Sugarmade, Inc.
Form 10-Q/A
August 16, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q/A**

**Amendment No. 1**

(Mark One)

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

**For the quarterly period ended: March 31, 2018**

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

**For the transition period from N/A to N/A**

**Commission file number: 000-23446**

**SUGARMADE, INC.**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **94-3008888** |
| (State or other jurisdiction of | (I.R.S. Employer |

| | |
|---|---|
| incorporation or organization) | Identification No.) |
| **750 Royal Oaks Dr., Suite 108, Monrovia, CA** | **91016** |
| (Address of principal executive offices) | (Zip Code) |

**(888) 982-1628**
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See 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 | Accelerated filer |
| Non-accelerated filer | 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

At August 15, 2018 , there were 248,567,203 shares outstanding of the issuer's common, the only class of common equity.

Transitional Small Business Disclosure Format (Check one): Yes No

**EXPLANATORY NOTE**

We are filing this amendment ("Amendment No. 1") to our Quarterly Report on Form 10-Q for the period ended March 31, 2018, originally filed with the Securities and Exchange Commission (the "SEC") on August 2, 2018, for the purposes of 1) correcting a typographical error in Part 1: Financial Information, specifically labeled Sugarmade, Inc. and Subsidiary Consolidated Balance Sheet and, 2) as an amendment to the certifications originally filed relative to Section 302 and 906 of the Sarbanes-Oxley Act of 2002. Amendment No. 1 corrects a misstatement that was caused by a clerical error where a previous version of the financial statement was not removed and replaced with an updated version. Specifically, relative to the Consolidated Statement of Operations and Statement of Cash Flows for the nine-month period ending on March 31, 2018. This Form 10-Q/A does not reflect events that may have occurred subsequent to the original filing date, and does not modify or update any related or other disclosures, including forward-looking statements, made in the Form 10-Q. Accordingly, this Form 10-Q/A should be read in conjunction with the Form 10-Q. Please refer to FN 2 below for more details.

**SUGARMADE, INC.**

**FORM 10-Q/A**

**FOR THE PERIOD ENDED March 31, 2018**

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**SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS**

In addition to historical information, this Quarterly Report on Form 10-Q includes forward-looking statements. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words “believe,” “expect,” “will,” “anticipate,” “intend,” “estimate,” “project,” “plan,” “assume” or other similar expressions, or negatives of th expressions, although not all forward-looking statements contain these identifying words. All statements contained or incorporated by reference in this quarterly report regarding our future strategy, future operations, projected financial position, estimated future revenues, projected costs, future prospects, the future of our industry and results that might be obtained by pursuing management’s current plans and objectives are forward-looking statements.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and speak only as of the date on the cover of this quarterly report, or, in the case of forward-looking statements in documents incorporated by reference, as of the date of the date of the filing of the document that includes the statement. New risks and uncertainties arise from time to time, and it is impossible for us to predict these matters or how they may affect us. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our security holders. We do not undertake and specifically decline any obligation to update any forward- looking statements or to publicly announce the results of any revisions to any statements to reflect new information or future events or developments.

We have identified some of the important factors that could cause future events to differ from our current expectations and they are described in this quarterly report under the caption “Risk Factors,” below, and elsewhere in this quarterly report, which you should review carefully. Please consider our forward-looking statements in light of those risks as you read this quarterly report.

**PART 1: Financial Information**
**Item I**
**Sugarmade, Inc. and Subsidiary**
**Consolidated Balance Sheets**

| | March 31, 2018 (Unaudited) | June 30, 2017 (Audited) |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash | $8,643 | $101,880 |
| Accounts receivable, net | 352,520 | 113,218 |
| Inventory, net | 467,782 | 568,229 |
| Loan receivables | 396,334 | 10,000 |
| Other current assets | 173,398 | 190,338 |
| Total current assets | 1,398,677 | 983,665 |
| Equipment, net | 157,216 | 61,792 |
| Intangible assets, net | 39,025 | 73,125 |
| Other assets | 32,351 | 27,081 |
| Total assets | $1,627,269 | $1,145,663 |
| Liabilities and Stockholders’ Equity (Deficiency) | | |
| Current liabilities: | | |
| Bank overdraft | $13,260 | $— |
| Note payable due to bank | 25,982 | 25,982 |
| Accounts payable and accrued liabilities | 1,309,111 | 1,503,920 |
| Accounts payable – related party | 23,600 | 23,086 |
| Customer deposits | 264,102 | 232,591 |
| Customer overpayment | 35,202 | — |
| Unearned revenue | 51,334 | 63,304 |
| Other payable | 239,826 | 223,482 |
| Accrued interest | 152,695 | 116,236 |
| Accrued compensation and personnel related payables | 11,403 | 11,403 |
| Notes payable – related parties | 48,000 | 70,666 |
| Loans payable | 223,143 | 192,801 |
| Loans payable – related parties | 69,795 | 228,412 |
| Convertible notes payable, net | 718,797 | 1,502,023 |
| Convertible notes payable, related party, net | 50,000 | — |
| Derivative liabilities | 846,571 | 1,134,000 |
| Warrants liabilities | 15,654 | 25,250 |
| Shares to be issued | 4,072,086 | 893,000 |
| Total liabilities | 8,170,558 | 6,246,156 |
| Stockholders’ equity (deficiency): | | |

| | | |
|---|---|---|
| Preferred stock ($0.001 par value, 10,000,000 shares authorized, none issued and outstanding) | — | — |
| Common stock ($0.001 par value, 300,000,000 shares authorized, 247,395,774 and 226,734,372 shares issued and outstanding at March 31, 2018 and June 30, 2017, respectively) | 247,397 | 226,735 |
| Additional paid-in capital | 23,577,063 | 20,768,185 |
| Shares to be issued, investments | (16,800,000) | — |
| Shares to be issued, preferred shares | 2,000,000 | 2,000,000 |
| Shares to be issued, common shares | 17,274,474 | 467,996 |
| Accumulated deficiency | (32,842,222) | (28,563,409) |
| Total stockholders' equity (deficiency) | (6,543,289) | (5,100,493) |
| Total liabilities and stockholders' equity (deficiency) | $1,627,269 | $1,145,663 |

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

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**Sugarmade, Inc. and Subsidiary**

