

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10 – Q

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

For the quarterly period ended: March 31, 2018

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

Commission File Number 333-192877

QPAGOS

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or
organization)

33-1230229
(I.R.S. Employer Identification Number)

Paseo del la Reforma 404 Piso 15 PH
Col. Juarez, Del. Cuauhtemoc
Mexico, D.F. C.P. 06600
(Address of principal executive offices including zip code)

+52 (55)-110-110
(Registrant's telephone number, including area code)

Indicate by check mark whether the issuer (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 website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 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 shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

| | | | |
|---|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| (Do not check if smaller reporting company) | | Emerging growth company | <input checked="" type="checkbox"/> |

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

Number of shares outstanding of the issuer's common stock as of the latest practicable date: 82,519,575 shares of common stock, \$0.0001 par value per share as of May 21, 2018.

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Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In particular, statements contained in this Quarterly Report Form 10-Q, including but not limited to, the sufficiency of our cash, our ability to finance our operations and business initiatives and obtain funding for such activities; our future results of operations and financial position, business strategy and plan prospects, or costs and objectives of management for future acquisitions, are forward-looking statements. These forward-looking statements relate to our future plans, objectives, expectations and intentions and may be identified by words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “intends,” “targets,” “projects,” “contemplates,” “believes,” “seeks,” “goals,” “estimates,” “predicts,” “potential” and “continue” or similar words. Readers are cautioned that these forward-looking statements are based on our current beliefs, expectations and assumptions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed, projected or implied in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

NOTE REGARDING COMPANY REFERENCES

Throughout this Quarterly Report on Form 10-Q, “QPAGOS,” the “Company,” “we,” “us” and “our” refer to QPAGOS and its direct and indirect subsidiaries, Qpagos Corporation, Qpagos S.A.P.I. de C.V. and Redpag S.A.P.I de C.V.

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Item 1.

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QPAGOS
CONDENSED CONSOLIDATED BALANCE SHEETS

| Assets | March 31, 2018 | December 31, 2017 |
|--|---------------------------|------------------------------|
| | (unaudited) | |
| Current Assets | | |
| Cash | \$ 54,025 | \$ 19,028 |
| Accounts receivable | 30,288 | 59,628 |
| Inventory | 537,216 | 504,794 |
| Recoverable IVA taxes and credits | 274,575 | 215,990 |
| Other current assets | 326,873 | 288,687 |
| Total Current Assets | 1,222,977 | 1,088,127 |
| Non-Current Assets | | |
| Plant and equipment, net | 162,504 | 160,301 |
| Intangibles, net | 114,667 | 125,417 |
| Investment | 3,000 | 3,000 |
| Other assets | 11,157 | 6,950 |
| Total Non-Current Assets | 291,328 | 295,668 |
| Total Assets | \$ 1,514,305 | \$ 1,383,795 |
| Liabilities and Stockholders' Deficit | | |
| Current Liabilities | | |
| Accounts payable | \$ 416,764 | \$ 446,032 |
| Loans payable | 155,500 | — |
| Loans payable - Related parties | 419,664 | 349,916 |
| Convertible debt, net of unamortized discount of \$516,234 and \$652,563, respectively | 503,463 | 724,776 |
| Convertible debt - Related parties, net of unamortized discount of \$0 and \$338,709 respectively | 256,199 | 859,190 |
| Derivative liability | 1,414,834 | 3,277,621 |
| IVA and other taxes payable | 16,354 | 7,178 |
| Advances from customers | 222,533 | 119,597 |
| Total Current Liabilities | 3,405,311 | 5,784,310 |
| Total Liabilities | 3,405,311 | 5,784,310 |
| Stockholders' Deficit | | |
| Preferred stock, \$0.0001 par value, 25,000,000 shares authorized and 0 shares issued and outstanding as of March 31, 2018 and December 31, 2017. | | |
| Common stock, \$0.0001 par value; 100,000,000 shares authorized, 79,882,568 and 56,207,424 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively. | 7,988 | 5,620 |
| Additional paid-in-capital | 12,748,447 | 8,494,502 |
| Accumulated deficit | (15,056,674) | (13,388,191) |
| Accumulated other comprehensive income | 409,233 | 487,554 |
| Total Stockholders' Deficit | (1,891,006) | (4,400,515) |
| Total Liabilities and Stockholders' Deficit | \$ 1,514,305 | \$ 1,383,795 |

See notes to the unaudited condensed consolidated financial statements

QPAGOS
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

| | Three months Ended March 31, 2018 | Three months Ended March 31, 2017 |
|--|--|--|
| Net Revenue | \$ 1,464,789 | \$ 927,310 |
| Cost of Goods Sold | <u>1,520,666</u> | <u>853,452</u> |
| Gross (loss) profit | (55,877) | 73,858 |
| General and administrative | 560,078 | 457,587 |
| Depreciation and amortization | 12,406 | 16,791 |
| Total Expense | <u>572,484</u> | <u>474,378</u> |
| Loss from Operations | (628,361) | (400,520) |
| Other (expense) income | (2,478,599) | 100 |
| Interest expense, net | (1,245,786) | (141,600) |
| Derivative liability movements | 2,531,332 | (247,770) |
| Foreign currency gain | 152,931 | 233,852 |
| Loss before Provision for Income Taxes | <u>(1,668,483)</u> | <u>(555,938)</u> |
| Provision for Income Taxes | <u>—</u> | <u>—</u> |
| Net Loss | <u>\$ (1,668,483)</u> | <u>\$ (555,938)</u> |
| Net Loss Per Share - Basic and Diluted | <u>\$ (0.03)</u> | <u>\$ (0.01)</u> |
| Weighted Average Number of Shares Outstanding - Basic and Diluted | <u>62,511,646</u> | <u>55,454,000</u> |
| Other Comprehensive Loss | | |
| Foreign currency translation adjustment | <u>(78,321)</u> | <u>(229,081)</u> |
| Total Comprehensive loss | <u>(1,746,804)</u> | <u>(785,019)</u> |

See notes to the unaudited condensed consolidated financial statements

QPAGOS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' DEFICIT

FOR THE PERIOD JANUARY 1, 2018 TO MARCH 31, 2018 (Unaudited)

| | <u>Preferred Stock</u> | | <u>Common Stock</u> | | <u>Additional</u> | <u>Accumulated</u> | <u>Accumulated</u> | <u>Other</u> | <u>Total</u> |
|--|------------------------|---------------|---------------------|---------------|-------------------|--------------------|----------------------|---------------|----------------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Shares</u> | <u>Amount</u> | <u>Paid-in</u> | <u>Deficit</u> | <u>Comprehensive</u> | <u>Income</u> | <u>Stockholders'</u> |
| | | | | | <u>Capital</u> | | <u>Income</u> | | <u>Deficit</u> |
| Balance as of December 31, 2017 | — | \$ — | 56,207,424 | \$ 5,620 | \$ 8,494,502 | \$ (13,388,191) | \$ 487,554 | | \$ (4,400,515) |
| Conversion of debt to equity | — | — | 23,675,144 | 2,368 | 4,253,945 | — | — | | 4,256,313 |
| Translation adjustment | — | — | — | — | — | — | (78,321) | | (78,321) |
| Net loss | — | — | — | — | — | (1,668,483) | — | | (1,668,483) |
| Balance as of March 31, 2018 | — | \$ — | 79,882,568 | \$ 7,988 | \$12,748,447 | \$ (15,056,674) | \$ 409,233 | | \$ (1,891,006) |

See notes to unaudited condensed consolidated financial statements

QPAGOS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three months ended March 31, 2018 | Three months ended March 31, 2017 |
|--|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | (1,668,483) | (555,938) |
| Adjustment to reconcile net loss to net cash used in operating activities: | | |
| Depreciation expense | 11,561 | 14,790 |
| Amortization expense | 10,750 | 10,969 |
| Derivative liability movements | (2,531,332) | 247,770 |
| Amortization of debt discount | 1,143,583 | 113,563 |
| Loss on conversion of debt to equity | 2,477,791 | — |
| Convertible notes issued for services | 100,724 | — |
| Changes in Assets and Liabilities | | |
| Accounts receivable | 33,040 | (95,769) |
| Inventory | 5,886 | 52,463 |
| Recoverable IVA taxes and credits | (41,083) | 787 |
| Other current assets | (16,453) | 33,313 |
| Other assets | (3,586) | 2,542 |
| Accounts payable and accrued expenses | (33,257) | (122,073) |
| IVA and other taxes payable | 8,415 | (18,972) |
| Advances from customers | 91,492 | 18,438 |
| Interest accruals | 102,203 | 27,216 |
| CASH USED IN OPERATING ACTIVITIES | <u>(308,749)</u> | <u>(270,901)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (1,800) | — |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(1,800)</u> | <u>—</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from loans payable | 155,500 | 15,000 |
| Proceeds from short term notes and convertible notes | 346,000 | 458,000 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>501,500</u> | <u>473,000</u> |
| Effect of exchange rate changes on cash and cash equivalents | (155,954) | (214,520) |
| NET INCREASE (DECREASE) IN CASH | 34,997 | (12,421) |
| CASH AT BEGINNING OF PERIOD | 19,028 | 46,286 |
| CASH AT END OF PERIOD | <u>\$ 54,025</u> | <u>\$ 33,865</u> |
| CASH PAID FOR INTEREST AND TAXES: | | |
| Cash paid for income taxes | | \$ — |
| Cash paid for interest | \$ — | \$ 822 |

See notes to the unaudited condensed consolidated financial statements

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 ORGANIZATION AND DESCRIPTION OF BUSINESS

a) Organization

On May 12, 2016, QPAGOS (formerly known as Asiya Pearls, Inc.), a Nevada corporation (“QPAGOS”), entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Qpagos Corporation, a Delaware corporation (“Qpagos Corporation”), and Qpagos Merge, Inc., a Delaware corporation and wholly owned subsidiary of QPAGOS (“Merger Sub”). Pursuant to the Merger Agreement, on May 12, 2016, the merger was consummated and Qpagos Corporation and Merger Sub merged (the “Merger”), with Qpagos Corporation continuing as the surviving corporation of the Merger.

Pursuant to the Merger Agreement, upon consummation of the Merger, each share of Qpagos Corporation’s capital stock issued and outstanding immediately prior to the Merger was converted into the right to receive two shares of QPAGOS common stock, par value \$0.0001 per share (the “Common Stock”). Additionally, pursuant to the Merger Agreement, upon consummation of the Merger, QPAGOS assumed all of Qpagos Corporation’s warrants issued and outstanding immediately prior to the Merger, which were exercisable for approximately 6,219,200 shares of Common Stock, respectively, as of the date of the Merger. Prior to and as a condition to the closing of the Merger, the then-current QPAGOS stockholder of 5,000,000 shares of Common Stock agreed to return to QPAGOS 4,975,000 shares of Common Stock held by such holder to QPAGOS and the then-current QPAGOS stockholder retained an aggregate of 25,000 shares of Common Stock and the other stockholders of QPAGOS retained 5,000,000 shares of Common Stock. Therefore, immediately following the Merger, Qpagos Corporation’s former stockholders held 49,929,000 shares of QPAGOS common stock which represented approximately 91% of the outstanding Common Stock.

The Merger was treated as a reverse acquisition of QPAGOS, a public shell company, for financial accounting and reporting purposes. As such, Qpagos Corporation was treated as the acquirer for accounting and financial reporting purposes while QPAGOS was treated as the acquired entity for accounting and financial reporting purposes. Further, as a result, the historical financial statements that are reflected in this Quarterly Report on Form 10-Q and that will be reflected in the Company’s financial statements filed with the United States Securities and Exchange Commission (“SEC”) will be those of Qpagos Corporation, and the Company’s assets, liabilities and results of operations will be consolidated with the assets, liabilities and results of operations of Qpagos Corporation.

QPAGOS Corporation (“QPAGOS”) was incorporated on May 1, 2015 under the laws of the state of Delaware to effectuate a reverse merger transaction with Qpagos, S.A.P.I. de C.V. (Qpagos) and Redpag Electrónicos S.A.P.I. de C.V. (Redpag). Each of the entities were incorporated in November 2013 in Mexico.

