

Eco-Shift Power Corp.
Form 10-Q
May 20, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____.

Commission File Number **000-54507**

ECO-SHIFT POWER CORP.

(Exact name of registrant as specified in its charter)

ECO-SHIFT POWER CORP.

FORM 10-Q

INDEX

PART I – FINANCIAL INFORMATION

Item 1.	<u>Condensed Consolidated Financial Statements - unaudited</u>	F-1
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	3 - 6
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	6
Item 4.	<u>Controls and Procedures</u>	6 - 7

PART II – OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	7
Item 1A.	<u>Risk Factors</u>	8
Item 2.	<u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	9
Item 3.	<u>Defaults Upon Senior Securities</u>	9
Item 4.	<u>Mine Safety Disclosures</u>	9
Item 5.	<u>Other Information</u>	9
Item 6.	<u>Exhibits</u>	9
	<u>Signatures</u>	10

PART 1 – FINANCIAL INFORMATION**Item 1 – Condensed Consolidated Financial Statements - Unaudited****ECO-SHIFT POWER CORP.****CONDENSED CONSOLIDATED BALANCE SHEETS****AS OF MARCH 31, 2015 (UNAUDITED) AND DECEMBER 31, 2014 (AUDITED)****(Expressed in United States Dollars)**

	March 31, 2015	December 31, 2014
	\$	\$
ASSETS		
Current assets		
Cash	51,755	205,635
Restricted cash <i>[note 5]</i>	1,962	55,023
Fair value of shares issued as guarantee against note payable <i>[note 8]</i>	1,250,000	—
Accounts receivable	581,521	957,076
Costs and estimated earnings in excess of billings <i>[note 6]</i>	321,549	530,685
Advances and deposits	246,961	111,413
Prepayments and other receivables	274,454	204,406
Total current assets	2,728,202	2,064,238
Goodwill <i>[note 7]</i>	2,225,410	2,225,410
Intangible assets, net <i>[note 7]</i>	2,731,977	2,380,987
Property and equipment	60,902	67,668
Total assets	7,746,491	6,738,303
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable	1,659,782	1,796,382
Accrued liabilities	1,089,773	555,371
Note payable to bank <i>[note 8]</i>	675,431	697,705
Customer deposits	190,648	215,807
Liquidated damages payable <i>[note 9]</i>	70,300	70,300
Provision for a contingent liability <i>[note 10]</i>	118,878	129,705
Advances from shareholders <i>[note 11]</i>	235,176	308,943
Convertible notes payable <i>[note 12]</i>	1,722,900	1,560,968
Billings in excess of costs and estimated earnings <i>[note 6]</i>	115,655	448,291
Derivative liabilities <i>[note 14]</i>	436,843	851,237

Edgar Filing: Eco-Shift Power Corp. - Form 10-Q

Promissory notes payable <i>[note 13]</i>	1,036,183	736,098
Total current liabilities	7,351,569	7,370,807
Derivative liabilities <i>[note 14]</i>	120,394	151,689
Total liabilities	7,471,963	7,522,496
Stockholders' equity (deficiency)		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, 1 share outstanding as of March 31, 2015 and December 31, 2014	1	1
Common stock, \$0.01 par value, 400,000,000 shares authorized, 82,190,944 and 63,410,853 common shares outstanding as at March 31, 2015 and December 31, 2014, respectively, both include 4,138,394 exchangeable common shares <i>[note 15]</i>	821,909	634,108
Shares to be issued <i>[note 15]</i>	110,500	110,500
Additional paid-in-capital	6,996,368	5,499,984
Accumulated other comprehensive gain	279,519	226,698
Accumulated deficit	(7,933,769)	(7,255,484)
Total stockholders' equity (deficiency)	274,528	(784,193)
Total liabilities and stockholders' equity (deficiency)	7,746,491	6,738,303
Going concern <i>[note 3]</i>		
Commitments and contingencies <i>[note 16]</i>		
Related party transactions and balances <i>[note 17]</i>		
Subsequent events <i>[note 19]</i>		

See accompanying notes.

ECO-SHIFT POWER CORP.**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS****FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED)**

(Expressed in United States Dollars)

	Three months ended March 31, 2015	Three months ended March 31, 2014
	\$	\$
REVENUE	1,678,655	327,200
COSTS OF SALES	1,473,930	102,353
GROSS PROFIT	204,725	224,847
EXPENSES		
Legal and professional fees <i>[note 15]</i>	725,639	191,672
Salaries and benefits	296,115	205,358
Interest and bank charges	128,796	19,403
Rent and occupancy	25,356	32,651
Marketing and advertising	5,788	20,618
Travel	22,273	20,506
Bad debts	31,404	—
Telecommunications	13,258	8,355
Repair and maintenance	15,290	10,499
Commission	30,261	—
Depreciation	5,421	—
Amortization of intangible assets	71,280	—
Change in fair value of derivative liabilities <i>[note 14]</i>	(607,362)	—
Other operating expenses	119,491	12,776
	883,010	521,838
Net loss for the period before income taxes	(678,285)	(296,991)
Income taxes <i>[note 20]</i>	—	—
Net loss for the period	(678,285)	(296,991)
Foreign currency translation adjustment	52,821	36,339
Comprehensive loss	(625,464)	(260,652)
Loss per share, basic and diluted	(0.0091)	(0.0046)
Weighted average number of common shares outstanding	68,638,013	56,386,254

See accompanying notes.

F-2

ECO-SHIFT POWER CORP.**CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED)**

(Expressed in United States Dollars)

	Three months ended March 31, 2015	Three months ended March 31, 2014
	\$	\$
OPERATING ACTIVITIES		
Net loss for the period	(678,285)	(296,991)
<i>Items not affecting cash</i>		
Issuance of shares for services	115,100	140,000
Change in fair value of derivative liabilities	(607,362)	—
Depreciation	5,421	—
Amortization of intangible assets	71,280	—
Bad debts	31,404	—
<i>Change in working capital balances</i>		
Accounts receivable	344,151	5,453
Costs and estimated earnings, net	(123,500)	—
Inventory	—	(59,550)
Advances and deposits	(135,548)	(38,374)
Prepayments and other receivables	(70,048)	21,945
Accounts payable and accrued liabilities	397,802	104,263
Customer deposits	(25,159)	(335,356)
Cash used in operating activities	(674,744)	(458,610)
INVESTING ACTIVITIES		
Restricted cash	53,061	204,116
Proceeds from disposal of property and equipment	1,346	—
Cash used in investing activities	54,407	204,116
FINANCING ACTIVITIES		
Note payable to bank	(22,274)	—
Proceeds from issuance of shares	70,023	36,800
Proceeds from issuance of convertible notes	161,932	—
Proceeds from issuance of promissory notes	300,085	—
Shareholders' advances	(73,767)	136,058
Cash provided by financing activities	435,999	172,858
Net decrease in cash during the period	(184,339)	(81,636)

Edgar Filing: Eco-Shift Power Corp. - Form 10-Q

Effect of foreign currency translation adjustment	30,459	(844)
Cash, beginning of period	205,635	107,770
Cash, end of period	51,755	25,290

See accompanying notes.

F-3

ECO-SHIFT POWER CORP.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2015 (UNAUDITED)

(Expressed in United States Dollars)

1. NATURE OF OPERATIONS

Eco-Shift Power Corp. (formerly Simplepons, Inc., “Simplepons”, the “Company”) is a Delaware corporation formed on February 7, 2011. Simplepons was in the business of the sale of coupon books and was developing a mobile coupon subscription that solves the problem of leaving your coupons at home. On February 5, 2013, Simplepons completed a reverse merger and subsequently the board of directors (the “Board”) ceased the existing coupon subscription business.

