

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2016**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. **333-1258321**

**5BARz International Inc.**

(Name of small business issuer in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**26-4343002**

(IRS Employer Identification No.)

**9670 Gateway Drive, 2<sup>nd</sup> Floor**  
**Reno, Nevada**

(Address of principal executive offices)

**89521**

(Zip Code)

**877-723-7255**

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class registered:

**None**

Name of each exchange on which registered:

**None**

Securities registered under Section 12(g) of the Exchange Act:

**Common Stock, par value \$0.001**

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 or a smaller reporting company filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

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

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

Number of shares of the registrant's common stock, par value \$0.001 outstanding as of November 10, 2016 was 417,868,816.

**5BARz INTERNATIONAL INC.**  
**FORM 10-Q**  
**For the three and nine months ended September 30, 2016**

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are often identified by words like: believe, expect, estimate, anticipate, intend, project and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements. Forward-looking statements include those that address activities, developments or events that we expect or anticipate will or may occur in the future. All statements other than statements of historical facts contained in this Quarterly report, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. These statements reflect the current views of management with respect to future events and are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from those described in the forward-looking statements. Such risks and uncertainties include those set forth under the captions "*Risk Factors*" beginning on page 30, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" beginning on page 4, and elsewhere in this Quarterly report. We undertake no obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise. We advise you to carefully review the reports and documents we file from time to time with the Securities and Exchange Commission (the "SEC"), particularly our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K.

As used in this Quarterly report, the terms "we," "us," "our," "5BARz" and the "Company" mean 5BARz International Inc. and its subsidiaries, unless otherwise indicated. All dollar amounts in this Quarterly report are expressed in U.S. dollars, unless otherwise indicated.

The disclosures set forth in this report should be read in conjunction with the audited financial statements and notes thereto of the Company for the year ended December 31, 2015. Because of the nature of a relatively new and growing company, the reported results will not necessarily reflect the operating results that will be achieved in the future.

**5BARz INTERNATIONAL INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**AT SEPTEMBER 30, 2016 AND DECEMBER 31, 2015**  
**(Unaudited)**

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 165,855	\$ 294,561
Inventories, net	193,829	167,059
Prepaid expenses and deposits	211,178	119,061
Other receivables	266,992	1,326
<b>TOTAL CURRENT ASSETS</b>	<b>837,854</b>	<b>582,007</b>
<b>FIXED ASSETS:</b>		
Furniture and equipment, net	191,617	143,967
<b>OTHER ASSETS:</b>		
Intangible assets, net	2,390,170	2,753,585
Goodwill	1,140,246	1,140,246
<b>TOTAL OTHER ASSETS</b>	<b>3,530,416</b>	<b>3,893,831</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,559,887</b>	<b>\$ 4,619,805</b>
<b><u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u></b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 5,706,957	\$ 4,997,218
Derivative liabilities	3,154,068	1,868,439
Notes payable, net of debt discount	1,580,281	2,883,264
<b>TOTAL CURRENT LIABILITIES</b>	<b>10,441,306</b>	<b>9,748,921</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' DEFICIT</b>		
Common stock, \$.001 par value, 600,000,000 shares authorized; 408,412,567 and 298,097,334 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	408,413	298,096
Capital in excess of par value	23,305,884	19,265,220
Accumulated deficit	(30,158,656)	(25,260,274)
Accumulated other comprehensive income	35,225	30,275
Non-controlling interest	527,715	537,567
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(5,881,419)</b>	<b>(5,129,116)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 4,559,887</b>	<b>\$ 4,619,805</b>

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

**5BARz INTERNATIONAL INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**  
**(Unaudited)**

	3 Months Ended		9 Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Income Statement</b>				
<b>Sales</b>	\$ 19,543	\$ —	\$ 56,071	\$ —
<b>Cost of Sales</b>	(64,881)	—	(284,073)	—
Gross Loss	(45,338)	—	(228,002)	—
<b>Operating expenses:</b>				
Amortization and depreciation	138,966	135,747	413,602	429,743
Sales and marketing expenses	224,948	213,308	875,737	897,722
Research & development	564,043	970,424	2,096,025	2,418,319
General and administrative expenses	918,748	922,611	2,895,185	2,277,400
Total operating expenses	1,846,705	2,242,090	6,280,549	6,023,184
<b>Loss from operations</b>	(1,892,043)	(2,242,090)	(6,508,551)	(6,023,184)
<b>Other income (expense):</b>				
Change in fair value of derivative liability	637,978	424,091	1,310,777	(213,357)
Interest expense – notes payable	(34,783)	(580,494)	(99,397)	(832,739)
Interest expense	(4,877)	(3,936)	(13,789)	(11,089)
Interest expense – amortization debt discount	(27,922)	(419,343)	(83,767)	(905,811)
Gain (loss) on settlement of debt	(48,133)	—	486,490	—
Liquidation expense – 5BARz AG	—	—	—	(155,251)
Total other income (expense)	522,263	(579,682)	1,600,314	(2,118,247)
Net loss before non-controlling interest	(1,369,780)	(2,821,772)	(4,908,237)	(8,141,431)
Non-controlling interest share of net loss	3,262	8,546	9,853	26,384
Net loss after non-controlling interest	\$ (1,366,518)	\$ (2,813,226)	\$ (4,898,384)	\$ (8,115,047)
Basic (loss) per common share	(0.00)	(0.01)	(0.01)	(0.04)
Weighted average number of shares outstanding	378,548,235	240,991,021	340,714,369	222,989,514
<b>Other comprehensive income</b>				
Foreign currency translation gain	1,735	(11,212)	4,950	(11,775)
Other comprehensive income	1,735	(11,212)	4,950	(11,775)
<b>Comprehensive loss</b>	\$ (1,364,783)	\$ (2,824,438)	\$ (4,893,434)	\$ (8,126,822)

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

**5BARz INTERNATIONAL INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015**  
**(Unaudited)**

	Nine Months Ended	
	September 30, 2016	September 30, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (4,908,237)	\$ (8,141,431)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	413,602	429,743
Stock based compensation	1,016,033	323,508
Change in fair value of derivative liability	(1,310,777)	213,357
Common shares issued for services	331,118	612,322
Interest expense – debt discount	83,767	905,811
Inventory reserve expense	54,923	—
Liquidation of 5BARz AG	—	155,251
Gain on settlement of debt	(486,490)	—
<b>Changes in operating assets and liabilities:</b>		
Change in inventories	(28,153)	(3,740)
Change in other receivable	(265,666)	(292)
Change in accounts payable and accrued expenses	1,312,307	1,707,717
Change in prepaid expenses and deposits	(92,117)	(49,970)
Change in unpaid interest and penalties on notes payable	82,146	820,226
Net cash used in operating activities	<u>(3,797,544)</u>	<u>(3,027,498)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of intangible assets	(6,390)	(4,908)
Purchase of furniture and equipment assets	(81,093)	(18,946)
Net cash used in investing activities	<u>(87,483)</u>	<u>(23,854)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of convertible notes	—	2,169,750
Repayment used to settle notes payable	(94,812)	(454,968)
Proceeds from exercise of warrants	622,083	—
Proceeds from issuance of common stock	3,234,000	1,464,469
Principal payments of capital leases	—	(18,804)
Net cash provided by financing activities	<u>3,761,271</u>	<u>3,160,447</u>
Effect of foreign currency exchange	(4,950)	(11,775)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(128,706)</b>	<b>97,320</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>294,561</b>	<b>25,103</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 165,855</b>	<b>\$ 122,423</b>
<b>Supplementary disclosure of Cash Flow Information</b>		
Cash paid for interest	\$ 31,041	\$ 8,704
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Issuance of shares in settlement of notes payable	\$ 1,293,003	\$ 290,205
Settlement of accounts payable with common stock	\$ 251,148	\$ 119,000
Issuance of shares for services	\$ 331,118	\$ 612,322
Issuance of warrants in connection with debt	\$ —	\$ 600,000
Reclassification of derivative liability from equity	\$ 2,596,406	\$ 714,782
Reclassification of debt discount for repayment of note	\$ —	\$ 173,397
Cancellation of capital lease	\$ —	\$ 83,940

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

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 1 – Organization and Going Concern**

The Company was incorporated under the laws of the State of Nevada on November 14, 2008. The Company was originally named “Bio-Stuff” and was a designated shell corporation from inception to the date of acquisition of the 5BARz assets.

In 2010 the Company changed its name to 5BARz International, Inc. and the Company acquired a set of agreements for a 50% interest in certain intellectual property underlying the 5BARz™ RF products, and marketing rights. The 5BARz initial products are highly engineered wireless units referred to as “cellular network extenders”. The 5BARz™ device captures cell signal and provides a smart amplification and resend of that cell signal giving the user improved cellular reception in their home, office or while mobile. During the quarter, the Company developed an advanced Wifi product entitled the 5BARz Fuji Broadband Router. The initial deployment of this product was announced August 31, 2016, through a strategic alliance agreement with a top internet service provider in India.

On March 29, 2012, 5BARz International, Inc. acquired a 60% controlling interest in CellLynx Group, Inc. (the founder of the 5BARz technology) and a 60% interest in the intellectual property underlying the 5BARz™ products. On January 12, 2015 the Company incorporated two new subsidiaries, 5BARz International SA de CV (99%) in Mexico, and 5BARz India Private Limited (99.9%) in India. On March 7, 2016 the Company incorporated a wholly owned subsidiary 5BARz Technology Holdings, Inc. (100%) in the State of Nevada and on May 26, 2016 the Company incorporated a wholly owned subsidiary, 5BARz Pte. Ltd. (100%) in Singapore.

These financial statements reflect the financial position for the Company and its subsidiary companies, CellLynx Group Inc. (60%) and its wholly owned subsidiary CellLynx Inc. (100%), 5BARz International SA de CV (99%), 5BARz India Private Limited (99.9%), 5BARz Technology Holdings, Inc. (100%), and 5BARz Pte. Ltd. (100%). Results of operations for subsidiary Companies are reflected only from the date of acquisition or formation of that subsidiary for the period indicated in the respective statement.

**Going concern**

The accompanying condensed 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 commenced the commercial sale of product at limited production volumes. The Company incurred losses of \$4,908,237 and \$8,141,431 during the nine months ended September 30, 2016 and 2015 respectively. Cash used in operating activities was \$3,797,544 and \$3,027,498 for the nine months ended September 30, 2016 and 2015 respectively. The Company is seeking additional sources of equity or debt financing, and there is no assurance these activities will be successful. These factors raise substantial doubt about the Company’s ability to continue as a going concern and the Company’s continued existence is dependent upon adequate additional financing being raised to develop its sales and marketing program for the sales of 5BARz product, to expand the Company’s product base and commence its planned operations.

Management’s assessment of the significant mitigating factors includes several quantitative and qualitative conditions which support the Company’s ability to continue as a going concern as follows;

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

- *Continued ability to generate proceeds from private placements*— since inception of the business in 2008, the Company has financed operations through private placements and debt, with increased volumes in the recent years. The Company's gross proceeds from private placements, exercise of warrants, and debt for the nine months ended September 30, 2016 was \$3,856,083 compared to \$3,634,219 in 2015. The Company paid for services and settled debt by the issue of shares in the amount of \$1,875,269 during the nine months ended September 30, 2016 compared to \$1,021,527 in 2015.
- *Product Commercialization* – The Company became an approved vendor and received several purchase orders for Cellular Network Extenders from two Tier 1 cellular network operators in India. These opportunities and expansion of products by the Company represent significant steps forward in the Company's commercialization process. However, there is no assurance that this profitability will be accomplished.

The accompanying consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result, should the Company be unable to continue as a going concern.

**Note 2 – Summary of significant accounting policies**

**Basis of presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K filed on April 27, 2016 for the fiscal year ended December 31, 2015.

The accompanying unaudited consolidated financial statements include the accounts of 5BARz International Inc., and its subsidiary companies CellLynx Group Inc. (60%) and its wholly owned subsidiary CellLynx Inc. (100%), 5BARz International SA de CV (99%), 5BARz India Private Limited (99.9%), 5BARz Pte. Inc. (100%), and 5BARz Technology Holdings Inc. (100%). Results of operations for subsidiary Companies are reflected only from the date of acquisition of that subsidiary, for the period indicated in the respective statements. All intercompany accounts and transactions have been eliminated in consolidation.



**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

The Company started revenue-generating operations in the last quarter of 2015, however these activities are in early stages and still do not generate positive cash flows from operations, so the Company is dependent on debt and equity funding to finance its operations, and it is considered to be a development stage company. The Company's activities are subject to significant risks and uncertainties, including failing to secure additional funding to commercialize the Company's current technology and opportunities.

In June 2014, the Financial Accounting Standards Board issued new guidance that removed all incremental financial reporting requirements from generally accepted accounting principles in the United States for development stage entities. The Company early adopted this new guidance effective June 30, 2014, as a result of which all inception-to-date financial information and disclosures have been removed from this report.

**Use of estimates**

The preparation of these 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 and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include impairment analysis for long lived assets, income taxes, litigation and valuation of derivative instruments. Actual results could differ from those estimates.

**Research and Development Costs**

Research and development costs are charged to expense as incurred. The costs of materials and equipment that are acquired or constructed for research and development activities, and have alternative future uses (either in research and development, marketing or production), are classified as property and equipment and depreciated over their estimated useful lives.

**Furniture & equipment**

Furniture and equipment is recorded at historical cost and is depreciated using the straight-line method over their estimated useful lives. The useful life and depreciation method are reviewed periodically to ensure that the depreciation method and period are consistent with the anticipated pattern of future economic benefits. Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains and losses on disposals are included in the results of operations. The furniture and equipment is being depreciated over their estimated useful life of three to seven years.

**Inventory**

Inventories are carried at the lower of cost and net realizable value. Cost is determined using the weighted-average method. As of September 30, 2016, in the US and India the Company held an inventory of \$83,138 comprised of sub-assemblies and finished goods inventories of cellular network extenders. The Company's inventory in Mexico included 967 units of Road Warrior cellular network extenders valued at \$110,691 net of a reserve of \$54,923. The Company's inventory reserve of \$54,923 is provided for slow moving or potentially obsolete items in Mexico, and is charged to cost of sales.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 2 – Summary of significant accounting policies - continued**

**Goodwill and other intangible assets**

The Company accounts for goodwill and intangible assets in accordance with the accounting guidance which requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value. The Accounting Standards Codification (“Codification”) requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment). Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. Significant judgment is required to estimate the fair value of reporting units which includes estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

When testing goodwill for impairment, the Company may assess qualitative factors for some or all of its reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, the Company may bypass this qualitative assessment for some or all of our reporting units and perform a detailed quantitative test of impairment (step 1). If the Company performs the detailed quantitative impairment test and the carrying amount of the reporting unit exceeds its fair value, the Company would perform an analysis (step 2) to measure such impairment. In accordance with the Codification, the Company reviews the carrying value of its intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset or asset group, if any, exceeds its fair market value.

**Long-Lived Assets Subject to Amortization**

The Company amortizes intangible assets with finite lives over their estimated useful lives and reviews them for impairment annually or whenever impairment exists. The Company continually evaluates whether events or changes in circumstances might indicate that the remaining estimated useful life of long-lived assets may warrant revision, or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Company uses an estimate of the related undiscounted cash flows in measuring whether the long-lived asset should be written down to fair value. Measurement of the amount of impairment would be based on generally accepted valuation methodologies, as deemed appropriate. The intangible assets are being amortized over their estimated useful life of seven to ten years.

There were no long-lived assets impairment charges recorded during the nine months ended September 30, 2016 and 2015.

**Revenue recognition**

The Company's revenue recognition policies are in compliance with ASC Topic 605, “Revenue Recognition.” Revenue is recognized at the date of shipment to customers, and when the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 2 – Summary of significant accounting policies - continued**

**Foreign currency translation**

Transactions in foreign currencies have been translated into US dollars using the current rate method. The functional currency of the Company's subsidiary 5BARz International SA de CV, in Mexico is the local currency, the Mexican Peso, and the functional currency in the Company's subsidiary 5BARz India Private Limited is the functional currency in India, the Indian Rupee. The functional currency in the Company's subsidiary 5BARz Pte Inc. in Singapore is the Singapore Dollar. Assets and liabilities are translated based in the exchange rates at the balance sheet date, while revenue and expense accounts are translated at the average exchange rates prevailing during the year. Equity accounts are translated at historical exchange rates. The resulting translated gain and loss adjustments are accumulated as a component of stockholders' equity and other comprehensive income.

**Concentrations**

The Company maintains cash with major financial institutions. Cash held in US bank institutions is currently insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 at each institution. No similar insurance or guarantee exists for cash held in Mexico, Singapore or Indian bank accounts. There were aggregate uninsured cash balances of \$57,923 and \$13,634 at September 30, 2016 and December 31, 2015, respectively.

**Comprehensive Income (Loss)**

Comprehensive income is defined as the change in equity of a business during a period from transactions and other events and circumstances from non-owners sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The guidance requires other comprehensive income (loss) to include foreign currency translation adjustments.

**Foreign Operations**

The following summarizes key financial metrics associated with the Company's foreign operations (these financial metrics are immaterial for the Company's operations in the Switzerland):

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Assets- U.S.	\$ 3,907,508	\$ 4,396,990
Assets- Mexico.	114,479	172,170
Assets- India.	284,190	50,645
Assets - Singapore	253,710	—
<b>Assets- Total</b>	<b>\$ 4,559,887</b>	<b>\$ 4,619,805</b>
Liabilities- U.S.	\$ 9,893,592	\$ 9,540,657
Liabilities- Mexico	135,986	57,422
Liabilities- India	407,473	150,842
Liabilities - Singapore	4,255	—
<b>Liabilities- Total</b>	<b>\$ 10,441,306</b>	<b>\$ 9,748,921</b>

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 2 – Summary of significant accounting policies - continued**

**Foreign Operations - continued**

	For the 3 months ended		For the 9 months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenues- U.S.	\$ —	\$ —	\$ —	\$ —
Revenues- Mexico.	—	—	—	—
Revenues- India.	19,543	—	56,071	—
Revenues – Singapore	—	—	—	—
<b>Revenues- Total</b>	<b>\$ 19,543</b>	<b>\$ —</b>	<b>\$ 56,071</b>	<b>\$ —</b>
Net (Income) Loss- U.S.	\$ 1,014,831	\$ 2,568,897	\$ 3,788,615	\$ 7,634,322
Net loss- Mexico	43,473	35,449	147,059	68,992
Net loss- India	310,103	217,425	961,072	438,115
Net loss - Singapore	1,373	—	11,490	—
<b>Net Loss- Total</b>	<b>\$ 1,369,780</b>	<b>\$ 2,821,771</b>	<b>\$ 4,908,236</b>	<b>\$ 8,141,429</b>

**Fair value of financial instruments**

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities, approximate fair value due to the short-term nature of these instruments.

Fair value is defined as an exit price, representing the amount that would be received upon the sale of an asset or payment to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

- Level 1. Quoted prices in active markets for identical assets or liabilities.
- Level 2. Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable, either directly or indirectly.
- Level 3. Significant unobservable inputs that cannot be corroborated by market data.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 2 – Summary of significant accounting policies (continued)**

The assets or liability's fair value measurement within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. The following table provides a summary of the assets that are measured at fair value on a recurring basis.

	Consolidated Balance Sheet	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Quoted Prices for Similar Assets or Liabilities in Active Markets (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Liabilities:				
September 30, 2016	\$ 3,154,068	\$ —	\$ —	\$ 3,154,068
December 31, 2015	\$ 1,868,439	\$ —	\$ —	\$ 1,868,439

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis for the nine months ended September 30, 2016 and the 12 months ended December 31, 2015:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Beginning balance	\$ 1,868,439	\$ 547,940
Aggregate fair value of conversion feature upon issuance of common shares	—	(457,228)
Change in fair value of derivative liabilities	(1,310,776)	(45,356)
Reclassification of warrants to derivative liability	2,475,702	1,823,083
Reclassification of stock options to derivative liability	120,703	—
Ending balance	<u>\$ 3,154,068</u>	<u>\$ 1,868,439</u>

The derivative conversion feature liabilities are measured at fair value using the Black-Scholes pricing model and are classified within Level 3 of the valuation hierarchy. The significant assumptions and valuation methods that the Company used to determine fair value and the change in fair value of the Company's derivative financial instruments are provided below:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Stock price	\$ 0.084	\$ 0.10
Volatility	106.01%	91.3%
Risk-free interest rate	.68%	0.64%
Dividend yield	0.0%	0.0%
Expected life	1.5 - 5 years	1.5 - 2 years

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
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**Note 2 – Summary of significant accounting policies (continued)**

Both observable and unobservable inputs may be used to determine the fair value of positions that are classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category presented in the tables above may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in historical company data) inputs.

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

Level 3 financial liabilities consist of the derivative liabilities for which there is no current market such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate.

As of September 30, 2016, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

**Derivative instruments**

**Derivative Financial Instruments** The fair value of an embedded conversion option that is convertible into a variable amount of shares and warrants that include price protection reset provision features are deemed to be “down-round protection” and, therefore, do not meet the scope exception for treatment as a derivative under ASC 815 “Derivatives and Hedging”, since “down-round protection” is not an input into the calculation of the fair value of the conversion option and warrants and cannot be considered “indexed to the Company’s own stock” which is a requirement for the scope exception as outlined under ASC 815. The accounting treatment of derivative financial instruments requires that the Company record the embedded conversion option and warrants at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. Any change in fair value is recorded as non-operating, non-cash income or expense for each reporting period at each balance sheet date. The Company reassesses the classification of its derivative instruments at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

If the Company were to enter into a financial arrangement through the issuance of convertible debt and or warrants, for which such instruments would contain a variable conversion feature with an indeterminable number of shares, the Company would apply a sequencing policy in accordance with ASC 815- 40-35-12 whereby such instruments, and all future issuances of financial instruments regardless of conversion terms, would be classified as a derivative liability with the exception of instruments related to share-based compensation issued to employees or directors. The Company may also apply sequencing in any circumstance, whereby the Company has entered into financial arrangements for commitments to issue shares, for which such issuances would exceed the authorized share limit. Upon the issuance of any such instrument, the excess shares committed to be issued, would also be reclassified as a derivative liability.

The Black-Scholes option valuation model was used to estimate the fair value of the warrants and conversion options. The model includes subjective input assumptions that can materially affect the fair value estimates. The Company determined the fair value of the Binomial Lattice Model and the Black-Scholes Valuation Model to be materially the same. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the warrants or conversion options. Conversion options are recorded as debt discount and are amortized as interest expense over the life of the underlying debt instrument.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
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**Note 2 – Summary of significant accounting policies (continued)**

**Amortization of Debt Discount**

The Company issued various debt with conversion privileges for which total proceeds were allocated to individual instruments based on the relative fair value of the each instrument at the time of issuance. The value of the debt was recorded as discount on debt and amortized over the term of the respective debt.

**Stock Based Compensation**

The Company records stock-based compensation in accordance with ASC Topic 718, “Compensation – Stock Compensation.” ASC 718 requires companies to measure compensation cost for stock-based employee compensation at fair value at the grant date and recognize the expense over the employee’s requisite service period. Under ASC 718, the Company’s volatility is based on the historical volatility of the Company’s stock or the expected volatility of similar companies. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The Company uses the Black-Scholes option-pricing model which was developed for use in estimating the fair value of options. Option-pricing models require the input of highly complex and subjective variables including the expected life of options granted and the Company’s expected stock price volatility over a period equal to or greater than the expected life of the options. Because changes in the subjective assumptions can materially affect the estimated value of the Company’s employee stock options, it is management’s opinion that the Black-Scholes option-pricing model may not provide an accurate measure of the fair value of the Company’s employee stock options.

