Table of Contents

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934**

**For the quarterly period ended September 30, 2019**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934**

**For the transition period from ___________to ____________**

**Commission File Number 000-55345**

**ZERO GRAVITY SOLUTIONS, INC.**
*(Exact name of business as specified in its charter)*

| | |
|---|---|
| **NEVADA** | **46-1779352** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**190 NW SPANISH RIVER BOULEVARD, SUITE 101, BOCA RATON, FLORIDA 33431**
(Address, including zip code, of principal executive offices)

**(561) 416-0400**
(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 ☒ The Company has not filed its Quarterly Report on Form 10-Q for the quarterly periods ended March 31, 2020, June 30, 2020, September 30, 2020, March 31, 2021 and its Annual Report on Form 10-K for the years ended December 31, 2019 and 2020.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☒ See above.

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 the 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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of July 27, 2021, the issuer had 39,795,868 shares of common stock issued and outstanding.

## TABLE OF CONTENTS

## CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

Statements in this report may be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements discuss matters that are not historical facts. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions, or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and are likely to, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those described above and those risks discussed from time to time in this report, including the risks described under "Risk Factors" and any risks described in any other filings we make with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2018.

These factors include, among others:

- current or future financial performance;
- management’s plans and objectives for future operations;
- uncertainties associated with product research and development;
- uncertainties associated with dependence upon the actions of government regulatory agencies;
- product plans and performance;
- management’s assessment of market factors; and
- statements regarding our strategy and plans.

We cannot predict all of the risks and uncertainties. Accordingly, such information should not be regarded as representations that the results or conditions described in such statements or that our objectives and plans will be achieved and we do not assume any responsibility for the accuracy or completeness of any of these forward looking statements. These forward-looking statements are found at various places throughout this report and include information concerning possible or assumed future results of our operations, including statements about business strategies; future cash flows; financing plans; plans and objectives of management; any other statements regarding future acquisitions, future cash needs, future operations, business plans and future financial results, and any other statements that are not historical facts. These forward-looking statements represent our intentions, plans, expectations, assumptions, and beliefs about future events and are subject to risks, uncertainties, and other factors. Many of those factors are outside of our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. All subsequent written and oral forward-looking statements concerning other matters addressed in this report and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this report. Any forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this report.

Management’s discussion and analysis of financial condition and results of operations are based upon our unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these unaudited consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, we evaluate these estimates, including those related to useful lives of property and equipment, the allowance for doubtful accounts and stock based compensation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. There can be no assurance that actual results will not differ from those estimates.

**Zero Gravity Solutions, Inc. and Subsidiaries**
**Consolidated Balance Sheets**

| | September 30, 2019 (Unaudited) | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 504,555 | $ 43,683 |
| Accounts receivable - net | 810 | 342 |
| Prepaid and other | 187,829 | 314,645 |
| Inventory | 46,772 | 103,142 |
| **Total Current Assets** | 739,966 | 461,812 |
| **Property and Equipment - net** | 71,887 | 85,523 |
| **Other Assets** | | |
| Inventory | 260,503 | - |
| Deposit | 4,717 | 4,817 |
| **Total Other Assets** | 265,220 | 4,817 |
| **Total Assets** | $ 1,077,073 | $ 552,152 |
| **Liabilities and Stockholders' Deficit** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses | $ 546,779 | $ 544,659 |
| Accounts payable and accrued expenses - related parties | - | 127,480 |
| Accrued interest | 78,050 | 21,262 |
| Accrued interest - related parties | 359,041 | 100,919 |
| Deferred revenue | - | 250,000 |
| Deferred compensation - related party | - | 12,500 |
| Insurance financing liability | 41,178 | 223,482 |
| Notes payable - net | - | 191,108 |
| Notes payable - related parties - net | - | 1,058,621 |
| Convertible notes payable - net | 104,500 | 8,947 |
| Convertible notes payable - related parties | - | 500,000 |
| Derivative liability | 111,000 | 114,000 |
| **Total Current Liabilities** | 1,240,548 | 3,152,978 |
| **Long-Term Liabilities** | | |
| Convertible notes payable - Series A, 10% - net | 364,196 | - |
| Convertible notes payable - Series A, 10% - related parties - net | 1,243,492 | - |
| Convertible notes payable - Series B, 12% - net | 142,770 | - |
| Convertible notes payable - Series B, 12% - related parties - net | 694,295 | - |
| Notes payable - net | - | 96,263 |
| Notes payable - related parties - net | - | 943,621 |
| Convertible notes payable - net | - | 356,794 |
| Convertible notes payable - related parties - net | - | 1,098,649 |
| **Total Long-Term Liabilities** | 2,444,753 | 2,495,327 |
| **Total Liabilities** | 3,685,301 | 5,648,305 |
| **Commitments (Note 5)** | | |
| **Stockholders' Deficit** | | |
| Common stock, $0.001 par value, 100,000,000 shares authorized 39,432,310 and 40,954,115 shares issued and outstanding, respectively | 39,432 | 40,954 |
| Additional paid-in capital | 32,741,972 | 24,283,509 |
| Accumulated deficit | (35,388,469) | (29,420,616) |
| Stockholders' deficit | (2,607,065) | (5,096,153) |
| Non-controlling interest | (1,163) | - |
| **Total Stockholders' Deficit** | (2,608,228) | (5,096,153) |
| **Total Liabilities and Stockholders' Deficit** | $ 1,077,073 | $ 552,152 |

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

**Zero Gravity Solutions, Inc. and Subsidiaries**
**Consolidated Statements of Operations**
**(Unaudited)**

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Sales** | $ 15,815 | $ 11,635 | $ 65,233 | $ 44,705 |
| **Cost of sales** | 1,239 | 2,476 | 34,879 | 7,754 |
| **Gross profit** | 14,576 | 9,159 | 30,354 | 36,951 |
| **Operating expenses** | | | | |
| General and administrative expenses | 1,173,157 | 1,003,056 | 3,047,753 | 3,553,188 |
| Research and development | 35,873 | 16,710 | 100,835 | 138,625 |
| **Total operating expenses** | 1,209,030 | 1,019,766 | 3,148,588 | 3,691,813 |
| **Loss from operations** | (1,194,454) | (1,010,607) | (3,118,234) | (3,654,862) |
| **Other income (expense) - net** | | | | |
| Interest expense | (266,023) | (119,673) | (646,356) | (253,175) |
| Amortization of debt discounts | (762,223) | (132,976) | (2,296,426) | (205,938) |
| Change in fair value of derivative liability | (51,000) | - | (64,000) | - |
| Gain on debt extinguishment | 156,000 | - | 156,000 | - |
| Loss on disposal of asset | - | (1,197) | - | (1,540) |
| **Total other income (expense) - net** | (923,246) | (253,846) | (2,850,782) | (460,653) |
| **Net loss including non-controlling interest** | $ (2,117,700) | $ (1,264,453) | $ (5,969,016) | $ (4,115,515) |
| **Non-controlling interest** | (608) | - | (1,163) | - |
| **Net loss available to common stockholders** | $ (2,117,092) | $ (1,264,453) | $ (5,967,853) | $ (4,115,515) |
| **Loss per share - basic and diluted** | $ (0.05) | $ (0.03) | $ (0.15) | $ (0.10) |
| **Weighted average number of shares - basic and diluted** | 39,397,527 | 40,954,115 | 40,123,002 | 40,846,981 |

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

**Zero Gravity Solutions, Inc. and Subsidiaries**
**Consolidated Statements of Changes in Stockholders' Deficit**
**For the Three and Nine Months Ended September 30, 2019 and 2018**
**(Unaudited)**

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Non-Controlling Interest | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|
| **December 31, 2017** | **40,650,397** | **$ 40,650** | **$ 21,970,266** | **$ (23,980,220)** | **$ -** | **$ (1,969,304)** |
| Common stock issued for cash - net of offering costs of $1,680 ($2.97/share) | 55,334 | 56 | 164,266 | - | - | 164,322 |
| Warrants issued for services | - | - | 57,947 | - | - | 57,947 |
| Warrants issued as loan costs (debt discount) | - | - | 70,897 | - | - | 70,897 |
| Stock options issued for services | - | - | 71,254 | - | - | 71,254 |
| Net loss - three months ended March 31, 2018 | - | - | - | (1,576,677) | - | (1,576,677) |
| **March 31, 2018** | 40,705,731 | 40,706 | 22,334,630 | (25,556,897) | - | (3,181,561) |
| Common stock issued for cash - net of offering costs of $24,000 ($3/share) | 248,384 | 248 | 720,904 | - | - | 721,152 |
| Warrants issued for services | - | - | 127,029 | - | - | 127,029 |
| Warrants issued as loan costs (debt discount) | - | - | 475,114 | - | - | 475,114 |
| Stock options issued for services | - | - | 75,023 | - | - | 75,023 |
| Net loss - three months ended June 30, 2018 | - | - | - | (1,274,385) | - | (1,274,385) |
| **June 30, 2018** | 40,954,115 | 40,954 | 23,732,700 | (26,831,282) | - | (3,057,628) |
| Common stock issued for cash - net of offering costs of $24,000 ($3/share) | 248,384 | 248 | 720,904 | - | - | 721,152 |
| Warrants issued for services | - | - | 127,029 | - | - | 127,029 |
| Warrants issued as loan costs (debt discount) | - | - | 475,114 | - | - | 475,114 |
| Stock options issued for services | - | - | 71,254 | - | - | 71,254 |
| Net loss - three months ended September 30, 2018 | - | - | - | (1,264,453) | - | (1,264,453) |
| **September 30, 2018** | **41,202,499** | **$ 41,202** | **$ 25,127,001** | **$ (28,095,735)** | **$ -** | **$ (2,927,532)** |
| **December 31, 2018** | **40,954,115** | **$ 40,954** | **$ 24,283,509** | **$ (29,420,616)** | **$ -** | **$ (5,096,153)** |
| Common stock issued for services ($1.78/share) | 45,000 | 45 | 79,905 | - | - | 79,950 |
| Common stock issued upon cashless exercise of warrants ($0.001/share) | 306,195 | 306 | (306) | - | - | - |
| Warrants issued for services | - | - | 112,651 | - | - | 112,651 |
| Stock issued for loan costs ($1.80/share) | 2,000 | 2 | 3,606 | - | - | 3,608 |
| Non-controlling interest | - | - | - | - | (272) | (272) |
| Net loss - three months ended March 31, 2019 | - | - | - | (1,230,816) | - | (1,230,816) |
| **March 31, 2019** | 41,307,310 | 41,307 | 24,479,365 | (30,651,432) | (272) | (6,131,032) |
| Common stock issued for services ($1.80/share) | 25,000 | 25 | 44,975 | - | - | 45,000 |
| Cancellation and return of shares from former related party ($0.001/share) | (2,000,000) | (2,000) | 2,000 | - | - | - |
| Warrants issued for services | - | - | 26,161 | - | - | 26,161 |
| Warrants issued and benefical conversion feature - debt discount - Series A, 10%, and Series B, 12%, convertible notes | - | - | 8,024,032 | - | - | 8,024,032 |
| Stock options issued for services | - | - | 9,617 | - | - | 9,617 |
| Non-controlling interest | - | - | - | - | (283) | (283) |
| Net loss - three months ended June 30, 2019 | - | - | - | (2,619,945) | - | (2,619,945) |
| **June 30, 2019** | 39,332,310 | 39,332 | 32,586,150 | (33,271,377) | (555) | (646,450) |
| Common stock issued for services ($0.90/share) | 100,000 | 100 | 89,900 | - | - | 90,000 |
| Warrants issued for services | - | - | 44,861 | - | - | 44,861 |
| Stock options issued for services | - | - | 21,061 | - | - | 21,061 |
| Non-controlling interest | - | - | - | - | (608) | (608) |
| Net loss - three months ended September 30, 2019 | - | - | - | (2,117,092) | - | (2,117,092) |
| **September 30, 2019** | **39,432,310** | **$ 39,432** | **$ 32,741,972** | **$ (35,388,469)** | **$ (1,163)** | **$ (2,608,228)** |

