Franchise Holdings International, Inc.
Form 10-Q
February 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For Quarterly Period Ended **September 30, 2017**

or

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

For the Transition period from _______________ to ______________

Commission File Number: **000-27631**

FRANCHISE HOLDINGS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

NEVADA	**65-0782227**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

414-3120 Rutherford Rd

Vaughan, Ontario, Canada L4K 0B1
(Address of principal executive offices) (Zip Code)

(888) 554-8789
Registrant's telephone number, including area code

____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 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 x No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x
(Do not check if a smaller reporting company)		Emerging growth company	¨

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

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

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

As of February 15, 2018, the number of shares outstanding of the registrant's class of common stock was 119,127,240.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Franchise Holdings International, Inc.

Condensed Consolidated Balance Sheets

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ -	$ -
Accounts receivable	8,383	81,146
Inventory	32,278	78,975
Related party receivable (note 11)	7,607	7,770
Prepaid expenses and deposits	516,952	116,267
Total Current Assets	565,220	284,158
Property and Equipment, Net of Accumulated Depreciation of $2,302 (December 31, 2016 - $1,244)	53,079	39,263
Intangible Assets, Net of Accumulated Amortization of $978 (December 31, 2016 - $746)	13,097	13,328
Total Assets (Substantially Pledged as Collateral)	$ 631,396	$ 336,749
Liabilities and Shareholders' Equity (Deficit)		
Current Liabilities		
Bank overdraft	$ 1,765	$ 2,635
Accounts payable and accrued liabilities	114,885	340,270
Income taxes payable	5,152	4,796
Current portion of secured notes payable (note 4)	226,323	105,985
Convertible promissory note payable, net of discount (note 5)	-	78,978
Derivative liability (note 6)	-	704,868
Loan payable (note 8)	19,262	-
Due to shareholder (note 9)	22,536	-
Total Current Liabilities	389,923	1,237,532
Secured Note Payable, Net of Current Portion (note 4)	46,313	104,084

Total Liabilities		436,236		1,341,616
Commitments and Contingencies				
Shareholders' Equity (Deficit)				
Series A Preferred Stock, $0.0001 par value, 1,000,000 shares authorized, 1,000,000 shares issued and outstanding as of September 30, 2017 and 0 outstanding as of December 31,2016 respecitvely (note 10)		10,000		-
Common stock, $0.0001 par value, 299,000,000 shares authorized, 118,787,240 and 68,088,142 shares issued and outstanding as of September 30, 2017 and December 31, 2016 respectively (note 10)		11,879		6,809
Additional paid-in capital		7,349,371		4,189,607
Cumulative translation adjustment		4,574		(3,778)
Share subscriptions payable		1,231,079		-
Share subscriptions receivable		(48,765)		(9,350)
Accumulated deficit		(8,362,978)		(5,188,155)
Total Shareholders' Equity (Deficit)		195,160		(1,004,867)
Total Liabilities and Shareholders' Equity (Deficit)	$	631,396	$	336,749

See accompanying notes to the unaudited condensed consolidated financial statements.

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Franchise Holdings International, Inc.

Condensed Consolidated Statements of Operations and Other Comprehensive Loss

For the three and nine month periods ended September 30, 2017 and 2016

Unaudited

	Three Months Ended		Nine Months Ended	
	September 30, 2017	**September 30, 2016**	**September 30, 2017**	**September 30, 2016**
Net Sales	$ 20,315	$ 159,588	$ 190,062	$ 278,963
Cost of Goods Sold	17,296	128,025	150,869	230,611
Gross Profit	3,019	31,563	39,193	48,352
Operating Expenses				
General and administrative	20,946	28,234	1,441,788	77,277
Sales and marketing	948	13,755	2,465	52,343
Professional fees	91,450	39,877	162,065	137,767
Loss (gain) on foreign exchange	(454)	(1,260)	25,644	5,125
Total operating expenses	112,890	80,606	1,631,962	272,512
Loss from operations	(109,871)	(49,043)	(1,592,769)	(224,160)
Other Income (Expense)				
Interest expense	(1,573)	(13,792)	(12,371)	(30,609)
Gain (loss) on derivative (note 6)	-	54,744	(484,720)	(82,609)
Transaction costs	-	-	-	-
Debt issuance costs	-	(3,123)	(2,971)	(3,123)
Finance charges	(6,578)	(17,568)	(35,669)	(17,568)
Loss on settlement of debt	-	-	(1,046,322)	-
Amortization of discount on convertible debt	-	(41,496)	-	(41,496)
Total other income (expense)	(8,151)	(21,235)	(1,582,053)	(175,405)
Net Loss for the period	(118,022)	(70,278)	(3,174,822)	(399,565)
Other Comprehensive Income (Loss)				
Foreign currency translation adjustment	(8,850)	2,760	(8,352)	(1,756)