QPagos, S.A.P.I. de C.V. was formed to process payment transactions for service providers it contracts with, and Redpag Electrónicos S.A.P.I. de C.V. was formed to deploy and operate kiosks as a distributor.

On May 27, 2016 Asiya changed its name to QPAGOS. QPAGOS and its direct and indirect subsidiaries Qpagos Corporation, QPagos, S.A.P.I. de C.V. and Redpag Electrónicos S.A.P.I. de C.V., will be referred to hereafter as “the Company”.

On June 1, 2016, the board of directors changed the Company’s fiscal year end from October 31 to December 31.

b) Description of the business

QPAGOS Corporation, through its subsidiaries Qpagos S.A.P.I de C.V. (“Qpagos”) and Redpag Electronicos S.A.P.I de C.V. (“Redpag”), provides physical and virtual payment services to the Mexican market. The Company provides an integrated network of kiosks, terminals and payment channels that enable consumers in Mexico to deposit cash, convert it into a digital form and remit the funds to any merchant in our network quickly and securely. The Company helps consumers and merchants connect more efficiently in markets and consumer segments, such as Mexico, that are largely cash-based and lack convenient alternatives for consumers to pay for goods and services in physical, online and mobile environments. For example, our licensed technology can be used to pay bills, add minutes to mobile phones, purchase transportation and tickets, shop online or at a retail store, buy digital services or send money to a friend or relative.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES

a) Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, these unaudited condensed consolidated financial statements do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments), which the Company considers necessary, for a fair presentation of those financial statements. The results of operations and cash flows for the three months ended March 31, 2018 may not necessarily be indicative of results that may be expected for any succeeding quarter or for the entire fiscal year. The information contained in this Quarterly Report on Form 10-Q should be read in conjunction with the audited financial statements of QPAGOS for the year ended December 31, 2017, included in the Annual Report on Form 10-K as filed with the Securities and Exchange Commission (the “SEC”) on April 17, 2018.

All amounts referred to in the notes to the unaudited condensed consolidated financial statements are in United States Dollars (\$) unless stated otherwise.

b) Principles of Consolidation

The unaudited condensed consolidated financial statements include the financial statements of the Company and its wholly owned subsidiary and its indirect subsidiaries. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements. The entities included in these consolidated financial statements are as follows:

QPAGOS – Parent Company
Qpagos Corporation – 100% owned
Qpagos, S.A.P.I de C.V., a Mexican entity (99.996% owned)
Redpag Electrónicos, S.A.P.I. de C.V., a Mexican entity (99.990% owned)

c) Mexican Operations

The financial statements of the Company’s Mexican operations are measured using local currencies as their functional currencies.

The Company translates the assets and liabilities of its Mexican subsidiaries at the exchange rates in effect at period end and the results of operations at the average rate throughout the period. The translation adjustments are recorded directly as a separate component of stockholders’ equity, while transaction gains (losses) are included in net income (loss). All sales to customers are in Mexico.

d) Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions, which are evaluated on an ongoing basis, that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of revenues and expenses that are not readily apparent from other sources. Actual results could differ from those estimates and judgments. In particular, significant estimates and judgments include those related to: the estimated useful lives for plant and equipment, the fair value of warrants and stock options granted for services or compensation, estimates of the probability and potential magnitude of contingent liabilities, derivative liabilities, the valuation allowance for deferred tax assets due to continuing operating losses, those related to revenue recognition and the allowance for doubtful accounts.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the consolidated financial statements, which management considered in formulating its estimate could change in the near-term due to one or more future confirming events. Accordingly, the actual results could differ significantly from our estimates.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

e) Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur.

The Company's management assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material would be disclosed. Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

f) Fair Value of Financial Instruments

The Company adopted the guidance of Accounting Standards Codification ("ASC") 820 for fair value measurements which clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts reported in the balance sheets for cash, accounts receivable, other current assets, other assets, accounts payable, accrued liabilities, and notes payable, approximate fair value due to the relatively short period to maturity for these instruments. The Company did not identify any other assets or liabilities that are required to be presented on the balance sheets at fair value in accordance with the accounting guidance.

ASC 825-10 "Financial Instruments" allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. The Company did not elect to apply the fair value option to any outstanding instruments.

g) Risks and Uncertainties

The Company's operations will be subject to significant risk and uncertainties including financial, operational, regulatory and other risks associated, including the potential risk of business failure. The recent global economic crisis has caused a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, and extreme volatility in credit, equity and fixed income markets. These conditions not only limit the Company's access to capital, but also make it difficult for its customers, vendors and the Company to accurately forecast and plan future business activities.

The Company's operations are carried out in Mexico. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in Mexico and by the general state of that economy. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, and rates and methods of taxation, among other things.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

h) Recent Accounting Pronouncements

In January 2018, the FASB issued ASU 2018-1, Leases (Topic 842), Land Easement practical expedient for Top 842.

The amendments in this Update permit an entity to elect an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. An entity that elects this practical expedient should apply the practical expedient consistently to all of its existing or expired land easements that were not previously accounted for as leases under Topic 840. Once an entity adopts Topic 842, it should apply that Topic prospectively to all new (or modified) land easements to determine whether the arrangement should be accounted for as a lease. An entity that does not elect this practical expedient should evaluate all existing or expired land easements in connection with the adoption of the new lease requirements in Topic 842 to assess whether they meet the definition of a lease. The amendment in this Update clarifies that an entity should determine whether land easements are leases in accordance with Topic 842 before applying the guidance.

The impact this ASU will have on the Company's consolidated financial statements is expected to be immaterial.

In February 2018, the FASB issued ASU 2018-2, Income Statement- Reporting Comprehensive Income (Topic 220), Reclassification of certain tax effects from accumulated other comprehensive income.

The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this Update also require certain disclosures about stranded tax effects.

The amendments in this Update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized.

The impact this ASU will have on the Company's consolidated financial statements will be a reduction in the tax effect of net operating losses carried forward.

In February 2018, the FASB issued ASU 2018-3 Technical Corrections and Improvements to Financial Instruments – Overall (Sub topic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities.

The amendment clarifies that an entity measuring an equity security using the measurement alternative may change its measurement approach to a fair value method in accordance with Topic 820, Fair Value Measurement, through an irrevocable election that would apply to that security and all identical or similar investments of the same issuer. Once an entity makes this election, the entity should measure all future purchases of identical or similar investments of the same issuer using a fair value method in accordance with Topic 820.

The amendment clarifies that the adjustments made under the measurement alternative are intended to reflect the fair value of the security as of the date that the observable transaction for a similar security took place.

The amendment clarifies that remeasuring the entire value of forward contracts and purchased options is required when observable transactions occur on the underlying equity securities.

The amendment clarifies that when the fair value option is elected for a financial liability, the guidance in paragraph 825-10-45-5 should be applied, regardless of whether the fair value option was elected under either Subtopic 815-15, Derivatives and Hedging— Embedded Derivatives, or 825- 10, Financial Instruments— Overall.

The amendments clarify that for financial liabilities for which the fair value option is elected, the amount of change in fair value that relates to the instrument specific credit risk should first be measured in the currency of denomination when presented separately from the total change in fair value of the financial liability. Then, both components of the change in the fair value of the liability should be remeasured into the functional currency of the reporting entity using end-of-period spot rates.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

h) Recent Accounting Pronouncements

The amendment clarifies that the prospective transition approach for equity securities without a readily determinable fair value in the amendments in Update 2016-01 is meant only for instances in which the measurement alternative is applied. An insurance entity subject to the guidance in Topic 944, Financial Services— Insurance, should apply a prospective transition method Area for Correction or Improvement Summary of Amendments when applying the amendments related to equity securities without readily determinable fair values. An insurance entity should apply the selected prospective transition method consistently to the entity's entire population of equity securities for which the measurement alternative is elected.

The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Public business entities with fiscal years beginning between December 15, 2017, and June 15, 2018, are not required to adopt these amendments until the interim period beginning after June 15, 2018, and public business entities with fiscal years beginning between June 15, 2018, and December 15, 2018, are not required to adopt these amendments before adopting the amendments in Update 2016-01. For all other entities, the effective date is the same as the effective date in Update 2016-01. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted Update 2016-01.

The amendments in this update are not expected to have a material impact on the Company's consolidated financial statements.

In March 2018, the FASB issued ASU 2018-4 Investments – Debt Securities (Topic 320) and Regulated Operations (Topic 980), Amendments to SEC Paragraphs pursuant to SEC Staff Accounting Bulletin no. 117 and SEC Release No. 33-9273. The amendments in this update provide guidance about certain amendments made to SEC materials and staff guidance relating to Investments – Debt Securities (Topic 320) and Regulated Operations (Topic 980).

The amendments in this update are not expected to have a material impact on the Company's consolidated financial statements.

In March 2018, the FASB issued ASU 2018-5, Income Taxes (Topic 740) Amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 118

These amendments affect the wording of SEC paragraphs in the accounting standard codification dealing with Income Taxes (Topic 740).

The amendments in this update are not expected to have a material impact on the Company's consolidated financial statements.

Any new accounting standards, not disclosed above, that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

i) Reporting by segment

No segmental information is required as the Company currently only has one segment of business, providing physical and virtual payment services in the Mexican Market.

j) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. At March 31, 2018 and December 31, 2017, respectively, the Company had no cash equivalents.

The Company assesses credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution in the United States. The balance at times may exceed federally insured limits. At March 31, 2018 and December 31, 2017, cash balances in the United States did not exceed the federally insured limit.

k) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at realizable value, net of allowances for doubtful accounts, which is estimated and recorded in the period the related revenue is recorded. The Company has a standardized approach to estimate and review the collectability of its receivables based on a number of factors, including the period they have been outstanding. Historical collection and payer reimbursement experience is an integral part of the estimation process related to allowances for doubtful accounts. In addition, the Company regularly assesses the state of its billing operations in order to identify issues, which may impact the collectability of these receivables or reserve estimates. Revisions to the allowance for doubtful accounts estimates are recorded as an adjustment to bad debt expense. Receivables deemed uncollectible are charged against the allowance for doubtful accounts at the time such receivables are written-off. Recoveries of receivables previously written-off are recorded as credits to the allowance for doubtful accounts. There were no recoveries during the three months ended March 31, 2018 and December 2017.

l) Cost Method Investments

Investee companies not accounted for under the consolidation or the equity method are accounted for under the cost method of accounting. Under this method, the Company's share of earnings or losses of such investee companies is not included in the condensed consolidated balance sheet or statement of operations and comprehensive loss. However, impairment charges are recognized in the condensed consolidated statement of operations and comprehensive loss. If circumstances suggest that the value of the investee company has subsequently recovered, such recovery is not recorded. There is no impairment of investment at March 31, 2018 and December 31, 2017.

m) Inventory

The Company primarily values inventories at net realizable value applied on a first-in, first-out basis. The Company identifies and writes down its excess and obsolete inventories to net realizable value based on usage forecasts, order volume and inventory aging. With the development of new products, the Company also rationalizes its product offerings and will write-down discontinued product to the lower of cost or net realizable value.

n) Advances received from customers

Other than the sale of kiosks to customers, the provision of services through the Company's kiosks is conducted on a cash basis. Customers are required to deposit cash with the Company to meet anticipated demand for services provided through kiosks either owned or operated by them. The services provided through the customer owned or operated kiosks are deducted from the deposits held on their behalf, the Company requires that these deposits be replenished as and when the services are provided.

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

o) Plant and equipment

Plant and equipment is stated at cost, less accumulated depreciation. Plant and equipment with costs greater than \$1,000 are capitalized and depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

| Description | Estimated Useful Life |
|------------------------|--|
| Kiosks | 7 years |
| Computer equipment | 3 years |
| Leasehold improvements | Lesser of estimated useful life or life of lease |
| Office equipment | 10 years |

The cost of repairs and maintenance is expensed as incurred. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition.

p) Intangibles

All of our intangible assets are subject to amortization. We evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired. Where intangibles are deemed to be impaired we recognize an impairment loss measured as the difference between the estimated fair value of the intangible and its book value.

i) License Agreements

License agreements acquired by the Company are reported at acquisition value less accumulated amortization and impairments.

ii) Amortization

Amortization is reported in the income statement on a straight-line basis over the estimated useful life of the intangible assets, unless the useful life is indefinite. Amortizable intangible assets are amortized from the date that they are available for use. The estimated useful life of the license agreement is five years which is the expected period for which we expect to derive a benefit from the underlying license agreements.

q) Long-Term Assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

r) Revenue Recognition

The Company's revenue recognition policy is consistent with the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, Revenue.

