

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended August 31, 2024

OR

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

For the transition period from _____ to _____

Commission File Number: 001-41958



AXIL Brands, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

47-4125218

(I.R.S. Employer
Identification No.)

901 Fremont Avenue, Unit 158, Alhambra, CA

(Address of Principal Executive Offices)

91803

(Zip Code)

(888) 638-8883

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 par value per share	AXIL	The NYSE American LLC

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). 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.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input 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. ☐

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

As of October 4, 2024, there were 6,464,852 shares of the registrant's common stock, \$0.0001 par value, outstanding.

AXIL BRANDS, INC. AND SUBSIDIARY

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, and in particular Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains certain "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"). These forward-looking statements represent our expectations, beliefs, intentions or strategies concerning future events, including, but not limited to, any statements regarding our assumptions about financial performance; the continuation of historical trends; the sufficiency of our cash balances for future liquidity and capital resource needs; the expected impact of changes in accounting policies on our results of operations, financial condition or cash flows; anticipated problems and our plans for future operations, including expected growth; and the economy in general or the future of the beauty and hair care industry and the hearing protection and ear bud business, all of which are subject to various risks and uncertainties.

There are a number of factors that could cause our actual results to differ from those indicated in the forward-looking statements, many of which are outside of our control. They include: the impact of unstable market and general economic conditions on our business, financial condition and stock price, including inflationary cost pressures, interest rate changes, decreased discretionary consumer spending, supply chain disruptions and constraints, labor shortages, ongoing economic disruption, the possibility of an economic recession and other macroeconomic factors, geopolitical events and uncertainty, including the effects of the Ukraine-Russia conflict and the Israel-Hamas conflict, and other downturns in the business cycle or the economy; our financial performance and liquidity, including our ability to successfully generate sufficient revenue to support our operations; our expectations regarding our financing arrangements and our ability to obtain additional capital if and as needed, including potential difficulties of obtaining financing due to market conditions resulting from geopolitical conditions and other economic factors; risks related to our operations and international markets, such as fluctuations in currency exchange rates, different regulatory environments, trade barriers and sanctions, exchange controls, and social and political instability; changes in the regulatory environment in which we operate, including environmental, health and safety regulations, including those related to climate change; our ability to protect and defend our intellectual property; continuity and security of information technology infrastructure and the potential impact of cybersecurity breaches or disruptions to our management information systems; widespread outages, interruptions or other failures of operational, communication, and other systems; competition; our ability to retain our management and employees and the potential impact of ongoing labor shortages; demands on management resources; availability and cost of the raw materials we use to manufacture our products, including the impacts of inflationary cost pressures and ongoing supply chain disruptions and constraints, which have been, and may continue to be, exacerbated by the Russia-Ukraine conflict, the Israel-Hamas conflict and other geopolitical conflicts; additional tax expenses or exposures; product liability claims; the potential outcome of any legal or regulatory proceedings, including ongoing litigation, the disposition of which may have an adverse effect upon our business, financial condition, or results of operations; our ability to engage in acquisitions, investments, partnerships, strategic alliances or dispositions when desired; global or regional catastrophic events, including the effects of natural disasters, which may be worsened by the impact of climate change; effectiveness of our marketing strategy, demand for and market acceptance of our products, as well as our ability to successfully anticipate consumer trends; labor relations; the potential impact of environmental, social and governance matters; implementation of environmental remediation matters; our ability to maintain effective internal control over financial reporting; and risks related to our common stock, including our ability to maintain our stock exchange listing.

When used in this Quarterly Report on Form 10-Q and other reports, statements, and information we have filed with the Securities and Exchange Commission (the "SEC"), in our press releases, presentations to securities analysts or investors, in oral statements made by or with the approval of an executive officer, the words or phrases "believes," "may," "can," "will," "expect," "should," "could," "would," "continue," "anticipate," "intend," "likely," "estimate," "project," "plan," "design," "potential," "focus" or similar expressions and variations thereof are intended to identify such forward-looking statements. However, any statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements. Furthermore, such forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We caution that these statements by their nature involve risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors. These forward-looking statements are not guarantees of our future performance and involve risks, uncertainties, estimates and assumptions that are difficult to predict.

We do not assume the obligation to update any forward-looking statement, except as required by applicable law. You should carefully evaluate such statements in light of factors described in this Quarterly Report on Form 10-Q. In this Quarterly Report on Form 10-Q, AXIL Brands, Inc. ("AXIL Brands, Inc.," "AXIL Brands," the "Company," "we," "us," and "our") has identified material factors that could cause actual results to differ from expected or historic results. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete list of all potential risks or uncertainties.

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AXIL BRANDS, INC. AND SUBSIDIARY
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AUGUST 31, 2024

PART 1 – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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AXIL BRANDS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	August 31, 2024 (Unaudited)	May 31, 2024
ASSETS		
CURRENT ASSETS:		
Cash	\$ 4,148,724	\$ 3,253,876
Accounts receivable, net	599,150	509,835
Inventory, net	3,273,419	3,394,023
Prepaid expenses and other current assets	322,168	809,126
Total Current Assets	8,343,461	7,966,860
OTHER ASSETS:		
Property and equipment, net	251,055	260,948
Intangible assets, net	347,942	309,104
Right of use asset	18,284	36,752
Deferred tax asset	231,587	231,587
Other assets	12,195	16,895
Goodwill	2,152,215	2,152,215
Total Other Assets	3,013,278	3,007,501
TOTAL ASSETS	\$ 11,356,739	\$ 10,974,361
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,373,106	\$ 967,596
Customer deposits	74,053	154,762
Contract liabilities- current	938,498	905,311
Notes payable	144,257	146,594
Due to related party	53,505	11,798
Lease liability, current	18,650	36,752
Income tax liability	242,296	242,296
Other current liabilities	229,848	332,936
Total Current Liabilities	3,074,213	2,798,045
LONG TERM LIABILITIES:		
Contract liabilities- long term	398,681	480,530
Total Long Term Liabilities	398,681	480,530
Total Liabilities	3,472,894	3,278,575
Commitments and contingencies (see Note 10)	-	-
STOCKHOLDERS' EQUITY:		
Preferred stock, \$ 0.0001 par value; 300,000,000 shares authorized; 31,133,500 and 42,251,750 shares issued and outstanding as of August 31, 2024 and May 31, 2024, respectively	3,113	4,225
Common stock, \$ 0.0001 par value: 450,000,000 shares authorized; 6,464,852 and 5,908,939 shares issued, issuable and outstanding as of August 31, 2024 and May 31, 2024, respectively	647	591

Additional paid-in capital	8,124,160	7,825,240
Accumulated deficit	(244,075)	(134,270)
Total Stockholders' Equity	7,883,845	7,695,786
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 11,356,739	\$ 10,974,361

See accompanying notes to these unaudited consolidated financial statements.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED AUGUST 31, 2024 AND 2023
(UNAUDITED)

	2024	2023
Sales, net	\$ 5,851,272	\$ 6,106,269
Cost of sales	1,697,624	1,458,703
Gross profit	4,153,648	4,647,566
OPERATING EXPENSES:		
Sales and marketing	2,669,471	3,206,841
Compensation and related taxes	190,648	279,989
Professional and consulting	947,849	426,775
General and administrative	486,382	560,204
Total Operating Expenses	4,294,350	4,473,809
INCOME (LOSS) FROM OPERATIONS	(140,702)	173,757
OTHER INCOME (EXPENSE):		
Other income	2,266	9,835
Interest income	28,631	38,493
Interest expense and other finance charges	-	(1,644)
Other Income (Expense), Net	30,897	46,684
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(109,805)	220,441
Provision (benefit) for income taxes	-	65,989
NET INCOME (LOSS)	\$ (109,805)	\$ 154,452
NET INCOME (LOSS) PER COMMON SHARE:		
Basic	\$ (0.02)	\$ 0.03
Diluted	\$ (0.02)	\$ 0.01
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	6,172,379	5,853,847
Diluted	6,172,379	18,622,597

See accompanying notes to these unaudited consolidated financial statements.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED AUGUST 31, 2024 AND 2023
(UNAUDITED)

For the three months ended August 31, 2024

	Preferred Stock		Common Stock Issued/Issuable		Additional Paid-in	Accumulated	Total
	Shares	Amount	Shares	Amount	Capital	Deficit	Stockholders' Equity
Balance, May 31, 2024	42,251,750	\$ 4,225	5,908,939	\$ 591	\$ 7,825,240	\$ (134,270)	\$ 7,695,786
Stock options expense	-	-	-	-	72,632	-	72,632

Stock based compensation	-	-	-	-	225,232	-	225,232
Preferred Stock converted to Common Stock	(11,118,250)	(1,112)	555,913	56	1,056	-	-
Net loss for the three months ended August 31, 2024	-	-	-	-	-	(109,805)	(109,805)
Balance, August 31, 2024	<u>31,133,500</u>	<u>\$ 3,113</u>	<u>6,464,852</u>	<u>\$ 647</u>	<u>\$ 8,124,160</u>	<u>\$ (244,075)</u>	<u>\$ 7,883,845</u>

For the three months ended August 31, 2023

	Preferred Stock		Common Stock Issued And Issuable		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance, May 31, 2023	250,000,000	\$ 25,000	5,863,939	\$ 586	\$ 10,113,365	\$ (3,466,992)	\$ 6,671,959
Stock options expense	-	-	-	-	51,107	-	51,107
Net income for the three months ended August 31, 2023	-	-	-	-	-	154,452	154,452
Balance, August 31, 2023	<u>250,000,000</u>	<u>\$ 25,000</u>	<u>5,863,939</u>	<u>\$ 586</u>	<u>\$ 10,164,472</u>	<u>\$ (3,312,540)</u>	<u>\$ 6,877,518</u>

See accompanying notes to these unaudited consolidated financial statements.

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**AXIL BRANDS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED AUGUST 31, 2024 AND 2023
(UNAUDITED)**

	August 31,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (109,805)	\$ 154,452
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	12,895	28,237
Bad debts	18,785	52,866
Stock-based compensation	297,864	51,107
Change in operating assets and liabilities:		
Accounts receivable	(108,100)	(91,736)
Inventory	120,603	(758,104)
Prepaid expenses and other current assets	486,958	315,751
Accounts payable and accrued expenses	405,511	168,399
Other current liabilities	(178,731)	438,006
Contract liabilities	(48,662)	38,194
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>897,318</u>	<u>397,172</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangibles	(41,840)	-
Purchase of property and equipment	-	(50,960)
NET CASH USED IN INVESTING ACTIVITIES	<u>(41,840)</u>	<u>(50,960)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of equipment financing	-	(825)
Repayment of note payable	(2,337)	(17,254)
Advances (payments) from a related party	41,707	(99,092)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>39,370</u>	<u>(117,171)</u>
NET INCREASE IN CASH	<u>894,848</u>	<u>229,041</u>
CASH - Beginning of period	<u>3,253,876</u>	<u>4,832,682</u>
CASH - End of period	<u>\$ 4,148,724</u>	<u>\$ 5,061,723</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ -	\$ 1,644
Income taxes	\$ -	\$ -

See accompanying notes to these unaudited consolidated financial statements.

AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 1 – Organization

As part of AXIL Brands, Inc.'s (together with its subsidiary, the "Company," "we," "us" or "our") ongoing rebranding efforts, the Company changed its name from Reviv3 Procare Company to AXIL Brands, Inc. effective February 14, 2024. Reviv3 was incorporated in the State of Delaware on May 21, 2015 as a reorganization of Reviv3 Procare, LLC which was organized on July 31, 2013. The Company's corporate headquarters are located at 901 S. Fremont Avenue, Unit 158, Alhambra, California 91803. Its phone number is (888) 638-8883. In March 2022, the Company incorporated a subsidiary "Reviv3 Acquisition Corporation" (now known as "AXIL Distribution Company") and in June 2022, completed the acquisition of certain assets of Axil & Associated Brands Corp. ("A&A"). The Company is engaged in the manufacturing, marketing, sale and distribution of high-tech hearing and audio enhancement and protection products that provide cutting edge solutions for consumers, with varied applications across many industries; as well as professional quality hair and skin care products. These products lines are both sold throughout the United States, Canada, Europe and Asia. On February 14, 2024, the Company successfully completed efforts to uplist from the over-the-counter, or OTC, markets to the NYSE American stock exchange ("NYSE American").

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). In the opinion of the management, all adjustments necessary to present fairly our financial position, results of operations, and cash flows as of August 31, 2024 and 2023, and for the periods then ended, have been made. Those adjustments consist of normal and recurring adjustments. Certain information and note disclosures normally included in our annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been omitted. The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended May 31, 2024. The results of operations for the three months ended August 31, 2024 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2025. The unaudited consolidated financial statements include the Company and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated upon consolidation.

Reverse Stock Split

Effective as of January 16, 2024, the Company effected a reverse stock split (the "Reverse Stock Split") of the Company's issued shares of common stock at a ratio of 1-for-20 as approved by the Company's Board of Directors (the "Board"). The Reverse Stock Split did not affect the total number of shares of common stock that the Company is authorized to issue and any fractional shares remaining after the Reverse Stock Split were rounded up to the nearest whole share. The accompanying consolidated financial statements and notes to the consolidated financial statements give retroactive effect to the Reverse Stock Split for all periods presented, unless otherwise specified.

AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies (continued)

Liquidity and Capital Resources

We are currently engaged in product sales and development. We incurred a net loss of \$ 109,805 during the three months ended August 31, 2024 and have cash provided by operations of \$ 897,318 for the three months ended August 31, 2024. We had an accumulated deficit of \$ 244,075 as of August 31, 2024 and have incurred operating losses and cash used in operations in the past. We currently expect to earn net income and positive cash flows from operations during the current fiscal year ending May 31, 2025. We believe our current cash balances, coupled with anticipated cash flow from operating activities, will be sufficient to meet our working capital requirements for at least one year from the date of issuance of the accompanying unaudited consolidated financial statements. We intend to continue to control our cash expenses as a percentage of expected revenue on an annual basis and thus may use our cash balances in the short-term to invest in revenue growth. As a result of the acquisition of A&A's assets in June 2022, we have generated and expect we will continue to generate sufficient cash for our operational needs, including any required debt payments, for at least one year from the date of issuance of the accompanying unaudited consolidated financial statements. Management is focused on growing the Company's existing products, introducing new products, as well as expanding its customer base, to increase its revenues. The Company cannot give assurance that it can increase its cash balances or limit its cash consumption and thus, maintain sufficient cash balances for its planned operations or future acquisitions. Future business demands, may lead to cash utilization at levels greater than recently experienced. The Company cannot provide any assurance that it will be able to raise additional capital or obtain necessary financing on acceptable terms, or at all. Subject to the foregoing, management believes that the Company has sufficient capital and liquidity to fund its operations for at least one year from the date of issuance of the accompanying unaudited consolidated financial statements.

Use of estimates

The preparation of the unaudited consolidated financial statements in conformity with accounting principles generally accepted in the United States ("U.S.") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosures at the date of the financial statements and during the reporting period. Actual results could materially differ from these estimates. Significant estimates made by management include, but are not limited to, the allowance for doubtful accounts, inventory valuations and classifications, the useful life of property and equipment, the valuation of deferred tax assets, the value of stock-based compensation, contract liability, allowance on sales returns, valuation of lease liabilities and related right of use assets and the fair value of non-cash Common Stock issuances.

Cash and cash equivalents

The Company considers all highly liquid debt instruments and other short-term investments with maturities of three months or less, when purchased, to be cash equivalents. The Company maintains cash and cash equivalent balances at one financial institution that is insured by the Federal Deposit Insurance Corporation. (See Note 12).

Accounts receivable and allowance for doubtful accounts

On June 1, 2023, the Company adopted ASC 326, " *Financial Instruments - Credit Losses*". In accordance with ASC 326, an allowance is maintained for estimated forward-looking losses resulting from the possible inability of customers to make required payments (current expected losses). The amount of the allowance is determined principally on the basis of past collection experience and known financial factors regarding specific customers.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies (continued)

Accounts receivables comprise of receivables from customers and receivables from merchant processors. The Company has a policy of providing an allowance for doubtful accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to bad debt expense and included in the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Prepaid expenses and other current assets

Prepaid expenses and other current assets consist primarily of cash prepayments to vendors for inventory and prepayments for trade shows and marketing events which will be utilized within a year, prepayments on credit cards and the right to recover assets (for the cost of goods sold) associated with the right of returns for products sold.

Inventory

The Company values inventory, consisting of finished goods and raw materials, at the lower of cost and net realizable value. Cost is determined using an average cost method. The Company reduces inventory for the diminution of value, resulting from product obsolescence, damage or other issues affecting marketability, equal to the difference between the cost of the inventory and its net realizable value. The Company evaluates its current level of inventory considering historical sales and other factors and, based on this evaluation, classifies inventory markdowns in the statement of operations as a component of cost of goods sold. These markdowns are estimates, which could vary significantly from actual requirements if future economic conditions, customer demand or competition differ from expectations. The Company continuously evaluates the levels of inventory held and any inventory held above the expected level of sales in the next 12 months, is classified as non-current inventory.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed, and any resulting gains or losses are included in the statement of operations.

Product warranty

The Company provides a one-year, two-year or three-year limited warranty on its hearing enhancement and hearing protection products. The Company records the costs of repairs and replacements, as they are incurred, to the cost of sales.

Revenue recognition

The Company follows Accounting Standards Codification ("ASC") 606, " *Revenue From Contracts With Customers*." This revenue recognition standard (new guidance) has a five-step process: a) Determine whether a contract exists; b) Identify the performance obligations; c) Determine the transaction price; d) Allocate the transaction price; and e) Recognize revenue when (or as) performance obligations are satisfied.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 2 – Basis of Presentation and Summary of Critical Accounting Policies (continued)

The Company sells a variety of electronic hearing and enhancement products and hair and skin care products. The Company recognizes revenue for the agreed upon sales price when a purchase order is received from the customer and subsequently the product is shipped to the customer, which satisfies the performance obligation. Consideration paid to the customer to promote and sell the Company's products is typically recorded as a reduction in revenues.

The five steps for the revenue recognition are as follows:

Identify the contract with a customer. The Company generally considers completion of a sales order (which requires customer acceptance of the Company's click-through terms and conditions for website sales and authorization of payment through credit card or another form of payment for sales made over the phone) or purchase orders from non-consumer customers as a customer contract provided that collection is considered probable. For payments that are not made upfront by credit card, the Company assesses customer creditworthiness based on credit checks, payment history, and/or other circumstances. For payments involving third party financier payors, the Company validates customer eligibility and reimbursement amounts prior to shipping the product.

Identify the performance obligations in the contract. Product performance obligations include shipment of products and related accessories, and service performance obligations include extended warranty coverage.

However, as the historical redemption rate under our warranty policy has been low, the option is not accounted for as a separate performance obligation.

The Company does not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer.

Determine the transaction price and allocation to performance obligations . The transaction price in the Company's customer contracts consists of both fixed and variable consideration. Fixed consideration includes amounts to be contractually billed to the customer while variable consideration includes the 30-days and 60-days right of return that applies to hearing enhancement and protection products and hair and skincare products, respectively. To estimate product returns, the Company analyzes historical return levels, current economic trends, and changes in customer demand. Based on this information, the Company reserves a percentage of product sale revenue and accounts for the estimated impact as a reduction in the transaction price.

Allocate the transaction price to the performance obligations in the contract . For contracts that contain multiple performance obligations, the Company allocates the transaction price to the performance obligations on a relative standalone selling price basis.

Recognize revenue when or as the Company satisfies a performance obligation . Revenue for products is recognized at a point in time, which is generally upon shipment. Revenue for services (extended warranty) is recognized over time on a ratable basis over the warranty period.

As of August 31, 2024, and May 31, 2024, contract liabilities amounted to \$ 1,337,179 and \$ 1,385,841 , respectively. As of August 31, 2024, and May 31, 2024, contract liabilities associated with product invoiced but not received by customers at the balance sheet date was \$0 and \$0, respectively; contract liabilities associated with unfulfilled performance obligations for warranty services offered for a period of one, two and three years was \$1,164,416 and \$1,251,710, respectively, and contract liabilities associated with unfulfilled performance obligations for customers' right of return was \$169,070 and \$130,201, respectively. Our contract liabilities amounts are expected to be recognized over a period of between one year to three years. Approximately \$765,735 is expected to be recognized in year one, \$357,120 is expected to be recognized in year two, and \$41,561 is expected to be recognized in year three. Contract liabilities associated with gift cards purchased by customers amounted to \$3,693 and \$3,930, respectively as of August 31, 2024 and May 31, 2024.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 2 – Basis of Presentation and Summary of Critical Accounting Policies (continued)

Cost of Sales

The primary components of cost of sales include the cost of the product and shipping fees related to product procurement.

Shipping and Handling Costs

The Company accounts for shipping and handling fees in accordance with ASC 606. While amounts charged to customers for shipping products are included in revenues, the related costs of shipping products to customers are classified in marketing and selling expenses as incurred. Shipping costs included in marketing and selling expense were \$ 249,914 and \$ 253,452 for the three months ended August 31, 2024 and 2023, respectively.

Sales, Marketing and Advertising

Sales, marketing and advertising costs are expensed as incurred.

Customer Deposits

Customer deposits consisted of prepayments from customers to the Company. The Company will recognize the prepayments as revenue upon delivery of products in compliance with its revenue recognition policy.

Fair value measurements and fair value of financial instruments

The Company adopted ASC 820, "*Fair Value Measurements and Disclosures*," for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that requires the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of ASC 820 did not have an impact on the Company's financial position or operating results, but did expand certain disclosures. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

- Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The Company analyzes all financial instruments with features of both liabilities and equity under the Financial Accounting Standard Board's ("FASB") accounting standard for such instruments. Under this standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The estimated fair value of certain financial instruments, including prepaid expenses, deposits, accounts payable and accrued expenses are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies (continued)

Business Combinations

For all business combinations (whether partial, full or step acquisitions), the Company records 100% of all assets acquired and liabilities assumed of the acquired business, at their fair values.

Goodwill represents the excess purchase price over the fair value of the tangible net assets and intangible assets acquired in a business combination. Acquisition-related expenses are recognized separately from business combinations and are expensed as incurred. If the business combination provides for contingent consideration, the Company records the contingent consideration at fair value at the acquisition date. Changes in fair value of contingent consideration resulting from events after the acquisition date, such as earn-outs, are recognized as follows: (1) if the contingent consideration is classified as equity, the contingent consideration is not re-measured and its subsequent settlement is accounted for within equity, or (2) if the contingent consideration is classified as a liability, the changes in fair value and accretion costs are recognized in earnings. The increases or decreases in the fair value of contingent consideration can result from changes in anticipated revenue levels and changes in assumed discount periods and rates.