**Consolidated Statements of Operations**

**For the three and nine months ended March 31, 2018 and 2017**

**(Unaudited)**

| | Three months ended March 31 | | Nine months ended March 31 | |
|---|---|---|---|---|
| | **2018 (Restated)** | 2017 | **2018 (Restated)** | 2017 |
| Revenues, net | $849,436 | $903,950 | $2,965,404 | $2,759,595 |
| Cost of goods sold: | | | | |
| Materials and freight costs | 594,888 | 614,414 | 2,107,834 | 1,839,874 |
| Total cost of goods sold | 594,888 | 614,414 | 2,107,834 | 1,839,874 |
| Gross profit | 254,549 | 289,536 | 857,570 | 919,721 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 797,196 | 693,623 | 2,849,789 | 2,295,458 |
| Total operating expenses | 797,196 | 693,623 | 2,849,789 | 2,295,458 |
| Loss from operations | (542,647) | (404,087) | (1,992,219) | (1,375,737) |
| Non-operating income (expense): | | | | |
| Other income | — | — | 14,206 | 243 |
| Interest expense | (97,107) | (72,471) | (303,484) | (169,022) |
| Change in fair value of derivative liabilities | 3,680,532 | (1,337,000) | (1,384,423) | (1,449,000) |
| Loss on conversion | (250,640) | (884,561) | (250,640) | (1,209,314) |
| Other expense | (1,265) | — | (362,254) | — |
| Total non-operating income (expense) | 3,331,520 | (2,294,032) | (2,286,595) | (2,827,093) |
| Net income (loss) | $2,788,872 | $(2,698,119) | $(4,278,814) | $(4,202,830) |
| Basic net income (loss) per share | $0.01 | $— | $(0.02) | $— |
| Diluted net income (loss) per share | $0.01 | $— | $(0.02) | $— |
| Basic weighted average common shares outstanding | 247,395,774 | 13,751,366 | 237,925,753 | 9,929,119 |
| Diluted weighted average common shares outstanding * | 247,395,774 | 13,751,366 | 237,925,753 | 9,929,119 |

* Shares issuable upon conversion of convertible debts and exercising of warrants were excluded in calculating diluted

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

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**Sugarmade, Inc. and Subsidiary**

**Condensed Consolidated Statements of Cash Flows For**

**the nine months ended March 31, 2018 and 2017**

**(Unaudited)**

| | For the nine months ended March 31, **2018** **(Restated)** | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $(4,278,814) | $(4,202,830) |
| Adjustments to reconcile net loss to cash flows from operating activities: | | |
| Initial valuation of debt discount | 125,642 | — |
| Loss on settlement | 250,460 | 1,209,314 |
| Amortization of debt discount | 364,663 | — |
| Stock based compensation | 789,229 | 658,000 |
| Change in fair value of derivative liability | 1,384,423 | 1,449,000 |
| Depreciation and amortization | 85,807 | 30,942 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (239,302) | (14,309) |
| Inventory | 100,447 | (154,883) |
| Other assets | (374,664) | (83,519) |
| Bank overdraft | 13,260 | (28,377) |
| Accounts payable and accrued liabilities | (194,809) | (53,086) |
| Customer deposits | 66,713 | 43,480 |
| Unearned revenue | (11,970) | (26,766) |
| Accrued interest and Other payables | 53,317 | (130,869) |
| Net cash used in operating activities | (1,865,597) | (1,303,903) |
| Cash flows from investing activities: | | |
| Acquisition of intangible assets | (13,999) | — |
| Acquisition of property and equipment | (133,132) | (24,052) |
| Net cash used in investing activities | (147,131) | (24,052) |
| Cash flows from financing activities: | | |
| Proceeds from shares to be issued | 1,322,685 | 225,000 |
| Proceeds from convertible notes | 652,653 | 1,264,523 |
| Repayment of notes payable | — | — |
| Payment to Note payable-related parties | (22,666) | (10,000) |
| Proceeds from loans | 30,342 | 700,910 |

| | | |
|---|---|---|
| Repayment of loan payable-related parties | (158,617) | — |
| Repayment of loans | — | (776,505) |
| Proceeds from advance share issuance | 95,094 | — |
| Loan receivable | — | 3,500 |
| Net cash provided by financing activities | 1,919,491 | 1,403,928 |
| Net increase (decrease) in cash | (93,237) | 75,973 |
| Cash paid during the period for: | | |
| Cash, beginning of period | 101,880 | 911 |
| Cash, end of period | $8,643 | $76,884 |
| Interest | $— | $— |
| Income taxes | $— | $13,395 |
| Supplemental disclosure of non-cash financing activities Debts settled through shares issuance | $993,250 | $— |

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

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**Sugarmade, Inc. and Subsidiary**

**Notes to Unaudited Condensed Consolidated Financial Statements**

## 1. ***Nature of Business***

Sugarmade, Inc. (hereinafter referred to as "we", "us" or "the/our Company") is a publicly traded company incorporated in state of Delaware. Our previous legal name was Diversified Opportunities, Inc. Our Company primarily operates through our subsidiary, Sugarmade, Inc., a California corporation ("SWC Group, Inc., - CA"). We are headquartered in Monrovia, California, a suburb of Los Angeles, with an additional warehouse location in Southern California. As of date of this filing, we employ 21 full and part-time workers and contractors.

As of the end of the reporting period, March 31, 2018, we were involved in several businesses including, 1) the supply of products to the quick service restaurant sub-sector of the restaurant industry, 2) as a distributor of paper products derived from non-wood sources and, 3) as a marketer of culinary seasoning products Seasoning Stix and Sriracha Seasoning Stix.

As of the date of this filing, we are involved in several businesses including:

1) Supplying the hydroponic and indoor/outdoor cultivation agricultural market sectors, including the cannabis cultivation, processing and distribution sectors. While we supply products to these industries, none of our operations involve the cultivation, processing, distribution or the engagement in any business operations regarding the cultivation, processing or distribution of any cannabis product or any product containing cannabis. While our entrance into this business sector was announced during late November 2017, we did not begin to recognize revenues from this operation until later in calendar 2018.

2) The supply of genetic and custom printed products to the quick service restaurant sub-sector of the restaurant industry and,

3) As a marketer and distributor of culinary seasoning products Seasoning Stix and Sriracha Seasoning Stix.

During the first calendar quarter of 2018, our management team and our board of directors determined the business operation of acting as a distributor of paper products derived from non-wood sources was no longer strategic to the Company and thus, this business operation was discontinued.

Our board of directors believes the Company has a significant market opportunity to act as a supplier to the legal cannabis cultivation, processing and distribution market sectors. We approach these markets as a supplier of products to legal market participants and do not engage in the business of cultivating, processing or distributing cannabis or any products that contain cannabis. While our primary focus has been on companies engaged in such business operations on the west coast of the United States, our business has significantly expanded as legal medical and recreational cannabis business activities have proliferated into many other states. While our business is rapidly expanding across most of the United States, California remains an important marketplace due both the sheer size of the State's economy and due to the rapid embrace of legalization. We also believe the Company has strong revenue expansion opportunities within the retail hydroponic agricultural sector as these businesses are complementary to our current business. We are currently in process of analyzing several acquisitions for expansion in this area.

