, net cash used by investing activities of $23,322, offset by net cash provided by financing activities of $377,874.

As of September 30, 2018, the Company had negative working capital of $1,081,435 compared to negative working capital of $972,640, at December 31, 2017, a decrease of $108,795, attributable primarily to issuance of notes payable to its CEO, and issuance of a convertible note payable and its related derivative liability as a result of a variable conversion.

Net cash used in operating activities of $322,091 during the nine months ended September 30, 2018, was lower compared to the prior period of $492,849, primarily due to better collection from accounts receivable and settling accrued salary, bonus and expenses with the Company's CEO in the current period.

Net cash used by investing activities of $23,322 for the nine months ended September 30, 2018 was higher compared to $6,196 of cash used by investing activities for the nine months ended September 30, 2017. This is primarily attributable to the renovation of the Company's retail space in Tennessee.

Net cash provided by financing activities of $377,874 during the nine months ended September 30, 2018 decreased by $114,176 compared to $492,050 during the nine months ended September 30, 2017. In the current period, the Company's plan of operations required a smaller amount of financing compared to the prior period.

During the nine months ended September 30, 2018, the Company issued shares of its common stock valued at $17,649 to settle a related party liability, financed the purchase of a tractor in the amount of $21,794 and issue shares of its common stock to settle accrued expenses with its CEO in the amount of $446,625. During the nine months ended September 30, 2017, the Company issued shares of its common stock as costs directly related to entering into the equity purchase agreement with an investor. These shares were valued at $240,900. In addition, the Company also issued shares of its common stock to acquire property, valued at $50,723 and consolidated various notes payable, including accrued interest, with its CEO.

As reported in the accompanying consolidated financial statements, for the nine months ended September 30, 2018 and 2017, the Company incurred net losses of $1,523,721 and $1,373,536, respectively. The Company did not produce significant revenues in the periods presented and has sustained operating losses since inception. The Company's ability to continue as a going concern is dependent upon its ability to raise additional capital, successfully generate cash flows from its operations in Tennessee and achieve a level of profitability. Until recently where the Company obtained working capital from convertible notes financing and equity purchase agreement with an outside investor, the Company has financed its activities principally from working capital advances from related parties and issuing notes payable to its CEO. It intends to finance its future operating activities and its working capital needs largely from proceeds from the sale of equity securities, if any, combined with additional funding from its CEO. The sale of equity and convertible notes financing agreements may result in dilution to stockholders and those securities may have rights senior to those of common shares. If the Company raises additional funds through the issuance of convertible notes or other debt financing, these activities or other debt could contain covenants that would restrict the Company's operations. Any other third-party funding arrangements could require the Company to relinquish valuable rights. The Company will require additional capital beyond its currently anticipated needs. Additional capital, if available, may not be available on reasonable terms or at all.

Table of Contents

The Company has not generated significant revenue to date, and will not generate significant revenue in the foreseeable future. The Company expects to continue to incur operating losses as it proceeds with its pursuit of operating licenses in various states. The future trends of all expenses are expected to be primarily driven by the Company's ability to execute its business plans and the future outcome of its application to obtain operating licenses in other states. As the industry grows, additional expenses are anticipated to be incurred in complying with various regulatory requirements. The Company's ability to continue to fund operating expenses will depend on its ability to raise additional capital. There can be no assurance that the Company will be successful in doing so.

Financial Condition

The Company's total assets at September 30, 2018 and December 31, 2017 were $560,392 and $606,800, respectively, a decrease of $46,408, or 8%. Total liabilities at September 30, 2018 and December 31, 2017 were $1,364,230 and $1,092,168, respectively, an increase of $272,062, or 25%. The significant change in the Company's financial condition is attributable to (i) issuance of notes payable to a related party, (ii) issuance of a convertible note payable that gave rise to a derivative liability due to its variable conversion option, (iii) financing on the purchase of equipment, offset by (iv) settling accrued salary, bonus and expenses with its CEO by issuing common stock. As a result of these transactions, the Company's cash position increased from $28,417 to $50,878 during the nine months ended September 30, 2018.

Off-Balance Sheet Arrangements

We have made no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a Smaller Reporting Company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2018. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2018, the Company's disclosure controls and procedures were not effective. The controls were determined to be ineffective due to the lack of segregation of duties. In January 2017, the Company hired a part-time financial controller to assist with technical accounting issues and the preparation of the filings. However, until the Company begins generating sufficient revenues, it is unable to remediate the weakness. Despite the existence of material weaknesses, management believes the financial information presented herein is materially correct and fairly presents the financial position and operating results of the three months ended September 30, 2018, in accordance with U.S. GAAP.

Changes in Internal Control Over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the three months ended September 30, 2018, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors

The Company is a Smaller Reporting Company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and is not required to provide the information under this item.

