

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended: March 31, 2018

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

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

Commission file number: 000-23446

SUGARMADE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of

94-3008888

(I.R.S.

Employer

Edgar Filing: Sugarmade, Inc. - Form 10-Q/A

incorporation or organization)	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 Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

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

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

EXPLANATORY NOTE

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

SUGARMADE, INC.

FORM 10-Q/A

FOR THE PERIOD ENDED March 31, 2018

TABLE OF CONTENTS

PART I: Financial Information

Item 1	<u>Financial Statements</u>	1
	<u>Condensed Consolidated Balance Sheets as of March 31, 2018 (unaudited) and June 30, 2017 (audited)</u>	1
	<u>Condensed Consolidated Statements of Operations for three and nine months ended March 31, 2018 and 2016 (unaudited)</u>	2
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2018 and 2016 (unaudited)</u>	3
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	4
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 3	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	34
Item 4	<u>Controls and Procedures</u>	34

PART II: Other Information

Item 1	<u>Risk Factors</u>	36
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
Item 3	<u>Defaults upon Senior Securities</u>	36
Item 4	<u>Mine Safety Disclosures</u>	36
Item 5	<u>Other Information</u>	36
Item 6	<u>Exhibits</u>	37
	Signatures	38

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 the 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 I****Sugarmade, Inc. and Subsidiary
Consolidated Balance Sheets**

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

Edgar Filing: Sugarmade, Inc. - Form 10-Q/A

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

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

Table of Contents**Sugarmade, Inc. and Subsidiary****Consolidated Statements of Operations****For the three and nine months ended March 31, 2018 and 2017****(Unaudited)**

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

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

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

Table of Contents**Sugarmade, Inc. and Subsidiary****Condensed Consolidated Statements of Cash Flows For****the nine months ended March 31, 2018 and 2017****(Unaudited)**

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

Edgar Filing: Sugarmade, Inc. - Form 10-Q/A

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

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

Table of Contents

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

1. Nature of Business

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

2. Restatement of Financial Statements

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

Table of Contents

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

Table of Contents

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

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

3. Summary of Significant Accounting

Policies Basis of presentation

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

Table of Contents

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

Principles of consolidation

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

Going concern

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

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

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

Use of estimates

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

Table of Contents

Revenue recognition

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

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

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

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

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

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

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

Cash

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

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

Accounts receivable

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

Table of Contents

Inventory

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

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

Intangible assets, net

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

Income taxes

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

As a result of the implementation of certain provisions of ASC 740, Income Taxes ("ASC 740"), which clarifies the accounting and disclosure for uncertainty in tax position, as defined, ASC 740 seeks to reduce the diversity in practice

associated with certain aspect of the recognition and measurement related to accounting for income taxes. We adopted the provisions of ASC 740 as of October 2, 2008, and have analyzed filing positions in each of the federal and state jurisdictions where we are required to file income tax returns, as well as open tax years in these jurisdictions. We have identified the U.S. federal and California as our “major” tax jurisdictions and generally, we remain subject to Internal Revenue Service examination of our 2013 U.S. federal income tax returns. However, we have certain tax attribute carryforwards, which will remain subject to review and adjustment by the relevant tax authorities until the statute of limitations closes with respect to the year in which such attributes are utilized.

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

Table of Contents

Stock based compensation

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

Loss per share

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

Fair value of financial instruments

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

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

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

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

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

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

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

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

Table of Contents

Derivative instruments

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

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

Segment Reporting

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

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

New accounting pronouncements not yet adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective

transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

Table of Contents

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

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

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

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

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

Table of Contents

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

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

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

4. Concentration

Customers

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

Suppliers

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

Table of Contents

5. Equity Transaction - Exclusive License Rights

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

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

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

6. Litigation

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

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

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

Table of Contents

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

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

7. Convertible Notes

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

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

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

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

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

common shares at a 40% discount.

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

default.

