

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2022

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

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

Commission file number: 000-23446

SUGARMADE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

94-3008888

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

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

(Address of principal executive offices)

91016

(Zip Code)

(888) 982-1628

(Registrant's telephone number, including area code)

N/A

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

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

Title of each class

N/A

Trading Symbol(s)

N/A

Name of each exchange on which registered

N/A

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 January 24, 2023, there were 12,506,191,076 shares of common stock issued and outstanding.

SUGARMADE, INC.

FORM 10-Q

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. These factors, risks and uncertainties can be found in Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2022, as the same may be updated from time to time, including in Part II, Item 1A, "Risk Factors," of this Quarterly Report on Form 10-Q. Although we believe the expectations reflected in our forward-looking statements are based upon reasonable assumptions, it is not possible to foresee or identify all factors that could have a material effect on the future financial performance of the Company. The forward-looking statements in this report are made on the basis of management's assumptions and analyses, as of the time the statements are made, in light of their experience and perception of historical conditions, expected future developments and other factors believed to be appropriate under the circumstances. Except as otherwise required by the federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this Quarterly Report on Form 10-Q and the information incorporated by reference in this report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

PART 1: Financial Information

Item 1 Financial Statements

Sugarmade, Inc. and Subsidiaries Condensed Consolidated Balance Sheets

	As of	
	September 30, 2022 (Unaudited)	June 30, 2022 (Audited)
Assets		
Current assets:		
Cash	81,216	161,014
Accounts receivable, net	92,097	29,822
Inventory, net	390,977	416,643
Other current assets	333,099	256,511
Right of use asset, current	188,145	219,494
Total current assets	1,085,534	1,083,483
Noncurrent assets:		
Property, plant and equipment, net	3,626,128	3,671,691
Intangible asset, net	10,648,438	10,648,921
Goodwill	757,648	757,648
Investment	30,000	-
Right of use asset, noncurrent	233,412	266,760
Cost method investments in affiliates	441,407	441,407
Total noncurrent assets	15,737,033	15,786,427
Total assets	16,822,567	16,869,910
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Note payable due to bank	25,982	25,982
Accounts payable and accrued liabilities	2,696,083	2,664,538
Customer deposits	913,084	951,664
Customer overpayment	79,532	67,906
Other payables	424,196	473,799
Accrued interest	1,022,861	873,971
Notes payable - Current	380,600	20,000
Lease liability - Current	200,258	233,201
Loans payable - Current	797,840	935,975
Loan payable - Related Parties, Current	229,984	280,295
Convertible notes payable, Net, Current	1,639,033	1,459,536
Derivative liabilities, net	1,941,302	5,521,284
Warrants liabilities	1,058	3,100
Shares to be issued	287,077	283,077
Total current liabilities	10,638,889	13,794,327
Non-Current liabilities:		
Loans payable, noncurrent	823,963	825,239
Note payable, noncurrent	4,811,775	4,828,442

Convertible notes payable, Net, Noncurrent	163,673	101,828
Lease liability	483,926	290,948
Total noncurrent liabilities	6,054,647	6,046,457
Total liabilities	16,693,536	19,840,784
Commitments and contingencies	-	-
Stockholders' equity (deficit):		
Series A Preferred stock, \$0.001 par value, 7,000,000 shares authorized 0 and 0 shares issued outstanding at September 30, 2022 and June 30, 2022	-	-
Series B Preferred stock, \$0.001 par value, 2,999,999 shares authorized 2,541,500 and 2,541,500 shares issued outstanding at September 30, 2022 and June 30, 2022	2,542	2,542
Series C Preferred stock, \$0.001 par value, 1 share authorized, 1 and 1 share issued outstanding at September 30, 2022 and June 30, 2022	-	-
Common stock, \$0.001 par value, 20,000,000,000 shares authorized, 11,980,144,738 and 11,825,389,576 shares issued and outstanding at September 30, 2022 and June 30, 2022, respectively	11,980,144	11,825,389
Additional paid-in capital	71,125,127	71,260,522
Share to be issued, Preferred stock	-	-
Subscription receivable	-	(10,042)
Share to be issued, Common stock	40,008	40,008
Accumulated deficit	(82,363,889)	(85,437,392)
Total stockholders' equity (deficit)	783,931	(2,318,974)
Non-Controlling Interest	(654,901)	(651,900)
Total stockholders' equity (deficit)	129,030	(2,970,874)
Total liabilities and stockholders' equity (deficit)	16,822,567	16,869,910

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

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Sugarmade, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	For the three Months Ended	
	September 30, 2022	September 30, 2021
Revenues, net	709,151	\$ 1,168,781
Revenues, Related Party, net	631	\$ -
Cost of goods sold	462,909	386,939
Gross profit	246,873	781,842
Selling, general and administrative expenses	291,019	613,139
Advertising and promotion expense	-	513,467
Marketing and research expense	26,663	35,413
Professional expense	87,496	310,500
Salaries and wages	48,477	460,424
Stock compensation expense	66,500	101,500
Total operating expenses	520,155	2,034,443
Loss from operations	(273,282)	(1,252,601)
Non-operating income (expense):		
Other (expense) income	15,091	(4,994)
Interest expense	(193,046)	(157,911)
Change in fair value of derivative liabilities	3,697,931	325,234
Change in fair value of warrant liability	2,042	8,289
Loss on asset disposal	-	(28)
Amortization of debt discount	(289,801)	(132,579)
Amortization of intangible assets	(483)	(1,533)
Other Expense - Gain on debt extinguishment	112,051	-
Unrealized gain on securities	-	(642,117)
Total non-operating income (expense), net	3,343,785	(605,640)
Equity Method Investment Loss	-	(44,477)
Income (loss) before income taxes	3,070,503	(1,902,718)
Income tax expense	-	-
Net income (loss)	\$ 3,070,503	\$ (1,902,718)
Other comprehensive loss	-	-
Total comprehensive income (loss)	\$ 3,070,503	\$ (1,902,718)
Less: net loss attributable to the noncontrolling interest	(3,000)	(307,351)
Net income (loss) attributable to SugarMade Inc.	\$ 3,073,503	\$ (1,595,367)
Basic net income (loss) per share	\$ 0.00	\$ (0.00)
Diluted net income (loss) per share	\$ 0.00	\$ (0.00)
Basic and diluted weighted average common shares outstanding *	11,930,425,109	4,740,034,036

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

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

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Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficit)
For the three months ended September 30, 2022 and 2021
(Unaudited)

	Preferred Stock - Series B		Preferred Stock - Series C		Common stock		Additional paid-in capital	Shares to be issued, common shares	Subscription Receivable - CS	Common Shares Subscribed	Accumulated deficit	Non Controlling Interest	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount							
Balance at June 30, 2021	<u>541,500</u>	<u>\$ 542</u>	<u>1</u>	<u>\$ -</u>	<u>7,402,535,677</u>	<u>\$7,402,536</u>	<u>\$64,841,655</u>	<u>5,600,000</u>	<u>\$ (500,000)</u>	<u>\$ 1,889,608</u>	<u>\$ (74,364,466)</u>	<u>\$ (99,656)</u>	<u>\$ 4,770,218</u>
Reclass derivative liability to equity from conversion	-	-	-	-	-	-	576,214	-	-	-	-	-	576,214
Shares issued for conversions	-	-	-	-	375,600,448	375,600	9,665	-	-	-	-	-	385,266
Shares issued for acquisition	2,000,000	2,000	-	-	660,571,429	660,571	6,787,029	(5,600,000)	-	(1,849,600)	-	-	-
Shares issued for subscription receivable - common stock	-	-	-	-	-	-	-	-	500,000	-	-	-	500,000
Net loss	-	-	-	-	-	-	-	-	-	-	(1,595,367)	(307,351)	(1,902,718)
Balance at September 30, 2021	<u>2,541,500</u>	<u>\$ 2,542</u>	<u>1</u>	<u>\$ -</u>	<u>8,438,707,554</u>	<u>\$8,438,707</u>	<u>\$72,214,564</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,008</u>	<u>\$ (75,959,833)</u>	<u>\$ (407,007)</u>	<u>\$ 4,328,979</u>

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

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	Preferred Stock - Series B		Preferred Stock - Series C		Common stock		Additional paid-in capital	Shares to be issued, common shares	Shares to be cancelled, preferred shares	Subscription Receivable - CS	Common Shares Subscribed	Common Shares Subscribed	Accumulated deficit	Non Controlling Interest	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount									
Balance at June 30, 2022	<u>2,541,500</u>	<u>\$ 2,542</u>	<u>1</u>	<u>\$ -</u>	<u>11,825,389,576</u>	<u>\$11,825,389</u>	<u>\$71,260,522</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (10,042)</u>	<u>\$ 40,008</u>	<u>\$ -</u>	<u>\$ (85,437,392)</u>	<u>(651,900)</u>	<u>\$ (2,970,874)</u>
Shares issued for Cash	-	-	-	-	154,755,162	154,755	(135,395)	-	-	-	-	-	-	-	19,360
Shares issued for subscription receivable - common stock	-	-	-	-	-	-	-	-	-	10,042	-	-	-	-	10,042
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	3,073,503	(3,000)	3,070,503
Balance at September 30, 2022	<u>2,541,500</u>	<u>\$ 2,542</u>	<u>1</u>	<u>\$ -</u>	<u>11,980,144,738</u>	<u>\$11,980,144</u>	<u>71,125,128</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (82,363,889)</u>	<u>(654,901)</u>	<u>\$ 129,030</u>

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

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Sugarmade, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For The Three Months Ended September 30, 2022 and 2021
(Unaudited)

	For The Three Months Ended	
	September 30,	
	2022	2021
Cash flows from operating activities:		
Net income (loss)	\$	3,073,503
Non-controlling interest		(3,000)
Adjustments to reconcile net loss to cash flows from operating activities:		
Gain on debt extinguishment		(112,051)
Amortization of debt discount		289,801
Stock based compensation		4,000
Change in fair value of derivative liability		(3,697,931)
Change in fair value of warrant liability		(2,042)
Depreciation		45,563
Amortization of intangible assets		483
Equity method investment loss		-
Unrealized loss on securities		-
Imputed interest of lease liabilities		(3,959)
Changes in assets and liabilities:		
Accounts receivable		(62,275)
Inventory		25,666
Prepayment, deposits and other receivables		(76,589)
Other assets		(30,000)
Other payables		(49,603)
Accounts payable and accrued liabilities		141,546
Customer deposits		(26,954)

Unearned revenue	-	20,265
Interest Payable	168,890	99,238
Net cash used in operating activities	(314,951)	(1,408,590)
Cash flows from investing activities:		
Purchase of fixed assets	-	(830,000)
Net cash used in investing activities	-	(830,000)
Cash flows from financing activities:		
Proceeds from shares issuance	19,360	-
Proceeds (Repayment) from(to) notes payable	343,933	(69,436)
Proceeds (Repayment) from(to) note payable - related parties	-	(15,427)
Proceeds from advanced shares issuance	-	500,000
Subscription receivable	10,042	-
Proceeds (Repayment) from(to) loans payable	(39,411)	782,969
Proceeds (Repayment) from(to) loans payable - related parties	(50,311)	(116,960)
Repayment of convertible notes	(48,459)	-
Net cash provided by financing activities	235,154	1,081,146
Net increase (decrease) in cash	(79,798)	(1,164,444)
Cash paid during the period for:		
Cash, beginning of period	161,014	1,396,944
Cash, end of period	\$ 81,216	\$ 239,500
Cash paid interest	-	-
Supplemental information —		
Supplemental disclosure of non-cash financing activities —		
Shares issued for conversion of convertible debt	-	576,215
Reduction in derivative liability due to conversion	-	385,266
Debt discount related to convertible debt	117,949	-

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

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Sugarmade, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2022

1. Nature of Business

Sugarmade, Inc. (hereinafter referred to as "we", "us" or the "Company") was originally incorporated on June 5, 1986 in California as Lab, Inc., and later that month, on June 24, 1986 changed its name to Software Professionals, Inc. On May 21, 1996, the Company changed its name to Enlighten Software Solutions, Inc. On June 20, 2007, Enlighten Software Solutions, Inc. was incorporated in Delaware for the purpose of merging with Enlighten Software Solutions, Inc. a California corporation so as to effect a redomicile to Delaware. On January 24, 2008, the Company changed its name to Diversified Opportunities, Inc. On May 9, 2011 we closed on a Share Exchange Agreement with Sugarmade, Inc., a California corporation founded in 2010, and on June 24, 2011 changed our name to Sugarmade, Inc.