Comprehensive Loss for the period	$	(126,872)	$	(67,518)	$	(3,183,174)	$	(401,321)
Loss per Weighted Average Share (basic and diluted)	$	-	$	-	$	(0.02)	$	(0.01)
Weighted Average Number of Shares (basic and diluted)		205,243,762		67,314,229		184,081,305		67,291,017

See accompanying notes to the unaudited condensed consolidated financial statements.

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Franchise Holdings International, Inc.

Condensed Consolidated Statements of Cash Flows

For the nine month periods ended September 30, 2017 and 2016

Unaudited

	September 30, 2017	September 30, 2016
Cash Flows from Operating Activities		
Net loss	$ (3,174,822)	$ (399,565)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,290	741
Accrued interest	16,835	-
Finance charges and interest paid in shares	24,824	17,000
Professional fees paid in shares	29,374	-
Stock based compensation	1,360,000	-
Debt issuance costs	-	1,623
Loss on settlement of debt	1,046,322	-
Loss on derivative	484,720	82,609
Amortization and accretion of debt discount	2,971	53,965
	(208,486)	(243,627)
Changes in operating assets and liabilities (note 14)	126,600	74,987
Net cash used in operating activities	(81,886)	(168,640)
Cash Flows from Investing Activities		
Purchase of property and equipment	(14,875)	(552)
Net cash used in investing activities	(14,875)	(552)
Cash Flows from Financing Activities		
Overdraft proceeds	(870)	-
Share subscription proceeds	1,750	9,900
Proceeds from promissory notes	53,389	171,750
Proceeds of shareholder loans	22,536	-
Proceeds of loan payable	19,262	-
Debt issuance costs	-	(7,500)
Repayment of promissory notes	(7,658)	(16,327)
Net cash provided by financing activities	88,409	157,823
Effects of Foreign Currency Translation	8,352	(1,756)

Change in cash		-		(13,125)
Cash and cash equivalents - beginning of period		-		14,466
Cash and cash equivalents - end of period	$	-	$	1,341
Supplemental Disclosure of Non-Cash Investing and Financing Activities				
Common Shares issued to CEO	$	1,460,000	$	102,000
Common Shares issued as finance charges	$	21,000	$	17,000
Conversion of promissory notes	$	1,314,904	$	-
Increase (decrease) in share subscriptions payable	$	1,231,079	$	(88,015)
Increase in share subscriptions receivable	$	39,415	$	(9,900)

See accompanying notes to the unaudited condensed consolidated financial statements.

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Franchise Holdings International, Inc.

Notes to the Financial Statements

For the three and nine month periods ended September 30, 2017 and 2016

Unaudited

4. Secured Notes Payable (continued)

	September 30, 2017	December 31, 2016
Balance owing	$ 272,636	$ 210,069
Less amounts due within one year	(226,323)	(105,985)
	$ 46,313	$ 104,084

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Franchise Holdings International, Inc.

