

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **December 31, 2019**

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

(State or other jurisdiction of
incorporation or organization)

94-3008888

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

750 Royal Oaks Dr., Suite 108, Monrovia, CA

(Address of principal executive offices)

91016

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

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

At February 17, 2020, there were 713,207,811 shares of common stock and 2,415,000 shares of preferred stock issued and outstanding.

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

SUGARMADE, INC.

FORM 10-Q
FOR THE PERIOD ENDED DECEMBER 31, 2019

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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 those 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 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 1 Financial Statements

Sugarmade, Inc. and Subsidiary
Condensed Consolidated Balance Sheets

Assets	December 31, 2019 (Unaudited)	June 30, 2019
Current assets:		
Cash	\$ 103,002	\$ 34,371
Accounts receivable, net	158,000	218,145
Inventory, net	495,086	356,285
Loan receivables	10,500	85,533
Other current assets	<u>2,458,692</u>	<u>2,719,875</u>
Total current assets	3,225,281	3,414,209
Equipment, net	430,396	476,585
Intangible assets, net	10,500	11,200
Other assets	58,970	23,970
Right of Use Assets – Non-Current	416,421	—
Advanced to Investments	<u>—</u>	<u>18,000,000</u>
Total assets	<u>\$ 4,141,568</u>	<u>\$ 21,925,965</u>
Liabilities and Stockholders' Equity (Deficiency)		
Current liabilities:		
Note payable due to bank	\$ 25,982	\$ 25,982
Bank overdraft	5,907	—
Accounts payable and accrued liabilities	1,427,098	1,431,379
Customer deposits	222,284	287,789
Customer Overpayment	—	42,307
Unearned revenue	87,420	61,672
Other payable	458,412	420,450
Accrued interest	637,389	507,218
Accrued compensation and personnel related payables	24,528	24,528
Note Payable	20,000	20,000
Notes payable – related parties	18,000	18,000
Loans payable	192,030	214,585
Loans payable – related parties	135,000	30,000
Convertible notes payable, net	1,378,221	1,046,909
Derivative liabilities	3,259,345	2,991,953
Warrants liabilities	15,663	24,658
Shares to be issued	262,000	100,000
Lease Liability - Current	<u>110,824</u>	<u>—</u>
Total Current Liabilities	<u>8,280,102</u>	<u>7,247,431</u>
Lease Liability – Non-Current	318,083	—
Total liabilities	<u>8,598,185</u>	<u>7,247,431</u>
Stockholders' equity (deficiency):		
Preferred stock (\$0.001 par value, 10,000,000 shares authorized, 3,165,001 and 2,000,000 issued and outstanding at December 31, 2019 and June 30, 2019, respectively)	3,165	2,000
Common stock (\$0.001 par value, 1,990,000,000 shares authorized, 1,129,926,122 and 697,608,570 shares issued and outstanding at December 31, 2019 and June 30, 2019, respectively)	1,129,927	697,610
Additional paid-in capital	83,472,375	61,038,875
Shares to be cancelled, common shares	(21,566,046)	—
Shares to be cancelled, preferred shares	(10,725,014)	—
Shares to be issued, common shares	100,000	29,000
Accumulated deficiency	<u>(56,871,025)</u>	<u>(47,088,950)</u>
Total stockholders' equity (deficiency)	<u>(4,456,617)</u>	<u>14,678,534</u>
Total liabilities and stockholders' equity (deficiency)	<u>\$ 4,141,568</u>	<u>\$ 21,925,965</u>

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

Sugarmade, Inc. and Subsidiary
Condensed Consolidated Statements of Operations

	For the Three Months Ended December 31		For the Six Months Ended December 31	
	2019	2018	2019	2018
Revenues, net	\$ 720,810	\$ 1,445,269	\$ 1,474,784	\$ 2,886,885
Cost of goods sold	435,690	1,071,033	927,858	2,130,452
Gross profit	285,120	374,236	546,925	756,433
Selling, general and administrative expenses	7,215,933	3,823,085	8,419,563	4,736,957
Loss from operations	(6,930,814)	(3,448,849)	(7,872,637)	(3,980,524)
Non-operating income (expense):				
Other income	1,867	1,451	3,098	5,101
Interest expense	(735,196)	(460,102)	(1,319,800)	(741,480)
Change in fair value of derivative liabilities	1,291,168	(2,019,927)	2,314,046	(3,661,383)
Warrant Expense	—	3,195	(55,278)	25,920
Loss on notes conversion	(184,626)	—	(184,626)	8,763
Loss on settlement	(232,776)	(94,207)	(382,635)	(255,882)
Gain on asset disposal	—	—	7,000	—
Amortization of debt discount	(963,407)	(31,591)	(2,118,407)	(59,597)
Debt forgiveness	—	16,649	(172,096)	16,649
Miscellaneous	(740)	—	(740)	—
Total non-operating expenses, net	(823,710)	(2,584,531)	(1,909,438)	(4,661,909)
Net loss	\$ (7,754,524)	\$ (6,033,380)	\$ (9,782,075)	\$ (8,642,433)
Basic net income (loss) per share	\$ (0.04)	\$ (0.02)	\$ (0.01)	\$ (0.03)
Diluted net income (loss) per share	\$ (0.04)	\$ (0.02)	\$ (0.01)	\$ (0.03)
Basic and diluted weighted average common shares outstanding *	191,886,785	393,670,334	880,355,944	330,029,294

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

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

Sugarmade, Inc. and Subsidiary
Condensed Consolidated Statements of Equity
(Unaudited)

Three and Six Month 12/31/2019 Equity Statements

	Preferred Stock		Common Stock		Additional paid-in capital	Shares to be cancelled, preferred shares	Shares to be cancelled, common shares	Shares to be issued, common shares	Accumulated deficit	Total
	Shares	Amount	Shares	Amount						
Balance at June 30, 2019	<u>2,000,000</u>	<u>2,000</u>	<u>697,608,570</u>	<u>697,610</u>	<u>61,038,875</u>	—	—	<u>29,000</u>	<u>(47,088,950)</u>	<u>14,678,534</u>
Shares issued for debts settlement	—	—	1,000,000	1,000	28,000	—	—	(29,000)	—	—
Reclass Derivative liability from conversion	—	—	—	—	659,526	—	—	—	—	659,526
Shares issued for conversions	—	—	71,915,557	71,906	475,926	—	—	—	—	547,833
Share issued for Cash	—	—	11,348,591	11,349	88,651	—	—	—	—	100,000
Shares issued for Warrant Exercise	—	—	28,381,818	28,382	(14,249)	—	—	—	—	14,132
Net Loss	—	—	—	—	—	—	—	—	(2,027,551)	(2,027,551)
Balance at September 30, 2019	<u>2,000,000</u>	<u>2,000</u>	<u>810,254,536</u>	<u>810,257</u>	<u>62,276,720</u>	—	—	—	<u>(49,116,501)</u>	<u>13,972,474</u>
Share issued for Cash	—	—	26,621,610	26,622	213,378	—	—	100,000	—	340,000
Option for services	—	—	—	—	73,500	—	—	—	—	73,500
Share issued for services compensation	415,000	415	500,000	500	5,941,135	—	—	—	—	5,942,050
Reclass Derivative liability from conversion	—	—	—	—	297,962	—	—	—	—	297,962
Shares issued for conversions	—	—	24,994,341	24,994	117,170	—	—	—	—	142,164
Shares issued for debt settlement	—	—	18,181,818	18,182	272,273	—	—	—	—	290,455
Shares issued for Award - Bizright	750,001	750	249,373,817	249,374	14,040,936	(10,725,014)	(21,566,046)	—	—	(18,000,000)
Initial valuation of BCF	—	—	—	—	239,301	—	—	—	—	239,301
Net loss	—	—	—	—	—	—	—	—	(7,754,524)	(7,754,524)
Balance at December 31, 2019	<u>3,165,001</u>	<u>3,165</u>	<u>1,129,926,122</u>	<u>1,129,927</u>	<u>83,472,375</u>	<u>(10,725,014)</u>	<u>(21,566,046)</u>	<u>100,000</u>	<u>(56,871,025)</u>	<u>(4,456,617)</u>