On October 24, 2014 we acquired SWC Group, Inc., a California corporation doing business as, CarryOutSupplies.com ("Carry Out Supplies").

Our Company operates much of its business activities through our subsidiaries, SWC Group, Inc., a California corporation ("SWC"), NUG Avenue, Inc., a California corporation and 70% owned subsidiary of the Company ("NUG Avenue"), and Lemon Glow Company, Inc., a California corporation and wholly owned subsidiary of the Company ("Lemon Glow").

Shares of our common stock are quoted on the OTC Pink tier of OTC Markets. Our trading symbol is "SGMD". Our corporate website is www.sugarmade.com

As of the date of this filing, we are involved in several business sectors and business ventures:

Paper and paper-based products: The supply of consumable products to the quick-service restaurant sub-sector of the restaurant industry, and as an importer and distributor of non-medical personal protection equipment to business and consumers, via our Carry Out Supplies subsidiary. Carry Out Supplies is a producer and wholesaler of custom printed and generic supplies, servicing more than 2,000 quick-service restaurants. The primary products are plastic cold cups, paper coffee cups, yogurt cups, ice cream cups, cup lids, cup sleeves, edible packaging, food containers, soup containers, plastic spoons, and similar products for this market sector. This subsidiary, which was formed in 2009.

Cannabis products delivery services: Following the end of the COVID cannabis delivery boom, along with a challenging cannabis retail climate from inflation, the black market, increased marketing expenses, and the cannabis excise tax moving from distribution to retail, the company has decided to reduce investments in retail operations. The company made this decision as we see more promising opportunities to increase shareholder equity by pivoting the business strategy to deploy capital to invest in cannabis real estate, cultivation, and wholesale sectors vs. cannabis retail operations.

After discussions with ECGI, Inc. and the management of Nug Avenue, we could not find a path to short term profitability. The company then decided to cease investing in Nug Avenue, which ultimately led to Nug Avenue discontinuing operations.

As part of pivoting our business strategy, the company negotiated with Indigo Dye Group Corp. ("Indigo") to exchange our 32% stake in Budcars for a stake in a distribution and indoor cultivation company in Santa Rosa, California. The company has already executed a share exchange agreement with Indigo. However, the final documents and terms of the new company are still being finalized. The company expects to complete the documents and announce the transition to new business post filing of this 10Q.

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Selected cannabis and hemp projects: On May 12, 2021, the Company entered into a Merger Agreement by and between Camaby Spot Bay Corp, a California corporation and a wholly owned subsidiary of the Company ("Merger Sub"), Lemon Glow Company and Ryan Santiago as shareholder representative, pursuant to which Merger Sub would merge with and into Lemon Glow, with Lemon Glow being the surviving corporation (the "Merger"). Upon the closing of the merger, Lemon Glow was merged into the Company. The purpose of the

transactions to establish a licensed and permitted entity which Sugarmade would cultivate, manufacture, and distribute cannabis to the California markets. At the time of the transactions, none of Lemon Glow, Merger Sub, or Sugarmade was permitted and licensed for such activities.

On October 28, 2021, Lemon Glow obtained a conditional Use Permit (UP) number from the Community Development Department of the County of Lake, California, which the Company believes is an important step towards the conditional UP for commercial cannabis cultivation at its property. The issuance of the conditional UP number by the County of Lake allows the Company to proceed with the state cannabis cultivation license application, and potentially obtain certain applicable permits, such as from the Department of Cannabis Control, Department of Food and Agriculture, Department of Pesticide Regulation, Department of Fish and Wildlife, The State Water Resources Control Board, Board of Forestry and Fire Protection, Central Valley or North Coast Regional Water Quality Control Board, Department of Public Health, and Department of Consumer Affairs, as may be required. The Company believes that obtaining the conditional UP number by the County of Lake could be the first step toward full approval to cultivate cannabis on up to 32 acres out of the total 640 acres of the property.

As of the date of this filing, Sugarmade is working diligently on satisfying the conditions required by the County of Lake to allow the Company to cultivate cannabis. It is the Company's intention to begin such activities at the earliest time possible, assuming permits are ultimately issued. Upon issuance, the company will determine the amount of acreages to grow initially based on market demand and pre-orders. However, no such license or permits have yet been issued, and applications are still pending. There can be no assurance that any such license or permits will be issued in the near future or at all.

Once licensing and permits are issued, the company plans to divide the 32 canopy grow acres between four separate grow areas. These separate grow areas will allow the company to start with a single area and expand with demand. While waiting for demand to rise, dividing into separate grow areas will also provide an opportunity to lease the other grow areas to 3rd party or through partnership under Managed Service Agreement to generate additional revenue for the company.

We believe the market demand will increase upon federal legalization allowing for interstate commerce of cannabis. Opening the doors for out of state licensees to purchase California grown cannabis flowers.

Once fully completed, we estimate the output of 32 acres of canopy, will have the capacity of 64 tons of dry flower or 300 tons of fresh frozen, requiring approximately 300,000 sq ft of storage space. We will continue to make plans to build more storage space while concurrent with the licensing process.

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying financial statements of the Company have been prepared using the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and the rules of the Securities and Exchange Commission ("SEC"). In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the periods presented herein have been reflected.

The condensed consolidated financial statements of the Company as of and for three months ended September 30, 2022 and 2021 are unaudited. In the opinion of management, all adjustments (including normal recurring adjustments) have been made that are necessary to present fairly the financial position of the Company as of September 30, 2022, the results of its operations for the three months ended September 30, 2022 and 2021, and its cash flows for the three months ended September 30, 2022 and 2021. Operating results for the interim periods presented are not necessarily indicative of the results to be expected for a full fiscal year. The condensed consolidated balance sheet at June 30, 2022 has been derived from the Company's audited financial statements included in the Form 10-K for the year ended June 30, 2022.

The statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the financial statements and other information included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2022, as filed with the SEC.

Principles of consolidation

The consolidated financial statements include the accounts of our Company, and its wholly-owned subsidiaries: SWC, Lemon Glow, Sugarrush, Sugarrush 5058, and its majority owned subsidiary, NUGAvenue. All significant intercompany transactions and balances have been eliminated in consolidation.

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Going concern

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 unaudited 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 unaudited 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 endeavors to increase revenue-generating operations. While the Company's priority is on generating cash from operations, management also seeks 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.

Business combinations

The Company applies the provisions of Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") 805, Business Combinations, in accounting for its acquisitions. It requires the Company to recognize separately from goodwill the assets acquired and the liabilities assumed, at the acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the acquisition date fair values of the net assets acquired and the liabilities assumed. The Company used third party valuation company to determine the assets acquired and liabilities assumed with the corresponding offset to goodwill.

Use of estimates

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

Revenue recognition

We recognize revenue in accordance with ASC No. 606, Revenue Recognition. Sugarmade applied a five-step approach in determining the amount and timing of revenue to be recognized: (1) identifying the contract with a customer, (2) identifying the performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations in the contract and (5) recognizing revenue when the performance obligation is satisfied.

Substantially all of the Company's revenue is recognized at the point in time that control of the products is transferred to the customer. The Company receives customer deposits in

advance of delivery of product to customers; these are contract liabilities that are recognized to revenue when the Company fulfilled the performance obligations. The Company receives payments from customer in either in advance, upon delivery, or after delivery in accordance with open account credit terms set forth by management. The Company's contracts with customers do not provide for returns, refunds, and product warranties.

Leases

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

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

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

The new standard also provides practical expedients for an entity's ongoing accounting. The Company has also elected the short-term leases recognition exemption for all leases that qualify. This means that the Company will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets and lease liabilities, for existing short-term leases of those assets in transition. The Company also currently expects to elect the practical expedient to not separate lease and non-lease components for its leases. All existing leases are reported under this rule.

Under ASC 840, leases were classified as either capital or operating, and the classification significantly impacted the effect the contract had on the company's financial statements. Capital lease classification resulted in a liability that was recorded on a company's balance sheet, whereas operating leases did not impact the balance sheet.

Property and equipment

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

Machinery and equipment	3-5 years
Furniture and equipment	1-15 years
Vehicles	2-5 years
Leasehold improvements	5-30 years
Building	31.5 years
Production molding	5 years

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

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

The Company reviews the carrying value of property, plant, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition and other economic factors. Based on this assessment, no impairment expenses for property, plant, and equipment was recorded in operating expenses during the period ended September 30, 2022 and year ended June 30, 2022.

Impairment of Long-Lived Assets

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

Recoverability of long-lived assets to be held and used is measured by comparing the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the assets. Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable. Based on its review, there was \$0 impairment loss of its long-lived assets as of September 30, 2022 and 2021, respectively.

Income taxes

The Company accounts for income taxes using the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax law. For deferred tax assets, management evaluates the probability of realizing the future benefits of such assets. The Company establishes valuation allowances for its deferred tax assets when evidence suggests it is unlikely that the assets will be fully realized.

The Company recognizes the tax effects of an uncertain tax position only if it is more likely than not to be sustained based solely on its technical merits as of the reporting date and then only in an amount more likely than not to be sustained upon review by the tax authorities. Income tax positions that previously failed to meet the more likely than not threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more likely than not threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. The Company classifies potential accrued interest and penalties related to unrecognized tax benefits within the accompanying consolidated statements of operations and comprehensive income (loss) as income tax expense.

Goodwill and Intangible Assets

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the acquisition method. Intangible assets represent purchased intangible assets including developed technology and in-process research and development, technologies acquired or licensed from other companies, customer relationships, non-compete covenants, backlog, and trademarks and tradenames. Purchased finite-lived intangible assets are capitalized and amortized over their estimated useful lives. Technologies acquired or licensed from other companies, customer relationships, non-compete covenants, backlog, and trademarks and tradenames are capitalized and amortized over the lesser of the terms of the agreement or estimated useful life. We capitalized the cannabis cultivation license acquired as part of a business combination.

Stock-based compensation

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

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Loss per share

We calculate basic loss per share by dividing our net loss by the weighted average number of common shares outstanding for the period, without considering common stock equivalents. Diluted loss per share is computed by dividing 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 earning per share when their effect is dilutive.

Fair value of financial instruments

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

- Level 1 - observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 - unobservable inputs which are supported by little or no market activity.

The Company used Level 3 inputs for its valuation methodology for the derivative liabilities in determining the fair value using the Binomial option-pricing model for the period ended September 30, 2022 and year ended June 30, 2022.

Derivative instruments

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

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

Segment Reporting

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

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The Company's financial statements reflect that substantially all of its operations are conducted in two industry segments – (1) paper and paper-based products such as paper cups, cup lids, food containers, etc., which accounts for approximately 100% of the Company's revenues for the three months ended September 30, 2022; and (2) cannabis products delivery service and sales, which accounted for approximately 0% of the Company's total revenues for the three months ended September 30, 2022.

A reconciliation of the Company's segment operating income and cost of goods sold to the consolidated statements of operations for the three months ended September 30, 2022 and 2021 is as follows:

	For the Period Ended	
	September 30, 2022	September 30, 2021
Segment operating income		
Paper and paper-based products	\$ 709,782	\$ 438,543
Cannabis products delivery	-	730,237
Total operating income	\$ 709,782	\$ 1,168,781
	For the Period Ended	
	September 30, 2022	September 30, 2021
Segment cost of goods sold		
Paper and paper-based products	\$ 462,909	\$ 386,939
Cannabis products delivery	-	-
Total cost of goods sold	\$ 462,909	\$ 386,939

New accounting pronouncements

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes". The pronouncement simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740, "Income Taxes". The pronouncement also improves consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 was effective for us beginning in the first quarter of fiscal 2021, with early adoption permitted. The adoption had no material impact on the consolidated financial statements in the period ended September 30, 2022 and year ended June 30, 2022.