We have analyzed our revenue transaction pursuant to ASC 606, Revenue, and we have no material impact as a result of the transition from ASC 605 to 606. Our revenues are recognized when control of the promised goods or services are transferred to a customer, in an amount that reflects the consideration that the Company expects to receive in exchange for those services. The Company derives its revenues from the sale of its services, as defined below. The Company applies the following five steps in order to determine the appropriate amount of revenue to be recognized as it fulfills its obligations under each of its revenue transactions:

- i. identify the contract with a customer;
- ii. identify the performance obligations in the contract;
- iii. determine the transaction price;
- iv. allocate the transaction price to performance obligations in the contract; and
- v. recognize revenue as the performance obligation is satisfied.

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

r) Revenue Recognition (continued)

The Company has the following sources of revenue which is recognized on the basis described below.

- ***Revenue from the sale of services.***

Prepaid services are acquired from providers and is sold to end-users through kiosks that the Company owns or kiosks that are owned by third parties. The Company recognizes the revenue on the sale of these services when the end-user deposits funds into the terminal and the prepaid service is delivered to the end-user. The revenue is recognized at the gross value, including margin, of the prepaid service to the Company, net of any value-added tax which is collected on behalf of the Mexican Revenue Authorities.

- ***Payment processing provided to end-users***

The Company provides a secure means for end-users to pay for certain services, such as utilities through our kiosks. The Company earns either a fixed per-transaction fee or a fixed percentage of the service sold. The Company acts as a collection agent and recognizes the payment processing fee, net of any value-added taxes collected on behalf of the Mexican Revenue Authorities, when the funds are deposited into the kiosk and the customer has settled his liability or has acquired a prepaid service.

- ***Revenue from the sale of kiosks.***

The Company imports, assembles and sell kiosks that are used to generate the revenues discussed above. Revenue is recognized on the full value of the kiosks sold, net of any valued added taxation collected on behalf of the Mexican Revenue Authorities, when the customer takes delivery of the kiosk and all the risks and rewards of ownership are passed to the customer.

The Company does not enter into any leasing of kiosks arrangements with customers and the Company does not generate any revenues from merchants who access its terminals as yet.

3 GOING CONCERN

These financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred a loss since inception resulting in an accumulated deficit of \$15,056,674 as of March 31, 2018 and has not generated sufficient revenue to cover its operating expenditure, raising substantial doubt about the Company's ability to continue as a going concern for one year from the issuance of the financial statements. In addition to operational expenses, as the Company executes its business plan, additional capital resources will be required. The Company will need to raise capital in the near term in order to continue operating and executing its business plan. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The Company's plan is to expand its market penetration by deploying more kiosks through various channels, thereby increasing revenues. In addition, the Company intends to raise additional equity or loan funds to meet its short term working capital needs. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4 INVENTORY

Inventory consisted of the following:

| | <u>March 31, 2018</u> | <u>December 31, 2017</u> |
|------------------------|---------------------------|------------------------------|
| Kiosks and accessories | \$ 537,216 | \$ 504,794 |
| | <u>\$ 537,216</u> | <u>\$ 504,794</u> |

5 PLANT AND EQUIPMENT

Plant and Equipment consisted of the following:

| | <u>March 31, 2018</u> | <u>December 31, 2017</u> |
|---|---------------------------|------------------------------|
| Kiosks | \$ 285,646 | \$ 263,709 |
| Computer equipment | 79,044 | 73,448 |
| Office equipment | 10,666 | 9,911 |
| Leasehold improvement | 9,264 | 8,608 |
| Total cost | <u>384,620</u> | <u>355,676</u> |
| Less: accumulated depreciation and amortization | (222,116) | (195,375) |
| Plant and equipment, net | <u>\$ 162,504</u> | <u>\$ 160,301</u> |

Depreciation expense totaled \$11,561 and \$14,790 for the three months ended March 31, 2018 and 2017, respectively.

6 INTANGIBLES

License

Localization and implementation of the different software and technology modules is supported through a Localization Agreement. Under this agreement, at a cost of \$215,000, the licensor allocated engineering and programming resources to the Company. The cost is being amortized over 5 years.

On May 1, 2015, Qpagos Corporation entered into a renewable ten-year license with the Licensor for the non-exclusive right to license technology to provide payment services. Subsequently, on November 1, 2015, Qpagos Corporation and the Licensor concluded an additional amendment to the License Agreement by which the Licensor agreed to the exclusivity to the Mexican market subject to the payment of \$20,000 per year payable in quarterly installments. The agreement may be terminated early by the Licensor if Qpagos Corporation fails to comply with its terms and conditions.

Intangibles consisted of the following:

| | <u>March 31, 2018</u> | <u>December 31, 2017</u> |
|---------------------------------|---------------------------|------------------------------|
| Software Localization Agreement | \$ 215,000 | \$ 215,000 |
| Total cost | 215,000 | 215,000 |
| Less: accumulated amortization | (100,333) | (89,583) |
| Intangibles, net | <u>\$ 114,667</u> | <u>\$ 125,417</u> |

Amortization expense was \$10,750 and \$10,750 for the three months ended March 31, 2018 and 2017, respectively.

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7 LOANS PAYABLE

Loans payable consist of the following:

| Description | Interest Rate | Maturity Date | March 31, 2018 | December 31, 2017 |
|--|---------------|---------------|-------------------|-------------------|
| Strategic IR | — | | 155,500 | — |
| Notes payable – Related parties | | | \$ 155,500 | \$ — |

Strategic IR

Strategic IR advanced the Company \$155,500 between January 16 and March 28, 2018. These funds have no fixed terms of repayment and have not been formalized into an agreement yet, accordingly no interest has been provided thereon.

8 CONVERTIBLE NOTES PAYABLE

Convertible notes payable consists of the following:

| Description | Interest rate | Maturity Date | Principal | Accrued interest | Unamortized debt discount | March 31, 2018 Balance, net | December 31, 2017 Balance, net |
|--------------------------------|---------------|--------------------|-----------|------------------|---------------------------|-----------------------------|--------------------------------|
| Power Up Lending Group | 8% | April 20, 2018 | — | — | — | — | 54,017 |
| | 8% | June 30, 2018 | — | — | — | — | 25,034 |
| | 8% | August 30, 2018 | 53,000 | 1,591 | (27,875) | 26,716 | 9,165 |
| | 8% | October 30, 2018 | 68,000 | 984 | (51,914) | 17,070 | — |
| | 8% | January 15, 2019 | 68,000 | 75 | (66,847) | 1,228 | — |
| Labrys Fund, LP | 8% | June 14, 2018 | 78,000 | 1,829 | (32,143) | 47,686 | 7,577 |
| | 8% | August 12, 2018 | 88,000 | 907 | (65,149) | 23,758 | — |
| JSJ Investments, Inc. | 8% | November 29, 2018 | 75,000 | 2,005 | (49,932) | 27,073 | 7,101 |
| GS Capital Partners, LLC | 8% | May 22, 2018 | — | — | — | — | 23,112 |
| | 8% | June 16, 2018 | 56,000 | 3,609 | (11,814) | 47,795 | 65,909 |
| Strategic IR | 15% | December 8, 2018 | 10,000 | 1,063 | — | 11,063 | 10,693 |
| | 15% | December 8, 2018 | 20,164 | 2,130 | — | 22,294 | 21,548 |
| | 15% | December 26, 2018 | 53,740 | 5,278 | — | 59,018 | 57,031 |
| | 15% | December 26, 2018 | 115,535 | 11,347 | — | 126,882 | 122,610 |
| | 8% | October 23, 2018 | — | — | — | — | 2,709 |
| | 8% | January 9, 2019 | — | — | — | — | — |
| | 8% | February 14, 2019 | — | — | — | — | — |
| | 8% | February 14, 2019 | — | — | — | — | — |
| | 8% | February 15, 2019 | — | — | — | — | — |
| Viktoria Akhmetova | 15% | December 8, 2018 | 20,164 | 2,130 | — | 22,294 | 21,548 |
| | 8% | October 20, 2018 | — | — | — | — | 10,893 |
| | 8% | August 24, 2018 | — | — | — | — | 41,782 |
| | 8% | September 18, 2018 | — | — | — | — | 20,234 |
| | 8% | September 26, 2018 | — | — | — | — | 5,387 |
| | 8% | January 31, 2019 | 30,000 | 388 | (25,151) | 5,237 | — |
| | 8% | February 26, 2019 | 37,000 | 268 | (33,655) | 3,613 | — |
| Joseph W and Patricia G Abrams | 15% | December 10, 2018 | 26,247 | 2,750 | — | 28,997 | 28,027 |
| | 15% | January 27, 2019 | 3,753 | 319 | — | 4,072 | 3,379 |
| Roman Shefer | 15% | December 24, 2018 | 10,000 | 990 | — | 10,990 | 10,621 |
| Crown Bridge Partners, LLC | 8% | August 14, 2018 | 15,499 | 1,307 | (5,775) | 11,031 | 30,846 |
| | 8% | February 27, 2019 | 55,000 | 386 | (50,178) | 5,208 | — |
| BOBA Management | 8% | August 31, 2018 | — | — | — | — | 30,768 |
| | 8% | October 3, 2018 | — | — | — | — | 12,155 |
| | 8% | December 24, 2017 | — | — | — | — | 102,630 |
| | 8% | March 26, 2019 | 65,513 | 72 | (64,616) | 969 | — |
| | 8% | March 26, 2019 | 31,618 | 35 | (31,184) | 469 | — |
| Anna Mosk | 8% | January 9, 2019 | — | — | — | — | — |
| Total convertible notes | | | | | | | |

~~payable~~ ~~\$ 988,233~~ ~~\$ 39,463~~ ~~\$ (516,233)~~ ~~\$ 563,463~~ ~~\$ 724,770~~

Interest expense, together with amortized debt discount totaled \$484,801 and \$119,779 for the three months ended March 31, 2018 and 2017, respectively.

The convertible notes disclosed above with a coupon of 15%, have a fixed conversion price of \$0.20 per common share.

The remaining convertible notes have variable conversion prices based on a discount to market price of trading activity over a specified period of time. The variable conversion features were valued using a Black Scholes valuation model. The difference between the fair market value of the common stock and the calculated conversion price on the issuance date was recorded as a debt discount with a corresponding credit to derivative financial liability.

The total value of the beneficial conversion feature recorded as a debt discount during the three months ended March 31, 2018 and 2016 was \$668,545 and \$247,770, respectively.

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 CONVERTIBLE NOTES PAYABLE (continued)

Power Up Lending Group Ltd.

On July 10, 2017, the Company, entered into a Securities Purchase Agreement pursuant to which the Company issued a Convertible Promissory Note in the aggregate principal amount of \$83,000 to Power Up Lending Group Ltd. The note has a maturity date of April 20, 2018 and the Company has agreed to pay interest on the unpaid principal balance of the note at the rate of eight percent per annum from the date on which the note is issued until the same becomes due and payable, whether at maturity or upon acceleration or by prepayment or otherwise. The Company has the right to prepay the note in terms of agreement. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the purchaser during the period beginning on the date that is 180 days following the issue date into shares of the Company's common stock at a conversion price equal to 58% of the average lowest three closing bid prices of the Company's common stock for the ten trading days prior to conversion.

On January 9, 2018, in terms of an assignment agreement entered into with Anna Mosk, the \$83,000 convertible note plus accrued interest thereon of \$3,329 was exchanged for a new note with a principal sum of \$86,329 bearing interest at 8% per annum with the maturity date extended to January 9, 2019.