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

**Zero Gravity Solutions, Inc. and Subsidiaries**
**Consolidated Statements of Cash Flows**
**(Unaudited)**

| | For the Nine Months Ended September 30, 2019 | 2018 |
|---|---|---|
| **Operating activities** | | |
| Net loss - including non-controlling interest | $ (5,969,016) | $ (4,115,515) |
| Adjustments to reconcile net loss to net cash used in operations | | |
| Bad debt | 14,144 | 4,060 |
| Depreciation and amortization | 18,027 | 19,706 |
| Common stock issued for services | 214,950 | - |
| Common stock issued for loan costs | 3,608 | - |
| Warrants issued for services | 183,673 | 296,271 |
| Stock options issued for services | 30,678 | 146,277 |
| Non-cash penalty on convertible note | 10,000 | - |
| Gain on debt extinguishment | (156,000) | - |
| Loss on disposal of asset | - | 1,540 |
| Amortization of debt discount and loss on debt extinguishment | 2,296,426 | - |
| Amortization of debt issuance costs | - | 205,938 |
| Change in fair value of derivative liability | 64,000 | - |
| Advance on future royalties - related parties reserve | - | 129,580 |
| Impairment of inventory | 10,286 | - |
| Impairment expense | - | 203,208 |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in | | |
| Accounts receivable | (14,612) | (3,110) |
| Prepaid and other | 126,816 | 69,749 |
| Inventory | (214,419) | (7,285) |
| Deposits | 100 | (200) |
| Increase (decrease) in | | |
| Accounts payable and accrued expenses | 164,914 | (403,580) |
| Accounts payable and accrued expenses - related party | - | (13,028) |
| Accrued interest | 56,788 | 67,039 |
| Accrued interest - related party | 258,122 | 14,370 |
| Advance on future royalties - related parties | - | (13,347) |
| Deferred revenue | (43,200) | - |
| Deferred compensation - related party | (12,500) | - |
| **Net cash used in operating activities** | (2,957,215) | (3,398,327) |
| **Investing activities** | | |
| Purchase of equipment | (4,391) | (5,489) |
| **Net cash used in investing activities** | (4,391) | (5,489) |
| **Financing activities** | | |
| Proceeds from issuance of Series B, 12%, convertible notes payable | 762,500 | - |
| Proceeds from issuance of Series B, 12%, convertible notes payable - related parties | 2,299,927 | - |
| Proceeds from convertible note payable | 89,000 | - |
| Proceeds from notes payable | 50,000 | 750,000 |
| Repayments of notes payable | (50,000) | (165,790) |
| Proceeds from notes payable - related party | 789,000 | 2,700,001 |
| Repayments of notes payable - insurance financing liability | (182,304) | - |
| Repayments of notes payable - related party | (100,000) | (300,000) |
| Repayment of convertible note | (136,000) | - |
| Payments of debt offering costs - related parties | (99,645) | (97,500) |
| Proceeds from sale of common stock | - | 911,154 |
| Payments of offering costs | - | (25,680) |
| **Net cash provided by financing activities** | 3,422,478 | 3,772,185 |
| **Net increase in cash and cash equivalents** | 460,872 | 368,369 |
| **Cash and cash equivalents - beginning of period** | 43,683 | 13,862 |
| **Cash and cash equivalents - end of period** | $ 504,555 | $ 382,231 |
| **Supplemental disclosure of cash flow information** | | |
| Cash paid for interest | $ 17,726 | $ 159,996 |
| Cash paid for income tax | $ - | $ - |
| **Supplemental disclosure of non-cash investing and financing activities** | | |
| Conversion of debt into Series A, 10%, convertible notes | $ 850,000 | $ - |
| Conversion of debt into Series A, 10%, convertible notes - related parties | $ 4,889,001 | $ - |
| Conversion of accrued interest into Series A, 10%, convertible notes | $ 162,794 | $ - |
| Conversion of accrued interest into Series A, 10%, convertible notes - related parties | $ 127,480 | $ - |
| Conversion of prior deferred revenue into Series A, 10%, convertible notes - related party | $ 206,800 | $ - |
| Conversion of Series A, 10%, convertible notes and accrued interest into Series B, 12%, convertible notes | $ 3,066,573 | $ - |
| Warrants issued as loan costs (debt discount) - Series A, 10%, and Series B, 12%, convertible notes | $ 8,024,032 | $ 946,244 |
| Debt discount recorded in connection with derivative liability | $ 89,000 | $ - |
| Cancellation and return of shares from former related party | $ 2,000 | $ - |
| Common stock issued upon cashless exercise of warrants | $ 306 | $ - |
| Warrants issued as direct offering costs in the sale of common stock | $ - | $ 5,771 |

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

## Note 1 - Organization and Nature of Operations and Basis of Presentation

### Organization and Nature of Operations

Zero Gravity Solutions, Inc. (the "Company") is an agricultural biotechnology company focused on commercializing technology derived from and designed for spaceflight with significant applications on Earth. These technologies are focused on improving world agriculture by providing valuable solutions to challenges facing humanity including threats to world agriculture and the ability to feed the world's rapidly growing population.

The Company owns proprietary technology for its initial commercial product, BAM-FX® that can boost the nutritional value and enhance the immune system of food crops without the use of genetic modification. The Company's focus is the commercialization of BAM-FX® in both domestic and international markets. The Company's headquarters are located in Boca Raton, Florida.

The Company operates through two subsidiaries: BAM Agricultural Solutions, Inc. a Florida corporation ("BAM"), which was formed in 2014, and Specialty Agricultural Solutions, Inc. ("SASI"), which was formed in 2018 and began operations in 2019. The Company owns 98% of SASI.

Another subsidiary of the Company, Zero Gravity Life Sciences, Inc., a Florida corporation ("ZGLS"), was formed by the Company in 2014. ZGLS is currently inactive.

We have generated nominal sales from our operations thus far. We believe with the financial ability to promote and market, in addition to easing COVID-19 commerce restrictions, product sales could begin during the third quarter of 2021, primarily from direct sales to end users and international distributor purchases.

We cannot, however, guarantee we will be successful in generating significant sales or in the execution of our business strategy. Our business is subject to risks inherent in the establishment of a new business enterprise, including the financial risks associated with the limited capital resources currently available to us for the implementation of our business strategies. To become profitable and competitive, we must raise additional capital to execute our business plan and realize revenues expected.

The ongoing COVID-19 global and national health emergency has caused significant disruption in the international and United States economies and financial markets. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The spread of COVID-19 has caused illness, quarantines, cancellation of events and travel, business and school shutdowns, reduction in business activity and financial transactions, labor shortages, supply chain interruptions and overall economic and financial market instability. The COVID-19 pandemic has the potential to significantly impact the Company's supply chain, distribution centers, or logistics and other service providers.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

During the first quarter of 2020, the Company furloughed all employees other than the three executive officers due to the COVID-19 impact on its operations. Beginning in the second quarter of 2020 the Company began to remove certain employees from furlough that are key to ongoing operations. The Company is not able to estimate the duration of the pandemic or the potential impact on the business of disruptions or delays in shipments of product.

Through fiscal 2020 and the first half of 2021, the Company continued to experience product shipment delays due to import restrictions imposed by countries in which the Company had customer purchase commitments. Our domestic business development efforts in 2020 were also severely limited due to travel restrictions and the reluctance of purchasers to schedule meetings to introduce our commercial and retail products. In addition, the prolonged restrictions have resulted in a decreased ability to raise additional capital.

As severe domestic and international restrictions have started to ease during 2021, the Company has begun to see an improvement in its ability to engage in business development efforts domestically and internationally. As the situation continues to evolve, the Company continues to closely monitor market conditions and respond accordingly.

**Basis of Presentation**

Management acknowledges its responsibility for the preparation of the accompanying unaudited consolidated financial statements which reflect all adjustments, consisting of normal recurring adjustments, considered necessary in its opinion for a fair statement of its consolidated financial position and the consolidated results of its operations for the periods presented.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (the “U.S. GAAP”) for interim financial information and with the instructions to Article 8-03 of Regulation S-X.

Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. Certain information and note disclosure normally included in financial statements prepared in accordance with U.S. GAAP has been condensed or omitted from these statements pursuant to such accounting principles and, accordingly, they do not include all the information and notes necessary for comprehensive financial statements.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

These unaudited consolidated financial statements should be read in conjunction with the summary of significant accounting policies and notes to the consolidated financial statements for the year ended December 31, 2018 of the Company which were included in the Company's annual report on Form 10-K as filed with the Securities and Exchange Commission on October 17, 2019.

**Liquidity, Going Concern and Management's Plans**

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

As reflected in the accompanying unaudited consolidated financial statements, for the nine months ended September 30, 2019, the Company had:

- Net loss including non-controlling interest of $5,969,016; and
- Net cash used in operations was $2,957,215

Additionally, at September 30, 2019, the Company had:

- Accumulated deficit of $35,388,469,
- Stockholders' deficit of $2,608,228; and
- Working capital deficit of $500,582

The Company has cash on hand of $504,555 at September 30, 2019. Without significant cash collections from sale of product, given the Company's current monthly cash used in operations, the Company has sufficient cash to operate for approximately two months without an additional capital raise or change to its business strategy and plan.

Although the Company intends to raise additional capital, the Company expects to continue to incur significant losses from operations and have negative cash flows from operating activities for the near-term and these losses could be significant as product development, regulatory, contract research, and technical marketing personnel related expenses are incurred.

The Company has incurred significant losses since its inception and has not demonstrated an ability to generate sufficient revenues from the sales of its goods and services to achieve profitable operations. There can be no assurance that profitable operations will ever be achieved, or if achieved, could be sustained on a continuing basis. In making this assessment we performed a comprehensive analysis of our current circumstances including: our financial position, our cash flow and cash usage forecasts for the period ending September 30, 2019, and our current capital structure including equity-based instruments and our obligations and debts.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

The Company has satisfied its obligations using cash from successful capital raising efforts through September 30, 2019, specifically, the issuance notes payable and convertible debt of $3,990,427 during the nine months ended September 30, 2019; however, there is no assurance that such successful efforts will continue during the twelve months subsequent to the date these interim consolidated financial statements are issued.

The Company has executed product distribution agreements with domestic and international commercial agricultural distributors and generated initial product orders. Additional technical and marketing efforts must be devoted to those distributors to ensure the product is properly utilized and validated by end users. To fund these capital needs, the Company has and continues to raise capital through a private placement offering in connection with its investment banker and through its internal efforts, as well as through issuances of debt.

If the Company does not obtain additional capital, the Company will be required to reduce the scope of its business development activities or cease operations. The Company continues to explore obtaining additional capital financing and the Company is closely monitoring its cash balances, cash needs, and expense levels.

These factors create substantial doubt about the Company's ability to continue as a going concern within the twelve month period subsequent to the date that these consolidated financial statements are issued. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. Accordingly, the consolidated financial statements have been prepared on a basis that assumes the Company will continue as a going concern and which contemplates the realization of assets and satisfaction of liabilities and commitments in the ordinary course of business.

Management's strategic plans include the following:

- Continuing to advance commercialization of the Company's principal product, BAM-FX® in both domestic and international markets,
- Pursuing additional capital raising opportunities,
- Continuing to explore and execute prospective partnering or distribution opportunities; and
- Identifying unique market opportunities that represent potential positive short-term cash flow.

## Note 2 - Summary of Significant Accounting Policies

**Principles of Consolidation and Non-Controlling Interest**

These consolidated financial statements have been prepared in accordance with U.S. GAAP and include the accounts of the Company and its wholly-owned and majority owned subsidiaries. All intercompany transactions and balances have been eliminated.

The non-controlling interest in SASI (2%) is reported as Non-controlling interest in Total Stockholders' Deficit of our Consolidated Financial Statements.

**Business Segments and Concentrations**

The Company uses the "management approach" to identify its reportable segments. The management approach requires companies to report segment financial information consistent with information used by management for making operating decisions and assessing performance as the basis for identifying the Company's reportable segments. The Company manages its business as one reportable segment and the unaudited consolidated financial statements are presented as one operating business segment.

Customers in the United States accounted for 100% of our revenues. We do not have any property or equipment outside of the United States.

**Use of Estimates**

Preparing financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates, and those estimates may be material.

Significant estimates during the nine months ended September 30, 2019 include allowance for doubtful accounts and other receivables, inventory reserves and classifications, valuation of beneficial conversion features in convertible debt, valuation of loss contingencies, valuation of derivative liabilities, valuation of stock-based compensation and the valuation allowance on deferred tax assets.

**Fair Value of Financial Instruments**

The Company accounts for financial instruments under Financial Accounting Standards Board ("FASB") ASC 820, *Fair Value Measurements*. ASC 820 provides a framework for measuring fair value and requires disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company's principal or, in absence of a principal, most advantageous market for the specific asset or liability.

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs, when determining fair value.

The three tiers are defined as follows:

- Level 1 —Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2—Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market data, which require the Company to develop its own assumptions.

The determination of fair value and the assessment of a measurement's placement within the hierarchy requires judgment. Level 3 valuations often involve a higher degree of judgment and complexity. Level 3 valuations may require the use of various cost, market, or income valuation methodologies applied to unobservable management estimates and assumptions. Management's assumptions could vary depending on the asset or liability valued and the valuation method used. Such assumptions could include estimates of prices, earnings, costs, actions of market participants, market factors, or the weighting of various valuation methods. The Company may also engage external advisors to assist us in determining fair value, as appropriate.

Although the Company believes that the recorded fair value of our financial instruments is appropriate, these fair values may not be indicative of net realizable value or reflective of future fair values. See Note 4(D) for level 3 reconciliation of derivative liabilities.

The Company's financial instruments, including cash, net accounts receivable, accounts payable and accrued expenses, are carried at historical cost. At September 30, 2019 and December 31, 2018, the carrying amounts of these instruments approximated their fair values because of the short-term nature of these instruments.

ASC 825-10 "*Financial Instruments*", allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value ("fair value option"). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. The Company did not elect to apply the fair value option to any outstanding financial instruments.

**Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments with a maturity of three months or less at the purchase date and money market accounts to be cash equivalents. At September 30, 2019 and December 31, 2018, the Company had cash equivalents of $0 and $0, respectively.

**Accounts Receivable**

Credit is extended to customers based on an evaluation of their financial condition and other factors. The Company does not require collateral. Management periodically assesses the Company's accounts receivable and, if necessary, establishes an allowance for estimated uncollectible amounts. Accounts determined to be uncollectible are charged to operations when that determination is made. Interest is not accrued on overdue accounts receivable.

Allowance for doubtful accounts was $13,802 and $0 at September 30, 2019 and December 31, 2018, respectively. Bad debt expense was $14,144 and $4,060 for the nine months ended September 30, 2019 and 2018, respectively.

At September 30, 2019, two customers accounted for 38.0% of total gross accounts receivable. Each of these customers represented 25.3% and 12.7%, respectively. At December 31, 2018, two customers accounted for 100% of total accounts receivable. Each of these customers represented 78.1% and 21.9%, respectively.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

**Inventory**

Inventory is valued on a lower of first in, first out (FIFO) cost or net realizable value.

Inventory consisted of:

| Classification | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Raw materials | $ 38,778 | $ 17,610 |
| Finished products | 268,497 | 85,532 |
| Total Inventory | $ 307,275 | $ 103,142 |

At September 30, 2019, of the total inventory balance of $307,275, the Company had $46,772 classified as a current asset, a portion of which was subsequently shipped to customers and a portion ready for shipment, however, due to Covid-19 restrictions, remains on hold. The remaining inventory is classified as a non-current asset on the accompanying consolidated balance sheet. This inventory is considered slow moving but is not obsolete, and no impairment is required.