Although the fair value of employee stock options is determined in accordance with ASC 718 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/seller market transaction.

For non-employees, the fair value of the award is generally re-measured on financial reporting dates and vesting dates until the service period is complete. The fair value amount is then recognized over the period the services are required to be provided in exchange for the award, usually the vesting period.

The Company incurred stock based compensation charges during the three and nine-month period ended September 30, 2016 and 2015 as follows;

	<b>3 months ended</b>		<b>9 months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
General and administrative	\$ 45,772	\$ 49,435	\$ 938,679	\$ 132,843
Research and development	—	57,198	70,347	97,028
Sales and marketing	—	37,455	7,007	93,637
<b>Total</b>	<b>\$ 45,772</b>	<b>\$ 144,088</b>	<b>\$ 1,016,033</b>	<b>\$ 323,508</b>

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Net loss per share**

The Company reports loss per share in accordance with the ASC Topic 260, "Earnings Per Share," which requires presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. In the accompanying financial statements, basic earnings per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period plus the issuance of common shares, if dilutive, that could result from the exercise of outstanding stock options and warrants and conversion of notes payable. These potentially dilutive securities outstanding at September 30, 2016 and December 31, 2015 respectively of 208,919,937 and 155,670,170 were not included in the calculation of loss per common share, because their effect would be anti-dilutive. The weighted average number of shares outstanding does not include reciprocal shareholdings, held by the Company's subsidiary, Cellynx Group, Inc. which is reflected as a reduction in capital in excess of par value on the Company's balance sheet.

The Company will not have sufficient Common shares available to issue should all of the above conversions and exercises occur.

The Company applies sequencing with respect to such commitments and other circumstances as disclosed in its accounting policies for derivatives.

**Recent Accounting Pronouncements**

In July 2015, the FASB issued ASU No. 2015-11, "*Inventory: Simplifying the Measurement of Inventory*", that requires inventory not measured using either the last in, first out (LIFO) or the retail inventory method to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. The new standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and will be applied prospectively. Early adoption is permitted. The Company currently uses lower of cost or net realizable value.

The FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The new standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities. The Company has not yet determined the effect of the adoption of this standard on the Company's consolidated financial position and results of operations.



**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 2 – Summary of significant accounting policies (continued)**

**Recent Accounting Pronouncements**

The FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718). ASU 2016-09 provides improvement to employee share-based payment accounting. ASU 2016-09 involve the simplification of several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities the amendments in this update are effective for annual periods beginning after December 15, 2016. Early adoption is permitted for any entity in any interim or annual period. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

The FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606). ASU 2016-10 provides guidance on identifying performance obligations and licensing. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and or services. This update does not change the core principles, but rather clarify the following two aspects, identifying performance obligations and licensing implementation guidance. The new standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application is not permitted for all public business entities. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

FASB, the Emerging Issues Task Force and the SEC have issued certain other accounting standards, updates, and regulations as of March 31, 2016 that will become effective in subsequent periods; however, management does not believe that any of those updates would have significantly affected our financial accounting measures or disclosures had they been in effect during 2016 or 2015, and it does not believe that any of those pronouncements will have a significant impact on our consolidated financial statements at the time they become effective.

**Subsequent Events**

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the consolidated financial statements, except as disclosed in Note 16.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 3 – Furniture & equipment**

Furniture & Equipment consisted of the following at September 30, 2016 and December 31, 2015:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Furniture and equipment	\$ 170,610	\$ 151,191
Research and development equipment	78,367	13,367
Leasehold improvements	62,659	56,128
	311,636	220,686
Accumulated amortization & depreciation	(120,019)	(76,719)
Furniture & equipment net	<b>\$ 191,617</b>	<b>\$ 143,967</b>

During the three and nine months ended September 30, 2016 and 2015 the Company incurred amortization and depreciation expense of \$15,230 (2015 – \$13,882) and \$43,290 (2015 - \$60,945), respectively.

**Note 4 – Long lived assets subject to amortization**

Intangible assets are comprised of technology, trademarks and license rights which are recorded at cost.

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Technology	\$ 3,083,186	\$ 3,077,244
Marketing and distribution agreement	370,000	370,000
Trademarks	1,026	264
License rights	607	1,368
	3,454,818	3,448,856
Accumulated amortization	(1,064,648)	(695,271)
Technology and other intangibles, net	<b>\$ 2,390,170</b>	<b>\$ 2,753,585</b>

On August 2, 2014, the company commenced amortization of technology and other intangibles upon delivery of commercial beta devices for testing to a collaboration partner. During the three and nine months ended September 30, 2016 and 2015, \$122,736, (2015 - \$122,865) and \$369,312, (2015 - \$368,798) was recorded as amortization on technology and other intangibles. The Company's estimated technology amortization over the next five years is expected to be \$2,469,338.

**Note 5 - Goodwill**

The changes in the carrying amount of goodwill for the nine months ended September 30, 2016 and for the year ended December 31, 2015 is as follows:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Goodwill – beginning of period	\$ 1,140,246	\$ 1,140,246
Goodwill – end of period	\$ 1,140,246	\$ 1,140,246

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 6 – Sales of common stock**

On September 8, 2016, the Company convened an annual general meeting of shareholders and increased the authorized number of shares from 400,000,000 to 600,000,000. However, the Company will still not have sufficient common shares available to issue if all the conversions and exercises occur.

During the nine months ended September 30, 2016, the Company has issued common stock as follows:

During the period January 1, 2016 to September 23, 2016 the Company issued 64,580,000 units at a price of \$0.05 per unit for proceeds of \$3,229,000. Each unit is comprised of one share and one share purchase warrant to acquire a second share at a price of \$0.20 per share acquired, with a two-year term on the attached warrant.

On January 19, 2016 the Company issued 1,578,463 shares at a price of \$0.044 per share for the settlement of convertible notes payable with a total value of \$69,626. See note 7(l).

On January 20, 2016 the Company issued 200,000 shares at a price of \$0.06 per share for the partial settlement of convertible notes payable with a total value of \$12,000. See note 7(e).

On February 20, 2016 the Company issued 225,000 shares at a price of \$0.09 per share in settlement of services valued at \$20,250.

On February 26, 2016 the Company issued 312,650 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$15,633. See note 7(n).

On February 29, 2016 the Company issued 45,455 shares at a price of \$0.11 per share in settlement of services valued at \$5,000.

On March 6, 2016 the Company issued 11,500,000 shares at a price of \$0.05 per share for a conversion of convertible notes payable with a total value of \$575,000. After this settlement the balance of principal and interest due under this convertible note at March 31, 2016 was nil. See note 7(d).

On March 25, 2016 the Company issued 500,000 shares at a price of \$0.05 per share for a conversion of convertible notes payable with a total value of \$25,000. See note 7(b).

On March 31, 2016 the Company issued 115,000 units at a price of \$0.05 per unit for services with a total value of \$5,750. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On March 31, 2016 the Company issued 300,784 units at a price of \$0.05 per unit for services with a total value of \$15,039. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On March 31, 2016 the Company issued 300,000 units at a price of \$0.05 per unit for services with a total value of \$15,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 6 – Sales of common stock** (continued)

On April 1, 2016 the Company issued 300,000 units at a price of \$0.05 per unit for services with a total value of \$15,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On May 1, 2016 the Company issued 327,863 units at a price of \$0.05 per unit for services with a total value of \$16,393. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On April 30, 2016 the Company issued 250,000 units at a price of \$0.05 per unit for services with a total value of \$12,500. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On May 2, 2016 the Company issued 187,500 shares at a price of \$0.08 per share for the settlement of convertible notes payable with a total value of \$15,000. See note 7(e).

On May 2, 2016 the Company issued 1,375,000 shares at a price of \$0.06 per share for the settlement of convertible notes payable with a total value of \$82,500. See note 7(e).

On May 3, 2016 the Company issued 1,500,000 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$75,000. See note 7(g).

On May 15, 2016 the Company issued 391,740 shares at a price of \$0.06 per share for the settlement of convertible notes payable with a total value of \$23,504. After this settlement the balance of principal and interest due under this convertible note at June 30, 2016 \$44,763. See note 7(n).

On May 20, 2016 the Company issued 1,000,000 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$50,000. See note 7(g).

On May 20, 2016 the Company issued 225,000 shares at a price of \$0.06 per share in settlement of services valued at \$13,500.

On May 31, 2016 the Company issued 547,100 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$27,355. See note 7(r).

On May 31, 2016 the Company issued 323,200 shares at a price of \$0.065 per share for the settlement of convertible notes payable with a total value of \$21,008. See note 7(o).

On May 31, 2016 the Company issued 1,660,000 shares at a price of \$0.05 per share in settlement of debt valued at \$83,000.

On May 31, 2016 the Company issued 100,000 units at a price of \$0.05 per unit for services with a total value of \$5,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On June 3, 2016 the Company issued 846,804 shares at a price of \$0.06 per share in settlement of debt valued at \$50,808. See litigation note 14.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
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**Note 6 – Sales of common stock** (continued)

On June 30, 2016 the Company issued 547,100 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$27,355. See note 7(r).

On June 30, 2016 the Company issued 214,142 units at a price of \$0.05 per unit for services with a total value of \$10,707. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On July 12, 2016 the Company issued 1,750,000 shares at a price of \$0.09 per share in settlement of debt valued at \$157,500.

On July 14, 2016 the Company issued 333,333 shares at a price of \$0.105 per share for the settlement of convertible notes payable with a total value of \$35,000. See note 7(f).

On July 15, 2016 the Company issued 323,648 shares at a price of \$0.07 per share for the settlement of convertible notes payable with a total value of \$22,655. See note 7(n).

On July 15, 2016 the Company issued 629,560 units at a price of \$0.05 per unit for services with a total value of \$31,478. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On August 4, 2016 the Company issued 448,717 shares at a price of \$0.078 per share for the settlement of convertible notes payable with a total value of \$35,000. See note 7(f).

On August 5, 2016 the Company issued 300,114 shares at a price of \$0.07 per share for the settlement of convertible notes payable with a total value of \$21,008. See note 7(o).

On August 5, 2016 the Company issued 510,000 units at a price of \$0.05 per unit for services with a total value of \$25,500. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On August 5, 2016 the Company issued 318,750 shares at a price of \$0.08 per share for services with a total value of \$25,500.

On August 11, 2016 the Company issued 750,000 shares at a price of \$0.073 per share with a total value of \$54,750 for the settlement of a law suit filed April 22, 2016 (see note 14 – litigation). The litigation and warrant agreement of issuing warrants to purchase 3,000,000 shares of common stock to which this lawsuit relates will be settled in full upon delivery of the total 750,000 shares.

On August 15, 2016 the Company issued 388,667 shares at a price of \$0.066 per share for the settlement of convertible notes payable with a total value of \$25,652. See note 7(q).

On August 19, 2016 the Company issued 450,000 shares at a price of \$0.07 per share in settlement of services valued at \$31,500.

On August 26, 2016, the Company issued 500,000 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$25,000. See note 7(b).

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
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**Note 6 - Sales of Common Stock (continued)**

On September 6, 2016, the Company issued 751,333 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$37,567. See note 7(p).

On September 20, 2016, the Company issued 535,500 shares at a price of \$0.08 per share in settlement of contingent liabilities valued at \$42,840.

During the period between September 20, 2016 to September 23, 2016 the Company issued 12,441,668 shares at a price of \$0.05 per share pursuant to the notices of exercise of warrants for aggregate proceeds of \$622,083.

On September 27, 2016, the company issued 83,333 units at a price of \$0.06 per unit for proceeds of \$5,000. Each unit is comprised of one share and one-quarter share purchase warrant to acquire a second share at a price of \$0.20 per share acquired, with a two-year term on the attached warrant.

On September 27, 2016 the Company issued 347,808 shares at a price of \$0.05 per share on conversion of a convertible note payable with a total value of \$17,390. See note 7(p).

**Note 7 – Notes Payable**

**Promissory Notes**

**5BARz International, Inc.**

<b>Issue Date</b>	<b>Unpaid Note Principal</b>	<b>Note Terms</b>	<b>Unpaid Interest</b>	<b>Balance September 30, 2016</b>	<b>Balance December 31, 2015</b>
December 17, 2012	\$ 80,000	(a)	\$ 27,739	\$ 107,739	\$ 99,445
January 8, 2013	71,244	(b)	1,618	72,862	81,977
October 6, 2014	250,000	(c)	5,044	255,044	253,123
March 6, 2015	0	(d)	—	—	548,283
May 6, 2015	0	(e)	—	—	138,000
May 21, 2015	83,000	(f)	—	83,000	174,064
June 15, 2015	0	(g)	—	—	175,000
June 17, 2015	52,500	(h)	10,662	63,162	82,217
June 18, 2015	100,000	(i)	27,977	127,977	163,956
June 18, 2015	52,500	(j)	10,263	62,763	82,193
June 26, 2015	104,500	(k)	95,686	200,186	176,652
July 17, 2015	0	(l)	—	—	105,282
July 30, 2015	100,000	(m)	88,500	188,500	172,167
August 27, 2015	22,108	(n)	—	22,108	92,195
August 27, 2015	100,000	(o)	5,041	105,041	170,764
October 7-9, 2015	35,000	(p)	5,532	40,532	87,514
October 28, 2015	76,956	(q)	—	76,956	152,915
October 30, 2015	105,000	(r)	4,418	109,418	160,081
<b>Notes payable – 5BARz International Inc.</b>	<b>\$ 1,232,808</b>		<b>\$ 282,480</b>	<b>\$ 1,515,288</b>	<b>\$ 2,915,828</b>

**5BARz International, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 7 – Notes Payable (continued)**

**CellLynx Group Inc.**

<b>Issue Date</b>	<b>Unpaid Note Principal</b>	<b>Note Terms</b>	<b>Unpaid Interest</b>	<b>Balance September 30, 2016</b>	<b>Balance December 31, 2015</b>
May 24, 2012	\$ 15,900	(s)	\$ 38,144	\$ 54,044	\$ 46,018
September 12, 2012	12,500	(t)	26,312	38,812	33,048
<b>Notes Payable - CellLynx Group, Inc.</b>	<b>\$ 28,400</b>		<b>\$ 64,456</b>	<b>\$ 92,856</b>	<b>\$ 79,066</b>
<b>Sub-Total</b>	<b>\$ 1,261,208</b>		<b>\$ 346,936</b>	<b>\$ 1,608,144</b>	<b>\$ 2,994,894</b>
<b>Debt Discount</b>	<b>—</b>		<b>—</b>	<b>(27,863)</b>	<b>(111,630)</b>
<b>Total, net of debt discount</b>	<b>\$ 1,261,208</b>		<b>\$ 346,936</b>	<b>\$ 1,580,281</b>	<b>\$ 2,883,264</b>

- a) In December 2012, a shareholder purchased 1,600,000 common shares for \$80,000. On January 17, 2013, the security was amended to a convertible debenture with an 8% per annum yield and may be converted into common stock, at the option of the holder, 90 days after the inception of the agreement, at a price which is a 20% discount to market, but not less than \$0.05 per share. During the period from issuance of the convertible debenture issuance to September 30, 2016, interest of \$27,739 was accrued on the convertible debenture, resulting in a total principal and interest due at September 30, 2016 of \$107,739. A derivative liability at September 30, 2016 of \$20,684 (2015 - \$24,817) is recorded in these financial statements in connection with this note.
- b) On January 8, 2013, the Company entered into a convertible debenture agreement with a consultant in settlement of \$147,428 payable to that consultant for services rendered. The convertible debenture yields interest at 8% per annum and may be converted into common stock, at the option of the holder, 90 days after the inception of the agreement, at a price which is a 20% discount to market, but not less than \$0.05 per share. During the nine months ended September 30, 2016 interest of \$4,885 (2015 - \$1,516) was accrued on the convertible debenture. During the nine months ended September 30, 2016, \$36,000 in past due consulting fees were added to the principal of the note. The total principal and interest due under the note at September 30, 2016 amount of \$72,862 (2015 - \$81,977). In addition, the Company reflected a derivative liability at September 30, 2016 of \$14,600 (2015 - \$12,906) in connection with this note.
- c) On October 6, 2014, the Company entered into a Note and Warrant purchase agreement with three parties who have agreed to loan up to \$1,500,000 pursuant to the terms of a convertible promissory note and warrant agreement. On the closing date, October 6, 2014 the Company received \$250,000 cash. The purchasers have agreed that at any time on or before the earlier of (i) the Purchasers' election, or (ii) the execution of an engagement letter by and between the Company and an Investment Banking Firm acceptable to the purchaser relating to the provision of financial advisory services by the Investment Banking Firm to the Company, that the Company will sell Notes representing the balance of the authorized principal amount not sold at the Closing to the Purchasers. The convertible note accrues interest at a rate of 1% per annum and provides for the conversion of the principal and accrued interest on the note into common stock at any time, at the election of the holder at a price of \$0.15 per share. Further, the number of warrants to be issued will be equal to the proceeds loaned pursuant to the note and warrant purchase agreement divided by \$0.15. The warrant has a term of five (5) years and provides a strike price of \$0.20 per share. The fair value of warrants at the date of issue was \$282,767 using the Black-Scholes pricing model. The convertible promissory note and accrued interest at December 31, 2015 was \$253,123, net of an unamortized debt discount of \$111,630, resulting in a carrying value of \$141,493. By September 30, 2016, total interest of \$5,044 was accrued to bring the total principal and interest balance to \$255,044, net of an unamortized debt discount of \$27,863, resulting in a carrying value of \$227,181.

**5BARz International, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 7 – Notes Payable (continued)**

- d) On March 6, 2015, the Company entered into a Note and Warrant adjustment purchase agreement with two parties who have agreed to loan \$400,000 pursuant to the terms of a convertible promissory note and warrant adjustment agreement. On the closing date, March 6, 2015 the Company received \$400,000 cash. On September 6, 2015, the loan maturity was extended for an additional 6 months in return for the accrual of a 10%, extension fee. The convertible note accrues interest at a rate of 15% semiannually and provides for the conversion of the principal and accrued interest on the note into common stock at any time, at the election of the holder at a price of \$0.05 per share. Further, warrants to acquire up to 12,441,667 shares which had been issued in conjunction with previous financings from the note holders at strike prices ranging from \$0.20 to \$0.30 per share were re-priced to a strike price of \$0.05 per share with the maturity dates changed to March 6, 2017. The Company has the right to repay the loan by payment of the principal and accrued interest at the date of repayment. On March 6, 2016, the Company settled the aggregate principal and interest amount of \$575,000, by conversion into 11,500,000 shares of common stock, issued at a price of \$0.05 per share. The amount due pursuant to this note at September 30, 2016 is nil.
- e) On May 6, 2015, the Company entered into a convertible note arrangement with an investment Company, in the principal amount of \$250,000 of which \$100,000 was advanced to the Company at the inception of the note. The Company agreed to pay an “original issue discount” in an amount up to 10% of the loan amount, or \$10,000. The interest rate on the note is 12%, with 6% being charged on the Issuance Date to the Original Principal Amount in the amount of \$6,600 and the remaining 6% being charged to the Original Principal Amount on the 61th calendar day after the issuance date provided the note has not been paid in full. The loan may be repaid at any time during the first 120 days of the note term. The note is convertible into common stock of the issuer at the lesser of \$0.09 or a discount to market of 50%, with the market defined as the lowest trade price for a period of 25 days prior to the conversion, with a conversion floor price at no lower than \$0.001. On November 3, 2015, an amending agreement was entered into providing for the prepayment of the note at any time up to 9 months from the loan origination date at a rate of 145% of the then unpaid principal and interest due under the note. On November 6, 2015, the Company issued 200,000 shares pursuant to a notice of conversion of a convertible note at a price of \$0.041 per share, for the conversion of \$8,200. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering a default of the note. Upon the Event of Default, the outstanding balance was increased to 120%. The note is payable on demand. On January 20, 2016, the Company entered into a settlement agreement on the convertible debt in the principal and interest amount of \$138,000, by the issuance of 200,000 shares issued on January 20, 2016, and the commitment to make a series of payments over 8 months, ending September 15, 2016 in the aggregate amount of \$120,000. The Company made payments under the settlement agreement on February 8, 2016 of \$7,500 and on March 15, 2016 of \$15,000 as required by the agreement. The principal and interest due under the note at March 31, 2016 was \$109,500. This balance was settled by issuance of 187,500 common shares on May 2, 2016 at a price of \$0.08 per share, in lieu of \$15,000 and a further issuance of 1,375,500 common shares at a price of \$0.06 per share for the remaining \$82,500 due under the note settlement agreement. After a gain on settlement in the amount of \$12,000 for the nine months ended September 30, 2016, the amount pursuant to this note is nil.



**5BARz International, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 7 – Notes Payable (continued)**

- f) On May 21, 2015, the Company entered into a convertible note arrangement with an investment Company, in the principal amount of \$200,000 of which \$100,000 was advanced to the Company at the inception of the note. The Company agreed to pay an “original issue discount” in an amount up to 10% of the loan amount, or \$10,000. The interest rate on the note is 12%. The prepayment penalty of the note is as follows, 5% from day 1 to 90 days, 15% from day 91 to 150 days, 18% from day 151 to 179 days and 25% there- after on buyout of loan. The note is convertible into common stock of the issuer at a discount to market of 40%, with the market defined as the lowest trade price for a period of 25 days prior to the conversion, with a conversion floor price at no lower than \$0.00001. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering a default of the note. Upon the event of default, the outstanding balance was increased to 118%, in addition to that a default penalty payment of \$1,000 per business day was added to the outstanding balance. On March 10, 2016, a complaint was filed in relation to the unpaid balance of this note payable (see litigation note 14). On June 28, 2016, the parties entered into a settlement agreement in the amount of \$153,000 payable in equal payments of \$35,000 made in cash or shares issued at market every 21 days from the date of settlement. On July 14, 2016, 333,333 of common shares were issued at a price of \$0.105 per share in lieu of \$35,000 cash. On August 4, 2016, an additional 448,717 common shares were issued at a price of \$0.78 instead of a \$35,000 cash payment. The company recognized a gain from settlement of \$65,177 for the nine months ended September 30, 2016. At September 30, 2016, the balance due under this settlement is \$83,000.
- g) On June 15, 2015, the Company entered into a convertible note arrangement with an investment company, in the principal amount of \$125,000 of which \$102,500 was advanced to the Company at the inception of the note. The Company recorded an interest of \$22,500 at inception of the note, and issued 250,000 shares at \$0.10. The note is convertible into common stock of the issuer at 0.05 if converted within 180 days after the Issuance Date, or at a discount to market of 35%, with the market defined as the lowest trade price for a period of 20 days prior to the conversion, with a conversion floor price at no lower than \$0.0001, if converted after 180 days. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering a default of the note. Upon the event of default, the outstanding balance was increased to 140%. The note is payable upon demand. On March 17, 2016, the Company settled the convertible debt in the principal and interest amount of \$175,000. The settlement agreement provides for the Company to make eight monthly payments commencing on April 15, 2016, each in the amount of \$21,875, an aggregate amount of \$175,000. On May 3, 2016, the Company entered into an amended settlement agreement for full settlement of the note for \$175,000. The Company issued 1,500,000 common shares at a price of \$0.05 per share in settlement of \$75,000 due under the note and agreed to a series of 6 monthly payments each in the amount of \$11,666, commencing May 15, 2016. On May 20, 2016, the amended settlement agreement was revised and the Company recorded a gain from settlement of \$57,875 in the nine months ended September 30, 2016. The Company issued 1,000,000 common shares at a price of \$0.05 per share to fulfill the settlement agreement revision. At September 30, 2016, the balance due under this note was nil.
- h) On June 17, 2015, the Company entered into a convertible note arrangement with an investment company, in the principal amount of \$52,500 of which \$50,000 was advanced to the Company at the inception of the note. The Company recorded an interest of \$2,500 at inception of the note. The interest rate on the note is 8%. The prepayment penalty of the note is as follows, 15% from day 1 to 60 days, 21% from day 61 to 90 days, 27% from day 91 to 120 days, 33% from day 121 to 150 days and 39% from day 151 to 180 days. This note may not be prepaid after the 180<sup>th</sup> day. The note is convertible into common stock of the issuer at a discount to market of 40%, with the market defined as the lowest trade price for a period of 15 days prior to the conversion, with a conversion floor price at no lower than \$0.00001. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering an event of default of the note. Upon the event of default, the interest rate was increased to 24% per annum. The note is payable upon demand. The principal and interest due under the note at September 30, 2016 was \$63,162. The Company and holder have negotiated a settlement agreement on this note, with issuance of 184,775 common shares at \$.08 due upon signing and an additional 3 payments by common shares or cash election valued at \$27,911 each. See litigation note 14.

