

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Grom Social Enterprises, Inc.

Form: 8-K

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Corporate Issuer CIK: 1662574

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **January 15, 2019**

GROM SOCIAL ENTERPRISES, INC.

(Exact name of small business issuer as specified in its charter)

Florida
(State or other jurisdiction
of incorporation)

000-55585
(Commission File Number)

46-5542401
(IRS Employer ID No.)

2060 NW Boca Raton Blvd., #6
Boca Raton, FL 33431
(Address of principal executive offices)

(561) 287-5776
(Issuer's Telephone Number)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 1.01 Entry into a Material Definitive Agreement

Effective January 15, 2019, Grom Social Enterprises, Inc. (the "Company") entered into a Second Amending Agreement (the "Amendment") to that certain Share Sale Agreement dated as of June 20, 2016, as subsequently amended (the "Share Sale Agreement"), pursuant to which we acquired 100% of the common stock of TD Holdings Limited ("TDH") including, Top Draw Animation, from certain individuals (the "TDH Sellers"). Pursuant to the Amendment, the parties agreed to further extend the maturity date of the Note, issued as part of the consideration under the Share Sale Agreement, to April 2, 2020.

The Amendment provides for an amendment to the Note to provide the TDH Sellers with the right to convert the Note at a conversion price of \$0.27 per share, upon the terms and conditions set forth in the Amendment.

In addition, the parties agreed that in the event the Note is not repaid prior to July 2, 2019: (i) no management fee shall be paid to the Company as provided in the Share Sale Agreement; (ii) no directors' fees or any reimbursement in directors' costs shall be paid to any director of TDH or its subsidiaries (collectively the "Group"), except for fees and expense claims of Wayne Dearing, an executive officer of the Company, CEO of TDH, as well as one of the TDH Sellers; (iii) no distribution of cash, payment of fees shall be made by the Group to the Company or any of its affiliates (iii) the Group shall not assume or pay off any liability of the Company or any of its affiliates; (iv) the consideration paid under the Share Sale Agreement will be increased by the Group Profit Share, as defined in the Amendment.

Additionally, under the terms of the Amendment, the Earn out payments contemplated under the Share Sale Agreement was amended to provide for payment, if earned, in 50% shares of common stock of the Company and 50% cash in lieu of 75% shares and 25% as originally contemplated by the Share Sale Agreement. As consideration for entering into the Amendment, the Company agreed to issue an aggregate of 800,000 shares of common stock to the TDH Sellers. The shares will be issued pursuant to an exemption from registration afforded by Section 4(a)(2) of the Securities Act of 1933, as amended.

The Company released a press release with respect to the foregoing, a copy of which is attached hereto as Exhibit 99.1.

Attached hereto as Exhibit 99.2 is a proforma balance sheet as of September 30, 2018 giving effect to the extension of the maturity date of the Note to April 2, 2020 as well as other equity transactions consummated since September 30, 2018.

The foregoing description of the Amendment does not purport to be complete and is qualified in its entirety by reference to the full text of the Amendment, a copy of which is attached hereto as Exhibit 10.1 and is incorporated into this report by reference.

Item 3.02 Unregistered Sales of Equity Securities.

The information above in Item 1.01 regarding the issuance of shares of to the TDH Sellers is incorporated herein by reference in response to this Item 3.02.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits. The following exhibit is included in this Report:

| <u>No.</u> | <u>Description</u> |
|------------|--|
| 10.1 | Second Amending Agreement to the Share Sale Agreement for the Entire Issued Share Capital of TD Holdings Limited and the Secured Promissory Note |
| 99.1 | Press Release dated January 16, 2019. |
| 99.2 | Proforma balance sheet as of September 30, 2018 |

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 hereunto duly authorized.