Goodwill

Goodwill is comprised of the purchase price of business combinations in excess of the fair value assigned at acquisition to the net tangible and identifiable intangible assets acquired. Goodwill is not amortized. The Company tests goodwill for impairment for its reporting units on an annual basis, or when events occur, or circumstances indicate the fair value of a reporting unit is below its carrying value.

The Company performs its annual goodwill impairment assessment on May 31st of each year or as impairment indicators dictate.

When evaluating the potential impairment of goodwill, management first assesses a range of qualitative factors, including but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for the Company's products and services, regulatory and political developments, entity specific factors such as strategy and changes in key personnel, and the overall financial performance for each of the Company's reporting units. If, after completing this assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we then proceed to the quantitative impairment testing methodology primarily using the income approach (discounted cash flow method).

Under the quantitative method we compare the carrying value of the reporting unit, including goodwill, with its fair value, as determined by its estimated discounted cash flows. If the carrying value of a reporting unit exceeds its fair value, then the amount of impairment to be recognized is the amount by which the carrying amount exceeds the fair value.

When required, we arrive at our estimates of fair value using a discounted cash flow methodology which includes estimates of future cash flows to be generated by specifically identified assets, as well as selecting a discount rate to measure the present value of those anticipated cash flows. Estimating future cash flows requires significant judgment and includes making assumptions about projected growth rates, industry-specific factors, working capital requirements, weighted average cost of capital, and current and anticipated operating conditions. The use of different assumptions or estimates for future cash flows could produce different results.

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AXIL BRANDS, INC. AND SUBSIDIARY CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2024

Note 2 – Basis of Presentation and Summary of Critical Accounting Policies (continued)

Income Taxes

The Company accounts for income taxes pursuant to the provision of ASC 740-10, "Accounting for Income Taxes," which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

The Company follows the provision of ASC 740-10 related to Accounting for Uncertain Income Tax Positions. When tax returns are filed, there may be uncertainty about the merits of positions taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions.

Tax positions that meet the more likely than not recognition threshold are measured at the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefit associated with tax positions taken that exceed the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company believes its tax positions are all more likely than not to be upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

The Company has adopted ASC 740-10-25, "Definition of Settlement", which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits and provides that a tax position can be effectively settled upon the completion and examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. The federal and state income tax returns of the Company are subject to examination by the Internal Revenue Service ("IRS") and state taxing authorities, generally for three years after they are filed.

Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. The Company did not record any impairment loss during the three months ended August 31, 2024 and 2023.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 2 – Basis of Presentation and Summary of Critical Accounting Policies (continued)

Stock-based compensation

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718, “*Compensation — Stock Compensation*,” which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). ASC 718 also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

For non-employee stock option based awards, the Company follows Accounting Standards Update (“ASU”) 2018-7, which substantially aligns share based compensation for employees and non-employees.

Net income (loss) per share of Common Stock

Basic net income (loss) per share is computed by dividing the net income by the weighted average number of common shares during the period. Diluted net income (loss) per share is computed using the weighted average number of common shares and potentially dilutive securities outstanding during the period. For the three months ended August 31, 2024, certain stock options, preferred shares and restricted stock awards were excluded from the computation of diluted common shares outstanding as they would have an anti-dilutive impact on the Company’s net income.

The following table sets forth the computations of basic and diluted net income (loss) per common share:

	For the Three Months Ended	
	August 31, 2024	August 31, 2023
Net income (loss)	\$ (109,805)	\$ 154,452
Weighted average basic shares	6,172,379	5,853,847
Dilutive securities:		
Convertible preferred stock	-	12,500,000
Stock options	-	268,750
Weighted average dilutive shares	6,172,379	18,622,597
Earnings (loss) per share:		
Basic	\$ (0.02)	\$ 0.03
Diluted	\$ (0.02)	\$ 0.01

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 2 – Basis of Presentation and Summary of Critical Accounting Policies (continued)

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, “*Leases*,” which requires lessees to report on their balance sheets a right-of-use asset and a lease liability in connection with most lease agreements classified as operating leases under the prior guidance (ASC 840). Under the new guidance, codified as ASC 842, the lease liability must be measured initially based on the present value of future lease payments, subject to certain conditions. The right-of-use asset must be measured initially based on the amount of the liability, plus certain initial direct costs. The new guidance further requires that leases be classified at inception as either (a) operating leases or (b) finance leases. For operating leases, periodic expense is generally flat (straight-line) throughout the life of the lease. For finance leases, periodic expense declines over the life of the lease. The new standard, as amended, provides an option for entities to use the cumulative-effect transition method. As permitted, the Company adopted ASC 842 effective June 1, 2019. The adoption of ASC 842 did not have a material impact on the Company’s consolidated financial statements.

The Company renewed its lease for its corporate headquarters commencing December 1, 2022, under lease agreements classified as an operating lease. The Company also signed a lease agreement in September 2024 for a warehouse and office lease commencing October 1, 2024. Please see Note 10 – “Commitments and Contingencies” under “Leases” below for more information about the Company’s leases.

Segment Reporting

The Company follows ASC 280, “*Segment Reporting*.” The Company’s management reviews the Company’s consolidated financial results when making decisions about allocating resources and assessing the performance of the Company as a whole and has determined that the Company’s reportable segments are: (a) the sale of hearing protection and hearing enhancement products, and (b) the sale of hair care and skin care products. See Note 13 – “Business Segment and Geographic Area Information” for more information about the Company’s reportable segments.

Recently Issued Accounting Pronouncements

In August 2020, the FASB issued ASU No. 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity* (ASU 2020-06), which simplifies the accounting for certain convertible instruments. Among other things, under ASU 2020-06, the embedded conversion features no longer must be separated from the host contract for convertible instruments with conversion features not required to be accounted for as derivatives, or that do not result in substantial premiums accounted for as paid-in capital. ASU 2020-06 also eliminates

the use of the treasury stock method when calculating the impact of convertible instruments on diluted Earnings per Share. The Company adopted the ASU effective June 1, 2024. The adoption of the guidance did not have a material impact on the accompanying consolidated financial statements.

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. This guidance requires additional annual and interim disclosures for reportable segments. This new standard does not affect the recognition, measurement or financial statement presentation. The amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company adopted the ASU effective June 1, 2024. The adoption of the guidance did not have a material impact on the accompanying consolidated financial statements.

Other accounting standards 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. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 3 – Accounts Receivable, net

Accounts receivable, consisted of the following:

	August 31, 2024	May 31, 2024
Customers receivable	\$ 523,237	\$ 524,730
Merchant processor receivable	150,565	78,417
Less: Allowance for credit losses	(74,652)	(93,312)
Accounts receivables, net	<u>\$ 599,150</u>	<u>\$ 509,835</u>

The Company recorded bad debt expense of \$ 18,785 and \$ 52,866 during the three months ended August 31, 2024 and 2023, respectively.

Note 4 – Inventory, net

Inventory consisted of the following:

	August 31, 2024	May 31, 2024
Finished Goods	\$ 3,059,375	\$ 3,190,344
Raw Materials	214,044	203,679
Inventory, net	<u>\$ 3,273,419</u>	<u>\$ 3,394,023</u>

At August 31, 2024 and May 31, 2024, inventory held at third party locations amounted to \$ 28,189 and \$ 58,242 , respectively. At August 31, 2024 and May 31, 2024, inventory in-transit amounted to \$ 99,599 and \$ 15,738 , respectively. At August 31, 2024 and May 31, 2024, the Company had provided \$ 46,895 as obsolescence reserve on some slow-moving inventory.

Note 5 – Property and Equipment

Property and equipment, stated at cost, consisted of the following:

	Estimated Life	August 31, 2024	May 31, 2024
Promotional display racks	2 years	\$ 30,709	\$ 30,709
Furniture and Fixtures	5 years	5,759	5,759
Computer Equipment	3 years	22,130	22,130
Plant Equipment	5 - 10 years	264,168	264,168
Office equipment	5 - 10 years	8,838	8,838
Automobile	5 years	24,347	24,347
Less: Accumulated Depreciation		(104,896)	(95,003)
Total Property, plant and equipment, net		<u>\$ 251,055</u>	<u>\$ 260,948</u>

Depreciation expense amounted to \$ 9,893 and \$ 8,862 for the three months ended August 31, 2024 and 2023, respectively.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 6 – Intangible Assets

The intangible assets consisted of the following:

	Estimated Life	August 31, 2024	May 31, 2024
Licensing Rights	3 years	\$ 34,024	\$ 34,024
Customer Relationships	3 years	70,000	70,000
Trade Names	10 years	275,000	275,000
Website	5 years	100,000	100,000

Product Certification Testing	3 years	41,840	-
Less:Accumulated Amortization		(172,922)	(169,920)
Intangible assets, net		<u>\$ 347,942</u>	<u>\$ 309,104</u>

Goodwill arising through the business combination in June 2022 was \$ 2,152,215 at August 31, 2024.

Amortization expense amounted to \$ 3,002 and \$ 19,375 for the three months ended August 31, 2024 and 2023, respectively.

Note 7 – Other Current Liabilities

Other current liabilities comprised of the following:

	August 31, 2024	May 31, 2024
Credit Cards	\$ 3,886	\$ 5,734
Royalty Payment Accrual	3,376	3,376
Sales Tax Payable	222,586	231,283
Accrued expenses	-	92,543
Total other current liabilities	<u>\$ 229,848</u>	<u>\$ 332,936</u>

Note 8 – Notes Payable

During the year ended May 31, 2020, a commercial bank granted to the Company a loan (the "Loan") in the amount of \$ 150,000 , which is administered under the authority and regulations of the U.S. Small Business Administration pursuant to the Economic Injury Disaster Loan Program (the "EIDL") of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The Loan, which is evidenced by a note dated May 18, 2020, bears interest at an annual rate of 3.75 % and is payable in installments of principal and interest of \$731 per month, beginning May 18, 2021 until May 13, 2050. The Company has to maintain a hazard insurance policy including fire, lightning, and extended coverage on all items used to secure this loan to at least 80% of the insurable value. Proceeds from loans granted under the CARES Act are intended to be used for payroll, costs to continue employee group health care benefits, rent, utilities, and certain other qualified costs (collectively, "qualifying expenses"). The Company used the loan proceeds for qualifying expenses. During the year ended May 31, 2022, the Company received additional \$ 10,000 of borrowings under the program. The Company received a loan forgiveness for \$ 10,000 during the year ended May 31, 2022. The Company recorded, on the accompanying unaudited consolidated financial statements, and paid interest of \$ 0 and \$ 562 , during the three months ended August 31, 2024 and 2023, respectively.

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AXIL BRANDS, INC. AND SUBSIDIARY CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2024

Note 8 – Notes Payable (continued)

As of August 31, 2024 and May 31, 2024, the outstanding balance of the loan amounted to \$ 144,257 and \$ 146,594 , respectively.

The amounts of loan payments due in the next fiscal year ended August 31, are as follows:

	Total
2025	\$ 144,257
Total	<u>\$ 144,257</u>

Note 9 – Stockholders' Equity

Shares Authorized

As of August 31, 2024, the authorized capital of the Company consists of 450,000,000 shares of common stock, par value \$ 0.0001 per share and 300,000,000 shares of preferred stock, par value \$ 0.0001 per share. The total number of shares of common stock that the Company is authorized to issue remained unchanged and any fractional shares remaining after the Reverse Stock Split were rounded up to the nearest whole share.