In January 2020, the FASB issued ASU No. 2020-01, Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivative and Hedging (Topic 815), which clarifies the interaction of rules for equity securities, the equity method of accounting, and forward contracts and purchase options on certain types of securities. The guidance clarifies how to account for the transition into and out of the equity method of accounting when considering observable transactions under the measurement alternative. The ASU is effective for annual reporting periods beginning after December 15, 2020, including interim reporting periods within those annual periods, with early adoption permitted. The Company adopted this ASU on the consolidated financial statements in the year ended June 30, 2021. The adoption had no material impact on the consolidated financial statements in the period ended September 30, 2022 and year ended June 30, 2022.

In August 2020, the FASB issued ASU 2020-06, "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815 – 40)" ("ASU 2020-06"). ASU 2020-06 simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. The ASU is part of the FASB's simplification initiative, which aims to reduce unnecessary complexity in GAAP. The ASU's amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. The Company is currently evaluating the impact of ASU 2020-06 on its financial statements.

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On March 2021, the FASB issued ASU 2021-03, "Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events" ("ASU 2021-03"). The amendments in ASU 2021-03 provide private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as required in ASC 350-20, Intangibles—Goodwill and Other—Goodwill, as of the end of the reporting period, whether the reporting period is an interim or annual period. An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. The amendments in this ASU are effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued as of March 30, 2021. The Company adopted this ASU on the consolidated financial statements in the year ended June 30, 2021. The adoption had no material impact on the consolidated financial statements in the period ended September 30, 2022 and year ended June 30, 2022.

On April 2021, the FASB issued ASU 2021-04, "Earnings Per Share (Topic 260), Debt— Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging— Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options" ("ASU 2021-04") to clarify the accounting by issuers for modifications or exchanges of equity-classified warrants. The new ASU is effective for all entities in fiscal years starting after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2021-04 on its financial statements.

On July 2021, the FASB issued ASU 2021-05, "Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments", which upon adoption requires a lessor to classify a lease with variable lease payments (that do not depend on a rate or index) as an operating lease on commencement date if classifying the lease as a sales-type or direct financing lease would result in a selling loss. The amendments in this ASU are effective for all entities in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. The adoption had no material impact on the consolidated financial statements in the period ended September 30, 2022 and year ended June 30, 2022.

On July 2021, the FASB issued ASU 2021-07, "Stock Compensation (Topic 718): Stock Compensation" ("ASU 2021-07") to address the concerns from stakeholders about the cost and complexity of determining the fair value of equity-classified share-based awards for private companies. It specifically permits private companies to use 409A valuations prepared under U.S. Treasury regulations to estimate the fair value of certain awards under ASC 718. The Update is effective for private companies in fiscal years starting after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2021-07 on its financial statements.

On August 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers" ("ASU 2021-08") to require an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with revenue recognition guidance as if the acquirer had originated the contract. That is, such acquired contracts will not be measured at fair value. ASU 2021-08 is effective for privately held companies with fiscal years beginning after December 15, 2023, with early adoption permitted. The Company is currently evaluating the impact of ASU 2021-08 on its financial statements.

3. Business Combination

On May 12, 2021, SugarMade, Inc. entered into an Agreement and Plan of Merger, as amended (the "Merger Agreement") by and between Lemon Glow Corporation, a California corporation ("Lemon Glow"), Camaby Spot Bay Corp, a California corporation and a wholly owned subsidiary of the Company ("Merger Sub") and Ryan Santiago (the "Shareholder Representative"), pursuant to which, on May 25, 2021 and upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub merged with and into Lemon Glow, with Lemon Glow being the surviving corporation (the "Merger"). As a result of the Merger, Lemon Glow became a wholly-owned subsidiary of the Company.

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Acquisition Consideration

The following table summarizes the fair value of purchase price consideration to acquire Lemon Glow (In US \$000's):

Purchase Consideration Summary In US \$000's		Fair Value
Cash Consideration	(1)	\$ 4,256
Equity Consideration	(2)	\$ 7,450
Interest-Bearing Debt Assumed		\$ 2,043
Total Purchase Consideration		\$ 13,749

Notes:

- (1) The cash consideration consists of \$280,000 in cash and \$3,976,000 in promissory notes with 5% simple interest.
- (2) The equity consideration consists of 660,571,429 shares of Common stock and 2,000,000 shares of Series B Preferred stock.

Purchase Price Allocation

The following is an allocation of purchase price as of the May 25, 2021 acquisition closing date based upon an estimate of the fair value of the assets acquired and the liabilities assumed by the Company in the acquisition (in thousands):

Allocation Summary In US \$000's		Fair Value
Assets Acquired		\$ 6
Property, Plant & Equipment	(3)	\$ 2,348
Total Tangible Asset Allocation		\$ 2,354
Cannabis Cultivation License		\$ 10,637

Total Identifiable Intangible Assets	\$	10,637
Assembled Workforce	\$	275
Goodwill (Excluding Assembled Workforce)	\$	483
Total Economic Goodwill	\$	758
Purchase Consideration to be Allocated	\$	13,749

Notes:

- (3) The value of the land is excluded in the calculation of depreciation.

Assumptions in the Allocations of Purchase Price

Management prepared the purchase price allocations for Lemon Glow relied upon reports of a third party valuation expert to calculate the fair value of certain acquired assets, which primarily included identifiable intangible assets, and property and equipment.

Estimates of fair value require management to make significant estimates and assumptions. The goodwill recognized is attributable primarily to the acquired workforce, and other benefits that the Company believes will result from integrating the operations of the Lemon Glow with the operations of Sugarmade. Certain liabilities included in the purchase price allocations are based on management's best estimates of the amounts to be paid or settled and based on information available at the time the purchase price allocations were prepared.

The fair value of the identified intangible assets acquired from the Lemon Glow was estimated using an income approach. Under the income approach, an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. Indications of value are developed by discounting future net cash flows to their present value at market-based rates of return. More specifically, the fair value of the cannabis cultivation license was determined using the MPEEM method. MPEEM is an income approach to fair value measurement attributable to a specific intangible asset being valued from the asset grouping's overall cash-flow stream. MPEEM isolates the expected future discounted cash-flow stream to its net present value. Significant factors considered in the calculation of the cannabis cultivation license intangible assets were the risks inherent in the development process, including the likelihood of government regulation and market acceptance.

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In connection with the acquisition of Lemon Glow, the Company has assumed certain operating liabilities which are included in the respective purchase price allocations above.

Goodwill recorded in connection with Lemon Glow was approximately \$757,648. The Company does not expect to deduct any of the acquired goodwill for tax purposes.

4. Concentration

Customers

For the three months ended September 30, 2022 and 2021, our Company earned net revenues of \$709,782 and \$1,168,781 respectively. The vast majority of these revenues for the year ended June 30, 2022 and 2021 were derived from a large number of customers.

Suppliers

For the three months ended September 30, 2022 and 2021, we purchased products for sale by SWC, the Company's wholly owned subsidiary from several contract manufacturers located in Asia and the U.S. A substantial portion of the Company's inventory was purchased from two suppliers which accounted over 10% of the total purchases. The two suppliers accounted for 69.93% and 19.23% of the Company's total inventory purchase for the three months ended September 30, 2022 and 25.5% and 16.2% of the Company's total inventory purchase for the three months ended September 30, 2021, respectively.

Segment reporting information

A reconciliation of the Company's segment operating income to the Consolidated Statements of Operations for the three months ended September 30, 2022 and 2021 is as follows:

	For the Period Ended	
	September 30, 2022	September 30, 2021
Segment operating income		
Paper and paper-based products	\$ 709,782	\$ 438,543
Cannabis products delivery	-	730,237
Total operating income	\$ 709,782	\$ 1,168,781

5. Noncontrolling Interest and Deconsolidation of VIE

Starting in the fiscal year ended June 30, 2020, the Company had a variable interest entity (Indigo), for accounting purposes. The Company owned approximately 29% of Indigo's outstanding equity and as of September 30, 2020, involved its day-to-day operations, which gave the Company the power to direct the activities of Indigo that most significantly impact its economic performance. Accordingly, the Company recognized the carrying value of the non-controlling interest as a component of total stockholders' equity, and the consolidated financial statements included the financial position and results of operations of Indigo as of and for the periods ended June 30, 2020 and September 30, 2020.

Starting on October 1, 2020, the Company planned to open new locations via purchasing equity in other brand/franchises to cover delivery for the entire California. Therefore, the Company is not likely at this time to exercise its option to acquire the additional 30% interest in Indigo. In addition, the Company is no longer involved in day-to-day operations of Indigo and going forward, the Company intends to pursue cannabis delivery independent from Indigo. As of October 1, 2020, the Company ceased to have control over the day-to-day business of Indigo and it was deconsolidated and recorded as an investment in nonconsolidated affiliate at its \$505,449 estimated fair value and changed to equity method of accounting. Pursuant to the terms of the Indigo agreement, if the Company determines, in its discretion not to continue to make monthly payments, its 40% ownership interest in Indigo will be decreased according to the payment then made. As of December 31, 2020, the Company made \$59,370 in additional payments, and holds approximately 32% of the ownership of Indigo.

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The net asset value of the Company's variable interest in Indigo was approximately \$326,812 as of October 1, 2020, the date of deconsolidation. The value of the Company's variable interest on the date of deconsolidation was based on management's estimate of the fair value of Indigo at that time. The Company concluded that the market approach was the most appropriate method to determine the fair value of the entity on the date of deconsolidation, given that Indigo raised equity funding from third-party investors around the same period (i.e., level 2 inputs). The Company recognized a gain on deconsolidation of approximately \$313,928 with no related tax impact, which is included in other income, net on the consolidated statement of operations. As the Company is not obligated to fund future losses of Indigo, the carrying amount is the Company's maximum risk of loss and accounted as equity method investment in affiliates in our consolidated financial statements as of and for the period ended September 30, 2021. Due to the Company had no access to Indigo's book during the year ended June 30, 2022, the Company recorded cost method investment in affiliates at \$441,407 as of June 30, 2022. As of September 30, 2022 and June 30, 2022, the Company recorded cost method investment in affiliates at 441,407, respectively.

As part of pivoting our business strategy, the company negotiated with Indigo Dye Group Corp. ("Indigo") to exchange our 32% stake in Budcars for a stake in a distribution and indoor cultivation company in Santa Rosa, California. The company has already executed a share exchange agreement with Indigo. However, the final documents and terms of the new company are still being finalized. The company expects to complete the documents and announce the transition to new business post filing of this 10Q.

6. Legal Proceedings

From time to time and in the course of business, we may become involved in various legal proceedings seeking monetary damages and other relief. The amount of the ultimate liability, if any, from such claims cannot be determined. As of September 30, 2022, there were no legal claims pending or threatened against the Company that, in the opinion of our management, would be likely to have a material adverse effect on our financial position, results of operations or cash flows. However, as of the date of this filing, we were involved in the following legal proceedings.

- On December 11, 2013, the Company was served with a complaint from two convertible note holders and investors in the Company. On February 21, 2017, the Company signed a settlement agreement with the plaintiffs in the matter of Hannan vs. Sugarnade. 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 two notes outstanding. The parties had estimated the value of the notes at approximately \$80,000. Third parties had purchased the two notes during the year ended June 30, 2020. As of September 30, 2022 and June 30, 2022, there remains a balance, plus accrued interest due under the notes of \$250,898 and \$250,898, respectively.

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

7. 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.

As of September 30, 2022 and June 30, 2022, the Company held cash in the amount of \$81,216 and \$161,014, respectively, including cash in hands in the amount of \$51,832 and \$50,112, respectively.

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8. 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 allowance, of \$92,097 and \$29,822 as of September 30, 2022 and June 30, 2022, respectively; and allowance for doubtful accounts of \$321,560 and \$321,560 as of September 30, 2022 and June 30, 2022, respectively.

9. Trading Securities, at Market Value

In October 2019, the Company entered into a share exchange agreement (the "Share Exchange Agreement") with iPower Inc., formerly known as BZRTN Inc. ("iPower"), a Nevada corporation, pursuant to which, among other things, the Company agreed to buy 100% of the issued and outstanding capital stock of iPower in exchange for \$870,000 in cash, \$7,130,000 under a promissory note, up to 650,000 shares of Sugarnade's common stock, and up to 3,500,000 shares of Sugarnade's Series B preferred stock.