Notes to the Financial Statements

For the three and nine month periods ended September 30, 2017 and 2016

Unaudited

5. Convertible Promissory Notes Payable

a) During the year ended December 31, 2016, the Company entered into a convertible promissory note in the principal amount of $77,750 with a maturity date of March 22, 2017. The convertible promissory note bears interest at a rate of 10.0% per annum from the date of issue until the principal becomes due and payable whether at maturity or upon acceleration or by prepayment or otherwise. Any amount of principal or interest that is not paid when it becomes due shall bear interest at a rate of 24.0% per annum from the due date thereof until the outstanding amounts are paid. No amounts under the convertible promissory note can be prepaid in whole or in part except as otherwise explicitly set out in the terms of the convertible promissory note with the written consent of the Holder. The Holder has the right to convert any unpaid principal amount into shares of the Company's common stock at any time from the date of the issuance of the convertible promissory note to the later of (i) maturity or (ii) the date the outstanding principal and interest is paid. The price at which the conversion is to occur is the lesser of (i) 45% multiplied by the Trading Price (representing a discount rate of 55%) during the previous trading day period ending on the latest complete trading day prior to the date of the convertible promissory note and (ii) the Variable Conversion Price, which shall mean 45% multiplied by the Market Price which shall be the lowest Trading Price for the Company's Stock during the 25 day Trading Period ending on the last complete Trading Day prior to the Conversion Date. In connection with the issuance of the convertible promissory note, the Company incurred debt issuance costs of $7,500 which are being amortized over the maturity period of the convertible promissory note. Included in interest expense for the period ended September 30, 2017, is $2,217 related to the amortization of the debt issuance costs. During the period ended September 30, 2017, and prior to the maturity date, the promissory note and accrued interest was converted in full into 37,640,800 shares of the Company's common stock.

Franchise Holdings International, Inc.

Notes to the Financial Statements

For the three and nine month periods ended September 30, 2017 and 2016

Unaudited

5. Convertible Promissory Notes Payable (continued)

In connection with the issuance of the convertible promissory note, the Company incurred debt issuance costs of $1,500 which are being amortized over the maturity period of the convertible promissory note. Included in interest expense for the period ended September 30, 2017, is $754 related to the amortization of the debt issuance costs. During the period ended September 30, 2017, and prior to the maturity date, the promissory note and accrued interest was converted in full into 24,503,724 shares of the Company's common stock.

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Franchise Holdings International, Inc.

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Unaudited

7. Share Issuance/ Claim Extinguishment Agreement

During the period ended September 30, 2017, the Company entered into a share issuance/ claim extinguishment agreement (the "Agreement") with another party, pursuant to which the Company agreed to issue 35,000,000 shares of its common stock in exchange for the assumption of aggregate accounts payable of the Company of $183,443. The fair value of the shares to be issued pursuant to the Agreement was estimated to be $1,218,000 resulting in a loss on the settlement of debt in the amount of $1,034,557 recognized during the period ended September 30, 2017. During the period ended September 30, 2017, the Company issued 10,400,000 of the shares leaving 24,600,000 shares with a value of $856,079 to be issued as at September 30, 2017.

8. Loans Payable

During the period ended September 30, 2017, the Company entered into a Term Sheet with respect to loans to the Company of up to $500,000 to fund the purchases of inventory. Any advances made pursuant to the Term Sheet will be secured by the wholesale inventory of the Company, all of the shares of the Company held by its majority shareholder and CEO and another asset of the Company's majority shareholder. Pursuant to the Term Sheet, the Company agrees to pay 1.5% per month on all drawn amounts, an initial due diligence fee of $20,000 upon receipt of the first $220,000 loan amount (the "first tranche") and a monthly monitoring fee of $5,000 for the first tranche and up to a loan amount of $500,000. The lender can choose to waive payment of the monthly fee in exchange for conversion of the amount into shares of the Company's common stock at a price of $0.035 per share. Should the price of the Company's stock increase beyond $0.05 per share, the conversion price will be struck at a 30% discount to the closing price of the volume weighted average price on the OTC market of the previous five trading days. Pursuant to the Term Sheet, the term of the advances made will be for a minimum of two years and the Company shall have the right to increase the credit facility to $1,000,000 provided the minimum term extends to three years. Upon the full and final advance of $500,000, the Company agrees to issue to the lender, 1,000,000 shares of its common stock and 2,000,000 warrants entitling the holder to acquire one share of the Company's common stock at a price of $0.04 per share. As at September 30, 2017, no amounts had been borrowed pursuant to the Term Sheet.