**5BARz International, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 7 – Notes Payable (continued)**

- i) On June 18, 2015, the Company entered into a convertible note arrangement with an investment company, in the principal amount of \$105,000 of which \$100,000 was advanced to the Company at the inception of the note. The Company agreed to pay an “original issue discount” in an amount up to 5% of the loan amount, or \$5,000. The interest rate on the note is 10%. The prepayment penalty of the note is as follows, 15% from day 1 to 60 days, 21% from day 61 to 90 days, 27% from day 91 to 120 days, 33% from day 121 to 150 days and 39% from day 151 to 180 days. This note may not be prepaid after the 180<sup>th</sup> day. The note is convertible into common stock of the issuer at a discount to market of 40%, with the market defined as the lowest trade price for a period of 25 days prior to the conversion, with a conversion floor price at no lower than \$0.0001. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering an event of default of the note. Upon the event of default, the interest rate was increased to 24% per annum. The note is payable upon demand. The principal and interest due under the note at September 30, 2016 was \$127,977. Additional accrued liability of \$240,998 generated by the settlement agreement discussed above has been made by September 30, 2016. On October 5, 2016, the Company was ordered to issue 4,299,689 shares in full settlement of the note as a result of an error made by the Company’s attorney in not responding to an application for preliminary injunctive relief in proper format. On November 5, 2016, the parties entered into a settlement agreement providing mutual releases. The Company is required to make a \$25,000 payment in conjunction with the settlement agreement by November 22, 2016.
- j) On June 18, 2015, the Company entered into a convertible note arrangement with an investment company, in the principal amount of \$52,500 of which \$50,000 was advanced to the Company at the inception of the note. The Company recorded an interest of \$2,500 at inception of the note. The interest rate on the note is 8%. The prepayment penalty of the note is as follows, 15% from day 1 to 60 days, 21% from day 61 to 90 days, 27% from day 91 to 120 days, 33% from day 121 to 150 days and 39% from day 151 to 180 days. This note may not be prepaid after the 180<sup>th</sup> day. The note is convertible into common stock of the issuer at a discount to market of 40%, with the market defined as the lowest trade price for a period of 15 days prior to the conversion, with a conversion floor price at no lower than \$0.00001. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering an event of default of the note. Upon the event of default, the interest rate was increased to 24% per annum, or lesser amount should that amount be usurious in the State. The note is payable upon demand. On June 8, 2016, the lender filed a complaint claiming 1,699,580 shares in settlement of the principal and interest under the note and injunctive relief related to terms of the note. On June 24, 2016, the Company has filed an answer and defense in response to the complaint filed. The principal and interest due under the note at September 30, 2016 was \$62,763. See litigation note 14.
- k) On June 26, 2015, the Company entered into a convertible note arrangement with an investment company, in the principal amount of \$110,000 of which \$104,500 was advanced to the Company at the inception of the note. The Company agreed to pay an “original issue discount” in an amount of \$5,500. The interest rate on the note is 12%. Upon an event of default, the interest rate shall increase to 18%. The prepayment penalty of the note is as follows, 35% from day 1 to 90 days, 45% from day 91 to 120 days, and 50% there- after on buyout of loan. The note is convertible into common stock of the issuer at a discount to market of 42%, with the market defined as the lowest trade price for a period of 20 days prior to the conversion, with a conversion floor price at no lower than \$0.0001. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering an Event of Default of the note. Upon the event of default, the outstanding balance was increased to 150% and the interest rate was increased to 18% per annum. The note is payable upon demand. On March 7, 2016, the parties entered into a settlement agreement to settle the full amount due under the note for \$177,424. The settlement agreement provides for the Company to make eight monthly payments commencing on April 15, 2016, each in the amount of \$22,178. As of September 30, 2016, the unpaid interest of \$95,686 has been accrued. The principal and interest due under the note at September 30, 2016 was \$200,186. The holder filed a lawsuit under the terms of the note, which the Company has answered see litigation note 14.

**5BARz International, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 7 – Notes Payable (continued)**

- l) On July 17, 2015, the Company entered into a convertible note arrangement with an investment company, in the principal amount of \$66,250 of which \$60,000 was advanced to the Company at the inception of the note. The interest rate on the note is 10%. Upon an Event of Default, the interest rate shall increase to 24%. The prepayment penalty of the note is as follows, 25% from day 1 to 30 days, 30% from day 31 to 60 days, 35% from day 61 to 90 days, 40% from day 91 to 120 days, 45% from day 121 to 150 days, 50% from day 151 to 180 days. There is no right to prepayment after 180 days. The note is convertible into common stock of the issuer at a discount to market of 45%, with the market defined as the lowest trade price for a period of 25 days prior to the conversion, with a conversion floor price at no lower than \$0.0001. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering an event of default of the note. Upon the Event of Default, the outstanding balance was increased to 150% and the interest rate was increased to 24% per annum. The note is payable on demand. On January 19, 2016, the Company settled convertible debt in the principal and interest amount of \$69,626 by the issuance of 1,578,463 shares, at a price of \$0.041 per share. The settlement amount does not require the payment of default penalties contemplated in the note agreement. The principal and interest due under the note at September 30, 2016 was nil.
- m) On July 30, 2015, the Company entered into a convertible note arrangement with an investment company, in the principal amount of \$110,000 of which \$100,000 was advanced to the Company at the inception of the note. The interest rate on the note is 10%. Upon an event of default, the interest rate shall increase to 24%. The prepayment penalty of the note is as follows, 35% from day 1 to 90 days, and 50% there- after on buyout of loan. The note is convertible into common stock of the issuer at a discount to market of 42%, with the market defined as the lowest trade price for a period of 25 days prior to the conversion, with a conversion floor price at no lower than \$0.00001. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering an event of default of the note. Upon the event of default, the outstanding balance was increased to 150%. The note is payable upon demand. The Company has completed a settlement agreement, dated August 31, 2016 to repay \$188,500 due under the note monthly in cash or shares valued at \$30,000 in the first month and \$31,700 over a five-month period. The Company recorded a gain from settlement of \$3,486 during the nine months ended September 30, 2016. The outstanding settlement balance at September 30, 2016 was \$188,500.
- n) On August 27, 2015, the Company entered into a convertible note arrangement with an investment company, in the principal amount of \$59,000 of which \$55,000 was advanced to the Company at the inception of the note. The interest rate on the note is 12%. Upon an event of default, the interest rate shall increase to 24%. The prepayment penalty of the note is 40%. The note is convertible into common stock of the issuer at a discount to market of 42%, with the market defined as the lowest trade price for a period of 20 days prior to the conversion, with a conversion floor price at no lower than \$0.000058. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering an event of default of the note. Upon the event of default, the outstanding balance was increased to 150%. The note is payable upon demand. On February 26, 2016, the Company settled the convertible debt for an aggregate amount of \$83,900. The settlement agreement provides for the issuance of 312,650 common shares at a price of \$0.05 per share for aggregate proceeds of \$15,632 issued on February 26, 2016 and the balance to be repaid by a series of monthly payments in the aggregate amount of \$68,268 over a five-month period commencing on April 15, 2016. The Company issued 391,740 common shares at a price of \$0.06 per share on May 15, 2016 for a value of \$23,504. On July 15, 2016, the Company issued \$22,655 in 323,648 common shares at a price of \$0.07 per share. The outstanding settlement balance at September 30, 2016 was \$22,108.

**5BARz International, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 7 – Notes Payable (continued)**

- o) On August 27, 2015, the Company entered into a convertible note arrangement with an investment company, in the principal amount of \$110,000 of which \$100,000 was advanced to the Company at the inception of the note. The Company agreed to pay an “original issue discount” in an amount up to 10% of the loan amount, or \$10,000. The interest rate on the note is 10%. The prepayment penalty of the note is as follows, 35% from day 1 to 90 days, 45% from day 91 to 180 days. This note may not be prepaid after the 180<sup>th</sup> day. The note is convertible into common stock of the issuer at a discount to market of 40%, with the market defined as the lowest trade price for a period of 20 days prior to the conversion, with a conversion floor price at no lower than \$0.0001. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering an event of default of the note. Upon the event of default, the outstanding balance was increased to 150% and the interest rate was increased to 24% per annum. The note is payable upon demand. On March 10, 2016, the Company settled the convertible debt in the principal and interest amount of \$168,065. The settlement agreement provides for the Company to make eight monthly payments commencing on April 15, 2016, for a value of \$21,008, an aggregate amount of \$168,065. On May 31, 2016, 323,200 common shares were issued at \$0.065 per share. On June 3, 2016, payment of \$21,008 was rendered. On August 5, 2016, the Company issued \$21,008 by the issue of 300,114 common shares at a price of \$0.07 per share. At September 30, 2016, the balance under the settlement agreement was \$105,041.
- p) During the period October 7, 2015 to October 10, 2015 the Company entered into four convertible note arrangements with certain investors, in the principal amount of \$85,000. Interest is accrued on the notes at a rate of 8% per annum, and the notes mature one year from the date of issue. The notes are convertible after 183 days by the borrower at a conversion price of the lesser of \$0.05 per share or 70% of market, defined as the lowest trade price for a period 20 days prior to the notice of conversion, if VWAP of the shares drops below \$0.05 with a 10 day look back . In no case may the debt be converted at less than \$0.01 per share. The Company may prepay the note principal and interest at a rate of 125% of principal and interest within 90 days of the issue date and at a rate of 135% after 90 days from the issue date. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering an event of default of the note. Upon the event of default, the interest rate was increased to 20% per annum. The notes are payable upon demand. On September 6, 2016 one convertible note principle and interest of \$37,567 was settled for 751,333 common shares at a price of \$0.05 per share. The Company recorded a gain from this settlement of \$3,132 during the nine months ended September 30, 2016. Further on September 27, 2016, a second convertible note principle and interest of \$17,390 was settled by the issuance of 347,808 common shares at a price of \$0.05 per share. The principal and interest due under the remaining two notes at September 30, 2016 was \$40,532.
- q) On October 28, 2015, the Company entered into a convertible note arrangement with an investment company, in the principal amount of \$100,000. Interest is accrued on the note at a rate of 12% per annum, and the note matures on July 28, 2016. The note is convertible at any time by the borrower at a conversion price which is the lesser of closing sale price on the close date of the note or 60% of market, defined as the lowest trade price for a period 25 days prior to the notice of conversion. The Company may prepay the note principal and interest at rates from 145% of principal and interest within 180 days from the issue date. After 180 days the note may not be prepaid. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering an event of default of the note. Upon the event of default, the outstanding balance was increased to 150%. The note is payable upon demand. On May 2, 2016, the Company entered into a settlement agreement, to pay \$153,912 by way of six monthly payments, each in the amount of \$25,652, with the first payment due on May 15, 2016. Two of the six payments were completed on May 31, 2016 and June 20, 2016. On August 15, 2016, the Company issued 388,667 common stock at a price of \$0.066 per share in payment of \$25,652 under the settlement agreement. The Company recorded a gain from settlement of \$5,026 in the nine months ended September 30, 2016. At September 30, 2016, the remaining settlement balance was \$76,956.

**5BARz International, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 7 – Notes Payable (continued)**

- r) On October 30, 2015, the Company entered into a convertible note arrangement with an investment company, in the principal amount of \$105,000 of which \$100,000 was advanced to the Company at the inception of the note. Interest is accrued on the note at a rate of 8% per annum, and the note matures on October 30, 2016. The note is convertible at any time by the borrower at a conversion price which is the lesser of closing sale price on the close date of the note or 60% of market, defined as the lowest trade price for a period 10 days prior to the notice of conversion. The Company may prepay the note principal and interest as follows, 125% from day 1 to 90 days, 140% from day 91 to 180 days, 150% after 180 days. On November 22, 2015, the Company became delinquent on its filing requirements with the Securities and Exchange Commission, triggering an event of default of the note. Upon the event of default, the outstanding balance was increased to 150% and the interest rate was increased to 18% per annum. The note is payable upon demand. On May 31, 2016, the Company entered into a settlement agreement to make a series of six payments, each in the amount of \$27,354, for an aggregate amount of \$164,128, in full settlement of the amounts due under this note agreement. On May 31, 2016, the Company issued 547,100 common stock at a price of \$0.05 per share valued at \$27,355. On June 30, 2016, the Company issued another 547,100 common shares at a price of \$0.05 valued at \$27,355. The Company recorded a gain from settlement of \$3,056 in the nine months ended September 30, 2016. As of September 30, 2016, the remaining amount under the settlement agreement was \$109,418.
- s) On May 24, 2012, CelLynx Group, Inc., completed a transaction pursuant to a Promissory Note agreement, through which the Company borrowed \$37,500. The Note bears interest at a rate of 8%, and was due on November 24, 2012, (the “Due Date”). The Company could settle that note within the first 90 days following the issue date by paying to the Lender 140% of the principal amount of the note plus accrued interest. The Company may settle the note during the period which is 91 days from the issue date of the note to 180 days from the issue date of the note by payment of 150% of the principal amount of the note plus accrued interest. In the event that the note is not repaid 180 days from the date of issue, the note and accrued interest are convertible into common stock at a variable conversion price equal to 51% of the average of the three lowest closing bid prices for CelLynx Group, Inc.’s common stock for a period of 10 days prior to the date of notice of conversion. The Company redeemed \$21,600 payable on that note, by the issuance of CelLynx Group, Inc. common shares. As of September 30, 2016, the note is past due. The note principal and accrued interest outstanding at September 30, 2016 was \$54,044.
- t) On September 12, 2012, CelLynx Group, Inc. completed a transaction pursuant to a Promissory Note agreement, through which the Company borrowed \$12,500. The Note bears interest at a rate of 8%, and is due on March 12, 2013, (the “Due Date”). The Company may settle that note within the first 90 days following the issue date by paying to the Lender 140% of the principal amount of the note plus accrued interest. The Company may settle the note during the period which is 91 days from the issue date of the note to 180 days from the issue date of the note by payment of 150% of the principal amount of the note plus accrued interest. In the event that the note is not repaid 180 days from the date of issue, the note and accrued interest are convertible into common stock at a variable conversion price equal to 51% of the average of the three lowest closing bid prices for CelLynx Group, Inc.’s common stock for a period of 10 days prior to the date of notice of conversion. As of September 30, 2016, the note is past due. The note principal and accrued interest outstanding at September 30, 2016 was \$38,812.

At September 30, 2016, substantially all the above debt is in default and is immediately due and payable. Fair market value of the conversion option at September 30, 2016 was therefore de minimus.

**5BARz International, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 8 – Commitments and Contingencies**

**Operating Lease Obligation**

Since August 22, 2014 (the amending date) the Company has expanded its leased facilities in San Diego, California for a period of 66 months.

Pursuant to this lease, aggregate minimum lease payments over the next five years are as follows;

	September 30,		
	2017	\$	284,814
	2018		298,388
	2019		308,831
	2020		132,280
	Total	<u>\$</u>	<u>1,024,313</u>

Effective January 1, 2015, the Company's subsidiary 5BARz India Private Limited entered into an facility lease agreement for five (5) years at a monthly lease rate of 60,000 Indian rupees (\$900 USD) per month.

At September 30, 2016, the aggregate minimum lease payments over the next five years are as follows;

	September 30,		
	2017	\$	10,800
	2018		10,800
	2019		10,800
	2020		2,700
	Total	<u>\$</u>	<u>35,100</u>

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 9 – Options and Warrants**

**Warrants – 5BARz International Inc.**

The following table summarizes the warrant activity for the quarter ended September 30, 2016:

	Number of Warrants	Weighted Average Exercise Price	Average Remaining Contractual Life
Outstanding at December 31, 2015	102,188,477	\$ 0.25	1.20
Granted *	95,305,382	0.20	2.17
Exercised	(12,441,667)	0.05	.43
Cancelled/ expired	(24,305,296)	0.30	—
Outstanding at September 30, 2016	160,746,896	\$ 0.21	1.35
Exercisable at September 30, 2016	152,746,896	\$ 0.22	.95

\* During the nine months ended September 30, 2016, the Company granted warrants to purchase 95,305,382 shares of common stock of which warrants to purchase 71,757,333 shares of common stock were issued as part of a private placement of units, warrants to purchase 16,000,000 shares of common stock were paid as compensation to executive of the Company, warrants to purchase 3,812,500 shares of common stock were issued for investor relations fees, warrants to purchase 3,047,349 shares of common stock were issued as part of a unit for services, and warrants to purchase 688,200 shares of common stock were issued in payment of interest to consultants.

The Company had authorized capital of 600,000,000 shares at September 30, 2016, and accordingly should all options, warrants and potentially convertible securities be exercised, the Company may not have enough authorized shares to honor its commitments.

**Options – 5BARz International Inc.**

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life
Outstanding at December 31, 2015	15,480,000	\$ 0.11	5.04
Granted	10,565,000	0.09	9.48
Exercised	—	—	—
Cancelled	(100,000)	0.17	—
Outstanding at September 30, 2016	25,945,000	\$ 0.10	6.13
Exercisable at September 30, 2016	14,617,041	\$ 0.12	2.11

During the nine months ended September 30, 2016 the Company issued 10,565,000 stock options at a strike price ranging from \$0.075 to \$0.12 per share. The Company reports stock-based compensation under ASC 718 “Compensation – Stock Compensation”. ASC 718 requires all share-based payments to employees, including grants of employee stock options, warrants to be recognized in the consolidated financial statements based on their fair values. The Company amortizes the fair value of employee stock options on a straight-line basis over the requisite service period of the awards. The Company accounts for equity instruments issued to non-employees as compensation in accordance with the provisions of ASC 718, which require that each such equity instrument be recorded at its fair value on the measurement date, which is typically the date the services are performed.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 9 – Options and Warrants (continued)**

As of September 30, 2016, total unamortized compensation expenses related to unvested stock options were \$192,162. This amount is expected to be recognized based upon the vesting provisions provided which include both tangible and intangible factors. The Black-Scholes option valuation model is used to estimate the fair value of the warrants or options granted. The Company measured the stock options issued at fair value using the Black-Scholes pricing model and are classified within Level 3 of the valuation hierarchy. The significant assumptions and valuation methods that the Company used to determine fair value and the change in fair value of the Company's derivative financial instruments are provided below:

	<b>September 8, 2016</b>	<b>June 14, 2016</b>	<b>February 29, 2016</b>	<b>January 22, 2016</b>
Stock price	\$ 0.075	\$ 0.09	\$ 0.09	\$ 0.08
Volatility	106.01%	106.02%	93%	91.62%
Risk-free interest rate	1.14%	1.01%	1.74%	1.21%
Dividend yield	0	0	0	0
Expected life	5 years	10 years	10 years	5 years

	<b>December 4, 2015</b>	<b>July 1, 2015</b>	<b>June 19, 2015</b>	<b>April 22, 2015</b>	<b>April 7, 2015</b>	<b>January 27, 2015</b>
Stock price	\$ 0.08	\$ 0.11	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.12
Volatility	91%	96%	96%	96%	96%	96%
Risk-free interest rate	.64%	.64%	.64%	1.63%	2.26%	1.36%
Dividend yield	0	0	0	0	0	0
Expected life	5 years	5 years	5 years	10 years	10 years	5 years

The fair value of the options was determined to be as follows based upon the assumptions provided above:

<b>Date Issued</b>	<b>Number of options</b>	<b>Fair value</b>
January 27, 2015	500,000	\$34,540
April 7, 2015	2,000,000	\$156,344
April 22, 2015	100,000	\$8,810
June, 2015	800,000	\$57,212
July 1, 2015	300,000	\$18,632
December 4, 2015	3,590,000	\$199,365
January 22, 2016	240,000	\$19,922
February 29, 2016	100,000	\$7,758
June 14, 2016	1,000,000	\$81,492
September 8, 2016	225,000	\$12,960

The option valuations are being amortized over vesting terms ranging from immediate to 3 years. For the three and nine months ended September 30, 2016, \$45,772 (2015 - \$144,088) and \$208,736 (2015 - \$323,508) was amortized to expense respectively.



**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 9 – Options and Warrants (continued)**

On September 8, 2016, at the annual general meeting of the Company, the shareholders voted in favor of a resolution to ratify the adoption of the 5BARz International, Inc. 2016 stock incentive plan. The 2016 Stock Incentive Plan provides for the grant of options (“Options”) to purchase common stock, and stock awards (“Awards”) consisting of common stock, to eligible participants, including our directors, executive officers, employees and consultants. The terms and conditions of the Plan apply equally to all participants. We have reserved a total of 30,000,000 shares of common stock for issuance under the Plan. As of September 30, 2016, there were outstanding Options for a total of 25,945,000 shares of common stock, none of which have been exercised, and no Awards have been granted. The Plan Administrator, which is currently the board of directors, may designate which of our directors, officers, employees and consultants are to be granted Options and Awards. The Plan Administrator has the authority, in its sole discretion, to determine the type or types of awards to be granted under the Plan. Awards may be granted singly or in combination.

**Options – CellLynx Group, Inc.**

The number and weighted average exercise prices of all CellLynx Group, Inc. options exercisable as of September 30, 2016, are as follows:

	<b>Options</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining contract life</b>
<b>Opening at December 31, 2015</b>	69,000,000	\$ 0.0002	2.02
<b>Granted</b>	—	—	—
<b>Forfeited</b>	(24,000,000)	0.0002	2.02
<b>Outstanding at September 30, 2016</b>	45,000,000	\$ 0.0002	1.43
<b>Exercisable at September 30, 2016</b>	45,000,000	\$ 0.0002	1.43

**Note 10 - Related party transactions**

During the nine months ended September 30, 2016, the Company engaged an engineering company in Bangalore, India to perform engineering services, product development and manufacturing services for the Company in the aggregate amount of \$979,702. The Engineering Company is owned by the Director and the CEO of 5BARz India Private Limited, and the CEO of the engineering company is the spouse of the Director and the CEO of 5BARz India Private Limited. The amount due to Aseema Softnet Technologies Inc. at December 31, 2015 was \$605,302. During the nine months ended September 30, 2016 there were \$979,702 in billings and \$478,000 in payments to Aseema Softnet Technologies Inc. resulting in an amount due of \$1,107,005 at September 30, 2016. Subsequent to September 30, 2016 there have been further billings of \$118,011 in the month of October 2016 for an aggregate amount due of \$1,225,016 at October 31, 2016.