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

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

-17-

Table of Contents

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

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

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

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

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

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

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

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

-18-

Table of Contents

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

Edgar Filing: Sugarmade, Inc. - Form 10-Q/A

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

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

Table of Contents**8. Derivative liabilities**

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

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

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

Fair value of the derivative is summarized as below:

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

9. Stock warrants

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

Table of Contents

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

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

Warrants liability	March 31, 2018	
Annual dividend yield	—	
Expected life (years)	3.61	
Risk-free interest rate	1.89	%
Expected volatility	424	%
Warrants issued in May 2017	June 30, 2017	
Annual dividend yield	—	
Expected life (years)	3.86	
Risk-free interest rate	1.89	%
Expected volatility	440	%
Warrants issued in 2012 with extension to July 1, 2016	June 30, 2016	
Annual dividend yield	—	
Expected life (years)	0.01	
Risk-free interest rate	0.21	%
Expected volatility	449	%

Below is the movement of warrants for the period ending March 31, 2018:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining contractual life
Outstanding at June 30, 2015	131,250	\$ 0.20	
Granted	—	—	
Exercised	—	—	

Edgar Filing: Sugarmade, Inc. - Form 10-Q/A

Outstanding at June 30, 2016	131,250	0.20	
Expired	131,250	0.20	
Granted	505,000	\$ 0.15	4
Outstanding at June 30, 2017	505,000	\$ 0.15	3.86
Granted	—	—	
Exercised	—	—	
Outstanding at March 31, 2018	505,000	\$ 0.15	3.61

-21-

Table of Contents

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 (3.25% as of December 31, 2013). 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 March 31, 2018 and June 30, 2017, the loan principal balance was \$25,982.

Note payable due to related party

On January 23, 2013, the Company entered into a promissory note with its former employee of the Company 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 March 31, 2018 and June 30, 2017, this note had a balance of \$18,000.

On December 31, 2013, the Company entered into a promissory note with Calvin Kwong (an employee of the Company, who owns less than 5% of the Company's stock). The principal amount was \$20,000 and the interest rate on the note was 10%. The note had a term of six (6) months. However, this note was now payable upon demand per the oral agreement with the lender. As of March 31, 2018 and June 30, 2017, this note had a balance of \$20,000.

On January 13, 2014, the Company entered into a promissory note with an employee (an employee of the Company, who owns less than 5% of the Company's stock). The principal amount was \$25,000 and the note bore no interest. The note had a term of twenty-four (24) months and was due on January 13, 2016, and became payable upon demand after January 13, 2016. As of March 31, 2018 and June 30, 2017, this note had a balance of \$0 and \$12,666, respectively.

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 March 31, 2018 and June 30, 2017, this note had a balance of \$10,000 and \$20,000, respectively.

As of March 31, 2018 and June 30, 2017, the Company has an outstanding balance of notes payable due to related parties of 48,000 and \$70,666, respectively.

10. Stockholder's Deficiency

The Company is authorized to issue 300,000,000 shares of \$.001 par value common stock and 10,000,000 shares of \$.001 par value preferred stock.

As of March 31 and June 30, 2017, the Company had 247,395,774 and 226, 734, 372 shares of its common stock issued and outstanding.

11. Common shares to be issued for services

In September 2017, the Company issued 4,736,842 shares of commons stock for services. The fair value of the shares were valued at \$0.04, the closing price of the grant date.

In December 2017, the Company issued 7,860,000 shares of commons stock for services. The fair value of the shares were valued at \$0.04, the closing price of the grant date.

In March 2018, the Company issued 1,075,000 shares of commons stock for services. The fair value of the shares were valued at \$0.197, the closing price of the grant date.

Table of Contents

12. Related party transactions

As of March 31, 2018, the Company had outstanding balance of \$117,795 owed to various related parties. See note 8 and 13 for the details.

13. Loans payable

On January 25, 2017, SWC entered into an agreement with a lending company for \$100,000 for its working capital needs. As of March 31, 2018 and June 30, 2017, the Company has an outstanding balance of \$0 and \$10,036, respectively.

During the year ended June 30, 2017, 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 March 31, 2018 and June 30, 2017, the outstanding balance with Greater Asia loans were \$175,590 and \$140,125, respectively.