Due to certain disputes that arose between the parties with respect to certain terms and conditions contained in the Share Exchange Agreement, the parties entered into a Rescission and Mutual Release Agreement on January 15, 2020 (the "Rescission Agreement"). Pursuant to the terms of the Rescission Agreement, iPower and its stockholders returned the shares of Sugarnade common stock and preferred stock and issued to Sugarnade 204,496 shares of the Company's common stock valued at a current market value of \$1,451,922 as of June 30, 2021. The shares are free trading.

During the year ended June 30, 2022, the Company sold all the 204,496 shares of iPower Inc.'s common stock for total cash of \$582,688.

For the three months ended September 30, 2022 and 2021, the Company recorded unrealized (loss) gain on securities amounted \$0 and \$(642,117), respectively. For the three months ended September 30, 2022 and 2021, the remaining value of securities amounted to current market value of \$0 and \$809,804, respectively.

10. 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 September 30, 2022 and June 30, 2022, the balance for the inventory totaled \$390,977 and \$416,643, respectively. \$0 was charged for obsolete inventory for the period ended September 30, 2022 and year ended June 30, 2022, respectively.

11. Other Current Assets

As of September 30, 2022 and June 30, 2022, other current assets consisted of the following:

	As of	
	September 30, 2022	June 30, 2022
Prepaid deposit	\$ 221,901	\$ 144,488
Prepayments for inventory	47,708	47,708
Prepaid expenses	56,552	55,442
Others	6,938	8,873
Total	\$ 333,099	\$ 256,511

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12. Property, Plant and Equipment

As of September 30, 2022 and June 30, 2022, property, plant and equipment consisted of the following:

	September 30, 2022	June 30, 2022
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Office and equipment	\$	820,149	\$	820,149
Motor vehicles		387,804		387,804
Building		197,609		197,609
Land		2,554,766		2,554,766
Leasehold improvement		423,329		423,329
Total		4,383,658		4,383,658
Less: accumulated depreciation		(757,530)		(711,967)
Plant and Equipment, net	\$	3,626,128	\$	3,671,691

For the three months ended September 30, 2022 and 2021, depreciation expenses amounted to \$45,563 and \$42,138, respectively.

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition and other economic factors. Based on this assessment, no impairment expenses for property, plant, and equipment was recorded in operating expenses during the period ended September 30, 2022 and June 30, 2022.

13. Intangible Asset

On April 1, 2017, the Company entered into a distribution and intellectual property assignment agreement with Wagner Bartosch, Inc. ("Wagner") for use of their Divider™ used in frozen desserts and other related uses. In lieu of cash payment under the agreement, the Company was obliged to issue common shares of the Company valued at \$75,000 for acquiring the use right of the distribution and intellectual property. The Company amortized this use right as an intangible asset over 10 years, and recorded \$483 and \$1,533 amortization expense for the period ended September 30, 2022 and 2021, respectively.

On May 17, 2021, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") by and between Merger Sub, Lemon Glow and Mr. Ryan Santiago as shareholder representative, pursuant to which, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub would merge with and into Lemon Glow, with Lemon Glow being the surviving corporation (the "Merger"). The Company valued the cannabis cultivation license from Lemon Glow at \$10,637,000, with a remaining economic life of 9 years as of June 30, 2022. This intangible asset has not been put into service, and accordingly, management has not started to amortize this asset as of September 30, 2022 due to the pending status of the conditional use permit.

14. Goodwill

Goodwill arises from the acquisition method of accounting for business combinations and represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. The fair values of net tangible assets and intangible assets acquired are based upon preliminary valuations and the Company's estimates and assumptions are subject to change within the measurement period. There was \$757,648 and \$757,648 of goodwill recorded as of September 30, 2022 and June 30, 2022, respectively. Goodwill was recognized as a result of the transactions detailed in "Note 3 - Business Combinations". Management assesses the carrying value of the goodwill at least annually; in its most recent assessment, they determined no impairment was necessary. Management believes no events have occurred during the three months ended September 30, 2022 and up to the date of this report that suggests impairment has occurred.

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15. Cost Method Investments in Affiliates

Investment to Indigo Dye Inc. –

For the fiscal year ended June 30, 2020, the Company accounted for its investment in Indigo as a variable interest entity. The Company owned approximately 29% of Indigo's outstanding equity and as of December 31, 2020, and was involved its day-to-day operations, which gave the Company the power to direct the activities of Indigo that most significantly impact its economic performance. Accordingly, the Company recognized the carrying value of the non-controlling interest as a component of total stockholders' equity, and the consolidated financial statements included the financial position and results of operations of Indigo as of and for the year ended June 30, 2020.

During the quarter ended December 31, 2020, the Company began plans to open new locations via purchasing equity in other brand/franchises to cover delivery for the entire California. Therefore, the Company is not likely at this time to exercise its option to acquire the additional 30% interest in Indigo. In addition, the Company is no longer involved in day-to-day operations of Indigo and going forward, the Company intends to pursue cannabis delivery independent from Indigo. As of October 1, 2020, the Company ceased to have control over the day-to-day business of Indigo and it was deconsolidated and recorded as an investment in nonconsolidated affiliate at its \$564,819 estimated fair value and changed to cost method of accounting. Pursuant to the terms of the Indigo agreement, if the Company determines, in its discretion not to continue to make monthly payments, its 40% ownership interest in Indigo will be decreased according to the payment then made. As of June 30, 2022, the Company did not receive any distributions or dividends from Indigo. In addition, due to the Company had no access to Indigo's book during the year ended June 30, 2022, the Company recorded cost method investment in affiliates at \$441,407 as of September 30, 2022 and June 30, 2022 and the Company still held approximately 32% of the ownership of Indigo.

As part of pivoting our business strategy, the company negotiated with Indigo Dye Group Corp. ("Indigo") to exchange our 32% stake in Budcars for a stake in a distribution and indoor cultivation company in Santa Rosa, California. The company has already executed a share exchange agreement with Indigo. However, the final documents and terms of the new company are still being finalized. The company expects to complete the documents and announce the transition to new business post filing of this 10Q.

16. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities amounted to \$2,696,083 and \$2,664,538 as of September 30, 2022 and June 30, 2022, respectively. Accounts payables are mainly payables to vendors and accrued liabilities are mainly accrued interest of convertible notes payables and accrued contingent liabilities (see footnote #30).

	September 30, 2022	June 30, 2022
Accounts payable	\$ 2,118,075	\$ 2,079,607
Accrued liabilities	327,110	334,033
Legal liabilities (See below for detail explanation)	250,898	250,898
Total accounts payable and accrued liabilities:	\$ 2,696,083	\$ 2,664,538

From time to time and in the course of business, we may become involved in various legal proceedings seeking monetary damages and other relief. The amount of the ultimate liability, if any, from such claims cannot be determined. As of June 30, 2022, there were no legal claims pending or threatened against the Company that, in the opinion of our management, would be likely to have a material adverse effect on our financial position, results of operations or cash flows. However, as of the date of this filing, we were involved in the following legal proceedings.

- On December 11, 2013, the Company was served with a complaint from two convertible note holders and investors in the Company. On February 21, 2017, the Company signed a settlement agreement with the plaintiffs 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 two notes outstanding. The parties had estimated the value of the notes at approximately \$80,000. Third parties had purchased the two notes during the year ended June 30, 2020. As of September 30, 2022 and June 30, 2022, there remains a balance, plus accrued interest due under the notes of \$250,898 and \$250,898, respectively.

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

The company fully recognize this legal liability.

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17. Customer Deposits

Customer deposits amounted \$913,084 and \$951,664 as of September 30, 2022 and June 30, 2022, respectively. Customer deposits are mainly advanced payments from customers.

June 30, 2022 Balance	Customer Deposited	Revenue Recognized	September 30, 2022 Balance
\$ 951,664	\$ 182,508	\$ (221,088)	\$ 913,084

18. Other Payables

Other payables amounted to \$424,196 and \$473,799 as of September 30, 2022 and June 30, 2022, respectively. Other payables are mainly credit card payables. As of September 30, 2022, the Company had eight credit cards, one of which is an American Express charge card with no limit and zero interest. The remaining seven cards had an aggregate credit limit of \$85,000, and annual percentage rates ranging from 11.24% to 29.99%. As of September 30, 2022 and 2021, the Company had credit cards interest expense of \$2,417 and \$1,952, respectively.

19. Convertible Notes

As of September 30, 2022 and June 30, 2022, the balance owing on convertible notes, net of debt discount, with terms as described below was \$1,802,706 and \$1,561,364, respectively.

Convertible note 1: On August 24, 2012, the Company issued a convertible promissory note with an accredited investor for \$25,000. The note has a term of six 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 September 30, 2022, the note is in default.

Convertible note 2: On September 18, 2012, the Company issued a convertible promissory note with an accredited investor for \$25,000. The note has a term of six 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 September 30, 2022, the note is in default.

Convertible note 3: On December 21, 2012, the Company issued a convertible promissory note with an accredited investor for \$100,000. The note has a term of six 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 September 30, 2022, the note is in default.

Convertible note 4: On November 16, 2018, the Company issued a convertible promissory note with an accredited investor for \$40,000. The note has a term of one year with an interest rate of 8% and is convertible to common shares at a fixed conversion price of \$0.07. As of September 30, 2022, the note is in default.

Convertible note 5: On December 3, 2018, the Company issued a convertible promissory note with an accredited investor for \$35,000. The note has a term of one year with an interest rate of 8% and is convertible to common shares at a fixed conversion price of \$0.07. As of September 30, 2022, the note is in default.

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Convertible note 6: On October 31, 2019, the Company issued a convertible promissory note with an accredited investor for a total amount of \$139,301. The note is due 360 days after issuance and bears interest at a rate of 8%. The conversion price for the note is \$0.008 per share. On October 1, 2020, the Company entered an amendment to settlement note to amend the conversion price at 60% of the lowest trading bid price in the 20 consecutive trading days immediately preceding to the conversion date. On November 10, 2021, the original note with unpaid interest was assigned to an accredited investor. See Convertible note 11 below.

Convertible note 7: On November 1, 2019, the Company issued a convertible promissory note with an accredited investor for a total amount of \$100,000. The note is due 360 days after issuance and bears interest at a rate of 8%. The conversion price for the note is \$0.008 per share. On October 1, 2020, the Company entered an amendment to settlement note to amend the conversion price at 60% of the lowest trading bid price in the 20 consecutive trading days immediately preceding to the conversion date. On November 10, 2021, the original note with unpaid interest was assigned to an accredited investor. See Convertible note 11 below.

Convertible note 8: On October 8, 2020, the Company issued a convertible promissory note with an accredited investor for a total amount of \$231,000 (includes a \$21,000 OID). The note is due 180 days after issuance and bears interest at a rate of 12%. The conversion price for the note is \$0.01 per share. After the six-month anniversary of this note, the conversion price shall be equal to the lower of the fixed price of \$0.01 or 65% of the lowest trading price of the common stock for the 20 prior trading days including the day upon which a conversion notice is received by the Company or its transfer agent. As of March 31, 2022, the note was in default. The Company recorded additional \$69,300 principal due to the default that occurred during the year ended June 30, 2022. As of September 30, 2022, the note had an outstanding principal of \$300,300.

Convertible note 9: On October 13, 2020, the Company issued a convertible promissory note with an accredited investor for a total amount of \$275,000 (includes a \$25,000 OID). The note is due 180 days after issuance and bears interest at a rate of 12%. The conversion price for the note is \$0.01 per share. After the six-month anniversary of this note, the conversion price shall be equal to the lower of the fixed price of \$0.01 or 65% of the lowest trading price of the common stock for the 20 prior trading days including the day upon which a conversion notice is received by the Company or its transfer agent. As of June 30, 2022, the note was in default. The Company recorded additional \$82,500 principal due to default breach occurred during the year ended June 30, 2022. As of September 30, 2022, the note had an outstanding principal of \$357,500.

Convertible note 10: On June 14, 2021, the Company issued a convertible promissory note with an accredited investor for a total amount of \$300,000. The note is due in three years and bear an interest rate of 1%. The conversion price for the note is the lesser of \$0.0036 and 85% of the lesser of (i) 5 days VWAP on the trading day preceding the conversion date, and (ii) the VWAP on the conversion date. "VWAP" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on a Trading Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)), (b) if OTCQB or OTCQX is not a Trading Market, the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on OTCQB or OTCQX as applicable, (c) if the Common Stock is not then listed or quoted for trading on OTCQB or OTCQX and if prices for the Common Stock are then reported in the "Pink Sheets" published by OTC Markets, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported, or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Holders of a majority in interest of the Debentures then outstanding and reasonably acceptable to the Company, the fees and expenses of which shall be paid by the Company. During the year ended June 30, 2022, the note holder converted \$85,000 of the principal amount plus \$1,747 accrued interest expense into 100,000,000 shares of the Company's common stock. As of September 30, 2022, the note had an outstanding principal of \$215,000.