Effective as of January 16, 2024, the Company effected a reverse stock split (the "Reverse Stock Split") of the Company's issued shares of common stock at a ratio of 1-for-20 , as approved by the Company's Board of Directors (the "Board"). The Reverse Stock Split did not change the par value of the common stock, modify any voting rights or other terms of the common stock. The total number of shares of common stock that the Company is authorized to issue remained unchanged and any fractional shares remaining after the Reverse Stock Split were rounded up to the nearest whole share. The accompanying unaudited consolidated financial statements and notes to the financial statements give retroactive effect to the Reverse Stock Split for all periods presented, unless otherwise specified.

Preferred Stock

The preferred stock may be issued from time to time in one or more series. The Board is expressly authorized to provide for the issuance of all or any of the shares of the preferred stock in one or more series, and to fix the number of shares and to determine or alter, for each such series, such voting powers, full or limited, or no voting powers and such designations, preferences, and relative, participating, optional, or other rights and such qualifications, limitations, or restrictions thereof, as shall be stated and expressed in the resolution adopted by the Board providing the issuance of such shares. The Board is also expressly authorized to increase or decrease the number of shares of any series subsequent to the issue of shares of that series. In case the number of shares of any such series shall be so decreased, the decrease shall resume the status that they had prior to the adoption of the resolution originally fixing the number of shares of such series.

During the fiscal year ended May 31, 2023, the Company issued 250,000,000 shares of non-voting Series A Preferred Stock, which, following the Reverse Stock Split of the Company's common stock, are convertible into shares of the Company's common stock on a twenty-to-one ratio. These 250,000,000 shares of non-voting Series A Preferred Stock were valued at the fair market value of \$ 3,100,000 at issuance.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 9 – Stockholders' Equity (continued)

The holders of shares of Series A Preferred Stock have no rights to dividends with respect to such shares. No dividends or other distributions shall be declared or paid on the common stock unless and until dividends at the same rate shall have been paid or declared and set apart upon the Series A Preferred Stock, based upon the number of shares of common stock into which the Series A Preferred Stock may then be converted. Upon the dissolution, liquidation, or winding up of the Company, whether voluntary or involuntary, the holders of the Series A Preferred Stock are entitled to receive out of the assets of the Company the sum of \$0.0001 per share before any payment or distribution shall be made on our shares of common stock. The Series A Preferred Stock shall not be subject to redemption at the option, election or request of the Company or any holder or holders of the Series A Preferred Stock. The shares of Series A Preferred Stock are convertible at the option of the holder thereof, at any time after the second anniversary of the date of the first issuance of the shares of Series A Preferred Stock into one fully paid and nonassessable shares of common stock for each 20 shares of Series A Preferred Stock; provided, however, that the holder may not convert that number of shares of Series A Preferred Stock which would cause the holder to become the beneficial owner of more than 5% of the Company's common stock as determined in accordance with Sections 13(d) and (g) of the Exchange Act and the applicable rules and regulations thereunder.

The conversion provisions of the Company's Series A Preferred Stock were proportionately adjusted in connection with the Reverse Stock Split but did not adjust the number of shares issued and outstanding.

On March 5, 2024, the Company entered into repurchase agreements with certain stockholders of the Company to purchase in the aggregate 207,748,250 shares of Series A Preferred Stock of the Company (equivalent, in aggregate, to 10,387,413 shares of the Company's common stock on an as converted basis) for the aggregate cash consideration of \$ 1,246,490 . Such repurchase was approved by the Company's Board of Directors. Following the repurchase, 42,251,750 shares of Series A Preferred Stock remained outstanding. The Company recorded a credit of \$1,329,588 to the retained earnings, in the accompanying unaudited consolidated financial statements in fiscal 2024, for the difference between the carrying value of the preferred stock repurchased and the cash paid to the stockholders.

During the three months ended August 31, 2024, certain stockholders of 11,118,250 preferred shares converted their preferred stock into 555,913 shares of common stock.

As of August 31, 2024 and May 31, 2024, 31,133,500 and 42,251,750 shares of Series A Preferred Stock, respectively, were issued and outstanding.

Common Stock

As of August 31 2024, 6,464,852 shares of common stock were issued and outstanding.

The Reverse Stock Split as more fully discussed in Note 2, did not change the par value of the common stock, modify any voting rights or other terms of the common stock, or change the number of authorized shares of the Company. Any fractional shares remaining after the Reverse Stock Split were rounded up to the nearest whole share.

During the three months ended August 31, 2024, certain stockholders of 11,118,250 preferred shares converted their preferred stock into 555,913 shares of common stock.

No shares of common stock were issued during the three months ended August 31, 2023.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 9 – Stockholders' Equity (continued)

Stock Options

Effective February 14, 2024, the Board amended the Company's original 2022 Equity Incentive Plan (as amended the "Plan"), which was originally approved on March 21, 2022. The effective date of the amended Plan is October 31, 2023. Under the Plan, equity-based awards may be made to employees, officers, directors, non-employee directors and consultants of the Company and its Affiliates (as defined in the Plan) in the form of (i) Incentive Stock Options (to eligible employees only); (ii) Nonqualified Stock Options; (iii) Restricted Stock; (iv) Stock Awards; (v) Performance Shares; or (vi) any combination of the foregoing. The Plan will terminate upon the close of business on the day next preceding March 21, 2032, unless terminated earlier in accordance with the terms of the Plan. The Board serves as the Plan administrator and may amend or terminate the Plan without stockholder approval, subject to certain exceptions.

The total number of shares initially authorized for issuance under the Plan was 500,000 shares. The Plan was amended to increase the number of shares authorized for issuance under the Plan to 1,250,000 shares of common stock. The Plan provides for an annual increase on April 1 of each calendar year, beginning in 2022 and ending in 2031, subject to Board approval prior to such date. Such potential increase may be equal to the lesser of (i) 4% of the total number of shares of the Company's common stock outstanding on May 31 of the immediately preceding fiscal year and (ii) such smaller number of shares as determined by the Board. The number of shares authorized for issuance under the Plan will not change unless the Board affirmatively approves an increase in the number of shares authorized for issuance prior to April 1 of the applicable year. Shares surrendered or withheld to pay the exercise price of a stock option or to satisfy tax withholding requirements will not be added back to the number of shares available under the Plan. To the extent that any shares of common stock awarded or subject to issuance or purchase pursuant to awards under the Plan are not delivered or purchased, or are reacquired by the Company, for any reason, including a forfeiture of restricted stock or failure to earn performance shares, or the termination, expiration or cancellation of a stock option, or any other termination of an award without payment being made in the form of shares of common stock will be added to the number of shares available for awards under the Plan. The number of shares available for issuance under the Plan will be adjusted for any increase or decrease in the number of outstanding shares of common stock resulting from payment of a stock dividend on common stock, a stock split or subdivision or combination of shares of common stock, or a reorganization or reclassification of common stock, or any other change in the structure of shares of common stock, as determined by the Board. Shares available for awards under the Plan will consist of authorized and unissued shares.

Two types of options may be granted under the Plan: (1) Incentive Stock Options, which may only be issued to eligible employees of the Company and

are required to have exercise price of the option not less than the fair market value of the common stock on the grant date, or, in the case of an Incentive Stock Option granted to a Ten Percent Stockholder, 110% of the fair market value of the common stock on the grant date; and (2) Non-qualified Stock Options, which may be issued to participants under the Plan and which may have an exercise price less than the fair market value of the common stock on the grant date, but not less than par value of the stock.

The Board may grant or sell restricted stock to participants (i.e., shares that are subject to a subject to restrictions or limitations as to the participant's ability to sell, transfer, pledge or assign such shares) under the Plan. Except for these restrictions and any others imposed by the Board, upon the grant of restricted stock, the recipient generally will have rights of a stockholder with respect to the restricted stock. During the applicable restriction period, the recipient may not sell, exchange, transfer, pledge or otherwise dispose of the restricted stock. The Board may also grant awards of common stock to participants under the Plan, as well as awards of performance shares, which are awards for which the payout is subject to achievement of such performance objectives established by the Board. Performance shares may be settled in cash.

Each equity-based award granted under the Plan will be evidenced by an award agreement that specifies the terms of the award and such additional limitations, terms and conditions as the Board may determine, consistent with the provisions of the Plan.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 9 – Stockholders' Equity (continued)

Subject to the Plan's terms, the Board has full power and authority to determine whether, to what extent and under what circumstances any outstanding award will be terminated, canceled, forfeited or suspended. Awards to that are subject to any restriction or have not been earned or exercised in full by the recipient will be terminated and canceled if such recipient is terminated for cause, as determined by the Board in its sole discretion.

The Company estimates the fair value of share-based compensation utilizing the Black-Scholes option pricing model, which is dependent upon several variables such as the expected option term, expected volatility of the Company's stock price over the expected term, expected risk-free interest rate over the expected option term and expected dividend yield rate over the expected option term. The Company believes this valuation methodology is appropriate for estimating the fair value of stock options granted to employees and directors which are subject to ASC 718 requirements. These amounts are estimates and thus may not be reflective of actual future results, nor amounts ultimately realized by recipients of these grants. The Company recognizes compensation on a straight-line basis over the requisite service period for each award.

The Company utilizes the simplified method to estimate the expected life for stock options granted to employees. The simplified method was used as the Company does not have sufficient historical data regarding stock option exercises. The expected volatility is based on historical volatility. The risk-free interest rate is based on the U.S. Treasury yields with terms equivalent to the expected life of the related option at the time of the grant. Dividend yield is based on historical trends. While the Company believes these estimates are reasonable, the compensation expense recorded would increase if the expected life was increased, a higher expected volatility was used, or if the expected dividend yield increased.

Pursuant to the Plan, on May 10, 2022, the Company issued to two Company officers non-statutory stock options to purchase, in the aggregate, up to 265,000 shares of its common stock, at an exercise price of \$ 1.80 per share valued at \$ 477,000 and expiring on April 20, 2032. The options vest over time with 25% of the options vesting on September 1, 2022 and thereafter vesting 1/24th on the 1st of every month. As of August 31, 2024, all of the options were vested.

The Company computed the aggregate grant date fair value of \$477,000 using the Black-Scholes option pricing model, which is being recorded as stock-based compensation expense over the vesting period. During the three months ended August 31, 2024 and 2023, the Company recorded stock-based compensation expense of \$ 51,107 and \$ 51,107 , respectively, for these options, in the accompanying unaudited consolidated financial statements.

Pursuant to the Plan, on November 1, 2022, the Company issued non-statutory stock options, to a former executive officer of the Company, to purchase, in the aggregate, up to 15,000 shares of its common stock, at an exercise price of \$ 4.00 per share valued at approximately \$ 60,000 and expiring on October 31, 2032. 3,750 shares vested as of January 29, 2023, and the remaining 11,250 were forfeited in April 2023 when the executive officer left the Company. The fair value of the 3,750 vested options using the Black-Scholes option pricing model was \$ 15,000 .

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 9 – Stockholders' Equity (continued)

Pursuant to the Plan, during the three months ended August 31, 2024, the Company issued non-statutory stock options, to two consultants, to purchase, in the aggregate, up to 24,000 shares of its common stock, at an exercise price equal to the Company's closing price on the NYSE American on the date of grant. The options are valued at approximately \$195,960 and expiring in ten years from the date of grant. During the three months ended August 31, 2024, the Company recorded stock-based compensation expense of \$ 21,525 , for these options, in the accompanying unaudited consolidated financial statements.