On September 14, 2017, the Company, entered into a Securities Purchase Agreement pursuant to which the Company issued a Convertible Promissory Note in the aggregate principal amount of \$63,000 to Power Up Lending Group Ltd. The note has a maturity date of June 30, 2018 and the Company has agreed to pay interest on the unpaid principal balance of the note at the rate of eight percent per annum from the date on which the note is issued until the same becomes due and payable, whether at maturity or upon acceleration or by prepayment or otherwise. The Company has the right to prepay the note in terms of agreement. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the purchaser during the period beginning on the date that is 180 days following the issue date into shares of the Company's common stock at a conversion price equal to 58% of the average lowest three closing bid prices of the Company's common stock for the ten trading days prior to conversion.

On March 26, 2018, in terms of a debt purchase agreement entered into with Boba Management Corp., the \$63,000 convertible note plus accrued interest thereon of \$2,513 was exchanged for a new note with as principal sum of \$65,513 bearing interest at 8% per annum with the maturity date extended to March 26, 2019.

On November 14, 2017, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$53,000 to Power Up Lending Group LTD. The note has a maturity date of August 30, 2018 and a coupon of eight percent (8%) per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

The balance of the note plus accrued interest at March 31, 2018 was \$26,716, net of unamortized discount of \$27,875.

On January 24, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$68,000 to Power Up Lending Group LTD. The note has a maturity date of October 30, 2018 and a coupon of eight percent (8%) per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

The balance of the note plus accrued interest at March 31, 2018 was \$17,070, net of unamortized discount of \$51,914.

On March 26, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$68,000 to Power Up Lending Group LTD. The note has a maturity date of January 15, 2019 and a coupon of eight percent (8%) per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

The balance of the note plus accrued interest at March 31, 2018 was \$1,228, net of unamortized discount of \$66,847.

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 CONVERTIBLE NOTES PAYABLE (continued)

Labrys Fund, LP

On December 14, 2017, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$78,000 to Labrys Fund, LP. The note has a maturity date of June 14, 2018 and a coupon of 8% per annum. In connection with the issuance of the note, the Company was required to issue 231,591 shares of common stock as a commitment fee valued at \$76,537. The shares are returnable to the Company if no Event of Default has occurred prior to the date the note is fully repaid. Management had determined that it is probable that the Company would meet the conditions under the note and therefore it more likely than not that the Company would not be in Default as defined in the note. As a result, management has concluded that it was probable that the shares would be returned and therefore the value of the 231,931 shares was not recorded.

The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

The balance of the note plus accrued interest at March 31, 2018 was \$47,686, net of unamortized discount of \$32,143.

On February 12, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$88,000 to Labrys Fund, LP. The note has a maturity date of August 12, 2018 and a coupon of 8% per annum. In connection with the issuance of the note, the Company was required to issue 440,000 shares of common stock as a commitment fee valued at \$70,400. The shares are returnable to the Company if no Event of Default has occurred prior to the date the note is fully repaid. Management had determined that it is probable that the Company would meet the conditions under the note and therefore it more likely than not that the Company would not be in Default as defined in the note. As a result, management has concluded that it was probable that the shares would be returned and therefore the value of the 440,000 shares was not recorded.

The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

The balance of the note plus accrued interest at March 31, 2018 was \$23,758, net of unamortized discount of \$65,149.

JSJ Investments Inc.

On November 29, 2017, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$75,000 to JSJ Investments, Inc. The note has a maturity date of November 29, 2018 and a coupon of 8% per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

The balance of the note plus accrued interest at March 31, 2018 was \$27,073, net of unamortized discount of \$49,932.

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 CONVERTIBLE NOTES PAYABLE (continued)

GS Capital Partners, LLC

On May 22, 2017, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$75,000 to GS Capital Partners, LLC, ("GS Capital"). The note has a maturity date of May 22, 2018 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 62% of lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On November 11, 2017, GS Capital converted \$20,000 of the principal amount of the convertible note into equity at a conversion price of \$0.1023 per share for an aggregate 203,516 shares of common stock.

On December 13, 2017, GS Capital converted a further \$20,000 of the principal amount of the convertible note into equity at a conversion price of \$0.1240 per share for an aggregate 168,466 shares of common stock.

On January 17, 2018, GS Capital converted a further \$18,000 principal, plus accrued interest thereon of \$939 of the convertible note into equity at a conversion price of \$0.0778 per share for an aggregate 243,400 shares of common stock.

On February 14, 2018, in terms of a debt purchase agreement entered into with Strategic IR, the remaining \$17,000 convertible note plus accrued interest thereon of \$984 was exchanged for a new note with as principal sum of \$17,984 bearing interest at 8% per annum with the maturity date extended to February 14, 2019.

On June 16, 2017, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$112,500 to GS Capital Partners, LLC. The note has a maturity date of June 16, 2018 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 62% of lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On February 22, 2018, GS Capital converted \$27,500 principal, plus accrued interest thereon of \$1,477 of the convertible note into equity at a conversion price of \$0.0752 per share for an aggregate 385,456 shares of common stock.

On March 12, 2018, GS Capital converted \$29,000 principal, plus accrued interest thereon of \$1,672 of the convertible note into equity at a conversion price of \$0.0784 per share for an aggregate 391,070 shares of common stock.

The balance of the note plus accrued interest at March 31, 2018 was \$47,796, net of unamortized discount of \$11,813.

Strategic IR

On June 11, 2017, the Company issued a convertible promissory note in the aggregate principal amount of \$10,000 to Strategic IR ("Strategic"). The note bears interest at 12% per annum and matured on December 16, 2017. In terms of an agreement entered into with the note holder, the maturity date of the note was extended to December 8, 2018 and the interest rate was increased to 15% per annum.

The note is convertible into common shares at a conversion price of \$.20 per share.

The balance of the note plus accrued interest at March 31, 2018 was \$11,063.

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 CONVERTIBLE NOTES PAYABLE (continued)

Strategic IR (continued)

On June 11, 2017, the Company exchanged a note issued to Strategic with a principal amount of \$20,000, together with accrued interest thereon of \$164, totaling \$20,164, for a convertible note, principal amount of \$20,164, bearing interest at 12% per annum and matured on December 8, 2017. In terms of an agreement entered into with the note holder, the maturity date was extended to December 8, 2018 and the interest rate was increased to 15% per annum.

The note is convertible into common shares of the Company at a conversion price of \$0.20 per share.

The balance of the note plus accrued interest at March 31, 2018 was \$22,294.

On June 29, 2017, the Company exchanged a note issued to Strategic with a principal amount of \$50,000, together with accrued interest thereon of \$3,740, totaling \$53,740, for a convertible note, principal amount of \$53,740, bearing interest at 12% per annum which matured on December 26, 2017. In terms of an agreement entered into with the note holder, the maturity date was extended to December 26, 2018 and the interest rate was increased to 15% per annum.

The note is convertible into common shares of the Company at a conversion price of \$0.20 per share.

The balance of the note plus accrued interest at March 31, 2018 was \$59,018.

On June 29, 2017, the Company exchanged a note issued to Strategic with a principal amount of \$110,000, together with accrued interest thereon of \$5,535, totaling \$115,535, for a convertible note, principal amount of \$115,535, bearing interest at 12% per annum and matured on December 26, 2017. In terms of an agreement entered into with the note holder the maturity date was extended to December 26, 2018 and the interest rate was increased to 15% per annum.

The convertible note is convertible into common shares of the Company at a conversion price of \$0.20 per share.

The balance of the note plus accrued interest at March 31, 2018 was \$126,883.

On October 23, 2017, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$14,298 to Strategic. The note has a maturity date of October 23, 2018 and a coupon of eight percent (8%) per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 192,216 shares of common stock at a conversion price of \$0.0744 in settlement of the principal of \$14,298 and accrued interest thereon of \$7, thereby extinguishing the note.

On January 9, 2018, in terms of an additional payment made by Strategic IR to Power Up Lending Group to settle outstanding early settlement penalties and interest thereon, related to the assignment agreement entered into between Anna Mosk and Power up Lending Group, the Company issued a convertible promissory note to Strategic IR in the aggregate principal amount of \$40,521. The note has a maturity date of January 9, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the three lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On March 13, 2018, in terms of a conversion notice received, the Company issued 479,587 shares of common stock at a conversion price of \$0.0856 in settlement of the principal of \$40,521 and accrued interest thereon of \$551, thereby extinguishing the note.

On February 14, 2018, in terms of a debt purchase agreement entered into with GS Capital Partners, LLC, the Company issued a convertible promissory note in the aggregate amount of \$17,984 in exchange for a convertible promissory note in the aggregate amount of \$17,000 plus accrued interest thereon of \$984. The note has a maturity date of February 14, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the three lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On March 13, 2018, in terms of a conversion notice received, the Company issued 211,188 shares of common stock at a conversion price of \$0.0856 in settlement of the principal of \$17,984 and accrued interest thereon of \$102, thereby extinguishing the note.

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 CONVERTIBLE NOTES PAYABLE (continued)

Strategic IR (continued)

On February 14, 2018, in terms of an additional payment made by Strategic IR to GS Capital Partners, LLC to settle outstanding early settlement penalties and interest thereon, related to the convertible note mentioned above, the Company issued a convertible promissory note in the aggregate principal amount of \$7,610. The note has a maturity date of February 14, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the three lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On March 13, 2018, in terms of a conversion notice received, the Company issued 89,367 shares of common stock at a conversion price of \$0.0856 in settlement of the principal of \$7,610 and accrued interest thereon of \$43, thereby extinguishing the note.

On February 15, 2018, in terms of a Securities Purchase Agreement, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$72,969 to Strategic IR. The note has a maturity date of February 15, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received. The proceeds of the convertible note was used to purchase \$50,000 of the principal of the Crown Bridge Capital Partners note dated August 14, 2017 plus accrued interest thereon of \$1,994 and early settlement penalty of \$20,975.

On March 13, 2018, in terms of a conversion notice received, the Company issued 856,715 shares of common stock at a conversion price of \$0.0856 in settlement of the principal of \$72,969 and accrued interest thereon of \$400, thereby extinguishing the note.

Viktorija Akhmetova

On June 11, 2017, the Company exchanged a note issued to Viktorija Akhmetova, with a principal amount of \$20,000, together with accrued interest thereon of \$164, totaling \$20,164, for a convertible note, principal amount of \$20,164, bearing interest at 12% per annum and matured on December 8, 2017. In terms of an agreement entered into with the note holder, the maturity date was extended to December 8, 2018 and the interest rate was increased to 15% per annum. The note is convertible into common shares of the Company at a conversion price of \$0.20 per share.

The balance of the note plus accrued interest at March 31, 2018 was \$22,294.

On October 31, 2017, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$50,000 to Viktorija Akhmetova. The note has a maturity date of October 20, 2018 and a coupon of eight percent (8%) per annum. The Company has the right to prepay the note within the first 180 days at a premium of 110% of the sum of the accrued interest and principal. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 687,968 shares of common stock at a conversion price of \$0.074 in settlement of the principal of \$50,000 plus accrued interest thereon of \$910, thereby extinguishing the note.

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 CONVERTIBLE NOTES PAYABLE (continued)

Viktoria Akhmetova (continued)

On October 25, 2017, in terms of an agreement entered into, Strategic IR assigned a note entered into on August 24, 2017 with the Company to Viktoria Akhmetova. The note had an aggregate principal amount of \$113,845 and accrued interest thereon of \$1,547. The note has a maturity date of August 24, 2018 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On October 25, 2017, the Company received a notice of conversion of the outstanding principal and interest into common shares effective October 25, 2017. The Company had to increase its number of authorized shares in order to give effect to this conversion. The Company received a default waiver from the note holder to allow it to increase its authorized shares.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 1,329,044 shares of common stock at a conversion price of \$0.0868 in settlement of the principal of \$113,845 plus accrued interest thereon of \$1,547, thereby extinguishing the note.

On October 25, 2017, in terms of an agreement entered into, Strategic IR assigned a note entered into on September 18, 2017 with the Company to Viktoria Akhmetova. The note had an aggregate principal amount of \$69,047 and accrued interest thereon of \$560. The note has a maturity date of September 18, 2018 and a coupon of 8% per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On October 25, 2017, the Company received a notice of conversion of the outstanding principal and interest into common shares effective October 25, 2017. The Company had to increase its number of authorized shares in order to give effect to this conversion. The Company received a default waiver from the note holder to allow it to increase its authorized shares.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 935,324 shares of common stock at a conversion price of \$0.0744 in settlement of the principal of \$69,047 plus accrued interest thereon of \$560, thereby extinguishing the note.