On July 1, 2016, the Company entered into a repayment agreement with its employee for \$20,280 at no interest. As of March 31, 2018 and June 30, 2017, the Company has an outstanding balance of \$6,285. Repayment on this loan will be repaid at a later date with no interest being accrued.

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 March 31, 2018 and June 30, 2017, the Company has an outstanding balance of \$4,076.

On July 2, 2015, the Company entered into a repayment agreement with an individual for \$22,583 at no interest. As of March 31, 2018 and June 30, 2017, the Company has an outstanding balance of \$13,936.

On March 5, 2013, the Company entered an equipment loan agreement with Toyota financial services with maturity date of April 4, 2018. As of March 31, 2018 and June 30, 2017, the balance under this loan were \$1,077 and \$4,308, respectively.

On July 1, 2012, CarryOutSupplies entered an equipment loan agreement with a bank with maturity on June 1, 2017. The monthly payment is \$255. As of March 31, 2018 and June 30, 2017, the outstanding balance under this loan were \$0 and \$261, respectively.

As of March 31, 2018 and June 30, 2017, the Company had an outstanding loan balance of \$1,599 from one (1) vendor of the Company.

14. Loan payable – related parties

On June 26, 2017, SGMD entered a straight promissory note with a company (whose major shareholder is the former director of the Company) for borrowing \$150,820 with maturity date on March 31, 2018; the note bears an interest rate of 12%, commencing on October 31, 2017, and on the last day of each month thereafter until the notes is paid in full, the Company shall make an interest payment. As of June 30, 2017, the outstanding balance under this note was \$150,820 with \$6,033 interest discount to loan payable. As of March 31, 2018 and June 30, 2017, the outstanding balance under this note was \$150,820, respectively.

On July 7, 2016, SWC received a loan from an employee. The amount of the loan bore no interest and amortized on a monthly basis over the life of the loan. As of March 31, 2018 and June 30, 2017, the balance of the loan were \$0 and \$34,015, respectively.

Table of Contents

On November 21, 2016, SGMD received a loan from the Company's director. The amount of the loan bore no interest and amortized on a monthly basis over the life of the loan. As of March 31, 2018 and June 30, 2017, the balance of the loan from Sugarmade were \$16,336 and \$9,252, respectively.

On December 1, 2016, SGMD received a loan from an employee for \$12,500 with an interest charge of \$12,500. This amount was recorded as interest owed to the loan payable amount and is to be amortized on a monthly basis over the life of the loan. The loan is due on December 1, 2017. As of March 31, 2018 and June 30, 2017, the balance is \$52,293 and 40,265, respectively.

From time to time, SWC would receive short-term loans from LMK Capital, LLC ("LMK") for its working capital needs. As of March 31, 2018 and June 30, 2017, the Company had outstanding balance of \$13,952 and 34,107, respectively, borrowed from LMK Capital., LLC, a company affiliated with CEO Chan.

15. Shares to be issued

On October 1, 2017, the Company entered a consulting agreement with a consultant for services related in fulfillment and customer services in relation to Sriracha Seasoning Stix project. The service term is twelve months, the company will issue 660,000 restricted common shares to the consultant in lieu of \$21,120. The fair value of the 660,000 shares at grant date was \$19,800.

On October 1, 2017, the Company entered a consulting agreement with a consultant for services related to analytic of e-commerce sales and intelligent reports in relation to Sriracha Seasoning Stix project. The service term is twelve months, the company will issue 1,200,000 restricted common shares to the consultant in lieu of \$38,400. The fair value of the 1,200,000 shares at grant date was \$36,000.

On October 1, 2017, the Company entered into a promissory note agreement with principle of \$100,000 and a fixed interest of \$25,000. Amortized over nine months, the monthly principle and interest payment is \$13,888.88. Maturity date of the note is June 30, 2018.

On October 26, 2017, the Company was committed to issue 1,638,819 common shares from the company's 2017 employee benefit plan to a consultant for e-commerce marketing and media production services, in relations to Sriracha Stix and Seasoning Stix project. The fair value of 1,638,819 common shares at grant date was \$54,081. As of the date of this filing, these were have not been issued.