The Black-Scholes options pricing model used the following assumptions:

	August 31, 2024
Risk free interest rate	3.84 %- 4.24 %
Expected life	10 years
Expected volatility	488 %
Expected dividend	-

Restricted Stock Awards

The Company's non-employee directors participate in the Company's non-employee director compensation arrangements. Under the terms of those

arrangements and pursuant to the Plan, on February 14, 2024, the Company granted each of its three non-employee directors Board members 5,000 restricted stock awards for an aggregate of 15,000 shares of the Company's common stock that will vest on the one-year anniversary of the grant, subject to the respective director's continued service as a member of the Board, with a total grant date fair value of \$ 195,000 .

Effective May 28, 2024, a former officer entered into a Separation Agreement and Release (the "Release"), which includes a standard release of claims and confidentiality and non-disparagement provisions. As consideration for signing the Release, the Company entered into a Consulting Agreement, dated May 28, 2024, with the former officer (the "Consulting Agreement"), pursuant to which the former officer agreed to provide transition services to the Company through October 31, 2024, unless the Consulting Agreement is terminated earlier. Pursuant to the Consulting Agreement, as compensation for services as a consultant, the former officer was granted 30,000 shares of restricted common stock valued at \$298,800, which vested upon grant.

The fair value of the stock grants is being recorded over the term of the service related to each grant. During the three months ended August 31, 2024 and 2023, the Company recorded a stock-based compensation expense related to the restricted stock awards of \$ 225,232 and \$ 0 , respectively.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 10 – Commitments and Contingencies

Leases

As discussed in Note 2 above, the Company adopted ASU 2016-02, "Leases " on June 1, 2019, which require lessees to report on their balance sheets a right-of-use asset and a lease liability in connection with most lease agreements classified as operating leases. In November 2022, the Company entered into an extension of its California office lease for a two-year term beginning December 1, 2022. The rent was \$ 6,098 per month for the first year and then increased to \$ 6,342 per month.

The Company treats a contract as a lease when the contract conveys the right to use a physically distinct asset for a period of time in exchange for consideration, or if the Company directs the use of the asset and obtains substantially all the economic benefits of the asset. These leases are recorded as right-of-use ("ROU") assets and lease obligation liabilities for leases with terms greater than 12 months. ROU assets represent the Company's right to use an underlying asset for the entirety of the lease term. Lease liabilities represent the Company's obligation to make payments over the life of the lease. A ROU asset and a lease liability are recognized at commencement of the lease based on the present value of the lease payments over the life of the lease. Initial direct costs are included as part of the ROU asset upon commencement of the lease. Since the interest rate implicit in a lease is generally not readily determinable for the operating leases, the Company uses an incremental borrowing rate to determine the present value of the lease payments. The incremental borrowing rate represents the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar lease term to obtain an asset of similar value.

The Company reviews the impairment of ROU assets consistent with the approach applied for the Company's other long-lived assets. The Company reviews the recoverability of long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset from the expected undiscounted future pre-tax cash flows of the related operations.

Lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are expensed as incurred. Variable payments change due to facts or circumstances occurring after the commencement date, other than the passage of time, and do not result in a remeasurement of lease liabilities. The Company's lease agreements do not contain any residual value guarantees or restrictive covenants.

The Company computed an initial lease liability of \$ 131,970 for the California office lease agreement and an initial ROU asset in the same amount which was recorded on the books at the commencement of the lease on December 1, 2022. During the three months ended August 31, 2024 and 2023, the Company recorded a lease expense in the amount of \$ 18,659 and \$ 18,659 , respectively. As of August 31, 2024, the lease liability balance was \$ 18,650 and the right of use asset balance was \$ 18,284 . A lease term of three years and a discount rate of 12 % was used.

The Company signed a lease agreement in September 2024 for a warehouse and office lease in Utah commencing from October 1, 2024.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2024

Note 10 – Commitments and Contingencies (continued)

Supplemental balance sheet information related to leases was as follows:

Assets	August 31, 2024	May 31, 2024
Right of use assets	\$ 131,970	\$ 131,970
Accumulated reduction	(113,686)	(95,218)
Operating lease assets, net	<u>\$ 18,284</u>	<u>\$ 36,752</u>
Liabilities		
Lease liability	\$ 131,970	\$ 131,970
Accumulated reduction	(113,320)	(95,218)
Total lease liability, net	18,650	36,752
Current portion	(18,650)	(36,752)
Non-current portion	<u>\$ -</u>	<u>\$ -</u>

Maturities of operating lease liabilities were as follows as of August 31, 2024:

Operating Lease (fiscal year-end)		
2025	\$	18,650
Total	\$	18,650
Less: Imputed interest		(374)
Present value of lease liabilities	\$	18,276

Contingencies

From time to time, we become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our financial statements. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, the availability of insurance, and the severity of any potential loss. We reevaluate and update accruals as matters progress over time. These legal accruals may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, we do not record an accrual, consistent with applicable accounting guidance. In the opinion of management, while the outcome of such claims and disputes cannot be predicted with certainty, our ultimate liability in connection with these matters is not expected to have a material adverse effect on our results of operations, financial position or cash flows, and the amounts accrued for any individual matter are not material. However, legal proceedings are inherently uncertain, and there can be no assurance that any expense, liability, or damages that may ultimately result from the resolution of these matters will be covered by our insurance or will not be in excess of amounts recognized or provided by insurance coverage. As a result, the outcome of a particular matter or a combination of matters may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

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AXIL BRANDS, INC. AND SUBSIDIARY CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2024

Note 11 – Related Party Transactions

The Company's Chairman and Chief Executive Officer ("CEO"), Jeff Toghraie, is the managing director of Intrepid Global Advisors ("Intrepid"). Intrepid has, from time to time, provided advances to the Company for working capital purposes and is paid consulting fees throughout the year. Intrepid was paid approximately \$ 25,000 in consulting fees for the three months ended August 31, 2024. At August 31, 2024, the Company had net amounts payable to Intrepid of \$ 53,505 . These receivables and advances were short-term in nature and non-interest bearing. The Company's Board Member, Chief Financial Officer ("CFO"), and Chief Operating Officer ("COO") has a controlling interest in BZ Capital Strategies. BZ Capital Strategies was paid \$ 25,000 in consulting fees for the three months ended August 31, 2024.

Note 12 – Concentrations

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of trade accounts receivable and cash deposits, investments and cash equivalents instruments. The Company maintains its cash in bank deposits accounts. The Company's account at this institution is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$ 250,000 . At August 31, 2024 and May 31, 2024, the Company held cash of approximately \$ 3,359,634 and \$ 3,003,876 , respectively, in excess of federally insured limits. The Company has not experienced any losses in such accounts through August 31, 2024.

Concentration of Revenue, Accounts Receivable, Product Line, and Supplier

The Company predominantly sells the products direct-to-consumer. Therefore, 71 % and 82 % of sales was direct to customers during the three months ended August 31, 2024 and 2023, respectively. There was no single customer that accounted for greater than 10% of total sales in those periods.

During the three months ended August 31, 2024, sales to customers outside the United States represented approximately 7.94 % of total sales. During the three months ended August 31, 2023, sales of AXIL product to customers outside the United States represented 5.3 % of total sales.

Manufacturing is outsourced primarily overseas via a number of third-party vendors, the two largest vendors accounted for 64 % and 19 % of all purchases for the three months ended August 31, 2024. For the three months ended August 31, 2023, the four largest vendors accounted for 43.6 %, 14.2 %, 14 % and 13.7 % of all purchases.

During the three months ended August 31, 2024, gross sales of which each represented over 10% of gross sales consisted approximately 25 % from Ghost Stryke and 49 % of gross sales of other Bluetooth and ear buds. During the three months ended August 31, 2023, gross sales which represented over 10% of gross sales was 53 % from Ghost Stryke model GS-X, 11 % from Trackr earmuffs and 30 % from Bluetooth earmuffs.

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AXIL BRANDS, INC. AND SUBSIDIARY CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2024

Note 12 – Concentrations (continued)

During the three months ended August 31, 2024 and 2023 gross sales products comprised of the following:

	For The Three Months Ended August 31,	
	2024	2023
In- ear protection devices	74%	83%
Outside- ear protection devices	10%	11%
Accessories and others	7%	1%

Hair and Skin Care products	9%	5%
Total	100%	100%

Note 13 – Business Segment and Geographic Area Information

Business Segments

The Company, directly or through its subsidiaries, markets and sells its products and services directly to consumers and through its dealers. In June 2022, the Company acquired a hearing enhancement and hearing protection business. The Company's determination of its reportable segments is based on how its chief operating decision makers manage the business.

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AXIL BRANDS, INC. AND SUBSIDIARY CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2024

Note 13 – Business Segment and Geographic Area Information (continued)

The Company's segment information is as follows:

	Three months ended August 31,	
	2024	2023
Net Sales		
Hair care and skin care	\$ 551,509	\$ 314,853
Hearing enhancement and protection	5,299,763	5,791,416
Total net sales	<u>\$ 5,851,272</u>	<u>\$ 6,106,269</u>
Operating earnings (loss)		
Segment gross profit:		
Hair care and skin care	\$ 256,489	\$ 221,524
Hearing enhancement and protection	3,897,159	4,426,042
Total segment gross profit	4,153,648	4,647,566
Selling and Marketing	2,669,471	3,206,841
General and Administrative	1,624,879	1,266,968
Consolidated operating income (loss)	<u>\$ (140,702)</u>	<u>\$ 173,757</u>
Total Assets:		
Hair care and skin care	\$ 3,155,500	\$ 4,259,041
Hearing enhancement and protection	8,201,239	6,627,525
Consolidated total assets	<u>\$ 11,356,739</u>	<u>\$ 10,886,566</u>
Payments for property and equipment		
Hair care and skin care	\$ -	\$ -
Hearing enhancement and protection	41,840	50,960
Consolidated total payments for property and equipment	<u>\$ 41,840</u>	<u>\$ 50,960</u>
Depreciation and amortization		
Hair care and skin care	\$ 839	\$ 1,418
Hearing enhancement and protection	12,056	26,819
Consolidated total depreciation and amortization	<u>\$ 12,895</u>	<u>\$ 28,237</u>

Geographic Area Information

During the three months ended August 31, 2024, approximately 92 % of our consolidated net sales were to customers located in the U.S. (based on the customer's shipping address). During the three months ended August 31, 2023, approximately 95 % of our consolidated net sales were to customers located in the U.S. (based on the customer's shipping address). All Company assets are located in the U.S.

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AXIL BRANDS, INC. AND SUBSIDIARY CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2024

Note 14 – Income Taxes

We calculated our interim tax provision in accordance with ASC 270, "Interim Reporting," and ASC 740, "Accounting for Income Taxes." As the end of each interim quarterly period, we estimate our annual effective tax rate and apply that rate to our ordinary quarterly earnings to calculate the tax related to ordinary income. The tax effects of other items that are excluded from ordinary income are discretely calculated and recognized in the period in which they occur.

We recorded an no income tax expense for the three months ended August 31, 2024 and an income tax expense of \$ 65,989 for the three months ended August 31, 2023.

The Company does not have any uncertain tax positions or events leading to uncertainty in a tax position. The Company's 2020, 2021, 2022 and 2023 Corporate Income Tax Returns are subject to IRS examination.