During the three and nine months ended September 30, 2019, the Company recognized an impairment charge of $0 and $10,286, respectively, which is included in cost of sales. There were no impairment charges taken during the three and nine months ended September 30, 2018.

**Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets ranging from three to ten years.

Expenditures for repair and maintenance which do not materially extend the useful lives of property and equipment are charged to operations. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts with the resulting gain or loss reflected in operations.

Management reviews the carrying value of its property and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

**Impairment of Long-lived Assets**

Management evaluates the recoverability of the Company's identifiable intangible assets and other long-lived assets when events or circumstances indicate a potential impairment exists, in accordance with the provisions of ASC 360-10-35-15 "Impairment or Disposal of Long-Lived Assets." Events and circumstances considered by the Company in determining whether the carrying value of identifiable intangible assets and other long-lived assets may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; and changes in the Company's business strategy. In determining if impairment exists, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of these assets.

If impairment is indicated based on a comparison of the assets' carrying values and the undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

**Accounting for Derivatives**

The Company evaluates its convertible instruments, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, "Derivatives and Hedging." The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense).

Upon conversion of a note where the embedded conversion option has been bifurcated and accounted for as a derivative liability, the Company records the shares at fair value, relieves all related notes, derivatives, and debt discounts, and recognizes a net gain or loss on extinguishment. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liabilities at the fair value of the instrument on the reclassification date.

The company has adopted FASB ASU 2017-11, which simplifies the accounting for certain equity-linked financial instruments and embedded features with down round features that reduce the exercise price when the pricing of a future round of financing is lower. This allows the company to treat such instruments or their embedded features as equity instead of considering them as a derivative. If such a feature is triggered the value is measured pre-trigger and post-trigger. The difference in these two measurements is treated as a dividend, reducing income. The value recognized as a dividend is not subsequently remeasured, but in instances where the feature is triggered multiple times each instance is recognized.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

**Convertible Notes with Fixed Rate Conversion Options**

The Company may enter into convertible notes, some of which may contain fixed rate conversion features, whereby the outstanding principal and accrued interest may be converted, by the holder, into common shares at a fixed discount to the price of the common stock at the time of conversion. The Company measures the fair value of the notes at the time of issuance, which is the result of the share price discount at the time of conversion and records the premium to interest expense on the note issuance date.

**Beneficial Conversion Features**

For instruments that are not considered liabilities under ASC 480 or ASC 815, the Company applies ASC 470-20 to convertible securities with beneficial conversion features that must be settled in stock. ASC 470-20 requires that the beneficial conversion feature be valued at the commitment date as the difference between the effective conversion price and the fair market value of the common stock (whereby the conversion price is lower than the fair market value) into which the security is convertible, multiplied by the number of shares into which the security is convertible limited to the amount of the loan. This amount is recorded as a debt discount and amortized to interest expense in the Consolidated Statements of Operations.

**Debt Issue Cost**

Debt issuance cost paid to lenders, or third parties is recorded as debt discount and amortized to interest expense in the Consolidated Statements of Operations, over the life of the underlying debt instrument.

**Revenue Recognition and Concentrations**

Effective January 1, 2018, the Company adopted ASC 606, “Revenue from Contracts with Customers” to recognize revenues from the sale of agricultural biotechnology products to distributors and customers. There was no cumulative effect of adopting ASC 606.

Pursuant to ASC 606, we recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration or payment the Company expects to be entitled to receive in exchange for those goods or services. Our revenue is recognized by applying the following five steps: 1) identify the contracts with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations; and 5) recognize revenue when (or as) we satisfy a performance obligation.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

We apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit or financial information pertaining to the customer. If a contract includes multiple promised goods or services, we apply judgment to determine whether the promised goods or services are capable of being distinct and are distinct within the context of the contract. If these criteria are not met, the promised goods or services are accounted for as a combined performance obligation. We determine the transaction price based on the consideration which we will be entitled to receive in exchange for transferring goods or services to our customer. We recognize revenue at the time that the related performance obligation is satisfied by transferring the promised goods or services to our customer.

Revenue for agricultural biotechnology products is recognized when title to the product is transferred which may be upon shipment to or receipt by the customer of the product.

Amounts billed to customers for shipping and handling fees are included in net sales, and costs incurred by the company for the delivery of invoiced goods are classified as cost of goods sold in our Statements of Operations.

Determination of the reserve for estimated product returns and allowances is based on management's analyses and judgments regarding certain conditions. Should future changes in conditions prove management's conclusions and judgments on previous analyses to be incorrect, revenue recognized for any reporting period could be materially affected.

The Company determined that no reserve for estimated product returns and allowances was necessary during the three and nine months ended September 30, 2019 and 2018.

During the three and nine months ended September 30, 2019, one customer accounted for 0% and 66.1% of net sales, respectively. During the three months ended September 30, 2018, one customer accounted for 75.2% of net sales. During the nine months ended September 30, 2018, two customers accounted for 69.9% of net sales each representing, 50.3% and 19.6%, respectively.

**Cost of Sales**

Cost of sales represents costs directly related to the production, manufacturing and freight-in of the Company's product inventory purchased from third-party manufacturers as well as royalty expense and any declines in inventory values.

**Research and Development**

Research and development costs are charged to expense as incurred.

For the three and nine months ended September 30, 2019, the Company recognized $35,873 and $100,835 in research and development costs in the consolidated statements of operations.

For the three and nine months ended September 30, 2018, the Company recognized $16,710 and $138,625 in research and development costs in the consolidated statements of operations.

**Warranty Expense**

The Company's distribution agreements provide for a warranty on products sold. Sales under such distribution agreements have been nominal during the three and nine months ended 2019 and 2018, respectively.

A provision for estimated future warranty costs is to be recorded as a component or cost of sales when products are shipped, and warranty costs are to be based on historical trends in warranty charges as a percentage of gross product shipments. A resulting accrual is to be reviewed regularly, and periodically adjusted to reflect changes in warranty cost estimates. There has been no related warranty expense accrued during the three and nine months ended September 30, 2019 and 2018, respectively.

**Income Taxes**

The Company accounts for income tax using the asset and liability method prescribed by ASC 740, "*Income Taxes*". Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the year in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date.

The Company follows the accounting guidance for uncertainty in income taxes using the provisions of ASC 740 "Income Taxes". Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. As of September 30, 2019, and December 31, 2018, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Company recognizes interest and penalties related to uncertain income tax positions in other expense. No interest and penalties related to uncertain income tax positions were recorded for the three and nine months ended September 30, 2019 and 2018.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

**Advertising Costs**

Advertising costs are expensed as incurred. Advertising costs are included as a component of general and administrative expense in the consolidated statements of operations.

The Company recognized $19,117 and $13,574 in marketing and advertising costs during the three months ended September 30, 2019 and 2018, respectively and $64,022 and $11,677 in marketing and advertising costs during the three and nine months ended September 30, 2019 and 2018, respectively.

**Accounting for Leases**

In March 2016, the FASB issued ASU No. 2016-02, *Leases*. The main difference between the provisions of ASU No. 2016-02 and previous GAAP is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. ASU No. 2016-02 retains a distinction between finance leases and operating leases, and the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize right-of-use assets and lease liabilities. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. This ASU is effective for public business entities in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted as of the beginning of any interim or annual reporting period. The Company's adoption January 1, 2019 did not have a material impact on the consolidated financial statements.

The Company leases its office, building and laboratory space under separate short term leases (month-to-month) with no long term commitment. The Company has no capitalizable right of use assets or liabilities.

The Company incurred rent expense of $179,136 and $158,976 for the nine months ended September 30, 2019 and 2018, respectively. These amounts are included as a component of general and administrative expenses.

**Stock-Based Compensation**

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the consolidated financial statements which is measured based on the grant date fair value of the award. Stock based compensation expense is recognized over the period during which an employee is required to provide service in exchange for the award (generally the vesting period). The Company estimates the fair value of each stock award at the grant date by using the Black-Scholes option pricing model using the simplified method to determine the term.

Costs equal to these fair values are recognized ratably over the requisite service period based on the number of awards that are expected to vest, or in the period of grant for awards that vest immediately and have no future service condition. The expense resulting from employee and share-based payments is recorded in general and administrative expense in the three and nine months ended September 30, 2019 and 2018.

The Company also grants share-based compensation awards to non-employees for service provided to the Company. The Company measures and recognizes the fair value of such transactions based on the fair value of consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

In June 2018, the FASB issued ASU No. 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting." ASU No 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The guidance also specifies that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606.

This guidance is applicable to the Company's fiscal year beginning January 1, 2019. The implementation did not have a material effect on its consolidated financial statements.

**Basic and Diluted Earnings (Loss) per Share**

Pursuant to ASC 260-10-45, basic earnings (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding for the periods presented. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during the period.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

Potentially dilutive common shares consist of common stock issuable for stock options and warrants (using the treasury stock method), convertible notes and common stock issuable.

The following potentially dilutive equity securities outstanding as of September 30, 2019 and 2018 were not included in the computation of diluted loss per common share because the effect would have been anti-dilutive:

| | September 30, 2019 | September 30, 2018 |
|---|---|---|
| Convertible notes payable (exercise price $0.50 - $2/share) | 7,824,625 | 1,487,291 |
| Warrants (exercisable - $0.50 - $6/share) | 19,247,285 | 12,145,665 |
| Stock options (vested - $1.25 - $3/share) | 1,563,333 | 1,880,000 |
| Total common stock equivalents | 28,635,243 | 15,512,956 |

Certain convertible notes payable contain exercise prices that have a discount to market. As a result, the amount computed for common stock equivalents could change given the quoted closing trading price at each reporting period.

**Investments**

We have an equity investment in a privately held entity. We account for investments either under the equity method or cost method of accounting depending on our ownership interest and the level of our influence in each joint venture. Investments accounted for under the equity method are recorded based upon the amount of our investment and adjusted each period for our share of the investee's income or loss. Cost method investments are recorded at cost less any impairments. All investments are reviewed for changes in circumstance or the occurrence of events that suggest an other than temporary event where our investment may not be recoverable. All investments were carried at a zero value as of September 30, 2019 and December 31, 2018 (See Note 5).

**Recent Accounting Standards**

Changes to accounting principles are established by the FASB in the form of ASU's to the FASB's Codification. We consider the applicability and impact of all ASU's on our consolidated financial position, results of operations, stockholders' deficit, cash flows, or presentation thereof.

Management has considered all recent accounting pronouncements and believes that these recent pronouncements will not have a material effect on the Company's consolidated financial statements.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

**Note 3 – Property and Equipment**

Property and equipment consisted of the following:

| | September 30, 2019 | December 31, 2018 | Estimated Useful Lives (Years) |
|---|---|---|---|
| Furniture and equipment | $ 151,796 | $ 151,796 | 3 - 10 |
| Leasehold improvements | 11,984 | 7,593 | 10 |
| | 163,780 | 159,389 | |
| Accumulated depreciation | (91,893) | (73,866) | |
| Total propery and equipment - net | $ 71,887 | $ 85,523 | |

Depreciation expense for the three months ended September 30, 2019 and 2018 was $5,910 and $6,268, respectively.

Depreciation expense for the nine months ended September 30, 2019 and 2018 was $18,027 and $18,770, respectively.

Depreciation expense is recorded as a component of general and administrative expenses in the accompanying consolidated statements of operations.

**Note 4 – Debt**

The Company has various debt arrangements with third parties and related parties. The following represents a summary of the Company's debt, key terms and outstanding balances at September 30, 2019 and December 31, 2018, respectively:

**(A) Series A and B Convertible Notes Payable, Convertible Notes Payable – Related Parties and Warrants**

Series A and B Debt

In May 2019, the Company offered new convertible notes to its existing debt holders. Under the terms of the arrangement, all debt holders could exchange their outstanding debt and accrued and unpaid interest for new 10% Series A Secured Convertible Promissory Notes ("Series A Note"). The Company did not receive additional cash proceeds upon conversion of the existing debt into Series A Notes. The amount of existing debt and related accrued interest converted into Series A Notes was $6,029,275. The transaction was accounted for as a debt extinguishment and the Company recorded a loss on debt extinguishment of approximately $650,000. The loss on debt extinguishment has been included as a component of interest expense in the accompanying consolidated statements of operations. Upon conversion, Series A Note holders, at their option, could exchange up to fifty percent (50%) of their Series A Notes as partial consideration paid for a 12% Series B Secured Convertible Promissory Notes ("Series B Note"), by matching the amount of Series A Notes converted with an equal amount in cash.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

In connection with the Series B round, the Company recognized gross proceeds of $3,062,427. The Company also paid related commissions totaling $99,645 (accounted for as a debt discount), resulting in net proceeds of $2,962,782.

Series A and B Warrants

In connection with the Series A and B rounds, debt holders also received fully vested, non-forfeitable warrants.

The Company issued a total of 9,499,600 warrants (See Note 6). Of the total, 3,045,600 were for Series A in exchange for the same quantity of existing warrants held by the debt holders related to the old debt with additional warrants being issued for the capitalized interest, and 6,454,000 were for newly issued Series B debt. Of the Series A warrants, 2,548,200 were issued to related parties, and of the of the Series B warrants, 5,421,400 were issued to related parties.

Under Series A and B, the warrants are exercisable for three (3) years, at $1/share through April 1, 2020, and then, for the Series B warrants, the exercise price is reduced to $0.50 for any warrants exercised after April 1, 2020. No such exercises have occurred either before or after April 1, 2020, in relation to Series A or B debt holders and their related warrants.

All relative fair values for warrants issued in connection with Series A and B are treated as a debt discount, computed based on a Black-Scholes option pricing model.