Edgar Filing: Sugarmade, Inc. - Form 10-Q/A

On November 8, 2017, the Company received a notice from a convertible note holder informing the Company the note originally dated March 1, 2017 was in default due to the Company's lack of timely reporting. The note began accruing interest on August 8, 2017, after it was exchanged in an agreement on that date. As a result of the default, the interest rate on the note was raised from 10% to the default rate of 22% per annum and the outstanding balance due increased by 15%. As of the date of the notice on November 8, 2017, and after the adjustments outlined herein, the balance on the note will increase by \$9,461.

On November 14, 2017, the company sold 400,000 restricted common shares to an investor for \$20,000, at a price per share equal \$0.05.

On November 30, 2017, the Company issued 737,748 common shares in exchange for the conversion of \$20,000 of convertible debt and accrued interest of \$1,394.

Table of Contents

On December 7, 2017 the Company entered into a convertible promissory note with an accredited investor for \$50,000. The note has a term of twelve (12) months with an interest rate of 8% and is convertible into common shares at a fixed price per share equal to \$0.05.

On December 7, 2017, The Company received a notice from a convertible note holder informing the Company the note dated May 12, 2017 was in default due to the Company's lack of timely reporting. As a result of the default, the interest rate on the note was raised from 10% to 22%. As a result of the late filing of the Company's fiscal year ending June 30, 2017 on Form 10-K, the balance due on the note increased by 15%. As a result of the late filing of the Company's fiscal quarter ending March 31, 2018 on Form 10-Q, the balance due on the note is increased by an additional 15%. After the accrual of interest and the increases outlined herein, the balance on the note may be increase by \$86,876.

On December 12, 2017, the Company entered a consulting agreement with a consultant for services related to audit procedures, tax consultant, identifying and consummation of strategic alliances, merger and acquisitions that benefit the company. The service term is twelve months, the company will issue 1,000,000 restricted common shares to the consultant in lieu of \$40,000. The fair value of the 1,000,000 shares at grant date was \$80,000.

On December 12, 2017, the Company entered a consulting agreement with a consultant for services related to identifying and consummation of strategic alliances, merger and acquisitions that benefit the company. The service term is twelve months, the company will issue 5,000,000 restricted common shares to the consultant in lieu of \$200,000. The fair value of the 5,000,000 shares at grant date was \$400,000.

On December 13, 2017, the company signed a definitive exclusive master marketing agreement with BizRight Hydroponics Inc. the term of the agreement for the period of 20 years. BizRight will be compensated with both cash and restricted common shares. Effective date of the contract Bizright will be compensated with 200,000,000 restricted common shares in lieu of first initial payment of \$2,000,000 and \$2,000,000 cash upon first major funding and \$4,000,000 due upon second major funding, the maximum share earn out is 450,000,000 total based on monthly revenue of \$2,500,000 or \$30,000,000 annualized. The fair market value of 200,000,000 restricted common shares at grant date was \$16,800,000.

On December 14, 2017, the Company sold 1,000,000 restricted common shares to an investor for \$50,000, at a price per share equal to \$0.05.

On December 21, 2017, the Company sold 5,000,000 restricted common shares to an accredited investor for \$250,000, at a price per share equal to \$0.05.

At December 31, 2017, the Company was obligated to issue 2,000,000 shares of Series B Convertible Preferred Stock for three EB-5 investments with the total amount of \$1,500,000. The Company received \$2,000,000 proceeds during the year ended June 30, 2017 with fair value of \$2,000,000. On April 1, 2015, the Company completed a series of transactions and amended its Articles of Incorporation creating a series of preferred stock of 10,000,000 shares, which shall be designated Series B Convertible Preferred Stock, par value \$0.001 per share (the "Series B Preferred Stock"). Series B will not be eligible for dividends. Five years from the date of issue (the "Conversion Date"), assuming the Series B investor is approved for I-526 under the U.S Government's EB-5 Investment Program, each Preferred Share will automatically convert into that number of Common Shares having a "fair market value" of the Initial Investment plus a five (5) percent annualized return on Initial Investment. Fair market value will be determined by averaging the closing sale price of a Common Share for the 40 trading days immediately preceding the date of conversion on the U.S. stock exchange on which Common Shares are publicly traded. The offering was made pursuant to SEC Rule 506 Section 4(2), which provides exemption from registration for transactions, which are not public offerings. The funds received were used for general working capital purposes and to accelerate order deliveries to customers.