Further, effective January 1, 2015 the Company entered into an operating sub-lease agreement for five years for office facilities within the Aseema Softnet Technologies offices at Suite #1741, 2<sup>nd</sup> floor, 9 Cross, J.P. Nagar 2 Phase, Bangalore 560-078. The lease provided for a monthly lease amount of 60,000 Indian Rupees per month (\$900 USD per month), and required a 10-month security deposit of 600,000 Rupees (\$9,000 USD).

The aggregate future minimum lease payments required to be made over the next five years is as follows;

	September 30,		
	2017	\$	10,800
	2018		10,800
	2019		10,800
	2020		5,400
	Total	\$	37,800

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
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**Note 10 - Related party transactions (continued)**

On June 14, 2016, the Board of Directors approved the issuance of warrants to acquire 8,000,000 shares to each of the CEO and Chairman of the Board, at a price of \$0.09 per share. The warrants have a term of five (5) years and vest as to 50% immediately and 50% on June 14, 2017. In addition, the Directors approved the issuance of 10,000,000 stock options, issued to the CEO of 5BARz India Private Limited, to acquire common stock of the Company at a price of \$0.09 per share. The options have a 5-year term, and vest as to 10% immediately, 40% upon the closing of a minimum of \$13 million USD financing of 5BARz India Private Limited at a \$100 million valuation and 50% one year from the closing of said financing.

**Note 11 – Investment in CelLynx Group, Inc.**

On January 7, 2011 the Company entered into a stock purchase agreement with two founding shareholders of CelLynx Group, Inc. to acquire in aggregate 63,412,638 shares of the capital stock of CelLynx Group, Inc. for total proceeds of \$634,126. At that date the Company had paid \$170,000 as a deposit made under that agreement. On March 29, 2012 the Company entered into a securities exchange agreement and settlement agreement with each of the two founding shareholders of CelLynx Group, Inc. whereby in addition to the \$170,000 paid, the Company issued 1,250,000 shares of its common stock in exchange for the 63,412,638 shares of CelLynx Group, Inc. and mutual releases were signed between the parties releasing each from any further obligation.

On March 29, 2012, the Company acquired a further interest in CelLynx Group, Inc. by conversion of \$73,500 of convertible debt in CelLynx Group, Inc. for the issuance of 350,000,000 shares in the capital stock of CelLynx Group, Inc. As a result, in combination with the shares acquired from existing shareholders referred to above, the registrant acquired a 60% controlling interest in CelLynx Group, Inc. and has accounted for that acquisition as a consolidated subsidiary of the registrant effective March 29, 2012.

Subsequent to that acquisition, the Company has converted amounts due, pursuant to the convertible line of credit agreement between the Company and CelLynx Group Inc. as follows;

<b>Date</b>	<b>Amount converted</b>	<b>Shares issued</b>
April 13, 2012	\$ 7,700	51,333,333
May 15, 2012	\$ 58,500	390,000,000
May 21, 2013	\$ 9,375	375,000,000
March 31, 2014	\$ 26,250	105,000,000
July 10, 2014	\$ 31,620	155,000,000

Each of the conversions reflected in the preceding schedule increased the percentage ownership that the Company holds in CelLynx Group, Inc. to a 60% interest, subsequent to dilution arising from the acquisition of stock by others. At September 30, 2016, the Company had a 60% equity ownership in CelLynx Group, Inc. with the holding of 1,489,745,971 common shares.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 12 – Asset Acquisition Agreement**

On March 29, 2012, the Company and CelLynx Group Inc. entered into an agreement which provided several amendments to the agreement referred to above. As a result of those amendments, the following arrangements between the Companies were established;

- i. 5BARz International, Inc. acquired a 60% interest in the patents and trademarks held by CelLynx Group Inc., referred to as the “5BARz™” technology. That interest in the technology was acquired for proceeds comprised of 9,000,000 shares of the common stock of the Company, valued at the date of acquisition at \$0.20 per share or \$1,800,000 USD. The acquisition agreement also clarified that the ownership interest in the intellectual property does represent that proportionate interest in income earned from the intellectual property.
- ii. The Company had agreed to make available to CelLynx Group, Inc a revolving line of credit facility as amended in the amount of \$2.2 million dollars on October 5, 2010. Pursuant to this revolving line of credit facility, which was scheduled to expire on October 5, 2013, the Company advanced \$2,394,643 to the date of expiry. At September 30, 2013 the Company agreed to extend the term of the line of credit facility to CelLynx Group, Inc., for the lesser of one year, or the time that CelLynx Group, Inc. becomes self sustaining from royalty income. Under the amended terms of the line of credit facility, the Company has the right to convert amounts due under the facility into common stock of CelLynx, at a conversion rate which is calculated at 51% of the average lowest three closing bid prices of the CelLynx Group, Inc. common stock for a period which is ten (10) days prior to the date of conversion. This conversion rate was established previously by other parties that have funded CelLynx, and is being matched by 5BARz. At September 30, 2016, the Company holds 1,489,745,971 shares of the capital stock of CelLynx Group, Inc. and has a balance of \$3,235,849 principle and interest due under the line of credit facility from CelLynx Group, Inc. On September 30, 2014 the Line of Credit agreement between the parties matured. CelLynx is a consolidated subsidiary of 5BARz International Inc., since March 29, 2012.
- iii. Pursuant to the Master Global Marketing and Distribution agreement between 5BARz International, Inc. and CelLynx Group, Inc., the registrant was obligated to pay to CelLynx Group, Inc. a royalty fee amounting to 50% of the Company’s Net Earnings, from products or license arrangements related to the 5BARz™ technology, in a ratio equal to the CelLynx proportionate interest in the underlying technology. Subsequent to the acquisition by 5BARz of a 60% interest in the intellectual property from CelLynx, that Royalty was reduced to an effective Royalty amount of 20% of net earnings from products or license arrangements related to the 5BARz technology. That fee would be paid on a quarterly basis, payable in cash or immediately available funds and shall be due and payable not later than 45 days following the end of each calendar quarter of the year. The asset acquisition agreement amendment referred to herein specified that the royalties would be paid in relation to the ownership of the intellectual property. In addition, as a result of the acquisition of a 60% interest in CelLynx Group, Inc. by the registrant, this royalty item is an intercompany transaction which in the future will be eliminated upon consolidation in financial reporting of the consolidated financial results of 5BARz International Inc. and subsidiaries.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 13 – Accounts payable and accrued liabilities**

Accounts payable and accrued expenses are comprised of the following:

	September 30, 2016	December 31, 2015
Product development costs	\$ 1,548,533	\$ 991,799
Consulting and wages	2,725,666	2,138,729
Legal and administrative	316,795	498,704
Acquired liabilities – CelLynx - 2012	940,111	1,118,495
Other	175,851	249,491
<b>Total</b>	<b>\$ 5,706,956</b>	<b>\$ 4,997,218</b>

**Note 14 – Litigation**

Prior to the Company's investment in CelLynx, on July 19, 2010 certain claims for unpaid wages were filed against CelLynx, Inc. Judgments were obtained commencing in August 2011 for back wages by some of its former employees. Some of those claims have been partially paid and others were expected to be paid in the normal course of business or were to be otherwise defended. Those claims have now been incorporated into California Labor Commission awards in favor of those former employees. Those awards total approximately \$263,000 depending on interest charges. It is the Company's intention to pay these amounts. As of September 30, 2016, the Company has accrued \$263,000 in its financial statements.

On May 13, 2015 the Company received a complaint filed in the Superior Court of the State of California, County of San Diego against 5BARz International Inc, and Daniel Bland, by Assured Wireless International Corp. claiming breach of contract and claiming unpaid fees and interest of \$171,159, plus penalties. *Assured Wireless vs. 5BARz International Inc, and Daniel Bland 37-2015-00012766-CU-BC-CTL (County of San Diego)*. The claims also alleges unjust enrichment of \$20,000 as well as \$50,000 for alleged negligent interference with prospective economic relations. As of March 31, 2016 the Company has accrued \$171,159 for a potential liability. The Company and Mr. Bland have filed answers generally denying plaintiff's claims and asserting affirmative defenses. On June 29, 2016 the parties entered into a settlement agreement which provided for the settlement of the claims for \$170,000, payable as to \$40,000 upon closing of the agreement, \$60,000 on August 15, 2016 and the balance of \$70,000 payable on October 7, 2016. On July 14, 2016 the case was dismissed. On August 15, 2016 the payment amount was not made and a judgment in the amount of \$130,000 was entered against the Company. As of September 30, 2016 the Company has accrued \$130,000 for this judgment. Payment arrangements are being discussed.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 14 – Litigation** (continued)

On August 14, 2015 the Company received a complaint filed in the Superior Court of the State of California, County of San Diego on August 4, 2015, against 5BARz International Inc. by, Pluto Technologies, Inc. claiming breach of contract and claiming unpaid fees, charges for equipment repairs and interest of \$70,750. *Pluto Technologies, Inc. vs 5BARz International, Inc. 37-2015-00025796-CU-BC-CTL (County of San Diego)*. It is the Company's intention to vigorously defend the lawsuit. It is too early in the process to determine the likelihood of outcome. In addition, on July 24, 2015 the owner of Pluto Technologies, Inc., Mr. James Fraley, filed a lawsuit in the Superior Court of the State of California, County of San Diego against 5BARz International Inc., claiming breach of contract and claiming unpaid fees, expenses and salaries in the amount of \$148,920. *James Fraley vs. 5BARz International, Inc. 37-2015-00025016-CU-BC-CTL*. As of March 31, 2016 the Company has accrued \$391,489 payable to the petitioners. On May 13, 2016, the Company entered into a settlement agreement with Pluto Technologies and James Fraley for the settlement of all amounts due to the petitioners by payment of \$65,000, payable as to \$15,000 on May 31, 2016, \$20,000 on June 30, 2016 and \$30,000 on July 31, 2016. All of the payments required to be made under the agreement have been completed for the full release of the litigation.

On January 8, 2016 a complaint was filed in the Superior Court of the State of California, County of San Diego against 5BARz International Inc., and certain offices of the Company by Warren Cope, a former consulting engineer of the Company claiming breach of contract and fraud claiming unpaid fees and interest of \$121,616, plus 100,000 options exercisable at a price of \$0.10 per share. *Warren Cope vs. 5BARz International Inc., et all 37-2016-00000510-CU-BC-CTL (County of San Diego)*. On February 29, 2016 the parties entered into a settlement agreement which provided for payments of cash in the aggregate amount of \$121,616 by May 15, 2016 and the issuance of the 100,000 options. The settlement agreement provides a stipulation of entry of judgment in the event of a default in payments. On March 15, 2016 the Company repaid \$10,000 of this debt and issued 100,000 options to acquire common stock of the Company at an exercise price of \$0.10 per share, pursuant to the terms of that settlement agreement. At March 31, 2016, the Company has accrued \$111,616 payable to the petitioner. On or about May 15, 2016 a further \$10,000 was paid. On June 3, 2016 the Company entered into amending agreement whereby the balance of \$101,616 was settled by the issuance of 846,804 shares at a price of \$0.06 per share for the settlement of \$50,808, plus an agreement to make four monthly payments of \$12,702 each month commencing June 3, 2016. Each of the payments required under the agreement have been made with the final payment made on September 12, 2016 for full release of the litigation.

On March 10, 2016 a complaint was filed in the Eleventh Judicial Circuit Court in Miami-Dade County, Florida, against BARz International, Inc. and certain officers and employees of the Company by Group 10 Holdings, LLC a lender by way of convertible debenture, claiming breach of contract, fraud, negligent misrepresentation and unjust enrichment, claiming \$110,000 plus interest at 12%. *Group 10 Holdings vs 5BARz International, Inc. et all 2016-005597 CA 01*. The Company has reflected a balance at March 31, 2016 due to the lender of \$218,177. The Company and defendants have engaged counsel and on April 17, 2016 have filed a motion for dismissal. On July 12, 2016, the Company entered into a settlement agreement with the plaintiff for the settlement of the claim for an aggregate of \$153,000. The balance is to be paid by way of a series of payments, commencing 7 days from the settlement date, each in the amount of \$35,000. Each payment date the Company has the option of paying the amount due in cash, or in common stock at the then market value of the stock. The holder is restricted on a daily basis to a maximum sale of up to 15% of daily volume. On July 14, 2016, 333,333 of common shares were issued at a price of \$0.105 per share in lieu of \$35,000 cash. On August 4, 2016, an additional 448,717 common shares were issued at a price of \$0.78 instead of a \$35,000 cash payment. On September 18, 2016 the Company received a default notice from Group 10, due to the fact that the Company was delinquent in filing its 10-Q. No further court action has been instituted as a result of that default. On September 30, 2016 the Company reflects a remaining balance due to the lender of \$83,000. On November 1, 2016 the Company made an additional payment of \$35,000 comprised of 416,666 shares at a price of \$0.084 per share.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 14 – Litigation** (continued)

On April 11, 2016 a complaint was filed in the Supreme Court of the State of New York, County of New York, against 5BARz International Inc. and Daniel Bland by R Squared Partners LLC., a lender by way of convertible note. The complaint alleges breach of contract, requests injunctive relief and tortious interference with Contract. The Company had borrowed \$100,000 on June 2, 2015. The Company repaid interest on the note on July 1, 2015 of \$933 and repaid the loan principal of \$100,000 on August 13, 2015 by wire transfer. Further, on September 1, 2015 the Company issued 29,340 shares as final payout of the note interest via conversion into shares pursuant to the note terms. R Squared Partners LLC has made demand on the Company for an additional amount of \$100,000 due under the note and exercise of warrants. The Company disputes the claims for additional amounts due, the Company filed an answer to the complaint on May 31, 2016.

On April 22, 2016 a complaint was filed in the Supreme Court of the State of New York, County of New York, against 5BARz International Inc. by Firstfire Global Opportunity Fund, an alleged lender by way of convertible note. The complaint alleges breach of contract, requests injunctive relief and tortious interference with Contract. The Company had borrowed \$100,000 on June 2, 2015. The Company repaid interest on the note on July 1, 2015 of \$1,166.67 and repaid the loan principal of \$100,000 on August 5, 2015 by wire transfer. Further, on August 5, 2015 the Company issued 24,000 shares as final payout of the note interest via conversion into shares pursuant to the note terms. First Fire Global Opportunity Fund has made demand on the Company for an additional amount of \$100,000 due under the note and exercise of warrants. The Company disputes the claims for additional amounts due, the Company filed an answer to the complaint on May 31, 2016. On August 11, 2016 the Company entered into a settlement agreement with the plaintiff and issued 750,000 common shares in settlement with restrictive legend on the shares to be released, 250,000 shares each of August, September and October, 2016. On October 31, 2016 the Company released the first of three payments upon meeting SEC clearance requirements. Subsequent releases are pending.

On May 31, 2016 a complaint was filed in the United States District Court, Eastern District of New York, against 5BARz International, Inc. by LG Capital Funding, LLC, a lender by way of convertible note. The complaint alleges that the Company failed to deliver 1,699,580 shares pursuant to a notice of conversion, and seeks preliminary and permanent injunctive relief, damages and attorney fees. The Company has responded with an initial Memorandum of Law on June 24, 2016 in opposition to the Plaintiffs motion for permanent injunctive relief. The Company has accrued an amount of \$125,000 due to the lender pursuant to the terms of the convertible note agreement at September 30, 2016.

On July 6, 2016 a complaint was filed in the District Court of Dallas County Texas, (DC-16-08001), against 5BARz International, Inc., and certain officers of the Company by JSJ Investments, Inc, a lender by way of convertible note. The Company and the lender had entered into a settlement agreement for payments over a period of six months in the aggregate amount of \$177,427 on March 2, 2016. The complaint alleges breach of contract, promissory estoppel as to note, and tortious interference with Contract. The Company has filed an answer to the complaint. The Company has accrued an amount of \$200,186 due to the lender pursuant to the terms of the convertible note agreement at September 30, 2016.

On August 4, 2016 a complaint was filed in the United States District Court, Southern District of New York, against 5BARz International, Inc. by Union Capital LLC, a lender by way of convertible note. The complaint alleges that the Company failed to deliver 4,299,689 shares pursuant to a notice of conversion, and seeks an order for specific performance, breach of contract, damages and attorney fees. As of September 30, 2016 the Company had accrued \$368,975 for this settlement. On October 5, 2016 the Company issued 4,299,689 shares in full settlement of the note. On November 5, 2016 the parties entered into a settlement agreement providing mutual releases. The settlement agreement provides for an additional \$25,000 payment to be made by November 22, 2016.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 14 – Litigation** (continued)

On August 5, 2016 a complaint was filed in the United States District Court, Southern District of New York, against 5BARz International, Inc. by Adar Bays LLC, a lender by way of convertible note. The complaint alleges that the Company failed to deliver 184,775 shares pursuant to a notice of conversion, and seeks an order for injunctive relief, damages and attorney fees. The Company has provided an answer to the allegations. The Company has accrued an amount of \$98,518 due to Adar Bays LLC at September 30, 2016. On October 27, 2016 the Company and plaintiff negotiated a settlement agreement for payment of \$83,733 in cash or shares over four months as well as a payment of 184,775 shares issued upon signing of the agreement.

On September 19, 2016 a complaint was filed in the Superior Court of the State of California, for the County of San Diego against 5BARz International, Inc. by Richard Rajabi claiming \$163,637 for breach of contract. The Company has filed an answer and counter claim in this matter.

In addition to the above, the Company may become involved in legal proceedings in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance.

**Note 15 – Product Orders and Shipments**

**a. Product Orders and Shipments into India**

Cellular Network Extenders

Since August 19, 2015 the Company has received purchase orders from Tier 1 cellular network operators in India. Those orders have progressed from smaller orders in late 2015 to the establishment of a Network Hardware and Software Ordering document, completed June 1, 2016, setting the parameters for a series of orders over the next two years.

5BARz Broadband Router

The Company has developed a state of the art wireless router, referred to as ROVR Smart Hub, to participate in the rapid expansion of broadband to the home throughout India. In conjunction with this initiative, on August 25, 2016 the Company entered into a Strategic Alliance Agreement with a Tier 1 cellular network operator in the region, along with a major broadband operator to provide the 5BARz ROVR Smart Hubs.

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 16 – Subsequent Events**

**Sales of Common Stock**

On October 5, 2016, the Company issued 1,666,667 units at a price of \$0.06 per unit for proceeds of \$100,000. Each unit is comprised of one share and one-quarter warrant to acquire a second share at a price of \$0.20 per share acquired, with a two-year term on the attached warrant.

On October 11, 2016, the Company issued 4,299,689 shares at a price of \$0.031 per share for the settlement of convertible notes payable with a total value of \$134,150. After this settlement the balance of principal and interest due under this convertible note at October 13, 2016 was nil.

On October 14, 2016, the Company issued 116,447 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$5,822. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was nil.

On October 20, 2016, the Company returned to treasury 1,000,000 issued shares at a price of \$0.12 per share for services paid in cash with a total value of \$120,000.

On October 31, 2016, the Company issued 315,836 shares at a price of \$0.07 per share for the settlement of convertible notes payable with a total value of \$22,108. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was nil.

On November 1, 2016, the Company issued 416,446 shares at a price of \$0.084 per share for the settlement of convertible notes payable with a total value of \$35,000. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was \$48,000.

On November 1, 2016, the Company issued 389,910 shares at a price of \$0.077 per share for the settlement of convertible notes payable with a total value of \$30,023. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was \$158,476.

On November 3, 2016, the Company issued 300,114 shares at a price of \$0.07 per share for the settlement of convertible notes payable with a total value of \$21,008. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was \$84,033.

On November 3, 2016, the Company issued 360,886 shares at a price of \$0.07 per share for the settlement of convertible notes payable with a total value of \$25,262. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was \$51,694.

On November 3, 2016, the Company issued 184,775 shares at a price of \$0.08 per share for the settlement of convertible notes payable with a total value of \$14,782. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was \$83,733.

On November 8, 2016, the Company issued 2,000,000 shares at a price of \$0.06872 per share for services with a total value of \$137,440.

On November 8, 2016, the Company issued 405,259 shares at a price of \$0.068 per share for the settlement of convertible notes payable with a total value of \$27,355. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was \$82,064.



**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 16 – Subsequent Events (continued)**

**Settlement of Convertible Promissory Notes:**

On October 11, 2016, the Company issued, by court order, 4,299,689 shares at a price of \$0.08 per share for the outstanding convertible note payable with a total value of \$343,975. The Company also agreed to pay \$25,000 in conjunction with the settlement agreement. The Company will record a loss from settlement of \$240,998 after the completion of the settlement. After this settlement the balance of principal and interest due under this convertible note was nil. See notes payable note 7(i).

On October 14, 2016, the Company received a notice of conversion and issued 116,447 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$5,822. The company recorded interest of \$671 at November 11, 2016. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 will be nil. See note 7(p).

On October 27, 2016, the company entered into settlement agreement for the issuance of 184,775 shares due upon agreement completion and three subsequent payments of \$27,911. On November 3, 2016 the Company issued 184,775 shares at a price of \$0.08 per share for the settlement of convertible notes payable with a total value of \$14,782. The company recorded interest of \$7,451 at November 11, 2016. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was \$83,733. See note 7(h).

On October 31, 2016, the Company issued 315,836 shares at a price of \$0.07 per share for the settlement of convertible notes payable with a total value of \$22,108. After this settlement, the balance of principal and interest due under the February 26, 2016 convertible note settlement at November 11, 2016 was nil. See note 7(n).

On November 1, 2016, the Company issued 416,446 shares at a price of \$0.084 per share for the settlement of convertible notes payable with a total value of \$35,000. After this settlement, the balance of principal and interest due under the June 30, 2016 convertible note settlement at November 11, 2016 was \$48,000. See note 7(f).

On November 1, 2016, the Company issued 389,910 shares at a price of \$0.077 per share for the settlement of convertible notes payable with a total value of \$30,023. After this settlement, the balance of principal and interest due under the August 31, 2016 convertible note settlement at November 11, 2016 was \$158,476. See note 7(m).

On November 3, 2016, the Company issued 300,114 shares at a price of \$0.07 per share for the settlement of convertible notes payable with a total value of \$21,008. After this settlement, the balance of principal and interest due under the August 5, 2016 convertible note settlement at November 11, 2016 was \$84,033. See note 7(o).

On November 3, 2016, the Company issued 360,886 shares at a price of \$0.07 per share for the settlement of convertible notes payable with a total value of \$25,262. After this settlement, the balance of principal and interest due under the August 11, 2016 convertible note settlement at November 11, 2016 was \$51,694. See note 7(q).

On November 8, 2016, the Company issued 405,259 shares at a price of \$0.068 per share for the settlement of convertible notes payable with a total value of \$27,355. After this settlement, the balance of principal and interest due under the May 31, 2016 convertible note settlement at November 11, 2016 was \$82,064. See note 7(r).

**5BARz International, Inc.**  
**Notes To Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 16 – Subsequent Events (continued)**

**Financing Agreement**

On September 22, 2016, 5BARz International, Inc., 5BARz Pte Ltd. in Singapore and Daniel Bland, collectively referred to as the 5BARz Group, entered into a memorandum of understanding agreement with RRM Resources Pte. Ltd. in Singapore, whereby RRM Resources agreed to lend to the 5BARz Group, \$3.5 million USD for working capital requirements in Singapore and India. The 5BARz Group have paid margin monies to be returned in full along with interest at Libor + 4% in the amount of \$250,000 USD on September 21, 2016 with a commitment to pay a further amount of \$110,000 USD, 5 days from release of the initial \$1.5 million loan from RRM Resources. The loan is to be funded in two parts, the initial tranche of \$1.5 million is to be funded within 12 days of the payment of the first tranche of the margin money, and the second tranche of \$2.0 million to be funded, with 25 days of payment of the initial margin monies. The loan term is 11 months from receipt of the first \$1.5 million, with an interest rate the greater of 4% on the outstanding principal, or 6 month LIBOR +2%. The loan was not yet funded by November 21, 2016.