The inputs used to compute the fair value of the warrants of which the relative fair values are based were as follows:

| | |
|---|---|
| Exercise price | $0.50 - $1 |
| Expected term (in years) | 3 |
| Expected volatility | 103% |
| Expected dividends | 0% |
| Risk free interest rate | 2.30% |

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

**Series A Debt Summary:**

| Terms | Series A, 10% Convertible Notes Related Parties | Series A, 10% Convertible Notes Third Parties |
|---|---|---|
| Issuance dates of notes | May 2019 | May 2019 |
| Term (in years) | 3 | 3 |
| Maturity dates | May 2022 | May 2022 |
| Interest rate | 10% | 10% |
| Collateral (Series A is subordinated to Series B) | All assets | All assets |
| Conversion price | $2 | $2 |
| Prepayment penalty (P&I) | None | None |

| Note Date | May 2019 | May 2019 | Total |
|---|---|---|---|
| Principal | $ 2,548,200 | $ 621,300 | $ 3,169,500 |
| Quantity of warrants | 2,548,200 | 497,400 | 3,045,600 |
| Warrants/Fees - debt discount (Black-Scholes) | $ 1,510,487 | $ 298,561 | $ 1,809,048 |
| | | | |
| Balance - December 31, 2018 | $ - | $ - | $ - |
| Conversion from prior debt into Series A | 4,889,001 | 850,000 | 5,739,001 |
| Conversion of accrued interest into Series A | 127,480 | 162,794 | 290,274 |
| Conversion of deferred revenue into Series A | 206,800 | - | 206,800 |
| Conversion from Series A into Series B | (2,675,079) | (391,494) | (3,066,573) |
| Warrant debt discount recorded for new notes | (1,510,487) | (298,561) | (1,809,048) |
| Amortization of debt discount | 205,777 | 41,457 | 247,234 |
| Balance - September 30, 2019 | $ 1,243,492 | $ 364,196 | $ 1,607,688 |

**Series B Debt Summary:**

| Terms | Series B, 12% Convertible Notes Related Parties | Series B, 12% Convertible Notes Third Parties |
|---|---|---|
| Issuance dates of notes | May 2019 | May 2019 |
| Term (in years) | 3 | 3 |
| Maturity dates | May 2022 | May 2022 |
| Interest rate | 12% | 12% |
| Collateral (Series A is subordinated to Series B) | All assets | All assets |
| Conversion price | $1 | $1 |
| Prepayment penalty (P&I) | None | None |

| Note Date | May 2019 | May 2019 | Total |
|---|---|---|---|
| Principal | $ 5,096,400 | $ 1,032,600 | $ 6,129,000 |
| Quantity of warrants | 5,421,400 | 1,032,600 | 6,454,000 |
| Warrants/Fees - debt discount (Black-Scholes) | $ 3,184,793 | $ 645,289 | $ 3,830,082 |
| | | | |
| Balance - December 31, 2018 | $ - | $ - | $ - |
| Proceeds | 2,299,927 | 762,500 | 3,062,427 |
| Conversion from Series A into Series B | 2,675,079 | 391,494 | 3,066,573 |
| Warrant and BCF debt discount recorded for new notes | (5,096,400) | (1,032,600) | (6,129,000) |
| Amortization of debt discount | 815,689 | 21,376 | 837,065 |
| Balance - September 30, 2019 | $ 694,295 | $ 142,770 | $ 837,065 |

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

**(B) Notes Payable**

| Terms | Note Payable | Note Payable | Note Payable |
|---|---|---|---|
| Issuance dates of notes | December 2017 | January 2018 | March 2019 |
| Term (in years) | 2 | 2 | None |
| Maturity dates | December 2019 | January 2020 | Due on Demand |
| Interest rate | 10% | 10% | None |
| Collateral | Unsecured | Unsecured | Unsecured |

| Note Date | December 2017 | January 2018 | March 2019 | Total |
|---|---|---|---|---|
| Principal | $ 200,000 | $ 100,000 | $ 100,000 | $ 400,000 |
| Quantity of warrants | 50,000 | 10,000 | - | 60,000 |
| Warrants/Fees - debt discount (Black-Scholes) | $ 18,652 | $ 7,124 | $ - | $ 25,776 |
| | | | | |
| Balance - December 31, 2017 | $ 181,348 | $ - | $ - | $ 181,348 |
| Proceeds | - | 100,000 | - | 100,000 |
| Debt discount recorded for new notes | - | (7,124) | - | (7,124) |
| Amortization of debt discount | 9,760 | 3,387 | - | 13,147 |
| Balance - December 31, 2018 | 191,108 | 96,263 | - | 287,371 |
| Proceeds | - | - | 50,000 | 50,000 |
| Repayments | - | - | (50,000) | (50,000) |
| Amortization of debt discount | 8,892 | 3,737 | - | 12,629 |
| Conversion to Series A, 10%, convertible notes payable | (200,000) | (100,000) | - | (300,000) |
| Balance - September 30, 2019 | $ - | $ - | $ - | $ - |

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

**(C) Notes Payable – Related Parties**

| Terms | Notes Payable Related Parties | Notes Payable Related Parties | Notes Payable Related Parties |
|---|---|---|---|
| Issuance dates notes | August 2017 - October 2017 | January 2018 - May 2018 | April 2019 |
| Term (in years) | 2 | 2 | None |
| Maturity dates | July 2020 | March 2018 - May 2020 | Due on Demand |
| Interest rate | 10% | 10% | None |
| Collateral | Unsecured | Unsecured | Unsecured |

| Note Date | August 2017 - October 2017 | January 2018 - May 2018 | April 2019 | Total |
|---|---|---|---|---|
| Principal | $ 1,100,000 | $ 1,300,001 | $ 789,000 | $ 3,189,001 |
| Quantity of warrants | 110,000 | 75,000 | 325,000 | 510,000 |
| Warrants/Fees - debt discount (Black-Scholes) | $ 112,830 | $ 125,433 | $ 185,629 | $ 423,892 |
| Balance - December 31, 2017 | $ 1,002,204 | $ - | $ - | $ 1,002,204 |
| Proceeds | - | 1,300,001 | - | 1,300,001 |
| Debt discount recorded for new notes | - | (125,433) | - | (125,433) |
| Amortization of debt discount | 56,417 | 69,053 | - | 125,470 |
| Repayments | | (300,000) | - | (300,000) |
| Balance - December 31, 2018 | 1,058,621 | 943,621 | - | 2,002,242 |
| Proceeds | - | - | 789,000 | 789,000 |
| Warrant debt discount recorded for new notes | - | - | (185,629) | (185,629) |
| Amortization of debt discount | 41,379 | 56,380 | 185,629 | 283,388 |
| Conversion to Series A, 10%, convertible notes payable | (1,000,000) | (1,000,001) | (789,000) | (2,789,001) |
| Repayments | (100,000)* | - | - | (100,000) |
| Balance - September 30, 2019 | $ - | $ - | $ - | $ - |

* Amount was repaid in August 2019.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

**(D) Convertible Notes Payable and Derivative Liability**

| Terms | Convertible Notes | Convertible Note (Derivative Liability) | Convertible Note (Derivative Liability) |
|---|---|---|---|
| Issuance dates of notes | July 2018 | December 2018 | January 2019 |
| Term | 2 years | 9 months | 8 months |
| Maturity dates | July 2020 | September 2019 | September 2019 |
| Interest rate | 10% | 8% | 8% |
| Collateral | Unsecured | Unsecured | Unsecured |
| Conversion price | $3 | Lower of $3 or 65% of market price | Lower of $3 or 65% of market price |

| Note Date | July 2018 | December 2018 | January 2019 | Total |
|---|---|---|---|---|
| Principal | $ 550,000 | $ 136,000 | $ 104,500 | $ 790,500 |
| Quantity of warrants | 550,000 | 100,000 | 100,000 | 750,000 |
| Warrants/Fees - debt discount (Black-Scholes) | $ 244,549 | $ 136,000 | $ 94,500 | $ 475,049 |
| Balance - December 31, 2017 | $ - | $ - | $ - | $ - |
| Proceeds | 550,000 | 136,000 | - | 686,000 |
| Debt discount recorded for new notes | (244,549) | (136,000) | - | (380,549) |
| Amortization of debt discount | 51,343 | 8,947 | - | 60,290 |
| Balance - December 31, 2018 | 356,794 | 8,947 | - | 365,741 |
| Proceeds | - | - | 94,500 | 94,500 |
| Debt discount recorded for new notes | - | - | (94,500) | (94,500) |
| Amortization of debt discount | 193,206 | 127,053 | 94,500 | 414,759 |
| Conversion to Series A, 10%, convertible notes payable | (550,000) | - | - | (550,000) |
| Repayments | - | (136,000)* | - | (136,000) |
| Balance - September 30, 2019 | $ - | $ - | $ 94,500** | $ 94,500 |
| Penalty classified as additional interest expense | $ - | $ - | $ 10,000 | $ 10,000 |
| Total | $ - | $ - | $ 104,500 | $ 104,500 |

* Amount was repaid in September 2019.
** Amount was repaid in October 2019.

**Derivative Liability**

The above convertible notes for December 2018 and January 2019 contained an embedded conversion option with a conversion price that could result in issuing an undeterminable amount of future shares. Accordingly, the embedded conversion option is required to be bifurcated from the host instrument (convertible note) and treated as liabilities, which are calculated at fair value, and marked to market at each reporting period.

The Company used the Monte Carlo simulation to estimate the fair value of its embedded conversion option liabilities with the following inputs:

| | Commitment Date | Remeasurement Date | Remeasurement Date |
|---|---|---|---|
| Convertible Note Date | December 11, 2018 | December 31, 2018 | September 10, 2019 |
| Maturity date | August 11, 2019 | August 11, 2019 | In-default |
| | | | |
| Expected term (years) | 0.67 | 0.61 | 0.25 |
| Expected volatility | 117% | 149% | 196% |
| Expected dividends | 0% | 0% | 0% |
| Risk free interest rate | 2.56% | 2.63% | 1.95% |
| | | | |
| Fair value | $ 125,000 | $ 114,000 | $ 156,000 |

| | Commitment Date | Remeasurement Date |
|---|---|---|
| Convertible Note Date | January 14, 2019 | September 30, 2019 |
| Maturity date | October 14, 2019 | October 14, 2019 |
| | | |
| Expected term (years) | 0.75 | 0.25 |
| Expected volatility | 130% | 195% |
| Expected dividends | 0% | 0% |
| Risk free interest rate | 2.55% | 1.88% |
| | | |
| Fair value | $ 89,000 | $ 111,000 |

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

The following is a summary of the Company's derivative liabilities for the nine months ended September 30, 2019 and the year ended December 31, 2018:

| Convertible Note Date | December 11, 2018 | January 14, 2019 | Total |
|---|---|---|---|
| Derivative liability - December 31, 2017 | $ - | $ - | $ - |
| Fair value at commitment date | 125,000 | - | 125,000 |
| Fair value mark to market adjustment | (11,000) | - | (11,000) |
| Derivative liability - December 31, 2018 | 114,000 | - | 114,000 |
| Fair value at commitment date | - | 89,000 | 89,000 |
| Fair value mark to market adjustment | 42,000 | 22,000 | 64,000 |
| Reclassification to gain on debt extinguishment | (156,000)* | - | (156,000) |
| Balance - September 30, 2019 | $ - | $ 111,000 | $ 111,000 |

* The note expired on August 11, 2019 (in default at that time) and was repaid on September 10, 2019. The embedded derivative liability was marked to market on the repayment date. Additionally, on this date, the fair value of the remaining derivative liability was reclassified to gain on debt extinguishment.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level in which to classify them for each reporting period. This determination requires significant judgments to be made. Liabilities measured at fair value on a recurring basis consisted of the following at September 30, 2019 and December 31, 2018:

| | September 30, 2019 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Derivative liabilities | $ 111,000 | $ - | $ - | $ 111,000 |

| | December 31, 2018 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Derivative liabilities | $ 114,000 | $ - | $ - | $ 114,000 |

A reconciliation of the beginning and ending balances for the derivative liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is noted above for the nine months ended September 30, 2019 and the year ended December 31, 2018.

Changes in fair value of derivative liabilities are included in other income (expense) in the accompanying Consolidated Statements of Operations.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

**(E) Convertible Notes Payable – Related Parties**

| Terms | Convertible Note Payable Related Party | Convertible Notes Payable Related Parties |
|---|---|---|
| Issuance dates of notes | July 2015 | June 2018 - December 2018 |
| Term (in years) | 2 | 2 |
| Maturity dates | July 2019 | June 2020 - December 2020 |
| Interest rate | 8.5% | 10% - 12% |
| Collateral | Unsecured | Unsecured |
| Conversion price | $1.25 | $3 |

| Note Date | July 2015 | June 2018 - December 2018 | Total |
|---|---|---|---|
| Principal | $ 500,000 | $ 1,600,000 | $ 2,100,000 |
| Quantity of warrants | 350,000 | 1,500,000 | 1,850,000 |
| Warrants/Fees - debt discount (Black-Scholes) | $ 227,258 | $ 666,638 | $ 893,896 |
| Balance - December 31, 2017 | $ 500,000 | $ - | $ 500,000 |
| Proceeds | - | 1,600,000 | 1,600,000 |
| Debt discount recorded for new notes | - | (666,638) | (666,638) |
| Amortization of debt discount | - | 165,287 | 165,287 |
| Balance - December 31, 2018 | 500,000 | 1,098,649 | 1,598,649 |
| Amortization of debt discount | - | 501,351 | 501,351 |
| Conversion to Series A, 10%, convertible notes payable | (500,000) | (1,600,000) | (2,100,000) |
| Balance - September 30, 2019 | $ - | $ - | $ - |

**(F) Insurance Financing Liability**

The Company has an outstanding note payable for financing corporate insurance premiums. The note carries a rate of interest of 8.75% and is due in November 2019. The note calls for eleven payments of $21,254. The balance at September 30, 2019 and December 31, 2018 was $41,178 and $223,482, respectively.