Eco-Shift Power Corp. (“Eco-Shift Canada”), a wholly owned subsidiary of the Company, was incorporated on May 15, 2008 under the laws of the Province of Ontario, Canada. Eco-Shift Canada is primarily engaged in developing, selling and distributing electrical lighting products.

Sun & Sun Industries, Inc. (“Sun”), a California corporation and a wholly owned subsidiary of the Company, performs energy optimization lighting projects using a customized approach that includes design and installation of energy efficient lighting products. The Company’s customers are primarily in the United States of America and territories.

E-Shift Scientific Inc. (“ESS”), a subsidiary of the Company, was incorporated under the laws of the Province of Ontario, Canada. ESS is primarily engaged in designing, developing and manufacturing of innovative lighting technologies; energy management, monitoring, scheduling and control systems; and wireless communication products.

The Company’s consolidated financial statements include the assets, liabilities and historical operations of Eco-Shift Canada, Simplepons, Sun and ESS as one entity.

2. BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the Securities Exchange Commission (“SEC”) instructions to Form 10-Q and Article 8 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Company’s audited financial statements and notes thereto included in a current report on Form 10-K filed with the SEC on April 15, 2015.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position and results of operations for the interim periods presented have been reflected herein. Operating results for the three months ended March 31, 2015, are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. Notes to the Unaudited interim consolidated financial statements which would substantially duplicate the disclosures contained in the Company’s audited consolidated financial statements for the year ended December 31, 2014 as included in the current report on Form 10-K filed with the SEC on April 15, 2015 have been omitted.

3. GOING CONCERN

The Company’s unaudited interim consolidated financial statements are presented on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has incurred recurring losses from operations and as at March 31, 2015, the Company has a working capital deficiency of \$4,623,367 and has accumulated deficit of \$7,933,769. These factors raise substantial doubt as to its ability to continue as a going concern.

The Company’s continued existence is dependent upon management’s ability to develop profitable operations and resolve its liquidity problems. Management anticipates the Company will attain profitable status and improve its liquidity through continued business development and additional equity investment in the Company. Management is pursuing various sources of financing. In the event the Company is not able to raise the necessary equity financing, the Company intends to seek stockholder loans or debt financing, as needed, until profitable operations are attained. There can be no assurance that the necessary debt or equity financing will be available, or will be available on terms acceptable to the Company, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

ECO-SHIFT POWER CORP.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2015 (UNAUDITED)

(Expressed in United States Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES

Earnings Per Share

The Company has adopted Accounting Standards Codification (“ASC”) 260-10 which provides for calculation of “basic” and “diluted” earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income or loss available to common stockholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. Basic and diluted losses per share were the same at the reporting dates as there were no common stock equivalents outstanding at March 31, 2015 and 2014. The weighted average number of shares of common stock outstanding includes 4,138,394 exchangeable shares. All outstanding warrants and options have an anti-dilutive effect on the loss per share and are therefore excluded from the determination of the diluted loss per share calculation for the three months ended March 31, 2015 and 2014.

Fair Value of Financial Instruments

The Company follows ASC 820-10 *Fair Value Measurements and Disclosures* defines fair value, establishes a framework for measuring fair value and requires disclosure about fair value measurements of assets and liabilities. ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Valuation based on quoted market prices (unadjusted) for identical assets or liabilities in active markets that are observable.

Level 2 – Valuation based on quoted market prices for similar assets and liabilities in active markets.

Level 3 – Valuation based on unobservable inputs that are supported by little or no market activity, therefore requiring management’s best estimate of what market participants would use as fair value.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. The valuation of our derivative liability is determined using Level 1 inputs, which consider (i) time value, (ii) current market and (iii) contractual prices.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of March 31, 2015 and December 31, 2014. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, liquidated damages payable, advances from shareholders and promissory notes. The fair value of the Company’s debt instruments is estimated based on current rates that would be available for debt of similar terms, which is not significantly different from its stated value, except for the convertible notes payable, at fair value, which has been revalued based on current market rates using Level 1 inputs.

ECO-SHIFT POWER CORP.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2015 (UNAUDITED)

(Expressed in United States Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Revenue Recognition

The Company recognizes revenue on arrangements in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" and No. 104, "Revenue Recognition". In all cases, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability is reasonably assured. These conditions are generally met upon completion of delivery and installation for the Company. The three streams of revenue is as follows:

- a) Sales are recognized upon passage of title to the customer. This occurs when products are delivered and installed at the customers' locations in accordance with the terms of the contract with customers.
- b) Training income is recognized when training services are provided.
- c) Revenues from lighting projects are recognized on the percentage-of-completion method in accordance with Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 605-35, "Revenue Recognition-Construction-Type and Production-Type Contracts". Percentage-of-completion is measured principally by the percentage of costs incurred to date for each contract to the estimated total costs for such contract at

completion.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. In forecasting ultimate profitability on certain contracts, estimated recoveries are included for work performed under customer change orders to contracts, for which firm prices have not yet been negotiated but authorization to proceed with extra work is received from the customer. Due to uncertainties inherent in the estimation process, it is reasonably possible that completion costs, including those arising from contract penalty provisions and final contract settlements, will be revised in the near-term. Such revisions to costs and income are recognized in the period in which the revisions are determined.

Costs and estimated earnings in excess of billings arise in the balance sheets when revenues have been recognized but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units, or completion of a contract.

Goodwill and Identifiable Intangible Assets

Goodwill and other identifiable intangible assets with indefinite lives that are not being amortized, such as trade names, are tested at least annually for impairment and are written down if impaired. Identifiable intangible assets with finite lives are amortized over their estimated useful lives and are reviewed for impairment whenever facts and circumstances indicate that their carrying values may not be fully recoverable. The intangible assets are being amortized over their estimated useful lives of ten years using the straight-line method.

F-6

ECO-SHIFT POWER CORP.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2015 (UNAUDITED)

(Expressed in United States Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently issued accounting pronouncements

In July 2013, the FASB issued ASU 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry-forward, a Similar Tax Loss, or a Tax Credit Carry-forward Exists," which defines the presentation requirements of an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements. The new guidance became effective for the Company beginning October 1, 2014. The Company believes that the impact of adopting this guidance will not have any significant impact.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements and Property, Plant, and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which revises what qualifies as a discontinued operation, changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. This ASU will be effective for the Company for applicable transactions occurring after October 1, 2015. The Company will prospectively apply the guidance to applicable transactions.

On May 28, 2014, the FASB issued a new financial accounting standard on revenue from contracts with customers, Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The accounting standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is not permitted. The Company is currently evaluating the impact of this accounting standard.

On August 27, 2014, the FASB issued a new financial accounting standard on going concern, Update 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The standard provides guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern. The

amendments in this Update apply to all companies. They become effective in the annual period ending after December 15, 2016, with early application permitted. The Company is currently evaluating the impact of this accounting standard.

On April 7, 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts and the accounting for debt issue costs under IFRS. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in this Update apply to all companies. They become effective for public business entities in the annual period ending after December 15, 2015, and interim periods within those fiscal years, with early application permitted. The Company is currently evaluating the impact of this accounting standard.