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During 2017, Sugarmade announced the signing of an exclusive distribution agreement for California, Oregon and Washington with privately held Plantation Corp. for its breakthrough BudLife preservation technology based on integration of specialized gases and natural agents that dramatically extends the useful life of medical marijuana up to six (6) months by actively monitoring the internal containers environment and automatically adjusting its atmosphere as needed. Sugarmade has conducted initial product prototype testing of the BudLife product, realizing positive results. Sugamade plans to move forward as Plantation's distribution partner upon availability of the BudLife product line.

We plan to continue our business pursuits relative to our CarryOutSuppies.com business, which is a producer and wholesaler of custom printed and generic supplies servicing more than 2,000 quick service restaurants. Our products include double poly paper cups for cold beverage; disposable, clear, plastic cold cups, paper coffee cups, yogurt cups, ice cream cups, cup lids, cup sleeves, food containers, soup containers, plastic spoons and many other similar products for this market sector. CarryOutSupplies.com was founded in 2009. Carryoutsupplies management estimates it holds and approximately 25% to 40% market share of generic and printed products within the take out frozen yogurt and ice cream industries.

As of the end of the reporting period, March 31, 2018, we were also a distributor of paper made from 100% reclaimed sugarcane fiber, enhanced with bamboo. Sugarcane fiber, called bagasse, is a discarded byproduct of sugarcane production. As of the date of this filing, we have discontinued this business operation, as our board of directors determined superior revenue growth opportunities existed elsewhere within the marketplace.

Sugarmade is also a distributor of culinary seasoning products Sriracha Stix and Seasoning Stix. During September of 2016, the Company completed negotiations for and signed an agreement with HUY FONG FOODS, INC. ("HFFI"), the maker of Sriracha Hot Chili Sauce, under which the Company became a party to a license with Huy Fong Foods, Inc. gaining permission from Huy Fong Foods, Inc. to use the licensed marks for the limited products and purposes permitted by the license. Based on this agreement and a separate marketing and sales agreement signed with Seasoning Stixs International, LLC, the Company markets a culinary seasoning product named Sriracha Seasoning Stixs. Sriracha Seasoning Stixs are encapsulated Huy Fong Sriracha Sauce and other seasonings in the form of a stick, which are inserted into meat, fish and poultry prior to cooking. All trademarks, service marks and intellectual property remain the property of the respective owners.

In the future, we plan to continue to concentrate primarily on the hydroponic and cultivation market place, in addition to the quick service restaurant supply sector. In addition, we are currently analyzing expanding our business operations into the hydroponic and cultivation retail sector via direct acquisitions of participants in that market sector.

**2.** ***Restatement of Financial Statements***

On August 2, 2018, the Company mistakenly filed a wrong version of Form 10-Q for the period ended March 31, 2018, the Consolidated Statement of Operations for the three and nine months ended March 31, 2018 and Statement of Cash Flows for the nine-month period ending on March 31, 2018 was misstated. Below is a summary of the adjustments/restatement of the mistakenly filed 10-Q.

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| | For the Three Months Ended March 31, 2018 (Original) | (Adjustment) | (Restated) | For the Nine Months Ended March 31, 2018 (Original) | (Adjustment) | (Restated) |
|---|---|---|---|---|---|---|
| Revenues, net | $2,965,404 | $(2,115,968) | $849,436 | $5,081,372 | $(2,115,968) | $2,965,404 |
| Cost of goods sold: | 2,107,834 | (1,512,946) | 594,888 | 3,618,033 | (1,510,199) | 2,107,834 |
| Total cost of goods sold | 2,107,834 | (1,512,946) | 594,888 | 3,618,033 | (1,510,199) | 2,107,834 |
| Gross profit | 857,570 | (603,021) | 254,549 | 1,463,339 | (605,769) | 857,570 |
| Operating expenses: | | | | | | |
| Selling, general and administrative expenses | 2,849,789 | (2,052,593) | 797,196 | 4,901,953 | (2,052,164) | 2,849,789 |
| Total operating expenses | 2,849,789 | (2,052,593) | 797,196 | 4,901,953 | (2,052,164) | 2,849,789 |
| Loss from operations | (1,992,220) | 1,449,573 | (542,647) | (3,438,615) | 1,446,396 | (1,992,219) |
| Non-operating income (expense): | | | | | | |
| Other income | 14,206 | (14,206) | — | 29,281 | (15,075) | 14,206 |
| Interest expense | (303,484) | 206,377 | (97,107) | (509,813) | 206,329 | (303,484) |
| Change in fair value of derivative liabilities | (1,384,423) | 5,064,955 | 3,680,532 | (6,449,378) | 5,064,955 | (1,384,423) |
| Loss on conversion | — | (250,640) | (250,640) | — | (250,640) | (250,640) |
| Other expense | (612,894) | 611,629 | (1,265) | (979,799) | 617,545 | (362,254) |
| Total non-operating income (expense) | (2,286,594) | 5,618,114 | 3,331,520 | (7,909,709) | 5,623,114 | (2,286,595) |
| Net income (loss) | (4,278,814) | 7,067,686 | 2,788,872 | (11,348,323) | 7,069,509 | (4,278,814) |
| Basic net income (loss) per share | (0.02) | 0.03 | 0.01 | (0.05) | 0.03 | (0.02) |
| Diluted net income (loss) per share | (0.02) | 0.03 | 0.01 | (0.05) | 0.03 | (0.02) |
| Basic weighted average common shares outstanding | 247,395,774 | — | 247,395,774 | 237,925,753 | — | 237,925,753 |
| Diluted weighted average common shares outstanding * | 247,395,774 | — | 247,395,774 | 237,925,753 | — | 237,925,753 |