During the period ended September 30, 2017, the Company borrowed $10,000 pursuant to a loan agreement. The loan bears interest at 12% per annum, payable at a rate of 6% on the semi-annual anniversary and 6% on the repayment date of August 11, 2018.

During the period ended September 30, 2017, the Company borrowed $9,262 (12,000 Canadian Dollars) pursuant to a loan agreement. The loan bears interest at 18% per annum, payable at a rate of 9% on the semi-annual anniversary and 9% on the repayment date of August 15, 2018.

9. Due to Shareholder

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For the three and nine month periods ended September 30, 2017 and 2016

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10. Preferred and Common Stock (continued)

The Company is authorized to issue 299,000,000 shares of its common stock with a par value of $0.0001. All shares are ranked equally with regards to the Company’s residual assets.

During the period ended September 30, 2017, the Company issued 62,144,524 common shares pursuant to the conversion of the convertible promissory notes discussed in note 4.

During the period ended September 30, 2017, the Company issued 72,000,000 common shares of the Company to its CEO pursuant to the Company’s employee stock incentive plan at a deemed cost of $0.001 per share. The fair value of the common shares of $1,360,000 has been included as general and administrative expense during the period ended September 30, 2017.

During the period ended September 30, 2017, the Company issued 3,154,574 common shares in connection with two consulting agreements, the fair value of which was $100,000. The consultants paid, in aggregate, $3,154 for the shares, and the remaining balance of $96,846 will be expensed over the 180 day term of the consulting agreements.

During the period ended September 30, 2017, the Company entered into a share issuance/ claim extinguishment agreement as disclosed in note 6. Pursuant to the debt assumption agreement, the Company issued 10,400,000 common shares during the period ended September 30, 2017. As at September 30, 2017, 24,600,000 common shares remain reserved for issuance pursuant to the share issuance/ claim extinguishment agreement.

During the period ended September 30, 2017, the Company issued 3,000,000 shares of its common stock. The proceeds of $38,010 were receivable by the Company as of September 30, 2017 and were received subsequent to September 30, 2017.

During the period ended September 30, 2017, the Company issued 1,000,000 shares of its Series A Preferred Stock to its controlling shareholder and CEO in exchange for 1,000,000,000 shares of common stock owned by the controlling shareholder and CEO.

11. Related Party Transactions

During the nine month period ended September 30, 2017, the Company recorded salaries expense of $29,540 (2016 - $18,593) related to services rendered to the Company by its major shareholder and CEO. During the nine month period ended September 30, 2017, the Company recognized revenue of $7,719 (2016 - $3,542) for goods sold to a company with a director, officer and shareholder in common. During the three month period ended September 30, 2017, the Company recorded salaries expense of $7,525 (2016 - $5,637) related to services rendered to the Company by its major shareholder and CEO. During the three month period ended September 30, 2017, the Company recognized revenue of $1,001 (2016 - $86) for goods sold to a company with a director, officer and shareholder in common.

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12. Consulting Agreement

	2017		2016	
	$	%	$	%
Customer A	17	-	113,831	71.3
Customer B	9,693	47.7	6,389	4.0
Customer C	5,689	28.0	1,267	0.1
	15,399	75.7	121,487	75.4

Concentration of Customer Risk (continued)

Nine months ended September 30:

	2017		2016	
	$	%	$	%
Customer A	100,236	52.7	146,099	52.4
Customer B	35,158	18.5	25,655	9.0
Customer C	20,076	10.6	1,267	0.1
	155,470	81.8	173,021	61.5

The loss of any of these key customers could have an adverse effect on the Company's business. As at September 30, 2017, $2,622 (2016 - $118,354) was included in accounts receivable from the companies identified above, representing 31% (2016 - 81%) of the Company's accounts receivable as at that date.