**Note 5 – Commitments and Contingencies**

License and Business Development Agreement

On February 20, 2018, BAM, and Pedro Lichtinger Waisman, Isaac Lichtinger Waisman and Victor Lichtinger Waisman (together the "Lichtinger Group") entered into a License and Business Development Agreement Mexico, effective as of February 13, 2018 (the "Agreement"). Following consummation of the Agreement, the Lichtinger Group formed a company in Mexico, Agro Space Tech SA de CV de RV ("Agro Space"), to which BAM was allocated a twenty percent (20%) equity ownership interest. The Lichtinger Group will contribute up to $500,000 in capital into Agro Space, with BAM having no initial capital requirement. If Agro Space requires more than the initial $500,000 capital contribution, BAM will have a right to contribute capital *pro rata* and maintain its ownership percentage.

The Agreement provides Agro Space with the exclusive right to import, package, sell, and distribute BAM's product lines and promote its brand, as well as other "white label" brands, as they are introduced, in the Mexican markets, and a limited manufacturing right to modify the presentation of BAM's products and dilute such products, all during the term of the Agreement. BAM will retain the right to all of its intellectual property, including any materials produced in connection with the Agreement and BAM's products, and Agro Space will have a royalty-free right to reproduce, translate, summarize, or otherwise use such materials for the sole purpose of performing pursuant to the Agreement. The exclusivity of the rights licensed to Agro Space are conditioned upon (i) Agro Space meeting specified revenue targets beginning on the third anniversary following the successful completion of specified local trials through the tenth anniversary thereof; and (ii) the ability for Agro Space to expand the business to target and add a specified number of crops during each of the five (5) years following the successful completion of specified local trials.

In addition to BAM receiving an ownership interest in Agro Space, the Company received $100,000 from the Lichtinger Group following the execution of the Agreement, to purchase shares of the Company's common stock pursuant to the Company's 2016 private offering of shares of its common stock for $3.00 per share. The Agreement further provides that Agro Space will pay to BAM up to $900,000, in the aggregate, upon reaching specified milestones based on completing government/academic trials and revenue hurdles.

Research Commitment

In January 2016, the Company entered into a Reimbursable Space Act Agreement (the "SAA") with the National Aeronautics and Space Administration Ames Research Center ("NASA ARC"). Pursuant to the SAA, NASA ARC will evaluate the Company's nutrient delivery system for commercial agriculture and NASA applications and the potential development of new agricultural technologies and products. The Company provides funding and reimbursement for the costs incurred by NASA ARC under the SAA, and owns any resulting intellectual property created pursuant to the SAA. The Company paid NASA ARC a total of $373,750 in fiscal 2016, which served as reimbursement for NASA ARC's estimated expenses to carry out its first-year responsibilities pursuant to the SAA. The SAA remains in effect until the earlier of completion of all obligations contemplated in the SAA or five years from the date of agreement. For the three and nine months ended September 30, 2019 and 2018, there have been no amounts expensed to research and development expense pursuant to the SAA.

## NOTE 6 – STOCKHOLDERS' DEFICIT

**Equity Transactions for the Nine Months Ended September 30, 2019**

Stock Issued for Services

The Company issued 170,000 shares of common stock for services rendered, having a fair value of $214,950 ($1.78 - $1.80/share), based upon the quoted closing trading price of the Company's common stock, which was expensed during the nine months ended September 30, 2019.

Stock Issued Upon Cashless Exercise of Warrants

The Company issued 306,195 shares of common stock upon the cashless exercise of 475,500 warrants. The transaction was accounted for at par value $306 ($0.001/share) with a net effect on equity of $0.

Stock Issued for Loan Costs

In March 2019, a shareholder loaned the Company $50,000. The loan was non-interest bearing, unsecured and due on demand. The loan was repaid in April 2019. As consideration for the loan, the Company paid 2,000 shares of common stock, having a fair value of $3,608 ($1.80/share). Fair value is based upon the quoted closing trading price of the Company's common stock.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

Cancellation and Return of Shares from Former Related Party

In April 2019, the Company entered into an agreement with its former Chief Science Officer and former Board Director, whereby the Company would assign certain intellectual property (expensed in prior years, and which the Company no longer intended to pursue) in exchange for the return of 2,000,000 shares of common stock. The transaction was accounted for at par value $2,000 ($0.001/share) with a net effect on equity of $0.

Warrants Issued for Services

The Company granted warrants to purchase 209,500 common shares for services rendered, having a fair value of $183,673, which were expensed during the nine months ended September 30, 2019. Fair value is based upon the use of a Black-Scholes option pricing model. Inputs used ranged as follows:

| | | | |
|---|---|---|---|
| Exercise price | $2 | - | $3/share |
| Expected term (in years) | 1 | - | 5 |
| Expected volatility | 97% | - | 122% |
| Expected dividends | | 0% | |
| Risk free interest rate | 1.67% | - | 2.49% |

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

Warrant activity for the Nine Months Ended September 30, 2019 and the Year Ended December 31, 2018 are summarized as follows:

| Warrants | Number of Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding and exercisable - December 31, 2017 | 10,738,595 | $ 1.86 | 2.81 | $ 23,947,175 |
| Granted | 2,732,490 | 1.46 | | |
| Exercised | (718,400) | 0.50 | | |
| Cancelled/Forfeited | - | - | | |
| Outstanding and exercisable - December 31, 2018 | 12,752,685 | $ 1.85 | 2.02 | $ 4,613,125 |
| | | | | |
| Outstanding and exercisable - December 31, 2018 | 12,752,685 | $ 1.85 | 2.02 | $ 4,613,125 |
| Granted | 9,809,100 | 1.04 | | |
| Exercised | (475,500) | 0.50 | | |
| Cancelled/Forfeited | (2,839,000) | 1.05 | | |
| Outstanding and exercisable - September 30, 2019 | 19,247,285 | $ 1.59 | 2.34 | $ 5,558,020 |

Of the total 9,809,100 warrants granted during the nine months ended September 30, 2019; 9,499,600 warrants were issued with the Series A and B Debt Financings; all of these warrants were treated as a debt discount (See Note 4(A)). The remaining 309,500 warrants were issued with debt (100,000 – see Note 4(D)) and for services rendered (209,500 – see above).

Stock Options Issued for Services

During November 2015, the Company adopted the Company's 2015 Incentive Plan (the "Plan"). The Plan provides stock based compensation to employees, directors, and consultants. The Company has reserved 4,000,000 shares under the Plan.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

In May 2019, the Company issued 100,000 options for services to be rendered. The options vest after one (1) year of service. The options have a grant date fair value of $84,244, based upon the use of a Black-Scholes option pricing model. Inputs used were as follows:

| | |
|---|---|
| Exercise price | $3/share |
| Expected term (in years) | 5 |
| Expected volatility | 103% |
| Expected dividends | 0% |
| Risk free interest rate | 1.93% |

The Company recognized compensation expense of $30,678 and $146,277 for the nine months ended September 30, 2019 and 2018, respectively. In March 2020, the employee was terminated, and all previously recognized compensation expense was reversed against additional paid-in capital.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

Stock option transactions under the Company's plans as of September 30, 2019 and the year ended December 31, 2018 are summarized as follows:

| Stock Options | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value | Weighted Average Grant Date Fair Value |
|---|---|---|---|---|---|
| Outstanding - December 31, 2017 | 3,165,000 | $ 1.49 | 8.50 | $ 192,850 | $ - |
| Exercisable - December 31, 2017 | 2,750,000 | $ 1.27 | 8.20 | $ 192,850 | $ - |
| Granted | 50,000 | $ 3.00 | | | $ 0.77 |
| Exercised | - | $ - | | | |
| Cancelled/Forfeited | (1,630,000) | $ - | | | |
| Outstanding - December 31, 2018 | 1,585,000 | $ 1.70 | 7.63 | $ 587,500 | |
| Vested and Exercisable - December 31, 2018 | 1,535,000 | $ 1.66 | 7.58 | $ 587,500 | |
| Unvested and non-exercisable - December 31, 2018 | 50,000 | $ 3.00 | 9.23 | $ - | |
| | | | | | |
| Outstanding - December 31, 2018 | 1,585,000 | $ 1.70 | 7.63 | $ 587,500 | |
| Vested and Exercisable - December 31, 2018 | 1,535,000 | $ 1.66 | 7.58 | $ 587,500 | |
| Unvested and non-exercisable - December 31, 2018 | 50,000 | $ 3.00 | 9.23 | $ - | |
| Granted | 100,000 | 3.00 | | | $ 0.84 |
| Exercised | - | - | | | |
| Cancelled/Forfeited | (55,000) | 2.84 | | | |
| Outstanding - September 30, 2019 | 1,630,000 | $ 1.74 | 7.01 | $ - | $ - |
| Vested and Exercisable - September 30, 2019 | 1,563,333 | $ 1.69 | 6.90 | $ - | $ - |
| Unvested and non-exercisable - September 30, 2019 | 66,667 | $ 3.00 | 9.67 | $ - | $ - |

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

| | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|
| Compensation expense | $ 30,678 | $ 146,277 |

As of September 30, 2019, compensation cost related to the unvested options not yet recognized was as follows:

| | | |
|---|---|---|
| Compensation expense | $ 56,163 | |
| Weighted average period in which compensation will vest (years) | 0.58 | (Expected to be recognized through December 31, 2019) |

**NOTE 7 - SUBSEQUENT EVENTS**

Subsequent to September 30, 2019, the Company issued three fully vested, non-forfeitable five year warrants to purchase, in the aggregate, up to 45,000 common shares at an exercise price of $3.00 per common share to an employee for services.

Subsequent to September 30, 2019, the Company issued fully vested, non-forfeitable warrants to purchase, in the aggregate, up to 401,500 common shares at exercise prices of $1.00 to $2.00 per common share to seven consultants for services. The term of the warrants ranges from one to five years.

Subsequent to September 30, 2019, the Company issued fully vested, non-forfeitable two year warrants to purchase, in the aggregate, up to 1,961,720 shares of common stock at an exercise price of $1.00 in connection with a debt offering.

Subsequent to September 30, 2019, the Company issued fully vested, non-forfeitable two year warrants to purchase, in the aggregate, up to 385,000 shares of common stock at an exercise price of $1.50 in connection with a debt offering.

Subsequent to September 30, 2019, the Company issued fully vested, non-forfeitable two year warrants to purchase, in the aggregate, up to 470,000 shares of common stock at an exercise price of $1.00 in connection with a debt offering.

Subsequent to September 30, 2019, the Company issued 10 year stock incentive plan options to employees to purchase up to 265,000 shares of common stock, of which 65,000 options were issued at an exercise price of $2.00 per common share and 200,000 options were issued at an exercise price of $1.50 per common share.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

Subsequent to September 30, 2019, the Company issued, in the aggregate, 162,500 shares of common stock to four consultants for services.

Subsequent to September 30, 2019, certain consultants and former employees exercised 263,000 warrants in a cashless exercise resulting in the issuance of 146,248 shares of the Company's common stock.

Subsequent to September 30, 2019, the Company issued 5,000 shares of its common stock and received $5,000 in proceeds from one of its product distributors.

Subsequent to September 30, 2019, the Company received gross proceeds of $100,000 from the exercise of a warrant and in exchange, issued 100,000 shares of common stock.

Subsequent to September 30, 2019, the Company paid $104,500 of convertible notes payable.

During October 2019, the Company commenced an offering up to $5,000,000 of 10%, Series C Convertible Secured Promissory Notes (the "Series C Notes") with an initial closing date of December 31, 2019, which was extended for an additional ninety day period. The Series C Notes bear interest at a ten percent (10%) annual rate, payable quarterly in arrears, with the first interest payment due January 15, 2020 and subsequent interest payments due on the fifteenth (15th) day after the end of each calendar quarter thereafter. Interest will be paid in shares of the Company's common stock at $2.00 per share. The Series C Notes mature 2 years from the closing date. The Series C Notes are convertible into the Company's common stock at $2.00 per share.

Commencing on the one (1) year anniversary of the issuance of the Series C Notes and ending eleven (11) months thereafter (i.e. one month prior to the Maturity Date), the Company may at any time upon thirty (30) days prior written notice repurchase any or all outstanding Series C Notes without penalty or premium, provided that the holder may convert the Series C Note prior to the end of the 30 day written notice by the Company of its intent to repurchase the Series C Notes, Notice Period.

The Series C Notes are secured by all assets of the Company and its subsidiaries and are subordinate to the security interest granted to holders of the Series A Notes and Series B Notes previously issued by the Company. The Series C Notes are subject to certain covenants and other provisions customary for a transaction of this nature. The Company received $300,000 in proceeds pursuant to the issuance of these Series C Notes and incurred no broker fees.

During the first quarter of 2020, the Company furloughed all employees with the exception of three executive officers. During the second quarter of 2020, the Company began to remove from furlough certain employees that are key to the Company's operations. The Company incurred payroll liabilities to employees during the first quarter of 2020, of which approximately $190,000 currently remains unpaid.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

On May 12, 2020, the Company executed a Payroll Protection Program Term Note, herein referred to as the PPP Note, and received proceeds of $278,800. The PPP Note was issued pursuant to the Coronavirus Aid, Relief, and Economic Securities Act's, the CARE's Act, Paycheck Protection Program. All or a portion of the PPP Note is eligible to be forgiven if all eligible employee retention criteria are met and the funds are used for eligible purposes. The Company has not determined an amount eligible for forgiveness. The PPP Note bears interest at 1% based on a 360-day calendar year and is due two years from date of issuance with repayment scheduled monthly beginning in the seventh month following the date of issuance.