On November 29, 2016 the Company and RRM Resources agreed to an extension of the \$3.5 million to be funded in December, 2016, as one installment or on a ballet basis. Per the extension agreement, the financing agreement will be cancelled if not funded in 15-30 days as extension agreement suggested.

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

### **Plan of Operations**

#### **Business**

5BARz International Inc. ("5BARz" or the "Company") is a leading wireless Company which has designed and patented a line of cellular network infrastructure devices for use in the office, home and mobile market places. The Companies products incorporate multiple patented technologies to create a highly engineered, single-piece, plug 'n play device that strengthens weak cellular signals to deliver high quality signals for voice, data and video reception on cell phones and other cellular equipped devices. The 5BARz® solution represents a critical solution for cellular network carriers in providing a clear, reliable, high quality signal for their subscribers with a growing need for high quality connectivity, especially as relates to the use of data on mobile devices. The Company's products are engineered to incorporate a great number of features more fully addressed herein.

The Company is in the process of developing the global commercialization of the cellular network product enhancements to facilitate the expansion through cellular network operators, with each sector of integration to be managed in geographic areas. The initial business focus is currently in India, with formative steps taken in Latin America, the U.S., Africa and Western European market sectors.

In recent months, the Company has diversified it's product offering, having developed a "Fuji WIFI Router" which is duly approved and certified by CE, and TEC certification in India. That product and those comprised in the "5BARz Broadband Experience Roadmap" are the basis of a recently announced Strategic Alliance Agreement, between 5BARz, and leading Companies in the region involved in the broadband and cellular network business. Pursuant to the terms of that agreement, the Companies are committed to deploy not less than 5 Million units of the 5BARz product to subscribers in India over a period of 5 years commencing on the execution date of this agreement. The Strategic alliance also contemplates the delivery of other products and accessories, which may include connected sensors, connected home automation devices, connected cameras, headsets, VoIP phones etc.

We were incorporated in Nevada on November 17, 2008 and the Company has offices in the States of Nevada, California and Florida as well as subsidiary operations in Mexico and India. The address of the Company's Innovation Center in San Diego is 9444 Waples Street, Suite 140, San Diego, California, 92121, in Nevada at 9670 Gateway Drive, 2<sup>nd</sup> floor, Reno Nevada, 89521 and in Florida at 1111 Brickell Ave. 11<sup>th</sup> Floor, Miami, Florida, 33131. Our centralized telephone number is 877-723-7255. Our web site is [www.5BARz.com](http://www.5BARz.com). Through a link on the Investor Relations section of our website, we make available the following filings as soon as reasonably possible after they are electronically filed with the Securities and Exchange Commission (SEC): our Annual Report on Form 10K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13 (a) or 15(d) of the Exchange Act. All such filings are available free of charge. The information posted on our web site is not necessarily incorporated into this report.

During the recent quarter, the focus of the Company has been multi faceted;

In India, our subsidiary Company, working in conjunction with our team of contract engineers in India and the US, and have been active working with some of the largest cellular network operators in the region, delivering product in response to increasing volume purchase orders received from those cellular network operators. The Companies are focused upon the integration of those products into the cellular network operators portfolio of solutions for the improvement of their network. The near term objective is to expand the manufacturing capability of the Company and supply of products to those cellular network operators and integrate the 5BARz® products into their supply chain. Participating cellular network operators can expect vastly improved connectivity for their subscribers in the region. The more significant improvements that subscribers will experience are (i) significantly improved upload and download times for data transmission, (ii) clearer voice communication with fewer dropped calls (iii) a reduction in radio frequency emissions at the handset utilized by the subscriber and (iv) improved battery life on the handset, to mention a few.

During the recent quarter, the Company has manufactured and delivered product based upon initial purchase orders received from two of the largest cellular network operators in India for units that are specifically channelized for operation on each operator's network. The Company has received very positive feedback on the operation of these units in India. Testing has indicated data rate improvements up to 100%, elimination of dropped calls and an elimination of buffering for audio/video reception. Based upon these deliveries, in addition to several other purchase orders in increasing quantities, one cellular network operator has issued a "Network Hardware and Software Ordering Document", commencing June 1, 2016, and effective for two years, which provides the parameters for orders to be shipped to that operator, during that period.

The Companies involvement with these cellular network operators, and the 5BARz proven capability in the industry have resulted in the expansion of opportunities for the Company. The Company delivered a "Fuji WIFI Broadband Router" in response to an opportunity to participate in the rapid expansion of broadband to the home throughout India, As a result on August 25, 2016 the Company entered into a Strategic Alliance Agreement with a Tier 1 cellular network operator in the region, along with a major broadband operator in the region to provide a minimum of 5 Million of the 5BARz broadband routers to clients of the Company's strategic partners. No orders have been placed to date and there is no guarantee that the Company will receive any orders from this Strategic Alliance Agreement.

The Company is continuing the process of expanding the features included, and improving the functionality of the cellular extenders, making the value proposition of the units vastly more significant than was originally envisioned. Having developed these products the Company is setting it's sights on several other geographic areas in which to integrate it's products.

It should be noted that the product designed for the market in India is designed in a configuration that is functional to provide services to 91 Countries globally, with an aggregate subscriber base of 2.98 billion subscribers comprising some of the most significant wireless markets in the world. Further sales orders are underway with a planned on-boarding of product to integrate the Companies products, into the supply chain of our customer. In addition, sales and marketing efforts with other cellular network operators in India are progressing with product deliveries expected to expand substantially in the balance of 2016.

In the US, the Companies innovation center in San Diego has been focused upon the logistics required to meet the needs of the marketplace in India as well as the transition of product manufacturing from the US to India for that marketplace. In addition, the Engineering teams in San Diego and India have continued the development of new product enhancements which will improve the products flexibility with respect to operational characteristics for various other global markets, including the US. Cellular networks throughout the world are comprised of variable configurations, using 2G, 3G and 4G LTE technologies, operating on variable bands and frequencies. New technology being integrated into the Companies products will serve to accelerate the Company's ability to customize product for specific market needs in various geographic areas and cellular network configurations. In addition, technological developments are being completed to enhance the "mobile" product first introduced in 2010 by the Company, improving the functional and simplicity of use of that product.

In Mexico, the inventory of Road Warriors have been presented to retail operators in the region and the Company has received expressions of interest from them to carry the product. However, that commitment is associated with a requirement for the funding of sales and marketing programs in the region by the Company, and the related working capital requirements for inventory. The Company has made the strategic decision to focus resources on the more significant activity in India at this time, and to commence the retail program in Mexico and Latin America, subsequent to the launch in India.

### ***Strategy and focus areas***

Our focus is on three foundational priorities;

- Leadership in our core business, maintaining the highest standards in developing highly engineered devices to manage connectivity in the vicinity of the user.
- Effective collaboration with cellular network operators to ensure that our products fully meet their needs in providing their subscriber base with a portfolio of state of the art solutions for maintaining excellence in connectivity.
- Architectural design creation, to facilitate the effective integration of the Companies product into new and innovative applications, to maintain operators control over that system and to expand product lines for use in automobiles, computers and numerous other areas of application.

The Company is uniquely positioned to take advantage of recent market transitions. As more and more users are migrating to the use of cellular equipped devices for communication, internet access, navigation and even entertainment, consumer demand for clear and consistent cellular signal has never been more important. In our opinion, this evolution driven by mobile device proliferation is in early stages. 5BARz is uniquely positioned to meet this growing demand with their developing line of product.

The Company's recently introduced, highly evolved innovative, carrier grade device, incorporates technologies and a combination of functionality which represents the most advanced product developed in this market, to date. This next generation cellular network extender, branded as 5BARz® incorporates patented technology to create a highly engineered, single-piece, plug 'n play unit that strengthens weak cellular signals to deliver higher quality signal for voice, data and video reception on cell phones, and other cellular equipped devices.

### ***Products***

The 5BARz Cellular Network Extender was unveiled at the Mobile World Congress in Barcelona, Spain, March 2014. Since that time the product has undergone significant product field testing in international locations and improvements, resulting in a product which is ready for deployment.

This product supports 2G & 3G technologies for cellular devices, and has been designed in configurations which operate on either a single frequency or multiple frequencies. The technology has successfully integrated both send and receive antennae into the single device, and hosts an abundance of features which have never before been integrated into a single portable cellular device.

The Company's initial product, *the Road Warrior*, won the prestigious 2010 innovation of the year award at CES (the largest consumer electronics show in the world) for achievements in product design and engineering. The *Road Warrior*, has passed FCC Certification, and has been produced in limited quantities to date by a contract manufacturer in the Philippines. 5BARz current technological developments have eclipsed the original Road Warriors produced.

Management at 5BARz are confident that this new cellular device will alleviate much of the frustration experienced by users globally, associated with weak or compromised cellular signal. This technology facilitates cellular usage in areas where structures, create "cellular shadows" or weak spots within metropolitan areas, and highly congested areas such as freeways, and also serves to amplify cellular signal as users move away from cellular towers in urban areas. The market potential of the technology is far reaching.

The market opportunity for the 5BARz™ technology represents nearly 7 billion cell phone subscribers worldwide serviced by 900 cellular network operators. These cellular network operators represent the Company's primary point of entry to the Global marketplace.

The 5BARz business opportunity to bring this state of the art technology to market represents a significant step forward in the deployment of micro-cell technology in the industry.

### **Company History & Corporate Development**

5BARz was incorporated on November 17, 2008, is a Nevada Corporation and was a designated shell Company until 2010. In 2010 the Company acquired the "Master Global Marketing and Distribution Rights" for the marketing and distribution of 5BARz™ products throughout the world from CelLynx Inc., a California based Company. In addition to the acquisition of the marketing and distribution rights, the Company acquired a 60% interest in the underlying intellectual property comprising the 5BARz™ products, and holds a security interest over the balance of those assets.

On March 27, 2012, 5BARz acquired a 60% controlling interest in CelLynx Group Inc. and its consolidated subsidiary CelLynx Inc. CelLynx was the original developer of the core technology underlying the 5BARz business.

On January 12, 2015, 5BARz International, Inc. incorporated another subsidiary Company, 5BARz International, SA DE CV in Mexico. The Company is a 99% owned subsidiary of 5BARz International, Inc. with the remaining 1% owned by Daniel Bland, the CEO of 5BARz International, Inc. The Company has obtained the necessary product approvals for the sale of the 5BARz Road Warrior product in Mexico, and has imported a limited inventory of product for resale in the Country.

On January 12, 2015, 5BARz India Private Limited was incorporated in India, a 99.9% subsidiary of 5BARz International, Inc. During the quarter under review, the Company shipped orders to two, Tier one cellular network operators in the region, and are organizing for a ramp up of production and sales volumes.

On May 26, 2016, the Company incorporated a subsidiary 5BARz PTE. Ltd. in Singapore, which is wholly owned by 5BARz International Inc.

During 2012 and 2013, the Company presented the first version of our product, the “Road Warrior” to Cellular Network operators in order to establish market recognition and interest in the product globally. Having established expressions of interest in the product, in June 2013 the Company entered into a collaboration agreement with a leading cellular network operator. Through that arrangement, we established a product development program to deliver a product, designed with our partners input that meets their requirements, in order to integrate the product into their portfolio of solutions for network improvement.

In November 2013, 5BARz set up an Innovation Center in San Diego California, staffed by a talented engineering team and in addition established significant outsourced engineering and fabrication talent internationally. As a result, a state of the art product was developed working with our collaborative partners. The Company is very pleased with the quality of product provided with feature sets that meet and exceed those originally envisioned in our collaboration plan. The Company is equally pleased with the future development programs being developed, which significantly expands the horizons of the Company’s product line and our value proposition to the wireless industry.

As the Company’s newest products commence limited production, for distribution and testing by potential partners in locations around the world, our focus moves to the development of high volume manufacturing to meet global demand. Our manufacturing partner Flextronics represents an industry leader in the design, manufacturing, distribution and aftermarket support of electronic products. Flextronics operates through a network of facilities in more than 30 countries with a global workforce of 200,000. The association with Flextronics is a significant factor in establishing speed to market, and a support infrastructure that can be relied upon and a driver of competitive positioning.

### **Milestones**

2007: 5BARz™ working prototype was developed of an affordable consumer friendly single piece plug ‘n play booster with a minimum of 45dB of gain in both up and down paths. This was the initial proof of concept product.

July, 2008: Dollardex Group entered into an exclusive “Master Global Marketing and Distribution Agreement” (the “Distribution Agreement”) for the 5BARz™ products.

July 2009: First production run and FCC Certification of 5BARz Road Warrior

August 2009: Field testing and final modification of 5BARz Road Warrior

January 2010: 5BARz Road Warrior Selected as CES Innovations 2010 Design and Engineering Award. Marketing commenced in the Philippines for product designated for the U.S.

January 2011: 5BARz International Inc. acquires the “Master Global Marketing and Distribution Agreement” for the marketing and distribution of 5BARz™ products throughout the world, and enters into agreement for the acquisition of a 50% interest in the underlying intellectual property.

January 2011 – 5BARz International Inc. engages business development consultants in Latin America, to present the 5BARz Road Warrior product to R&D departments at major wireless carriers in the region for field testing. That program resulted in positive feedback and recommendations to help guide the further development of the product line.

February/March 2012 – The Company formed an Advisory Board comprised of leading executives within the technology sector to assist in the integration of the 5BARz™ technology and products into global markets. See bios in news – [www.5BARz.com](http://www.5BARz.com)

Dr. Gil Amelio – Director ATT, Former CEO – Apple Computer

Mr. Marcelo Caputo – CEO Telefonica USA

Mr. Finis Connor – Founder of Seagate Technology and Connor Peripherals

March 2012 – 5BARz International Inc. completed the acquisition of a 60% interest in CellLynx Group, Inc. (the originator of the 5BARz™ technology), developing a fully integrated subsidiary for the global deployment of the 5BARz™ business opportunity.

August 2012 – Internal Engineering develop functional prototype units of the revised cradle-less 5BARz™ cellular network extender with several new and improved features over the Road Warrior unit.

June 2013 – Company enters into a Technical Collaboration with a leading international Cellular Network Operator, to deliver a network extender that will be designed and built, based upon the 5BARz™ patented technology, to meet the specific requirements of that wireless network operator.

October 2013 – Company opens its state-of-the-art “innovation center” in San Diego, California. The center houses the 5BARz’ engineering division as it expands operations to accelerate development of the 5BARz™ technology.

November 2013 – 5BARz appoints Gil Amelio, former CEO of Apple Computers as Chairman of the Board of 5BARz International Inc.

February 2014 – 5BARz files several new patent applications.

February 2014 – 5BARz International, Inc. unveils the 5BARz Network Extender at the Mobile Wireless Congress in Barcelona, Spain. This new product is a highly evolved, innovative, carrier grade technology and device that delivers much improved cellular signals, enhanced voice, data, and video reception, on cellular equipped devices.

August 2014 - 5BARz Hires Top Industry Executive to Launch Latin American Operations, Marcelo Caputo, a successful industry executive and former CEO of Telefonica USA.

August 2014 – 5BARz makes initial delivery of custom designed prototype device to Tier 1, Cellular network operator in Latin America, for product field testing and evaluation.

November 2014 – 5BARz completes \$3.5 Million dollar private placement, proceeds used to progress the Company’s technology and product line.

January 2015 – 5BARz engages David Habiger, an industry veteran and Senior Advisor at Silver Lake Partners and Venture Partner at Pritzker Group Venture Capital, as a member of its Advisory Board.

January 2015 – 5BARz incorporates subsidiary Company in Mexico, completes approvals on Road Warrior devices and imports limited inventory of product for resale.

January 2015 – 5BARz establishes Subsidiary Company in India, and commences field trials on custom designed prototype products. The Company also commences collaboration arrangements with Tier 1 cellular operators.

March 2015 - 5BARz India hires a Top Telecom Executive and engineer Mr. Samartha Raghava Nagabhushanam to serve as Managing Director and CEO of 5BARz India Private Limited.

March 2015 - 5BARz India signs an investment banking engagement agreement with Axis Capital Ltd. of Mumbai, India, with the intention of raising \$20 million USD to fund operations. To date, no money was raised under this agreement.



August 2015 – 5BARz receives initial purchase orders for product deliveries into Delhi and Mumbai India, from a Global Tier 1 Cellular Network operator.

September 2015 - 5BARz ships products into India pursuant to purchase orders referred to above. Initial testing results reflect data rate improvements up to 100%, elimination of dropped calls and a significant elimination of buffering for audio/video reception.

February/March 2016 – 5BARz ships a series of orders to fulfill purchase orders in India to Vodafone and ships demo product to another Tier One cellular network operator in the region.

June 1, 2016 – 5BARz enters into a Network Hardware and Software Ordering Document with Bharti Airtel in India, and receives initial indication of \$1.5 million in product ordering requirements in the subsequent months.

August 2016 – 5BARz announces the development of the 5BARz Fuji Router, and a minimum commitment from a leading broadband operator and cellular network operator for the deployment of 5 million units over 5 years.

### **The Market Opportunity**

The market opportunity for the 5BARz™ technology represents nearly 7 billion cell phone subscribers worldwide and is growing as a result of the following factors;

- Dead zones, weak signals, and dropped calls are the biggest problems in the industry. Now, by adding internet and video, the quality issue is increasing exponentially.
- 76% of cellular subscribers use their mobile phone as the primary phone
- More consumers are using mobile phones for web browsing, up and down- loading photos, videos and music
- More mobile phones are operating at higher frequencies which have less ability to penetrate buildings
- Weak signals make internet applications inaccessible and slow and increase the drain on cell phone batteries.
- Forty percent of all mobile phone users report inadequate service in their homes or office and we estimate that 60% of the 6.8 billion mobile phone users worldwide consider continuous connectivity to be very important.

Consumer demand for quality in the cell phone user experience is becoming an increasingly important factor. The 5BARz™ technology meets this need. 5BARz is currently developing relationships with Cellular network operators internationally to integrate the 5BARz™ product into cellular networks globally.

The recently developed expansion of product by introduction of the 5BARz WIFI Router has facilitated the Company's participation into a rapidly growing opportunity for broadband connectivity in the home in India. Currently 30% of homes in the region have Broadband connectivity. That percentage is expected to expand considerably in the region for a few reasons. First, the cost of connectivity is decreasing and in addition new apps exist which facilitate voice recognition and translation of commands. Any person in any language can now access the worldwide web. The opportunity, envisions the expansion of services beyond router connectivity. The 5BARz roadmap envisions expansion of product into the internet of things technologies and big data management services and sales.

## **Why Poor Signals Exist**

A variety of factors may cause dropped calls and dead zones, including congestion, radio signal interference, tower hand-off, and lack of coverage. Despite continued infrastructure investment by operators, and antenna technology improvements by base station providers and mobile phone makers, these problems will continue for the foreseeable future. This is because many of the contributing factors can't be controlled by the operators and manufacturers. To understand how innovative 5BARz® products are in improving phone signals, it's first important to understand the causes of poor signal quality.

### *Congestion*

In 1999, sales of mobile phones surpassed combined sales of personal computers and automobiles. By 2010, mobile phones had replaced land-line phones in 30% of U.S. households. Smart phones, led by iPhones and Android phones, have become indispensable personal assistants. Laptop computer sales outnumber desktop computer sales, and most laptops are equipped with cellular data chipsets or USB modems. Apple's iPad has sparked the connected tablet market too. Vending machines, automobiles, mobile sensors, and many other devices include "machine to machine" cellular data modules. As a result, the number of cellular voice and data devices will soon exceed the number of people on Earth.

If sheer numbers weren't enough, new uses for mobile devices are causing even faster growth in bandwidth usage. Obvious uses include video entertainment, videoconferencing, downloaded and streaming music, MMS, email, and application downloads. Facebook, Twitter, Foursquare, and many other social networking applications put further load on operator networks. Also, surprising sources of traffic have emerged, such as deliberate "miscalls". A miscall is when one subscriber calls another, but hangs up before the receiving party answers. Since operators don't charge for these uncompleted calls, subscribers are using miscalls as a free way to communicate. In India, orders for milk are made this way. In Syria, five miscalls in a row signals the recipient to "go online" to the Internet and chat. In Bangladesh, it's estimated that up to 70% of traffic at peak times is due to miscalls. This practice isn't limited to countries with low per-capita income, and yet it places a high load on operator networks.

There are sources of congestion based on location and time, too. Transportation clusters like airports, major highway intersections, bridges, and toll road gates all bring many people together at peak times. Also, because of home land-line replacement, many residential neighborhoods have many mobile phones in simultaneous use in mornings and evenings. Lastly, local population growth and immigration can result in too many phones for existing infrastructure. Due to long planning times, investment requirements, local government permits, and construction time, it's difficult for infrastructure to keep up with the pace of change in many developing areas, especially in growth countries.

### *Radio Signal Interference*

Interference comes from both obvious and subtle causes. Certain materials aren't transparent to radio signals, especially durable materials used in buildings, large structures, and even automobiles. As a result there are radio shadows in which a mobile phone can't sense the signal from a base station. In addition, radio signals from adjacent channels or reflected signals can interfere with each other due to wave cancellation effects. In some cases these forms of interference primarily attenuate the signal (make it weaker). However, interference can also add noise, so that the ratio of signal to noise becomes too low for the mobile phone and the base station to understand each other.

### *Tower Hand-Off*

Mobile phone networks are called "cellular" networks because they are made up of overlapping areas of coverage that are provided by base stations in fixed locations. As a mobile subscriber travels by automobile or train, he will eventually reach the limit of a base station's coverage. At that point, his mobile phone will "hand off" to a base station for the next coverage area. If signal quality is poor due to interference, or if the new base station is congested with too many mobile phones, the subscriber's connection may be lost.

### *Lack of Coverage*

Some rural or developing areas don't have enough people or population density for operators to justify the cost of installing base stations except at wide intervals. In these areas the signal strength from the base station or the mobile phone may be too low to create or maintain a connection. This results in "dead zones" or dropped calls.

### **Solutions to Poor Signal Quality**

Operators know that dead zones, dropped calls, and poor voice quality are big problems, and that re-dialing while driving can be unsafe. Operators also are concerned about subscribers' ability to make emergency calls. They understand that people rely on mobile phones for business and connecting with family. As mobile phones replace landlines, operators are especially aware that mobile signal quality is critical. Operators also see that wireless data is increasingly important for personal and business use.

To help, operators work with phone and base station manufacturers to improve antenna performance. They invest in new base stations in growth areas. They invest in technologies that enable more connections per base station. Operators have even provided refunds for dropped calls.

However, many factors causing poor signal quality can't be controlled by operators. Therefore products have emerged to help, provided by operators or companies who sell to either operators or subscribers.

### *Femtocells*

Operators can provide femtocells to subscribers with poor signal quality at home. Usually the subscriber pays for hardware, installation, or a monthly fee. Femtocells are carrier grade, and are like small base stations that communicate with operators by using the home Internet connection as a "backhaul". In addition to backhaul the incoming call is routed thru the internet as well, which leads to the degradation of a call when trying to access the internet as well as engaging in a call. Lastly, femtocells only work with phones from one operator, so families with phones from multiple operators may have to request multiple femtocells.