Three and Six Month 12/31/2018 Equity Statements

	Preferred Stock		Common Stock		Additional paid-in capital	Investment	Shares to be issued, preferred shares	Shares to be issued, common shares	Accumulated deficit	Total
	Shares	Amount	Shares	Amount						
Balance at June 30, 2018	—	—	<u>246,135,203</u>	<u>246,136</u>	<u>21,952,560</u>	—	<u>2,000,000</u>	<u>467,996</u>	<u>(34,859,799)</u>	<u>(10,193,106)</u>
Shares issued for debts settlement	—	—	—	—	—	—	—	174,450	—	174,450
Reclass Derivative liability from conversion	—	—	—	—	2,715,433	—	—	—	—	2,714,433
Shares issued for conversions	—	—	27,301,360	27,301	845,558	—	—	—	—	872,859
Share issued for Cash	—	—	3,700,000	3,700	181,300	—	—	—	—	185,000
Shares issued for service compensation	—	—	2,971,154	2,971	194,529	—	—	—	—	197,500
Shares to be issued for service compensation	—	—	—	—	—	—	—	137,000	—	137,000
Shares to be issued for cash	—	—	—	—	—	—	—	95,000	—	95,000
Net Loss	—	—	—	—	—	—	—	—	(2,609,055)	(2,607,053)
Balance at September 30, 2018	—	—	<u>280,107,717</u>	<u>280,109</u>	<u>25,888,378</u>	—	<u>2,000,000</u>	<u>874,446</u>	<u>(37,468,851)</u>	<u>(8,425,919)</u>
Shares issued for debts settlement	—	—	6,632,605	6,633	603,965	—	—	(263,616)	—	346,982
Reclass Derivative liability to equity from conversion	—	—	—	—	3,574,808	—	—	—	—	3,574,808
Shares issued for conversions	—	—	47,865,888	47,866	967,525	—	—	—	—	1,015,391
Initial valuation of BCF	—	—	—	—	149,143	—	—	—	—	149,143
Share issued for Cash	—	—	4,142,857	4,143	215,857	—	—	(220,000)	—	—
Shares issued for service compensation	—	—	89,111,251	89,111	6,384,569	—	—	(390,830)	—	6,082,851
Shares issued for LOI	—	—	10,000,000	10,000	1,165,000	—	—	—	—	1,175,000
Shares issued for Award - Bizright	—	—	200,000,000	200,000	17,800,000	(18,000,000)	—	—	—	—
Shares issued for EB-5	2,000,000	2,000	—	—	1,998,000	—	(2,000,000)	—	—	—
Net Loss	—	—	—	—	—	—	—	—	(6,033,380)	(6,033,380)
Balance at December 31, 2018	<u>2,000,000</u>	<u>2,000</u>	<u>637,860,318</u>	<u>637,861</u>	<u>58,747,248</u>	<u>(18,000,000)</u>	—	—	<u>(43,502,231)</u>	<u>(2,115,125)</u>

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

Sugarmade, Inc. and Subsidiary
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the six months ended December 31,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (9,782,075)	\$ (8,642,432)
Adjustments to reconcile net loss to cash flows from operating activities:		
Initial valuation of debt discount	239,300	149,143
Loss on settlement	382,635	255,882
Gain on debt forgiveness	—	(16,649)
Amortization of debt discount	330,192	565,978
Stock based compensation	6,041,550	5,097,206
Change in fair value of derivative liability	273,299	3,661,418
Amortization of Intangible Assets	700	700
Change in exercise of warrant	67,387	(25,920)
Depreciation and amortization	46,189	26,578
Changes in assets and liabilities:		
Accounts receivable	60,145	113,179
Inventory	(138,801)	(49,226)
Prepayment, deposits and other receivables	261,183	(54,876)
Lease liability	(36,919)	—
Accounts payable and accrued liabilities	5,955	(40,876)
Customer deposits	(62,174)	(118,974)
Other assets	(35,000)	—
Unearned revenue	(19,890)	(89,344)
Interest Payable	166,753	172,221
Right of use assets	39,169	—
Accrued interest and other payables	37,962	56,972
Net cash provided by (used in) operating activities	(2,122,441)	1,060,980
Cash flows from investing activities:		
Payment for property and equipment	—	(87,154)
Net cash used in investing activities	—	(87,154)
Cash flows from financing activities:		
Proceeds from shares issuance	340,000	235,000
Proceeds from convertible debt	1,451,687	1,022,500
Proceeds (Repayment) from(to) loans	(22,555)	(5,261)
Payment to loan payable-related parties	105,000	25,634
Proceeds from advance share issuance	236,000	(2,121,000)
Bank overdraft	5,907	—
Loan receivable	75,033	(13,151)
Net cash provided by (used in) financing activities	2,191,072	(856,278)
Net increase (decrease) in cash	68,631	117,550
Cash paid during the period for:		
Cash, beginning of period	34,371	42,121
Cash, end of period	\$ 103,002	\$ 159,671
Supplemental disclosure of non-cash financing activities —		
Shares issued for conversion of convertible debt	689,997	516,391
Reclassification from derivative liabilities to APIC	957,488	6,289,241
Debt discount related to convertible debt	951,581	1,888,248
Debts settled through shares issuance	229,000	1,292,544
Shares issued for award to Bizright and to be cancelled in future	(32,291,060)	—
Shares issued for warrant exercise	28,381	—

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

Sugarmade, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
December 31, 2019

1. Nature of Business

Sugarmade, Inc. (hereinafter referred to as "we", "us" or "the/our Company") is a publicly traded company incorporated in the state of Delaware. Our previous legal name was Diversified Opportunities, Inc. Our Company, Sugarmade, Inc. operates much of its business activities through our subsidiary, SWC Group, Inc., a California corporation ("SWC").

Sugarmade, Inc. was founded in 2010. In 2014, CarryOutSupplies.com was acquired by Sugarmade, Inc., creating the Company as it is today. As of the end of the reporting period, September 30, 2019, we were involved in two businesses including the supply of products to the quick service restaurant sub-sector of the restaurant industry and as an importer, distributor and marketer of hydroponic supplies to various agricultural sectors. We had previously been a marketer of culinary seasoning products Seasoning Stix and Sriracha Seasoning Stix and a marketer of tree-free paper products. These products were discontinued during 2018 in order to focus the majority of our corporate resources on the marketing of hydroponic supplies.

The marketplace in which we plan to be mainly engaged is generally referred to as hydroponic agricultural supplies. While some of our customers are engaged in the legal cultivation, processing and/or distribution of cannabis or cannabis containing products, our Company neither sells any products containing cannabis nor do we handle, process, or distribute any products containing cannabis.