Table of Contents

Subsequent to , 2017, the Company was obligated to issue 6,400,000 restricted common shares for equity financing of \$95,000.

Subsequent to December 31, 2017, the company was obligated to issue 3,117,629 restricted common shares for debt conversion.

On December 1, 2016, the Company modified its agreement with Bao Coc International Paper and BAO COC INTERNATIONAL PAPER AND PLASTIC COMPANY LIMITED ("Bao Cao"), of the Socialist Republic of Vietnam. Under the terms of the revised agreement, the Company shall purchase products manufactured by the current contract manufacturers and distribute such products to various quick service restaurant and institutions in the United States. Revenues from such products shall belong to Sugarmade. The price of these products will be determined from time to time in mutual agreement between the Parties. Sugarmade shall be responsible for compensating the contract manufacturer and collection of monies from the end customer with all revenues belonging to the Company. The company is obligated to issue 5,000,000 restricted common shares, the fair market value of the 5,000,000 shares was \$400,000. As of March 31, 2018, these shares had yet to be issued and were recorded as a liability for stock to be issued – common shares.

As of December 31, 2017, the Company was obligated to issue 1,638,819 restricted common shares for past services. The market value of the shares issued was \$0.033 per share. The fair market value of the 1,628,819 shares was \$54,081, and was recorded as a liability for stock to be issued – common shares.

As of December 31, 2017, the Company was obligated to issue 7,860,000 shares to its employees as year-end bonus, the fair value of the 7,860,000 shares was \$494,648, and was recorded as a liability for stock to be issued – common shares.

Subsequent to March 31, 2018, the Company was obligated to issue 15,850, 000 restricted common shares for equity financing of \$780,000.

Subsequent to March 31, 2018, the company was obligated to issue 8,104,200 restricted common shares for debt conversion.

As of March 31, 2018, the Company was obligated to issue 1,075,000 shares to its employees as year-end bonus, the fair value of the 1,075,000 shares was \$198,025, and was recorded as a liability for stock to be issued – common shares.

16. Commitments and contingencies

On April 1, 2015, the Company entered into a lease for general office and warehouse in City of Industry, California with a lease term of one year. The monthly rent was \$11,884. The Company renewed the lease to March 31, 2016, effective April 1, 2016 to March 31, 2017, increasing the rent from \$11,884 to \$13,238. On March 6, 2017, the Company executed a Fifth Amendment to the Lease, in which the Monthly rent increased from \$13,238 to \$15,043 effective from April 1, 2017 to March 31, 2018. As of March 31, 2018, the Monthly rent is \$15,043. As of April 1, 2018, the have vacated and return the property to the property owner and have no further lease commitment associated with this property.

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.

Table of Contents

16. Subsequent events

On June 26, 2018, the Company entered into a straight promissory note with a Nevada Company that is managed by one of our former director Mr. Yu for \$150,820. The note has a term of six (6) months with an interest rate of 12%. On March 19, 2018, the Nevada Company agreed to settle the outstanding principle and interest balance of \$150,820 for 1,508,200 shares of restricted common shares. The fair value of the 1,508,200 shares at settlement date was \$0.175 per share x share counts.

On July 17, 2018, the Company entered into a convertible promissory note with a Nevada Company that is managed by one of our former director Mr. Yu for \$164,900. The note has a term of twelve (12) months with an interest rate of 8% and is convertible into common shares at a fixed price of \$0.025. On March 20, 2018, the Company issued 4,530,846 common shares in exchange for the conversion of \$164,900 of convertible debt and accrued interest of \$5,225.