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| | For the Three Months Ended March 31, 2018 | | |
|---|---|---|---|
| | (Original) | (Adjustment) | (Restated) |
| Cash flows from operating activities: | | | |
| Net loss | (11,348,323) | 7,069,509 | (4,278,814) |
| Adjustments to reconcile net loss to cash flows from operating activities: | 125,642 | — | 125,642 |
| Initial valuation of debt discount | | | |
| Loss on settlement | — | 250,460 | 250,460 |
| Amortization of debt discount | 314,677 | 49,986 | 364,663 |
| Stock based compensation | 926,754 | (137,525) | 789,229 |
| Change in fair value of derivative liability | 9,578,061 | (8,193,638) | 1,384,423 |
| Depreciation and amortization | — | 85,807 | 85,807 |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (239,302) | — | (239,302) |
| Inventory | 100,447 | — | 100,447 |
| Other assets | (374,664) | — | (374,664) |
| Bank overdraft | 13,260 | — | 13,260 |
| Accounts payable and accrued liabilities | (194,809) | — | (194,809) |
| Customer deposits | 66,713 | — | 66,713 |
| Unearned revenue | (11,970) | — | (11,970) |
| Accrued interest and Other payables | 3,317 | 50,000 | 53,317 |
| Net cash used in operating activities | 954,390 | (2,819,987) | (1,865,597) |
| Cash flows from investing activities: | | | |
| Acquisition of intangible assets | (13,999) | — | (13,999) |
| Acquisition of property and equipment | (133,132) | — | (133,132) |
| Net cash used in investing activities | (147,131) | — | (147,131) |
| Cash flows from financing activities: | | | |
| Proceeds from shares to be issued | 361,478 | 961,207 | 1,322,685 |
| Proceeds from convertible notes | 702,653 | (50,000) | 652,653 |
| Repayment of notes payable | — | — | — |
| Payment to Note payable-related parties | (22,666) | — | (22,666) |
| Proceeds from loans | 30,342 | — | 30,342 |
| Repayment of loan payable-related parties | (158,617) | — | (158,617) |
| Repayment of loans | — | — | — |
| Proceeds from advance share issuance | 95,094 | — | 95,094 |
| Loan receivable | — | — | — |
| Net cash provided by financing activities | 1,008,284 | 911,207 | 1,919,491 |
| Net increase (decrease) in cash | (93,237) | — | (93,237) |
| Cash paid during the period for: | | | |
| Cash, beginning of period | 101,880 | — | 101,880 |
| Cash, end of period | 8,643 | — | 8,643 |

| | | | |
|---|---|---|---|
| Interest | — | — | — |
| Income taxes | — | — | — |
| Supplemental disclosure of non-cash financing activities Debts settled through shares issuance | 993,250 | — | 993,250 |

**3.** ***Summary of Significant Accounting***

***Policies Basis of presentation***

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position, results of operations, or cash flows. It is management's opinion however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation.

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These interim condensed consolidated financial statements should be read in conjunction with our Company's Annual Report on Form 10-K for the year ended June 30, 2017, which contains our audited consolidated financial statements and notes thereto, together with the Management's Discussion and Analysis of Financial Condition and Results of Operation, for the period ended June 30, 2017. The interim results for the period ended March 31, 2018 are not necessarily indicative of the results for the full fiscal year.

***Principles of consolidation***

The condensed consolidated unaudited financial statements include the accounts of our Company and its wholly-owned subsidiaries, Sugarmade-CA and SWC. All significant intercompany transactions and balances have been eliminated in consolidation.

***Going concern***

The Company sustained continued losses from operations during the nine months ended March 31, 2018 and for the fiscal year ended June 30, 2017. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flows from operations to meet its obligations, in which it has not been successful, and/or obtaining additional financing from its shareholders or other sources, as may be required.

Our condensed consolidated financial statements have been prepared assuming that we will continue as a going concern. Such assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. These condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

Management is endeavoring to increase revenue-generating operations. While priority is on generating cash from operations through the sale of the Company's products, management is also seeking to raise additional working capital through various financing sources, including the sale of the Company's equity and/or debt securities, which may not be available on commercially reasonable terms to our Company, or which may not be available at all. If such financing is not available on satisfactory terms, we may be unable to continue our business as desired and our operating results will be adversely affected. In addition, any financing arrangement may have potentially adverse effects on us and/or our stockholders. Debt financing (if available and undertaken) will increase expenses, must be repaid regardless of operating results and may involve restrictions limiting our operating flexibility. If we issue equity securities to raise additional funds, the percentage ownership of our existing stockholders will be reduced and the new equity securities may have rights, preferences or privileges senior to those of the current holders of our common stock.

***Use of estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

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***Revenue recognition***

We recognize revenue in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") No. 605, *Revenue Recognition*. Revenue is recognized when an arrangement and a determinable fee occur, and when collection is considered to be probable and products are delivered or title has been transferred. This generally occurs upon shipment of the merchandise, which is when legal transfer of title occurs. In the event that final acceptance of our product by the customer is uncertain, revenue is deferred until all acceptance criteria have been met. We currently have a consignment arrangement with two of our customers. We record revenue on consignment goods when the consigned goods are sold by the consignee and all other above mentioned revenue recognition criteria have been satisfied. Cash deposits received in connection with the sales of our products prior to their being delivered or acceptance if applicable is recorded as deferred revenue.

**Adoption of ASC Topic 606, "Revenue from Contracts with Customers"**

Sugarmade, Inc. is planning on implementing Topic 606. Results for reporting periods beginning within the next fiscal year will be presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Sugarmade experienced no impact to the opening balance of the accumulated deficit or revenues for any quarterly period as a result of applying Topic 606.

Sugarmade will apply a five-step approach in determining the amount and timing of revenue to be recognized: (1) identifying the contract with a customer, (2) identifying the performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations in the contract and (5) recognizing revenue when the performance obligation is satisfied.

Substantially all of Sugarmade's revenue is recognized at the time control of the products transfers to the customer.

Additionally, Sugarmade has substantially increased its accounting and financial staffs and enhanced its information technology and accounting systems software to ensure proper and effective implementation of Topic 606.

***Cash***

Cash and cash equivalents consist of amounts held as bank deposits and highly liquid debt instruments purchased with an original maturity of three months or less.

From time to time, we may maintain bank balances in interest bearing accounts in excess of the $250,000 currently insured by the Federal Deposit Insurance Corporation for interest bearing accounts (there is currently no insurance limit for deposits in noninterest bearing accounts). We have not experienced any losses with respect to cash. Management believes our Company is not exposed to any significant credit risk with respect to its cash.

***Accounts receivable***

Accounts receivable are carried at their estimated collectible amounts, net of any estimated allowances for doubtful accounts. We grant unsecured credit to our customer's deemed credit worthy. Ongoing credit evaluations are performed and potential credit losses estimated by management are charged to operations on a regular basis. At the time any particular account receivable is deemed uncollectible, the balance is charged to the allowance for doubtful accounts. The Company had accounts receivable net of allowances of $352,520 as of March 31, 2018 and of $113,218 as of June 30, 2017.