Dated: January 16, 2019

GROM SOCIAL ENTERPRISES, INC.
(Registrant)

By: /s/ Darren Marks
Darren Marks, Chief Executive Officer

DATED 11 JANUARY 2019

SECOND AMENDING AGREEMENT TO
THE SHARE SALE AGREEMENT FOR THE ENTIRE ISSUED SHARE CAPITAL OF TD
HOLDINGS LIMITED AND
THE SECURED PROMISSORY NOTE

Gray Corporate Law Limited
Unit 1, 6-8 London Street, Sydney NSW 2042 Australia

THIS AGREEMENT is made on 11 January 2019

BETWEEN

- (1) **GROM SOCIAL ENTERPRISES, INC.** a company incorporated in the State of Florida, the United States of America (formerly known as **GROM HOLDINGS INC.**), and having its principal office at 2060 NW Boca Raton Boulevard, Suite #6 Boca Raton Florida 33431 (“**Buyer**”);
- (2) **WAYNE EDWARD DEARING** of 12 Zinia Street, Valle Verde 2, Brgy Ugong, Pasig City 1605, **DAVID ARDEN PEABODY** of 4 Banaba Rd Bgy, Forbes Park, Forbes Park South, Makati City, Philippines and **MICHAEL ALLARDICE GORDON HISCOCK** of 85 Wanganella Street, Balgowlah 2093, Sydney, Australia (collectively the “**Sellers**”);

WHEREAS

- (A) The Buyer and the Sellers entered into an agreement dated 20 June 2016 for the sale and purchase of the entire issued share capital of TD Holdings Limited (“Original Agreement”).
- (B) The Original Agreement was amended on 1 January 2018.
- (C) The Buyer has requested an extension of the date of repayment of the Secured Promissory Note, to which the Sellers have agreed.
- (D) The Buyer and the Sellers now wish to amend the terms and conditions of the Original Agreement and the Secured Promissory Note by entering into this Agreement.

IT IS AGREED as follows:

1. **Definitions**

- 1.1 In this Agreement, the following words and expressions shall have the following meanings unless the context otherwise requires:

Agreement means this Agreement.

First Amendment Agreement means the agreement entered into between the Sellers and the Buyers dated 1 January 2018 amending the terms and conditions of the Original Agreement and the Secured Promissory Note.

Group Profit Share means a share in the retained earnings of the Group, required without restriction or condition by the Sellers to be calculated and paid monthly in arrears by the Buyers in accordance with the Sellers payment instructions after making prudent provision for:

- (a) The working capital requirements of the Group;
- (b) The capital expenditure requirements of the Group;
- (c) In both cases cognisant of the Sellers’ plans to perform the EBITDA targets set out in the Earnout Payments; and
- (d) If the Sellers have concerns around the way in which the Buyers have dealt with items in paragraphs (a), (b) and (c) above, the Sellers may refer their concerns to an Expert for determination under clause 27 of the Original Agreement.

Original Agreement means the agreement entered into between the Sellers and the Buyer dated 20 June 2016 for the sale and purchase of the entire issued share capital of TD Holdings Limited.

Secured Promissory Note means the loan note created by the Sellers and the Buyer dated 16 June 2016 to give effect to the Buyer Notes referred to in the Original Agreement.

2. Interpretation

2.1 In this Agreement, unless the context otherwise requires:

- (a) defined words used in this Agreement shall have the meaning ascribed to them in the Original Agreement and the Secured Promissory Note both as amended by the First Amendment Agreement;
- (b) references to times of day are, unless the context otherwise requires, to Hong Kong time and references to a day are to a period of twenty-four hours running from midnight on the previous day;
- (c) any amount expressed to be in \$ or dollars, shall be to the lawful currency of the United States of America;
- (d) the index, headings and any descriptive notes in brackets following references to statutes in this Agreement are for convenience only and shall not affect its construction or interpretation;
- (e) references to Clauses, Recitals or Schedules are to clauses of and recitals and schedules to this Agreement and references in a Schedule or a part of a Schedule to a paragraph are to a paragraph of that Schedule or that part of that Schedule;
- (f) all Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Exhibit or Schedule but not otherwise defined herein shall have the meaning as defined in this Agreement;
- (g) use of the singular shall include the plural and vice versa, and the use of any gender shall include all other genders;
- (h) references to any document in the agreed form means in a form agreed by the parties and for the purposes of identification initialled by each party;
- (i) a party means a party to this Agreement and includes its permitted assignees and successors in title and, in the case of an individual, his estate and personal representatives;
- (j) a Person shall include any individual, firm, company, state or agency of the state or any association or partnership or other body or entity (wherever and howsoever incorporated or established), and in each case, vice versa;
- (k) includes or including shall mean including without limitation;
- (l) general words shall not be given a restrictive meaning;
- (m) writing or written includes faxes and any non-transitory form of visible reproduction including e-mail;