All other recent pronouncements issued by the FASB or other authoritative standards groups with future effective dates are either not applicable or are not expected to be significant to the condensed consolidated financial statements of the Company.

5. RESTRICTED CASH

Restricted cash represents cash which are held in a trust account and are available subject to approval from certain investors.

6. COSTS AND ESTIMATED EARNINGS

Costs and estimated earnings and related amounts billed are as follows:

	March 31, 2015	December 31, 2014
	\$	\$
Cost incurred	3,299,478	3,849,742
Estimated earnings, thereon	432,383	658,547
	3,731,861	4,508,289
Less: Billings to date	(3,525,967)	(4,425,895)
	205,894	82,394

Such amounts are included in the accompanying balance sheet under the following captions:

	March 31, 2014	December 31, 2014
	\$	\$
Cost and estimated earnings in excess of billings	321,549	530,685
Billings in excess of costs and estimated earnings	(115,655)	(448,291)
	205,894	82,394

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill of \$2,225,410 represents the excess of cost over fair value of net assets of Sun acquired on October 20, 2014 as explained in form 10-K for the year ended December 31, 2014 filed with the SEC on April 15, 2015.

Intangible assets

Intangible assets of \$2,731,977 (net of accumulated amortization of \$132,002) comprise of \$2,320,265 representing net book value of customer base and trade-name/marks obtained through Sun acquisition and \$411,712 representing net book value of intellectual property/technology obtained through ESS acquisition.

This business combination was accounted for using the acquisition method and that certain identifiable intangible assets acquired in a business combination were recognized as assets apart from goodwill. ASC Topic 350, "Intangibles-Goodwill and Other" ("ASC 350") requires goodwill and other identifiable intangible assets with indefinite useful lives not be amortized, such as trade names, but instead tested at least annually for impairment (which the Company test each October 1 or December 1, absent any impairment indicators) and be written down if impaired. ASC 350 further requires that identifiable intangible assets with finite lives be amortized over their useful lives.

ECO-SHIFT POWER CORP.**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****AS OF MARCH 31, 2015 (UNAUDITED)****(Expressed in United States Dollars)****7. GOODWILL AND INTANGIBLE ASSETS (continued)***Business acquisition – E-Scientific Inc. (“ESS”)*

On January 14, 2015, on completion of certain conditions of the Asset Purchase Agreement (the “Agreement”) with ESS, the Company acquired intellectual property/technology (LED High Bay-Flat Panel) from ESS and in consideration of the purchased assets agreed to pay a purchase price consisting of \$100,000 in cash; a 3 year option to purchase 100,000 shares of ECOP common shares at \$0.25 per share (the “Option”) which is immediately exercisable and includes cashless exercise provisions; and shares of the Company’s common stock, \$0.001 par value per share, equal to \$405,000, or an aggregate of 5,000,000 shares of the Company’s common stock.

This acquisition was accounted for using the acquisition method of accounting. The fair value of assets, liabilities and intangible assets and the purchase price allocation as of the valuation date, which is January 14, 2015 is as follows:

	Allocation of Purchase Price	
	\$	\$
Cash	332	
Notes receivable from a related party	159,383	
Other receivable from a related party	16,160	
Other assets	15,084	
Total tangible assets	190,959	
Assumed liabilities		
Accounts payable and accrued liabilities		17,567
Other liability		2,423
Advances from a related party		82,503
Total liabilities		102,493
Net assets	88,466	
Intangible assets acquired		
Intellectual property/technology	422,269	

Total net assets acquired **510,735**

The details of the purchase consideration are as follows:

	\$
Cash to be paid	100,000
Common stock warrant/option at fair value	5,735
Common stock at fair value	405,000
Consideration paid	510,735

The fair value of the common stock issued is as follows:

	\$
Number of common stock	5,000,000
Market price	0.081
Fair value of common stock	405,000

8. NOTE PAYABLE TO BANK AND FAIR VALUE OF SHARES ISSUED AS GUARANTEE AGAINST NOTE PAYABLE

This represents the amount payable to a bank under the Restated and Final Forbearance Agreement (the "Agreement") dated September 30, 2014. The note is secured by substantially all assets of the Company and personal guarantees from the stockholders and a related party. The note bears interest at the rate of 10% per annum, payable monthly. It is due for repayment on the forbearance termination date of May 31, 2015. The Agreement includes certain financial and other covenants which are primarily tested on a calendar year basis.

During the three months period ended March 31, 2015 the Company issued 12,500,000 shares of its common stock which are placed as an additional guarantee for the Note Payable to Bank. These shares have been valued at a market price of \$0.1 per common stock and accordingly, \$1,250,000 is classified as fair value of shares issued as guarantee against note payable in balance sheet.

9. LIQUIDATED DAMAGES PAYABLE

Pursuant to the Company's private placement completed during the year ended December 31, 2012 in the gross amount of \$370,000, purchasers (the "Holders") are entitled to liquidated damages if a registration statement covering the resale

of the 1,480,000 shares of common stock sold under the private placement (the “Registrable Securities”) is not filed within 60 days of the termination date of the private placement on May 15, 2012 and declared effective within 150 days of the termination date. The Company shall make pro rata payments to each Holder, in an amount equal to 1.0% of the aggregate amount invested by such Holder (based upon the number of Registrable Securities then owned by such Holder) for each 30-day period or pro rata for any portion thereof following the date by which such Registration Statement should have been filed or effective (the “Blackout Period”).

Such payments can be made in cash or shares of common stock with the fair market value on the date of issuance and shall constitute the Holder’s exclusive monetary remedy for such events, but shall not affect the right of the Holder to seek injunctive relief. The amounts payable as liquidated damages shall be paid monthly within ten (10) business days of the last day of each month following the commencement of the Blackout Period until the termination of the Blackout Period. Such payments shall be made to each holder at the sole option of the Company in either cash or shares of common stock. As of March 31, 2015 and December 31, 2014, the Company has accrued liquidated damages payable in the amount of \$70,300.

10. PROVISION FOR A CONTINGENT LIABILITY

The Company has been named as a co-defendant in a claim by a customer, who is seeking damages of \$10,000,000 CAD (\$7,925,186) and return of a deposit of \$150,000 CAD (\$118,878) which was received by the Company under a Value-Added Reseller arrangement. The Company has filed a counterclaim against the customer for damages of \$9,548,560 CAD (\$7,551,253) resulting from the plaintiff’s breach of contract plus punitive damages of \$1,000,000 CAD (\$790,826) for negligence and loss of business reputation. Management of the company believes these claims are without merit and has accrued \$150,000 CAD (\$118,878) in the unaudited interim consolidated financial statements in regards to this claim, as management believes this represents a reasonable estimate of the amount the Company may ultimately be required to pay.

ECO-SHIFT POWER CORP.**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****AS OF MARCH 31, 2015 (UNAUDITED)****(Expressed in United States Dollars)****11. ADVANCES FROM SHAREHOLDERS**

The advances from shareholders are unsecured, non-interest bearing and due on demand.

12. CONVERTIBLE NOTES PAYABLE

The details of convertibles notes outstanding as at March 31, 2015 are as follows:

	\$
JSJ convertible note (a)	10,000
Convertible notes issued during 2014 (b)	1,380,000
Convertible notes issued during Q1 2015 (b)	332,900
Convertible notes outstanding as at March 31, 2015	1,722,900

a) JSJ convertible notes

On April 7, 2014 and June 10, 2014, the Company issued convertible promissory notes in the principal amounts of \$100,000 each to JSJ Investments (“Holder”). These notes bear interest at 12% per annum and have a six-month term. The note is pre-payable at any time by the Company, subject to payment of a redemption premium of 125% in lieu of principal and interest otherwise payable. The note is also convertible by the holder into shares of common stock of the Company at a 50% discount to the average of the three lowest trades on the previous ten trading days before conversion. The note may be converted in two tranches of \$50,000 plus interest, or 4.99% of the then current issued and outstanding number of shares of common stock of the Company, whichever is lower.