Note 15 – Subsequent Events

On September 10, 2024, the Company entered into a lease in Draper, Utah for a thirty-six months term beginning October 1, 2024. The base rent is \$ 0 for the first three months and \$ 7,684 per month for the next nine months. The rent shall increase for each twelve-month period, thereafter. An additional amount of \$1,210 shall be due each month for the additional overheads.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with, and is qualified in its entirety by, the unaudited consolidated financial statements and related notes thereto included in Item 1 in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended May 31, 2024 filed with the SEC on August 15, 2024. Our Management's Discussion and Analysis of Financial Condition and Results of Operations contains not only statements that are historical facts, but also statements that are forward-looking.

Although the forward-looking statements in this Quarterly Report on Form 10-Q reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by them. Consequently, and because forward-looking statements are inherently subject to risks and uncertainties, the actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. You are urged to carefully review and consider the various disclosures made by us in herein and in our other reports as we attempt to advise interested parties of the risks and factors that may affect our business, financial condition, and results of operations and prospects. Please see "Cautionary Note Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q for additional information.

Overview

The Company is engaged in the manufacturing, marketing, sale and distribution of high-tech, innovative hearing and audio enhancement and protection products that provide cutting-edge solutions for people with varied applications across many industries and professional quality hair and skin care products under various trademarks and brands.

The Company has two reportable segments: hair care and skin care, and hearing enhancement and protection.

Through our hearing enhancement and protection segment, we design, innovate, engineer, manufacture, market and service specialized systems in hearing enhancement, hearing protection, wireless audio, and communication. Through our hair care and skin care segment, we manufacture, market, sell, and distribute professional quality hair and skin care products.

The Company's overall business strategy is to establish market awareness of our products through our direct-to-consumer campaigns. The Company's strategy centers on driving growth by expanding market share within existing channels and developing new ones through both online and traditional platforms. The Company's primary focus is optimizing its e-commerce strategies, building sales teams to meet the needs of distribution channels, and enhancing value through strategic partnerships. We believe the increase in awareness will allow the Company to increase distribution and gain customers through our distribution partners' retail establishments, with the goal of helping us achieve growth in market share and diversify our sales channels.

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Results of Operations

Our results of operations are summarized below.

	Three Months Ended	
	August 31, 2024	August 31, 2023
Sales, net	\$ 5,851,272	\$ 6,106,269
Cost of sales	1,697,624	1,458,703
Gross profit	4,153,648	4,647,566
Total operating expenses	4,294,350	4,473,809
Income (Loss) from operations	(140,702)	173,757
Net income (loss)	\$ (109,805)	\$ 154,452

For the Three Months Ended August 31, 2024 Compared to the Three Months Ended August 31, 2023

Net sales for the three months ended August 31, 2024 and 2023 were \$5,851,272 and \$6,106,269 respectively. Net sales for the three months ended August 31, 2024 decreased by \$254,997 or 4%, as compared to the three months ended August 31, 2023, due to the decrease in marketing campaign spend and strength in our distribution channels for AXIL products.

For the three months ended August 31, 2024, the overall cost of sales increased by \$238,921 or 16%, as compared to the three months ended August 31, 2023, which was primarily due to the relative increase in sales of the Company's hair and skin care products. Cost of sales as a percentage of net revenues for the three months ended August 31, 2024 was 29.0% as compared to 23.9% for the comparable period in 2023. The marginal increase in cost of sales, as a percentage of sales, was primarily attributable to an increase in transportation costs. The Company will continue to work to increase efficiencies in procurement and logistics.

Gross profit for the three months ended August 31, 2024 and 2023 was \$4,153,648 and \$4,647,566, respectively. Gross profit as a percentage of sales for the three months ended August 31, 2024, was 71% as compared to 76.1% for the comparable period in 2023. The decrease in the gross profit margin for the three months ended August 31, 2024 was primarily attributable to an increase in sales of lower margin products in our segments, partially offset by a decrease in discounts in our sales of AXIL products.

Operating expenses consisted of marketing and selling expenses, compensation and related taxes, professional and consulting fees, and general and administrative costs. Operating expenses decreased by \$179,459 or 4% from \$4,473,809 in the three months ended August 31, 2023 to \$4,294,350 in the three months ended August 31, 2024. Operating expenses as a percentage of net revenues for the three months ended August 31, 2024, were 73.4% compared to 73.3% for the three months ended August 31, 2023. The decrease in operating expenses related primarily to a net decrease in

advertising and marketing expenses of \$537,370 relating to prior expansion of current marketing campaigns and costs attributable to new product awareness, and partially offset by a net increase of \$521,074 for professional and consulting expenses which included costs to enhance existing business processes. General and administrative costs decreased by \$73,822 primarily due to a decrease in costs associated with our listing on NYSE American in February 2024. This decrease was augmented by the optimization of our workforce resulting in an overall reduction of \$89,341 for compensation and related taxes for the three months ended August 31, 2024 as compared to three months ended August 31, 2023.

Loss from operations for the three months ended August 31, 2024 was \$140,702 compared to income of \$173,757 for the three months ended August 31, 2023. The decrease in income from operations of \$314,459 or (181%) was primarily related to the increase in professional and consulting fee related to our non-cash stock based compensation and expanded marketing campaign as well as the decrease in sales.

For the three months ended August 31, 2024 no provision for income taxes was recorded since the Company incurred a net loss. For the three months ended August 31, 2023, provision for income tax expense was \$65,989.

As a result of the above, we reported a net loss of \$109,805 and a net income of \$154,452 for the three months ended August 31, 2024 and three months ended August 31, 2023, respectively.

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Liquidity and Capital Resources

We are currently engaged in product sales and development. Although we incurred a net loss in the three months ended August 31, 2024, we recognized operating income in the past fiscal year. We currently expect to earn net income during the current fiscal year ending May 31, 2025. We believe our current cash balances, coupled with anticipated cash flow from operating activities, will be sufficient to meet our working capital requirements for at least one year from the date of issuance of the accompanying unaudited consolidated financial statements. We intend to continue to control our cash expenses as a percentage of expected revenue on an annual basis and thus may use our cash balances in the short-term to invest in revenue growth. As a result of the acquisition of AXIL & Associated Brands' assets in June 2022, we have generated and expect we will continue to generate sufficient cash for our operational needs, including any required debt payments, for at least one year from the date of issuance of the accompanying unaudited consolidated financial statements. Management is focused on growing the Company's existing product lines and introducing new products, as well as expanding its customer base, to increase its revenues. The Company cannot give assurance that it can increase its cash balances or limit its cash consumption and thus maintain sufficient cash balances for its planned operations or future acquisitions. Future business demands may lead to cash utilization at levels greater than recently experienced. The Company cannot provide any assurance that it will be able to raise additional capital or obtain necessary financing on acceptable terms, or at all. Subject to the foregoing, management believes that the Company has sufficient capital and liquidity to fund its operations for at least one year from the date of issuance of the accompanying unaudited consolidated financial statements.

Cash Flows

Operating Activities

Net cash provided by operating activities for the three months ended August 31, 2024 was \$897,318, attributable to a net loss of \$109,805 offset by adjustments for depreciation and amortization, bad debts and stock-based compensation that totaled \$329,544. There were favorable changes in accounts payable and accrued expenses of \$405,511 and prepaid expenses and other current assets of \$486,958 and a change in inventory of \$120,603. The increase was partially offset by an increase in accounts receivables of \$108,100 and a decrease in contract liabilities and other current liabilities of \$227,393.

Net cash provided by operating activities for the three months ended August 31, 2023 was \$397,172, attributable to a net income of \$154,452, items of adjustments to depreciation and amortization, bad debts and stock-based compensation that totaled \$132,210. There were favorable changes in accounts payable and accrued expenses of \$168,399, contract and current liabilities of \$476,200, and prepaid expense and other current assets of \$315,751. The favorable changes were partially offset by a net decrease in operating assets and liabilities of \$849,840 primarily due to increases in accounts receivable and inventory.

Investing Activities

Net cash flows used in investing activities for the three months ended August 31, 2024 was \$41,840 due to the purchase of intangibles for the Company's business. For the three months ended August 31, 2023, net cash flows used were \$50,960, attributable to the cash used in the purchase of property and equipment.

Financing Activities

Net cash flows provided by financing activities for the three months ended August 31, 2024 was \$39,370, and were from advances made from a related party of \$41,707 partially offset by a repayment of the note payable of \$2,337. Net cash flows used in financing activities for the three months ended August 31, 2023 were \$117,171, and were for repayment of equipment financing and note payable of \$18,079, and a decrease in the amount due from a related party of \$99,092.

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During the three months ended August 31, 2024, the Company has various financed items and has debt outstanding in order to run the Company's business operations.

As of August 31, 2024, we had a secured Economic Injury Disaster Loan outstanding, administered pursuant to the CARES Act in the principal amount of \$144,257, with a maturity date of May 18, 2050. The Company continues to pay interest and principal on the loan.

We are dependent on our product sales to fund our operations and may require additional capital in the future, such as pursuant to the sale of additional common stock or of debt securities or entering into credit agreements or other borrowing arrangements with institutions or private individuals, to maintain operations, which may not be available on favorable terms, or at all, and could require us to sell certain assets or discontinue or curtail our operations. If the current equity and credit markets deteriorate, it may make any necessary debt or equity financing more difficult, more costly and more dilutive. Our officers and directors have made no written commitments with respect to providing a source of liquidity in the form of cash advances, loans, and/or financial guarantees. We do not have any plans to seek additional financing at this time and anticipate that our existing cash equivalents and cash provided by operations will be sufficient to meet our working capital requirements. However, if the need arises for additional cash, there can be no assurance that we will be able to raise the capital we need for our operations on favorable terms, or at all. We may not be able to obtain additional capital or generate sufficient revenues to fund our operations. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and stock price and could require us to delay or abandon our business plans. If

we are unsuccessful at raising sufficient funds, for whatever reason, to fund our operations, we may be forced to cease operations. If we fail to raise funds, we expect that we will be required to seek protection from creditors under applicable bankruptcy laws.

Off-Balance Sheet Arrangements

As of August 31, 2024, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results or operations, liquidity, capital expenditures or capital resources that is material to investors.

Critical Accounting Policies

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of expenses during the reporting period. On an ongoing basis, we evaluate estimates and assumptions based upon historical experience and various other factors and circumstances. We believe our estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions.

We believe that the estimates and assumptions that are most important to the portrayal of our financial condition and results of operations, in that they require the most difficult, subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to us. These critical accounting policies relate to revenue recognition, impairment of intangible assets and long-lived assets, inventory, stock compensation, and evaluation of contingencies. We believe estimates and assumptions related to these critical accounting policies are appropriate under the circumstances; however, should future events or occurrences result in unanticipated consequences, there could be a material impact on our future financial condition or results of operations.

See the footnotes to our unaudited consolidated financial statements for the three months ended August 31, 2024, included with this Quarterly Report on Form 10-Q for additional discussion of our critical accounting policies and use of estimates.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information required by this Item 3.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed in our Exchange Act reports is 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 our management, including our Chief Executive Officer ("CEO") and Principal Executive Officer, and Chief Financial Officer ("CFO") and Principal Financial and Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure. We conducted an evaluation, under the supervision and with the participation of our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures as of August 31, 2024. Based on this evaluation of disclosure controls and procedures as of August 31, 2024, our CEO and CFO concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

The Company has hired additional accounting personnel and has sufficient controls over segregation of duties. Other than the forgoing, there has been no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) or 15d-15(d) under the Exchange Act that occurred during the fiscal quarter ended August 31, 2024 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we become involved in various lawsuits and legal proceedings which arise in the ordinary course of business.

Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our financial statements. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, the availability of insurance, and the severity of any potential loss. We reevaluate and update accruals as matters progress over time. These legal accruals may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, we do not record an accrual, consistent with applicable accounting guidance. In the opinion of management, while the outcome of such claims and disputes cannot be predicted with certainty, our ultimate liability in connection with these matters is not expected to have a material adverse effect on our results of operations, financial position or cash flows, and the amounts accrued for any individual matter are not material. However, legal proceedings are inherently uncertain, and there can be no assurance that any expense, liability, or damages that may ultimately result from the resolution of these matters will be covered by our insurance or will not be in excess of amounts recognized or provided by insurance coverage. As a result, the outcome of a particular matter or a combination of matters may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

ITEM 1A. RISK FACTORS

As a smaller reporting company, we are not required to provide the information required by this Item 1A.

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

During the three months ended August 31, 2024, the Company issued (i) 555,913 shares of common stock upon the conversion of 11,118,250 shares of Series A Preferred Stock and (ii) non-statutory stock options to purchase, in the aggregate, up to 24,000 shares of the Company's common stock, at an

exercise price equal to the Company's closing price on the NYSE American on the date of grant. The issuance of the securities were deemed to be exempt from registration pursuant to Section 4(a)(2) of the Securities Act, including Regulation D and Rule 506 promulgated thereunder, as transactions by the Company not involving a public offering.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(a) On October 8, 2024, the Compensation Committee of the Board of Directors approved the grant of 350,000 options to purchase the Company's common stock to Jeff Toghraie, the Company's Chief Executive Officer and Chairman, and 250,000 options to purchase the Company's common stock to Jeff Brown, the Company's Chief Financial Officer and Chief Operating Officer and director. The options will be granted as of the third trading day following the filing of this Form 10-Q and will have an exercise price equal to the closing price of the Company's common stock as reported on the NYSE American on the grant date, a term of 10 years from the grant date, and will vest and become exercisable in forty-eight (48) equal monthly installments beginning on the grant date, subject to the recipient's continued service with the Company.

(b) None .

(c) During the quarter ended August 31, 2024, no director or officer of the Company adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

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ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Filed herewith	Furnished herewith
3.1	Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-1 filed with the SEC on October 6, 2017).		
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K filed with the SEC on August 25, 2022).		
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective as of January 16, 2024 (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on January 16, 2024).		
3.4	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective as of February 14, 2024 (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on February 12, 2024).		
3.5	Bylaws (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 filed with the SEC on October 6, 2017).		
3.6	Amendment to the Bylaws, effective as of February 14, 2024 (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on February 12, 2024).		
10.1*	Form of Stock Option Agreement (2024) (2022 Equity Incentive Plan).	X	
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X	
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X	
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		X
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		X
101	The following unaudited condensed consolidated financial statements from the Quarterly Report on Form 10-Q for the quarter ended August 31, 2024 are formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Balance Sheets, (ii) Statements of Operations, (iii) Statements of Changes in Stockholders' Equity, (iv) Statements of Cash Flows, and (v) the Notes to Financial Statements.	X	
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).	X	

* Management compensatory plan or arrangement.

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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.

AXIL BRANDS, INC.

Date: October 10, 2024

By: /s/ Jeff Toghraie
Jeff Toghraie
Chief Executive Officer and Chairman of the Board of Directors
(Principal Executive Officer)

By: /s/ Jeff Brown
Jeff Brown
Chief Financial Officer, Chief Operating Officer and Director
(Principal Financial Officer and Principal Accounting Officer)

AXIL BRANDS, INC.

2022 EQUITY INCENTIVE PLAN

STOCK OPTION AGREEMENT

Unless otherwise defined herein, capitalized terms in this Stock Option Agreement (the "Option Agreement") have the same meanings as defined in the AXIL BRANDS, INC. 2022 Equity Incentive Plan (as amended from time to time)(the "Plan").

I. NOTICE OF STOCK OPTION GRANT

Participant's Name: «Option Holder» (the "Participant")

Address: _____

You have been granted an Option (the "Option") to purchase Common Stock of AXIL Brands, Inc., a Delaware corporation (the "Company"), subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Grant Date: «Grant Date»

Vesting Commencement Date: «Vesting Start Date»

Exercise Price per Share: \$ «Exercise Price»

Total Number of Shares Granted: «Options»

Type of Option: «Incentive Stock Option/Nonqualified Stock Option»

Expiration Date: «Expiration Date»

Vesting Schedule: [_____] of such Options shall vest and become exercisable on [_____], [subject to the Participant's Continuous Service Status through each such vesting date and further subject to the terms hereof and the Plan.]

To the extent vested, this Option will be exercisable for three (3) months following the Termination of Service of the Participant, unless termination is due to the Participant's death or Disability, in which case this Option will be exercisable for twelve (12) months following the Termination of Service of the Participant. In the event of termination due to the Participant's death, the Company shall use commercially reasonable efforts to notify the Participant's estate of the exercisability of the Option following the Participant's death. Notwithstanding the foregoing sentence, in no event may this Option be exercised following the Termination of Service of the Participant as determined by the Company's Board to be for Cause or after the Expiration Date as provided above and this Option may be subject to earlier termination as provided in the Plan.

"Cause" has the meaning ascribed to such term or words of similar import in the Participant's written employment or service contract with the Company or its parent or any subsidiary and, in the absence of such agreement or definition, means the Participant's (i) conviction of, or plea of nolo contendere to, a

felony or any other crime involving moral turpitude; (ii) fraud on or misappropriation of any funds or property of the Company or its subsidiaries, or any affiliate, customer or vendor; (iii) personal dishonesty, incompetence, willful misconduct, willful violation of any law, rule or regulation (other than minor traffic violations or similar offenses), or breach of fiduciary duty which involves personal profit; (iv) willful misconduct in connection with the Participant's duties or willful failure to perform the Participant's responsibilities in the best interests of the Company or its subsidiaries; (v) illegal use or distribution of drugs; (vi) violation of any material rule, regulation, procedure or policy of the Company or its subsidiaries, the violation of which could have a material detriment to the Company; or (vii) material breach of any provision of any employment, non-disclosure, non-competition, non-solicitation or other similar agreement executed by the Participant for the benefit of the Company or its subsidiaries, all as reasonably determined by the Company's Board of Directors, which determination will be conclusive.

Legends.

(a) All certificates representing the Shares issued upon exercise of this Option shall, prior to such date as the Plan and Common Stock hereunder are covered by a valid Form S-8 or similar U.S. federal registration statement, where applicable, have endorsed thereon the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION, AND MAY BE OFFERED AND SOLD ONLY IF REGISTERED AND QUALIFIED PURSUANT TO THE RELEVANT PROVISIONS OF U.S. FEDERAL, STATE AND FOREIGN SECURITIES LAWS OR IF THE COMPANY IS PROVIDED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION AND QUALIFICATION UNDER U.S. FEDERAL, STATE AND FOREIGN SECURITIES LAWS IS NOT REQUIRED.

(b) If the Option is an incentive stock option (ISO), then the following legend will be included:

THE SHARES REPRESENTED BY THIS CERTIFICATE WERE ISSUED UPON EXERCISE OF AN INCENTIVE STOCK OPTION, AND THE COMPANY MUST BE NOTIFIED IF THE SHARES SHALL BE TRANSFERRED BEFORE THE LATER OF THE TWO (2) YEAR ANNIVERSARY OF THE DATE OF GRANT OF THE OPTION OR THE ONE (1) YEAR ANNIVERSARY OF THE DATE ON WHICH THE OPTION WAS EXERCISED. THE REGISTERED HOLDER MAY RECOGNIZE ORDINARY INCOME IF THE SHARES ARE TRANSFERRED BEFORE SUCH DATE.

II. AGREEMENT

1. Grant of Option. The Administrator grants to the Participant named in the Notice of Stock Option Grant in Part I of this Option Agreement, an Option to purchase the number of Shares set forth in the Notice of Stock Option Grant, at the exercise price per Share set forth in the Notice of Stock Option Grant (the "**Exercise Price**"), and subject to the terms and conditions of the Plan, which is incorporated herein by reference. In the event of a conflict between the terms and conditions of the Plan and this Option Agreement, the terms and conditions of the Plan prevail.

If designated in the Notice of Stock Option Grant as an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option as defined in Code section 422. Nevertheless, to the extent that it exceeds the \$100,000 rule of Code section 422(d), this Option will be treated as a Non-Qualified Stock Option.

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2. Exercise of Option.

(a) Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Stock Option Grant and with the applicable provisions of the Plan and this Option Agreement.

(b) Method of Exercise. This Option is exercisable by (i) delivery of an exercise notice in the form attached as Exhibit A (the "**Exercise Notice**") or in a manner and pursuant to procedures as the Administrator may determine, which will state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and other representations and agreements as may be required by the Company and (ii) paying the Company in full the aggregate Exercise Price as to all Shares being acquired, together with any applicable tax withholding.

This Option will be deemed to be exercised upon receipt by the Company of a fully executed Exercise Notice accompanied by the aggregate Exercise Price, together with any applicable tax withholding.

No Shares will be issued pursuant to the exercise of an Option unless the issuance and exercise of Shares complies with Applicable Laws. Assuming compliance, for income tax purposes the Shares will be considered transferred to the Participant on the date on which the Option is exercised with respect to the Shares.

3. Method of Payment. The aggregate Exercise Price may be paid by any of the following, or a combination thereof, at the election of the Participant:

- (a) cash;
- (b) check;
- (c) to the extent permitted by the Administrator, in its discretion, and not prohibited by Section 402 of the Sarbanes-Oxley Act of 2002, a promissory note;
- (d) other shares of Common Stock, provided Shares have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option will be exercised;
- (e) by asking the Company to withhold Shares from the total Shares to be delivered upon exercise equal to the number of Shares having a value equal to the aggregate Exercise Price of the Shares being acquired;
- (f) any combination of the foregoing methods of payment; or
- (g) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

4. Restrictions on Exercise. This Option may not be exercised if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any Applicable Laws. The Company will be relieved of any liability with respect to any delayed issuance of shares or its failure to issue shares if such delay or failure is necessary to comply with Applicable Laws.

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5. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of the Participant only by the Participant. The terms of the Plan and this Option Agreement are binding upon the executors, administrators, heirs, successors and assigns of the Participant.

6. Term of Option. This Option may be exercised only within the term set out in the Notice of Stock Option Grant, and may be exercised during the term only in accordance with the Plan and the terms of this Option.

7. Tax Obligations.

(a) Withholding Taxes. The Participant agrees to arrange for the satisfaction of all Federal, state, local and foreign income and employment tax withholding requirements applicable to the Option exercise. The Participant acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver the Shares if withholding amounts are not delivered at the time of exercise.

(b) Notice of Disqualifying Disposition of ISO Shares If the Option granted to the Participant is an Incentive Stock Option ("ISO"), and if the Participant sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (i) the date two (2) years after the Grant Date, or (ii) the date one (1) year after the date of exercise, the Participant must immediately notify the Company of the disposition in writing. The Participant agrees that the Participant may be subject to income tax withholding by the Company on the compensation income recognized by the Participant.