- (n) The words "hereof," "herein," "hereto" and "hereunder" and words of like import used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.
- (o) the captions herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof.
- (p) unless the context of this Agreement clearly requires otherwise, the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or."
- (q) a rule of construction does not apply to the disadvantage of a party because the party was responsible for the preparation of this Agreement or any part of it; and
- (r) where any agreement, acknowledgement, covenant, representation, warranty, indemnity, undertaking, obligation or liability is expressed to be made, undertaken or given by two or more persons their liability shall be deemed to be joint and several.

3. **Agreement to Amend**

- 3.1 This Agreement and each of its terms and conditions, is an amendment to the Original Agreement and the Secured Promissory Note, and are deemed to be included where relevant in the terms and conditions of the Original Agreement and the Secured Promissory Note. To the extent that there is an inconsistency between a term or a condition in this Agreement and the Original Agreement or the Secured Promissory Note, this Agreement will prevail.
- 3.2 The Sellers agree to amend the Original Agreement and the Secured Promissory Note by extending repayment of the Buyer Notes from the third anniversary of the Closing Date to 2 April 2020 in consideration for the following:
 - (a) Receipt of 800,000 Buyer Shares immediately upon execution of this Agreement by all parties in accordance with each of the Buyer's instructions;
 - (b) Amendment of the Earnout Payment, from the date hereon, to 50 percent cash (clause 5.2(a) of the Original Agreement) and 50 percent Buyer Shares (clause 5.2(b) of the Original Agreement);
 - (c) If the Secured Promissory Note is not repaid by 2 July 2019, without prejudice to the Sellers rights to enforce, and in no way to be interpreted as a waiver of, an Event of Default under the Secured Promissory Note, the Consideration is to be increased by payment to the Sellers of the Group Profit Share, which for the avoidance of doubt commences on, and includes all Group Profit Share earned from, 3 July 2019 to the date that the Secured Promissory Note is paid in full;
 - (d) If the Secured Promissory Note is not repaid by 2 July 2019, the following additional covenants are hereby provided by the Buyer to the Sellers while all amounts payable under the Original Agreement and the Secured Promissory Note remain unpaid, the following covenants are hereby deemed to be provided by the Buyer to the Seller on 3 July 2019:
 - No Management Fee shall be paid to the Buyer as is provided for in the Original Agreement;
 - No directors' fees or any reimbursement in directors costs, shall be paid to any director of a Group company, except for fees and expenses claims of Dearing;
 - No distribution of cash, payment of fees, in whatever form, from the Group to the Buyer or any Affiliate of the Buyer;

- No payment, or assumption, by the Group of any liability (actual or contingent) of the Buyer or any Affiliate of the Buyer.
 - Any action similar to the above where the Group is incurring a debit to the credit of the Buyer or any affiliate of the Buyer.
- (e) The Secured Promissory Note is convertible into Buyer Shares at the option of each of the Sellers (**Option**) where;
- The Buyer Shares may be freely sold pursuant to an available exemption from the registration requirement of the Securities Act of 1933, as amended;
 - The Option conversion price shall be US\$0.27 per Buyer Share;
 - The Option conversion rights are exercisable at any time by a Seller notifying the Buyer in writing prior to repayment in full of the Secured Promissory Note;
 - The Option conversion may, at the election of a Seller, be in full or in part;
 - The Option right to convert expires on repayment in full of the Note where the Buyer must give the Sellers one months prior notice in writing of repayment in full (**Repayment Notice**) to allow the Sellers time to assess exercise of the Option; and
 - A Seller who elects to convert must notify the Buyer within two weeks of receipt of a Repayment Notice and notify the Buyer of the shareholder details.

4. **Confidentiality**

4.1 The parties undertake to keep confidential the terms of this Agreement and all information about each other, and will ensure that the same level of confidentiality binds its employees, agents and advisors.