The embedded conversion feature in the Note has been accounted for as a derivative liability due to the variable conversion provision and full reset conversion price feature based on guidance in ASC 820 and EITF 07-05 (See note

10).

Following is an analysis of these convertible debts:

	\$
Gross amount received - Principal balance	200,000
Less: Principal balance converted during 2014	(90,000)
Less: Principal balance repaid during 2015	(100,000)
Remaining principal balance	10,000
Less: Unamortized discount	-
Convertible note as at March 31, 2015	10,000

b) Convertible notes

From July 1, 2014 to March 31, 2015, pursuant to various subscription agreements the Company issued convertible promissory notes (“Tainted Promissory Notes”) to investors and issued warrants to acquire additional shares of Common Stock at an exercise price of \$0.20-\$0.25 per share (the “Q3 2014 Tainted Warrant”). These convertible notes bear interest at 8% per annum, subject to a default rate at 12% per annum, and mature on the one-year anniversary of the date of issuance. The notes may be pre-paid at any time at the option of the Company. The unpaid principal and accrued and unpaid interest are convertible at any time before prepayment in full or the maturity date, at the option of the note holder, into shares of common stock of the Company at a conversion price of \$0.15 per share. The Warrants have three-year terms and provide for standard adjustment of the exercise price and shares. The Warrant may be exercised in whole or in part, on any day after the issuance of the Warrant. If at the time of exercise of the Warrant, a registration statement for the resale of the Warrant Shares is not effective, then the Investor has a cashless exercise right. These Warrants are tainted derivative liabilities as a result of the JSJ note issued on April 7, 2014.

F-9

13. PROMISSORY NOTES PAYABLE

The details of the promissory notes outstanding as at March 31, 2015 are as follows:

Date of issuance	Date of maturity	Amount \$	Rate of interest	Security
March 15, 2010	N/A	39,626	4	% Net assets of the Company
March 15, 2010	N/A	39,626	4	% Net assets of the Company
June 10, 2010	N/A	19,813	10	% Net assets of the Company
February 1, 2012	N/A	39,626	10	% Net assets of the Company
December 11, 2014	N/A	19,813	12	% Net assets of the Company
December 11, 2012	December 11, 2013	39,626	12	% No security
January 29, 2013	January 15, 2014	132,747	12	% No security
March 15, 2013	December 11, 2013	198,130	12	% No security
April 10, 2014	October 10, 2014	20,000	12	% No security
August 21, 2014	November 18, 2014	51,514	10	% No security
November 14, 2014	December 14, 2014	100,000	12	% No security
January 1, 2015	N/A	35,662	12	% No security
January 5, 2015	June 5, 2015	300,000	12	% No security
		1,036,183		

N/A – There is no maturity date of these promissory notes. Repayment is due when the Company has sufficient working capital to operate.

Promissory notes amounting to \$438,691 have been issued to shareholder and/or close family members of the shareholders which are outstanding as at March 31, 2015.

The management is in the process of negotiating to extend the term of the notes for which the date of maturity has elapsed.

ECO-SHIFT POWER CORP.**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****AS OF MARCH 31, 2015 (UNAUDITED)****(Expressed in United States Dollars)****14. DERIVATIVE LIABILITIES**

The details of derivative liabilities as at March 31, 2015 is as follows:

	Embedded feature of convertible notes	Warrant liabilities	Total
	\$	\$	\$
Fair value at issuance during Q2 2014	588,119	638,070	1,226,189
Change in fair value	(122,679)	(205,941)	(328,620)
Fair value as at June 30, 2014	465,440	432,129	897,569
Fair value at issuance during Q3 2014	404,072	408,561	812,633
Change in fair value	(136,334)	(264,186)	(400,520)
Fair value at September 30, 2014	733,178	576,504	1,309,682
Fair value at issuance	1,181,901	416,087	1,597,988
Fair value at conversion	(150,389)	-	(150,389)
Change in fair value	(983,589)	(770,766)	(1,754,355)
Fair value at December 31, 2014	781,101	221,825	1,002,926
Fair value at issuance	139,179	16,759	155,938
Fair value at issuance - ESS acquisition (Note 7)	-	5,735	5,735
Fair value at conversion	(194,351)	-	(194,351)
Change in fair value	(300,923)	(112,088)	(413,011)
Fair value at March 31, 2015	425,006	132,231	557,237

The derivative liabilities as at March 31, 2015 and December 31, 2014 have been classified based on maturity date as detailed below:

March	December
31, 2015	31, 2014

Edgar Filing: Eco-Shift Power Corp. - Form 10-Q

Current	436,843	828,611
Non-current	120,394	174,315
Fair value of derivatives as at December 31, 2014	557,237	1,002,926

The derivative liabilities were valued using a multi-nomial model. The following assumptions were utilized; risk-free rates based on remaining term of instrument, volatility based on the company's historical volatility (ranging from 173% on 9/30/14 to 158% on 12/31/14), dividend yield of 0%, maturity dates based on the instrument terms, and underlying stock price as quoted on NASDAQ (\$0.315 on September 30, 2014 and \$0.1299 on December 31, 2014).

The details of outstanding warrants as at March 31, 2015 are as follows:

	Number
Warrants issued during Q2 & Q3 2014 (a)	7,432,742
Warrants issued during Q4 2014 (b)	5,866,534
Warrants issued during Q1 2015 (c)	1,035,854
Total warrants outstanding as at March 31, 2015	14,335,130

These warrants have three-year terms and provide for standard adjustment of the exercise price and shares. The warrant may be exercised in whole or in part, on any day after the issuance of the warrant. If at the time of exercise of the warrant, a registration statement for the resale of the warrant shares is not effective, then the Investor has a cashless exercise right. These Warrants are tainted derivative liabilities as a result of the JSJ note issued on April 7, 2014.

The embedded conversion feature in the Notes and Warrants should be accounted for as a derivative liability due to the variable conversion provision and full reset conversion price feature in the JSJ Notes based on guidance in ASC 820 and EITF 07-05.