Subsequent to September 30, 2019, the Company commenced an additional exchange offering of its 10% Series A Convertible Secured Promissory Notes whereby the Noteholders could elect to exchange their existing Series A Notes plus accrued and unpaid interest at the date of exchange for 12% Series B Convertible Secured Promissory Notes by agreeing to an additional investment equal to the amount of Series A Notes exchanged. The Series B Notes have a three-year term and include a conversion option whereby the Noteholder has the option to convert unpaid principal and interest into the Company's common stock at $1.00 per share. The Company received gross proceeds of $1,240,430 during the period June 2020 through August 2020 and paid broker fees of $41,617.

On August 5, 2020, the Company received $18,200 pursuant to a thirty year unsecured promissory note through the U.S. Small Business Administration's Disaster Assistance Program. The note bears interest of 3.75% per annum with repayment beginning in the twelfth month following the date of the note.

During November 2020, the Company commenced an offering of up to $5,000,000 of 11% Series D Subordinated Secured Convertible Promissory Notes having a two year term. Interest is payable in arrears in shares of common stock of the Company at a value of $1.50 per share. The principal of the Notes are convertible into shares of the Company's common stock at a value of $1.50 per share. The Notes carry warrants to purchase shares of the Company's common stock, which are equal to the principal invested, at a value of $1.50 per share and expire two years from the date of issue. The Company received $505,000 in gross proceeds from the issuance of the Notes and incurred broker fees of $13,400.

During April 2021, the Company prospectively modified the terms of the interest payable conversion amount and warrant exercise price from $1.50 to $1.00 for the Series D Notes. All other terms of the Series D Notes remained the same. The Company received an additional $470,000 in gross proceeds from the issuance of the Notes during the period April 2021 through July 2021 and incurred broker fees of $32,200.

**ZERO GRAVITY SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2019**
**(UNAUDITED)**

On February 16, 2021, the Company executed a Second Draw Payroll Protection Program Term Note, herein referred to as the SDPPP Note, and received proceeds of $276,201. The SDPPP Note was issued pursuant to the Coronavirus Aid, Relief, and Economic Securities Act’s, the CARE’s Act, Paycheck Protection Program. All or a portion of the SDPPP Note is eligible to be forgiven if all eligible employee retention criteria are met and the funds are used for eligible purposes. The Company has not determined an amount eligible for forgiveness. The SDPPP Note bears interest at 1% based on a 360-day calendar year and matures on the fifth anniversary of the date issued.

On April 14, 2021, the Company entered into a Settlement Agreement with its former Chief Scientist, John Wayne Kennedy, “Kennedy”, whereby the Company assigned US Patent Number 9,266,785, Bioavailable Minerals for Plant Health in exchange for the return of two million shares of the Company’s common stock owned by Kennedy. In addition, Kennedy waived claims for any past due royalties, withdrew notices of material breach of a December 11, 2013 Royalty Agreement and granted the Company a non-exclusive license to use the technology contained in the patent solely for the manufacturing and selling of product for agricultural use.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Overview**

Zero Gravity Solutions, Inc., a Nevada corporation (the "Company" or "ZGSI"), is an agricultural-based biotechnology company focused on commercializing technology derived from, and designed for, long term spaceflight and planetary colonization with significant applications to agriculture on earth. The Company's technology is focused on improving world agriculture by providing valuable solutions to challenges facing humanity, including climate change stress and soil degradation threats to agricultural production and the increasing inability to feed the world's rapidly growing population. The Company's business model is focused on its primary technology, BAM-FX®, which is a cost effective, delivery platform and stimulant for plants that promotes the delivery of minerals and micronutrients systemically. ZGSI is headquartered in Boca Raton, Florida.

Our business activities are conducted by our wholly owned subsidiary, BAM Agricultural Solutions, Inc. ("BAM"), and our 98% owned subsidiary, Specialty Agricultural Solutions, Inc. ("SASI"). BAM oversees BAM-FX®'s commercial introduction and business development through product trials and validation with crop growers and distributors that have established business networks in agricultural markets, manufacturing, sales and agronomy support. In addition, BAM manages the introduction of Gardener's Choice®, a ready to use product for the home and garden retail markets. Gardener's Choice® has been registered for sale in all domestic states. SASI, which was incorporated in 2018, supports introducing a commercial product for sale to legal cannabis and hemp grow operations. Another subsidiary of the Company, Zero Gravity Life Sciences Inc. ("ZGLS"), was originally formed for space research projects, life science applications of our technology and conducting research on future BAM product lines. ZGLS is currently inactive.

The Company is focused on revenue generation through the sale of BAM-FX® in domestic and international agricultural markets. BAM-FX® is licensed in and registered for sale as a fertilizer application in all fifty (50) domestic states and has been approved for import and commercial sales in Chile, Paraguay, Colombia, Brazil, and China. The Company is also pursuing import approval through proper governmental officials and agencies to begin commercial sales in Philippines and India. Pursuant to a license and business development agreement with Agro Space Tech SA de CV de RV, the Company is providing technical assistance to obtain approval in Mexico and Peru. Country specific commercial operations are only undertaken with a qualified local business partner having existing in-country business relationships. Our business relationships are formed either through a license or a distribution agreement.

The Company began domestic product trials on multiple crops in laboratory and academic settings as well as in field applications on grower/end-user crops during 2014 and expanded field applications with those and additional trial participants in subsequent years. These basic trials showed yield, nutritional value and biomass improvements for crops treated. The Company also noted an early indication of a curative response to fungal, bacterial, and viral plant diseases. We continue to use trials to increase our understanding of the mode of action, application rates and protocols for our product and validate product efficacy. These trials are critical in both market and product development efforts. During the past five years, the Company increasingly focused on obtaining third-party validation, through studies with academic institutions and in accordance with the Company's Reimbursable Space Act Agreement with the National Aeronautics and Space Administration Ames Research Center.

The agricultural industry is known to adopt new technology slowly. The Company believes that slow adoption and sales results are due to the Company's inability to sufficiently differentiate its product from other products making similar claims. Additionally, in a number of row crops, the product, combined with application costs, has not resulted in sufficient grower return, especially in those crops whose ex-farm pricing is low. Therefore, the Company targeted high value crops including grape, avocado, citrus, berry, and hemp for specific validation trials during 2019. Based upon BAM-FX®'s performance, the Company expects to focus business development efforts in those crops showing the best return on investment during 2021.

During 2017, we developed a ready to use, home and garden product, Gardener's Choice®, for retail markets. Independent third parties successfully tested Gardener's Choice® for plant performance and consumer safety during 2018. During the fourth quarter of 2017, the Company showcased the product concept at a home and garden trade show and generated interest from prospective purchasers. During 2018, through an independent sales team, the Company introduced Gardener's Choice® directly to Ace Hardware retailers at their annual trade show and expanded product introduction to a number of other big box retailers during 2019. We have received positive feedback from retailers. However, we secured limited purchase commitments during 2019.

The Company had limited resources to allocate to business development and promotion of Gardener's Choice® during the fourth quarter 2018 through May of 2019. We believe that Gardener's Choice® sales were nominal through the third quarter of 2019 due to it being a new product, a lack of regional focus and the Company's resource constraints to provide the product support, training and promotion campaigns required by retailers to generate store product sales during the spring home and garden season. We were not able to differentiate the benefits of Gardener's Choice® to the consumer at the retail level from other well-known competitive products and therefore, we did not generate product reorders.

During the second quarter 2019, the Company hired a Vice President of Business Development and added two independent commissioned sales representatives to promote and sell BAM-FX® to growers in the Midwest and southern states. The Company's objectives were to build brand name recognition while demonstrating BAM-FX® crop benefits and develop grower relationships into purchase commitments. The program consisted of three steps: (i) apply BAM-FX® on select acreage; (ii) quantify results at harvest; and (iii) based on performance, request reimbursement for the product used with a commitment to purchase during the next planting cycle. Growers in Colorado, Kansas, Illinois, and Texas participated.

Anecdotal results of in-field trails, which became available in the later part of the third and into the fourth quarter of 2019, were mixed or inconclusive. The program started late and therefore, we missed early crop applications, which we believe would have been more beneficial for the crop during the growing season. Abnormal wet weather conditions and flooding in Illinois led to the U.S. Department of Agriculture designating 102 counties as primary disaster areas on August 14, 2019. A number of Illinois growers declined or discontinued trials due to poor weather conditions and continued prior farming practices with which they were comfortable. The Company saw positive results in a Colorado corn trial. However, hail damaged both control and trial plots mid-season and therefore, yield results were compromised. The Company analyzed the growers' soil as part of the program and found nutrient deficiencies, specifically in Texas, that the growers decided not to address, thereby negatively impacting yields on both control and trial crops. Due to the expense of monitoring the growers' progress, the Company did not have the personnel or financial resources to monitor and provide guidance to the growers on site during the growing season. Although the Company received interest from a number of growers to continue trials in the next growing cycle, the Company generated nominal sales from this program.

To support commercialization and sales, the Company employs or contracts certified crop advisors and agronomists for the technical requirements of product introduction and applications domestically and internationally.

The Company continues to develop technical relationships to validate the science incorporated in BAM-FX® and identify additional commercial markets and licensing opportunities for the product. The majority of this work was performed during 2019 by Iowa State University on the efficacy of a granular product and new product formulations, Colusa County Farms on tomato and Nurture Earth Research and Development Pvt. Ltd. in India to identify scientific bio-markers showing product efficacy and application timing. We received results of third party tests during the first quarter of 2020.

Results of trials on our dry formulation showed a combination of yield improvement and the plant's ability to cope with diseases. Two trials were conducted in India, both in pomegranate. The first trial was conducted in February and March of 2019 on fifteen trees in an orchard of 550 trees infected with bacterial blight. Bacterial blight can reduce yields up to 90%. There is no known cure for bacterial blight. After two foliar applications of our dry formulation diluted in water, the treated trees began to shed damaged foliage, grow new leaves, and produce undamaged fruit. The trees showed signs of recovery and fruit damage was controlled. The second trial, also conducted in India, compared yields against a control group. 3,500 trees were treated with foliar applications in April and May 2019 against a control group of 500 trees. Treated trees compared to non-treated trees produced a 27% increase in yield at harvest.

During April and May 2019, the Company treated, with a foliar application, fifteen olive trees in California that were infected with Xylella fastidiosa. Xylella is a plant pathogen. Infected trees become less productive and decline progressively. Tree leaf and tissue samples were collected prior to and subsequent to the foliar application and submitted to an independent third party laboratory for analysis. The laboratory report showed no Xylella was present in the tissue samples taken from the treated trees.

Based on the data from these trials and previous positive results, including pigeon pea germination trials, the Company filed a provisional patent application with the United States Patent and Trademark Office ("USPTO") on August 28, 2019, titled Plant Priming Compositions and Methods of Use Thereof, U.S. Patent Application Number 62/893,028. The provisional patent application establishes a starting point in the intellectual property protection process with the USPTO. The Company subsequently submitted its full patent application and was notified by the USPTO on August 28, 2020 that the patent application was received.

The Company's product development plan for the remainder of 2019 included refining our analysis of plant bio-markers to identify those bio-markers that show that our product has induced priming and testing the efficacy of a granular form of BAM-FX®.

Priming is a natural defense response of a plant to a stress caused by insects or pathogens. Our trials have shown our product elicits a priming response, enabling a plant to prepare itself against insect or pathogen stresses. We believe the identification of these biomarkers will provide us a precise tool for optimal product application timing and dosage.

The Company manufactures its product in a manufacturing facility in Okeechobee, Florida. Manufacturing is conducted on an as-needed batch process. The Company continually performs regulatory and process efficiency reviews of manufacturing operations. Our manufacturing plant manager is an experienced biochemical engineer. We have made limited quantities of granular product using a batch process for research purposes and plan to identify equipment and manufacturing requirements for commercial scale operations when testing and registration requirements for the granular product are complete. Given adequate resources, we believe testing and registration could be completed during the fourth quarter of 2021.

Although we have started and realized nominal product sales, we anticipate that in the near term, ongoing expenses, including product development, manufacturing process improvement, corporate administration and technical product support, will be funded primarily by proceeds from sales of our securities and debt.

We have generated nominal sales from our operations thus far. We believe with the financial ability to promote and market, in addition to easing COVID-19 commerce restrictions, product sales could begin during the third quarter of 2021 primarily from direct sales to end users and international distributor purchases.

We cannot, however, guarantee we will be successful in generating significant sales or in the execution of our business strategy. Our business is subject to risks inherent in the establishment of a new business enterprise, including the financial risks associated with the limited capital resources currently available to us for the implementation of our business strategies. To become profitable and competitive, we must raise additional capital to execute our business plan and realize revenues expected.

The ongoing COVID-19 global and national health emergency has caused significant disruption in the international and United States economies and financial markets. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The spread of COVID-19 has caused illness, quarantines, cancellation of events and travel, business and school shutdowns, reduction in business activity and financial transactions, labor shortages, supply chain interruptions and overall economic and financial market instability. The COVID-19 pandemic has the potential to significantly impact the Company’s supply chain, distribution centers, or logistics and other service providers. During the first quarter of 2020, the Company furloughed all employees other than three executive officers due to the COVID-19 impact on its operation capability. Beginning in the second quarter of 2020, the Company began to remove certain employees from furlough that are key to ongoing operations. The Company is not able to estimate the duration of the pandemic and potential impact on the business if disruptions or delays in shipments of product occur. To date, the Company has experienced product shipment delays due to import restrictions imposed by countries in which the Company had customer purchase commitments. This situation is particularly acute in India as the country has recently experience an increase in COVID-19 cases and the government has imposed further restrictions to movement within the country. Less restrictive than India, conditions in both Mexico and Philippines have limited our distributors’ ability to conduct full-scale business development initiatives, thereby causing delays in product orders to and purchases from us. In addition, prolonged travel restrictions within foreign countries could result in a variety of risks to the business, including weakened demand for product. The Company continues to closely monitor market conditions and respond accordingly.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of our unaudited consolidated financial condition and unaudited consolidated results of operations are based on our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these unaudited consolidated financial statements requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Note 2: Summary of Significant Accounting Policies in our unaudited consolidated financial statements contains a description of the accounting policies used in the preparation of our unaudited consolidated financial statements as well as the consideration of recently issued accounting standards and the estimated impact these standards will have on our unaudited consolidated financial statements. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual amounts could differ significantly from these estimates under different assumptions and conditions.