4.2 The parties shall be entitled to disclose the information where:

- (a) Information becomes public knowledge other than as a direct or indirect result of the information being disclosed in breach of this Agreement;
- (b) The parties agree in writing that such information is not confidential; and
- (c) The disclosure is required by law, or by a regulatory body, tax authority or securities exchange.

5. **Assignment**

5.1 This Agreement shall be binding on and shall enure for the benefit of the successors in title of each party.

5.2 No party shall be entitled to assign the benefit of any rights under this Agreement without the prior written consent of the other parties, such consent not to be unreasonably withheld.

6. **Further Assurance**

Each party shall execute or procure that any necessary third party shall execute all such documents and/or do or procure the taking of such steps as the other party shall after Closing reasonably require in order to give effect to this Agreement (and any document entered into pursuant to it) and to give each party the full benefit of the provisions of such documents.

7. **Waiver, Variation and Release**

7.1 No failure or delay by a party in exercising any claim, remedy, right, power or privilege under this Agreement shall operate as a waiver, nor shall any single or partial exercise of any claim, remedy, right, power or privilege preclude any further exercise of any other claim, right, power or privilege.

7.2 No variation of this Agreement shall be effective unless it is agreed in writing and executed by each party.

8. **Costs**

The Buyer shall pay the Sellers legal costs relating to this Agreement of US\$7,500.

9. **Counterparts**

This Agreement may be entered into in two or more counterparts, and by the parties to it on separate counterparts, but shall not be effective until each party has executed at least one counterpart, and each counterpart, when executed and delivered shall be an original, and all counterparts shall together constitute one and the same document.

10. **Invalidity**

Each of the provisions of this Agreement shall be read and construed independently of the other provisions as entirely separate and is severable. If any provision (or part thereof) is found by any court or competent authority to be illegal, invalid or unenforceable in any jurisdiction, that provision (or part thereof) shall be deemed not to be part of this Agreement and shall not affect the continuation in force of the remainder of this Agreement.

11. **Third Party Rights**

This Agreement and the documents referred to in it are made for the benefit of the parties to them and their successors and permitted assigns, and are not intended to benefit, or be enforceable by, anyone else.

12. **Governing Law and Jurisdiction**

12.1 This Agreement and any dispute claim or obligation (whether contractual or non-contractual) shall be governed by and construed in all respects in accordance with the law of Hong Kong.

12.2 The parties irrevocably agree to submit to the exclusive jurisdiction of the courts of Hong Kong in relation to any dispute, claim or obligation (whether contractual or non-contractual) arising out of or in connection with this Agreement or the legal relationships established by it.

IN WITNESS WHEREOF THIS AGREEMENT has been executed by the parties

EXECUTED by GROM SOCIAL ENTERPRISES, INC.)
in accordance with its constituting)
documents and the laws by which it is governed by:)
)

Darren Marks
Chief Executive Officer, President
and Chairman

Mel Leiner
Chief Operating Officer, Executive
VicePresident, Chief Financial Officer,
Secretary and Director

EXECUTED by WAYNE EDWARD DEARING)
in the presence of:)
)
)
)

Wayne Edward Dearing

Signature of Witness

Name of Witness

EXECUTED by DAVID ARDEN PEABODY)
in the presence of:)
)
)
)
)

David Arden Peabody

Signature of Witness

Name of Witness

EXECUTED by MICHAEL ALLARDICE GORDON)
HISCOCK in the presence of:)
)
)
)
)

Michael Allardice Gordon Hiscock

Signature of Witness

Name of Witness

Grom Social Significantly Improves Its Liquidity

Extends the Maturity of Its \$4.0 Million Senior Debt

Boca Raton, FL, January 16, 2019 (GLOBE NEWSWIRE) -- via NEWMEDIAWIRE – Grom Social Enterprises, Inc. (OTCQB: GRMM), a leading social media platform and original content provider for children between the ages of five and 16, today announced that it entered into a second amending agreement to extend the maturity date of the \$4.0 million promissory note issued in the acquisition of TD Holdings Limited, which included Top Draw Animation, from July 2, 2019, to April 2, 2020.