Our legacy business operation, CarryOutSupplies.com, 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 when the founders gained first-hand experience within the restaurant industry of the difficulty for restaurant owners to acquire custom printed supplies at a reasonable cost. Many quick service restaurants wish to acquire custom printed products, such as those embossed with logos, but the minimum order size for such customization had been cost prohibitive. With that in mind, carry out supplies was founded to provide products to this underserved section of the market. Since that time, the company has become a key supplier to many popular U.S. franchises, particularly in the frozen dessert segments.

During December 2017, the Company entered into a master marketing agreement with BizRight, LLC, a leading marketer and manufacturer of 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 grow and storage products. BizRight operates the ZenHydro.com website and other e-commerce properties, and sells various products to distributors and retailers. On April 11, 2018, the same rights under the master marketing agreement were assigned to BZRTH Inc. On February 5, 2019, the Company exercised its option to acquire BZRTH and the transaction had been closed on October 30, 2019. On January 15, 2020, the Company entered into a Rescission and Mutual Release Agreement ("Agreement") with each of the parties agreeing to rescind the transaction and return all consideration exchanged pursuant to the Stock Exchange Agreement.

In October 2018 and January 2019, the Company had intents to acquire two suppliers or retailers of hydroponic equipment. As of the date of this report, the Company is no longer pursuing these acquisitions.

Sugarmade, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
December 31, 2019

2. 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.

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, 2019, 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 year ended June 30, 2019. The interim results for the period ended December 31, 2019 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, SWC Group Inc. All significant intercompany transactions and balances have been eliminated in consolidation.

Going concern

The Company sustained continued losses from operations during the six months ended December 31, 2019 and for the fiscal year ended June 30, 2019. 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.

Sugarmade, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
December 31, 2019

2. Summary of Significant Accounting (continued)

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.

Revenue recognition

We recognize revenue in accordance with Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) No. 606, Revenue Recognition. Sugarmade applied 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 the Company’s revenue is recognized at the time control of the products transfers to the customer.

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 \$158,000 as of December 31, 2019 and of \$218,145 as of June 30, 2019.

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.

Sugarmade, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
December 31, 2019

2. Summary of Significant Accounting (continued)

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 December 31, 2019 and June 30, 2019, the balance for the inventory totaled \$495,086 and \$356,285, respectively. Obsolescence reserve at December 31, 2019 and June 30, 2019 were \$10,580 and \$120,486, respectively.

Property and equipment

Property and equipment is stated at the historical cost, less accumulated depreciation. Depreciation on property and equipment is provided using the straight-line method over the estimated useful lives of the assets for both financial and income tax reporting purposes as follows:

Machinery equipment	5 years
Furniture and equipment	7 years
Vehicles	7 years

Expenditures for renewals and betterments are capitalized while repairs and maintenance costs are normally charged to the statement of operations in the year in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset.

Upon sale or disposal of an asset, the historical cost and related accumulated depreciation or amortization of such asset were removed from their respective accounts and any gain or loss is recorded in the statements of income.

The Company reviews the carrying value of property, plant, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition and other economic factors. Based on this assessment, no impairment expenses for property, plant, and equipment was recorded in operating expenses during the six months ended December 31, 2019 and 2018.

Impairment of Long-Lived Assets

Long-lived assets, which include property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

Recoverability of long-lived assets to be held and used is measured by comparing the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the assets. Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable. Based on its review, the Company, as of June 30, 2019, performed an impairment test of all of its intangible assets. Based on the company's analysis, the company had an amortization of intangible assets of \$700 for the six months ended December 31, 2019 and 2018, respectively.

Sugarmade, Inc. and Subsidiary
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2. Summary of Significant Accounting (continued)

Leases

In February 2016, the FASB established Topic 842, Leases, by issuing ASU No. 2016-02, which requires lessees to recognize the rights and obligations created by leases on the balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-11, Targeted Improvements, ASU No. 2018-10, Codification Improvements to Topic 842, and ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of operations.

The new standard became effective April 1, 2019. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required by the new standard for the comparative periods. The Company adopted the new standard on July 1, 2019 using the modified retrospective transition approach as of the effective date of the initial application. The new standard provides a number of optional practical expedients in transition. The Company elected the “package of practical expedients”, which permits entities not to reassess under the new lease standard prior conclusions about lease identification, lease classification and initial direct costs. The Company does not expect to elect the use-of-hindsight or the practical expedient pertaining to land easements.

The most significant effects of the adoption of the new standard relate to the recognition of new ROU assets and lease liabilities on our balance sheet for office operating leases and providing significant new disclosures about our leasing activities.

The new standard also provides practical expedients for an entity’s ongoing accounting. The Company has also elected the short-term leases recognition exemption for all leases that qualify. This means that the Company will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets and lease liabilities, for existing short-term leases of those assets in transition. The Company also currently expects to elect the practical expedient to not separate lease and non-lease components for its leases. All existing leases are reported under this rule. After the adoption, \$455,590 of operating lease right-of-use asset and \$465,826 of operating lease liabilities were not retroactively reflected to June 30, 2019 financial statements, and \$416,421 of operating lease right-of-use asset and \$428,907 of operating lease liabilities were reflected to December 31, 2019 financial statements.

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 taxbases. 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

Sugarmade, Inc. and Subsidiary
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2. Summary of Significant Accounting (continued)

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 December 31, 2019.

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 Binomial 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.

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 3 inputs for its valuation methodology for the derivative liabilities in determining the fair value using the Binomial option-pricing model for the six months ended December 31, 2019.

Sugarmade, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
December 31, 2019

2. Summary of Significant Accounting (continued)

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 Binomial 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.

Segment Reporting

FASBASC 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

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 adopted this ASU on the consolidated financial statements in the quarter ended December 31, 2019.

3. Concentration

Customers

For the six months ended December 31, 2019 and 2018, our Company earned net revenues of \$1,474,784 and \$2,886,885 respectively. The vast majority of these revenues for the period ending December 31, 2019 were derived from a large number of customers, whereas the vast majority of these revenues for the period ending December 31, 2018 were derived from a limited number of customers. No customers accounted for over 10% of the Company's total revenues for the period ended December 31, 2019.

Sugarmade, Inc. and Subsidiary
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3. Concentration (continued)

Suppliers

For the six months ended December 31, 2019 and 2018, we purchased products for sale from several contract manufacturers located in Asia and the U.S. A substantial portion of the Company's inventory is purchased from two (2) suppliers. The two (2) suppliers accounted as follows: Two suppliers accounted for 38.63% and 38.38% of the Company's total inventory purchase for the six months ended December 31, 2019 and 2018, respectively.

4. Equity Transaction - Exclusive License Rights and Acquisition

On December 13, 2017, we entered into a Master Marketing Agreement with BizRight, LLC ("BizRight"), a leading marketer and manufacturer of 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 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.

We began recognizing revenues under this marketing agreement during April 2018 and stopped recognizing the revenue early 2019 upon exercise of the purchase option under the agreement. As of June 30, 2019, BizRight had assigned the marketing agreement to its operating entity, BZRTH and the Company had exercised the option to purchase 100% equity ownership of BZRTH.

As of June 30, 2019, cash of \$870,000 and 200 million shares of the Company's common stock had been paid and issued in connection with the acquisition.