Convertible note 11: On November 10, 2021, the Company entered into an assignment and assumption agreement with the assignor and assignee for two assigned convertible notes in total face value of \$277,903, which consists \$239,300 of principal and \$38,603 of unpaid interest. The new note is due 360 days after issuance and bears an interest rate of 10% per annum. The conversion price for the note is 60% of the lowest trading bid for the 20 consecutive trading days prior to the conversion date. During the year ended June 30, 2022, the note holder converted \$236,460 of the principal amount into 1,047,000,000 shares of the Company's common stock. As of September 30, 2022, the note had an outstanding principal of \$41,443.

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Convertible note 12: On January 1, 2022, the Company issued a convertible promissory note with a service provider for a total amount of \$450,000. The note is due in three years and bear an interest rate of 1%. The conversion price for the note is the lesser of \$0.001 and 85% of the lesser of (i) 5 days VWAP on the trading day preceding the conversion date, and (ii) the VWAP on the conversion date. "VWAP" means, for any date, the price determined by the first of the following clauses that applies: (a) if the common stock is then listed or quoted on a Trading

Market, the daily volume weighted average price of the common stock for such date (or the nearest preceding date) on the Trading Market on which the common stock is then listed or quoted as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)), (b) if OTCQB or OTCQX is not a Trading Market, the volume weighted average price of the common stock for such date (or the nearest preceding date) on OTCQB or OTCQX as applicable, (c) if the common stock is not then listed or quoted for trading on OTCQB or OTCQX and if prices for the common stock are then reported in the "Pink Sheets" published by OTC Markets, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the common stock so reported, or (d) in all other cases, the fair market value of a share of common stock as determined by an independent appraiser selected in good faith by the Holders of a majority in interest of the Debentures then outstanding and reasonably acceptable to the Company, the fees and expenses of which shall be paid by the Company.

Convertible note 13: On January 5, 2022, the Company issued a convertible promissory note with an accredited investor for a total amount of \$485,000 (includes a \$82,190 OID). The note is due in one year and bear an interest rate of 8%. The note is convertible into the Company's common stock at \$0.001 par value per share.

Convertible note 14: On March 23, 2022, the Company entered a convertible promissory note with an accredited investor for a total amount of \$198,000 (includes a \$18,000 OID). The note is due 360 days after issuance and bears interest at a rate of 8%. The conversion price for the note is 65% of the lowest trading bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 15: On April 27, 2022, the Company entered a convertible promissory note with an accredited investor for a total amount of \$144,200 (includes a \$19,200 OID). The note is due in one year and bears interest at a rate of 12%. The conversion price for the note is 75% of the lowest trading bid for the 10 consecutive trading days prior to the conversion date.

Convertible note 16: On June 8, 2022, the Company entered a convertible promissory note with an accredited investor for a total amount of \$220,000 (includes a \$20,000 OID). The note is due in one year and bears interest at a rate of 8%. The conversion price for the note is 65% of the lowest trading bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 17: On June 28, 2022, the Company entered a convertible promissory note with an accredited investor for a total amount of \$110,000 (includes a \$10,000 OID). The note is due in one year and bears interest at a rate of 8%. The conversion price for the note is 65% of the lowest trading bid for the 20 consecutive trading days prior to the conversion date.

Convertible note 18: On August 1, 2022, the Company entered a settlement agreement with an accredited investor for a total amount of \$120,000. The note is due in one year and bears interest at a rate of 8%. The conversion price for the note is 65% of the lowest trading bid for the 20 consecutive trading days prior to the conversion date. As of September 30, 2022, the Company recorded \$58,462 gain on debt extinguishment.

Convertible note 19: On August 1, 2022, the Company entered a settlement agreement with a service provider for a total amount of \$110,000 (which \$100,000 is the actual settlement amount from original accounts payable and includes a \$10,000 OID). The note is due in one year and bears interest at a rate of 8%. The conversion price for the note is 65% of the lowest trading bid for the 20 consecutive trading days prior to the conversion date. As of September 30, 2022, the Company recorded \$53,590 gain on debt extinguishment.

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In connection with the convertible debt, debt discount balance as of September 30, 2022 and June 30, 2022 were \$1,125,278 and \$1,185,079, respectively, and were being amortized and recorded as interest expenses over the term of the convertible debt.

As of the period ended September 30, 2022, debt discount of the convertible notes consisted of following:

Start Date	End Date	Debt Discount			Debt Discount As of 9/30/2022
		As of 6/30/2022	Addition	Amortization	
6/14/2021	6/14/2024	187,077	\$ -	\$ (24,071)	\$ 163,006
1/1/2022	1/1/2025	376,095	-	(37,774)	338,321
1/5/2022	1/5/2023	42,559	-	(20,716)	21,842
3/23/2022	3/23/2023	144,296	-	(49,907)	94,389
4/27/2022	4/27/2023	118,916	-	(36,346)	82,569
6/8/2022	6/8/2023	206,740	-	(55,452)	151,288
6/28/2022	6/28/2023	109,397	-	(27,726)	81,671
1/1/2022	1/1/2025	-	120,000	(19,726)	100,274
1/5/2022	1/5/2023	-	110,000	(18,082)	91,918
Total:		\$ 1,185,079	\$ 230,000	\$ (289,801)	\$ 1,125,278

20. Derivative Liabilities

The derivative liability is derived from the conversion features in note 19 and stock warrant in note 21. All were valued using the weighted-average Binomial option pricing model using the assumptions detailed below. As of September 30, 2022 and June 30, 2022, the derivative liability was \$ 1,941,302 and \$5,521,284, respectively. The Company recorded \$3,697,931 and \$325,234 gain from changes in derivative liability during the period ended September 30, 2022 and 2021, respectively. The Binomial model with the following assumption inputs:

	June 30, 2022
Annual Dividend Yield	—
Expected Life (Years)	0.50-3.00
Risk-Free Interest Rate	0.01-2.92%
Expected Volatility	133-262%
	September 30, 2022
Annual Dividend Yield	—
Expected Life (Years)	0.50-3.00
Risk-Free Interest Rate	2.79-4.22%
Expected Volatility	183-248%

Fair value of the derivative is summarized as below:

Beginning Balance, June 30, 2022	\$ 5,521,284
Additions	117,949
Mark to Market	(3,697,931)
Reclassification to APIC Due to Conversions	-
Ending Balance, September 30, 2022	\$ 1,941,302

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21. Stock Warrants

On September 7, 2018, the Company entered into a settlement agreement with several investors to settle all disputes by issuing additional unrestricted shares. In connection with the note each individual investor will also receive warrants equal to the number of the shares the investors own as of the effective date of the settlement agreement. The warrants have a life of five

years with an exercise price as of the date of exchange. The fair value of the warrants at the grant date was \$56,730. As of September 30, 2022 and June 30, 2022, the fair value of the warrant liability was \$58 and \$1,100, respectively.

On February 4, 2020, the Company entered into a warrant agreement with an accredited investor for up to 10,000,000 shares of common stock of the Company at an exercise price of \$0.008 per share, subject to adjustment. The warrants have a life of five years with an exercise price as of the date of exchange. The fair value of the warrants at the grant date was \$80,000. As of September 30, 2022 and June 30, 2022, the fair value of the warrant liability was \$1,000 and \$2,000, respectively.

As of September 30, 2022 and June 30, 2022, the total fair value of the warrant liability was \$1,058 and \$3,100, respectively.

The Binomial model with the following assumption inputs:

Warrants liability:	June 30, 2022
Annual dividend yield	—
Expected life (years)	1.0-3.0
Risk-free interest rate	0.28-2.99%
Expected volatility	149-174%
Warrants liability:	September 30, 2022
Annual dividend yield	—
Expected life (years)	1.0-3.0
Risk-free interest rate	4.05-4.22%
Expected volatility	186-206%

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining contractual life
Outstanding at June 30, 2021	10,578,880	\$ 0.026	4
Expired	-		
Granted	-		
Outstanding at June 30, 2022	10,578,880	\$ 0.027	3
Expired	-		
Granted	-		
Outstanding at September 30, 2022	10,578,880	\$ 0.027	3

22. Note Payable

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 September 30, 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 September 30, 2022 and June 30, 2022, the loan principal balance was \$25,982 and \$25,982, respectively.

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Notes payable due to non-related parties

On June 15, 2018, the Company entered into a promissory note with one of the accredited investors. The original principal amount was \$20,000 and the note bears 8% interest per annum. The note was payable upon demand. As of September 30, 2022 and June 30, 2022, this note had a balance of \$20,000 and \$20,000, respectively.

On October 6, 2020, the Company entered into a promissory note with Darryl Kuecker, and Shirley Ann Hunt (the "Trustee") for borrowing \$ 1,390,000 with annual interest rate of 6% due in 30 years. Darryl Kuecker, Trustee of the 2002 Darryl Kuecker Revocable Trust as to an undivided 36% interest, and Shirley Ann Hunt, Trustee of the 2002 Shirley Ann Hunt Revocable Trust as to an undivided 64% interest. Principal and interest shall be payable on monthly basis, in installments of \$8,333.75, beginning on November 1, 2020 and until September 1, 2050. Payments to be divided and made separately to each beneficiary per the beneficiary's instruction: \$3,000.15 to Darryl Kuecker, Trustee and \$5,333.60 to Shirley Ann Hunt, Trustee. As of September 30, 2022 and June 30, 2022, the Company had an outstanding balance of \$1,361,406 and \$1,364,436, respectively. As of September 30, 2022 and June 30, 2022, the Company paid interest expense of \$3,031 and \$122,110, respectively.

On May 12, 2021, the Company issued a promissory note to the Lemon Glow shareholders. The original principal amount was \$3,976,000 and the note bears interest at the rate of 5% per year 36 monthly payments commencing on June 15, 2021. As of September 30, 2022 and June 30, 2022, the note had a remaining balance of \$3,466,000, respectively. As of September 30, 2022 and June 30, 2022, the note had accrued interest balance of \$219,458 and \$175,707, respectively.

23. Loans payable

On October 1, 2017, the Company issued a straight promissory note to Greater Asia Technology Limited (Greater Asia) for borrowing \$ 100,000 with maturity date on June 30, 2018; the note bears an interest rate of 33.33%. As of September 30, 2022 and June 30, 2022, the note was in default and the outstanding balance under this note was \$36,695 and \$36,695, respectively.

During the year ended June 30, 2019, the Company entered into 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 September 30, 2022 and June 30, 2022, the outstanding balance with Greater Asia loans were \$100,000 and \$100,000, respectively.

On June 6, 2019, SWC entered into an equipment loan agreement with a bank with maturity on June 21, 2024. The monthly payment is \$648. As of September 30, 2022 and June 30, 2022, the outstanding balance under this loan were \$9,912 and \$11,842, respectively.

On July 28, 2020, we entered into a loan borrowed \$159,900 from Bank of America ("Lender"), pursuant to a Promissory Note issued by Company to Lender (the "PPP Note"). The loan was made pursuant to the Payroll Protection Program established as part of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The PPP Note bears interest at 3.75% per annum and may be repaid at any time without penalty. Installment payments, including principal and interest, of \$731 monthly, will begin 12 months from the date of the promissory note and the balance of principal and interest will be payable 30 years from the date of the promissory note. The PPP Note contains customary events of default relating to, among other things, payment defaults, breach of representations and warranties, or provisions of the promissory note. The occurrence of an event of default may result in a claim for the immediate repayment of all amounts outstanding under the PPP Note. On July 27, 2021, the loan amount has been increased to \$500,000 and the monthly payment amount has been updated from \$731 to \$2,527.