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***Inventory***

Inventory consists of finished goods paper and paper-based products such as paper cups and food containers ready for sale and is stated at the lower of cost or market. We value our inventory using the weighted average costing method. Our Company's policy is to include as a part of inventory any freight incurred to ship the product from our contract manufacturers to our warehouses. Outbound freights costs related to shipping costs to our customers are considered period costs and reflected in selling, general and administrative expenses. We regularly review inventory and consider forecasts of future demand, market conditions and product obsolescence.

If the estimated realizable value of our inventory is less than cost, we make provisions in order to reduce its carrying value to its estimated market value. On a consolidated basis, as of March 31, 2018 and June 30, 2017, the balance for the inventory totaled $467,782 and $568,229, respectively. Obsolescence reserve at March 31, 2018 and June 30, 2017 were $134,526 and $70,332, respectively.

***Intangible assets, net***

Intangible assets with finite lives are amortized over their estimated useful life. The Company monitors conditions related to these assets to determine whether events and circumstances warrant a revision to the remaining amortization period. The Company tests its intangible assets with finite lives for potential impairment whenever management concludes events or changes in circumstances indicate that the carrying amount may not be recoverable. The original estimate of an asset's useful life and the impact of an event or circumstance on either an asset's useful life or carrying value involve significant judgment.

***Income taxes***

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their perspective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded, when necessary, to reduce deferred tax assets to the amount expected to be realized.

As a result of the implementation of certain provisions of ASC 740, Income Taxes ("ASC 740"), which clarifies the accounting and disclosure for uncertainty in tax position, as defined, ASC 740 seeks to reduce the diversity in practice associated with certain aspect of the recognition and measurement related to accounting for income taxes. We adopted the provisions of ASC 740 as of October 2, 2008, and have analyzed filing positions in each of the federal and state jurisdictions where we are required to file income tax returns, as well as open tax years in these jurisdictions. We have identified the U.S. federal and California as our "major" tax jurisdictions and generally, we remain subject to Internal Revenue Service examination of our 2013 U.S. federal income tax returns. However, we have certain tax attribute carryforwards, which will remain subject to review and adjustment by the relevant tax authorities until the statute of limitations closes with respect to the year in which such attributes are utilized.

We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740. In addition, we did not record a cumulative effect adjustment related to the adoption of ASC 740. Our policy for recording interest and penalties associated with income-based tax audits is to record such items as a component of income taxes. We have no interest or penalties as of March 31, 2018.

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***Stock based compensation***

Stock based compensation cost to employees is measured at the date of grant, based on the calculated fair value of the stock-based award, and will be recognized as expense over the employee's requisite service period (generally the vesting period of the award). We estimate the fair value of employee stock options granted using the Black-Scholes-Merton Option Pricing Model. Key assumptions used to estimate the fair value of stock options will include the exercise price of the award, the fair value of our common stock on the date of grant, the expected option term, the risk free interest rate at the date of grant, the expected volatility and the expected annual dividend yield on our common stock. We use our company's own data among other information to estimate the expected price volatility and the expected forfeiture rate. Share-based compensation awards issued to non-employees for services rendered are recorded at either the fair value of the services rendered or the fair value of the share-based payment, whichever is more readily determinable.

***Loss per share***

We calculate basic earnings per share ("EPS") by dividing our net loss by the weighted average number of common shares outstanding for the period, without considering common stock equivalents. Diluted EPS is computed by dividing net income or net loss by the weighted average number of common shares outstanding for the period and the weighted average number of dilutive common stock equivalents, such as options and warrants. Options and warrants are only included in the calculation of diluted EPS when their effect is dilutive. As of March 31, 2018, there are approximately 31,915,377 potential shares issuable upon conversion of convertible debts and 505,000 shares of warrants were excluded in calculating diluted loss per share for the six-months ended March 31, 2018 due to the fact that issuance of the shares is anti-dilutive as a result of the Company's net loss.

***Fair value of financial instruments***

ASC Topic 820 defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - unobservable inputs which are supported by little or no market activity.

The Company used Level 2 inputs for its valuation methodology for the derivative liabilities in determining the fair value using the Black-Scholes option-pricing model for the nine months ended March 31, 2018.

| | **Carrying Value As of March 31, 2018** | **Fair Value Measurements at March 31, 2018 Using Fair Value Hierarchy** | | |
|---|---|---|---|---|
| | | **Level 1** | **Level 2** | **Level 3** |
| Liabilities | | | | |
| Derivative liabilities | $846,571 | $— | $— | $846,571 |
| Total | $846,571 | $— | $— | $846,571 |

| | June 30, 2017 | March 31, 2018 |
|---|---|---|
| Expected life (years) | 0.74 | 0.34 |
| Risk-free interest rate | 1.68% | 1.60%~1.88% |
| Expected volatility | 161 % | 205 % |

| | **Carrying Value As of June 30, 2017** | **Fair Value Measurements at June 30, 2017 Using Fair Value Hierarchy** | | |
|---|---|---|---|---|
| | | **Level 1** | **Level 2** | **Level 3** |
| Liabilities | | | | |
| Derivative liabilities | $1,134,000 | $— | $ — | $1,134,000 |
| Total | $1,134,000 | $— | $ — | $1,134,000 |

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***Derivative instruments***

The fair value of derivative instruments is recorded and shown separately under current liabilities. Changes in the fair value of derivatives liability are recorded in the consolidated statement of operations under non-operating income (expense).

Our Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a weighted average Black-Scholes- Merton option-pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date. Refer to Note 7 for details.

**Segment Reporting**

FASB ASC Topic 280, “Segment Reporting”, requires use of the “management approach” model for segment reporting. The management approach model is based on the way a company’s management organizes segments within the Company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company.

FASB ASC Topic 280 has no effect on the Company’s financial statements as substantially all of its operations are conducted in one industry segment – paper and paper-based products such as paper cups, cup lids, food containers, etc.

***New accounting pronouncements not yet adopted***

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

In May 2014, the FASB issued No. 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB approved a one-year deferral of the effective date of the new revenue recognition standard. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 31, 2016, including interim reporting periods within that reporting period. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue versus Net). In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing. In May 2016, the FASB issued ASU 2016-11, Revenue from Contracts with Customers (Topic 606) and Derivatives and Hedging (Topic 815) - Rescission of SEC Guidance Because of ASU 2014-09 and 2014-16, and ASU 2016-12, Revenue from Contracts with Customers (Topic 606) - Narrow Scope Improvements and Practical Expedients. These ASUs clarify the implementation guidance on a few narrow areas and adds some practical expedients to the guidance Topic 606. The Company is evaluating the effect that these ASUs will have on its consolidated financial statements and related disclosures.