On October 30, 2019, SGMD closed the previously announced acquisition of BZRTH, Inc., a Nevada corporation ("BZRTH") pursuant to a Stock Exchange Agreement. The total consideration to be paid by the Company to acquire BZRTH was 650,000,000 shares of SGMD's common stock, 3,500,000 shares of Series B convertible preferred stock, \$870,000 in cash, and 5% promissory notes in the sum of \$7,130,000.00 due on or before October 31, 2021 to the BZRTH shareholders. \$870,000 of cash had been paid along with 449,373,817 common shares and 750,000 Series B Convertible Preferred shares.

As of December 31, 2019, cash of \$870,000 and 249 million shares of the Company's common stock had been paid and issued in connection with the acquisition.

On January 15, 2020, the Company entered into a Rescission and Mutual Release Agreement ("Agreement") with each of the parties agreeing to return all consideration exchanged pursuant to the Stock Exchange Agreement.

The shareholders of BZRTH have agreed to surrender for cancellation, 449,373,817 common shares and 750,000 Series B Convertible Preferred shares. On an as converted to common basis the returns to Sugarmade's treasury equal 449,373,817 relating to the common shares to be surrendered and 750,000,000 million common shares equivalents due to each Series B Convertible Preferred share converting to common shares on a 1 for 1,000 basis. Thus, on a common share equivalent basis, the surrender equals 1,199,373,817 common shares, if all Preferred Series B were converted. As part of the Agreement, the Company will retain or will receive 102,248 shares in BZRTH.

Sugarmade, Inc. and Subsidiary
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5. *Legal Proceedings*

From time to time and in the course of business, we may become involved in various legal proceedings seeking monetary damages and other relief. The amount of the ultimate liability, if any, from such claims cannot be determined. As of date of this filing, there were no legal claims currently pending or, to our knowledge, threatened against our Company that, in the opinion of our management, would be likely to have a material adverse effect on our financial position, results of operations or cash flows, except as follows:

- 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. On February 21, 2017, the Company signed a settlement agreement with the plaintiffs. Under the terms of the settlement agreement, the Company agreed to pay the plaintiffs \$307,000 to settle all claims against the Company, which included the payoff of the two notes outstanding within one (1) week. 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, 2018, 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, plus interest until the date of complete payoff.

- On August 13, 2019, a lawsuit was filed against the Company for unpaid legal fees of \$50,000.00, which originates from the Company's former chairman and CEO. The Company was served in or around September 2019. The Company has filed a response to the underlying complaint to preserve its rights to defend the lawsuit should it become necessary. However, the Company plans to amicably resolve this matter and anticipates that it will be settled and dismissed.

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

6. *Other Current Assets*

As of December 31, 2019 and June 30, 2019, other current assets consisted of the following:

	For the periods ended	
	December 31, 2019	June 30, 2019
Prepaid Deposit	\$ 2,314,498	\$ 2,145,000
Prepaid Inventory	44,308	172,045
Employees Advance	—	16,052
Prepaid Expenses	97,768	358,702
Other	2,118	28,075
Total:	\$ 2,458,692	\$ 2,719,875

Our 2,314,498 in prepaid deposit as of December 31, 2019 was mainly related to the following investments to other companies:

- a. \$1,175,000 related to investment in Sky Unlimited;
- b. \$196,000 related to investment in Hempistry Inc.;
- c. \$870,000 paid for BZRTH acquisition.

7. *Intangible Asset*

On August 21, 2017, the Company entered into an intellectual property assignment agreement with Sound Decisions to revamp the company's shoplifty website to generate and attract more traffic from potential customers. The Company made a payment of \$14,000 for the website (intellectual property). The Company amortized this use right as intangible asset over ten years, and recorded amortization expense of \$700 for the periods ended December 31, 2019 and June 30, 2019, respectively.

Sugarmade, Inc. and Subsidiary
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8. Property and Equipment, net

As of December 31, 2019 and June 30, 2019, the property, plant and equipment, net of accumulated depreciation expenses were \$430,396 and \$476,585, respectively.

For the six months ended December 31, 2019 and 2018, depreciation expenses amounted to \$46,189 and \$26,578, respectively.

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition and other economic factors. Based on this assessment, no impairment expenses for property, plant, and equipment was recorded in operating expenses during the six months ended December 31, 2019 and 2018.

9. Convertible Notes

As of December 31, 2019 and June 30, 2019, the balance owing on convertible notes, net of debt discount, with terms as described below was \$1,378,221 and \$1,046,909, respectively.

Convertible notes issued as of September 30, 2019 were as follows:

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 December 31, 2019, 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 December 31, 2019, 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 December 31, 2019, the note is in default.

Convertible note 4: On March 1, 2017, the Company entered into a convertible promissory note with an accredited investor for \$100,000. The note has been purchased by other investor in total amount of \$156,067 with 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 December 31, 2019, the remaining balance of note was \$60,751.

Convertible note 5: 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 funding. The note is due 12 months after each funding date and bears 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. During the three months ended September 30, 2019, the holder exercised 1,766,544 cashless warrant shares into 28,381,818 shares of the Company's common stock. On September 23, 2019, the remaining warrant shares were settled by exchange \$200,000 convertible note with interest of 10% per annum, due on September 23, 2020, with conversion price of 55% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date. As of December 31, 2019, the original principal balance has been fully converted, the remaining default charge balance of the note was \$250,000, and the new convertible note balance was \$200,000.

Sugarmade, Inc. and Subsidiary
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9. Convertible Notes (continued)

Convertible note 6: On September 20, 2018, the Company entered a convertible promissory note with an accredited investor for a total amount of \$267,500 (includes \$5,000 legal fee and an OID of \$12,500). The note is due 360 days and bears an interest rate of 8%. The conversion price for the note is 55% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date. As of December 31, 2019, the principal balance of 245,000 has been fully converted into the Company's common stock.

Convertible note 7: On November 1, 2018, the Company entered into a convertible promissory note with an accredited investor for \$100,000. 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 \$0.07.

Convertible note 8: On November 16, 2018, the Company entered into a convertible promissory note with an accredited investor for \$80,000. 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 \$0.07.

Convertible note 9: On November 16, 2018, the Company entered into a convertible promissory note with an accredited investor for \$40,000. 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 \$0.07.

Convertible note 10: On December 3, 2018, the Company entered into a convertible promissory note with an accredited investor for \$35,000. 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 \$0.07.

Convertible note 11: On December 26, 2018, the Company entered a convertible promissory note with an accredited investor for a total amount of \$250,000 (includes \$5,000 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 45% of average three lowest closing bid for the 20 consecutive trading days prior to the conversion date. As of December 31, 2019, the note has been fully converted.

Convertible note 12: On January 8, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$105,000. The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 35% of average two lowest closing bid for the 20 consecutive trading days prior to the conversion date. As of December 31, 2019, the note has been fully converted.

Convertible note 13: On January 22, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$100,000. The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 42% of average three lowest closing bid for the 20 consecutive trading days prior to the conversion date. As of December 31, the note has been fully converted.

Convertible note 14: On January 24, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$53,000. The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 35% of average two lowest closing bid for the 20 consecutive trading days prior to the conversion date. As of December 31, the note has been fully converted.

Convertible note 15: On February 26, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$100,000. The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 42% of average three lowest closing bid for the 20 consecutive trading days prior to the conversion date. As of December 31, the note has been fully converted.