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14. Changes in Cash Flows from Operating Assets and Liabilities

The changes to the Company's operating assets and liabilities for the nine month periods ended September 30, 2017 and 2016 are as follows:

	2017	2016
Decrease (increase) in accounts receivable	$ 72,763	$ (50,539)
Decrease (increase) in inventory	46,697	47,951
Decrease (increase) in prepaid expenses and deposits	41,786	1,067
Decrease (increase) in related party receivables	163	(2,558)
Decrease (increase) in other receivables	-	-
Increase (decrease) in income taxes payable	356	256
Increase (decrease) in accounts payable and accrued liabilities	(35,165)	78,810
	$ 126,600	$ 74,987

15. Prior Period Misstatement

	As Originally Reported	Restated
Prepaid expenses	$ 3,539	$ 105,539
Common stock	$ 6,739	$ 6,759
Additional paid-in capital	$ 4,089,627	$ 4,191,607
Weighted average shares outstanding - three month period	67,314,229	67,514,229
Weighted average shares outstanding - six month period	67,291,017	67,485,906

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Notes to the Financial Statements

For the three and nine month periods ended September 30, 2017 and 2016

Unaudited

16. Evaluation of Subsequent Events

a) Issued 340,000 shares of its common stock in exchange for services rendered of $10,000.

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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 ("MD&A") should be read in conjunction with financial statements of Franchise Holdings International, Inc ("FNHI") for the nine months ended September 30, 2017 and 2016, and the notes thereto. Additional information relating to FNHI is available at www.fnhi.net

Safe Harbor for Forward-Looking Statements

Certain statements included in this MD&A constitute forward-looking statements, including those identified by the expressions *anticipate, believe, plan, estimate, expect, intend,* and similar expressions to the extent they relate to FNHI or its management. These forward-looking statements are not facts, promises, or guarantees; rather, they reflect current expectations regarding future results or events. These forward-looking statements are subject to risks and uncertainties that could cause actual results, activities, performance, or events to differ materially from current expectations. These include risks related to revenue growth, operating results, industry, products, and litigation, as well as the matters discussed in FNHI's MD&A under *Risk Factors*. Readers should not place undue reliance on any such forward-looking statements. FNHI disclaims any obligation to publicly update or to revise any such statements to reflect any change in the Company's expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes included in this report.

Results of Operations

Revenue

For the nine months ended September 30, 2017, revenue generated from the entire line of Truxmart products was $190,062, as compared to $278,963 for the nine months ended September 30, 2016. The year over year decrease of approximately 32% was mainly attributable to having limited stock in the warehouse. For the three months ended September 30, 2017, revenue generated from the entire line of Truxmart products was $20,315, as compared to $159,588 for the three months ended September 30, 2016. The year over year decrease of approximately 87% was mainly attributable to having limited stock in the warehouse

For the nine months ended September 30, 2017, revenue generated by Canadian customers was $117,920 compared to $148,281 for the same period in 2016, a decrease of 20%. In addition to effect of insufficient levels of inventory to satisfy orders during the period ended September 30, 2017, the relative weakening of the Canadian Dollar compared to the United States Dollar during the first nine months of fiscal 2016 had a negative effect on reported revenues as a result of translating the sales denominated in Canadian Dollars to United States Dollars for financial statement reporting purposes. For the three months ended September 30, 2017, revenue generated by Canadian cusotmers was $2,832 compared to $70,679 for the same period in 2016, a decrease of 96%. For the nine months ended September 30, 2017 revenue generated in the United States was $72,142 compared to $130,682 for the same period in 2016. For the three months ended September 30, 2017 revenue generated in the United States was $17,483 compared to $88,908 for the same period in 2016. These represent year-over-year decreases in US- source revenue of approximately 45% and 80%, respectively. All decreases in revenues mentioned above are primarily attributable to limited inventory in stock.

Sales from online retailers of the Truxmart products increased from $51,574 in the nine months ended September 30, 2016, to $70,745 in the nine months ended September 30, 2017, an increase of 37%. The online retailers accounted for over 37% of total revenue for the nine months ended September 30, 2017, compared to 18% for the nine months ended September 30, 2016. Distributor sales decreased from $216,125 in 2016, to $118,337 in 2017.