On January 25, 2021, we entered into a loan borrowed \$96,595 from Bank of America ("Lender"), pursuant to a Promissory Note issued by Company to Lender (the "PPP Note"). The loan was made pursuant to the Payroll Protection Program established as part of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The PPP Note bears interest at 1.00% per annum and may be repaid at any time without penalty. The PPP Note contains customary events of default relating to, among other things, payment defaults, breach of representations and warranties, or provisions of the promissory note. The occurrence of an event of default may result in a claim for the immediate repayment of all amounts outstanding under the PPP Note.

The Company accounting for the PPP loan under Topic 470: (a). Initially record the cash inflow from the PPP loan as a financial liability and would accrue interest in accordance with the interest method under ASC Subtopic 835-30; (b). Not impute additional interest at a market rate; (c). Continue to record the proceeds from the loan as a liability until either (1) the loan is partly or wholly forgiven and the debtor has been legally released or (2) the debtor pays off the loan; (d). Would reduce the liability by the amount forgiven and record a gain on extinguishment once the loan is partly or wholly forgiven and legal release is received.

As of September 30, 2022 and June 30, 2022, the total outstanding PPP loan balance was \$606,495 and \$606,495, respectively.

On February 15, 2021, the Company entered into a loan with Manuel Rivera for borrowing \$100,000 with maturity date on September 15, 2021; the note bears a monthly interest of \$3,500 for 7 months. The Company shall pay the investor a fee of \$70,000 within 45 days of its first harvest. As of September 30, 2022 and June 30, 2022, the outstanding loan balance under this note was \$100,000 and \$100,000, respectively. As of September 30, 2022 and June 30, 2022, the unpaid interest expense under this note was \$66,500 and \$56,000, respectively.

On March 24, 2021, the Company entered into auto loan agreement with John Deere Financial for an auto loan of \$69,457 for 60 months at annual percentage rate of 2.85%. As of September 30, 2022 and June 30, 2022, the Company has an outstanding balance of \$45,885 and \$53,250, respectively.

On August 4, 2021, the Company entered into a loan with Coastline Lending Group of \$490,000 which to be secured by a deed of trust on the real property at 5058 Valley Blvd, Los Angeles, CA90032. The loan has an interest only payment of \$3,471 per month with a term of 36 months. The loan bears an interest rate at 8.5% per annum with maturity date on August 14, 2024. As of September 30, 2022 and June 30, 2022, the Company has an outstanding balance of \$490,000 and \$490,000, respectively.

On October 1, 2021, the Company entered into five auto loan agreements with Ally Auto to purchase five Ram Cargo Vans in total finance amount of \$ 124,332 for 60 months at annual percentage rate of 6.44%. The monthly payment is \$418 per vehicle. As of September 30, 2022 and June 30, 2022, the Company has an outstanding balance of \$103,610 and \$108,791, respectively.

On October 5, 2021, the Company entered into an auto loan agreement with Hitachi Capital America Corp. to purchase one Ram Cargo Van in total finance amount of \$32,464 for 60 months at annual percentage rate of 8.99%. The monthly payment is \$587. As of September 30, 2022 and June 30, 2022, the Company has an outstanding balance of \$27,054 and \$28,406, respectively.

On October 5, 2021, the Company entered into two auto loan agreements with Hitachi Capital America Corp. to purchase two Ram Cargo Vans in total finance amount of \$64,730 for 60 months at annual percentage rate of 8.99%. The monthly payment is \$674 per vehicle. As of September 30, 2022 and June 30, 2022, the Company has an outstanding balance of \$53,942 and \$56,639, respectively.

On March 1, 2022, the Company entered into a short term loan with WNDR Group Inc. for borrowing \$100,000. The note bears an monthly interest rate of 2% with maturity date on December 31, 2022. On August 1, 2022, the Company entered into a settlement agreement to extinguish the \$100,000 loan payable with \$20,000 unpaid interest into \$120,000 convertible note. The Company recorded \$58,462 gain on debt extinguishment on August 1, 2022. As of September 30, 2022 and June 30, 2022, the Company has an outstanding loan balance of \$0 and \$100,000, respectively.

As of September 30, 2022 and June 30, 2022, the Company had an outstanding loan balance of \$1,621,803 (consists of \$797,840 current portion and \$823,963 noncurrent portion) and 1,761,214 (consists of \$935,975 current portion and \$825,239 noncurrent portion), respectively.

24. Loans Payable – Related Parties

On September 1, 2017, the Company had related party transaction with LMK Capital LLC, a related party company owned by Jimmy Chan, the Company's CEO. The amount of the loan payable/receivable bears no interest and is due on demand. As of September 30, 2022 and June 30, 2022, the balance of the loan payable to LMK were \$227,695 and \$278,006, respectively, and the balance of loan receivable were \$0 and \$0, respectively.

On May 25, 2021, Lemon Glow received a loan from an officer. The amount of the loan bears no interest and due on demand. As of September 30, 2022 and June 30, 2022, the balance of the loans were \$2,289 and \$2,289, respectively.

As of September 30, 2022 and June 30, 2022, the Company had an outstanding balance of \$229,984 and \$163,831 owed to various related parties, respectively.

25. Shares to Be Issued

On April 19, 2018, the Company entered into a consulting agreement with TAA, LLP. ("the Consultant") to provide certain financial reporting preparation services. The Company will grant the Consultant 5,000,000 shares of the Company's stock per quarter as consulting fees. As of September 30, 2022 and June 30, 2022, 30,000,000 and 25,000,000 common shares have not been issued to the Consultant. As of September 30, 2022 and June 30, 2022, the Company had potential shares to be issued in total amount of \$56,000 and \$54,500, respectively.

Starting July 1, 2021, Mr. Jimmy Chan, the Company's CEO, receives an annual salary of \$250,000 with 50,000,000 commons shares at the end of fiscal year 2022. In addition, upon closing of each acquisition, Mr. Chan will receive 10% of the purchase price as a special bonus. As of September 30, 2022 and June 30, 2022, 112,500,000 and 100,000,000 common shares have not been issued to Mr. Chan. As of September 30, 2022 and June 30, 2022, the Company recorded potential shares to be issued in total amount of \$231,077 and \$228,577, respectively.

As of September 30, 2022 and June 30, 2022, the Company had total potential shares to be issued to the consulting agreement of \$287,077 and \$283,077, respectively.

26. Stockholders' (Deficit) Equity

The Company is authorized to issue 10,000,000,000 shares of \$0.001 par value common stock and 10,000,000 shares of \$0.001 par value preferred stock. On April 22, 2020, the Company filed an amendment to increase the total authorized shares to 10,010,000,000 – 10,000,000,000 of which are designated as common stock, par \$0.001 per share and 10,000,000 of which are designated as preferred stock, par value \$0.001 per share. On March 2, 2022, the Company filed with the Delaware Secretary of State a certificate of amendment (the "Amendment") to the Company's certificate of incorporation (the "Certificate of Incorporation"). The Amendment had the effect of increasing the Company's authorized common stock from 10,000,000,000 shares to 20,000,000,000 shares.

Share issuances during the three months ended September 30, 2022

During the three months ended September 30, 2022, the Company issued 154,755,162 shares of common stock for total cash of \$19,360.

During the three months ended September 30, 2022, the Company fully collected the total subscription receivable of \$10,042.

As of September 30, 2022 and June 30, 2022, the Company had 11,980,144,738 and 11,825,389,576 shares of its common stock issued and outstanding, respectively.

As of September 30, 2022 and June 30, 2022, the Company had 2,541,500 shares and 2,541,500 shares of its series B preferred stock issued and outstanding, respectively.

As of September 30, 2022 and June 30, 2022, the Company had 1 share of its series C preferred stock issued and outstanding, respectively.

27. Leases

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 commenced on March 1, 2018. The term of the lease is for five (5) 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 Company's headquarters.

The Company's warehouse along with ancillary office space is located at 20529 East Walnut Drive North, Diamond Bar, California, where we lease approximately 11,627 square feet of combined space. The lease term is for five (5) years and two (2) months ending on April 30, 2025. The current monthly rental payment for the facility is \$13,022.

On February 1, 2021, the Company entered into lease agreement with Magnolia Extracts, LLC dba Nug Ave-Lynwood, a California limited liability company for a certain regulatory permit issued by the City of Lynwood authorizing commercial retailer non-storefront operations at 11118 Wright Road, Lynwood, CA 90262. The lease was set to commence on February 1, 2021. The lease payment shall equal \$10,000 per month and the lease term is on month-by-month basis. Parties have agreed that the first month's rent payment shall equal \$7,000 and the Company owed the landlord a refundable security deposit of \$20,000 within 10 days of the commencement date.

On June 3, 2021, the Company entered into lease agreement with William Chung, a related party of the Company for a 2021 Ford Transit Connect Van. The lease payment shall be \$926 monthly on a month to month basis. The Company shall have the option to end its lease with a 30-day advanced notice or convert to lease to purchase and car will be sold at fair market value.

On June 3, 2021, the Company entered into lease agreement with William Chung, a related party of the Company for two 2021 Hyundai Accent. The lease payment shall be \$612 monthly per vehicle on a month to month basis. The Company shall have the option to end its lease with a 30-day advanced notice or convert to lease to purchase and car will be sold at fair market value.

On June 3, 2021, the Company entered into lease agreement with William Chung, a related party of the Company for a 2021 Hyundai Accent. The lease payment shall be \$616 monthly on a month to month basis. The Company shall have the option to end its lease with a 30-day advanced notice or convert to lease to purchase and car will be sold at fair market value.

As of September 30, 2022

<u>Lease Cost</u>	
Operating lease cost (included in general and administration in the Company's unaudited condensed statement of operations)	\$ 77,231
<u>Other Information</u>	
Cash paid for amounts included in the measurement of lease liabilities for the period ended September 30, 2022	\$ 64,697
Remaining lease term – operating leases (in years)	1.50
Average discount rate – operating leases	10%
The supplemental balance sheet information related to leases for the periods are as follows:	
<u>Operating leases</u>	
Short-term right-of-use assets	\$ 188,145
Long-term right-of-use assets	\$ 233,412
Total operating lease assets	\$ 421,557
Short-term operating lease liabilities	\$ 200,258
Long-term operating lease liabilities	\$ 255,236
Total operating lease liabilities	\$ 455,494

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

<u>Year Ended September 30, 2022</u>	Operating Lease
2023	\$ 234,925
2024	173,745
2025	103,476
Total lease payments	512,146
Less: Imputed interest/present value discount	(56,653)
Present value of lease liabilities	\$ 455,494

28. Contingent Liabilities and Commitment

On April 28, 2022, Lemon Glow Company, Inc. ("Lemon Glow"), a wholly owned subsidiary of Sugamade, Inc. (the "Company") and Cannabis Global, Inc. ("Cannabis Global") entered into a Cultivation and Supply Agreement (the "Agreement"). Cannabis Global owns a majority stake of Natural Plant Extract of California, Inc. which operates a licensed cannabis manufacturing and distribution operation in Lynwood, California.

The Agreement provides that during the Spring 2022 cannabis cultivation season, Lemon Glow will outsource the cultivation of cannabis to licensed growers in Lake County, California; oversee and co-manage the cultivation; and sell cannabis to Cannabis Global conforming to its specifications. Lemon Glow will cultivate only the cannabis chemovars (commonly called "strains") approved by Cannabis Global. The cultivation will be conducted in accordance with regulations adopted by California's Department of Cannabis Control; Lake County, California; and other state and local governmental entities that may have legal jurisdiction over the cultivation.

Under the terms of the Agreement, Lemon Glow will present a cultivation, harvest, and processing plan to Cannabis Global by May 15, 2022 (the "Plan"). Lemon Glow will begin executing the Plan as soon as practicable thereafter with the harvest expected to occur mid-October 2022 (the "Harvest"). The Harvest will be stored as "Fresh Frozen" cannabis. Fresh Frozen cannabis is immediately flash frozen upon harvest, instead of the traditional process of drying and curing cannabis.

Under the terms of the Agreement, Cannabis Global is obligated to purchase the Harvest, up to 25,000 pounds (the "Target Yield"). Cannabis Global has an option to increase the Target Yield for subsequent growing seasons by 25% within 45 days of the current Harvest. Cannabis Global is required to pay Lemon Glow \$28.00 per pound for the Fresh Frozen cannabis, up to the Target Yield. If the Target Yield is achieved, the aggregate purchase price would be \$700,000 (the "Purchase Price"). The Purchase Price shall be paid as a series of cash payments and a convertible promissory note, as more fully described below.