### *Repeaters*

Repeaters are usually carrier-grade equipment and are programmed for a specific operator. They extend cellular networks into buildings and small offices. As with femtocells, installation is complex and if not done properly they can cause network problems. Unlike femtocells, repeaters do not use the local Internet connections, but rather receive and re-transmit the signals between base stations and mobile phones.

### *Boosters*

Boosters are usually sold online and through retail. They vary widely in amplification power, quality of amplification, and power balance. For example, these products amplify signals at 1, 3, 5, or even 10 watts all the time. Using power over 1 watt increases the probability that a booster will interfere with surrounding mobile devices. Also, it would be more energy efficient to adapt amplification power as needed, rather than to simply use the same wattage constantly. Many boosters don't support balanced power in both directions between base station and mobile phone. This may result in only solving the signal quality problem in one direction. Since communication is bi-directional, this doesn't actually solve the problem. Varying quality of amplification also introduces noise, which can interfere with surrounding devices. Further, in order to avoid a feedback loop, Boosters have to be separated into at least two units, a receive and send antennae. The communication between these two units in some applications utilize wires, in others, utilize a 5Mhrtz signal which is high frequency and does not penetrate building structure well, also subject to WiFi interference. These units are costly and require installation effort, to sustain signal quality. The manufacturing cost is more than 2 times that of the 5BARz unit, and they have relatively high power consumption to operate.

## **A New Class of Solution**

5BARz has evaluated the causes of poor signal quality, the needs of both operators and subscribers, and the solutions in the market. Femtocells, repeaters, and boosters either don't solve all parts of the problem, or aren't optimal due to cost or other drawbacks. Using expertise starting with a team of engineers who designed sophisticated base station amplifiers for operators, 5BARz has developed a new class of carrier-grade technology. That engineering team grew to a multi-national teams of engineers working on project specific challenges integrated into the 5BARz® products. The result is a highly engineered hybrid of repeaters and boosters, intended for use in automotive applications, home, and office. 5BARz has tested these products in the lab, in the real world, and with operators. These products advance the state of the art to provide the following advantages:

### *Low Power Use*

5BARz® products only amplify when required. The automotive products use less than 1/2 watt, while the home product uses less than 1 watt. This not only saves energy, but also minimizes interference with other wireless devices and the network itself. In fact, new rules being proposed by the U.S. Federal Communications Commission are expected to mandate low power standards such as 5BARz now provides.

### *Simple Setup*

5BARz® products don't require a technician to run wires, carefully determine proper location, or optimize orientation. No use of home Internet connection is required, and there are no switches or settings. The unit has a simple plug and play installation requirement.

### *Balanced Amplification*

This feature, plays a key role in ensuring that the product does not interfere with the macro network, and is a feature covered by the Company's patented technology. Receive and sent signals need automatic balance management in order for both directions of a communication channel to be improved. 5BARz® products are not only *smart* about adapting amplification levels, but also about balancing amplification for incoming signals from the base station, and return signals from the mobile phone. This attribute is critical in that it ensures that the operation of the unit automatically avoids interference with the Macro Network. This automated process is a part of the 5BARz® patented technology.

### *Signal Stability*

5BARz has done extensive design, testing, and re-design to avoid a number of problems experienced by the antenna design of alternatives. For example, booster products can experience oscillations when people, animals, or vehicles move nearby. These oscillations can weaken the booster effect or cause interference with other wireless devices. Many booster products achieve size similar to 5BARz®' products by putting antennas close together in the same product package, but don't optimize radio wave interactions between those antennas. This weakens the boosters' effectiveness, and is one reason why other manufacturers compensate by using too much wattage, in turn wasting power and increasing the probability of interfering with other radio frequency devices and the network.

### *Integrated Antennae*

The Company has developed and patented technology which facilitates the integration of both the receive and transmit antenna into the single device, without creating a feedback loop. This represents a very significant technological advance permitting the unit to be a self contained plug and play consumer electronic.

#### *Broadband / Narrow band support*

The Company's products can provide amplification for bands from 5 to 60 Mhz.

#### *Smart signal processing*

The Company's product is also capable of "interference & echo" cancellation, in addition to automatic noise suppression. As a result, the signal that reached your cell phone is both better quality and a stronger signal.

#### *Self regulating intelligent power management*

The unit is designed to sense cellular signal strength and will automatically adjust amplification to optimum levels.

#### *Enhanced cell phone user experience*

The 5BARz unit covers an area of some 4,000 square feet, providing a much increased voice experience and increased data throughput. In addition, the cell phone handset can experience power savings up to 80%.

#### *Additional features*

- May be factory tuned for specific channel or frequency
- Multi band 2G/3G support with 4G LTE coming soon
- No back-haul (internet access) required
- No latency
- NOC capable – Network operator may control the unit when required
- SON – Self Organizing Network capable – improving performance automatically.

**Intellectual property**

<b>Title</b>	<b>Patent Application</b>	<b>Patent Issued</b>
Cell Phone Signal Booster	11/625331 – US	8005513
Dual Cancellation Loop Wireless Repeater	12/106468 – US	
Wireless repeater	13/214983 – US	
Wireless Repeater Management Systems	12/328076 – US	
Dual Loop Active and Passive Repeater Antenna Isolation Improvement	12/425615 – US	
5BARz™ Trademark	78/866260	3819815
Multi-Band Wireless Repeater – CN	200980146487.1	
Multi-Band Wireless Repeater – IN	2288/DELNP/2011	
Multi-Band Wireless Repeater – KR	(PCT) 10-2011-7009297	
Multi-Band Wireless Repeater – MX	MX/a/2011/002908	301028
Multi-Band Wireless Repeater – US	12/235313	8027636
Remote Management of Network Extenders	61/943319	
High Gain Wireless Repeaters	61/943145	
Self Organizing Network Extenders	61/943797	

## Comparative Analysis

	5BARz	Femtocell	Traditional Repeaters
<b>Options for Consumer</b>	<ul style="list-style-type: none"> <li>Plug and play solutions that significantly improves wireless service</li> </ul>	<ul style="list-style-type: none"> <li>Carrier-specific box that connects to the internet through the broadband service at the home and acts like a short-range network tower site</li> </ul>	<ul style="list-style-type: none"> <li>Bi-directional amplifier and external antennas Installation of antennas required with minimum spacing of 35 feet or more between the antennas</li> </ul>
<b>Easy to Understand</b>	<ul style="list-style-type: none"> <li>Simply place the unit where there is some or marginal wireless service, turn on the unit and the voice and data wireless service is improved for everyone</li> </ul>	<ul style="list-style-type: none"> <li>Connect the unit to your broadband service where your router is located and the <b>voice only</b> wireless service should be improved throughout the home</li> </ul>	<ul style="list-style-type: none"> <li>Need to determine what the two pieces of equipment, cables, and multiple power cords are for</li> <li>Complex manual ... Determine the ideal location for both antennas, outdoor network antenna and indoor coverage antenna, then determine ideal location for the bi-directional amplifier for proper cable routing to the antennas</li> </ul>
<b>Cost</b>	<ul style="list-style-type: none"> <li>One-time equipment charge only \$299 5BARz Road Warrior</li> </ul>	<ul style="list-style-type: none"> <li>Equipment charge \$250 for each carrier, 2 carrier house or SOHO equals \$500 equipment charge Equipment won't work if you change carriers Possible monthly fee Requires use of broadband service</li> </ul>	<ul style="list-style-type: none"> <li>Equipment charge starting at \$350 for dual band Professional installation starting at \$200 Higher performance antennas starting at \$100</li> </ul>
<b>Setup</b>	<ul style="list-style-type: none"> <li>Plug 'n play No adjustments One part works for all carriers</li> </ul>	<ul style="list-style-type: none"> <li>Carrier-specific set up May require ISP support Currently Voice Only</li> </ul>	<ul style="list-style-type: none"> <li>Go on roof to measure signal level; outdoor network antenna placement based on testing for 2 bars or more signal strength Antennas need to be spaced 35 feet or more apart</li> </ul>
<b>Reliability</b>	<ul style="list-style-type: none"> <li>Designed by engineers and brought to production by managers trained in the Six Sigma quality process Self contained, fewest cables/connectors</li> <li>Oscillation suppression circuitry</li> </ul>	<ul style="list-style-type: none"> <li>Broadband vulnerable: Degraded broadband throughput Power outage Depends on carrier down/power down on carrier command Intermittent handoffs with macro network</li> </ul>	<ul style="list-style-type: none"> <li>External antennas less reliable Connectors Outdoor mounting Oscillation prone</li> </ul>
<b>Installation</b>	<ul style="list-style-type: none"> <li>None; Plug 'n play</li> </ul>	<ul style="list-style-type: none"> <li>Needs to be collocated with broadband service GPS antenna may need to be installed near a window with a cable going to the femtocell</li> </ul>	<ul style="list-style-type: none"> <li>Professional installation recommended</li> </ul>

## Product Comparison



Apple Extreme



5Barz Fuji

Band of operation		
2.4 GHz	Y	Y
5 GHz	Y	Y
Simultaneous dual band operation	Y	Y
Wireless WAN support	N	Y
WLAN 802.11 a/b/g/n/ac	Y	Y
Beam forming	Y	N
Built in 3G/4G WAN access	N	Y
Support for RJ45 wired WAN access	N	Y
Mobile app based remote management	Y	Y
Gigabit ethernet LAN ports - 4	Y	Y
Gigabit ethernet WAN ports - 1	N	Y
Host USB 3.0 for external storage	Y	Y
RJ 11 FXS port for VoIP	N	Y
Number of users	50	12*
WLAN Output power in dBm	32.5	23, scalable to 30
Guest network support	Y	Y
Power back up	N	Y



**Products and Markets**

To date the Company has introduced three products to market incorporating the 5BARz® patented technology as follows;

**5BARz Network Extender**



**5BARz Road Warrior**



**Specifications:**

- System Gain: up to 95 dB
- Physical dimensions: 140 X 100 X 41 mm
- Weight: 300 Grams
- Number of simultaneous users: 10
- Frequency bands supported: 2100, 850, 900, 1700
- Modes: 3G/2G (Next version will support 4G) and 1800
- Power consumption: 5W
- EIRP (uplink): 25 dBm
- EIRP (downlink): 10 dBm
- Flatness: +/- 0.5dB
- Noise figure: < 3.5 dB
- Operating Temperature: 0 to 40 degrees C
- External supply: 100 – 240 VAC
- Commercial Grade Hardware
- Complies with new FCC requirements for BBA sold in the USA after March 2014

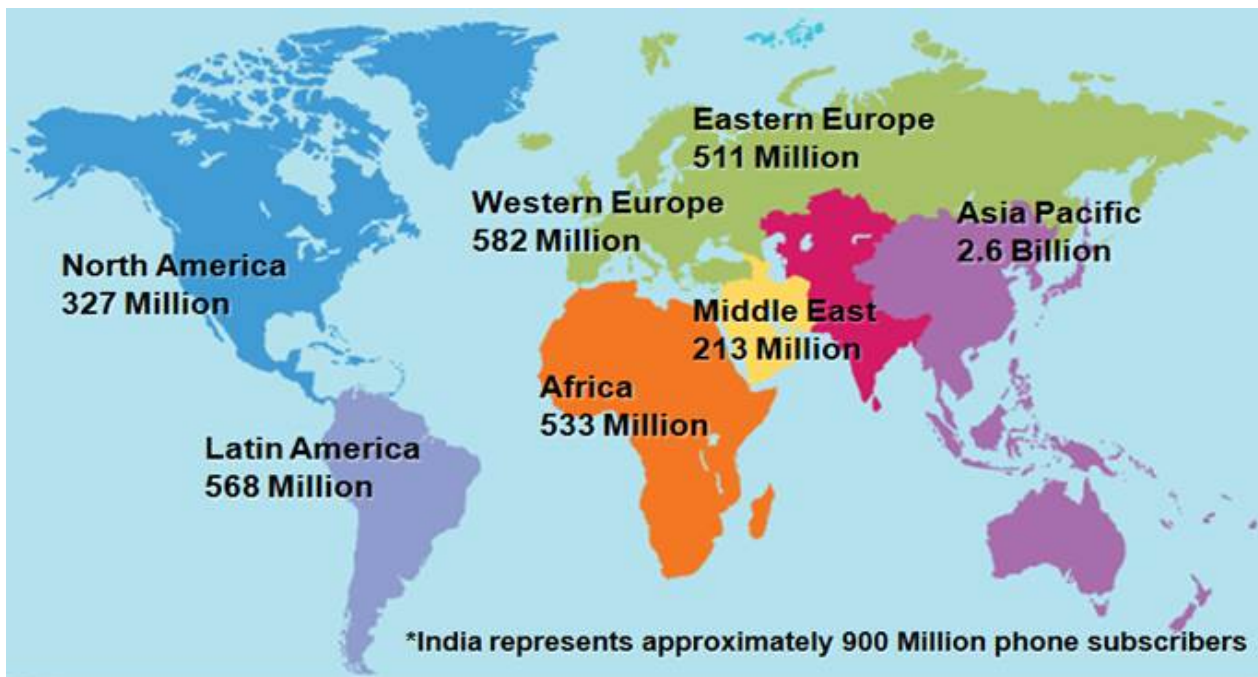
**Specifications:**

- Maximum input power: +20 dBm
- Output power: 0.25 watt average /1 watt maximum
- Service Antenna: Cigarette lighter/power cord antenna
- Frequency Bands: Full-band US Cellular and full-band US PCS
- System gain Cell/PCS: 40/45 dB, self-optimizing
- System noise figure: 5 dB nominal at maximum gain
- Power Supply: 12 VDC
- Power dissipation: 6 Watts
- Dimensions: 5.0" x 4.75" x 1.35"
- Weight: 1 lb (0.45kg)

	<p><b>5BARz Fuji</b></p> <table border="0"> <tr> <th style="text-align: center;">FEATURES</th> <th style="text-align: center;">EXPERIENCE</th> </tr> <tr> <td> <ul style="list-style-type: none"> <li> Always on* with 4-hours battery backup</li> <li> Wireline + Wireless backhaul combined</li> <li> Parental controls and usage control</li> <li> Full home coverage</li> <li> Up to 866 MBPS data speeds</li> </ul> </td> <td> <ul style="list-style-type: none"> <li> Remote Network Management Capabilities</li> <li> Intelligent Usage Based Software Algorithms</li> <li> Approved and Tested by Carriers across the World</li> <li> Single Unit Device/ Plug &amp; Play</li> </ul> </td> </tr> </table>	FEATURES	EXPERIENCE	<ul style="list-style-type: none"> <li> Always on* with 4-hours battery backup</li> <li> Wireline + Wireless backhaul combined</li> <li> Parental controls and usage control</li> <li> Full home coverage</li> <li> Up to 866 MBPS data speeds</li> </ul>	<ul style="list-style-type: none"> <li> Remote Network Management Capabilities</li> <li> Intelligent Usage Based Software Algorithms</li> <li> Approved and Tested by Carriers across the World</li> <li> Single Unit Device/ Plug &amp; Play</li> </ul>
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## Markets and marketing strategy

The Company's primary entry point to markets is through collaborative arrangements with Cellular Network operators. That market is comprised of nearly 7 billion cellular subscribers globally separated by geographic region as follows;



As provided in the diagram above, the second largest market in the world for cellular subscribers is India with 13% of the world market. This is the Company's current and primary point of market penetration.

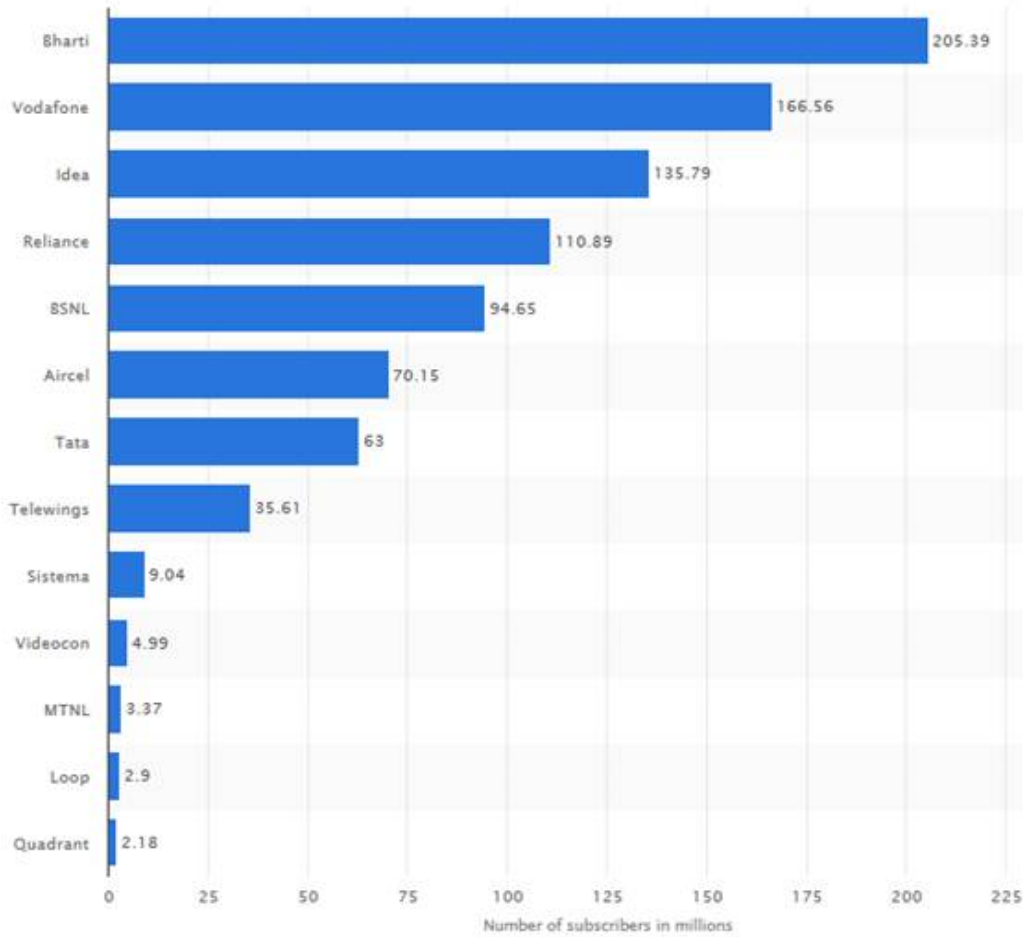
It is the intent of the Company, as adoption of the products begins to accelerate in India, to expand their global footprint into other quickly expanding markets such as the Asia Pacific region, Africa, the Americas and Europe.

In addition, it is the intent of management to design future applications of the Company's technology that will be integrated into the marketplace through the redesign of the products, working in collaboration with Original Equipment Manufacturer's (OEM's), such as with automobile manufacturers, computer manufacturers, mobile home manufacturers etc.

The Company has been expanding its employee/consultant base in India, Latin America, and South Africa due to significant product interest in those regions. Further the Company has set a structure for the development of the German speaking market place in Europe, through a subsidiary operation 5BARz AG in Zurich Switzerland.

## The Wireless Market in India

With a subscriber base of more than 905 million by March 2014, the Mobile telecommunications system in India is the second largest in the world and has been available to private operators since the 1990s. GSM is comfortably maintaining its position as the dominant mobile technology with 80% of the mobile subscriber market. The mobile market is operated by the following cellular network operators;



## **The Wireless Market in India – continued**

On the global stage, India saw the fastest growth in new mobile-phone connections with 18 million net additions in the third quarter of 2014, according to a report by Swedish mobile network equipment maker Ericsson. The number of smartphones, which account for just 37 per cent of all mobile-phone subscriptions, is growing at 15 per cent compounded annual growth rate, and will cross 6,100 million by 2020. The falling cost of handsets, coupled with improved usability and increasing network coverage, are factors that are making mobile technology a popular phenomenon in the country.

In December 2014, 5BARz introduced a number of prototype units for use in India, to the Company's consulting engineering team working in the country for field trials, and then to the R&D department of a select cellular network operator working in the Country. It is the objective of 5BARz to manufacture and distribute the products, working in conjunction with cellular network operators in the country.

The following factors are considered to be particularly relevant with respect to the need for the 5BARz products in India.

- In India the monthly churn rate for subscribers is 6% (BMI India Telecommunications Report, 2Q 2012, pp. 49-51). To provide to a cellular network operator a distinct competitive advantage, such as that provided by the 5BARz cellular network extender, could result in a substantive migration of customers to that network operator, and a reduction in churn.
- As provided above, congestion is a prominent issue resulting in the degradation of cellular connectivity. India is the second most populated region in the world, and so the need for the 5BARz technology is most acute.
- Mobile and Wireless Telecommunications issued a report, August 2013 which highlight a number of favorable factors being experienced in the wireless industry in India, which is positive for 5BARz entry into that market as follows;
  - o The government has recently permitted Foreign Direct Investment in the telecom sector
  - o The industry has moved toward a more friendly regulatory environment
  - o Burgeoning data usage, has created the need for improved connectivity
  - o Customer's happiness – A vital cornerstone of any service is the customer. His satisfaction is a direct indicator of running a good business. And this is primarily the service providers' responsibility. 5BARz is offering to service providers improved connectivity for their customers.

## **The LATAM Market**

The Company has analyzed the fundamentals of the mobile phone market in the LATAM countries and has determined that to be a key point for market penetration for the 5BARz™ products for the following reasons;

First, the mobile phone market has just gone through a very strong decade of growth in Latin America, with mobile subscriptions having overtaken fixed lines as the preferred method of communication. As a result Latin America's mobile telephone industry has a high degree of market penetration. Mobile subscriptions totaled 88.2% of the region's population, compared to 55.2% in Asia Pacific, 90.4% in North America and 50.6% in the Middle East and Africa. Having recently invested heavily in subscription development, the cellular network operators are now focusing upon the maintenance of their substantial customer base, and the 5BARz™ technology can contribute substantially to achieving that customer satisfaction.

The mobile telephone industry in Latin America has benefited from generally opening up to competition. This provides a very fertile ground for the introduction of a technology such as 5BARz™ to secure customer retention through quality of service.

The inherent geographical difficulties in laying fixed line infrastructure have encouraged a move to mobiles, but in addition, that geography, the Andean and Rainforest regions and expanses of rural areas again benefit from the 5BARz™ technology whereby weak cellular signal is amplified within the vicinity of the user.

Further the LATAM countries are experiencing a renewed era of strong growth, reflecting reviving economic growth and improving income levels. This again is a favorable factor for the introduction of our products to meet the growing demands of consumers.

In addition, the launch of 3G and mobile broadband services has increased demand for mobile subscriptions. Mobile broadband is particularly desirable in areas with no or limited access to cable internet services. Moving to mobiles offers consumers the benefits of on-the-move communications and advantageous introductory deals. Greater access to communications also helps to narrow regional divides. All of these factors are enhanced by the 5BARz™ experience.

Internet usage is expanding since 2010, with broadband internet subscriptions generally growing by higher rates than mobile subscriptions

Initial 3G market expansion is likely to be greater in the region's wealthier markets, such as Argentina, Chile and Mexico, and these have been specifically targeted by our Company. Latam subscribers are;

- **Brazil: 271 million**
- **Mexico: 92.9 million**
- **Argentina: 56.7 million**
- **Colombia: 49.1 million**
- **Venezuela: 27.9 million**
- **Chile: 21 million**
- **Other countries: 103 million**
- **Total: 621 million**

In 2014, the Company imported 1,000 Road Warrior units into the Region and obtained necessary approval for the sale of those units in Mexico. In January 2015, the Company incorporated a subsidiary company in Mexico to commence sales of that product. The R&D team are currently working on several new and innovative products that will fit the needs of the Region.