Sales from online retailers of the Truxmart products increased from $8,176 in the three months ended September 30, 2016, to $17,812 in the three months ended September 30, 2017, an increase of 118%. The online retailers accounted for over 94% of total revenue for the three months ended September 30, 2017, compared to 6% for the three months ended September 30, 2016. Distributor sales decreased from $216,125 in 2016, to $1,085 in 2017.

Currently, Truxmart has one major distributor in Canada, one in the United States, along with its own contracted distribution and inventory facility in Pennsylvania. This does not include multiple independent online retailers.

Although Truxmart currently supports a total of 16 dealers and distributors, Truxmart believes the trend of increasing sales through online retailers will continue to outpace the traditional distribution business model. Moreover, reputable online retailer’s customers tend to provide larger sales volumes, greater margin of profit as well as greater protection against price erosion.

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Cost of Sales

Cost of sales decreased for the first nine months of 2017, as compared to the first nine months of 2016, by 35% from $230,611 to $150,869. This decrease was primarily due to a decrease in sales for the period. Our cost of sales, as a percentage of sales, was approximately 79% and 83% for the nine months ended September 30, 2017 and 2016, respectively. During the three months ended September 30, 2017, cost of sales decreased by 86% to $17,296 from $128,025 in the three months ended September 30, 2016. This decrease was due to decreased sales for the period. Cost of sales, as a percentage of sales was approximately 85% and 80% for the three months ended September 30, 2017 and 2016. The decrease in the percentage of cost of sales for the nine month period ended September 30, 2017 is due to the stabilization of the foreign exchange rates used to translate sales denominated in Canadian Dollars to Unites States Dollars. Freight costs were $19,856 and $18,157 for the nine month periods ended September 30, 2017 and 2016, respectively, and $5,876 and $2,015 for the three month periods ended September 30, 2017 and 2016.

Truxmart provides its distributors and online retailers an “all-in” wholesale price. This includes any import duty charges, taxes and shipping charges. Discounts are applied if the distributor or retailer chooses to use their own shipping process. Certain exceptions apply on rare occasions where product is shipped outside the contiguous United Sates or from the United States to Canada. Volume discounts are also offered to certain higher volume customers.

Gross Margin

Gross margin percentage for the nine month periods ended September 30, 2017 and 2016 were 21% and 17% respectively. Gross margin percentage for the three month periods ended September 30, 2017 and 2016 were 15% and 20% respectively. The increase in gross margin for the nine months is primarily related to the introduction of fluctuation in foreign exchange rates used to translate Canadian Dollar sales into United States Dollars for purposes of financial reporting – while sales denominated in Canadian Dollars decreased by 42% and United States Dollars decreased by 21%, the decrease in aggregate sales reported in United States Dollars was 31%. As substantially all of the sales for the three months ended September 30, 2017 were denominated in United States Dollars, foreign exchange translation was not a factor in contributing to fluctuations in gross margin.

Operating Expenses

Operating expenses for the nine months ended September 30, 2017 were $1,631,962 compared to $272,512 for the nine months ended September 30, 2016. Operating expenses for the three months ended September 30, 2017 were $112,890 compared to $80,606 for the three months ended September 30, 2016. Our general and administrative expense increased by $1,364,511, from $77,277to $1,441,788, during the nine months ended September 30, 2017 and decreased by $7,288, from $28,234 to $20,946, during the three months ended September 30, 2017. The increase in the nine month period is a result of the fair value of $1,360,000 of 72,000,000 common shares issued to the Company's CEO during the quarter ended March 31, 2017 as well as an increase in cash salaries paid during the nine months ended September 30, 2017. This decrease between the three month periods is a result of an overall reduction in travel and office expenses. Sales and marketing decreased by $49,878 to $2,465 from $52,343 during the nine months ended September 30, 2017 and by $12,807 from $13,755 to $948 during the three months ended September 30, 2017. These decreases are due to the elimination of amounts paid to a sales consultant during the three and nine month periods ended September 30, 2017, that were paid in the comparable periods ended September 30, 2016, as well as reduced trade show activity. Professional fees which include accounting, legal and consulting fees, increased from $137,767 for the nine months ended September 30, 2016 to $162,065 for the nine months ended September 30, 2017 and also increased from $39,877 for the three months ended September 30, 2016 to $91,450 for the three months ended September 30, 2017. The increases for the periods is the result of two consulting agreements entered into during the quarter ended September 30, 2017. The Company also realized a loss on foreign exchange in the amount of $25,644 during the nine months ended September 30, 2017, an increase of $20,519 when compared to a loss on foreign exchange of $5,125 during the nine months ended September 30, 2016. This loss was the result of the Company converting Canadian cash generated by sales to Canadian customers into United States Dollars in order to purchase inventory and pay operating expenses denominated in United States Dollars. The company realized a small gain on foreign exchange in the amount of $454 during the three months ended September 30, 2017, which represents a reduction of $806 when compared to a gain on foreign exchange of $1,260 incurred during the three months ended September 30, 2016.