Under the terms of the amending agreement, Grom provided the noteholders with the right to convert any principal amounts due on the note into restricted common stock at a fixed conversion price of \$0.27 per share. Other material consideration provided to the noteholders included the issuance of an aggregate of 800,000 restricted shares of common stock and a change in the payment terms of the contingent Earnout under the agreement.

Darren Marks, Chairman and CEO stated, "We appreciate the tremendous confidence shown by the noteholders in our management by extending the maturity date of their note until April 2, 2020. We believe that with the progress we are making in our business, the cost of paying down the promissory note in April 2020 will be far less expensive to satisfy this obligation based upon current capital market conditions."

For additional information regarding the amending agreement please see the current report on Form 8-K filed by the Company on January 16, 2019.

About Grom Social Enterprises, Inc.

Grom Social Enterprises, Inc. is a social media, technology and entertainment company that focuses on delivering content to children between the ages of 5 and 16 in a safe and secure environment that can be monitored by parents or other guardians. The Company has several operating subsidiaries, including Grom Social, which delivers its content through mobile and desktop environments (web portal and several Apps) that entertain children, allow kids to interact with their peers, get relevant news, play proprietary games, while also teaching good digital citizenship. The Company also owns and operates Top Draw Animation, Inc., which produces award-winning 2D animation content for some of the largest international media companies in the world. The Company also owns Grom Educational Services, which has provided web filtering services for up to an additional two million children across 3,700 schools. For more information please visit our website at www.gromsocial.com.

Safe Harbor Statement

This press release may contain forward-looking statements which are based on current expectations, forecasts, and assumptions that involve risks and uncertainties that could cause actual outcomes and results to differ materially from those anticipated or expected, including statements related to the amount and timing of expected revenues and any payment of dividends on our common stock, statements related to our financial performance, expected income, distributions, and future growth for upcoming quarterly and annual periods. Actual results and the timing of certain events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors. Among other matters, the Company may not be able to sustain growth or achieve profitability based upon many factors including, but not limited to general stock market conditions. We have incurred and will continue to incur significant expenses in the expansion of our existing and new service lines, noting there is no assurance that we will generate enough revenues to offset those costs in both the near and long term. Additional service offerings may expose us to additional legal and regulatory costs and unknown exposure(s) based upon the various geopolitical locations where we will be providing services, the impact of which cannot be predicted at this time. All forward-looking statements speak only as of the date of this press release. We undertake no obligation to update any forward-looking statements or other information contained herein. Stockholders and potential investors should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements in this report are reasonable, we cannot assure stockholders and potential investors that these plans, intentions or expectations will be achieved. Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, a change in events, conditions, circumstances or assumptions underlying such statements, or otherwise.

PR & Media Contact:

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1-800-PublicRelations

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Grom Social Enterprise Contact:

Investor Relations

Melvin Leiner

Executive Vice President

1-844-704-4766

Investor.relations@gromsocial.com

Darren Marks

President & CEO

GROM SOCIAL ENTERPRISES INC.
Proforma Consolidated Balance Sheets
September 30, 2018 (Unaudited)