ECO-SHIFT POWER CORP.**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****AS OF MARCH 31, 2015 (UNAUDITED)****(Expressed in United States Dollars)****14. DERIVATIVE LIABILITIES (continued)**

(a) The details of the outstanding derivative warrants as at March 31, 2015 issued during Q2 and Q3 2014 are as follows:

Issue Date	Warrants Maturity Date	Issuance - Warrants	Warrants	Exercise Price	Derivative Value at December 31, 2014	Derivative Value at March 31, 2015	Mark to Market
4/7/2014	10/31/2015	2,000,000	2,000,000	0.5000	27,431	6,316	(21,115)
4/7/2014	11/30/2015	800,000	800,000	0.5000	11,474	3,155	(8,319)
4/7/2014	11/30/2015	600,000	600,000	0.5000	8,605	2,366	(6,239)
4/7/2014	5/31/2016	6,000	6,000	1.0000	62	18	(44)
4/7/2014	5/31/2016	6,000	6,000	1.0000	62	18	(44)
4/7/2014	9/30/2016	100,000	100,000	0.2500	1,707	926	(781)
4/7/2014	9/30/2016/	100,000	100,000	0.2500	1,707	926	(781)
4/7/2014	12/31/2016	120,000	120,000	0.5000	1,782	926	(856)
4/7/2014	12/31/2016	20,000	20,000	0.5000	297	154	(143)
4/7/2014	12/31/2016	43,560	43,560	0.5000	647	336	(311)
4/7/2014	12/31/2016	15,720	15,720	0.5000	233	121	(112)
4/7/2014	12/31/2016	4,000	4,000	0.5000	59	31	(28)
4/7/2014	12/31/2016	8,000	8,000	0.5000	119	62	(57)
4/7/2014	12/31/2016	20,000	20,000	0.5000	297	154	(143)
4/7/2014	12/31/2016	10,000	10,000	0.5000	149	77	(72)
4/7/2014	12/31/2016	80,000	80,000	0.5000	1,188	617	(571)
4/7/2014	12/31/2016	15,064	15,064	0.2500	252	143	(109)
4/7/2014	12/31/2016	60,000	60,000	0.5000	891	463	(428)
4/7/2014	2/28/2017	40,000	40,000	0.5000	586	322	(264)
4/7/2014	2/28/2017	40,000	40,000	0.5000	586	322	(264)
4/7/2014	2/28/2017	80,000	80,000	0.5000	1,171	644	(527)
4/7/2014	2/28/2017	31,064	31,064	0.2500	512	293	(219)
7/1/2014	9/16/2017	166,667	2,000,000	0.2000	2,981	1,553	(1,428)
7/1/2014	9/16/2017	166,667	800,000	0.2000	2,981	1,553	(1,428)
7/1/2014	9/16/2017	400,000	600,000	0.2000	7,154	3,727	(3,427)

Edgar Filing: Eco-Shift Power Corp. - Form 10-Q

7/1/2014	9/16/2017	266,667	6,000	0.2000	4,769	2,485	(2,284)
7/3/2014	9/16/2017	500,000	6,000	0.2000	8,942	4,659	(4,283)
7/8/2014	9/16/2017	266,667	100,000	0.2000	4,769	2,485	(2,284)
7/10/2014	9/16/2017	333,333	100,000	0.2000	5,962	3,106	(2,856)
7/11/2014	9/16/2017	333,333	120,000	0.2000	5,962	3,106	(2,856)
8/22/2014	9/16/2017	333,333	20,000	0.2000	5,962	3,106	(2,856)
8/22/2014	9/16/2017	166,667	43,560	0.2000	2,981	1,553	(1,428)
8/27/2014	9/16/2017	166,667	15,720	0.2000	2,981	1,553	(1,428)
9/5/2014	9/16/2017	133,333	4,000	0.2000	2,385	1,242	(1,143)
		7,432,742			117,646	48,518	(69,128)

F-12

ECO-SHIFT POWER CORP.**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****AS OF MARCH 31, 2015 (UNAUDITED)****(Expressed in United States Dollars)****14. DERIVATIVE LIABILITIES (continued)**

(b) The details of the outstanding derivative warrants as at March 31, 2015 issued during Q4 2014 are as follows:

Issue Date	Warrants Maturity Date	Issuance - Warrants	Exercise Price	DV at Issuance	Derivative Value at December 31, 2014	Derivative Value at March 31, 2015	Mark to Market
10/1/2014	10/31/2017	333,333	0.2000	33,438	5,919	3,073	(2,846)
10/2/2014	10/31/2017	166,667	0.2000	17,939	2,960	1,536	(1,424)
10/3/2014	10/31/2017	666,667	0.2000	62,632	11,839	6,146	(5,693)
10/3/2014	10	166,667	0.2000	15,627	2,960	1,536	(1,424)
10/7/2014	10/31/2017	166,667	0.2000	13,924	2,960	1,536	(1,424)
10/7/2014	10/31/2017	166,667	0.2000	13,890	2,960	1,536	(1,424)
10/8/2014	10/31/2017	333,333	0.2000	29,746	5,919	3,073	(2,846)
10/9/2014	10/31/2017	333,333	0.2000	26,044	5,919	3,073	(2,846)
10/15/2014	10/31/2017	299,867	0.2000	17,739	5,325	2,764	(2,561)
10/17/2014	10/31/2017	333,333	0.2000	22,430	5,919	3,073	(2,846)
10/17/2014	10/31/2017	333,333	0.2000	22,365	5,919	3,073	(2,846)
10/20/2014	10/31/2017	333,333	0.2000	22,637	5,919	3,073	(2,846)
10/21/2014	10/31/2017	333,333	0.2000	21,706	5,919	3,073	(2,846)
10/23/2014	10/31/2017	166,667	0.2000	12,515	2,960	1,536	(1,424)
10/24/2014	10/31/2017	166,667	0.2000	10,852	2,960	1,536	(1,424)
10/24/2014	10/31/2017	166,667	0.2000	10,841	2,960	1,536	(1,424)
10/28/2014	10/31/2017	333,333	0.2000	19,761	5,919	3,073	(2,846)
10/29/2014	10/31/2017	166,667	0.2000	9,642	2,960	1,536	(1,424)
10/30/2014	10/31/2017	200,000	0.2000	8,211	3,552	1,844	(1,708)
11/3/2014	10/31/2017	333,333	0.2000	15,810	5,919	3,073	(2,846)
11/21/2014	10/31/2017	166,667	0.2000	4,389	2,960	1,536	(1,424)
12/30/2014	10/31/2017	200,000	0.2000	3,949	3,552	1,844	(1,708)
		5,866,534		416,087	104,179	54,079	(50,100)

ECO-SHIFT POWER CORP.**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****AS OF MARCH 31, 2015 (UNAUDITED)****(Expressed in United States Dollars)****14. DERIVATIVE LIABILITIES (continued)**

(c) The details of the outstanding derivative warrants as at March 31, 2015 issued during Q1 2015 are as follows:

Issue Date	Warrants		Exercise Price	Derivative at	Derivative	Mark to Market
	Maturity Date	Issuance - Warrants		December 31, 2014 or issuance	Value at March 31, 2015	
8/26/2014	8/26/2019	40,801	0.2000	0	1,456	1,456
8/26/2014	8/26/2019	50,000	0.2000	0	416	416
10/18/2014	10/18/2019	78,882	0.2000	0	2,789	2,789
10/18/2014	10/18/2019	96,667	0.0010	0	800	800
10/29/2014	10/29/2019	59,842	0.0010	0	2,112	2,112
10/29/2014	10/29/2019	73,333	0.2000	0	606	606
10/31/2014	10/31/2019	29,921	0.2000	0	1,056	1,056
10/31/2014	10/31/2019	36,667	0.2000	0	303	303
11/6/2014	11/6/2019	33,333	0.0010	0	275	275
1/7/2015	1/7/2020	43,864	0.0010	2,032	1,530	(502)
1/7/2015	1/7/2020	36,667	0.2000	1,695	1,279	(416)
1/12/2015	1/12/2016	20,000	0.0010	264	199	(65)
1/12/2015	1/12/2016	50,000	0.0010	661	498	(163)
1/13/2015	1/13/2016	10,000	0.0010	106	100	(6)
1/15/2015	1/15/2020	63,803	0.2000	2,494	2,222	(272)
1/15/2015	1/15/2020	53,333	0.0010	2,081	1,858	(223)
1/22/2015	1/22/2016	30,000	0.2000	170	302	132
1/22/2015	1/22/2016	25,000	0.0010	142	252	110
1/27/2015	1/27/2016	25,000	0.2000	317	253	(64)
1/30/2015	1/30/2020	63,803	0.0010	2,334	2,217	(117)
1/30/2015	1/30/2020	53,333	0.2000	1,951	1,853	(98)
2/25/2015	2/25/2016	25,000	0.2000	442	258	(184)
3/2/2015	3/2/2020	19,938	0.0010	1,128	689	(439)

3/2/2015	3/2/2020	16,667	0.0010	942	576	(366)
		1,035,854		16,759	23,899	7,140

15. STOCKHOLDERS' EQUITY (DEFICIENCY)

Authorized stock

As at March 31, 2015 and December 31, 2014, the Company is authorized to issue 5,000,000 shares of preferred stock having par value of \$0.0001 and 400,000,000 shares of common stock having par value of \$0.01.