On March 30, 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which includes amendments to accounting for income taxes at settlement, forfeitures, and net settlements to cover withholding taxes. The amendments in ASU 2016-09 are effective for public companies for fiscal years beginning after December 31, 2016, and interim periods within those annual periods. The Company adopted this new guidance on January 1, 2017 and this standard does not have a material impact on the Company’s consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This ASU is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. The Company is currently assessing the potential impact of ASU 2016-15 on its financial statements and related disclosures.

In October 2016, the FASB issued ASU No. 2016-16—Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This ASU improves the accounting for the income tax consequences of intra-entity transfers of assets other than invent tory. For public business entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted. The Company does not anticipate that the adoption of this ASU will have a significant impact on its consolidated financial statements.

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In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, and interim period within those fiscal years. Early adoption is permitted, including adoption in an interim period. The standard should be applied using a retrospective transition method to each period presented. The Company does not anticipate that the adoption of this ASU will have a significant impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The standard should be applied prospectively on or after the effective date. The Company will evaluate the impact of adopting this standard prospectively upon any transactions of acquisitions or disposals of assets or businesses.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

**4.** ***Concentration***

**Customers**

For the three months ended March 31, 2018 and March 31, 2017, our Company earned net revenues of $2,965,404 and $903,950 respectively. For the nine months ended March 31, 2018 and March 31, 2017, our Company earned net revenues of $5,081,372 and $2,759,595 respectively. The vast majority of these revenues for the period ending March 31, 2018 were derived from a large number of customers, whereas the vast majority of these revenues for the period ending March 31, 2017 were derived from a limited number of customers. No customers accounted for over 10% of the Company’s total revenues for the year ended March 31, 2018.

***Suppliers***

For the nine months end March 31, 2018, we purchased products for sale by CarryOutSupplies from several contract manufacturers located in Asia. A substantial portion of the Company's inventory is purchased from one supplier that functions as an independent foreign procurement agent. One supplier accounted for 65% and two suppliers each accounted for 8% of the Company's total inventory purchase in the nine- months ended March 31, 2018 and March 31, 2017 respectively.

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**5.** ***Equity Transaction - Exclusive License Rights***

On December 13, 2017, we entered into a Master Marketing Agreement with BizRight Hydroponic, Inc. ("BizRight"), a leading marketer and manufacturer of cannabis and hydroponic growth supplies, which offers a range of hydroponics-related products including: HPS grow lights, electronic ballasts, HPS Bulbs, nutrient mixes, environmental control products, pH measurement and calibration solutions and other cannabis-related grow and storage products. BizRight operates the ZenHydro.com website and other e-commerce properties, and sells various products to distributors and retailers.

Under the terms of the Master Marketing Agreement, all products procured, developed and imported by BizRight will be sold by the Company. The expected term of the exclusive license rights is 20 years. BizRight and its owners will be compensated via a combination of cash and common shares in Sugarmade. Effective the contract date, Bizright will be compensated Two hundred million (200,000,000) common shares. Sugarmade will compensate BizRight and its owners six million dollars ($6,000,000) in cash. The amount due will be divided over 3 payments equally and are contingent upon the filing of the S-1 and significant funding.

The shares to be issued in connection with the acquisition of exclusive license rights were booked under share to be issued- contra equity account. The shares to be issued were valued at $16,800,000, or $0.084 per share which was the share price on December 13, 2017, the acquisition date.

**6.** ***Litigation***

As of the date of this filing, the Company is a plaintiff, in Contra Costa County, California, in a suit alleging breach of fiduciary duty, conspiracy to commit breach of fiduciary duty, fraud, conspiracy to commit fraud, conversion, breach of contract, and interference with contractual relations against, Diversified Products Group Inc. (DPG), Stephen Pinto, Lewis Cohen and Heidi Estiva, who were former sales agents for the Company. Pinto is the Company's former Chairman of the board of directors. The Company plans to actively pursue this case. During November of 2014, the Company received notice that a cross complaint had been filed against the Company. The complaint alleges the parties were induced to make a series of investments in the Company by the material misrepresentations and omissions made by the Company. The Company believes the allegations are without merit. The Company plans to vigorously defend against such claims. No changes have occurred as of the filing date of this report.

On May 24, 2014, the Labor Commissioner, State of California issued an Order, Decision or Award of the Labor Commissioner against the Company in the amount of $56,365. On October 28, 2014, the Company entered into a settlement agreement, which was effective October 28, 2014, to resolve a judgment against the Company via the issuance of 502,533 restricted shares and a $30,000 cash payment.

On December 11, 2013, the Company was served with a complaint from two Convertible Note Holders and investors in the Company, Lovitt & Hannan, Inc. Salary Deferral Plan FBO J. Thomas Hannan, Attorney at Law 401K Plan and Trust, and Kevin M. Kearney. The Company's former CEO, Scott Lantz, was also named in the suit.

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On February 21, 2017, the Company signed a settlement agreement with the plaintiff in the matter of Hannan vs Sugarmade. Under the terms of the settlement agreement, the Company agreed to pay the plaintiffs' $227,000 to settle all claims against the Company, which included the payoff of the two notes outstanding within one (1) week. The parties had estimated the value of the notes at approximately $80,000. The Company agreed to pay the plaintiff $97,000 within one hundred and twenty (120) days of the settlement with the remaining balance of $50,000 due within one hundred and eighty (180) days of the settlement. Upon receipt of all payments, plaintiffs will surrender for cancellation 230,000 of the Company's shares within ten (10) days. The parties agreed that all claims against the Company would be satisfied through such payments and that the matter would be fully resolved. As of June 30, 2017, third-parties had purchased two (2) notes of approximately $80,000, reducing the Company's exposure by $80,000. As of the date of this filing the balance for accrued legal settlement for Hannan vs Sugarmade has been reduced to $227,000.

There can be no assurances the ultimate liability relative to these law suits will not exceed what is outlined above.

**7. *Convertible Notes***

As of March 31, 2018 and June 30, 2017, the balance owing on convertible notes with term as describe below was $818,797 and $1,502,023, respectively.

Convertible note 1: On August 24, 2012, the Company entered into a convertible promissory note with an accredited investor for $25,000. The note has a term of six (6) months with an interest rate of 10% and is convertible to common shares at a 25% discount of the average of 30 days prior to the conversion date. As of March 31, 2018, the note is in default.

Convertible note 2: On September 18, 2012, the Company entered into a convertible promissory note with an accredited investor for $25,000. The note has a term of six (6) months with an interest rate of 10% and is convertible to common shares at a 25% discount of the average of 30 days prior to the conversion date. As of March 31, 2018, the note is in default.