The cash portion of the Purchase Price will be paid in cash as five \$40,000 monthly installments due on the 15th of each month, commencing May 15, 2022, and a final balloon payment of up to \$100,000 on October 15, 2022, depending on the size of the Harvest.

The other portion of the Purchase Price is a \$400,000 convertible promissory note due April 28, 2023, bearing 8% interest per year was irrevocably issued to Lemon Glow on April 28, 2022 (the "Convertible Note"). At any time after 90 days of issuance, the Convertible Note is convertible by Lemon Glow into Cannabis Global common stock at 75% of the 10-day average closing price prior to conversion (the "Discount Price"). Interest paid on the Convertible Note is also convertible by Lemon Glow into Cannabis Global common stock at the Discount Price. Lemon Glow may not convert any amount due under the Convertible Note if, after giving effect to such conversion, Lemon Glow would beneficially own in excess of 4.99% of Cannabis Global's outstanding common stock; provided, however, that Lemon Glow may waive this limitation on 61 days advanced notice.

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Events of default include, but are not limited to, failure to pay principal or interest; failure of Cannabis Global common stock to remain listed for trading on OTC Markets or a principal U.S. national securities exchange for a period of five trading days; notice to Lemon Glow that Cannabis Global cannot or will refuse to convert principal or interest into common stock; failure by Cannabis Global to convert principal or interest into common stock not remedied for three days; any default on other indebtedness in excess of \$100,000; any default causing acceleration under another Cannabis Global debt obligation; the occurrence of certain bankruptcy and insolvency events; and the failure of Cannabis Global to instruct the transfer agent to remove restrictive legends when converted common stock becomes eligible for resale under Rule 144 of the Securities Act of 1933, as amended.

Upon an event of default, Lemon Glow may declare the entire unpaid principal and interest due to be payable immediately; convert the unpaid principal and interest due at the Conversion Price; or exercise such other rights as Lemon Glow may have under the Convertible Note, the Agreement, other transaction documents or applicable law. Lemon Glow may transfer, sell, pledge, hypothecate or otherwise grant a security interest in the Convertible Note, subject to certain specified restrictions. The choice of law provision provides for Nevada law to govern the Convertible Note.

Ownership of harvested cannabis will transfer to Cannabis Global upon receipt of the cannabis or upon Lemon Glow notifying Cannabis Global that it has packaged the Target Yield (the "Completion Notice"). Upon receipt of the Completion Notice, Cannabis Global has 30 days to pick up the Target Yield. If Cannabis Global has not taken possession of the cannabis within 30 days, Cannabis Global will become responsible for the ongoing cost of storage, including utilities and labor. Cannabis Global is obligated to use its best efforts to take possession of the entire Harvest within 180 days. After the 180-day period, any remaining amounts of the Harvest not picked up by Cannabis Global are considered abandoned by Cannabis Global and will become Lemon Glow's property.

Under the terms of the Agreement, Lemon Glow warrants it shall have good title, right and authority to sell all of the cannabis, free and clear of all liens, encumbrances and restrictions of any kind. The parties agree to maintain in confidence all matters and activities relating to or undertaken pursuant to the Agreement. The Agreement contains a cross-indemnification and hold harmless provision, which includes attorney fees. The Agreement is non-assignable without mutual consent. Upon the expiration of a 15-day notice period commencing upon receipt of a notice of default which remains uncured, the non-defaulting party may immediately terminate the Agreement, seek equitable relief and damages, or cure such default at the defaulting party's expense. The Agreement also includes an appendix forecasting future cannabis harvests. The forecasts are not legally binding upon the parties, but the parties have agreed in principle to use them when entering into renewals or new similar agreements for subsequent growing seasons. The choice of law provision provides for California law to govern the Agreement.

Contingent Liabilities

The company fully recognize the legal liability as account payable and accrued liabilities. Please referred to Note 16. Accounts Payable and Accrued Liabilities.

29. Subsequent Events

Entry into Promissory Note and Warrants

On November 14, 2022, the Company entered into a loan with Mast Hill Fund L.P. for borrowing \$532,000 with maturity date on November 14, 2023; the note bears an interest of 16% per annum. The note shall be convertible into shares of common stock at conversion price of \$0.0001, subject to adjustments. In connection with the issuance of the note, the Company granted 1,773,333,333 shares of common stock purchase warrant at an exercise price of \$0.0003. The warrant period commencing on the issuance date and ending on the five-year anniversary.

On November 14, 2022, the Company granted 95,600,000 shares of common stock purchase warrant to J.H. Darbie & Co., Inc. for service provided according to the fee agreement dated December 28, 2021, at an exercise price of \$0.0003. The warrant period commencing on the issuance date and ending on the five-year anniversary.

On November 15, 2022, the Company paid off the promissory note of 1800 Diagonal Lending LLC date April 27, 2022 in total cash of \$80,765.

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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 Quarterly Report on Form 10-Q. See "SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS" above.

Overview

Sugarmade, Inc. (hereinafter referred to as "we", "us" or the "Company") was originally incorporated on June 5, 1986 in California as Lab, Inc., and later that month, on June 24, 1986 changed its name to Software Professionals, Inc. On May 21, 1996, the Company changed its name to Enlighten Software Solutions, Inc. On June 20, 2007, Enlighten Software Solutions, Inc. was incorporated in Delaware for the purpose of merging with Enlighten Software Solutions, Inc. a California corporation so as to effect a redomicile to Delaware. On January 24, 2008, the Company changed its name to Diversified Opportunities, Inc. On May 9, 2011 we closed on a Share Exchange Agreement with Sugarmade, Inc., a California corporation founded in 2010, and on June 24, 2011 changed our name to Sugarmade, Inc.

On October 24, 2014 we acquired SWC Group, Inc., a California corporation doing business as, CarryOutSupplies.com ("Carry Out Supplies").

Our Company operates much of its business activities through our subsidiaries, SWC Group, Inc., a California corporation ("SWC"), NUG Avenue, Inc., a California corporation and 70% owned subsidiary of the Company ("NUG Avenue"), and Lemon Glow Company, Inc., a California corporation and wholly owned subsidiary of the Company ("Lemon Glow").

Shares of our common stock are quoted on the OTC Pink tier of OTC Markets. Our trading symbol is "SGMD". Our corporate website is www.sugarmade.com

As of the date of this filing, we are involved in several business sectors and business ventures:

Paper and paper-based products: The supply of consumable products to the quick-service restaurant sub-sector of the restaurant industry, and as an importer and distributor of non-medical personal protection equipment to business and consumers, via our Carry Out Supplies subsidiary. Carry Out Supplies is a producer and wholesaler of custom printed and generic supplies, servicing more than 2,000 quick-service restaurants. The primary products are plastic cold cups, paper coffee cups, yogurt cups, ice cream cups, cup lids, cup sleeves, edible packaging, food containers, soup containers, plastic spoons, and similar products for this market sector. This subsidiary, which was formed in 2009.

Cannabis products delivery services: Following the end of the COVID cannabis delivery boom, along with a challenging cannabis retail climate from inflation, the black market, increased marketing expenses, and the cannabis excise tax moving from distribution to retail, the company has decided to reduce investments in retail operations. The company made this decision as

we see more promising opportunities to increase shareholder equity by pivoting the business strategy to deploy capital to invest in cannabis real estate, cultivation, and wholesale sectors vs. cannabis retail operations.

After discussions with ECGI, Inc. and the management of Nug Avenue, we could not find a path to short term profitability. The company then decided to cease investing in Nug Avenue, which ultimately led to Nug Avenue discontinuing operations.

As part of pivoting our business strategy, the company negotiated with Indigo Dye Group Corp. ("Indigo") to exchange our 32% stake in Budcars for a stake in a distribution and indoor cultivation company in Santa Rosa, California. The company has already executed a share exchange agreement with Indigo. However, the final documents and terms of the new company are still being finalized. The company expects to complete the documents and announce the transition to new business post filing of this 10K.

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Selected cannabis and hemp projects: On May 12, 2021, the Company entered into a Merger Agreement by and between Camaby Spot Bay Corp, a California corporation and a wholly owned subsidiary of the Company ("Merger Sub"), Lemon Glow Company and Ryan Santiago as shareholder representative, pursuant to which Merger Sub would merge with and into Lemon Glow, with Lemon Glow being the surviving corporation (the "Merger"). Upon the closing of the merger, Lemon Glow was merged into the Company. The purpose of the transactions was to establish a licensed and permitted entity which Sugarmade would cultivate, manufacture, and distribute cannabis to the California markets. At the time of the transactions, none of Lemon Glow, Merger Sub, or Sugarmade was permitted and licensed for such activities.

On October 28, 2021, Lemon Glow obtained a conditional Use Permit (UP) number from the Community Development Department of the County of Lake, California, which the Company believes is an important step towards the conditional UP for commercial cannabis cultivation at its property. The issuance of the conditional UP number by the County of Lake allows the Company to proceed with the state cannabis cultivation license application, and potentially obtain certain applicable permits, such as from the Department of Cannabis Control, Department of Food and Agriculture, Department of Pesticide Regulation, Department of Fish and Wildlife, The State Water Resources Control Board, Board of Forestry and Fire Protection, Central Valley or North Coast Regional Water Quality Control Board, Department of Public Health, and Department of Consumer Affairs, as may be required. The Company believes that obtaining the conditional UP number by the County of Lake could be the first step toward full approval to cultivate cannabis on up to 32 acres out of the total 640 acres of the property.

As of the date of this filing, Sugarmade is working diligently on satisfying the conditions required by the County of Lake to allow the Company to cultivate cannabis. It is the Company's intention to begin such activities at the earliest time possible, assuming permits are ultimately issued. Upon issuance, the company will determine the amount of acreages to grow initially based on market demand and pre-orders. However, no such license or permits have yet been issued, and applications are still pending. There can be no assurance that any such license or permits will be issued in the near future or at all.

Once licensing and permits are issued, the company plans to divide the 32 canopy grow acres between four separate grow areas. These separate grow areas will allow the company to start with a single area and expand with demand. While waiting for demand to rise, dividing into separate grow areas will also provide an opportunity to lease the other grow areas to 3rd party or through partnership under Managed Service Agreement to generate additional revenue for the company.

We believe the market demand will increase upon federal legalization allowing for interstate commerce of cannabis. Opening the doors for out of state licensees to purchase California grown cannabis flowers.

Once fully completed, we estimate the output of 32 acres of canopy, will have the capacity of 64 tons of dry flower or 300 tons of fresh frozen, requiring approximately 300,000 sq ft of storage space. We will continue to make plans to build more storage space while concurrent with the licensing process.

COVID-19 Impact

Our business and operating results for 2022 and 2021 were impacted by the COVID-19 pandemic. However, we have seen improvement in our business, which we expect to continue throughout fiscal year of 2023.

Results of Operations

The following table sets forth the results of our operations for the three months ended September 30, 2022 and 2021.

	For the three months ended	
	September 30,	
	2022	2021
Net Sales	\$ 709,782	\$ 1,168,781
Cost of Goods Sold:	462,909	386,939
Gross profit	246,873	781,842
Operating Expenses	520,155	2,034,443
Loss from Operations	(273,282)	(1,252,601)
Other non-operating Income (Expense):	3,343,785	(605,640)
Equity Method Investment Loss	-	(44,477)
Less: net income attributable to the noncontrolling interest	(3,000)	(307,351)
Net Income (Loss)	\$ 3,073,503	\$ (1,595,367)

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Revenues

For the three months ended September 30, 2022 and 2021, revenues were \$709,782 and \$1,168,781, respectively. The decrease was primarily due to the company decided to cease investing in Nug Avenue, which ultimately led to Nug Avenue discontinuing operations during the quarter ended September 30, 2022.

Cost of goods sold

For the three months ended September 30, 2022 and 2021, costs of goods sold were \$462,909 and \$386,939, respectively. The increase was primarily due to the Company had more sales in paper products during the three months ended September 30, 2022.

Gross profit

For the three months ended September 30, 2022 and 2021, gross profit was \$246,873 and \$781,842, respectively. The decrease was primarily due to the discontinuing operation for the cannabis delivery services during the quarter ended September 30, 2022.

Operating expenses

For the three months ended September 30, 2022 and 2021, operating expenses were \$520,155 and \$2,034,443, respectively.