Issued and outstanding stock

As explained in note 7 to the consolidated financial statements, In February 2015, the Company 5,000,000 shares of the Company's common stock pursuant to Asset Purchase Agreement.

ECO-SHIFT POWER CORP.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2015 (UNAUDITED)

(Expressed in United States Dollars)

15. STOCKHOLDERS' DEFICIENCY (continued)

As explained in note 8 to the consolidated financial statements, the Company during March 2015 issued 12,500,000 shares of its common stock which are placed as a security deposit with the Bank as an additional guarantee for the Note Payable to Bank. These shares have been valued at a market price of \$0.1 per common stock and accordingly, \$1,250,000 is classified as security deposit under current assets in balance sheet.

In March 2015, the Company issued 1,000,000 common shares to a consultant for handling investors' relationship matters for the Company. These shares were valued at market price of \$0.11 per common stock and accordingly \$115,100 have been recorded as consulting fees included in legal and professional fees for the three months ended March 31, 2015.

In March 2015, the Company in private placements issued 280,091 common shares for cash proceeds of \$70,023.

Shares to be issued

Pursuant to Share Purchase and Exchange Agreement in connection with the acquisition of Sun Industries, which was completed on October 20, 2014 as explained in note 7 to the consolidated financial statements of the Company included in 10K document filed with SEC on April 15, 2015, the Company has committed to issue 11,050,000 shares of common stock. These shares are presented as shares to be issued in the statement changes in shareholder's deficiency as at March 31, 2015.

16. COMMITMENTS AND CONTINGENCIES

Commitments

The Company leases the Sun locations under an operating lease on a one year lease for approximately \$5,400 per month.

Contingencies

Other than the matters described below, the Company is not currently involved in any litigation that the Company believes could have a materially adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of the Company or any of the Company's subsidiaries, threatened against or affecting our Company, our common stock, any of the Company's subsidiaries or of the Company's or our Company's subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect

- The Company was named defendant in a claim by 954793 Ontario Inc. for CAD1,000,000 (USD 792,519) in damages under section 3 (2) of the Wishart Act. On May 4, 2015 the Company accepted the proposed resolution in
- a) the Amended Settlement Agreement for \$120,000 cash payment to be paid in 5 instalments in 2015 and shares worth \$25,000 which were issued subsequent to three months period end.
 - b) On August 12, 2013, the Company was named co-defendant in a claim by Boehmer Box LP, a customer, who is seeking damages of C\$500,000 (USD 396,259) associated with breach of contract and warranty.

On March 31, 2014, Venture Lighting International Inc., one of the co-defendants in Boehmer Box LP claim, filed a statement of Defence and Crossclaim against all co-defendants, including the Company.

ECO-SHIFT POWER CORP.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2015 (UNAUDITED)

(Expressed in United States Dollars)

16. COMMITMENTS AND CONTINGENCIES (continued)

On January 7, 2014, the Company commenced an action in the Superior Court of Justice for Ontario against N.V. Nederlandsche Apparatenfabriek “Nedap”, Niek Nijenhuis, Thomas Lang, Jeroen Somsen (together, the Nedap Defendants), Venture Lighting International Inc., Andrew Tyrrell, NRG Metalworks Inc., Craig Chornaby, Full c) Energy Solutions Distribution and Jan Christopher Vargas (together, the Defendants). Eco-Shift claims for C\$25,000,000 (USD 19,812,966) in compensatory and punitive damages for breach of contract, breach of confidence, conspiracy, breach of fiduciary duty, intentional interference with economic relations and inducing breach of contract.

On April 9, 2014, the Nedap Defendants filed a statement of Defence and Counterclaim for the amount of Euro 3,321,000 (USD 3,566,422) in damages associated with unrecovered costs, lost profits and lost revenues due to reputational damage. On April 10, 2014, Venture Lighting International Inc. filed a statement of Defence and Crossclaim.

In December 2014, the Company was served with a complaint by the ex-employee of Simplepons claiming that the Company failed to pay him approximately \$101,000 for his salary and severance payment under the terms of his d) employment agreement. The Company intend to seek an amicable resolution of the dispute but will defend itself if such a resolution is not possible.

17. RELATED PARTY TRANSACTIONS AND BALANCES

The Company’s transactions with related parties were, in the opinion of the directors, carried out on normal commercial terms and in the ordinary course of the Company’s business.

Other than those disclosed elsewhere in the financial statements, there were no other related party transactions or balances.

18. SUPPLEMENTAL CASH FLOWS INFORMATION

During the three months period ended March 31, 2015 interest of \$34,637 (2014 – \$14,345) was paid. In addition to above, following are the non-cash issuance of shares for the three months period ended March 31, 2015:

Issuance of 1,000,000 shares against consulting and legal services for value of \$115,100;

Issuance of 5,000,000 shares against ESS acquisition for a value of \$405,000; and

Issuance of 12,500,000 shares as security deposit for a value of \$1,250,000

19. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to May 20, 2015, the date the financial statements were issued, pursuant to the requirements of ASC Topic 855 and has determined the following material subsequent events:

As disclosed in note, 17, in May 2015, the Company settled a legal dispute with 954793 Ontario Inc. at \$120,000 inclusive of all cost and interest and issuance of common shares worth \$25,000.

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

This Three months period Report on Form 10-Q contains "forward-looking statements". Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements may include words such as "anticipate," "believe," "estimate," "intend," "could," "should," "would," "may," "seek," "plan," "might," "expect," "anticipate," "predict," "project," "forecast," "potential," "continue" and negatives thereof or similar expressions. Forward-looking statements speak only as of the date they are made, are based on various underlying assumptions and current expectations about the future and are not guarantees. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, level of activity, performance or achievement to be materially different from the results of operations or plans expressed or implied by such forward-looking statements.

We cannot predict all of the risks and uncertainties associated with such forward-looking statements. Accordingly, such information should not be regarded as representations that the results or conditions described in such statements or that our objectives and plans will be achieved and we do not assume any responsibility for the accuracy or completeness of any of these forward-looking statements. These forward-looking statements are found at various places throughout this Quarterly Report on Form 10-Q and include information concerning possible or assumed future results of our operations, including statements about business strategies; future cash flows; financing plans; plans and objectives of management; future cash needs; future operations; business plans and future financial results, and any other statements that are not historical facts.

These forward-looking statements represent our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors. Many of those factors are outside of our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. All subsequent written and oral forward-looking statements concerning other matters addressed in this Quarterly Report on Form 10-Q and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Quarterly Report on Form 10-Q. Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, a change in events, conditions, circumstances or assumptions underlying such statements, or otherwise.