We define a critical accounting policy or estimate as one that is both important to our consolidated financial condition and consolidated results of operations and requires us to make difficult, subjective, or complex judgments or estimates about matters that are uncertain. We believe that the following are the critical accounting policies and estimates used in the preparation of our unaudited Consolidated Financial Statements. In addition, there are other items within our unaudited Consolidated Financial Statements that require estimates but are not deemed critical as defined in this paragraph.

***Accounting for Derivatives***

The Company evaluates its convertible instruments, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, "Derivatives and Hedging." The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense). Upon conversion of a note where the embedded conversion option has been bifurcated and accounted for as a derivative liability, the Company records the shares at fair value, relieves all related notes, derivatives, and debt discounts, and recognizes a net gain or loss on extinguishment. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liabilities at the fair value of the instrument on the reclassification date.

The company has adopted FASB ASU 2017-11, which simplifies the accounting for certain equity-linked financial instruments and embedded features with down round features that reduce the exercise price when the pricing of a future round of financing is lower. This allows the company to treat such instruments or their embedded features as equity instead of considering them as a derivative. If such a feature is triggered the value is measured pre-trigger and post-trigger. The difference in these two measurements is treated as a dividend, reducing income. The value recognized as a dividend is not subsequently re-measured, but in instances where the feature is triggered multiple times each instance is recognized.

***Revenue Recognition***

In accordance with ASC 606 we consider persuasive evidence of an arrangement to be a signed agreement, a binding contract with the customer or other similar documentation reflecting the terms and conditions under which products are sold. We recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the Company expects to be entitled in exchange for those goods or services. This recognition generally occurs when the product is shipped to or received by the customer.

***Going Concern***

We adopted FASB ASU No. 2014-15, *Presentation of Financial Statements- Going Concern,* during the first quarter of 2016. This standard defines management's responsibility to evaluate conditions or events as related to uncertainties that raise substantial doubt about our ability to continue as a going concern and to provide related footnote disclosures, as applicable. Management's estimates and assumptions, used in the evaluation of our ability to meet our obligations as they become due within one year after the date our financial statements are issued, are based on the facts and circumstances at such date and are subject to a material and high level of subjectivity and uncertainty due to the matters themselves being uncertain and subject to modification. The effect of any individual or aggregate changes in the estimates and assumptions, or the facts and circumstances, could be material to the financial statements. We have concluded that there is substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements have been prepared assuming we will continue as a going concern, but do not include any adjustments that might result if we were unable to do so.

***Employee Stock-Based Compensation and Share-Based payment to non-employees***

We measure employee and non-employee compensation expense for all stock-based awards at fair value on the date of grant and recognize compensation expense over the service period for awards expected to vest.

We use the Black-Scholes option-pricing model to determine the fair value for stock option awards and recognize compensation expense on a straight-line basis over the awards' vesting periods for employees and over the service period for non-employees. Determining the fair value of stock-based awards at the grant date requires judgment. The determination of the grant date fair value of options using an option-pricing model is affected by our estimated common stock fair value as well as assumptions regarding a number of other complex and subjective variables. If any of the assumptions used in the Black-Scholes model changes significantly, stock-based compensation for future awards may differ materially compared with the awards granted previously. In valuing our options, we make assumptions about risk-free interest rates, dividend yields, volatility, and weighted-average expected lives, including estimated forfeiture rates, of the options.

As the Company's common stock is not traded in an active market, the Company estimates the fair value of its common stock (used in its Black Scholes option pricing model) pursuant to ASC 820. This estimation process maximizes the use of observable inputs, including the quoted price of the Company's common stock in an inactive market, the price of the Company's common stock determined in connection with transactions in the Company's common stock, and an income approach to valuation (discounted cash flow).

The Black-Scholes option-pricing model requires the use of highly subjective and complex assumptions, including the expected term and the price volatility of the underlying stock, which determine the fair value of stock-based awards. These assumptions include:

- *Risk-free rate.* Risk-free interest rates are derived from U.S. Treasury securities as of the option grant date.
- *Expected dividend yields.* Expected dividend yields are based on our historical dividend payments, which have been zero to date.
- *Volatility.* Because we have a limited trading history as a public company, we estimate volatility of our share price based on a combination of the published historical volatilities of comparable publicly traded companies in our vertical markets and the historical volatility of our common stock.
- *Expected term.* We estimate the weighted-average expected life of the options as 5 years.
- *Forfeiture rate.* Forfeiture rates are estimated using historical actual forfeiture trends as well as our judgment of future forfeitures. These rates are evaluated at least annually and any change in compensation expense is recognized in the period of the change. The estimation of stock awards that will ultimately vest requires judgment and, to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period in which the estimates are revised. We consider many factors when estimating expected forfeitures, including the types of awards and employee class. Actual results, and future changes in estimates, may differ substantially from management's current estimates.

**Results of Operations - For the Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018**

| For the three months ended | September 30, 2019 | September 30, 2018 | $ Change | % Change |
|---|---|---|---|---|
| Sales | $ 15,815 | $ 11,635 | $ 4,180 | 35.9% |
| Cost of Sales | 1,239 | 2,476 | (1,237) | (50.0)% |
| Gross Profit | 14,576 | 9,159 | 5,417 | 59.1% |
| Operating Expenses | 1,209,030 | 1,019,766 | 189,264 | 18.6% |
| Loss from Operations | (1,194,454) | (1,010,607) | (183,847) | 18.2% |
| Other Income / (Expense) | (923,246) | (253,846) | (669,400) | 263.7% |
| Net Loss including non-controlling interest | (2,117,700) | (1,264,453) | (853,247) | 67.5% |
| Non-controlling interest | 608 | - | 608 | -% |
| Net Loss available to common stockholders | $ (2,117,092) | $ (1,264,453) | $ 852,639 | 67.4% |
| Net Loss per Share - Basic and Diluted | $ (0.05) | $ (0.03) | $ (0.02) | 66.7% |

Sales for the three months ended September 30, 2019 was $15,815 an increase of $4,180 or 35.9% over $11,635 for the three months ended September 30, 2018. Sales are generated from sales to distributors of agricultural products and directly to growers. During the three months ended September 30, 2019, the Company began to offer BAM-FX and Gardener’s Choice on-line.

For the three months ended September 30, 2019, cost of revenue was $1,239, a decrease of $1,237 over $2,476 reported during the same period in 2018.

Operating Expenses increased by $189,264 to $1,209,030 for the three months ended September 30, 2019 compared to $1,019,766 for the three months ended September 30, 2018, or 18.6%. The increase in Operating Expenses was primarily due to an increase in legal fees of $65,139 related to an intellectual property settlement agreement with our former Chief Science Officer and services related to our debt restructuring and documentation, an increase in accounting fees for temporary help of $55,712, an increase in business travel and trade show expense of $40,090, an increase in non-cash equity compensation and cash compensation paid to consultants and advisors primarily related to business development and sales of $86,617 and $26,637, respectively, and an increase in web site expense of $27,159. The increase in Operating Expenses was partially offset by a decrease in salaries and related employee benefits and payroll tax expense of $69,719 resulting from headcount reductions.

Other Expense for the three months ended September 30, 2019 increased by $669,400 to $923,246 from $253,846 for the period ended September 30, 2018. The increase in Other Expense was primarily due to an increase in accretion of debt discount of $629,247 due to the Company's debt restructuring whereby certain debt and accrued interest as of April 30, 2019 was exchanged for Series A Notes and for certain participating Series A Note Holders, the issuance of Series B Notes for additional capital. In addition, Other Expense increase due to an increase in interest expense of $146,350 due to an increase in the Company's debt with higher interest rate terms and a change in the fair value of an embedded conversion option of $51,000 contained in an outstanding convertible note. These increases in Other Expense were offset by a gain of $156,000, realized upon repayment of a convertible note, which eliminated an embedded conversion option derivative liability, during the three months ended September 30, 2019. The fair value of the embedded derivative liability associated with the note was $156,000.

Net Loss available to common stockholdersfor the three months ended September 30, 2019 increased by $852,639, or 67.4%, to $2,117,092 from Net Loss available to common stockholders of $1,264,453 for the three months ended September 30, 2018. The increase in Net Loss is primarily due to an increase in Operating Expenses of $189,264 and an increase in Other Expense of $669,400.

**Results of Operations - For the Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018**

| For the Nine Months ended | September 30, 2019 | September 30, 2018 | $ Change | % Change |
|---|---|---|---|---|
| Sales | $ 65,233 | $ 44,705 | $ 20,528 | 45.9% |
| Cost of Sales | 34,879 | 7,754 | 27,125 | 349.8% |
| Gross Profit | 30,354 | 36,951 | (6,597) | (17.9)% |
| Operating Expenses | 3,148,588 | 3,691,813 | (543,225) | (14.7)% |
| Loss from Operations | (3,118,234) | (3,654,862) | 536,628 | (14.7)% |
| Other Income / (Expense) | (2,850,782) | (460,653) | (2,390,129) | 518.9% |
| Net Loss including non-controlling interest | $ (5,969,016) | $ (4,115,515) | $ (1,853,501) | 45.3% |
| Non-controlling interest | (1,163) | - | (1,163) | -% |
| Net Loss available to common stockholders | $ (5,967,853) | $ (4,115,515) | $ (1,852,338) | 45.0% |
| Net Loss per Share - Basic and Diluted | $ (0.15) | $ (0.10) | $ (0.05) | 50.0% |

Sales for the nine months ended September 30, 2019 was $65,233, an increase of $20,528 or 45.9% over $44,705 for the nine months ended September 30, 2018. The increase in Sales was due to a sale of product for specialty crop markets during the nine months ended September 30, 2019 of $44,495 which was offset by a decrease of $22,500 from a sale to a startup agricultural product distributor during the nine months ended September 30, 2018, which did not reoccur during the nine months ended September 30, 2019 due to changes in their business. Sales are generated from sales to our network of distributors and directly to growers.

During the nine months ended September 30, 2019, $3,600 of Sales includes first time sales of ready to use retail product, Gardener's Choice®, introduced to a national brand hardware store's franchisees and nominal initial on-line sales of BAM-FX and Gardener's Choice.

For the nine months ended September 30, 2019, Cost of Sales was $34,879, an increase of $27,125 or 349.8% over $7,754 for the nine months ended September 30, 2018. The increase in Cost of Sales was directly related to our increase in Sales for the nine months ended September 30, 2019 over 2018 and a write off of inventory of $10,942 during the nine months ended September 30, 2019. During 2019, the Company reduced the acid content of its product and discontinued the sale of previously manufactured product remaining in inventory.

Operating Expenses decreased by $543,225 to $3,148,588 for the nine months ended September 30, 2019 compared to $3,691,813 for the nine months ended September 30, 2018, or 14.7%. The decrease in Operating Expenses was primarily due to a decrease in salaries and related employee benefits and payroll tax expense of $625,088 due to a reduction in headcount, a decrease of $205,107 in non-recurring impairment expense, a decrease in non-recurring impairment of royalty advances of $129,580, a decrease of $82,962 in non-cash equity compensation paid to consultants and advisors and a decrease in research and development expense of $37,790. These decreases were primarily offset by an increase in legal fees related to an intellectual property settlement with our former Chief Science Office and services related to our debt restructuring and documentation of $128,319, an increase in consulting and advisor cash expenses of $140,403, an increase in accounting fees for temporary help of $113,561, an increase in advertising and promotion expense of $96,549, an increase in web site expense of $40,128, an increase in audit fees of $31,309, and an increase in product shipping expense for business development purposes of $24,298.

Other Expense for the nine months ended September 30, 2019 increased by $2,390,129 to $2,850,782 from $460,653 for the period ended September 30, 2018. The increase in Other Expense was primarily due to an increase in accretion of debt discount of $2,090,484 due to the Company's debt restructuring whereby certain debt and accrued interest as of April 30, 2019 was exchanged for Series A Notes and for certain participating Series A Note Holders, the issuance of Series B Notes for additional capital. Accretion of debt discount attributed to the retired debt was $840,320. In addition, Other Expense increase due to an increase in interest expense of $393,180 resulting from an increase in the Company's debt with higher interest rate terms and a change in the fair value of an embedded conversion option of $64,000 contained in an outstanding convertible note. These increases in Other Expense were offset by a gain of $156,000, realized upon repayment of a convertible note, which eliminated an embedded conversion option derivative liability, during the nine months ended September 30, 2019. The fair value of the embedded derivative liability associated with the note was $156,000.

Net Loss available to common stockholders for the nine months ended September 30, 2019 increased by $1,852,338 to $5,967,853 from Net Loss available to common stockholders of $4,115,515 for the nine months ended September 30, 2018. The increase in net loss is primarily due to an increase in Other Expense of $2,390,129 partially offset by a decrease in Operating Expenses of $544,879 for the period ended September 30, 2019.