Other non-operating income (expense)

The Company had total other non-operating income of \$3,343,785 and \$605,640 expense for the three months ended 2022 and 2021, respectively. The increase in non-operating expense is related to the accounting for the changes in fair value of derivative liabilities.

Net income (loss)

Net income totaled \$3,073,503 for the three months ended September 30, 2022, compared to a net loss of \$1,595,367 for the three-month period ended September 30, 2021. The increase was mainly due to the accounting for the changes in fair value of derivative liabilities.

Liquidity and Capital Resources

We have primarily financed our operations through the sale of unregistered equity and convertible notes payable. As of September 30, 2022 our Company had cash balance of \$81,216, current assets totaling \$1,085,534 and total assets of \$16,822,567. We had current and total liabilities totaling \$10,638,889 and \$16,693,536, respectively. As of September 30, 2022, stockholders' equity totaled \$129,030.

The following is a summary of cash provided by or used in each of the indicated types of activities during the three months ended September 30, 2022 and 2021:

	2022	2021
Cash (used in) provided by:		
Operating activities	\$ (314,951)	\$ (1,404,590)
Investing activities	-	(830,000)
Financing activities	235,154	1,081,146

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Net cash used in operating activities was \$314,951 for the three months ended September 30, 2022, and \$1,404,590 for the three months ended September 30, 2021. The decrease was attributable to the change in accounts receivable, prepayments, and other payables.

Net cash used in investing activities was \$0 for the three months ended September 30, 2022, and \$830,000 for the three months ended September 30, 2021. The decrease was attributable to purchase of property at 5058 Valley Blvd, Los Angeles, CA90032 in total purchase amount of \$830,000 in prior year period.

Net cash provided by financing activities was \$235,154 for the three months ended September 30, 2022 and \$1,081,147 for the three months ended September 30, 2021. The decrease in cash inflow in 2022 was mainly due to decreased proceeds from share issuance and loan payables.

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 September 30, 2022, 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 unaudited condensed consolidated financial statements and our independent public accountants have included a similar discussion in their opinion on our financial statements through June 30, 2022. We will be required in the near future to issue debt or sell our Company's equity securities in order to raise additional cash, although there are no firm arrangements in place for any such financing at this time. We cannot provide any assurances as to whether we will be able to secure the necessary financing, or the terms of any such financing transaction if one were to occur. The failure to secure such financing could severely curtail our plans for future growth or in more severe scenarios, the continued operations of our Company.

Capital Expenditures

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

Critical Accounting Policies Involving Management Estimates and Assumptions

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 ("GAAP") and the rules and regulations of the United States Securities and Exchange Commission (the "SEC") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position, results of operations, or cash flows. It is management's opinion however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation.

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These interim unaudited 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, 2022, 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 fiscal year ended June 30, 2022. The interim results for the period ended September 30, 2022 are not necessarily indicative of the results for the full fiscal year.

Principles of consolidation

The consolidated financial statements include the accounts of our Company, and its wholly-owned subsidiaries: SWC, Lemon Glow, Sugarrush, Sugarrush 5058, and its majority owned subsidiary, NUG Avenue. All significant intercompany transactions and balances have been eliminated in consolidation.

Going concern

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 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 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.

Business combinations

The Company applies the provisions of Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") 805, Business Combinations, in accounting for its acquisitions. It requires the Company to recognize separately from goodwill the assets acquired and the liabilities assumed, at the acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the acquisition date fair values of the net assets acquired and the liabilities assumed. The Company used third party valuation company to determine the assets acquired and liabilities assumed with the corresponding offset to goodwill.

Use of estimates

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

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Revenue recognition

We recognize revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 606, Revenue Recognition. Sugarnade applied a five-step approach in determining the amount and timing of revenue to be recognized: (1) identifying the contract with a customer, (2) identifying the performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations in the contract and (5) recognizing revenue when the performance obligation is satisfied.

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

Property and equipment

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

Machinery and equipment	3-5 years
Furniture and equipment	7 years
Vehicles	5 years
Leasehold improvements	30 years
Building	31.5 years

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

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

The Company reviews the carrying value of property, plant, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition and other economic factors. Based on this assessment, no impairment expenses for property, plant, and equipment was recorded in operating expenses during the three months ended September 30, 2022 and 2021.

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

Recoverability of long-lived assets to be held and used is measured by comparing the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the assets. Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable. Based on its review, there was \$0 impairment loss of its long-lived assets as of September 30, 2022 and June 30, 2022, respectively.

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Leases

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

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

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

The new standard also provides practical expedients for an entity's ongoing accounting. The Company has also elected the short-term leases recognition exemption for all leases that qualify. This means that the Company will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets and lease liabilities, for existing short-term leases of those assets in transition. The Company also currently expects to elect the practical expedient to not separate lease and non-lease components for its leases. All existing leases are reported under this rule.

Under ASC 840, leases were classified as either capital or operating, and the classification significantly impacted the effect the contract had on the company's financial statements. Capital lease classification resulted in a liability that was recorded on a company's balance sheet, whereas operating leases did not impact the balance sheet.

Goodwill and Intangible Assets

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the acquisition method. Intangible assets represent purchased intangible assets including developed technology and in-process research and development, technologies acquired or licensed from other companies, customer relationships, non-compete covenants, backlog, and trademarks and tradenames. Purchased finite-lived intangible assets are capitalized and amortized over their estimated useful lives. Technologies acquired or licensed from other companies, customer relationships, non-compete covenants, backlog, and trademarks and tradenames are capitalized and amortized over the lesser of the terms of the agreement, or estimated useful life. We capitalize cannabis cultivation license acquired as part of a business combination.

Stock based compensation

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

Earnings (Loss) per share

We calculate basic earnings (loss) per share ("EPS") by dividing our net income (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.

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Fair value of financial instruments

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

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

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

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

The Company used Level 3 inputs for its valuation methodology for the derivative liabilities in determining the fair value using the Binomial option-pricing model for the three months ended September 30, 2022.

Derivative instruments

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

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

Segment Reporting

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

The Company's financial statements reflect that substantially all of its operations are conducted in three industry segments – (1) paper and paper-based products such as paper cups, cup lids, food containers, etc., which accounts approx. 100% of the Company's revenues; (2) Cannabis products delivery service and sales, which accounts approx. 0% of the Company's total revenues.

New accounting pronouncements

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes". The pronouncement simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC Topic 740, "Income Taxes". The pronouncement also improves consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 was effective for us beginning in the first quarter of fiscal 2021, with early adoption permitted. The adoption had no material impact on the consolidated financial statements in the period ended September 30, 2022 and year ended June 30, 2022.

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In January 2020, the FASB issued ASU No. 2020-01, Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivative and Hedging (Topic 815), which clarifies the interaction of rules for equity securities, the equity method of accounting, and forward contracts and purchase options on certain types of securities. The guidance clarifies how to account for the transition into and out of the equity method of accounting when considering observable transactions under the measurement alternative. The ASU is effective for annual reporting periods beginning after December 15, 2020, including interim reporting periods within those annual periods, with early adoption permitted. The Company adopted this ASU on the consolidated financial statements in the year ended June 30, 2021. The adoption had no material impact on the consolidated financial statements in the

period ended September 30, 2022 and year ended June 30, 2022.

In August 2020, the FASB issued ASU 2020-06, "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815 – 40)" ("ASU 2020-06"). ASU 2020-06 simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity’s own equity. The ASU is part of the FASB’s simplification initiative, which aims to reduce unnecessary complexity in GAAP. The ASU’s amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. The Company is currently evaluating the impact of ASU 2020-06 on its financial statements.

On March 2021, the FASB issued ASU 2021-03, "Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events" ("ASU 2021-03"). The amendments in ASU 2021-03 provide private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as required in ASC 350-20, Intangibles—Goodwill and Other—Goodwill, as of the end of the reporting period, whether the reporting period is an interim or annual period. An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. The amendments in this ASU are effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued as of March 30, 2021. The Company adopted this ASU on the consolidated financial statements in the year ended June 30, 2021. The adoption had no material impact on the consolidated financial statements in the period ended September 30, 2022 and year ended June 30, 2022.

On April 2021, the FASB issued ASU 2021-04, "Earnings Per Share (Topic 260), Debt— Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging— Contracts in Entity’s Own Equity (Subtopic 815-40): Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options" ("ASU 2021-04") to clarify the accounting by issuers for modifications or exchanges of equity-classified warrants. The new ASU is effective for all entities in fiscal years starting after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2021-04 on its financial statements.

On July 2021, the FASB issued ASU 2021-05, "Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments", which upon adoption requires a lessor to classify a lease with variable lease payments (that do not depend on a rate or index) as an operating lease on commencement date if classifying the lease as a sales-type or direct financing lease would result in a selling loss. The amendments in this ASU are effective for all entities in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. The adoption had no material impact on the consolidated financial statements in the period ended September 30, 2022 and year ended June 30, 2022.

On July 2021, the FASB issued ASU 2021-07, "Stock Compensation (Topic 718): Stock Compensation" ("ASU 2021-07") to address the concerns from stakeholders about the cost and complexity of determining the fair value of equity-classified share-based awards for private companies. It specifically permits private companies to use 409A valuations prepared under U.S. Treasury regulations to estimate the fair value of certain awards under ASC 718. The Update is effective for private companies in fiscal years starting after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2021-07 on its financial statements.

On August 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers" ("ASU 2021-08") to require an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with revenue recognition guidance as if the acquirer had originated the contract. That is, such acquired contracts will not be measured at fair value. ASU 2021-08 is effective for privately held companies with fiscal years beginning after December 15, 2023, with early adoption permitted. The Company is currently evaluating the impact of ASU 2021-08 on its financial statements.

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ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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 SEC Rule 13a-15c and Rule 15d-15(e), we carried out an evaluation, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2022, our disclosure controls and procedures were not effective because the Company is relatively inexperienced with certain complexities within U.S. GAAP and SEC reporting.

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

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

Changes in Internal Controls over Financial Reporting

There have not been any changes in our internal controls over financial reporting during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II: Other Information

ITEM 1 – LEGAL PROCEEDINGS

From time to time and in the course of business, we may become involved in various legal proceedings seeking monetary damages and other relief. The amount of the ultimate liability, if any, from such claims cannot be determined. Except as set forth below, as of September 30, 2022, there were no legal claims pending or threatened against the Company that in the opinion of our management would be likely to have a material adverse effect on our financial position, results of operations or cash flows.

On December 11, 2013, the Company was served with a complaint from two convertible note holders and investors in the Company. On February 21, 2017, the Company signed a settlement agreement with the plaintiffs in the matter of Hannan vs. Sugarmade. Under the terms of the settlement agreement, the Company agreed to pay the plaintiffs an aggregate of \$227,000 to settle all claims against the Company, which included the payoff of two notes outstanding. The parties estimated the value of the notes at approximately \$80,000. As of June 30, 2020, third parties had purchased two notes of approximately \$80,000. As of September 30, 2022 and June 30, 2022, there remains a balance, plus accrued interest due under the notes of \$250,898, respectively.

ITEM 1A – RISK FACTORS

Not required for smaller reporting companies.

ITEM 2 – UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

During the three months ended September 30, 2022, the Company issued the following shares:

- 154,755,162 shares of common stock in total cash of \$19,360.

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

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 – OTHER INFORMATION

None.

ITEM 6 – EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
31.1*	Certification of Chief Executive Officer and Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

**Furnished herewith.

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SIGNATURES

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

Sugarmade, Inc.

January 26, 2023

By: /s/ Jimmy Chan

Jimmy Chan

Chief Executive Officer (principal executive officer, principal financial officer and principal accounting officer)

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Certifications

I, Jimmy Chan, certify that:

- (1) I have reviewed this Quarterly Report Form 10-Q for the quarter ended September 30, 2022 of Sugamade, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 26, 2023

/s/ Jimmy Chan

Jimmy Chan

Chief Executive Officer (Principal Executive Officer, and Principal Financial Officer)

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

In connection with this Form 10-Q report of Sugarmade, Inc. for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof and pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Jimmy Chan, certify that:

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

Date: January 26, 2023

/s/ Jimmy Chan

Jimmy Chan

Chief Executive Officer (Principal Executive Officer, and Principal Financial Officer)