Plan of Operation

The Company is focused on the continued execution of a strategic plan aimed at increasing shareholder value. Operations will continue to be focused on three complimentary business segments:

1. Lighting Retrofits via subsidiary Sun Industries

The Company will continue to grow its lighting retrofit business via subsidiary Sun Industries, which has 23 years of industry experience and a competitive advantage in the public sector with over 700 projects completed in 30 states. Sun Industries will continue to specialize in the EPCM (engineering/design, procurement, construction and maintenance) of diversified, large-scale lighting retrofit projects. Sun Industries will continue to target projects North America wide ranging anywhere from \$100,000-\$10 million. The Company will allocate resources towards removing barrier to revenue growth, which include increased bonding capacity and additional staff (sales and project development).

2. OEM/Distribution – LED Lighting Fixtures

The Company will focus a significant amount of new resources towards the ongoing push into the market as an Original Equipment Manufacturer (OEM) of LED products that are competitive on specifications (ie lumen per watt) and lowest cost in the market. Investments will be made in product development and sales staff. For 2015-2016, the company will focus on the manufacturing and distribution of the ECOP LED Flat Panel series and ECOP LED High bay fixtures. ECOP will also take advantage of distribution networks and industry relationships to distribute OEM products from other manufacturers under licensing agreement.

3. Wireless Light Management Systems and Energy Management

The Company will continue with the final development stages of its wireless light management system (Radium) that allows for full automation and programming of facility lighting and other energy using technologies (HVAC, plug load). Once a facility has the Radium system installed, clients can earn additional revenue via utility funded Demand Response programs. The Company will provide back-office support for Energy Management, including the participation in Demand Response programs, via ongoing Software-as-a-Service contracts.

Operations in Q1 2015 remained focused on the final phases of product and software commercialization. Company resources have been directed to product development in order to expedite the timelines for commercial launch of new products which are anticipated to gain significant market share. In Q2 2015, the Company plans to hire additional staff in step with revenue increases including OEM sales staff that will be focused on national electrical supply companies and national electrical contractors in both the US and Canada. The Company will continue to focus on the lighting retrofit market with existing sales staff.

Operations to Focus on Three High-Growth Revenue Streams:

A key focus of operations for Q2 2015 is the commercial launch of the Company's LED high bay that is expected to have one of the lowest MSRP's available on the North American market. The Company is preparing operations for significant sales given that the LED high bay will be competitively priced with legacy technologies, offering significant energy savings for clients at comparable capital cost. Operations will be refocused to ensure that the Company can manage high volume sales as an OEM.

In addition to the commercial launch of the Company's LED, the company had been focusing on integrating the newly acquired company, Sun & Sun Industries to offer the added value proposition to the long established client base in USA.

We plan to recruit 4-6 additional highly experienced technical sales professionals who will expand our territory of the Canadian marketplace and the United States.

In addition to integrating the operations with Sun & Sun Industries, we plan on leveraging the existing customer base to expand further into the U.S. by gaining in depth market understanding and offering value added services. In addition to increasing company's footprint in the US and improved economies of scale, the integration also helps in training the staff of that business and assisting in the recruiting of additional sales staff.

COMPARISON OF OPERATING RESULTS

Comparison of Three Months Ended March 31, 2015 to Three Months Ended March 31, 2014

Revenue

Revenue increased by \$1,351,455 to \$1,678,655 for the three months ended March 31, 2015 from \$327,200 for the three months ended March 31, 2014.

Q1 2015 revenue includes revenue of Sun, which was not the case in 2014 as Sun was acquired in October 2014. Increase in revenue in Q1 2015 as compared to Q1 2014 were mainly to our focus in Q1 2014 to the completion of the reverse merger and securing additional capital and lines of credit, whereas in Q1 2015 these activities were completed prior to the start of the three months period, thus allowing us to solely focus on sales, for which we have completed two major installations in Q1 2015. As the Company is now public, there are more promising work orders which will substantially increase the revenue of the Company going forward.

Cost of Goods Sold

Cost of goods sold was \$1,473,930 for the three months ended March 31, 2015, compared to \$102,353 for the three months ended March 31, 2014, an increase of \$1,371,577 from the prior period. The main reason for the increase is acquisition of Sun in October 2014, and Q1 2015 cost of goods sold include Sun operations, which was not the case in 2014.

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

Expenses

Expenses increased to \$883,010 for the three months ended March 31, 2015 from \$521,838 for the three months ended March 31, 2014.

Increase in overall expenses of \$361,172 during the three months ended March 31, 2015 was mainly contributed by inclusion of Sun which resulted in increases expenses of \$493,125 and due to increase in legal and professional fees by \$533,967, mainly represented by a consulting charge for issuance of common stock, settlement of a legal dispute, increase in interest and bank charges of \$109,393 and increase salaries in and benefits of \$90,757 partially offset by change in fair value of derivative liabilities of \$(607,362).

Net loss.

During the three months ended March 31, 2015, we incurred a net loss of \$678,285 as compared to a net loss of \$296,991 during the three months ended March 31, 2014.

The major reason for the increase in net loss in the current period as compared to the previous period is primarily due to increase in expenses as explained in the above expenses section.

Liquidity and Capital Resources

As of March 31, 2015, the Company had total assets of \$7,746,491, which included total current assets of \$2,728,202, consisted of cash/restricted cash of \$53,717, security deposit of \$1,250,000, accounts receivable of \$581,521, costs and estimated earnings in excess of billings of \$321,549, advances and deposits of \$246,961, and prepayments and other receivables of \$274,454 and non-current assets comprising of goodwill of \$2,225,410, intangible assets of \$2,731,977 and property and equipment of \$60,902.

Edgar Filing: Eco-Shift Power Corp. - Form 10-Q

The Company had total liabilities of \$7,453,603. Current liabilities consisted of accounts payable and accrued liabilities of \$2,731,195, note payable to bank of \$675,431, customer deposit of \$190,648, liquidated damages payable of \$70,300, provision for contingent liability of \$118,878, advances from shareholders of \$235,176, convertible notes payable of \$1,722,900, billings in excess of costs and estimated earnings of \$115,655, derivative liabilities of \$442,578 and promissory notes payable of \$1,036,183. Long term liability include only non-current portion of derivative liabilities of \$114,659.

The Company had a working capital deficit of \$4,623,367 and an accumulated deficit of \$7,933,769 as of March 31, 2015.

Net cash used in operating activities. During the three months ended March 31, 2015, the Company used \$573,274 of net cash in operating activities compared to \$458,610 of net cash used in operating activities for the three months ended March 31, 2014. The increase in net cash used in operating activities by \$114,664 was mainly attributable to the increase in loss for the three months as compared to previous period and change in composition of working capital.

Net cash provided by investing activities. During the three months ended March 31, 2015 net cash provided by investing activities was \$54,407 as compared to \$204,116 for the three months ended March 31, 2014. The decrease was mainly due to decrease in restricted cash balance as at March 31, 2015 as compared to March 31, 2014.

Net cash provided by financing activities. During the three months ended March 31, 2015 net cash provided by financing activities was \$435,999 as compared to \$172,858 for the three months ended March 31, 2014. The increase is mainly due to issuance of convertible notes, promissory notes and issuance of shares.