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9. Convertible Notes (continued)

Convertible note 16: On March 4, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$250,000 (includes \$7,000 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 58% of average two lowest closing bid for the 20 consecutive trading days prior to the conversion date. As of December 31, 2019, the note has been fully converted.

Convertible note 17: On April 2, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$100,000 (includes \$2,000 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 40% of average three lowest closing bid for the 10 consecutive trading days prior to the conversion date. As of December 31, 2019, the note has been fully repaid by cash.

Convertible note 18: On April 4, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$100,000 (includes \$2,000 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 58% of average two lowest closing bid for the 20 consecutive trading days prior to the conversion date. As of December 31, 2019, the note has been fully converted.

Convertible note 19: On May 2, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$125,000 (includes \$2,000 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 40% of average three lowest closing bid for the 10 consecutive trading days prior to the conversion date. As of December 31, 2019, the note has been fully repaid by cash.

Convertible note 20: On May 7, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$125,000 (includes \$2,500 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 58% of average two lowest closing bid for the 20 consecutive trading days prior to the conversion date. As of December 31, 2019, the note has been fully repaid by cash.

Convertible note 21: On May 29, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$125,000 (includes \$2,000 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 40% of average three lowest closing bid for the 10 consecutive trading days prior to the conversion date. As of December 31, 2019, the note has been fully repaid by cash.

Convertible note 22: On June 12, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$125,000 (includes \$2,500 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 58% of average two lowest closing bid for the 20 consecutive trading days prior to the conversion date. As of December 31, 2019, the note has been fully repaid by cash.

Convertible note 23: On July 3, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$125,000 (includes \$2,000 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 40% discount of average three lowest closing bid for the 10 consecutive trading days prior to the conversion date.

Convertible note 24: On July 30, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$162,000 (includes \$7,000 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 40% discount of the lowest closing bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 25: On August 14, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$153,000 (includes \$3,000 OID). The note is due 360 days and bear an interest rate of 10%. The conversion price for the note is 65% of the average of lowest two closing bid for the 20 consecutive trading days prior to the conversion date.

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December 31, 2019

9. Convertible Notes (continued)

Convertible note 26: On August 29, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$275,000 (includes \$37,500 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 60% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 27: On August 29, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$275,000 (includes \$25,000 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 60% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 28: On September 23, 2019, the Company entered a warrant settlement agreement to exchange convertible promissory note for a total amount of \$200,000. The note is due 360 days 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. As of December 31, 2019, the note has been fully settled by \$127,321 of cash and 18,181,818 shares of common stock.

Convertible note 29: On September 27, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$165,000 (includes \$16,250 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 60% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 30: On September 27, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$165,000 (includes \$16,250 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 55% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 31: On October 28, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$225,500 (includes \$23,000 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 60% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 32: On October 28, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$225,500 (includes \$23,000 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 60% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 33: On November 14, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$125,000 (includes \$3,000 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 60% of the average three lowest closing bid for the 10 consecutive trading days prior to the conversion date.

Convertible note 34: On November 29, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$106,150 (includes \$11,150 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 60% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 35: On November 29, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$106,150 (includes \$11,150 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 60% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 36: On December 10, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$106,700 (includes \$11,700 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 60% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date.

Sugarmade, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
December 31, 2019

9. Convertible Notes (continued)

Convertible note 37: On December 10, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$106,700 (includes \$11,700 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 60% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 38: On December 27, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$112,200 (includes \$12,200 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 60% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 39: On October 31, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$139,301. The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is \$0.008 per share.

Convertible note 40: On November 1, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$100,000. The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is \$0.008 per share.

In connection with the convertible debt, debt discount balance as of December 31, 2019 and June 30, 2019 were \$2,015,634 and \$1,189,341, respectively, and were being amortized and recorded as interest expenses over the term of the convertible debt.

10. Derivative liabilities

The derivative liability is derived from the conversion features in note 9 and stock warrant in note 11. All were valued using the Binomial option pricing model using the assumptions detailed below. As of December 31, 2019 and June 30, 2019, the derivative liability was \$3,259,345 and \$2,991,953, respectively. The Company recorded \$2,314,046 gain and \$3,661,383 loss from changes in derivative liability during the six months ended December 31, 2019 and 2018, respectively. The Binomial Option Price Model with the following assumption inputs:

	December 31, 2019
Annual dividend yield	—
Expected life (years)	0.5-1.00
Risk-free interest rate	1.51-2.09%
Expected volatility	121-153%
	December 31, 2018
Annual dividend yield	—
Expected life (years)	0.5-1.00
Risk-free interest rate	2.49-2.72%
Expected volatility	87-123%

Fair value of the derivative is summarized as below:

Beginning Balance, June 30, 2019	\$2,991,953
Additions	3,538,927
Mark to Market	2,314,089
Reclassification to APIC due to conversions	(957,488)
Balance, December 31, 2019	\$3,259,345

Sugarmade, Inc. and Subsidiary
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11. Stock warrants

On May 17, 2017, the Company entered a promissory note with an accredited 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. During the three months ended September 30, 2019, the holder exercised 1,766,544 cashless warrant shares into 28,381,818 shares of the Company's common stock. On September 23, 2019, the remaining warrant shares were settled by exchange \$200,000 convertible note with interest of 10% per annum, due on September 23, 2020, with conversion price of 55% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date.

On September 7, 2018, the Company entered a settlement agreement with several investors to settle all disputes by issues additional unrestricted shares. In connection with the note each individual investor will also receive warrants equal to the number of the shares the investors own as of the effective date of the settlement agreement. The warrants have a life of five years with an exercise price as of the date of exchange. The fair value of the warrants at the grant date was \$56,730. As of December 31, 2019 and June 30, 2019, the fair value of the warrant liability was \$15,663 and \$19,103, respectively.

As of December 31, 2019 and June 30, 2019, the total fair value of the warrant liability was \$15,663 and \$24,658, respectively.

12. Note payable due to bank

During October 2011, we entered into a revolving demand note (line of credit) arrangement with HSBC Bank USA, with a revolving borrowing limit of \$150,000. The line of credit bears a variable interest rate of one quarter percent (0.25%) above the prime rate (5.5% as of December 20, 2018). In the event the deposit account is not established or minimum balance maintained, HSBC can charge a higher rate of interest of up to 4.0% above prime rate. As of December 31, 2019 and June 30, 2019, the loan principal balance was \$25,982. As of December 31, 2019, the note is in default.

13. Related party transactions

On January 23, 2013, the Company entered into a promissory note with its former employee who owns less than 5% of the Company's stock. The original principal amount was \$40,000 and the note bore no interest. The note was payable upon demand. As of December 31, 2019 and June 30, 2019, this note had a balance of \$18,000.

On January 14, 2015, the Company entered into a promissory note with Richard Ko (an employee of the Company, who owns less than 5% of the Company's stock). The principle amount was \$30,000 and the note bore no interest. The note had a term of one (1) year and was due on January 14, 2016, and became payable upon demand after January 14, 2016. As of December 31, 2019 and June 30, 2019, this note had a balance of \$0 and \$20,000, respectively.

As of December 31, 2019 and June 30, 2019, the Company had an outstanding balance of notes payable due to related parties of \$18,000 and \$38,000, respectively.

On July 7, 2016, SWC received a loan in total amount of \$30,000 from an employee. During the three months ended December 31, 2019, SWC received additional loan in total amount of 105,000 from a related party. The amount of the loan bear no interest and due on demand. As of December 31, 2019 and June 30, 2019, the balance of the loan due to related party were \$135,000 and \$30,000, respectively.