On March 20, 2018, the Company entered a consulting agreement with a consultant for services related to sourcing and quality control. The service term is nine months, the company will issue 1,000,000 restricted common shares to the consultant in lieu of \$50,000. The fair value of the 1,000,000 shares at grant date was \$184,900.

On April 2, 2018 the Company sold 1,000,000 restricted common shares to an accredited investor for \$50,000, at a price per share equal to \$0.05.

On August 3, 2018, the Company entered into a convertible promissory note with an accredited investor for \$150,000. The note has a term of nine (9) months with an interest rate of 10% and is convertible into common shares at a 45% discount. On April 3, 2018, the Company issued 2,234,696 common shares in exchange for the conversion of \$159,781 of convertible debt and accrued interest of \$9,781.

On April 18, 2018 the Company sold 1,428,571 restricted common shares to an accredited investor for \$100,000, at a price per share equal to \$0.07.

On April 19, 2018 the Company sold 1,171,429 restricted common shares to an accredited investor for \$82,000, at a price per share equal to \$0.07.

On April 20, 2018 the Company sold 1,828,571 restricted common shares to an accredited investor for \$128,000, at a price per share equal to \$0.07.

On May 8, 2018 the Company sold 2,400,000 restricted common shares to an accredited investor for \$120,000, at a price per share equal to \$0.05.

On May 10, 2018 the Company sold 1,000,000 restricted common shares to an accredited investor for \$50,000, at a price per share equal to \$0.05.

On May 11, 2018 the Company sold 300,000 restricted common shares to an accredited investor for \$15,000, at a price per share equal to \$0.05.

On May 14, 2018 the Company sold 1,000,000 restricted common shares to an accredited investor for \$50,000, at a price per share equal to \$0.05.

On May 14, 2018 the Company sold 1,000,000 restricted common shares to an accredited investor for \$50,000, at a price per share equal to \$0.05.

Table of Contents

On May 28, 2018 the Company sold 1,000,000 restricted common shares to an accredited investor for \$50,000, at a price per share equal to \$0.05.

On June 8, 2018 the Company entered into a consulting agreement for services to assist the Company in exploring and identifying corporate acquisitions and other strategies to accelerate the Company's growth. In return for the consultant's services, the Company will issue 500,000 restricted common shares for \$500.00 at a discounted price per share equal to \$0.001. The fair value of the 500,000 shares at the grant date was \$70,000. Additionally, consultant will be compensated \$10,000 per month for the period of Six (6) months, consultant may choose to convert any portion of this cash compensation to common shares; such shares will be value at 15% discount to the lowest closing price for the seven (7) trading days before such election is made.

On June 8, 2018 the Company entered into a consulting agreement for services to assist the Company in exploring and identifying corporate acquisitions and other strategies to accelerate the Company's growth. In return for the consultant's services, the Company will issue 500,000 restricted common shares for \$1,000.00 at a discounted price per share equal to \$0.001. The fair value of the 500,000 shares at the grant date was \$70,000. Additionally, consultant will be compensated \$15,000 per month for the period of Six (6) months, consultant may choose to convert any portion of this cash compensation to common shares; such shares will be value at 15% discount to the lowest closing price for the seven (7) trading days before such election is made.

Table of Contents

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

On April 2, 2018, the Registrant engaged L&L CPAS, PA as Registrant's independent registered public accounting firm. Neither the Registrant, nor anyone on its behalf, has consulted with L&L CPAS, PA regarding (i) the type of final audit opinion that might be rendered on the Company's financial statements and neither a written report nor oral advice was provided to the Company that L&L CPAS, PA concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing, or financial reporting issue, (ii) any matter that was the subject of a disagreement within the meaning of Item 304(a)(1)(iv) of Regulation S-K, or (iii) any reportable event within the meaning of Item 304(a)(1)(v) of Regulation S-K.