On October 25, 2017, in terms of an agreement entered into, Strategic IR assigned a note entered into on September 26, 2017 with the Company to Viktoria Akhmetova. The note had an aggregate principal amount of \$20,000 and accrued interest thereon of \$127. The note has a maturity date of September 26, 2018 and a coupon of 8% per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On October 25, 2017, the Company received a notice of conversion of the outstanding principal and interest into common shares effective October 25, 2017. The Company had to increase its number of authorized shares in order to give effect to this conversion. The Company received a default waiver from the note holder to allow it to increase its authorized shares.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 270,453 shares of common stock at a conversion price of \$0.0744 in settlement of the principal of \$20,000 plus accrued interest thereon of \$127, thereby extinguishing the note.

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 CONVERTIBLE NOTES PAYABLE (continued)

Viktoria Akhmetova (continued)

On January 31, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$30,000 to Viktoria Akhmetova. The note has a maturity date of January 31, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note within the first 180 days at a premium of 110% of the sum of the accrued interest and principal. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

The balance of the note plus accrued interest at March 31, 2018 was \$5,237, net of unamortized discount of \$25,151.

On February 26, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$37,000 to Viktoria Akhmetova. The note has a maturity date of February 26, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note within the first 180 days at a premium of 110% of the sum of the accrued interest and principal. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

The balance of the note plus accrued interest at March 31, 2018 was \$3,613, net of unamortized discount of \$33,655.

Joseph W and Patricia G Abrams

Effective June 13, 2017, the Company exchanged a note issued to Joseph W and Patricia G Abrams ("Abrams") with a principal amount of \$25,000, together with accrued interest thereon of \$1,247, totaling \$26,247, for a convertible note, principal amount of \$26,247, bearing interest at 12% per annum and matured on December 10, 2017. In terms of an agreement entered into with the note holder, the maturity date was extended to December 10, 2018 and the interest rate was increased to 15% per annum.

The convertible note is convertible into common shares of the Company at a conversion price of \$0.20 per share.

The balance of the note plus accrued interest at March 31, 2018 was \$28,997.

On July 31, 2017, the Company issued a Convertible Promissory Note to Abrams in the aggregate principal amount of \$3,753. The note has a maturity date of January 27, 2018 and a coupon of 12% per annum. In terms of an agreement entered into with the note holder, the maturity date was extended to January 27, 2019 and the interest rate was increased to 15% per annum.

The Company has the right to prepay the note without penalty. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price of \$0.25 per share.

The balance of the note plus accrued interest at March 31, 2018 was \$4,072.

Roman Shefer

On June 27, 2017, the Company entered into a convertible promissory note in the aggregate principal amount of \$10,000. The note bore interest at 12% per annum and matured on December 16, 2017. In terms of an agreement entered into with the note holder, the maturity date was extended to December 24, 2018 and the interest rate was increased to 15% per annum.

The note is convertible into common shares at a conversion price of \$.20 per share.

The balance of the note plus accrued interest at March 31, 2018 was \$10,990.

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 CONVERTIBLE NOTES PAYABLE (continued)

Crown Bridge Partners

On August 14, 2017, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$75,000 to Crown Bridger Partners. The note has a maturity date of August 14, 2018 and a coupon of eight percent (8%) per annum. The Company has the right to prepay the note for the first 180 days, subject to a penalty ranging from 10% to 35% of the prepayment, dependent upon the timing of the prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the lowest trading price during the previous fifteen (15) trading days.

On February 15, 2018, the Company repurchased \$50,000 of the principal outstanding plus accrued interest thereon of \$1,994, after paying an early settlement penalty of \$20,975 out of the proceeds of a note issued to Strategic IR.

On March 6, 2018, Crown Bridge Capital Partners converted \$9,501 of the principal outstanding into equity at a conversion price of \$0.0685 per share for an aggregate 146,000 shares of common stock.

The balance of the note plus accrued interest at March 31, 2018 was \$11,031 net of unamortized discount of \$5,775.

On February 27, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$55,000 to Crown Bridge Capital Partners. The note has a maturity date of February 27, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note for the first 180 days, subject to a penalty ranging from 10% to 35% of the prepayment, dependent upon the timing of the prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the lowest trading price during the previous fifteen (15) trading days.

The balance of the note plus accrued interest at March 31, 2018 was \$5,208 net of unamortized discount of \$50,178.

BOBA Management

On October 25, 2017, in terms of an agreement entered into, Strategic IR assigned a note entered into on August 31, 2017 with the Company to BOBA Management. The note had an aggregate principal amount of \$88,847 and accrued interest thereon of \$1,071. The note has a maturity date of August 31, 2018 and a coupon of eight percent (8%) per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On October 25, 2017, the Company received a notice of conversion of the outstanding principal and interest into common shares effective October 25, 2017. The Company had to increase its number of authorized shares in order to give effect to this conversion. The Company received a default waiver from the note holder to allow it to increase its authorized shares.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 1,208,251 shares of common stock at a conversion price of \$0.0744 in settlement of the principal of \$88,847 plus accrued interest thereon of \$1,071, thereby extinguishing the note.

On March 26, 2018, in terms of a debt purchase agreement entered into with Power Up lending Group, the Company issued Boba Management Corp a new note with as principal sum of \$65,513. The note has a maturity date of March 26, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the three lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

The balance of the note plus accrued interest at March 31, 2018 was \$969 net of unamortized discount of \$64,616.

On March 26, 2018, in terms of a Securities Purchase Agreement, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$31,618 to BOBA Management Corp. The note has a maturity date of March 26, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received. The proceeds of the convertible note was used to pay early settlement penalties and fees associated with the Power Up lending note above.

The balance of the note plus accrued interest at March 31, 2018 was \$469, net of unamortized discount of \$31,184.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 CONVERTIBLE NOTES PAYABLE (continued)

BOBA Management (continued)

On October 25, 2017, in terms of an agreement entered into, Strategic IR assigned a note entered into on October 3, 2017 with the Company to BOBA Management. The note had an aggregate principal amount of \$48,880 and accrued interest thereon of \$236. The note has a maturity date of October 3, 2018 and a coupon of eight percent (8%) per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On October 25, 2017, the Company received a notice of conversion of the outstanding principal and interest into common shares effective October 25, 2017. The Company had to increase its number of authorized shares in order to give effect to this conversion. The Company received a default waiver from the note holder to allow it to increase its authorized shares.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 659,980 shares of common stock at a conversion price of \$0.0744 in settlement of the principal of \$48,880 plus accrued interest thereon of \$236, thereby extinguishing the note.

On October 25, 2017, in terms of an agreement entered into, Strategic IR assigned a previously unclassified amount due to Strategic, subsequently classified as a Convertible Promissory Note on June 27, 2017 with an aggregate principal amount of \$100,000 and accrued interest thereon of \$2,630, to BOBA Management. The note has a maturity date of December 24, 2017 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days.

On October 25, 2017, the Company received a notice of conversion of the outstanding principal and interest into common shares effective October 25, 2017. The Company had to increase its number of authorized shares in order to give effect to this conversion. The Company received a default waiver from the note holder to allow it to increase its authorized shares.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 1,379,067 shares of common stock at a conversion price of \$0.0744 in settlement of the principal of \$100,000 plus accrued interest thereon of \$2,630, thereby extinguishing the note.

Anna Mosk

On January 9, 2018, in terms of an assignment agreement entered into with Power Up Lending Group, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$86,329 to Anna Mosk. The note has a maturity date of January 9, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note within the first 180 days at a premium of 110% of the sum of the accrued interest and principal. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On March 13, 2018, in terms of a conversion notice received, the Company issued 1,021,745 shares of common stock at a conversion price of \$0.0856 in settlement of the principal of \$86,329 and accrued interest thereon of \$1,173, thereby extinguishing the note.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9 DERIVATIVE LIABILITY

Certain of the short-term convertible notes disclosed in note 7 above and note 12 below, have variable priced conversion rights with no fixed floor price and will re-price dependent on the share price performance over varying periods of time, due to the variable priced conversion rights, all convertible notes and any warrants attached thereto, issued subsequent to the variable priced conversion notes are valued and give rise to a derivative financial liability, which was initially valued at inception of the convertible notes using a Black-Scholes valuation model. The value of this derivative financial liability was re-assessed at March 31, 2018 and 2017 and \$2,531,332 was credited to the statement of comprehensive loss and \$247,770 was charged to the statement of comprehensive loss, respectively. The value of the derivative liability will be re-assessed at each financial reporting period, with any movement thereon recorded in the statement of operations in the period in which it is incurred.

The following assumptions were used in the Black-Scholes valuation model:

| | Three months ended March 31, 2018 |
|---|--|
| Conversion price | \$ 0.08 to 0.20 |
| Risk free interest rate | 1.78 to 2.09% |
| Expected life of derivative liability | 9 to 12 months |
| Expected volatility of underlying stock | 208.3 to 230.6% |
| Expected dividend rate | 0% |

The movement in derivative liability is as follows:

| | March 31, 2018 | December 31, 2017 |
|--|---------------------------|--------------------------|
| Opening balance | \$ 3,277,621 | \$ 113,074 |
| Derivative financial liability arising from convertible note | 668,545 | 2,834,413 |
| Fair value adjustment to derivative liability | (2,531,332) | 330,134 |
| | \$ 1,414,834 | \$ 3,277,621 |

10 STOCKHOLDERS' EQUITY

a) Common Stock

On March 5, 2018, in terms of an amendment to the Company's Articles of Association, the authorized share capital was increased to 500,000,000 common shares with a par value of \$0.001 each.

The company has authorized 500,000,000 common shares with a par value of \$0.0001 each. The Company has issued and outstanding 77,223,966 and 56,207,424 shares of common stock as of March 31, 2018 and December 31, 2017.

In terms of various debt conversion notices received between January 17, 2018 and March 13, 2018, the Company issued an aggregate of 23,675,144 shares of common stock in settlement of \$1,778,522 of convertible notes, resulting in a net loss on conversion of \$2,477,791.

b) Preferred Stock

The Company has authorized 25,000,000 shares of preferred stock with a par value of \$0.0001 authorized, no preferred stock is issued and outstanding as of March 31, 2018.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10 STOCKHOLDERS' EQUITY (continued)

c) Warrants

The warrants outstanding and exercisable at March 31, 2018 are as follows:

| <u>Exercise price</u> | <u>Warrants outstanding</u> | | | <u>Warrants exercisable</u> | |
|-----------------------|-----------------------------|---|--|-----------------------------|--|
| | <u>No. of shares</u> | <u>Weighted average remaining years</u> | <u>Weighted average exercise price</u> | <u>No. of shares</u> | <u>Weighted average exercise price</u> |
| \$0.625 | 6,219,200 | 2.51 | | 6,219,200 | |
| \$0.20 | 2,308,513 | 2.25 | | 2,308,513 | |
| | <u>8,527,713</u> | <u>2.44</u> | <u>\$ 0.51</u> | <u>8,527,713</u> | <u>\$ 0.51</u> |

The warrants outstanding have an intrinsic value of \$0 and \$0 as of March 31, 2018 and December 31, 2017, respectively.