From time to time, SWC would receive short-term loans from company former director for its working capital needs.

Sugarmade, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
December 31, 2019

14. Loans payable

On October 1, 2017, SGMD entered a straight promissory note with Greater Asia Technology Limited (Greater Asia) for borrowing \$100,000 with maturity date on June 30, 2018; the note bears an interest rate of 33.33%. As of December 31, 2019 and June 30, 2019, the note was in default and the outstanding balance under this note was \$63,924 and \$63,924, respectively.

During the year ended June 30, 2019, the Company entered a series of short-term loan agreements with Greater Asia Technology Limited (Greater Asia) for borrowing \$375,000, with interest rate at 40% - 50% of the principal balance. As of December 31, 2019 and June 30, 2019, the outstanding balance with Greater Asia loans were \$100,000 and \$100,000, respectively.

On January 6, 2015, the Company entered into repayment agreement with its former employee for a loan of \$9,500 at no interest. As of December 31, 2019 and June 30, 2019, the Company has an outstanding balance of \$0 and \$3,584.

On December 17, 2018, the Company entered into a repayment agreement with an individual for \$100,000 at no interest. As of December 31, 2019 and June 30, 2019, the Company has an outstanding balance of \$2,740 and \$17,834, respectively.

On July 1, 2012, CarryOutSupplies entered an equipment loan agreement with a bank with maturity on June 21, 2024. The monthly payment is \$648. As of December 31, 2019 and June 30, 2019, the outstanding balance under this loan were \$0 and \$29,243, respectively.

As of December 31, 2019 and June 30, 2019, the Company had an outstanding loan balance of \$192,030 and \$214,585, respectively.

15. Stockholder's Equity

The Company is authorized to issue 1,990,000,000 shares of \$.001 par value common stock and 10,000,000 shares of \$.001 par value preferred stock.

Share issuance during the three months ended September 30, 2019 -

During the three months ended September 30, 2019, the Company issued 1,000,000 shares of common stock to settle the old liability to be issued in total amount of \$29,000.

During the three months ended September 30, 2019, the Company issued 71,915,557 shares of common stock for debt conversions in total amount of \$547,833.

During the three months ended September 30, 2019, the Company issued 11,348,591 shares of common stock for cash in total amount of \$100,000.

During the three months ended September 30, 2019, the Company issued 28,381,818 shares of common stock for warrant exercise in total amount of \$14,132.

As of September 30, 2019 and June 30, 2019, the Company had 2,000,000 share of its preferred stock, 810,254,536 and 697,608,570 shares of its common stock, respectively, issued and outstanding.

Share issuance during the three months ended December 31, 2019 -

During the three months ended December 31, 2019, the Company issued 18,181,818 shares of common stock to settle the old liability to be issued in total amount of \$290,455.

Sugarmade, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
December 31, 2019

15. *Stockholder's Equity (continued)*

During the three months ended December 31, 2019, the Company issued 24,994,341 shares of common stock for convertible debt principal with interest conversions in total amount of \$142,165.

During the three months ended December 31, 2019, the Company issued 26,621,610 shares of common stock for cash in total amount of \$240,000.

During the three months ended December 31, 2019, the Company issued 500,000 shares of common stock for employee bonus in total fair value of \$7,550.

During the three months ended December 31, 2019, the Company issued 249,373,817 shares of common stock for acquisition of BZRTH in total fair value of \$3,566,046. The shares are to be cancelled in subsequent period pursuant to the rescission on January 15, 2020.

During the three months ended December 31, 2019, the Company issued 750,001 shares of preferred stock for acquisition of BZRTH in total fair value of \$10,725,014. The shares of preferred stock are to be cancelled in subsequent period pursuant to the rescission on January 15, 2020.

During the three months ended December 31, 2019, the Company issued 415,000 shares of series B preferred stock for award to employee bonus in total fair value of \$5,934,500.

As of December 31, 2019 and June 30, 2019, the Company had 3,165,001 share of its preferred stock, 1,129,926,122 and 697,608,570 shares of its common stock, respectively, issued and outstanding.

16. *Shares to be issued – liability*

During the year ended June 30, 2019, the Company had entered into multiple private placement agreements and had shares to be issued under liability in total amount of \$100,000.

During the three months ended September 30, 2019, the Company had entered into a private placement agreement and had increased shares to be issued for total amount of \$96,000.

During the three months ended September 30, 2019, the Company had entered into an employee compensation plan and had increased shares to be issued for total amount of \$12,000.

During the three months ended December 31, 2019, the Company had entered into a private placement agreement and had increased shares to be issued for total amount of \$40,000.

During the three months ended December 31, 2019, the Company had entered into an employee compensation plan and had increased shares to be issued for total amount of \$14,000.

As of December 31, 2019 and June 30, 2019, the Company had balance of \$262,000 and \$100,000 share to be issued.

Sugarmade, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
December 31, 2019

17. Shares to be issued – equity

As of the year ended June 30, 2019, the Company had potential shares to be issued under common stock in total amount of \$29,000.

During the three months ended September 30, 2019, the Company issued the \$29,000 share to be issued – equity by 1,000,000 shares of the Company’s common stock.

During the three months ended December 31, 2019, the Company recorded in total amount of \$100,000 potential share to be issued – equity.

As of December 31, 2019 and June 30, 2019, the Company had total potential shares to be issued under common stock and preferred stock in total amount of \$100,000 and \$29,000, respectively.

18. Shares to be cancelled – equity

On October 30, 2019, SGMD closed the previously announced acquisition of BZRTH, Inc., a Nevada corporation (“BZRTH”) pursuant to a Stock Exchange Agreement. BZRTH is headquartered in Irwindale, California and is a marketer and manufacturer of hydroponic growth supplies and related products to distributors and retailers. The total consideration to be paid by the Company to acquire BZRTH was 650,000,000 shares of SGMD’s common stock, 3,500,000 shares of Series B convertible preferred stock, \$870,000 in cash, and 5% promissory notes in the sum of \$7,130,000.00 due on or before October 31, 2021 to the BZRTH shareholders. \$870,000 of cash had been paid along with 449,373,817 common shares and 750,000 Series B Convertible Preferred shares.

On January 15, 2020, the Company entered into a Rescission and Mutual Release Agreement (“Agreement”) with each of the parties agreeing to return all consideration exchanged pursuant to the Stock Exchange Agreement. The Agreement provided for mutual releases and indemnities.

The shareholders of BZRTH have agreed to surrender for cancellation, 449,373,817 common shares and 750,000 Series B Convertible Preferred shares. On an as converted to common basis the returns to Sugarmade’s treasury equal 449,373,817 relating to the common shares to be surrendered and 750,000,000 million common shares equivalents due to each Series B Convertible Preferred share converting to common shares on a 1 for 1,000 basis. Thus, on a common share equivalent basis, the surrender equals 1,199,373,817 common shares, if all Preferred Series B were converted. As of December 31, 2019, the Company recorded share to be cancelled – common stock and preferred stock in total amount of \$38,225,560.

Sugarmade, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
December 31, 2019

19. Commitments and contingencies

On February 23, 2018 the Company entered into lease agreement for a new office space as part of the plan to expand operation, the lease is set to commence Commencing March 1, 2018. The term of the lease is for a (5) Five Years with 1 month free on the 1st year of the term. The monthly rent on the 1st year will be \$11,770 with a 3% increase for each subsequent year. Total commitment for the full term of the lease will be \$737,367. As of the date of this filing, this property became the headquarter of the company.