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

Need For Additional Capital

The Company has incurred recurring losses from operations and as at March 31, 2015, the Company has a working capital deficiency of \$4,623,367 and has accumulated deficit of \$7,933,769. These factors raise substantial doubt as to its ability to continue as a going concern.

The Company's continued existence is dependent upon management's ability to develop profitable operations and resolve its liquidity problems. Management anticipates the Company will attain profitable status and improve its liquidity through continued business development and additional equity investment in the Company. Management is in the final stages of securing debt financing of \$4 million as the first tranche for a \$10 million debt financing. In the event the Company is not able to raise the necessary equity financing, the Company intends to seek stockholder loans or debt financing to meet its working capital and growth requirements. This will enable Company's operations to advance and grow in order to produce sufficient operating cash to repay its current loans. There can be no assurance that the necessary debt or equity financing will be available, or will be available on terms acceptable to the Company, in which case the Company may be unable to meet its obligations.

The Company's consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, the Company has experienced losses from operations and has negative working capital as of March 31, 2015. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations, and the attainment of profitable operations. The consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue as a going concern.

There can be no assurance that the Company will be able to continue to raise funds, in which case we may be unable to meet our obligations and we may cease operations.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by FASB or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that recently issued accounting pronouncements adopted do not have a material impact on its financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting Company, we are not required to provide the information required by this item.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Our Principal Executive Officer and Principal Financial Officer, after evaluating the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q (the “Evaluation Date”), have concluded that as of the Evaluation Date, our disclosure controls and procedures were not effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. This conclusion was based on the existence of the material weaknesses in our internal control over financial reporting previously disclosed and discussed below.

Item 4. Controls and Procedures (continued)

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. We identified and continue to have the following material weaknesses in our internal controls over financial reporting: we currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Additionally, due to the fact that we have only three officers and directors who have no experience as officers or directors of a reporting company, such lack of experienced personnel may impair our ability to maintain effective internal controls over financial reporting and disclosure controls and procedures, which may result in material misstatements to our consolidated financial statements and an inability to provide accurate and timely financial information to our stockholders.

To address the need for more effective internal controls, management has plans to improve the existing controls and implement new controls as our financial position and capital availability improves.

(b) Changes in internal control over financial reporting. There were no changes in our internal controls over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in the following significant claims and litigation, asserted by and against the Company, which have arisen in the ordinary course of business. Claims are recorded at their estimated net realizable value or expected cost when such amounts are probable and can be reasonably estimated. The Company believes that it has a number of valid defences to the actions against it and the Company intends to vigorously defend or assert these claims and does not believe that a significant liability will result, other than the amounts recorded. However, the Company cannot predict the outcome thereof or the impact that an adverse result will have upon its consolidated financial position, results of operations or liquidity.

a) The Company has been named as a co-defendant in a claim by a customer, who is seeking damages of \$10,000,000 CAD (\$7,925,186) and return of a deposit of \$150,000 CAD (\$118,878) which was received by the Company under

a Value-Added Reseller arrangement. The Company has filed a counterclaim against the customer for damages of \$9,548,560 CAD (\$7,551,253) resulting from the plaintiff's breach of contract plus punitive damages of \$1,000,000 CAD (\$790,826) for negligence and loss of business reputation. Management of the company believes these claims are without merit and has accrued \$150,000 CAD (\$118,878) in the unaudited interim consolidated financial statements in regards to this claim, as management believes this represents a reasonable estimate of the amount the Company may ultimately be required to pay.

b) The Company was named defendant in a claim by 954792 Ontario Inc. for CAD1,000,000 (USD 792,519) in damages under section 3 (2) of the Wishart Act. On May 4, 2015 the Company accepted the proposed resolution in the Amended Settlement Agreement for \$120,000 cash payment to be paid in 5 instalments in 2015 and shares worth \$25,000 which were issued subsequent to the quarter end.

c) On August 12, 2013, the Company was named co-defendant in a claim by Boehmer Box LP, a customer, who is seeking damages of C\$500,000 (USD 396,259) associated with breach of contract and warranty.

On March 31, 2014, Venture Lighting International Inc., one of the co-defendants in Boehmer Box LP claim, filed a statement of Defence and Crossclaim against all co-defendants, including the Company.

On January 7, 2014, the Company commenced an action in the Superior Court of Justice for Ontario against N.V. Nederlandsche Apparatenfabriek “Nedap”, Niek Nijenhuis, Thomas Lang, Jeroen Somsen (together, the Nedap Defendants), Venture Lighting International Inc., Andrew Tyrrell, NRG Metalworks Inc., Craig Chornaby, Full d) Energy Solutions Distribution and Jan Christopher Vargas (together, the Defendants). Eco-Shift claims for C\$25,000,000 (USD 19,712,500) in compensatory and punitive damages for breach of contract, breach of confidence, conspiracy, breach of fiduciary duty, intentional interference with economic relations and inducing breach of contract.

On April 9, 2014, the Nedap Defendants filed a statement of Defence and Counterclaim for the amount of Euro 3,321,000 (USD 4,037,200) in damages associated with unrecovered costs, lost profits and lost revenues due to reputational damage.

On April 10, 2014, Venture Lighting International Inc. filed a statement of Defence and Crossclaim.

e) In December 2014, the Company was served with a complaint by the ex-employee of Simplepons claiming that the Company failed to pay him approximately \$101,000 for his salary and severance payment under the terms of his employment agreement. The Company intend to seek an amicable resolution of the dispute but will defend itself if such a resolution is not possible.

Other than the matters described above we are not currently involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our Company or any of our subsidiaries, threatened against or affecting our Company, our common stock, any of our subsidiaries or of our Company’s or our Company’s subsidiaries’ officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the Company’s Annual Report on Form 10-K filed with the SEC on April 15, 2015 (the “Annual Report”) and investors are encouraged to read and review the risk factors included in the Annual Report prior to making an investment in the Company.

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

As explained in note 7 to the consolidated financial statements, In February 2015, the Company 5,000,000 shares of the Company's common stock pursuant to Asset Purchase Agreement.

As explained in note 8 to the consolidated financial statements, the Company during March 2015 issued 12,500,000 shares of its common stock which are placed as a security deposit with the Bank as an additional guarantee for the Note Payable to Bank. These shares have been valued at a market price of \$0.1 per common stock and accordingly, \$1,250,000 is classified as security deposit under current assets in balance sheet.

In March 2015, the Company issued 1,000,000 common shares to a consultant for handling investors' relationship matters for the Company. These shares were valued at market price of \$0.11 per common stock and accordingly \$115,100 have been recorded as consulting fees included in legal and professional fees for the three months ended March 31, 2015.

In March 2015, the Company in private placements issued 280,091 common shares for cash proceeds of \$70,023.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

There is no other information required to be disclosed under this item which was not previously disclosed.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification by the Principal Executive Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)). *
31.2	Certification by the Principal Financial Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)). *
32.1	Certification by the Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certification by the Principal Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**

* Filed herewith

** In accordance with Rule 406T of Regulation S-T, the XBRL-related information on Exhibit No. 101 to this Quarterly Report on Form 10-Q shall be deemed “furnished” herewith and not “filed.”

SIGNATURES

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

ECO-SHIFT POWER CORP.

DATED: May 20, 2015 *By: /s/ Alistair Haughton*
Alistair Haughton
Chief Executive Officer (Principal Executive Officer)

DATED: May 20, 2015 *By: /s/ James Hughes*
James Hughes
Chief Financial Officer
(Principal Financial Officer)