11 REVENUE

Revenue is derived from the following sources:

| | <u>Three Months Ended March 31, 2018</u> | <u>Three Months Ended March 31, 2017</u> |
|-------------------------|--|--|
| Sales of services | \$ 1,443,107 | \$ 801,692 |
| Payment processing fees | 5,294 | 10,060 |
| Kiosk sales | — | 113,921 |
| Other | 16,388 | 1,637 |
| | <u>\$ 1,464,789</u> | <u>\$ 927,310</u> |

12 NET LOSS PER SHARE

Basic loss per share is based on the weighted-average number of common shares outstanding during each period. Diluted loss per share is based on basic shares as determined above plus common stock equivalents. The computation of diluted net loss per share does not assume the issuance of common shares that have an anti-dilutive effect on net loss per share. For the three months ended March 31, 2018 and 2017, all convertible debt and warrants, were excluded from the computation of diluted net loss per share. Dilutive shares which could exist pursuant to the exercise of outstanding stock instruments and which were not included in the calculation because their effect would have been anti-dilutive are as follows:

| | <u>Three Months Ended March 31, 2018 (Shares)</u> | <u>Three Months Ended March 31, 2017 (Shares)</u> |
|------------------|---|---|
| Convertible debt | 9,227,676 | — |
| Warrants | 8,527,713 | 6,219,200 |
| | <u>17,755,389</u> | <u>6,219,200</u> |

QPAGOS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13 RELATED PARTY TRANSACTIONS

The following transactions were entered into with related parties:

LOANS PAYABLE

| Description | Interest Rate | Maturity Date | March 31, 2018 | December 31, 2017 |
|--|---------------|------------------|-------------------|-------------------|
| Gibbs International Holdings – Equipment funding | 36% | November 1, 2017 | \$ 353,346 | 294,620 |
| Vladimir Skigin – Equipment funding | 36% | November 1, 2017 | 66,318 | 55,295 |
| Notes payable – Related parties | | | <u>\$ 419,664</u> | <u>\$ 349,915</u> |

Interest expense totaled \$69,748 and \$0 for the three months ended March 31, 2018 and 2017, respectively.

Jimmy Gibbs

Jimmy Gibbs is the principal and has control over Gibbs Investment Holdings and Gibbs International Holdings. Mr Gibbs is considered to be a related party due to his shareholding and the shareholding under his control in the company exceeds 5%.

- **Gibbs International Holdings (“Gibbs”) – Inventory funding**

The Company entered into an agreement with Gibbs, whereby the importation of kiosks and accessories was arranged and funded by Gibbs. In terms of the agreement entered into with Gibbs, a 5% margin has been added to the cost of the kiosks and accessories purchased and to the liability outstanding. The amount was due on November 1, 2017. The amount has not been paid to date. The agreement does not provide for any default provisions and management is currently negotiating the terms of repayment with Gibbs.

Gibbs has indicated a penalty interest is due on the loan, which has been provided for by the Company.

Vladimir Skigin

Vladimir Skigin has personally advanced the Company inventory funding. Mr. Skigin is considered to be a related party as his shareholding and that of the Company’s under his control exceeds 5%.

- **Vladimir Skigin (“Skigin”) – Inventory funding**

The Company entered into an agreement with Gibbs, whereby the importation of kiosks and accessories was arranged and funded by Gibbs, Skigin funded a portion of the kiosks and accessories purchased under the same terms and conditions of the agreement entered into with Gibbs. In terms of the agreement, a 5% margin has been added to the cost of the kiosks and accessories purchased and to the liability outstanding. The amount was due on November 1, 2017. The amount has not been paid to date. The agreement does not provide for any default provisions and management is currently negotiating the terms of repayment with Skigin.

As per Gibbs note above, a penalty interest rate has been provided for on the loan.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13 RELATED PARTY TRANSACTIONS (continued)

CONVERTIBLE NOTES PAYABLE

| <u>Description</u> | <u>Interest rate</u> | <u>Maturity Date</u> | <u>Principal</u> | <u>Accrued interest</u> | <u>Unamortized debt discount</u> | <u>March 31, 2018 Balance, net</u> | <u>December 31, 2017 Balance, net</u> |
|--|----------------------|----------------------|-------------------|-------------------------|----------------------------------|------------------------------------|---------------------------------------|
| Delinvest Commercial, LTD | 15% | December 16, 2018 | 20,000 | 2,047 | — | 22,047 | 21,307 |
| | 15% | December 26, 2018 | 54,123 | 5,316 | — | 59,439 | 57,437 |
| Gibbs International Holdings | 15% | December 16, 2018 | 52,494 | 5,372 | — | 57,866 | 55,924 |
| Cobbolo Limited | 15% | December 26, 2018 | 53,438 | 5,249 | — | 58,687 | 56,710 |
| | 15% | December 26, 2018 | 52,959 | 5,201 | — | 58,160 | 56,202 |
| Vladimir Skigin | 8% | January 22, 2018 | — | — | — | — | 105,034 |
| | 8% | October 10, 2018 | — | — | — | — | 36,395 |
| | 8% | September 28, 2018 | — | — | — | — | 64,809 |
| | 8% | January 6, 2018 | — | — | — | — | 102,245 |
| | 8% | February 10, 2018 | — | — | — | — | 29,675 |
| Beverly Pacific Holdings | 8% | March 9, 2018 | — | — | — | — | 86,411 |
| | 8% | November 6, 2017 | — | — | — | — | 187,041 |
| Total convertible notes payable | | | \$ 233,014 | \$ 23,185 | \$ — | \$ 256,199 | \$ 859,190 |

Interest expense, together with amortized debt discount totaled \$506,865 and \$0 for the three months ended March 31, 2018 and 2017, respectively.

The 15% convertible notes, above have a fixed conversion price of \$0.20 per common share.

Alex Motorin

Alex Motorin is the principal of Delinvest Commercial LTD. Mr. Motorin is considered to be a related party as his shareholding and that of the Company's under his control exceeds 5%.

• **Delinvest Commercial, LTD.**

On June 19, 2017, the Company issued Delinvest Commercial LTD. ("Delinvest") a convertible promissory note in the aggregate principal amount of \$20,000. The note bore interest at 12% per annum and matured on December 16, 2017. In terms of an agreement entered into with the note holder, the maturity date was extended to December 16, 2018 and the interest rate was increased to 15% per annum. The note is convertible into common shares of the Company at a conversion price of \$0.20 per share.

The balance of the note plus accrued interest at March 31, 2018 was \$22,047.

On June 29, 2017, the Company exchanged a Delinvest note with a principal amount of \$50,000, together with accrued interest thereon of \$4,123, totaling \$54,123, for a convertible note, principal amount of \$54,123, bearing interest at 12% per annum and matured on December 26, 2017. In terms of an agreement entered into with the note holder, the maturity date was extended to December 26, 2018 and the interest rate was increased to 15% per annum. The note is convertible into common shares of the Company at a conversion price of \$0.20 per share.

The balance of the note plus accrued interest at March 31, 2018 was \$59,439.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13 RELATED PARTY TRANSACTIONS (continued)

Jimmy Gibbs

Jimmy Gibbs is the principal and has control over Gibbs Investment Holdings and Gibbs International Holdings. Mr Gibbs is considered to be a related party due to his shareholding and the shareholding under his control in the company exceeds 5%.

- **Gibbs International Holdings**

Effective June 19, 2017, the Company exchanged a note issued to Gibbs International Holdings with a principal amount of \$50,000, together with accrued interest thereon of \$2,494, totaling \$52,494, for a convertible note, principal amount of \$52,494, bearing interest at 12% per annum and matured on December 16, 2017. In terms of an agreement entered into with the note holder, the maturity date was extended to December 16, 2018 and the interest rate was increased to 15% per annum. The note is convertible into common shares of the Company at a conversion price of \$0.20 per share.

The balance of the note plus accrued interest at March 31, 2018 was \$57,866.

Vladimir Skigin

Vladimir Skigin is the principal and has control over Cobbolo Limited and has also personally advanced the Company inventory funding. Mr. Skigin is considered to be a related party as his shareholding and that of the Company's under his control exceeds 5%.

- **Cobbolo Limited**

On June 29, 2017, the Company exchanged a note issued to Cobbolo Limited with a principal amount of \$50,000, together with accrued interest thereon of \$3,438, totaling \$53,438, for a convertible note, principal amount of \$53,438, bearing interest at 12% per annum and matured on December 26, 2017. In terms of an agreement entered into with the note holder, the maturity date was extended to December 26, 2018 and the interest rate was increased to 15% per annum. The note is convertible into common shares of the Company at a conversion price of \$0.20 per share.

The balance of the note plus accrued interest at March 31, 2018 was \$58,687.

On June 29, 2017, the Company exchanged a note issued to Cobbolo Limited with a principal amount of \$50,000, together with accrued interest thereon of \$2,959, totaling \$52,959, for a convertible note, principal amount of \$52,959, bearing interest at 12% per annum and matured on December 26, 2017. In terms of an agreement entered into with the note holder, the maturity date was extended to December 26, 2018 and the interest rate was increased to 15% per annum. The note is convertible into common shares of the Company at a conversion price of \$0.20 per share.

The balance of the note plus accrued interest at March 31, 2018 was \$58,160.

- **Vladimir Skigin**

On October 25, 2017, in terms of an agreement entered into, Strategic IR assigned a note entered into on July 26, 2017 with the Company to Vladimir Skigin. The Note had an aggregate principal amount of \$117,000 and accrued interest thereon of \$2,334. The note has a maturity date of January 22, 2018 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On October 25, 2017, the Company received a notice of conversion of the outstanding principal and interest into common shares effective October 25, 2017. The Company had to increase its number of authorized shares in order to give effect to this conversion. The Company received a default waiver from the note holder to allow it to increase its authorized shares.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 1,603,515 shares of common stock at a conversion price of \$0.0744 in settlement of the principal of \$117,000 plus accrued interest thereon of \$2,334, thereby extinguishing the note.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13 RELATED PARTY TRANSACTIONS (continued)

- **Vladimir Skigin (continued)**

On October 11, October 12 and October 26, 2017, the Company received three installments of \$50,000 each from Vladimir Skigin totaling \$150,000 and issued a Convertible Promissory Note in the aggregate principal amount of \$150,000 to him. The note has a maturity date of October 10, 2018 and a coupon of 8% per annum. The Company has the right to prepay the note within the first 180 days at a premium of 110% of the sum of the accrued interest and principal. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On March 7, 2018, in terms of a conversion notice received on January 22, 2018, the Company, after increasing its authorized share capital, issued 2,070,459 shares of common stock at a conversion price of \$0.074 in settlement of the principal of \$150,000 plus accrued interest thereon of \$3,124, thereby extinguishing the note.

On October 25, 2017 in terms of an agreement entered into, Strategic IR assigned a note entered into on September 28, 2017 with the Company to Vladimir Skigin. The note had an aggregate principal amount of \$246,000 and accrued interest thereon of \$1,456. The note has a maturity date of September 28, 2018 and a coupon of 8% per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On October 25, 2017, the Company received a notice of conversion of the outstanding principal and interest into common shares effective October 25, 2017. The Company had to increase its number of authorized shares in order to give effect to this conversion. The Company received a default waiver from the note holder to allow it to increase its authorized shares.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 3,325,125 shares of common stock at a conversion price of \$0.0744 in settlement of the principal of \$246,000 plus accrued interest thereon of \$1,456, thereby extinguishing the note.

On October 25, 2017 in terms of an agreement entered into, Strategic IR assigned a note entered into on October 3, 2017, with the Company to Vladimir Skigin. The note had an aggregate principal balance of \$100,000 and accrued interest thereon of \$4,427. The note has a maturity date of January 6, 2018 and a coupon of 8% per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On October 25, 2017, the Company received a notice of conversion of the outstanding principal and interest into common shares effective October 25, 2017. The Company had to increase its number of authorized shares in order to give effect to this conversion. The Company received a default waiver from the note holder to allow it to increase its authorized shares.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 1,607,070 shares of common stock at a conversion price of \$0.0650 in settlement of the principal of \$100,000 plus accrued interest thereon of \$4,427, thereby extinguishing the note.

On October 25, 2017, in terms of an agreement entered into, Anna Mosk, the principal of Strategic IR, assigned a note entered into on October 23, 2017 to Vladimir Skigin. The note had an aggregate principal balance of \$33,000 and accrued interest thereon of \$1,324. The note has a maturity date of January 6, 2018 and a coupon of 8% per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On October 25, 2017, the Company received a notice of conversion of the outstanding principal and interest into common shares effective October 25, 2017. The Company had to increase its number of authorized shares in order to give effect to this conversion. The Company received a default waiver from the note holder to allow it to increase its authorized shares.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 461,215 shares of common stock at a conversion price of \$0.0744 in settlement of the principal of \$33,000 plus accrued interest thereon of \$1,324, thereby extinguishing the note.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13 RELATED PARTY TRANSACTIONS (continued)

Beverly Pacific Holdings

On October 25, 2017, in terms of an agreement entered into, Strategic IR assigned a note entered into on September 18, 2017 with the Company to Beverly Pacific Holdings. The note has an aggregate principal balance of \$100,000 and accrued interest thereon of \$5,041. The note has a maturity date of March 9, 2018 and a coupon of eight percent per annum. The Company has the right to prepay the note, provided it makes a payment to the Purchaser as set forth in the note through the maturity date. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the note holder during the period beginning on the date that is 150 days following the issue date into shares of the Company's common stock, at a conversion price equal to 60% of the average of the last two lowest trading bid prices during the fifteen trading days prior to conversion.