Other Income and Expenses

Late in the 2016 fiscal year and during fiscal 2017, the Company borrowed funds for working capital requirements in exchange for promissory notes, one of which is convertible into shares of the Company's common stock. During the three and nine month periods ended September 30, 2016, the Company incurred interest of $10,366 and $22,948, respectively, related to these notes. Interest expense related to these notes for the three and nine month periods ended September 30, 2017 were $6,632 and $19,305. The remaining balance of interest expense relates to regular bank charges and interest.

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During the year ended December 31, 2016, the Company issued two convertible promissory notes in the amount of $132,750 which were determined to be hybrid financial instruments that include embedded derivatives that require separation from the main financial instrument and recognition at fair value. At the time of origination, the fair value of the derivative liabilities were $212,555 and this amount was expensed as a loss on derivative. Between December 31, 2016 and September 30, 2017, the fair value of the derivative liabilities increased such that a loss on derivative of $484,720 was incurred during the nine months ended September 30, 2017. As a result of the fair value of the derivative exceeding the face value of the promissory notes at the time of issuance, the Company also recognized a discount on the issuance of the promissory notes which was amortized over the period in which the promissory notes are outstanding. During the nine months ended September 30, 2017, the Company incurred expense related to the amortization of the discount of $50,801. In connection with the issuance of the convertible promissory note payable, the Company incurred debt issuance costs which are being amortized to debt issuance expense over the maturity period of the convertible promissory note. As a result, the Company expensed debt issuance costs of $2,971 during the nine months ended September 30, 2017. The Company incurred debt issuance costs expense of $3,123 which has been charged to interest expense during the three and nine month periods ended September 30, 2016. During the nine months ended September 30, 2017, both notes were converted into common shares of the Company which resulted in the Company issuing 62,144,524 common shares in full satisfaction of the outstanding principal and interest. In connection with the conversion, the Company incurred a loss on settlement in the amount of $11,765 and additional finance charges of $21,000. As the promissory notes were converted during the nine months ended September 30, 2017, there were not any additional expenses incurred during the quarter ended September 30, 2017 related to these promissory notes.

During the three and nine month periods ended September 30, 2016 the Company borrowed $39,000 by way of a secured promissory note. In connection with the issuance of this note, the Company issued 100,000 shares of its common stock with a fair value of $17,000 which was expensed as a finance charge.

During the nine months ended September 30, 2017, the Company entered into a share issuance/ claim extinguishment agreement pursuant to which the Company agreed to issue 35,000,000 shares of its common stock in exchange for the assumption of aggregate accounts payable of the Company of $183,443. The fair value of the shares to be issued pursuant to the share issuance/ claim extinguishment agreement was estimated to be $1,218,000 resulting in a loss on the settlement of debt of $1,034,557 recognized during the nine month period ended September 30, 2017.

Net Loss

Net loss for the nine months ended September 30, 2017 was $3,174,822 compared to a net loss of $399,565 for the nine months ended September 30, 2016. Net loss for the three months ended September 30, 2017 was $118,022 compared to a net loss of $70,278 during the three months ended September 30, 2016. The increases in the net losses were mainly due to the fair value of $1,360,000 of 72,000,000 common shares issued to the Company's CEO during the quarter ended March 31, 2017, as well as the other expenses related to the debt issued by the Company as discussed above.