## Results of Operations

Three-month period ended September 30, 2016 compared to three-month period ended September 30, 2015.

	3 Months ended September 30, 2016	3 Months ended September 30, 2015	Difference
<b>Sales</b>	\$ 19,543	\$ —	\$ 19,543
<b>Cost of Sales</b>	(64,881)	—	(64,881)
<b>Gross Profit</b>	(45,338)	—	(45,338)
Amortization and depreciation	\$ 138,966	\$ 135,747	\$ 3,219
Sales and marketing expenses	224,948	213,308	11,640
Research & development	564,043	970,424	(406,381)
General and administrative	918,748	922,611	(3,863)
<b>Total Operating Expenses</b>	1,846,705	2,242,090	(395,385)
Other income (expenses)	522,263	(579,682)	1,101,945
<b>Net Income (Loss)</b>	\$ (1,369,780)	\$ (2,821,772)	\$ 1,451,992

The three months ended September 30, 2016 reflects a net loss of \$1,369,780, representing a decrease in the loss of \$1,451,992 compared to the corresponding three-month period loss of \$2,821,772 for the period ended September 30, 2015. The largest components of this decrease are a reduction of research and development expenditures of \$406,381 and other income of \$1,101,945 recognized during the quarter in 2016, which is comprised of an increase in the change in the fair value of derivative liability and a decrease in interest expense and the amortization of debt discount related to convertible notes that were settled during the quarter ended September 30, 2016.

The general and administrative costs decreased from the three months ended September 30, 2015 to the three months ended September 30, 2016 by \$3,863.

In addition, research and development expenses in the three months ended September 30, 2015 were greater than the three months ended September 30, 2016 by \$406,381. This decrease is accounted for by a reduction in research and development expenses as the Company shifts focus to the deployment of network extenders and routers throughout India as compared to the corresponding period in the previous year. The additional decrease in R&D expenses is comprised of a reduction of engineering consulting (inside engineering consulting) during the quarter from \$458,871 in 2015 to \$173,568 in the three months ended September 30, 2016 a decrease of \$285,303. Further, supplies expense decreased from 2015 to 2016 to make up the difference.

The Company's net loss during the three-month period ended September 30, 2016 was \$1,369,780 or \$0.01 per share compared to a loss of \$2,821,772 or \$0.01 per share during the three months ended September 30, 2015. The weighted average number of shares outstanding was 378,548,235 for the three-month period ended September 30, 2016, compared to 240,991,021 shares for the three-month period ended September 30, 2015.

*Nine-month period ended September 30, 2016 compared to nine-month period ended September 30, 2015.*

	<u>9 Months ended</u> <u>September 30, 2016</u>	<u>9 Months ended</u> <u>September 30, 2015</u>	<u>Difference</u>
<b>Sales</b>	\$ 56,071	\$ —	\$ 56,071
<b>Cost of Sales</b>	(284,073)	—	(284,073)
<b>Gross Profit</b>	(228,002)	—	(228,002)
Amortization and depreciation	\$ 413,602	\$ 429,743	\$ (16,141)
Sales and marketing expenses	875,737	897,722	(21,985)
Research & development	2,096,025	2,418,319	(322,294)
General and administrative	2,895,184	2,277,400	617,784
<b>Total Operating Expenses</b>	6,280,548	6,023,184	257,364
Other income (expenses)	1,600,314	(2,118,247)	3,718,561
<b>Net Income (Loss)</b>	\$ (4,908,236)	\$ (8,141,431)	\$ 3,233,195

The nine months ended September 30, 2016 reflects a net loss of \$4,908,236 representing a decrease in the loss of \$3,233,195 compared to the corresponding nine-month period loss of \$8,141,431 for the period ended September 30, 2015.

The decrease in amortization and depreciation expense is the result of the elimination of a capital lease that included testing equipment that was utilized with the research and development team based in San Diego, CA.

The general and administrative costs increased during the nine months ended September 30, 2015 to the nine months ended September 30, 2016 by \$617,784. The largest component of this increase was an increase of stock based compensation from \$132,843 in the nine months ended September 30, 2015 to \$938,679 in the nine months ended September 30, 2016, an increase of \$805,836. The stock based compensation in the nine months ended September 30, 2016 arose from the issuance of warrants to key employees and consultants ratified by the Board of Directors during the second quarter of 2016.

In addition, research and development expenses in the nine months ended September 30, 2015 were greater than the nine months ended September 30, 2016 by \$322,294. This decrease in R&D expenses is comprised of a decrease of engineering services (inside engineering consulting) during the nine months ended September 30, 2016 from \$1,135,334 in 2015 to \$768,018 in 2016 a decrease of \$367,316. Further, engineering services (outside engineering consulting) increased from 2015 to 2016 from \$805,459 to \$987,214, an increase of \$181,755.

The Company's net loss during the nine-month period ended September 30, 2016 was \$4,908,236 or \$0.01 per share compared to a net loss of \$8,141,431 or \$0.04 per share during the nine months ended September 30, 2015. The weighted average number of shares outstanding was 340,714,369 for the nine-month period ended September 30, 2016 compared to 222,989,514 for nine-month period ended September 30, 2015.

The Company's financial statements have been prepared assuming that the Company will continue as a going concern and, accordingly, do not include adjustments relating to the recoverability and realization of assets and classification of liabilities that might be necessary should we be unable to continue in operation.

The company will require additional capital to meet its' long term operating requirements. The Company expects to continue to raise additional capital through a multi-faceted strategy to include the further sale of equity securities, sales of equity securities by subsidiary Companies, debt and factoring facilities as the Company's sales progress.

## ***Liquidity and Capital Resources***

### ***As at September 30, 2016***

As at September 30, 2016, the reporting issuer's current assets were \$837,854 and current liabilities were \$10,441,306, which results in a working capital deficit of \$9,603,452. The Company's working capital deficit at December 31, 2015 was \$9,166,914. This represents an increase in the Company's working capital deficit of \$436,538 or a 5% increase in the current year. The increase is comprised of two components. The Company has made a significant push during the nine months ended September 30, 2016 in establishing production capability to deliver cellular network extender product, to Cellular Network operators in India. In addition, the Company has developed and marketed a new WIFI product for the diversification of their business to participate in the expansion of broadband throughout India in homes and offices.

As at September 30, 2016, the Company's total assets were \$4,559,887 comprised of intellectual property in the amount of \$2,390,170 and goodwill in the amount of \$1,140,246. The intellectual property represents the technology, patents and patent applications and trademark registrations and license related to the 5BARz technology by the combined entity.

As at September 30, 2016, the Company's total liabilities were \$10,441,306, comprised of current liabilities of \$10,441,306 as described above. The increase in liabilities as at September 30, 2016 from year ended December 31, 2015 is related to an increase in accounts payable of \$709,739. This increase is mostly attributable to the Company's contract engineering and development supplier in India, which has incurred an increase in accounts payable of \$501,702 during the nine-month period to September 30, 2016. Further, the derivative liabilities have increased to \$3,154,068 on September 30, 2016 from \$1,868,439 at December 31, 2015. This increase of \$1,285,629 is attributable to the requirement to calculate the valuation of issued options and warrants, and reflect that derivative liability as a potential liability, should the Company be unable to issue shares should holders exercise those derivatives. It is management's assessment that this is an unlikely possibility. The Company's notes payable has decreased from \$2,883,264 to \$1,580,281 at September 30, 2016 reflecting the Companies focused effort to settle these notes as quickly as possible due to the high cost of this debt.

Stockholders' deficit increased from a balance at December 31, 2015 of \$5,129,116 to a balance of \$5,881,418 at September 30, 2016. This increase of \$752,302 is attributable in the most part to sales of common stock during the nine months ended September 30, 2016 of \$3,234,000 being offset by a loss during the period of \$4,898,384.

### ***Cash Flows from Operating Activities***

For the nine-month period ended September 30, 2016, net cash flows used in operating activities was \$3,797,544 consisting primarily of cash used for product development and administrative expenses.

### ***Cash Flows from Investing Activities***

For the nine-month period ended September 30, 2016, net cash flows used in investing activities was \$87,483 comprised of additional patent expenditures of \$6,390 as well as \$81,093 of equipment expenditures.

### ***Cash Flows from Financing Activities***

The Company has financed operations through the issuance of equity securities. The sale of equity securities of \$3,234,000 were issued during the nine months ended September 30, 2016. For the nine-month period ended September 30, 2016, net cash flows provided from financing activities was \$3,761,271 compared to \$3,160,447 in the corresponding period of the prior year. This difference is the result of an increase in the sales of equity securities of \$1,769,531 over the prior year. This increase is offset by debt securities of \$2,169,750 issued in the prior year, which have not occurred at all in 2016. The market for the Company's stock has limited liquidity and thus pricing is relatively volatile.



### ***Plan of Operation and Funding***

The Company has entered into a series of private placements over the past several years to finance operations. Existing working capital, further sales of debt and equity securities, funding through the sale of equity securities from subsidiary operations and anticipated cash flow are expected to be adequate to fund our operations over the next twelve months. We have no bank financing arrangements. Generally, we have financed operations to date through the proceeds of the private placement of equity and debt and an increase in liabilities due from individuals and businesses that work with the Company. In connection with our business plan, management anticipates additional increases in operating expenses and capital expenditures relating to: (i) development and marketing of our product; and (ii) working capital. We intend to finance these expenses with further issuances of securities. As the market for product commences in India the Company is working on the development of a \$20 million dollar equity sale in the India operations through an investment bank in India. Further, should the Company's market for securities exceed \$0.30 per share, the Company has 97.8 million warrants in the hands of existing stockholders. Consideration is being given to filing an S1 registration statement to qualify those warrants to provide for a financing facility for the Company through the exercise of those securities. Thereafter, we expect we will need to raise additional capital and generate revenues to meet long-term operating requirements. Additional issuances of equity or convertible debt securities will result in dilution to our current shareholders. Further, such securities might have rights, preferences or privileges senior to our common stock. Additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of prospective new business endeavors or opportunities, which could significantly and materially restrict our business operations.

### ***Material Commitments***

On January 11, 2011, the Company assumed a material commitment to CellLynx Group, Inc. to make available under the terms of a line of credit agreement \$2.2 million dollars, expiring October 5, 2013. On September 30, 2013 the Company agreed to extend the funding of CellLynx Group, Inc. under the terms of an amended Line of Credit Agreement. At the date of the extension of the line of credit agreement, the balance due to 5BARz International, Inc. was \$2,503,764. This is a subsidiary Company, and this funding will be paid when proceeds are available. The commitment to fund and debts provided under the line of credit agreement mature in the lesser of one year or when CellLynx earns sufficient royalty income to become self-sustaining. The line of credit agreement matured on September 30, 2014. The balance due to 5BARz International, Inc., by its subsidiary Company, CellLynx Group, Inc., under the line of credit agreement, principle and interest on September 30, 2016 was \$3,867,605. This amount is eliminated on consolidation of the subsidiary in the Financial Statements of the combined entity.

On July 24, 2013 the Company entered into a lease agreement in San Diego for facilities, which commenced on October 1, 2013. In May 2014 the Company entered into a further commitment to expand the Companies leased facilities in San Diego for a period of 66 months. As a result, at September 30, 2016, the future minimum lease payments for the existing and expanded facilities will be \$1,024,313.

### ***Off-Balance Sheet Arrangements***

As of the date of this Quarterly Report, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

## ***Going Concern***

In our Annual Report on Form 10-K for the year ended December 31, 2015, our independent auditors included an explanatory paragraph in its report relating to our financial statements for the years ended December 31, 2015 and 2014, which states that we have incurred negative cash flows from operations since inception, and expect to incur additional losses in the future and have a substantial accumulated deficit. These conditions give rise to substantial doubt about our ability to continue as a going concern. Our ability to expand operations and generate additional revenue and our ability to obtain additional funding will determine our ability to continue as a going concern. Our condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have prepared our financial statements assuming that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business.

## **Recent accounting pronouncements**

In July 2015, the FASB issued ASU No. 2015-11, “*Inventory: Simplifying the Measurement of Inventory*”, that requires inventory not measured using either the last in, first out (LIFO) or the retail inventory method to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. The new standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and will be applied prospectively. Early adoption is permitted. The Company currently uses lower of cost or net realizable value.

The FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The new standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities. The Company has not yet determined the effect of the adoption of this standard on the Company’s consolidated financial position and results of operations.

The FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718). ASU 2016-09 provides improvement to employee share-based payment accounting. ASU 2016-09 involve the simplification of several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities the amendments in this update are effective for annual periods beginning in December 15, 2016. Early adoption is permitted for any entity in any interim or annual period. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

The FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606). ASU 2016-10 provides guidance on identifying performance obligations and licensing. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and or services. This update does not change the core principles, but rather clarify the following two aspects, identifying performance obligations and licensing implementation guidance. The new standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is not permitted for all public business entities. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

FASB, the Emerging Issues Task Force and the SEC have issued certain other accounting standards, updates, and regulations as of March 31, 2016 that will become effective in subsequent periods; however, management does not believe that any of those updates would have significantly affected our financial accounting measures or disclosures had they been in effect during 2016 or 2015, and it does not believe that any of those pronouncements will have a significant impact on our consolidated financial statements at the time they become effective.

## **Critical Accounting Policies and Estimates**

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

### **Goodwill and other intangible assets**

The Company accounts for goodwill and intangible assets in accordance with the accounting guidance which requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value. The Accounting Standards Codification ("Codification") requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment). Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. Significant judgment is required to estimate the fair value of reporting units which includes estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

When testing goodwill for impairment, the Company may assess qualitative factors for some or all of its reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, the Company may bypass this qualitative assessment for some or all of our reporting units and perform a detailed quantitative test of impairment (step 1). If the Company performs the detailed quantitative impairment test and the carrying amount of the reporting unit exceeds its fair value, the Company would perform an analysis (step 2) to measure such impairment. In accordance with the Codification, the Company reviews the carrying value of its intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset or asset group, if any, exceeds its fair market value. No impairment was deemed to exist as of March 31, 2016 and 2015.

### **Long-Lived Assets Subject to Amortization**

The Company amortizes intangible assets with finite lives over their estimated useful lives and reviews them for impairment annually or whenever an impairment exists. The Company continually evaluates whether events or changes in circumstances might indicate that the remaining estimated useful life of long-lived assets may warrant revision, or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Company uses an estimate of the related undiscounted cash flows in measuring whether the long-lived asset should be written down to fair value. Measurement of the amount of impairment would be based on generally accepted valuation methodologies, as deemed appropriate. There were no long-lived assets impairment charges recorded during the nine months ended September 30, 2016 and December 31, 2015.

### **Revenue recognition**

The Company's revenue recognition policies are in compliance with ASC Topic 605, "Revenue Recognition." Revenue is recognized at the date of shipment to customers, and when the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured.

## **Foreign currency translation**

Transactions in foreign currencies have been translated into US dollars using the current rate method. The functional currency of the Company's former subsidiary 5BARz AG, is its local currency (Swiss Franc – CHF). The functional currency of the Company's subsidiary 5BARz International SA de CV, in Mexico is the local currency, the Mexican Peso, and the functional currency in the Company's subsidiary 5BARz India Private Limited is the functional currency in India, the Indian Rupee. Assets and liabilities are translated based in the exchange rates at the balance sheet date, while revenue and expense accounts are translated at the average exchange rates prevailing during the year. Equity accounts are translated at historical exchange rates. The resulting translated gain and loss adjustments are accumulated as a component of stakeholders' equity and other comprehensive income.

## **Derivative Instruments**

**Derivative Financial Instruments** The fair value of an embedded conversion option that is convertible into a variable amount of shares and warrants that include price protection reset provision features are deemed to be "down-round protection" and, therefore, do not meet the scope exception for treatment as a derivative under ASC 815 "Derivatives and Hedging", since "down-round protection" is not an input into the calculation of the fair value of the conversion option and warrants and cannot be considered "indexed to the Company's own stock" which is a requirement for the scope exception as outlined under ASC 815. The accounting treatment of derivative financial instruments requires that the Company record the embedded conversion option and warrants at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. Any change in fair value is recorded as non-operating, non-cash income or expense for each reporting period at each balance sheet date. The Company reassesses the classification of its derivative instruments at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

If the Company were to enter into a financial arrangement through the issuance of convertible debt and or warrants, for which such instruments would contain a variable conversion feature with an indeterminable number of shares, the Company would apply a sequencing policy in accordance with ASC 815- 40-35-12 whereby such instruments, and all future issuances of financial instruments regardless of conversion terms, would be classified as a derivative liability with the exception of instruments related to share-based compensation issued to employees or directors. The Company may also apply sequencing in any circumstance, whereby the Company has entered into financial arrangements for commitments to issue shares, for which such issuances would exceed the authorized share limit. Upon the issuance of any such instrument, the excess shares committed to be issued, would also be reclassified as a derivative liability.

The Black-Scholes option valuation model was used to estimate the fair value of the warrants and conversion options. The model includes subjective input assumptions that can materially affect the fair value estimates. The Company determined the fair value of the Binomial Lattice Model and the Black-Scholes Valuation Model to be materially the same. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the warrants or conversion options. Conversion options are recorded as debt discount and are amortized as interest expense over the life of the underlying debt instrument.

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.**

Market risk is the risk of loss from adverse changes in market prices and interest rates. We do not have substantial operations at this time so they are not susceptible to these market risks. If, however, they begin to generate substantial revenue, their operations will be materially impacted by interest rates and market prices.

### **ITEM 4. CONTROLS AND PROCEDURES.**

#### *Evaluation of Disclosure Controls and Procedures*

##### Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), as of September 30, 2016. Based on this evaluation, our principal executive officer and principal financial officers have concluded that our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act, including this Quarterly Report on Form 10-Q, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that our disclosure and controls are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met. The design of any system of controls also is based in part on certain assumptions regarding the likelihood of certain events, and there can no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Given these and other inherent limitations of control systems, these are only reasonable assurance that our controls will succeed in achieving their stated goals under all potential future conditions.

#### **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with United State's generally accepted accounting principles (US GAAP), including those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based on this assessment, Management concluded the Company did not maintain effective internal control over financial reporting as of September 30, 2016.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

An internal control material weakness is a significant deficiency, or aggregation of deficiencies, that does not reduce to a relatively low level the risk that material misstatements in financial statements will be prevented or detected on a timely basis by employees in the normal course of their work. An internal control significant deficiency, or aggregation of deficiencies, is one that could result in a misstatement of the financial statements that is more than consequential.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of September 30, 2016, and this assessment identified the following material weaknesses in the company’s internal control over financial reporting:

- A system of internal controls (including policies and procedures) has neither been designed nor implemented.
- A formal, internal accounting system has not been implemented.
- Segregation of duties in the handling of cash, cash receipts, and cash disbursements is not formalized.

Therefore, we have relied heavily on entity or management review controls to lessen the issue of segregation of duties.

This quarterly report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this Quarterly Report.

#### ***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2016 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

We know of no material, existing or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceeding or pending litigation other than those articulated below. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to our company, other than those articulated below.

Prior to the Company's investment in CelLynx, on July 19, 2010 certain claims for unpaid wages were filed against CelLynx, Inc. Judgments were obtained commencing in August 2011 for back wages by some of its former employees. Some of those claims have been partially paid and others were expected to be paid in the normal course of business or were to be otherwise defended. Those claims have now been incorporated into California Labor Commission awards in favor of those former employees. Those awards total approximately \$263,000 depending on interest charges. It is the Company's intention to pay these amounts. As of September 30, 2016, the Company has accrued \$263,000 in its financial statements.

On May 13, 2015 the Company received a complaint filed in the Superior Court of the State of California, County of San Diego against 5BARz International Inc, and Daniel Bland, by Assured Wireless International Corp. claiming breach of contract and claiming unpaid fees and interest of \$171,159, plus penalties. *Assured Wireless vs. 5BARz International Inc, and Daniel Bland 37-2015-00012766-CU-BC-CTL (County of San Diego)*. The claims also alleges unjust enrichment of \$20,000 as well as \$50,000 for alleged negligent interference with prospective economic relations. As of March 31, 2016 the Company has accrued \$171,159 for a potential liability. The Company and Mr. Bland have filed answers generally denying plaintiff's claims and asserting affirmative defenses. On June 29, 2016 the parties entered into a settlement agreement which provided for the settlement of the claims for \$170,000, payable as to \$40,000 upon closing of the agreement, \$60,000 on August 15, 2016 and the balance of \$70,000 payable on October 7, 2016. On July 14, 2016 the case was dismissed. On August 15, 2016 the payment amount was not made and a judgment in the amount of \$130,000 was entered against the Company. As of September 30, 2016 the Company has accrued \$130,000 for this judgment. Payment arrangements are being discussed.

On August 14, 2015 the Company received a complaint filed in the Superior Court of the State of California, County of San Diego on August 4, 2015, against 5BARz International Inc. by, Pluto Technologies, Inc. claiming breach of contract and claiming unpaid fees, charges for equipment repairs and interest of \$70,750. *Pluto Technologies, Inc. vs 5BARz International, Inc. 37-2015-00025796-CU-BC-CTL (County of San Diego)*. It is the Company's intention to vigorously defend the lawsuit. It is too early in the process to determine the likelihood of outcome. In addition, on July 24, 2015 the owner of Pluto Technologies, Inc., Mr. James Fraley, filed a lawsuit in the Superior Court of the State of California, County of San Diego against 5BARz International Inc., claiming breach of contract and claiming unpaid fees, expenses and salaries in the amount of \$148,920. *James Fraley vs. 5BARz International, Inc. 37-2015-00025016-CU-BC-CTL*. As of March 31, 2016 the Company has accrued \$391,489 payable to the petitioners. On May 13, 2016, the Company entered into a settlement agreement with Pluto Technologies and James Fraley for the settlement of all amounts due to the petitioners by payment of \$65,000, payable as to \$15,000 on May 31, 2016, \$20,000 on June 30, 2016 and \$30,000 on July 31, 2016. All of the payments required to be made under the agreement have been completed for the full release of the litigation.

On January 8, 2016 a complaint was filed in the Superior Court of the State of California, County of San Diego against 5BARz International Inc., and certain offices of the Company by Warren Cope, a former consulting engineer of the Company claiming breach of contract and fraud claiming unpaid fees and interest of \$121,616, plus 100,000 options exercisable at a price of \$0.10 per share. *Warren Cope vs. 5BARz International Inc., et all 37-2016-00000510-CU-BC-CTL (County of San Diego)*. On February 29, 2016 the parties entered into a settlement agreement which provided for payments of cash in the aggregate amount of \$121,616 by May 15, 2016 and the issuance of the 100,000 options. The settlement agreement provides a stipulation of entry of judgment in the event of a default in payments. On March 15, 2016 the Company repaid \$10,000 of this debt and issued 100,000 options to acquire common stock of the Company at an exercise price of \$0.10 per share, pursuant to the terms of that settlement agreement. At March 31, 2016, the Company has accrued \$111,616 payable to the petitioner. On or about May 15, 2016 a further \$10,000 was paid. On June 3, 2016 the Company entered into amending agreement whereby the balance of \$101,616 was settled by the issuance of 846,804 shares at a price of \$0.06 per share for the settlement of \$50,808, plus an agreement to make four monthly payments of \$12,702 each month commencing June 3, 2016. Each of the payments required under the agreement have been made with the final payment made on September 12, 2016 for full release of the litigation.