On March 21, 2018, the Board of Directors of Sugarmade, Inc. (the "Company") dismissed BF Borgers CPA ("Borgers") as the principal auditor for the Company. The Company's Board of Directors approved the dismissal of Borgers. The principal accountant's report on the financial statements for the period from June 30, 2014 to and as of June 30, 2017 did not contain an adverse opinion or a disclaimer of opinion, nor did such statements contain qualifiers or modifiers as to uncertainty, audit scope, or accounting principles. There were no disagreements with Borgers whether or not resolved, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to Borgers satisfaction, would have caused it to make reference to the subject matter of the disagreement in connection with its report on the Company's financial statements.

Table of Contents

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.

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

We are also a significant player in the market for generic and custom printed-paper and other goods for the quick service restaurant industry, via our CarryOutSupplies.com business operation. The larger competitive suppliers that service this sector usually require restaurant customers to order large quantities of custom and generic printed-paper and other products. CarryOutSupplies allows these smaller establishments to gain the marketing and advertising benefits of customized printed products without tying up large amounts of working capital. The Company is in process of significantly increasing the number of products offered to the restaurant industry. Whereas the current product emphasis is limited mainly to custom and generic printed items, a new division of the Company, called CaliRestaurantSupplies.com, will expand both the number of products offered and the target market for the Company. The Company already services approximately 2,000 takeout establishments, restaurants, and other food service operators via a product offering of approximately 2,000 items.

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

Table of Contents

The Company has also acted as a distributor printer and copier paper derived from non-wood sources via its Sugarmade Paper product. Third party contract manufacturers use agricultural residuals, namely bagasse (derived from sugar cane) and bamboo, as opposed to wood products, significantly reducing the manufacturing carbon footprint, energy consumption, and attendant water pollution during the manufacture of its products. This allows us to offer our unique, exclusive, tree-free paper products at price-parity equal to or less than current recycled fiber products already on the market. Our products are unique and we believe offer an ideal solution for those consumers (both corporate and individual) seeking to meet their sustainability mandates or personal environmentally conscious goals, at a price that is equal to or less than current recycled products. The Company marketed this tree free paper product via school and organization fund-raisers and directly to corporations and institutions. As of the first calendar quarter of 2018, the Company's management team and board of directors determined this business unit was no long strategic and thus the Company has terminated these operations.

In October of 2014, Sugarmade entered into an agreement to acquire City of Industry, California based S W C Group, Inc., a California Corporation, which does business as CarryOutSupplies.com.

Employees and consultants

The company employees approximately 45 full-time and part-time workers, and consultants, most of whom work within the City of Monrovia, California headquarters location, while small numbers are in our distribution warehouse located in Duarte, California.

Overview and Financial Condition

Discussions with respect to our Company's operations included herein refer to our operating subsidiary, Sugarmade-CA. Our Company purchased Sugarmade-CA on May 9, 2011. As of the date of this filing, we had no other operations other than those of Sugarmade-CA. Information with respect to our Company's nominal operations prior to the Sugarmade Acquisition is not included herein.

Results of Operations

The following table sets forth the results of our operations for the three and nine months ended March 31, 2018 and 2017.

Edgar Filing: Sugarmade, Inc. - Form 10-Q/A

For the three months
ended
March 31,
2018 2017

Net Sales	849,436	903,950
Cost of Goods Sold:	594,888	614,414
Gross profit	254,549	289,536
Operating Expenses	791,196	693,623
Loss From Operations	(542,647)	(404,087)
Other non-operating Income (Expense):	3,331,520	(2,294,032)
Net Income (Loss)	2,788,872	(2,698,119)

For the nine months ended
March 31,
2018 2017

Net Sales	2,965,404	2,759,595
Cost of Goods Sold:	2,107,834	1,839,874
Gross profit	857,570	919,721
Operating Expenses	2,599,149	2,295,458
Loss From Operations	(1,741,579)	(1,375,737)
Other non-operating Income (Expense):	(2,537,235)	(2,827,093)
Net Income (Loss)	(4,278,814)	(4,202,830)

Table of Contents

Revenues

For the three-month periods ending March 31, 2018 and 2017, revenues were \$849,436 and \$903,950, respectively. The decrease was primarily due to the industry's seasonal trend. For the nine-month periods ending March 31, 2018 and 2017, revenues were \$2,965,404 and \$2,759,595, respectively. The increase was primarily due to the industry's seasonal trend.