Convertible note 3: On December 21, 2012, the Company entered into a convertible promissory note with an accredited investor for $100,000. The note has a term of six (6) months with an interest rate of 10% and is convertible to common shares at a 25% discount of the average of 30 days prior to the conversion date. As of March 31, 2018, the note is in default.

Convertible note 4: On December 19, 2016, the Company entered into a convertible promissory note with an accredited investor for $20,000. The note has a term of six (6) months with an interest rate of 8% and is convertible to common shares at a 40% discount.

Convertible note 5: On January 17, 2017, the Company entered into a convertible promissory note with an accredited investor for $25,000. The note has a term of six (6) months with an interest rate of 8% and is convertible to common shares at a 40% discount to the then current market price of our shares. This convertible promissory note has been fully converted in the quarter ended March 31, 2018.

Convertible note 6: On January 17, 2017, the Company entered into a convertible promissory note with an accredited investor for $20,000. The note has a term of six (6) months with an interest rate of 8% and is convertible to common shares at a 40% discount to the then current market price of our shares.

Convertible note 9: On January 20, 2017, the Company entered into a convertible promissory note with an accredited investor for $80,000. The note has a term of seven (6) months with an interest rate of 8% and is convertible to common shares at a 40% discount to the then current market price of our shares.

Convertible note 7: On January 24, 2017, the Company entered into a convertible promissory note with an accredited investor for $43,000. The note has a term of twelve (12) months with an interest of 8% and is convertible to common shares at a 45% discount to the then current market price of our shares. This convertible promissory note has been fully converted in the quarter ended March 31, 2018.

Convertible note 8: On February 8, 2017, the Company entered into a convertible promissory note with an accredited investor for $50,000. The note has a term of six (6) months with an interest rate of 8% and is convertible to common shares at a 40% discount to the then current market price of our shares. This convertible promissory note has been fully converted in the quarter ended March 31, 2018.

Convertible note 11: On February 9, 2017, the Company entered into a convertible promissory note with an accredited investor for $50,000. The note has a term of six (6) months with an interest rate of 8% and is convertible to common shares at a 40% discount to the then current market price of our shares.

Convertible note 15: On February 15, 2017, the Company entered into a convertible promissory note with an accredited investor for $63,000. The note has a term of nine (9) months with an interest rate of 8% and is convertible to common shares at 40% discount to the then current market price of our shares. This convertible promissory note has been fully converted in the quarter ended March 31, 2018.

Convertible note 16: On February 16, 2017, the Company entered into a convertible promissory note with an accredited investor for $30,000. The note has a term of six (6) months with an interest rate of 8% and is convertible to common shares at a 40% discount to the then current market price of our shares. This convertible promissory note has been fully converted in the quarter ended March 31, 2018.

Convertible note 10: On February 24, 2017, the Company entered into a convertible promissory note with an accredited investor for $66,023. The note has a term of six (6) months with an interest rate of 8% and is convertible to common shares at a 40% discount to the then current market price of our shares.

Convertible note 12: On February 28, 2017, the Company entered into a convertible promissory note with an accredited investor for $75,000. The note has a term of six (6) months with an interest rate of 8% and is convertible to common shares at a 40% discount.

Convertible note 13: On March 1, 2017, the Company entered into a convertible promissory note with an accredited investor for $100,000. The note has a term of nine (9) months with an interest rate of 10% and is convertible to common shares at a 45% discount to the then current market price of our shares. As of March 31, 2018, the note is in default.

Convertible note 14: On March 23, 2017, the Company entered into a convertible promissory note with an accredited investor for $70,000. The note has a term of six (6) months with an interest rate of 8% and is convertible to common shares at a 40% discount to the then current market price of our shares.

Convertible note 17: On March 31, 2017, the Company entered into a convertible promissory note with an accredited investor for $200,000. The note has a term of six (6) months with an interest rate of 8% and is convertible to common shares at a 40% discount to the then current market price of our shares.

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Convertible note 18 & 19: On May 17, 2017, the Company entered a convertible promissory note with an investor for a total amount of $1,375,000 (after $10,000 legal and due diligence fee) with an OID of $125,000, the note will be fulfilled through a series of fundings. The note is due 12 months after each funding date and bear an interest rate of 10%. The conversion price for the note is 55% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date. In connection with the note, the investor will also receive warrants and is calculated based on 15% of the maturity amount. The warrants have a life of four years with exercise price of $0.15 per share and have cashless exercise option. The Company received $460,000 (net with OID of $45,000) from this note during the year ended June 30, 2017. The fair value of the warrants were $40,400 at grant date. As of June 30, 2017, the Company had outstanding convertible note payable to this investor for $460,000 (net with OID of $45,000), the fair value of the warrant liability was $25,250.

On July 17, 2017, the Company entered into a convertible promissory note with an accredited investor for $164,900. The note has a term of one year with an interest rate of 8% and is convertible to common shares at a fixed conversion price of $0.025.

On August 3, 2017, the Company entered into a convertible promissory note with an accredited investor for $150,000. The note has a term of six (6) months with an interest rate of 10% and is convertible to common shares at a 45% discount to average of 3 lowest trading price during last 20 trading days.

On August 22, 2017, the Company entered into a convertible promissory note with an accredited investor for $35,000. The note has a term of six (6) months with an interest rate of 8% and is convertible to common shares at a 40% discount of average two lowest price of last 20 trading days prices.

On September 15, 2017, the Company entered into a convertible promissory note with an accredited investor for $150,000. The note has a term of six (6) months with an interest rate of 10% and is convertible to common shares at a 45% discount to average of 3 lowest trading price during last 20 trading days.

On September 26, 2017, the Company entered into a convertible promissory note with an accredited investor for $15,000. The note has a term of six (6) months with an interest rate of 8% and is convertible to common shares at a 40% discount of average two lowest price of last 20 trading days prices.

On December 7, 2017, the Company entered into a convertible promissory note with an accredited investor for $50,000. The note has a term of one year with an interest rate of 8% and is convertible to common shares at a fixed conversion price of $0.05.