On October 25, 2017, the Company received a notice of conversion of the outstanding principal and interest into common shares effective October 25, 2017. The Company had to increase its number of authorized shares in order to give effect to this conversion. The Company received a default waiver from the note holder to allow it to increase its authorized shares.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 1,607,608 shares of common stock at a conversion price of \$0.0744 in settlement of the principal of \$100,000 plus accrued interest thereon of \$5,041, thereby extinguishing the note.

On October 25, 2017, in terms of an agreement entered into, Strategic IR assigned a note entered into on August 31, 2017 with JSJ Investments, Inc. The note had an aggregate principal outstanding of \$176,000 together with interest thereon of \$11,041. The note had a maturity date of November 6, 2017 and a coupon of eight percent per annum. The Company has the right to prepay the note within 180 days of its issue date. After the 180 days, the Company has no right to prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the note holder during the period beginning on the date that is 180 days following the issue date into shares of the Company's common stock, at a conversion price equal to 60% of the average of the lowest three closing bid prices of the Company's common stock for the ten trading days prior to conversion.

On October 25, 2017, the Company received a notice of conversion of the outstanding principal and interest into common shares effective October 25, 2017. The Company had to increase its number of authorized shares in order to give effect to this conversion. The Company received a default waiver from the note holder to allow it to increase its authorized shares.

On March 7, 2018, in terms of a conversion notice received on October 25, 2017, the Company, after increasing its authorized share capital, issued 2,513,321 shares of common stock at a conversion price of \$0.0744 in settlement of the principal of \$186,000 plus accrued interest thereon of \$11,041, thereby extinguishing the note.

14 COMMITMENTS AND CONTINGENCIES

The Company operates from an office facility in Mexico. The office is leased under a three (3) year non-cancellable operating lease, which ends on December 16, 2019. The lease calls for rental payment, including maintenance, of \$3,377 per month, as adjusted for exchange rate changes. The Company also leases space on a month-to-month basis for its data servers at a monthly rate of \$1,766. In addition, Qpagos leases warehouse space on a month-to-month basis for \$1,136 per month.

The future minimum lease installments under the office facility lease agreement as of March 31, 2018 are \$30,393 for each year 2018 and \$40,524 for the twelve months ended March 31, 2018, subject to exchange rate fluctuations.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15 SUBSEQUENT EVENTS

Conversion of convertible notes into equity

On April 5, 2018, the Company received a notice of conversion, converting \$9,356 into 160,000 shares of common stock at a conversion price of \$0.0616 per share.

On April 16, 2018, the Company received a notice of conversion, converting \$59,682 into 518,930 shares of common stock at a conversion price of \$0.115 per share.

On April 18, 2018, the Company received conversion notices converting an aggregate of \$165,545 of convertible debt into 1,286,486 shares of common stock at an average conversion price of \$0.129 per share.

Convertible notes

On May 3, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$105,000 to GS Capital Partners, LLC., ("GS Capital"). The note has a maturity date of May 3, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 62% of lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On May 11, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$80,000 to GS Capital Partners, LLC., ("GS Capital"). The note has a maturity date of May 11, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 62% of lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On May 14, 2018, the Company prepaid a convertible note of \$53,000 issued to Power Up Lending Group for gross proceeds of \$74,373.

On May 14, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$27,500 to Crown Bridge Capital Partners. The note has a maturity date of May 14, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note for the first 180 days, subject to a penalty ranging from 10% to 35% of the prepayment, dependent upon the timing of the prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the lowest trading price during the previous fifteen (15) trading days.

Other than disclosed above, The Company has evaluated subsequent events through the date of the unaudited condensed consolidated financial statements were available to be issued and has concluded that no such events or transactions took place that would require disclosure herein.

Item 2.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by our audited annual financial statements and the related notes thereto, each of which appear on Form 10-K filed with the SEC on April 17, 2018. This discussion contains certain forward-looking statements that involve risks and uncertainties, as described under the heading “Forward-Looking Statements” in this Quarterly Report on Form 10-Q. Actual results could differ materially from those projected in the forward-looking statements. The Management Discussion and Analysis of Financial Condition and Results of Operations below is based upon only the financial performance of Qpagos.

Overview and Financial Condition

We are a provider of next generation physical and virtual payment services that we introduced to the Mexican market in the third quarter of 2014. We have a ten-year renewable exclusive license agreement for the use of technology that can be used to perform services that are similar to services that have been successfully deployed with this technology in several European, Asian, North and South American countries.

We provide an integrated network of kiosks, terminals and payment channels that enable consumers to deposit cash, convert it into a digital form and remit the funds to any merchant in our network quickly and securely. We help consumers and merchants connect more efficiently in markets and consumer segments, such as Mexico, that are largely cash-based and lack convenient alternatives for consumers to pay for goods and services in physical, online and mobile environments. For example, we license technology that can be used to pay bills, add minutes to mobile phones, purchase transportation tickets, shop online, buy digital services or send money to third parties.

Our current focus is on Mexico which remains a cash-dominated society for retail consumer payments with approximately 80% of the value of personal payments exchanged in cash (Bank of Mexico). The penetration of electronic payment services, such as credit and debit cards and point of sale terminals, significantly lags behind more developed economies. We believe that opportunities for our services in Mexico are vast. With over 109 million mobile subscribers in Mexico, 85% of which are under prepaid plans, mobile top-up alone, was a \$13 billion business in 2017 as reported by the Competitive Intelligence Unit (the “CIU”). We believe that there is opportunity for growth in the Mexican market and we have expanded to service providers beyond the mobile telephone operators to service providers of electricity, transportation, utilities, municipal services and taxes, consumer credit installments, insurance premiums, and many more.

Our primary strategy in Mexico to date has been the attraction of service providers as well as the deployment of kiosks through Redpag Electrónicos, our kiosk management subsidiary. During the three months ended March 31, 2018 we generated net revenues of \$1,464,789 as compared to \$927,310 for the three months ended March 31, 2017, an increase of \$537,479 or 58.0%. For the years ended December 31, 2017 and 2016, we generated net revenues of \$3,941,273 and \$2,691,896, respectively, from our operations in Mexico, a 46.4% increase. Our primary source of revenue are fees we receive for processing payments made by consumers to service providers. We also generate revenue from non-payment services such as kiosk sales. Qpagos Corporation currently has in excess of 140 service providers integrated into its payment gateway, which includes all mobile phone providers in Mexico as well as most utility companies, financial services, entertainment venues, the national lottery’s Pronosticos and others. As of March 31, 2018, Qpagos Corporation deployed over 224 kiosks and terminals and we service an additional 440 kiosks of independent distributors. Our kiosks and terminals can be found at convenience stores, next to metro stations, retail stores, airport terminals, education centers, and malls in major urban centers, as well as many small and rural towns.

Management Discussion and Analysis of financial condition

The discussion and analysis of our financial condition and results of operations is based upon the unaudited condensed consolidated financial statements as of March 31, 2018 and 2017, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis, we review our estimates and assumptions. The estimates are based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions.

Results of Operations for the Three Months Ended March 31, 2018 and March 31, 2017

Net revenue

Net revenues in our Mexican operations were \$1,464,789 and \$927,310 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$537,479 or 58.0%. Our primary revenue generating operations are based in Mexico and our functional currency is the Mexican Peso. Our revenue in Mexican Pesos increased to MXN 27,445,313 from MXN 17,948,643 for the three months ended March 31, 2018 and 2017, respectively, an increase of MXN 9,496,670 or 52.9%. The increase in revenue in MXN terms is primarily due to an increase in the value of prepaid airtime sold of MXN 11,521,831, offset by a reduction in kiosk sales from MXN 2,205,000 in the prior period to MXN 0, no kiosks were sold during the current period. The average US\$ exchange rate has weakened against the MXN over the prior comparable period, from \$19.3556 to \$18.7367 or 3.3%, which results in a higher revenue growth in US \$ terms of \$46,837.

Cost of goods sold

Cost of goods sold in our Mexican operations were \$1,520,666 and \$853,452 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$667,214 or 78.2%. Our cost of sales from our Mexican operations, in Mexican Pesos increased to MXN 28,492,276 from MXN 16,519,074 for the three months ended March 31, 2018 and 2017, respectively, an increase of MXN 11,973,202 or 72.5%. The increase in cost of sales in MXN terms is primarily due to the increase in the value of prepaid airtime sold. Cost of goods consists primarily of services acquired from third parties, such as prepaid air time and the cost of the kiosks and any retrofitted components. Also included in cost of goods sold is depreciation related to kiosks that are used in the production of income. Depreciation expense was \$9,905 and \$8,968, for the three months ended March 31, 2018 and 2017, respectively, an increase of \$937. The average US \$ exchange rate has weakened against the MXN over the prior period, from \$19.3556 to \$18.7367 or 3.3%, which results in a higher cost of sales in US \$ terms of \$48,622.

Gross (loss) profit

Gross (loss) profit in our Mexican operations was \$(55,877) and \$73,858 for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$129,735 or 175.7%. The components of gross (loss) profit include the following:

- Gross loss on sales of services was \$53,602 and gross profit of \$27,494, for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$81,096 or 295.0%. The increase in gross loss was due to certain accounting adjustments impacting on our cost of sales.
- Gross loss on kiosks was \$4,086 and a gross profit of \$58,818 for the three months ended March 31, 2018 and 2017, respectively, an increase in loss of \$62,904. No kiosks were sold during the period, however an inventory adjustment was processed.
- Commissions earned on services was \$16,388 and \$10,060 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$6,328 or 62.9% due to an increase in volumes of commission generating sales.
- Other gross profit includes other cost of sales expense of \$9,966 and \$15,183 for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$5,217 or 34.3%. The cost of sales expense consists primarily of repairs and maintenance expenditure on kiosks and is dependent on the amount of activity during the quarter, trends in this expense are not easily identifiable as the majority of the repair work in on a needs only basis.
- Included in gross profit is depreciation related to those kiosks that are used in the production of income. Depreciation expense was \$9,905 and \$8,968 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$937 or 10.4%.

General and administrative expenses

General and administrative expenses were \$560,078 and \$457,587 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$102,491 or 22.4%. We incur operating expenditure both in Mexico and in the US, where we maintain a corporate office and incur certain expenditure on consultants, licensing and public reporting activities.

- i. The general and administrative expenditure in Mexico decreased to MXN 3,295,768 (\$175,899) from MXN 4,018,966 (\$207,638) for the three months ended March 31, 2018 and 2017, respectively, a decrease of MXN 723,198 (\$31,739) or 18.0%. The decrease is primarily due to lower salary costs and a concerted effort to reduce administrative costs.
- ii. The general administrative expenses incurred in the US, during the three months ended March 31, 2018 and 2017 was \$384,179 and \$249,949, respectively, an increase of \$134,230 or 53.7%, primarily due to an increase in capital raising fees of \$96,224 due to convertible notes issued during the current period for early settlement penalties paid by third parties and IT consulting expenses which increased by \$21,955 over the prior period. These expenses include the cost of our CTO during the current period, in the prior year, he was paid out of the Mexican operations.

Depreciation and amortization

Depreciation and amortization expense was \$12,406 and \$16,791 for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$4,385 or 26.1%. The decrease is primarily due to a lower depreciation charge in our Mexican operations as the bulk of the depreciation charge is allocated to cost of sales.

Other (expense) income

Other (expense) income was \$(2,478,599) and \$100 for the three months ended March 31, 2018 and 2017, respectively. Other expense during the current period includes a loss realized on the conversion of convertible notes into equity at conversion prices ranging from 38% to 40% below current market prices. During the current period, \$1,778,521 of convertible notes were converted to equity.