On March 10, 2016 a complaint was filed in the Eleventh Judicial Circuit Court in Miami-Dade County, Florida, against BARz International, Inc. and certain officers and employees of the Company by Group 10 Holdings, LLC a lender by way of convertible debenture, claiming breach of contract, fraud, negligent misrepresentation and unjust enrichment, claiming \$110,000 plus interest at 12%. *Group 10 Holdings vs 5BARz International, Inc. et al 2016-005597 CA 01*. The Company has reflected a balance at March 31, 2016 due to the lender of \$218,177. The Company and defendants have engaged counsel and on April 17, 2016 have filed a motion for dismissal. On July 12, 2016, the Company entered into a settlement agreement with the plaintiff for the settlement of the claim for an aggregate of \$153,000. The balance is to be paid by way of a series of payments, commencing 7 days from the settlement date, each in the amount of \$35,000. Each payment date the Company has the option of paying the amount due in cash, or in common stock at the then market value of the stock. The holder is restricted on a daily basis to a maximum sale of up to 15% of daily volume. On July 14, 2016, 333,333 of common shares were issued at a price of \$0.105 per share in lieu of \$35,000 cash. On August 4, 2016, an additional 448,717 common shares were issued at a price of \$0.78 instead of a \$35,000 cash payment. On September 18, 2016 the Company received a default notice from Group 10, due to the fact that the Company was delinquent in filing its 10-Q. No further court action has been instituted as a result of that default. On September 30, 2016 the Company reflects a remaining balance due to the lender of \$83,000. On November 1, 2016 the Company made an additional payment of \$35,000 comprised of 416,666 shares at a price of \$0.084 per share.

On April 11, 2016 a complaint was filed in the Supreme Court of the State of New York, County of New York, against 5BARz International Inc. and Daniel Bland by R Squared Partners LLC., a lender by way of convertible note. The complaint alleges breach of contract, requests injunctive relief and tortious interference with Contract. The Company had borrowed \$100,000 on June 2, 2015. The Company repaid interest on the note on July 1, 2015 of \$933 and repaid the loan principal of \$100,000 on August 13, 2015 by wire transfer. Further, on September 1, 2015 the Company issued 29,340 shares as final payout of the note interest via conversion into shares pursuant to the note terms. R Squared Partners LLC has made demand on the Company for an additional amount of \$100,000 due under the note and exercise of warrants. The Company disputes the claims for additional amounts due, the Company filed an answer to the complaint on May 31, 2016.

On April 22, 2016 a complaint was filed in the Supreme Court of the State of New York, County of New York, against 5BARz International Inc. by Firstfire Global Opportunity Fund, an alleged lender by way of convertible note. The complaint alleges breach of contract, requests injunctive relief and tortious interference with Contract. The Company had borrowed \$100,000 on June 2, 2015. The Company repaid interest on the note on July 1, 2015 of \$1,166.67 and repaid the loan principal of \$100,000 on August 5, 2015 by wire transfer. Further, on August 5, 2015 the Company issued 24,000 shares as final payout of the note interest via conversion into shares pursuant to the note terms. First Fire Global Opportunity Fund has made demand on the Company for an additional amount of \$100,000 due under the note and exercise of warrants. The Company disputes the claims for additional amounts due, the Company filed an answer to the complaint on May 31, 2016. On August 11, 2016 the Company entered into a settlement agreement with the plaintiff and issued 750,000 common shares in settlement with restrictive legend on the shares to be released, 250,000 shares each of August, September and October, 2016. On October 31, 2016 the Company released the first of three payments upon meeting SEC clearance requirements. Subsequent releases are pending.

On May 31, 2016 a complaint was filed in the United States District Court, Eastern District of New York, against 5BARz International, Inc. by LG Capital Funding, LLC, a lender by way of convertible note. The complaint alleges that the Company failed to deliver 1,699,580 shares pursuant to a notice of conversion, and seeks preliminary and permanent injunctive relief, damages and attorney fees. The Company has responded with an initial Memorandum of Law on June 24, 2016 in opposition to the Plaintiffs motion for permanent injunctive relief. The Company has accrued an amount of \$125,000 due to the lender pursuant to the terms of the convertible note agreement at September 30, 2016.

On July 6, 2016 a complaint was filed in the District Court of Dallas County Texas, (DC-16-08001), against 5BARz International, Inc., and certain officers of the Company by JSJ Investments, Inc, a lender by way of convertible note. The Company and the lender had entered into a settlement agreement for payments over a period of six months in the aggregate amount of \$177,427 on March 2, 2016. The complaint alleges breach of contract, promissory estoppel as to note, and tortious interference with Contract. The Company has filed an answer to the complaint. The Company has accrued an amount of \$200,186 due to the lender pursuant to the terms of the convertible note agreement at September 30, 2016.



On August 4, 2016 a complaint was filed in the United States District Court, Southern District of New York, against 5BARz International, Inc. by Union Capital LLC, a lender by way of convertible note. The complaint alleges that the Company failed to deliver 4,299,689 shares pursuant to a notice of conversion, and seeks an order for specific performance, breach of contract, damages and attorney fees. As of September 30, 2016 the Company had accrued \$368,975 for this settlement. On October 5, 2016 the Company issued 4,299,689 shares in full settlement of the note. On November 5, 2016 the parties entered into a settlement agreement providing mutual releases. The settlement agreement provides for an additional \$25,000 payment to be made by November 22, 2016.

On August 5, 2016 a complaint was filed in the United States District Court, Southern District of New York, against 5BARz International, Inc. by Adar Bays LLC, a lender by way of convertible note. The complaint alleges that the Company failed to deliver 184,775 shares pursuant to a notice of conversion, and seeks an order for injunctive relief, damages and attorney fees. The Company has provided an answer to the allegations. The Company has accrued an amount of \$98,518 due to Adar Bays LLC at September 30, 2016. On October 27, 2016 the Company and plaintiff negotiated a settlement agreement for payment of \$83,733 in cash or shares over four months as well as a payment of 184,775 shares issued upon signing of the agreement.

On September 19, 2016 a complaint was filed in the Superior Court of the State of California, for the County of San Diego against 5BARz International, Inc. by Richard Rajabi claiming \$163,637 for breach of contract. The Company has filed an answer and counter claim in this matter.

In addition to the above, the Company may become involved in legal proceedings in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance.

## **ITEM 1A. RISK FACTORS**

### ***Need For Additional Financing***

The Company has very limited funds, and such funds may not be adequate to take advantage of current and planned business opportunities. Even if the Company's funds prove to be sufficient to acquire an interest in, or complete upon transactions contemplated, the Company may not have enough capital to fully develop the opportunity. The ultimate success of the Company may depend upon its ability to raise additional capital. As additional capital is needed, there is no assurance that funds will be available from any source or, if available, that they can be obtained on terms acceptable to the Company. If not available, the Company's operations will be limited.

### ***Ability to continue as a going concern***

The Company has incurred net losses of \$4,908,237 and \$8,141,431 for the nine months ended September 30, 2016 and 2015. The Company has earned no revenues to date. Consequently the Company's future is dependent upon their ability to obtain financing and to execute upon their business plan and to create future profitable operations for the business. These factors raise substantial doubt that the Company will be able to continue as a going concern. In the event that the Company cannot raise further debt or equity capital, or achieve profitable operations, the Company may have to liquidate their business interests and investors may lose their investment.

### ***Lack of profitable operating history***

The Company faces all of the risks of a new business and the special risks inherent in the investigation, acquisition, and involvement in a new business opportunity. The Company must be regarded as a new or "start-up" venture with all of the unforeseen costs, expenses, problems, and difficulties to which such ventures are subject, and consequently has a high risk of failure.

### ***We may be subject to significant foreign currency exchange controls in certain countries in which we operate***

Certain foreign economies have experienced shortages in foreign currency reserves and their respective governments have adopted restrictions on the ability to transfer funds out of the country and convert local currencies into U.S. dollars. This may increase our costs and limit our ability to convert local currency into U.S. dollars and transfer funds out of certain countries. Any shortages or restrictions may impede our ability to convert these currencies into U.S. dollars and to transfer funds, including for the payment of dividends or interest or principal on our outstanding debt. In the event that any of our subsidiaries are unable to transfer funds to us due to currency restrictions, we are responsible for any resulting shortfall.

### ***Our foreign operations subject us to risks that could negatively affect our business***

Our business can be exposed to risks inherent in foreign operations. These risks, which can vary substantially by market, include political instability, corruption, social and ethnic unrest, changes in economic conditions (including wage and commodity inflation, consumer spending and unemployment levels), the regulatory environment, tax rates and laws and consumer preferences as well as changes in the laws and policies that govern foreign investment in other countries.

In addition, the value of our foreign assets is affected by fluctuations in foreign currency exchange rates, which may adversely affect reported earnings. There can be no assurance as to the future effect of any such changes on our results of operations, financial condition or cash flows.

### ***Dependence upon limited Directors, management and consultants***

The Company currently has only two individuals serving as its directors, and has few employees and consultants. The Company will be heavily dependent upon their skills, talents, and abilities to implement its business plan, and secure additional personnel and may, from time to time, find that the inability of the officers and directors to fully meet the needs of the business of the Company results in a delay in progress toward implementing its business plan.

***We may conduct further offerings in the future in which case investors' shareholdings may be diluted***

Since our inception, we have relied on sales of our common stock to fund our operations. We may conduct further equity offerings in the future to finance our current operations. If common stock is issued in return for additional funds, the price per share could be lower than that paid by our current stockholders. We anticipate continuing to rely on equity sales of our common stock in order to fund our business operations. If we issue additional stock, investors' percentage interests in us will be diluted. The result of this could reduce the value of current investors' stock.

***Regulation of Penny Stocks***

The Company's securities are subject to a Securities and Exchange Commission rule that imposes special sales practice requirements upon broker-dealers who sell such securities to persons other than established customers or accredited investors. For purposes of the rule, the phrase "accredited investors" means, in general terms, institutions with assets in excess of \$5,000,000, or individuals having a net worth in excess of \$1,000,000 or having an annual income that exceeds \$200,000 (or that, when combined with a spouse's income, exceeds \$300,000). For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's written agreement to the transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell the Company's securities and also may affect the ability of purchasers in this offering to sell their securities in any market that might develop therefore.

In addition, the Securities and Exchange Commission has adopted a number of rules to regulate "penny stocks." Such rules include Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6, 15g-7, and 15g-9 under the Securities Exchange Act of 1934, as amended. Because the securities of the Company may constitute "penny stocks" within the meaning of the rules, the rules would apply to the Company and to its securities. The rules may further affect the ability of owners of Shares to sell the securities of the Company in any market that might develop for them.

Shareholders should be aware that, according to Securities and Exchange Commission, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) "boiler room" practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. The Company's management is aware of the abuses that have occurred historically in the penny stock market. Although the Company does not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to the Company's securities.

***Our common stock is not listed on a national exchange and as a public market develops in the future, it may be limited and highly volatile, which may generally affect any future price of our common stock***

Our common stock currently is listed only in the over-the-counter market on the OTCQB, which is a reporting service and not a securities exchange. We cannot assure investors that in the future our common stock would ever qualify for inclusion on any of the NASDAQ markets for our common stock, The American Stock Exchange or any other national exchange or that more than a limited market will ever develop for our common stock. The lack of an orderly market for our common stock may negatively impact the volume of trading and market price for our common stock.

Any future prices for our common stock will be determined in the marketplace and may be influenced by many factors, including the following:

- the depth and liquidity of the markets for our common stock;
- investor perception of 5BARz International Inc. and the industry in which we participate;
- general economic and market conditions;
- statements or changes in opinions, ratings or earnings estimates made by brokerage firms or industry analysts relating to the market in which we do business or relating to us specifically, as has occurred in the past;
- quarterly variations in our results of operations;
- general market conditions or market conditions specific to technology industries; and
- domestic and international macroeconomic factors.

In addition, the stock market has recently experienced extreme price and volume fluctuations. These fluctuations are often unrelated to the operating performance of the specific companies. As a result of the factors identified above, a stockholder (due to personal circumstances) may be required to sell his shares of our common stock at a time when our stock price is depressed due to random fluctuations, possibly based on factors beyond our control.

#### ***Impracticability of Exhaustive Investigation***

The Company's limited funds and the lack of full-time management will likely make it impracticable to conduct a complete and exhaustive investigation and analysis of its chosen business opportunity before the Company commits its capital or other resources thereto. Management decisions, therefore, will likely be made without detailed feasibility studies, independent analysis, market surveys and the like which, if the Company had more funds available to it, would be desirable.

#### ***Other Regulation***

The Company may be subject to regulation or licensing by federal, state, or local authorities. Compliance with such regulations and licensing can be expected to be a time-consuming, expensive process and may limit other investment opportunities of the Company.

#### ***Failure to Perform***

The Company may be unable to comply with the payment terms of certain agreements providing the Company with the exclusive sales marketing and distribution rights to 5BARz product. In the event that the Company defaults on such agreements, the Company may be unable to maintain operations as a going concern.

#### ***Competitive Technologies***

The Companies technology relates to a market that is highly competitive and a much sought after solution by cellular networks. The Company expects to be at a disadvantage when competing with firms that have substantially greater financial and management resources and capabilities than the Company. The Company is subject to technological obsolescence should other technologies be developed which are superior to the Companies technology.

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

During the nine months ended September 30, 2016 and for the period to November 10, 2016, the Company has issued common stock as follows:

During the period January 1, 2016 to September 23, 2016 the Company issued 64,580,000 units at a price of \$0.05 per unit for proceeds of \$3,229,000. Each unit is comprised of one share and one share purchase warrant to acquire a second share at a price of \$0.20 per share acquired, with a two-year term on the attached warrant.

On January 19, 2016 the Company issued 1,578,463 shares at a price of \$0.044 per share for the settlement of convertible notes payable with a total value of \$69,626. See note 7(l).

On January 20, 2016 the Company issued 200,000 shares at a price of \$0.06 per share for the partial settlement of convertible notes payable with a total value of \$12,000. See note 7(e).

On February 20, 2016 the Company issued 225,000 shares at a price of \$0.09 per share in settlement of services valued at \$20,250.

On February 26, 2016 the Company issued 312,650 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$15,633. See note 7(n).

On February 29, 2016 the Company issued 45,455 shares at a price of \$0.11 per share in settlement of services valued at \$5,000.

On March 6, 2016 the Company issued 11,500,000 shares at a price of \$0.05 per share for a conversion of convertible notes payable with a total value of \$575,000. After this settlement the balance of principal and interest due under this convertible note at March 31, 2016 was nil. See note 7(d).

On March 25, 2016 the Company issued 500,000 shares at a price of \$0.05 per share for a conversion of convertible notes payable with a total value of \$25,000. See note 7(b).

On March 31, 2016 the Company issued 115,000 units at a price of \$0.05 per unit for services with a total value of \$5,750. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On March 31, 2016 the Company issued 300,784 units at a price of \$0.05 per unit for services with a total value of \$15,039. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On March 31, 2016 the Company issued 300,000 units at a price of \$0.05 per unit for services with a total value of \$15,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On April 1, 2016 the Company issued 300,000 units at a price of \$0.05 per unit for services with a total value of \$15,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On May 1, 2016 the Company issued 327,863 units at a price of \$0.05 per unit for services with a total value of \$16,393. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On April 30, 2016 the Company issued 250,000 units at a price of \$0.05 per unit for services with a total value of \$12,500. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On May 2, 2016 the Company issued 187,500 shares at a price of \$0.08 per share for the settlement of convertible notes payable with a total value of \$15,000. See note 7(e).

On May 2, 2016 the Company issued 1,375,000 shares at a price of \$0.06 per share for the settlement of convertible notes payable with a total value of \$82,500. See note 7(e).

On May 3, 2016 the Company issued 1,500,000 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$75,000. See note 7(g).

On May 15, 2016 the Company issued 391,740 shares at a price of \$0.06 per share for the settlement of convertible notes payable with a total value of \$23,504. After this settlement the balance of principal and interest due under this convertible note at June 30, 2016 \$44,763. See note 7(n).

On May 20, 2016 the Company issued 1,000,000 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$50,000. See note 7(g).

On May 20, 2016 the Company issued 225,000 shares at a price of \$0.06 per share in settlement of services valued at \$13,500.

On May 31, 2016 the Company issued 547,100 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$27,355. See note 7(r).

On May 31, 2016 the Company issued 323,200 shares at a price of \$0.065 per share for the settlement of convertible notes payable with a total value of \$21,008. See note 7(o).

On May 31, 2016 the Company issued 1,660,000 shares at a price of \$0.05 per share in settlement of debt valued at \$83,000.

On May 31, 2016 the Company issued 100,000 units at a price of \$0.05 per unit for services with a total value of \$5,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On June 3, 2016 the Company issued 846,804 shares at a price of \$0.06 per share in settlement of debt valued at \$50,808. See litigation note 14.

On June 30, 2016 the Company issued 547,100 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$27,355. See note 7(r).

On June 30, 2016 the Company issued 214,142 units at a price of \$0.05 per unit for services with a total value of \$10,707. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On July 12, 2016 the Company issued 1,750,000 shares at a price of \$0.09 per share in settlement of debt valued at \$157,500.

On July 14, 2016 the Company issued 333,333 shares at a price of \$0.105 per share for the settlement of convertible notes payable with a total value of \$35,000. See note 7(f).

On July 15, 2016 the Company issued 323,648 shares at a price of \$0.07 per share for the settlement of convertible notes payable with a total value of \$22,655. The balance of principle and interest due under this convertible note at October 13, 2016 is \$22,108.

On July 15, 2016 the Company issued 629,560 units at a price of \$0.05 per unit for services with a total value of \$31,478. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On August 4, 2016 the Company issued 448,717 shares at a price of \$0.078 per share for the settlement of convertible notes payable with a total value of \$35,000. See note 7(f).

On August 5, 2016 the Company issued 300,114 shares at a price of \$0.07 per share for the settlement of convertible notes payable with a total value of \$21,008. See note 7(o).

On August 5, 2016 the Company issued 510,000 units at a price of \$0.05 per unit for services with a total value of \$25,500. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.20 with a two-year term.

On August 5, 2016 the Company issued 318,750 shares at a price of \$0.08 per share for services with a total value of \$25,500.

On August 11, 2016 the Company issued 750,000 shares at a price of \$0.073 per share with a total value of \$54,750 for the settlement of a law suit filed April 22, 2016 (see note 14 – litigation). The litigation and warrant agreement of issuing warrants to purchase 3,000,000 shares of common stock to which this lawsuit relates is settled in full upon delivery of the shares as provided.

On August 15, 2016 the Company issued 388,667 shares at a price of \$0.066 per share for the settlement of convertible notes payable with a total value of \$25,652. See note 7(q).

On August 19, 2016 the Company issued 450,000 shares at a price of \$0.07 per share in settlement of services valued at \$31,500.

On August 26, 2016, the Company issued 500,000 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$25,000. See note 7(b).

On September 6, 2016, the Company issued 751,333 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$37,567. See note 7(p).

On September 20, 2016, the Company issued 535,500 shares at a price of \$0.08 per share in settlement of contingent liabilities valued at \$42,840.

During the period between September 20, 2016 to September 23, 2016 the Company issued 12,441,668 shares at a price of \$0.05 per share pursuant to the notices of exercise of warrants for aggregate proceeds of \$622,083.

On September 27, 2016, the company issued 83,333 units at a price of \$0.06 per unit for proceeds of \$5,000. Each unit is comprised of one share and one-quarter share purchase warrant to acquire a second share at a price of \$0.20 per share acquired, with a two-year term on the attached warrant.

On September 27, 2016 the Company issued 347,808 shares at a price of \$0.05 per share on conversion of a convertible note payable with a total value of \$17,390. See note 7(p).

On October 5, 2016, the Company issued 1,666,667 units at a price of \$0.06 per unit for proceeds of \$100,000. Each unit is comprised of one share and one-quarter share purchase warrant to acquire a second share at a price of \$0.20 per share acquired, with a two-year term on the attached warrant.

On October 11, 2016, the Company issued 4,299,689 shares at a price of \$0.08 per share for the settlement of convertible notes payable with a total value of \$343,975. After this settlement the balance of principal and interest due under this convertible note at October 13, 2016 was nil.

On October 14, 2016, the Company issued 116,447 shares at a price of \$0.05 per share for the settlement of convertible notes payable with a total value of \$5,822. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was nil.

On October 20, 2016, the Company returned to treasury 1,000,000 issued shares at a price of \$0.12 per share for services paid in cash with a total value of \$120,000.

On October 31, 2016, the Company issued 315,836 shares at a price of \$0.07 per share for the settlement of convertible notes payable with a total value of \$22,108. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was nil.

On November 1, 2016, the Company issued 416,446 shares at a price of \$0.084 per share for the settlement of convertible notes payable with a total value of \$35,000. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was \$48,000.

On November 1, 2016, the Company issued 389,910 shares at a price of \$0.077 per share for the settlement of convertible notes payable with a total value of \$30,023. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was \$158,476.

On November 3, 2016, the Company issued 300,114 shares at a price of \$0.07 per share for the settlement of convertible notes payable with a total value of \$21,008. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was \$84,033.

On November 3, 2016, the Company issued 360,886 shares at a price of \$0.07 per share for the settlement of convertible notes payable with a total value of \$25,262. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was \$51,694.

On November 3, 2016, the Company issued 184,775 shares at a price of \$0.08 per share for the settlement of convertible notes payable with a total value of \$14,782. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was \$83,733.

On November 8, 2016, the Company issued 2,000,000 shares at a price of \$0.06872 per share for services with a total value of \$137,440.

On November 8, 2016, the Company issued 405,259 shares at a price of \$0.068 per share for the settlement of convertible notes payable with a total value of \$27,355. After this settlement, the balance of principal and interest due under this convertible note at November 11, 2016 was \$82,064.



### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

The Company, has defaulted on certain convertible promissory notes as detailed in Note 7 to the Financial Statements which are encompassed herein. The nature of the default includes but is not limited to events of default arising from not timely filing periodic reports including Form 10Q and 10K, and failure to pay amounts when due. None of the notes in default individually represent greater than 5% of the total assets of the Company.

### **ITEM 4. MINE SAFETY DISCLOSURES**

### **ITEM 5. OTHER INFORMATION**

- (a) None.
  
- (b) There were no changes to the procedures by which security holders may recommend nominees to our board of directors.

**ITEM 6. EXHIBITS**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
31.1	Section 302 Certification by the Corporation's Chief Executive Officer *
31.2	Section 302 Certification by the Corporation's Chief Financial Officer *
32.1	Section 906 Certification by the Corporation's Chief Executive Officer *
32.2	Section 906 Certification by the Corporation's Chief Financial Officer *

\* Filed herewith .

**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.

**5BARz International Inc.**  
(Registrant)

Date: November 30, 2016

By: /s/ Daniel Bland  
Daniel Bland  
Chief Executive Officer

By: /s/ Gil Amelio  
Gil Amelio  
Chairman of the Board of Directors

CERTIFICATION BY THE CORPORATION'S CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

Exhibit 31.1

I, Daniel Bland, certify that:

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

Date: November 30, 2016

By/s/ Daniel Bland

Daniel Bland

Its: Chief Executive Officer

CERTIFICATION BY THE CORPORATION'S CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

Exhibit 31.2

I, Daniel Bland, certify that:

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

Date: November 30, 2016

By: /s/ Daniel Bland  
Daniel Bland  
Its: Chief Financial Officer (Principal Financial Officer)

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of 5BARz International, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Daniel Bland, Chief Executive Officer (Principal Executive Officer) of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: November 30, 2016

/s/ Daniel Bland  
Daniel Bland  
Chief Executive Officer  
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of 5BARz International, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Daniel Bland, Chief Financial Officer (Principal Financial Officer) of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: November 30, 2016

/s/ Daniel Bland  
Daniel Bland  
Chief Financial Officer  
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.