Cost of goods sold

For the three-month periods ending March 31, 2018 and 2017, costs of goods sold were \$594,888 and \$614,414 respectively. The decrease was primarily due to decrease in sales. For the nine-month periods ending March 31, 2018 and 2017, costs of goods sold were \$2,107,834 and \$1,839,874 respectively. The increase was primarily due to the frozen yogurt sector expanding and preparing for the industry's pick-up in its seasonal trend.

Gross profit

For the three months period ending March 31, 2018 and 2017, gross profit were \$254,549 and \$289,536, respectively. The decrease was primarily due to a refocus on the types of products sold by the Company. For the nine months period ending March 31, 2018 and 2017, gross profit were \$857,570 and \$919,721, respectively. The decrease was primarily due to a refocus on the types of products sold by the Company.

Operating expenses

For the three-month periods ending March 31, 2018 and 2017, operating expenses were \$791,196 and \$693,923, respectively. For the nine-month periods ending March 31, 2018 and 2017, operating expenses were \$2,599,149 and \$2,295,458, respectively. The increase was primarily due to higher stock compensation expense as the company engaged certain industry experts to help the company expanding its markets.

Other non-operating income (expense)

The Company had total other non-operating income of \$3,331,520 and expense of \$2,294,032 for the three months ending March 31, 2018 and 2017, respectively. The increase in non-operating income is related to the accounting for derivative liabilities. The Company had total other non-operating expense of \$2,537,235 and \$2,827,093 for the nine months ending March 31, 2018 and 2017, respectively. The increase in non-operating expenses is related to the accounting for derivative liabilities.

Net income (loss)

Net income totaled \$2,788,872 for the three month period ending March 31, 2018, compared to a net loss totaling \$2,698,119 for the three-month period ending March 31, 2017. The increase in net income was primarily due the increasing in total non-operating income. Net loss totaled \$4,278,814 for the nine month period ending March 31, 2018, compared to a net loss totaling \$4,202,830 for the nine month period ending March 31, 2017. The increase in net loss was primarily due the increasing in total non-operating expenses.

Table of Contents**Liquidity and Capital Resources**

We have primarily financed our operations through the sale of unregistered equity and convertible notes payable. As of March 31, 2018, our Company had cash balance of \$8,643 current assets totaling \$1,398,677 and total assets of \$1,627,269. We had current and total liabilities totaling \$8,170,558. Stockholders' equity reflected a deficiency of \$6,543,289.

The following is a summary of cash provided by or used in each of the indicated types of activities during the nine-months ended March 31, 2018 and 2017:

	2018	2017
Cash (used in) provided by:		
Operating activities	\$(1,915,597)	\$(1,303,903)
Investing activities	(147,131)	(24,052)
Financing activities	1,969,491	1,403,928

Net cash used in operating activities was \$1,915,597 for the nine months ending March 31, 2018, and \$1,303,903 for the nine months ending March 31, 2017.

There were \$133,132 fixed assets purchased during the nine months ended March 31, 2018 relating to investing activities.

Net cash provided by financing activities was \$1,969,492 for the nine months ended March 31, 2018 and \$1,403,928 for the nine months ended March 31, 2017.

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, 2017. 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.

Table of Contents

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 March 31, 2018, 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.

Table of Contents

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 March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

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 2015 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

There were no sales of unregistered securities during the period.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 – MINE SAFETY DISCLOSURES

None.

ITEM 5 – OTHER INFORMATION

None

-36-

Table of Contents

ITEM 6 – EXHIBITS

Exhibit No.	Description
31.1	(1) <u>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</u>
31.2	(1) <u>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</u>
32.1	(1) <u>Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	(1) <u>Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted</u>

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.

Table of Contents

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.

**Sugarmade, Inc., a
Delaware corporation**

August 15, 2018 By: /s/ Jimmy Chan
Jimmy Chan
CEO, CFO, and Director