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

During the nine months ended September 30, 2018, the Company issue 4,123,643 shares of its restricted common stock as follows:

1. 2,000 shares to a consultant for services rendered, valued at $1,420.
2. 15,000 shares to the Company's SEC counsel for services rendered, valued at $10,650.
3. 1,000,000 shares to a consultant as payment on a consulting contract, valued at $485,600. In February 2018, the Company filed a Form S-8 with the SEC to register these shares.
4. 10,000 shares each of the three directors, total 30,000 shares for their service to the Company, valued at a total of $10,239.
5. 7,500 shares to employees from the restricted stock plan valued at $37,069.
6. 36,018 shares to a company owned by an independent director for leasehold improvements at the Tennessee store, valued at $17,649 on commitment date. The Company reduced related party payable when the shares were issued.
7. 600,000 shares to the principal of Medahub for services performed, valued at $126,000.
8. 2,233,125 shares to the Company's CEO to settle accrued salary, bonus and expenses in the amount of $446,625.
9. 200,000 shares to a non-employee director for cash value of $70,000.

The shares of our common stock were issued pursuant to an exemption from registration in Section 4(a)(2) of the Securities Act of 1933. These shares of our common stock qualified for exemption under Section 4(a)(2) of the Securities Act of 1933 since the issuance of shares by us did not involve a public offering. The offering was not a “public offering” as defined in Section 4(a)(2) due to the insubstantial number of persons involved in the deal, size of the offering, manner of the offering and number of shares offered. We did not undertake an offering in which we sold a high number of shares to a high number of investors. In addition, these shareholders had necessary investment intent as required by Section 4(a)(2) since they agreed to receive share certificates bearing a legend stating that such shares are restricted pursuant to Rule 144 of the 1933 Act. This restriction ensures that these shares would not be immediately redistributed into the market and therefore not be part of a "public offering." All shareholders are "sophisticated investors" and are business acquaintances of our officers and directors. Based on an analysis of the above factors, we believe we have met the requirements to qualify for exemption under section 4(a)(2) of the Securities Act of 1933 for this transaction.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None.

Table of Contents

Item 6. Exhibits

Exhibits required by Item 601, Regulation S-K;

Exhibit Number and Description			**Location Reference**
(3.0)	Articles of Incorporation		
	(3.1)	Articles Of Amendment And Restated Articles Of Incorporation of Acacia Diversified Holdings, Inc. dated June 9, 2015	See Exhibit Key
	(3.2)	Restated Bylaws Of Acacia Diversified Holdings, Inc. dated June 29, 2015	See Exhibit Key
(9.0)	Voting Proxy Agreement between Rick Pertile and Steven L. Sample		See Exhibit Key
(10.1)	Consolidated Loan Agreement		See Exhibit Key
(10.2)	Consolidated Promissory Note		See Exhibit Key
(10.3)	Security Agreement – Acacia Diversified Holdings, Inc.		See Exhibit Key
(10.4)	Security Agreement -- Marij Agriculture, Inc.		See Exhibit Key
(10.5)	Security Agreement – Marij Pharmaceuticals, Inc.		See Exhibit Key
(10.6)	Security Agreement – CannaCures Research & Development Center, Inc.		See Exhibit Key
(10.7)	Definitive Asset Purchase Agreement between Acacia Diversified Holdings, Inc. and the Medahub Companies		Filed herewith
(14.0)	Code of Ethics		See Exhibit Key
(21.0)	List of Subsidiaries		See Exhibit Key
(31.1)	Certificate of Chief Executive Officer And Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		Filed herewith
(32.1)	Certification of Chief Executive Officer And Chief Financial Officer Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		Filed herewith
101.INS	XBRL Instance Document		
101.SCH	XBRL Taxonomy Extension Schema Document		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document		
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document		
101.LAB	XBRL Taxonomy Extension Label Linkbase Document		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document		

Exhibit Key

3.1 Incorporated by reference herein from the Company’s Form 8-K filed on July 16, 2015.

3.2 Incorporated by reference herein from the Company’s Form 8-K filed on July 16, 2015.

9.0 Incorporated by reference herein from the Company’s Form 10-K filed on April 2, 2018.

10.1 Incorporated by reference herein from the Company’s Form 8-K filed on November 3, 2017.

10.2 Incorporated by reference herein from the Company’s Form 8-K filed on November 3, 2017.

10.3 Incorporated by reference herein from the Company’s Form 8-K filed on November 3, 2017.

10.4 Incorporated by reference herein from the Company’s Form 8-K filed on November 3, 2017.

10.5 Incorporated by reference herein from the Company’s Form 8-K filed on November 3, 2017.

10.6 Incorporated by reference herein from the Company’s Form 8-K filed on November 3, 2017.

14.0 Incorporated by reference herein from the Company’s Form 10-Q filed on November 13, 2017.

21.0 Incorporated by reference herein from the Company’s Form 10-Q filed on August 7, 2017.

Table of Contents

SIGNATURES

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

	Acacia Diversified Holdings, Inc.
Date: November 5, 2018	By: */s/ Richard K. Pertile*
	Richard K. Pertile
	Principal Executive Officer
	Principal Financial Officer
	Principle Accounting Officer