(c) Code Section 409A. Under Code section 409A, an Option that was granted with a per Share exercise price that is determined by the Internal Revenue Service (the "IRS") to be less than the Fair Market Value of a Share on the Grant Date (a "discount option") may be considered deferred compensation. An Option that is a discount option may result in (i) income recognition by the Participant prior to the exercise of the Option, (ii) an additional twenty percent (20%) tax, and (iii) potential penalty and interest charges. The Participant acknowledges that the Company cannot and has not guaranteed that the IRS will agree that the per Share Exercise Price of this Option equals or exceeds Fair Market Value of a Share on the Grant Date in a later examination. The Participant agrees that if the IRS determines that the Option was granted with a per Share exercise price that was less than the Fair Market Value of a Share on the Grant Date, the Participant will be solely responsible for any and all resulting tax consequences.

8. No Guarantee of Continued Service. THE PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS AN EMPLOYEE OR DIRECTOR AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY

EMPLOYING OR RETAINING THE PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER. OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS OPTION AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS AN EMPLOYEE OR DIRECTOR FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH THE PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING OPTIONEE) TO TERMINATE OPTIONEE'S RELATIONSHIP AS AN EMPLOYEE OR DIRECTOR AT ANY TIME, WITH OR WITHOUT CAUSE.

9 . Notices. All notices or other communications which are required or permitted hereunder will be in writing and sufficient if (i) personally delivered or sent by telecopy, (ii) sent by nationally-recognized

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overnight courier or (iii) sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

(a) if to the Participant, to the address (or telecopy number) set forth on the Notice of Stock Option Grant; and

(b) if to the Company, to its principal executive office as specified in any report filed by the Company with the Securities and Exchange Commission or to such address as the Company may have specified to the Participant in writing, Attention: Corporate Secretary;

or to any other address as the party to whom notice is to be given may have furnished to the other party in writing in accordance herewith. Any communication will be deemed to have been given (i) when delivered, if personally delivered, or when telecopied, if telecopied, (ii) on the first Business Day (as hereinafter defined) after dispatch, if sent by nationally-recognized overnight courier and (iii) on the fourth Business Day following the date on which the piece of mail containing the communication is posted, if sent by mail. As used herein, "**Business Day**" means a day that is not a Saturday, Sunday or a day on which banking institutions in the city to which the notice or communication is to be sent are not required to be open.

10. Specific Performance. The Participant expressly agrees that the Company will be irreparably damaged if the provisions of this Option Agreement and the Plan are not specifically enforced. Upon a breach or threatened breach of the terms, covenants and/or conditions of this Option Agreement or the Plan by the Participant, the Company will, in addition to all other remedies, be entitled to a temporary or permanent injunction, without showing any actual damage, and/or decree for specific performance, in accordance with the provisions hereof and thereof. The Administrator has the power to determine what constitutes a breach or threatened breach of this Option Agreement or the Plan. The Administrator's determinations will be final and conclusive and binding upon the Participant.

11. No Waiver. No waiver of any breach or condition of this Option Agreement will be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

12 . Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the express provisions of this Option Agreement.

13. Modification of Rights. The rights of the Participant are subject to modification and termination in certain events as provided in this Option Agreement and the Plan.

14. Governing Law. This Agreement is governed by, and construed in accordance with, the laws of the State of Delaware, without giving effect to its conflict or choice of law principles that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.

15. Counterparts; Facsimile Execution. This Option Agreement may be executed in one or more counterparts, each of which will be deemed to be an original, but all of which together constitute one and the same instrument. Facsimile execution and delivery of this Option Agreement is legal, valid and binding execution and delivery for all purposes.

16. Entire Agreement. The Plan, this Option Agreement, and upon execution, the

Exercise Notice, constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Participant with respect to the subject

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matter hereof, and may not be modified adversely to the Participant's interest except by means of a writing signed by the Company and the Participant.

17. Severability. In the event one or more of the provisions of this Option Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Option Agreement, and this Option Agreement will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

18. WAIVER OF JURY TRIAL. THE OPTIONEE EXPRESSLY, IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS OPTION AGREEMENT AND FOR ANY COUNTERCLAIM THEREIN.

19. Data Privacy. In order to administer the Plan, the Company may process personal data about the Participant. Such data includes, but is not limited to, the information provided in this Option Agreement and any changes thereto, other appropriate personal and financial data about the Participant such as home address and business addresses and other contact information, and any other information that might be deemed appropriate by the Company to facilitate the administration of the Plan. The Participant hereby gives explicit consent to the Company to process any such personal data. The Participant also gives explicit consent to the Company to transfer any such personal data outside the country in which the Participant works or is employed, including, if the Participant is not a U.S. resident, to the United States, to transferees that shall include the Company and other persons who are designated by the Company to administer the Plan.

20. Electronic Delivery. The Participant hereby consents and agrees to electronic delivery of any documents that the Company may elect to deliver, including, but not limited to, the Plan document, grant or award notifications, account statements, annual and quarterly reports, and all other forms of communications in connection with this and any other Award made or offered under the Plan. The Participant also hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such information that the Company may elect to deliver and agrees that the Participant's electronic response or signature is the same as, and shall have the same force and effect as, the Participant's manual signature.

[Remainder of page left intentionally blank.]

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The Participant acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and accepts this Option subject to all of the terms and provisions thereof. The Participant has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. The Participant agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option. The Participant further agrees to notify the Company upon any change in the residence address indicated below.

IN WITNESS WHEREOF, the parties hereto have executed this Option Agreement as of the Grant Date set forth above.

AXIL BRANDS, INC.

By: _____
Name: _____
Title: _____

PARTICIPANT:

Name: _____

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AXIL BRANDS, INC.

2022 EQUITY INCENTIVE PLAN

EXERCISE NOTICE

AXIL Brands, Inc.
901 Fremont Avenue, Unit 158
Alhambra, CA 91803

Attention: AXIL Brands, Inc., Corporate Secretary

1 . Exercise of Option. Effective as of today, _____, _____, the undersigned (the "**Participant**") elects to exercise the Participant's option to purchase _____ shares of the Common Stock (the "**Shares**") of AXIL BRANDS, INC. (the "**Company**") under and pursuant to the Company's 2022 Equity Incentive Plan (the "**Plan**") and the Stock Option Agreement dated and effective _____ (the "**Option Agreement**").

2 . Delivery of Payment. The Participant herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement, and any and all withholding taxes due in connection with the exercise of the Option.

3. Representations of Participant. The Participant acknowledges that the Participant has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4 . Rights as Stockholder. Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder exists with respect to the Optioned Stock, notwithstanding the exercise of the Option. Subject to the requirements of Section 6 below, the Shares will be issued to the Participant as soon as practicable after the Option is exercised in accordance with the Option Agreement. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance except as provided in the Plan.

5 . Tax Consultation. The Participant understands that the Participant may suffer adverse tax consequences as a result of the Participant's purchase or disposition of the Shares. The Participant represents that the Participant has consulted with any tax consultants the Participant deems advisable in connection with the purchase or disposition of the Shares and that the Participant is not relying on the Company for any tax advice.

6 . Refusal to Transfer. The Company will not (i) transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Exercise Notice, or (ii) be required to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares have been so transferred.

7 . Successors and Assigns. The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this Exercise Notice inures to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice is binding upon the Participant and his or her heirs, executors, administrators, successors and assigns.

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8. Interpretation. Any dispute regarding the interpretation of this Exercise Notice will be submitted by the Participant or by the Company forthwith to the Administrator for review at its next regular meeting. The resolution of disputes by the Administrator will be final and binding on all parties.

9. Governing Law; Severability. This Exercise Notice is governed by, and construed in accordance with, the laws of the State of Texas, without giving effect to its conflict or choice of law principles that might otherwise refer construction or interpretation of this Exercise to the substantive law of another jurisdiction. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Exercise Notice will continue in full force and effect.

10. Participant Representations.

(a) With respect to a transaction occurring prior to such date as the Plan and Common Stock thereunder are covered by a valid Form S-8 or similar U.S. federal registration statement, the Participant agrees that in no event shall the Participant make a disposition of any of the Common Stock, unless and until: (i) the Participant shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the proposed disposition; and (ii) the Participant shall have furnished the Company with an opinion of counsel satisfactory to the Company to the effect that (A) such disposition will not require registration or qualification of such Common Stock under applicable U.S. federal, state or foreign securities laws or (B) appropriate action necessary for compliance with the U.S. federal, state or foreign securities laws has been taken; or (iii) the Company shall have waived, expressly and in writing, its rights under clauses (i) and (ii) of this Subsection.

(b) The Participant understands that if a registration statement covering the Common Stock under the Securities Act is not in effect when the Participant desires to sell the Common Stock, the Participant may be required to hold the Common Stock for an indeterminate period. The Participant also acknowledges that the Participant understands that any sale of the Common Stock which might be made by the Participant in reliance upon Rule 144 under the Securities Act may be made only in limited amounts in accordance with the terms and conditions of that Rule.

11. Notices. Any notice required or permitted hereunder will be provided in writing and deemed effective if provided in the manner specified in the Option Agreement.

12. Further Instruments. The parties agree to execute any further instruments and to take any further action as may be reasonably necessary to carry out the purposes and intent of the Option Agreement and this Exercise Notice.

13. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Exercise Notice, the Plan, and the Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Participant with respect to the subject matter hereof, and may not be modified adversely to the Participant's interest except by means of a writing signed by the Company and the Participant.

[Signature page follows.]

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Submitted by:

PARTICIPANT:

Name: _____
Date: _____

Accepted by:

AXIL BRANDS, INC.

By: _____
Name: _____
Title: _____
Date: _____

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**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeff Toghraie, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Axil Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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: October 10, 2024

By: /s/ Jeff Toghraie
Name: Jeff Toghraie
Title: Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeff Brown, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Axil Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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: October 10, 2024

By: /s/ Jeff Brown
Name: Jeff Brown
Title: Chief Financial Officer
(Principal Financial Officer and Principal Accounting 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 on Form 10-Q of Axil Brands, Inc. (the "Company") for the quarter ended August 31, 2024 (the "Report"), I, Jeff Toghraie, Chief Executive Officer, certify as follows:

- A) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m or 78o(d)), and
- B) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

This statement is authorized to be attached as an exhibit to the Report so that this statement will accompany the Report at such time as the Report is filed with the Securities and Exchange Commission, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. Pursuant to Securities and Exchange Commission Release 33-8238, dated June 5, 2003, this certification is being furnished and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference in any registration statement of the Company filed under Securities Act of 1933, as amended, except to the extent that the Company specifically incorporates it by reference. A signed original of this written statement by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: October 10, 2024

By: /s/ Jeff Toghraie
Name: Jeff Toghraie
Title: Chief Executive Officer
(Principal Executive 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 on Form 10-Q of Axil Brands, Inc. (the "Company") for the quarter ended August 31, 2024 (the "Report"), I, Jeff Brown, Chief Financial Officer, certify as follows:

- A) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m or 78o(d)), and
- B) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

This statement is authorized to be attached as an exhibit to the Report so that this statement will accompany the Report at such time as the Report is filed with the Securities and Exchange Commission, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. Pursuant to Securities and Exchange Commission Release 33-8238, dated June 5, 2003, this certification is being furnished and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference in any registration statement of the Company filed under Securities Act of 1933, as amended, except to the extent that the Company specifically incorporates it by reference. A signed original of this written statement by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: October 10, 2024

By: /s/ Jeff Brown
Name: Jeff Brown
Title: Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)