Six Months Ended
December 31, 2019

<u>Lease Cost</u>	
Operating lease cost (included in general and administration in the Company's unaudited condensed statement of operations)	\$ 74,988
<u>Other Information</u>	
Cash paid for amounts included in the measurement of lease liabilities for the six months ended December 31, 2019	\$ 72,738
Remaining lease term – operating leases (in years)	3.17
Average discount rate – operating leases	10%
The supplemental balance sheet information related to leases for the periods are as follows:	
<u>Operating leases</u>	
Right-of-use assets	\$ 416,421
Total operating lease assets	\$ 416,421
Short-term operating lease liabilities	\$ 110,824
Long-term operating lease liabilities	\$ 318,083
Total operating lease liabilities	\$ 428,907

Maturities of the Company's lease liabilities are as follows:

<u>Period ending June 30,</u>	<u>Operating</u> <u>Lease</u>
2020	\$ 146,932
2021	151,344
2022	155,888
2023	105,984
Total lease payments	560,148
Less: Imputed interest/present value discount	104,558
Present value of lease liabilities	\$ 455,590

Sugarmade, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
December 31, 2019

20. Subsequent events

On December 27, 2019, the Company entered a convertible promissory note with an accredited investor for a total amount of \$112,200 (includes \$12,200 OID). The note is due 360 days and bear an interest rate of 8%. The conversion price for the note is 60% of the lowest closing bid for the 20 consecutive trading days prior to the conversion date. The principal amount was received in January 2020.

On January 30, 2020, the Company issued 6,684,843 shares of the Company's common stock for debt conversions in total amount of \$33,291.

On January 15, 2020, the Company entered into a Rescission and Mutual Release Agreement ("Agreement") with each of the parties agreeing to return all consideration exchanged pursuant to the Stock Exchange Agreement. The Agreement provided for mutual releases and indemnities.

The shareholders of BZRTH have agreed to surrender for cancellation, 449,373,817 common shares and 750,000 Series B Convertible Preferred shares. On an as converted to common basis the returns to Sugarmade's treasury equal 449,373,817 relating to the common shares to be surrendered and 750,000,000 million common shares equivalents due to each Series B Convertible Preferred share converting to common shares on a 1 for 1,000 basis. Thus, on a common share equivalent basis, the surrender equals 1,199,373,817 common shares, if all Preferred Series B were converted. As part of the Agreement, the Company will retain or will receive 102,248 shares in BZRTH.

On January 21, 2020, the Company directed the creation of SugarRush, Inc., a California Corporation, as a wholly owned subsidiary. The new company will be utilized for the holding of acquired assets and as a primary commercial business unit.

On February 7, 2020, the Company signed a definitive agreement (the "Agreement") with Indigo Dye Group Corp. ("Indigo") with a mailing address of 5600 Warehouse Way, Sacramento, CA 95826, the operator of BudCars Cannabis Delivery Service ("Budcars"), which provides services in the Sacramento metropolitan area. Under the terms of the Agreement, the Company will purchase a 40% stake in the Budcars operation for a cash amount of \$700,000, and will receive an option to acquire an additional 30%, which upon exercise will provide a controlling stake in the operation for the Company.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

N/A

ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis may include statements regarding our expectations with respect to our future performance, liquidity, and capital resources. Such statements, along with any other non-historical statements in the discussion, are forward-looking. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, factors listed in other documents we file with the Securities and Exchange Commission (SEC). We do not assume an obligation to update any forward-looking statement. Our actual results may differ materially from those contained in or implied by any of the forward-looking statements in this Form 10-Q. See “SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS” above.

Overview and Financial Condition

Discussions with respect to our Company’s operations included herein refer to our operating subsidiary, SWC. As of the date of this filing, we had no other operations other than those of SWC.

Results of Operations

The following table sets forth the results of our operations for the three months ended December 31, 2019 and 2018.

	For the three months ended December 31,	
	2019	2018
Net Sales	720,810	1,445,269
Cost of Goods Sold:	435,690	1,071,033
Gross profit	285,120	374,236
Operating Expenses	7,215,933	3,823,085
Loss From Operations	(6,930,814)	(3,448,849)
Other non-operating Income (Expense):	(823,710)	(2,584,531)
Net Income (Loss)	<u>(7,754,524)</u>	<u>(6,033,380)</u>

Revenues

For the three months ended December 31, 2019 and 2018, revenues were \$720,810 and \$1,445,269, respectively. The decrease was primarily due to business loss within the stick supply industry.

Cost of goods sold

For the three month ended December 31, 2019 and 2018, costs of goods sold were \$435,690 and \$1,071,033 respectively. The decrease was primarily due to the business loss within the stick supply industry.

Gross profit

For the three month ended December 31, 2019 and 2018, gross profit was \$285,120 and \$374,236, respectively. The decrease was primarily due to the business loss within the stick supply industry.

Operating expenses

For the three month ended December 31, 2019 and 2018, operating expenses were \$7,215,933 and \$3,823,085, respectively. The increase was due to the increase of employee stock compensation.

Other non-operating income (expense)

The Company had total other non-operating expense of \$823,710 and \$2,584,531 for the three months ended December 31, 2019 and 2018, respectively. The decrease in non-operating income is related to the accounting for derivative liabilities.

Net income (loss)

Net loss totaled \$7,754,524 for the three month ended December 31, 2019, compared to a net loss totaling \$6,033,380 for the three-month ended December 31, 2018. The increase was mainly due to the increase of employee stock compensation.

The following table sets forth the results of our operations for the six months ended December 31, 2019 and 2018.

	For the six months ended December 31,	
	2019	2018
Net Sales	1,474,784	2,886,885
Cost of Goods Sold:	927,858	2,130,452
Gross profit	546,925	756,433
Operating Expenses	8,419,563	4,736,957
Loss From Operations	(7,872,637)	(3,980,524)
Other non-operating Income (Expense):	(1,909,438)	(4,661,909)
Net Income (Loss)	<u>(9,782,075)</u>	<u>(8,642,433)</u>

Revenues

For the six months ended December 31, 2019 and 2018, revenues were \$1,474,784 and \$2,886,885, respectively. The decrease was primarily due to business loss within the stick supply industry.

Cost of goods sold

For the six month ended December 31, 2019 and 2018, costs of goods sold were \$927,858 and \$2,130,452 respectively. The decrease was primarily due to the business loss within the stick supply industry.

Gross profit

For the six month ended December 31, 2019 and 2018, gross profit was \$546,925 and \$756,433, respectively. The decrease was primarily due to the business loss within the stick supply industry.

Operating expenses

For the six month ended December 31, 2019 and 2018, operating expenses were \$8,419,563 and \$4,736,957, respectively. The increase was due to the increase of employee stock compensation.

Other non-operating income (expense)

The Company had total other non-operating expense of \$1,909,438 and \$4,661,909 for the six months ended December 31, 2019 and 2018, respectively. The decrease in non-operating income is related to the accounting for derivative liabilities.

Net income (loss)

Net loss totaled \$9,782,075 for the six month ended December 31, 2019, compared to a net loss totaling \$8,642,433 for the six-month ended December 31, 2018. The increase was mainly due to the increase of employee stock compensation.