| | September 30, 2018 | Proforma Adjustments for the of Period October 1, 2018 through January 15, 2019 | | Proforma Combined (g) |
|---|-----------------------|--|--------------------|--------------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 402,582 | \$ 1,012,265 | (c)(d)(e) | \$ 1,414,847 |
| Accounts receivable | 510,241 | - | | 510,241 |
| Inventory, net | 547,510 | - | | 547,510 |
| Prepaid expenses and other current assets | 605,568 | - | | 605,568 |
| Total current assets | <u>2,065,901</u> | <u>1,012,265</u> | | <u>3,078,166</u> |
| Property and equipment, net | 1,270,694 | - | | 1,270,694 |
| Goodwill | 8,853,261 | - | | 8,853,261 |
| Intangible assets, net | 6,436,900 | - | | 6,436,900 |
| Deferred tax assets | 207,464 | - | | 207,464 |
| Other assets | 72,433 | - | | 72,433 |
| Total assets | <u>\$ 18,906,653</u> | <u>\$ 1,012,265</u> | | <u>\$ 19,918,918</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 776,706 | \$ - | | \$ 776,706 |
| Accrued liabilities | 1,889,218 | (150,000) | (b) | 1,739,218 |
| Advanced payments and deferred revenues | 1,474,799 | - | | 1,474,799 |
| Senior secured promissory notes, net -- current | 3,800,000 | (3,800,000) | (f) | - |
| Income taxes payable | 20,215 | - | | 20,215 |
| Related party payables | 1,834,029 | (500,000) | (a) | 1,334,029 |
| Total current liabilities | <u>9,794,967</u> | <u>(4,450,000)</u> | | <u>5,344,967</u> |
| Convertible debentures, net of loan discounts | 2,773,961 | 252,625 | (d)(e) | 3,026,586 |
| Long term note payable | - | 3,584,000 | | 3,584,000 |
| Contingent purchase consideration | 429,000 | - | | 429,000 |
| Other noncurrent liabilities | 221,210 | - | | 221,210 |
| Total liabilities | <u>13,219,138</u> | <u>(613,375)</u> | | <u>12,605,763</u> |
| Commitments and contingencies | - | - | | - |
| Stockholders' Equity: | | | | |
| Preferred stock | - | - | | - |
| Common stock | 129,657 | 7,341 | (a)(b)(c)(d)(e)(f) | 136,998 |
| Additional paid-in capital | 50,201,965 | 1,618,299 | (a)(b)(c)(d)(e)(f) | 51,820,264 |
| Accumulated earnings (deficit) | (44,425,597) | - | | (44,425,597) |
| Accumulated other comprehensive income | (218,510) | - | | (218,510) |
| Total stockholders' equity | <u>5,687,515</u> | <u>1,625,640</u> | | <u>7,313,155</u> |
| Total liabilities and equity | <u>\$ 18,906,653</u> | <u>\$ 1,012,265</u> | | <u>\$ 19,918,918</u> |

(a) On October 12, 2018, Messrs. Marks and Leiner, the Company's executive officers, converted \$500,000 of their non-interest bearing loans into 1,612,903 shares of the Company's common stock at a price of \$0.31 per share. This transaction increased the Company's consolidated stockholders' equity by \$500,000.

(b) On October 25, 2018, Mr. Wayne Dearing, president of the Company's subsidiary TD Holdings Ltd, converted \$150,000 of accrued interest due on his secured promissory note into 483,871 shares of the Company's common stock at a price of \$0.31 per share. This transaction increased the Company's consolidated stockholders' equity by \$150,000.

(c) During October and November 2018, the Company accepted subscriptions under a private placement to issue an aggregate 3,549,999 shares of its common stock to six existing accredited investors at a price of \$0.15 per share. This transaction increased the Company's consolidated stockholders' equity by \$532,500.

(d) In October 2018, the Company issued a \$50,000 original discount note to an existing accredited investor. The note bears interest at 10% and entitled the noteholder to receive 50,000 shares of the Company's common stock (valued at \$0.32 per share) as an incentive to invest. The Company received net proceeds of \$40,000. All issuance costs will be amortized as interest expense over the life of the note. This transaction increased the Company's consolidated stockholders' equity by \$16,000.

(e) On November 30, 2018, the Company issued an aggregate \$552,000 in convertible notes to various accredited investors through a financial institution. The notes bear interest at 12% and entitled the noteholders (incentive to invest) and institution (transaction cost) to receive 844,560 shares of the Company's common stock (valued at \$0.25 per share). The Company received net proceeds of \$439,765. All issuance costs will be amortized as interest expense over the life of the note. This transaction increased the Company's consolidated stockholders' equity by \$211,140.

(f) On January 11, 2018 the Company entered into an agreement to extend the maturity its \$4.0 million Seller's Note from July 2, 2019 to April 2, 2020. In connection with this modification the Company issued 800,000 restricted common shares.

(g) This proforma balance sheet is presented as if the transactions described above occurred as of September 30, 2018. It does not contemplate any other changes to the accounts of the Company reflected in its consolidated balance sheets or the impact of the Company's results of operations for the period of October 1, 2018 through January 15, 2019.