As of March 31, 2018, the Company's convertible notes consisted of following:

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| Principal Amount | Default Penalty | Repayment | Conversion in principal | # of shares | Balance as of 12.31.17 | Due Date | Interest Rate | Conversion Price |
|---|---|---|---|---|---|---|---|---|
| 25,000.00 | — | — | — | — | 25,000.00 | 7/1/2016 | 10 % | 75% of the average of 30 days prior to the conversion date. |
| 25,000.00 | — | — | — | — | 25,000.00 | 7/1/2016 | 10 % | 75% of the average of 30 days prior to the conversion date. |
| 100,000.00 | — | — | — | — | 100,000.00 | 7/1/2016 | 10 % | 75% of the average of 30 days prior to the conversion date. |
| 20,000.00 | — | — | 20,000.00 | 737,748 | — | 7/17/2017 | 8 % | Greater of 40% discount to average of 3 lowest trading price during last 20 trading days or $.05 |
| 50,000.00 | — | — | 50,000.00 | 2,931,188 | — | 8/8/2017 | 8 % | 40% discount of average two lowest price of last 20 trading days prices |
| 80,000.00 | — | — | 80,000.00 | 4,530,846 | — | 7/20/2017 | 8 % | 40% discount of average two lowest price of last 20 trading days prices |
| 66,023.00 | — | — | 66,023.00 | 3,712,324 | — | 8/24/2017 | 8 % | 40% discount of average two lowest price of last 20 trading days prices |
| 75,000.00 | — | — | 75,000.00 | 4,378,547 | — | 7/31/2017 | 8 % | 40% discount of average two lowest price of last 20 trading days prices |
| 100,000.00 | — | — | — | — | 100,000.00 | 12/1/2017 | 10 % | Greater of 40% discount to average of 3 lowest trading price during last 20 trading days or $.05 |
| 70,000.00 | — | — | 70,000.00 | 4,067,072 | — | 9/23/2017 | 8 % | 40% discount of average two lowest price of last 20 trading days prices |
| 200,000.00 | — | — | 200,000.00 | 11,557,652 | — | 9/30/2017 | 8 % | 40% discount of average two lowest price of last 20 trading days prices |
| 340,000.00 | — | — | 125,000 | 11,320,929 | 215,000.00 | 5/12/2018 | 10 % | 45% discount of lowest price of last 20 trading days prices |
| 150,000.00 | — | — | — | — | 150,000.00 | 5/3/2018 | 10 % | 45% discount to average of 3 lowest trading price during last 20 trading days |
| 150,000.00 | — | — | — | — | 150,000.00 | 6/15/2018 | 10 % | 42% discount to average of 3 lowest trading price during last 20 trading days |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 164,900.00 | — | — | 164,900 | 6,596,000 | — | 7/17/2018 | 8 | % | The conversion price shall be $0.025 per share |
| 35,000.00 | — | — | — | — | 35,000.00 | 8/22/2018 | 8 | % | 40% discount of average two lowest price of last 20 trading days prices |
| 15,000.00 | — | — | — | — | 15,000.00 | 9/26/2018 | 8 | % | 40% discount of average two lowest price of last 20 trading days prices |
| 50,000 | — | — | — | — | 50,000 | 12/7/2018 | 8 | % | The conversion price shall be $0.05 per share |
| **1,788,423** | | | | | **865,000** | | | | |

In connection with the convertible debt, debt discount balance as of March 31, 2018 and June 30, 2017 were $96,203 and $45,000 respectively and were being amortized and recorded as interest expenses over the term of the convertible debt.

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**8. *Derivative liabilities***

The derivative liability is derived from the conversion features in note 5 and stock warrant in note 7. All were valued using the weighted-average Black-Scholes-Merton option pricing model using the assumptions detailed below. As of March 31, 2018 and June 30, 2017, the derivative liability was $846,571 and $1,134,000, respectively. The Company recorded $6,449,378 loss and $1,449,000 loss from changes in derivative liability during the nine months ended March 31, 2018 and 2017, respectively. The Black- Scholes model with the following assumption inputs:

| | **March 31, 2018** |
|---|---|
| Annual dividend yield | — |
| Expected life (years) | 0.01 – 1 year |
| Risk-free interest rate | 1.29% – 1.76% |
| Expected volatility | 103% - 206% |

| | **June 30, 2017** | |
|---|---|---|
| Annual dividend yield | — | |
| Expected life (years) | 0.01 | |
| Risk-free interest rate | 0.21 | % |
| Expected volatility | 449 | % |

Fair value of the derivative is summarized as below:

| | | |
|---|---|---|
| Beginning Balance, December 31, 2017 | 5,039,978 | |
| Additions | | - |
| Mark to Market | (3,680,532) | |
| Reclassification to APIC due to conversions | (512,875) | |
| Balance, March 31, 2018 | 846,571 | |

**9. *Stock warrants***

In connection with the issuance of the promissory notes in 2012, the investors in the aggregate received two-year warrants to purchase up to a total of 50,000 shares of common stock at an exercise price of $0.50 per share, and two-year warrants purchasing up to a total of 81,250 shares of common stock at an exercise price of $0.01 per share. For purposes of accounting for the detachable warrants issued in connection with the convertible notes, the fair value of the warrants was estimated using the Black-Scholes-Merton option pricing formula. The value of all warrants granted at the date of issuance totaled $508,413 and was recorded as a discount to the notes payable. The amount was amortized over the nine (9) month term of the respective convertible note as additional interest expense.

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On various dates during June 2014 and December 2014 the Company and holders of certain convertible notes agreed to cancel warrants to purchase common shares in the Company and to extend the due dates on the Notes to July 1, 2016. $0.50 warrants and "Bonus Warrants" priced at $0.01, as defined in the original Convertible Note Purchase Agreements we cancelled pertaining to the Note and warrants acquired on the following dates for the following Convertible Notes and amounts. These warrants were expired on July 1, 2016.

On May 17, 2017, the Company entered a promissory note with an investor for a total amount of $1,375,000 (after $10,000 legal and due diligence fee) with an OID of $125,000, the note will be fulfilled through a series of funding. In connection with the note, the investor will also receive warrants and is calculated based on 15% of the maturity amount. The warrants have a life of four years with an exercise price of $0.15 per share and have cashless exercise option. The fair value of the warrants at the grant date was $40,400. As of March 31, 2018 and June 30, 2017, the fair value of the warrant liability was $15,653 and $25,250, respectively. The Black-Scholes model with the following assumption inputs:

| Warrants liability | **March 31, 2018** | |
|---|---|---|
| Annual dividend yield | — | |
| Expected life (years) | 3.61 | |
| Risk-free interest rate | 1.89 | % |
| Expected volatility | 424 | % |

| Warrants issued in May 2017 | **June 30, 2017** | |
|---|---|---|
| Annual dividend yield | — | |
| Expected life (years) | 3.86 | |
| Risk-free interest rate | 1.89 | % |
| Expected volatility | 440 | % |

| Warrants issued in 2012 with extension to July 1, 2016 | **June 30, 2016** |
|---|---|
| Annual dividend yield | |