Liquidity and Capital Resources

We have primarily financed our operations through the sale of unregistered equity and convertible notes payable. As of December 31, 2019, our Company had cash balance of \$103,002, current assets totaling \$3,225,281 and total assets of \$4,141,568. We had current and total liabilities totaling \$8,280,102 and \$8,598,185, respectively. Stockholders' equity reflected a deficiency of \$4,456,617.

The following is a summary of cash provided by or used in each of the indicated types of activities during the six months ended December 31, 2019 and 2018:

	2019	2018
Cash (used in) provided by:		
Operating activities	\$ (2,122,441)	\$ 1,060,980
Investing activities	—	(87,154)
Financing activities	2,191,072	(856,278)

Net cash (used in) provided by operating activities was \$(2,122,441) for the six months ended December 31, 2019, and \$1,060,980 for the six months ended December 31, 2018.

There were \$nil and \$87,154 fixed assets and intangible assets purchased during the six months ended December 31, 2019 and 2018 relating to investing activities, respectively.

Net cash (used in) provided by financing activities was \$2,191,072 for the six months ended December 31, 2019 and \$(856,278) for the six months ended December 31, 2018.

Our capital requirements going forward will consist of financing our operations until we are able to reach a level of revenues and gross margins adequate to equal or exceed our ongoing operating expenses. Other than the notes payable discussed above, borrowings from our bank and the production credit facility with our suppliers, we do not have any credit agreement or source of liquidity immediately available to us.

Given estimates of our Company's future operating results and our credit arrangements with our suppliers, we are currently forecasting that we will need to secure additional financing to obtain adequate financial resources to reach profitability. As of the date of this report, we estimate that the cash necessary to implement our current business plan for the next twelve months is approximately \$2,000,000.

Based on our need to raise additional funds to implement our business plans for the next twelve months, we have included a discussion concerning the presentation of our financial statements on a going concern basis in the notes to our financial statements and our independent public accountants have included a similar discussion in their opinion on our financial statements through June 30, 2019. We will be required in the near future to issue debt or sell our Company's equity securities in order to raise additional cash, although there are no firm arrangements in place for any such financing at this time. We cannot provide any assurances as to whether we will be able to secure the necessary financing, or the terms of any such financing transaction if one were to occur. The failure to secure such financing could severely curtail our plans for future growth or in more severe scenarios, the continued operations of our Company.

Capital Expenditures

Our current plans do not call for our Company to expend significant amounts for capital expenditures for the foreseeable future beyond relatively insignificant expenditures for office furniture and information technology related equipment as we add employees to our Company. We are however continually evaluating the production processes of our third party contract manufacturers to determine if there are investments we could make in their processes to achieve manufacturing improvements and significant cost savings. Any such desired investments would require additional cash above our current forecast requirements.

Critical Accounting Policies Involving Management Estimates and Assumptions

Please see the notes to our financial statements.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Intentionally omitted pursuant to Item 305(e) of Regulation S-K.

ITEM 4 – CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

As required by the Securities and Exchange Commission Rule 13a-15(e) and Rule 15d-15(e), we carried out an evaluation, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2019, our disclosure controls and procedures were ineffective due to the Company is relatively inexperienced with certain complexities within USGAAP and SEC reporting.

We have taken, and are continuing to take, certain actions to remediate the material weakness related to our lack of U.S. GAAP experience. We plan to hire additional credentialed professional staff and consulting professionals with greater knowledge and experience of U.S. GAAP and related regulatory requirements to oversee our financial reporting process in order to ensure our compliance with U.S. GAAP and other relevant securities laws. In addition, we plan to provide additional training to our accounting personnel on U.S. GAAP, and other regulatory requirements regarding the preparation of financial statements.

Notwithstanding the above identified material weakness, the Company's management believes that its condensed consolidated financial statements included in this report fairly present in all material respects the Company's financial condition, results of operations and cash flows for the periods presented and that this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

Changes in Internal Controls over Financial Reporting

There have not been any changes in our internal controls over financial reporting during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II: Other Information

ITEM 1 – RISK FACTORS

Investment in our common stock involves a high degree of risk. You should carefully consider the risks described below together with all of the other information included in this herein before making an investment decision. If any of the following risks actually occur, our business, financial condition or results of operations could suffer. In that case, the market price of our common stock could decline, and you may lose all or part of your investment. You should also read the section entitled “Special Notes Regarding Forward-Looking Statements” below for a discussion of what types of statements are forward-looking statements as well as the significance of such statements in the context of this report.

Investment in our common stock involves a high degree of risk. You should carefully consider the risks described below together with all of the other information included in this herein before making an investment decision. If any of the following risks actually occur, our business, financial condition or results of operations could suffer. In that case, the market price of our common stock could decline, and you may lose all or part of your investment.

The Company, as of the end of the 2019 fiscal year (June) was at a stage where it requires external capital to continue with its business. It must obtain additional significant capital in the future to continue its operations. There can be no certainty that the Company can obtain these funds.

ITEM 2 – UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

During the three months ended December 31, 2019, the Company issued shares as followings:

- 18,181,818 shares of common stock for settlement of debts in total fair value of \$290,455
- 24,994,341 shares of common stock upon conversion of convertible notes of \$135,290
- 500,000 shares of common stock as Employee bonus in total fair value of \$7,550
- 249,373,817 shares of common stock for acquisition of BZRTH in total fair value of \$3,566,046
- 26,621,610 shares of common stock for cash of \$240,000

Subsequent to December 31, 2019, the Company issued shares as followings:

- 6,684,843 shares of common stock upon conversion of convertible notes of \$33,291

All of the aforementioned securities were issued pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 thereunder.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 – MINE SAFETY DISCLOSURES

None.

ITEM 5 – OTHER INFORMATION

None.

ITEM 6 – EXHIBITS

Exhibit No.	Description
31.1 (1)	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 (1)	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 (1)	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS* (1)	XBRL Instance Document
101.SCH* (1)	XBRL Taxonomy Extension Schema
101.CAL* (1)	XBRL Taxonomy Extension Calculation Linkbase
101.DEF* (1)	XBRL Taxonomy Extension Definition Linkbase
101.LAB* (1)	XBRL Taxonomy Extension Label Linkbase
101.PRE* (1)	XBRL Taxonomy Extension Presentation Linkbase

(1) Filed as an exhibit to this Report.

SIGNATURES

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

February 19, 2020

Sugarmade, Inc., a Delaware corporation

By: /s/ Jimmy Chan
Jimmy Chan
CEO, CFO, and Director

**Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
and Securities and Exchange Commission Release 34-46427**

I, Jimmy Chan, certify that:

- (1) I have reviewed this Form 10-Q of Sugamade, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2020

/s/ Jimmy Chan
Jimmy Chan
Executive Officer (Principal Executive Officer)

**Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
and Securities and Exchange Commission Release 34-46427**

I, Jimmy Chan, certify that:

- (1) I have reviewed this Form 10-Q of Sugamade, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2020

/s/ Jimmy Chan

Jimmy Chan

Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Form 10-Q report of Sugarmade, Inc. for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof and pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Jimmy Chan, certify that:

- (1) This report containing the financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the this period report fairly presents, in all material respects, the financial condition and results of operations of Sugarmade, Inc.

Date: February 19, 2020

/s/ Jimmy Chan

Jimmy Chan

Chief Executive Officer (Principal Executive Officer)