Liquidity and Capital Resources

Cash Flow Activities

The Company's bank overdraft decreased from $2,365 at December 31, 2016 to $1,765 at September 30, 2017. The decrease was primarily the result of the timing of inbound payments from customers, and outbound payments to vendors. Accounts receivable decreased by $72,763 from $81,146 at December 31, 2016 to $8,383 at September 30, 2017. Inventory decreased by $46,697 from $78,975at December 31, 2016 to $32,278 at September 30, 2017 as a result of the timing of the receipt of inventory shipments. Accounts payable and accrued liabilities decreased by $225,385 from $340,270 at December 31, 2016 to $114,885 at September 30, 2017. The decrease in payables is related to the payment of various outstanding amounts as well as the assumption of accounts payable in the amount of $183,443 pursuant to the share issuance/ claim extinguishment agreement discussed above.

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Investing Activities

During the first nine months of 2017, Truxmart invested $14,875 in property and equipment, with the majority of the funds spent on the Company's website.

Financing Activities

During the first nine months of 2017, Truxmart funded working capital requirements principally through the issuance of promissory notes in the amount of $53,389, loans from the Company's controlling shareholder and CEO in the amount of $22,536 and a loan payable of $19,262. During the nine month period ended September 30, 2017, the Company raised $1,750 through private placements of shares of the Company's common stock and repaid $7,658of the promissory notes payable.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements with any party.

Critical Accounting Policies

Our discussion and analysis of results of operations and financial condition are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis, including those related to provisions for uncollectible accounts receivable, inventories, valuation of intangible assets and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The accounting policies that we follow are set forth in Note 3 to our financial statements as included in this quarterly report. These accounting policies conform to accounting principles generally accepted in the United States, and have been consistently applied in the preparation of the financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As a "smaller reporting company," as defined by Rule 12b-2 of the Exchange Act, we are not required to provide the information in this Item.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 ("Exchange Act"), the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") (the Company's principal financial and accounting officer), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. The framework used by management in making that assessment was the criteria set forth in the document entitled "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based upon that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures are not effective as of June 30, 2017 to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, 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 the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure for the reason described below.

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Because of our limited operations, we have limited number of employees which prohibits a segregation of duties. In addition, we lack a formal audit committee with a financial expert. As we grow and expand our operations we will engage additional employees and experts as needed. However, there can be no assurance that our operations will expand.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations over Internal Controls

FNHI's management does not expect that its disclosure controls or its internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within FNHI have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Our disclosure controls and procedures are designed to provide reasonable assurance of that our reports will be accurate. Our Chief Executive Officer and Principal Accounting Officer concludes that our disclosure controls and procedures were effective at that reasonable assurance level, as of the end of the period covered by this Form 10-Q. Our future reports shall also indicate that our disclosure controls and procedures are designed for this reason and shall indicate the related conclusion by the Chief Executive Officer and Principal Accounting Officer as to their effectiveness.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any material or legal proceeding and, to our knowledge, none is contemplated or threatened.

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

During the nine months ended September 30, 2017, the Company did not complete any unregistered sale of equity securities.

Item 3. Defaults Upon Senior Securities

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There have been no defaults upon senior securities.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

As a “smaller reporting company,” as defined by Rule 12b-2 of the Exchange Act, we are not required to provide the information in this Item.

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Item 6. Exhibits

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
3.1*	Articles of Incorporation
3.2*	By-Laws
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer
32.1	Section 906 Certification of Chief Executive Officer
32.2	Section 906 Certification of Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

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* Filed as an exhibit to the registrant's Form 10-QSB, filed October 13, 1999 and incorporated by reference herein.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 15, 2018

FRANCHISE HOLDINGS
INTERNATIONAL, INC.

By: */s/ Steven Rossi*
Steven Rossi, Chairman of the Board,
Chief

Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:*/s/ Steven Rossi*
Steven Rossi, Chairman of the Board,
Chief
Executive Officer

Dated: February 15, 2018