Interest expense, net

Interest expense was \$1,245,786 and \$141,600 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$1,104,186 or 779.8%. The increase consists primarily of the amortization of debt discount on convertible notes of \$1,143,583 and \$113,563 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$1,030,020 due to the increase in funding through convertible notes during the past year and interest expense of \$102,024 and \$28,038 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$73,986 primarily due to interest on the equipment loans recognized during the current period.

Derivative liability movements

Derivative liability movements were \$2,531,332 and \$(247,770) for the three months ended March 31, 2018 and 2017, respectively. The derivative liability arose due to the issuance of convertible securities with variable conversion prices and no floor conversion price. The credit during the current period represents the mark-to-market of the derivative liability outstanding as of March 31, 2018 and the release of derivative liabilities relating to notes converted during the current period.

Foreign currency gain

The foreign currency gain was \$152,931 and \$233,852 for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$80,921. The decrease is primarily due to the mark to market of foreign currency assets and liabilities due to the movements in exchange rates.

Net loss

We incurred a net loss of \$1,668,483 and \$555,938, for the three months ended March 31, 2018 and 2017, respectively, an increase of \$1,112,545 or 200.1%, primarily due to the gross loss realized during the quarter, the loss realized on convertible note conversions during the period and amortization of debt discount during the current period, as discussed above.

Liquidity and Capital Resources

To date, our primary sources of cash have been funds raised primarily from the sale of our debt securities as well as revenue derived from operations.

We incurred an accumulated deficit of \$15,056,674 through March 31, 2018 and incurred negative cash flow from operations of \$308,749 for the three months ended March 31, 2018. We have spent, and need to continue to spend, substantial amounts in connection with implementing our business strategy, including our planned product development effort and will be required to raise additional funding.

We will need to generate additional revenue from operations and/or obtain additional financing to pursue our business strategy, repay our outstanding note obligations and take advantage of business opportunities that may arise. To meet our financing needs, we are considering multiple alternatives, including, but not limited to, additional equity financings and, debt financings and/or funding from partnerships. There can be no assurance that we will be able to complete any such transactions on acceptable terms or otherwise and may have to significantly curtail our operations.

At March 31, 2018, we had cash of \$54,025 and a negative working capital of \$2,182,334, including a derivative liability of \$1,414,834, after eliminating the derivative liability our working capital deficit is \$767,500. We believe that the current cash balances together with revenue anticipated to be generated from operations will not be sufficient to meet our current working capital needs and as mentioned above, we will seek further funding from either equity issues or further debt funding, should we not be successful, we may have to curtail our operations significantly.

We utilized cash of \$308,749 and \$270,901 in operating activities for the three months ended March 31, 2018 and 2017, respectively, an increase of \$37,848 or 14.0%. The increase is primarily due to the movements in working capital over the prior period.

We had minimal investment in property and equipment of \$1,800 and \$0 for the three months ended March 31, 2018 and 2017, respectively.

We funded our operations by utilizing our cash balances and raising an additional \$501,500 through debt issuances.

Subsequent to March 31, 2018 we raised an additional \$185,000 in convertible debt funding.

Other than amounts owed under convertible notes, we have minimal commitments which include the office facility lease agreement with a future commitment as of March 31, 2018 of \$30,393 for the remainder of 2018 and \$40,524 for 2019, subject to exchange rate changes.

We entered into an additional ten-year licensing agreement with the Licensor on May 1, 2015, whereby we are committed to pay an annual license fee in quarterly installments of \$5,000 (\$20,000 per annum) to the Licensor for an exclusive license for the Mexican market of certain revenue payment services.

Our primary financial commitments as of the date hereof are payments owed under the License Agreement. The minimum commitments due under the license agreement is summarized as follows:

| | <u>Amount</u> |
|---------------------|-------------------|
| 2018 | 20,100 |
| 2019 | 20,100 |
| 2020 | 20,100 |
| 2021 | 20,100 |
| 2022 and thereafter | 77,067 |
| | <u>\$ 157,467</u> |

Off Balance Sheet Arrangements

None

Item 3. Quantitative and Qualitative Disclosures About Market Risks

None.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 ("Exchange Act"), the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") who is also its interim Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company's CEO who also serves as its interim CFO concluded that due to a lack of segregation of duties and insufficient controls over review and accounting for certain complex transactions, that the Company's disclosure controls and procedures as of March 31, 2018 were not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO, who also serves as its interim CFO, as

appropriate, to allow timely decisions regarding required disclosure. The Company intends to retain additional individuals to remedy the ineffective controls. We have begun to take actions that we believe will substantially remediate the material weaknesses identified. In response to the identification of our material weaknesses, we are in the process of expanding our finance and accounting staff. However, we cannot assure you that our internal control over financial reporting, as modified, will enable us to identify or avoid material weaknesses in the future.

(b) Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended March 31, 2018 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

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business.

We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows.

Item 1A. Risk Factors

As a smaller reporting company, we are not required to provide disclosure regarding risk factors

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

Other than as set forth below or as previously disclosed in our filings with the Securities and Exchange Commission, we did not sell any equity securities during the quarter ended March 31, 2018 in transactions that were not registered under the Securities Act.

On January 9, 2018, in terms of an additional payment made by Strategic IR to Power Up Lending Group to settle outstanding early settlement penalties and interest thereon, related to the assignment agreement entered into between Anna Mosk and Power up Lending Group, the Company issued a convertible promissory note in the aggregate principal amount of \$40,521. The note has a maturity date of January 9, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the three lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On January 9, 2018, in terms of an assignment agreement entered into with Power Up Lending Group, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$86,329 to Anna Mosk. The note has a maturity date of January 9, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note within the first 180 days at a premium of 110% of the sum of the accrued interest and principal. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On January 24, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$68,000 to Power Up Lending Group LTD. The note has a maturity date of October 30, 2018 and a coupon of eight percent (8%) per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On January 31, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$30,000 to Viktoria Akhmetova. The note has a maturity date of January 31, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note within the first 180 days at a premium of 110% of the sum of the accrued interest and principal. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On February 12, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$88,000 to Labrys Fund, LP. The note has a maturity date of August 12, 2018 and a coupon of 8% per annum. In connection with the issuance of the note, the Company was required to issue 440,000 shares of common stock as a commitment fee valued at \$70,400. The shares are returnable to the Company if no Event of Default has occurred prior to the date the note is fully repaid. Management had determined that it is probable that the Company would meet the conditions under the note and therefore it more likely than not that the Company would not be in Default as defined in the note. As a result, management has concluded that it was probable that the shares would be returned and therefore the value of the 440,000 shares was not recorded.

On February 14, 2018, in terms of a debt purchase agreement entered into with GS Capital Partners, LLC, the Company issued a convertible promissory note in the aggregate amount of \$17,984 in exchange for a convertible promissory note in the aggregate amount of \$17,000 plus accrued interest thereon of \$984. The note has a maturity date of February 14, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the three lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On February 14, 2018, in terms of an additional payment made by Strategic IR to GS Capital Partners, LLC to settle outstanding early settlement penalties and interest thereon, related to the convertible note mentioned above, the Company issued a convertible promissory note in the aggregate principal amount of \$7,610. The note has a maturity date of February 14, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the three lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On February 15, 2018, in terms of a Securities Purchase Agreement, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$72,969 to Strategic IR. The note has a maturity date of February 15, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received. The proceeds of the convertible note was used to purchase \$50,000 of the principal of the Crown Bridge Capital Partners note dated August 14, 2017 plus accrued interest thereon of \$1,994 and early settlement penalty of \$20,975.

On February 26, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$37,000 to Viktoria Akhmetova. The note has a maturity date of February 26, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note within the first 180 days at a premium of 110% of the sum of the accrued interest and principal. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On February 27, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$55,000 to Crown Bridge Capital Partners. The note has a maturity date of February 27, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note for the first 180 days, subject to a penalty ranging from 10% to 35% of the prepayment, dependent upon the timing of the prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the lowest trading price during the previous fifteen (15) trading days.

On March 13, 2018 we issued 479,587 shares of common stock upon conversion of a note in the principal amount of \$40,521 and accrued interest of \$551.

On March 13, 2018 we issued 211,188 shares of common stock upon conversion of a note in the principal amount of \$17,984 and accrued interest of \$102.

On March 13, 2018 we issued 89,367 shares of common stock upon conversion of a note in the principal amount of \$7,610 and accrued interest of \$43.

On March 13, 2018 we issued 856,715 shares of common stock upon conversion of a note in the principal amount of \$72,969 and accrued interest of \$400.

On March 13, 2018 we issued 1,021,745 shares of common stock upon conversion of a note in the principal amount of \$86,329 and accrued interest of \$1,173.

On March 26, 2018, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$68,000 to Power Up Lending Group LTD. The note has a maturity date of January 15, 2019 and a coupon of eight percent (8%) per annum. The Company has the right to prepay the note without penalty for the first 180 days. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the average of the lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On March 26, 2018, in terms of a debt purchase agreement entered into with Power Up lending Group, the Company issued Boba Management Corp a new note with as principal sum of \$65,513. The note has a maturity date of March 26, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of the three lowest trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received.

On March 26, 2018, in terms of a Securities Purchase Agreement, the Company issued a Convertible Promissory Note in the aggregate principal amount of \$31,618 to BOBA Management Corp. The note has a maturity date of March 26, 2019 and a coupon of 8% per annum. The Company has the right to prepay the note, provided it makes a pre-payment penalty as specified in the note. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 60% of lowest three trading bid prices during the previous ten (10) trading days, including the date the notice of conversion is received. The proceeds of the convertible note was used to pay early settlement penalties and fees associated with the Power Up lending note above.

The issuance of the above notes were made in reliance on the exemption provided by Section 4(a)(2) of the Securities Act for the offer and sale of securities not involving a public offering. The recipients of securities in each of these transactions acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the securities issued in these transactions. The recipient of the securities was an accredited investor within the meaning of Rule 501 of Regulation D under the Securities Act.

The shares issued upon conversion of the notes were issued pursuant to an exemption from registration provided by section 3(a)(9) of the Securities Act of 1933, as amended, for the shares were exchanged or issued in a transaction where no commissions or other remuneration was paid or given directly or indirectly for soliciting such exchange or issuances.

See Item 5 below for shares issued subsequent to the quarter ended March 31, 2018 upon conversion of notes. The shares were issued pursuant to an exemption from registration provided by section 3(a)(9) of the Securities Act of 1933, as amended, for the shares were exchanged or issued in a transaction where no commissions or other remuneration was paid or given directly or indirectly for soliciting

such exchange or issuances

Item 3. Defaults upon senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

On April 5, 2018, we received a notice of conversion, converting \$9,356 into 160,000 shares of common stock at a conversion price of \$0.0616 per share.

On April 16, 2018, we received a notice of conversion, converting \$59,682 into 518,930 shares of common stock at a conversion price of \$0.115 per share.

On April 18, 2018, we received conversion notices converting an aggregate of \$165,545 of convertible debt into 1,286,486 shares of common stock at an average conversion price of \$0.129 per share.

The shares issued upon conversion of the notes were issued pursuant to an exemption from registration provided by section 3(a)(9) of the Securities Act of 1933, as amended, for the shares were exchanged or issued in a transaction where no commissions or other remuneration was paid or given directly or indirectly for soliciting such exchange or issuances.

Item 6. Exhibits

EXHIBIT INDEX

| Exhibit Number | Description of Exhibit |
|---------------------------|---|
| <u>31.1</u> | <u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| <u>32.1</u> | <u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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.

QPAGOS

Date: May 21, 2018

By: /s/ Gaston Pereira

Gaston Pereira
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT
OF 2002**

I, Gaston Pereira, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 of QPAGOS;
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(e) 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 disclosure 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially 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 the 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: May 21, 2018

/s/ Gaston Pereira

Gaston Pereira

Chief Executive Officer and Interim Chief Financial Officer
(Principal Executive Office and 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 QPAGOS (the "Registrant") on Form 10-Q for the period ending March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gaston Pereira, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section. 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: May 21, 2018

By: /s/ Gaston Pereira

Gaston Pereira
Chief Executive Officer and Interim Chief Financial Officer
(Principal Executive Office and Principal Financial Officer)