*Use of Cash*

*Net Cash Used in Operating Activities*

Net cash used in operating activities for the nine months ended September 30, 2019 was approximately $2,957,000, a decrease of approximately $441,000, or 13.0%, from approximately $3,398,000 for the nine months ended September 30, 2018. The decrease in net cash used in operating activities was primarily due to an increase in non-cash amortization of debt discount and loss on debt extinguishment of $2,090,000, an increase in accounts payable and accrued expenses of $568,000, an increase in accrued interest due related parties of $244,000, a decrease in prepaid and other of $57,000 and a change in fair value a derivative liability of $64,000. The decrease in net cash used in operating activities was offset by an increase in net loss of approximately $1,854,000, a decrease in non-cash impairment expense of $203,000, an increase in inventory of approximately $207,000, a decrease in advances on future royalties to related parties reserve of approximately $130,000, an increase in non-cash gain on debt extinguishment of $156,000 and a decrease in deferred revenue of $43,000.

*Net Cash Used in Investing Activities*

Net cash used in investing activities decreased by $1,100 due to a decrease in cash paid to purchase equipment.

*Net Cash Provided by Financing Activities*

Net cash provided by financing activities for the nine months ended September 30, 2019 was approximately $3,422,000, a decrease of approximately $350,000, or 9.3%, from approximately $3,772,000 for the nine months ended September 30, 2018. The decrease in net cash provided by financing activities was due primarily to an increase in proceeds from issuance of Series B Notes, 12% convertible notes payable to related parties of approximately $2,300,000, an increase in proceeds from issuance of Series B Notes, 12% convertible notes payable of approximately $763,000, a decrease in repayments of notes payable to related party of approximately $200,000, a decrease in repayments of notes payable of approximately $116,000 and an increase in proceeds from convertible notes payable of approximately $89,000. The increase in cash provided by financing activities for the nine months ended September 30, 2019 was offset by a decrease in proceeds from notes payable – related party of approximately $1,911,000, a decrease in proceeds from sale of common stock of approximately $911,000, a decrease in proceeds from notes payable of $700,000, an increase in repayments of notes payable of $182,000 and an increase in repayment of a convertible note of approximately $136,000.

**Liquidity and Capital Resources**

The Company expects to incur significant expenses and operating losses for the foreseeable future. Specifically, we estimate that the costs associated with the execution of our 2019, 2020 and 2021 business plans may exceed $300,000 per month. This expense rate is primarily due to: an increase in costs of additional technical personnel and personnel-related costs; promotional expenses to develop markets for domestic and international sales of our product, BAM-FX®, our retail product, Gardener's Choice®, and our cannabis market product introduction; improvements to our manufacturing facility and processes; research and product development related expense for expansion of our product line, patent application filing costs, development of commercial priming and granular products, and interest expense. The Company has evaluated its ability to continue as a going concern for the next twelve months from the issue date of the September 30, 2019 consolidated financial statements. There is substantial doubt about the Company's ability to continue as a going concern as we do not currently have the funding necessary to support the projected operating costs we expect to be needed to operate the business. The Company is active in its fundraising, and subsequent to September 30, 2019, the Company has raised approximately $2,819,000.

We filed a registration statement on Form 10 with the SEC that became effective in February 2015, which requires us to operate as a fully reporting public company. We expect to continue to incur additional personnel and professional costs associated with operating as a fully reporting public company. Accordingly, we have acknowledged the need to obtain additional funding to operate the Company as a fully reporting public company and have continued to raise funds through private offerings, issuance of debt and inducement of outstanding warrants.

Adequate additional financing may not be realized from our equity or debt offerings or otherwise may not be available to us on acceptable terms, or at all. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or any future commercialization efforts. We will need to generate significant revenues to achieve profitability, and we may never do so.

*Cash on Hand*

As of September 30, 2019, the Company had a cash balance of approximately $505,000 compared to a cash balance of approximately $44,000 as of December 31, 2018.

Total assets were approximately $1,077,000 and $552,000 at September 30, 2019 and December 31, 2018, respectively. Working capital (deficit) was approximately $(501,000) and $(2,691,000) at September 30, 2019 and December 31, 2018, respectively. The decrease in working capital (deficit) of $2,191,000 during the period was primarily due to cash used in operating activities of approximately $2,957,000 offset by cash provided by financing activities of approximately $3,422,000 and restructuring of current notes payable in which the notes were exchanged for Series A and Series B secured, convertible long term notes payable of approximately $1,750,000. Total stockholders' deficit decreased by approximately $2,488,000 to $(2,608,000) at September 30, 2019 from $(5,096,000) at December 31, 2018.

**Outlook**

*Required Capital Going Forward*

Due to the fact that our product, BAM-FX®, is new in the competitive agricultural markets, it is difficult to accurately predict revenues and cash flow at this time. For us to successfully introduce our home and garden retail product, Gardener's Choice®, we will need to commit ongoing financial resources before realizing revenues and cash flow. We required additional funding to cover 2019 expenses and we will need additional funding in 2020 and 2021.

On or about May 11, 2019, the Company entered into an Exchange and Release Agreement (each, an "Exchange Agreement"), with certain holders of the Company's Promissory Notes (each, an "Old Note"), including certain members of the Board of Directors and/or their respective affiliates, pursuant to which, among other things, the holders thereof agreed to exchange all or part of the amounts owed under their Old Notes for new 10% Series A Secured Convertible Promissory Notes (each, a "Series A Note"). The face value of a Series A Note is equal to the principal face amount of an Old Note plus all interest due or accrued under the Old Note through March 31, 2019.

Furthermore, pursuant to each Exchange Agreement, in connection with any such exchange, the holder of an Old Note may, in their sole discretion, also exchange any warrant that such note holder received in connection with the issuance of the Old Notes for a new warrant to purchase shares of common stock (an "Exchange Warrant").

Such transactions contemplated by the Exchange Agreements are referred to herein as the "Refinancing". The Company conducted the Refinancing in reliance upon the exemptions provided in the Securities Act, including Regulation D, Rule 506(b).

Furthermore, each Exchange Agreement provides that the holder of an Old Note may, in their sole discretion, also subscribe for a 12% Series B Secured Convertible Promissory Note (a "Series B Note") and be allowed to pay up to one-half of the subscription price of the Series B Note with amounts owed under the Old Note.

In accordance with the terms of the Exchange Agreements and in reliance upon the exemptions provided in the Securities Act, including Regulation D, Rule 506(b), the Company initiated a new private offering of its securities to certain prospective accredited investors and holders of Old Notes, and entered into Subscription Agreements (each, a "Subscription Agreement") with certain of such noteholders, including certain members of the Board of Directors and/or their respective affiliates, pursuant to which, among other things, such noteholders subscribed to purchase Series B Notes and warrants to purchase shares of common stock (each, a "Purchase Warrant").

The transactions contemplated by the Subscription Agreements are referred to herein as the "Offering". Aggregate gross proceeds in connections with the Offering were approximately $3,062,000, and proceeds net of commission were approximately $2,962,000. Commissions were paid in connection with the Offering equal to 3% of the principal thereof, totaling approximately $100,000 in the aggregate. The Company intends to use the proceeds from the Offering to fund working capital requirements.

The Series A Notes and Series B Notes shall collectively be referred to herein as the "Offering Notes". The Exchange Warrants and Purchase Warrants shall collectively be referred to herein as the "Offering Warrants". The Offering Notes were made on substantially the same terms, except as noted. The Offering Warrants were made on substantially the same terms, except as noted.

The Series A Notes bear interest at the rate of ten percent (10%) per annum and the Series B Notes bear interest at the rate of twelve percent (12%) per annum, in each case, with such interest being payable by the Company in cash to the holders thereof beginning nine (9) months and fifteen (15) days from the issuance date of such Offering Note with interest payments due on the fifteenth (15th) day of each month thereafter. The Offering Notes shall be repaid in full by the Company, plus all unpaid interest thereon, by thirty-six (36) months from the date of issuance upon the tender of such Offering Note (the “Maturity Date”). Prepayment of all unpaid principal and interest on each such Offering Note may be made by the Company prior to the Maturity Date at any time without penalty or premium upon forty-five (45) days’ prior written notice to the holder of such Offering Note (a “Prepayment Notice”); provided, however, that a holder of a Series B Note may not receive a Prepayment Notice prior to the repayment of the principal and interest owing under any Old Note or Series A Note. The Offering Notes are secured by the assets of the Company and its subsidiaries, with the priority of the Series A Notes being subordinated to that of the Series B Notes. Furthermore, in additional to terms customarily included in such instruments, each holder of an Offering Note is entitled to convert the unpaid principal and interest due and owing under such Offering Note into common stock at any time prior to the earlier of (a) October 1, 2021 or (b) thirty (30) days following a Prepayment Notice. The conversion price under a Series A Note is two dollars ($2.00) per share and the conversion price under a Series B Note is one dollar ($1.00) per share.

Each (i) Exchange Warrant may be exercised by the holder thereof within three (3) years of issuance into shares of the common stock at an exercise price equal to one dollar ($1.00) per share and (ii) Purchase Warrant may be exercised at any time after issuance and through ninety (90) days after payment in full of the Offering Note at an exercise price equal to (A) one dollar ($1.00) per share if the Purchase Warrant is exercised on or before April 1, 2020, and (B) fifty cents ($0.50) per share if the Purchase Warrant was exercised after April 1, 2020, in each case, by providing to the Company a notice of exercise, payment and surrender of such Offering Warrant. In addition, the Offering Warrants are subject to adjustment upon the occurrence of specified events including, but not limited to, a payment of certain stock dividends, a subdivision or combination of the Company’s outstanding shares of common stock, a reclassification of the common stock, a consolidation or merger of the Company, a sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange affecting the Company. The Company issued fully vested, non-forfeitable warrants to purchase 9,499,600 common shares at an exercise price of $1.00 per share as part of the Offering.

Subsequent to September 30, 2019, the Company issued three fully vested, non-forfeitable five year warrants to purchase, in the aggregate, up to 45,000 common shares at an exercise price of $3.00 per common share to an employee for services.

Subsequent to September 30, 2019, the Company issued fully vested, non-forfeitable warrants to purchase, in the aggregate, up to 401,500 common shares at exercise prices of $1.00 to $2.00 per common share to seven consultants for services. The term of the warrants ranges from one to five years.

Subsequent to September 30, 2019, the Company issued fully vested, non-forfeitable warrants to purchase 1,961,720 shares of common stock at an exercise price of $1.00 in connection with the Company’s Exchange Agreement.

Subsequent to September 30, 2019, the Company issued fully-vested, non-forfeitable warrants to purchase 385,000 shares of common stock at an exercise price of $1.50 per common share to investors in the Company’s 10% Convertible Secured Promissory Notes.

Subsequent to September 30, 2019, the Company issued fully vested, non-forfeitable two year warrants to purchase, in the aggregate, up to 470,000 shares of common stock at an exercise price of $1.00 in connection with a debt offering.

Subsequent to September 30, 2019, certain consultants and former employees exercised warrants in a cashless exercise resulting in the issuance of 146,248 shares of the Company’s common stock.

Subsequent to September 30, 2019, the Company issued 162,500 shares of common stock to four advisors and consultants for services.

Subsequent to September 30, 2019, the Company issued 5,000 shares of its common stock and received $5,000 in proceeds from one of its product distributors.

Subsequent to September 30, 2019, the Company received gross proceeds of $100,000 and issued 100,000 shares of common stock pursuant to the exercise of a warrant.

Subsequent to September 30, 2019, the Company issued 265,000 employee stock options pursuant to its 2015 Equity Incentive Plan.

Subsequent to September 30, 2019, the Company repaid $104,500 of convertible notes payable.

During October 2019, the Company commenced an offering of up to $5,000,000 of 10% Convertible Secured Promissory Notes (the "Notes") with an initial closing date of December 31, 2019, which was extended for an additional ninety day period. The Notes bear interest at a ten percent (10%) annual rate, payable quarterly in arrears, with the first interest payment due January 15, 2020 and subsequent interest payments due on the fifteenth (15th) day after the end of each calendar quarter thereafter. Interest will be paid in shares of the Company's common stock at $2.00 per share. The Notes mature 2 years from the closing date. The Notes are convertible into the Company's common stock at $2.00 per share.

Commencing on the one (1) year anniversary of the issuance of the Notes and ending eleven (11) months thereafter (i.e. one month prior to the maturity date), the Company may at any time upon thirty (30) days prior written notice repurchase any or all outstanding Notes without penalty or premium; provided, that the holder may convert the Note prior to the end of the Notice Period, as defined in the Note.

The Notes are secured by all assets of the Company and its subsidiaries, and are subordinate to the security interest granted to holders of the Series A Notes and Series B Notes previously issued by the Company. The Notes are subject to certain covenants and other provisions customary for a transaction of this nature. The Company received $300,000 in proceeds pursuant to the issuance of Notes and incurred no broker fees.

On May 12, 2020, the Company executed a Payroll Protection Program Term Note, herein referred to as the "PPP Note", and received proceeds of $278,800. The PPP Note was issued pursuant to the Coronavirus Aid, Relief, and Economic Securities Act's, (the CARE's Act's) Paycheck Protection Program. All or a portion of the PPP Note is eligible to be forgiven if all eligible employee retention criteria are met and the funds are used for eligible purposes. The Company has not determined an amount eligible for forgiveness. The PPP Note bears interest at 1% based on a 360-day calendar year and is due two years from date of issuance with repayment scheduled monthly beginning in the seventh month following the date of issuance.

Subsequent to September 30, 2019, the Company commenced an exchange offering of its 10% Series A Convertible Secured Promissory Notes whereby the noteholders could elect to exchange their existing Series A Notes plus accrued and unpaid interest at the date of exchange for 12% Series B Convertible Secured Promissory Notes by agreeing to an additional investment equal to the amount of Series A Notes exchanged. The Series B Notes have a three-year term and include a conversion option whereby the noteholder has the option to convert unpaid principal and interest into the Company's common stock at $1.00 per share. The Company received gross proceeds of $1,240,430 and paid broker fees of $41,617.

On August 5, 2020, the Company received $18,200 pursuant to a thirty year unsecured promissory note through the U.S. Small Business Administration's Disaster Assistance Program. The note bears interest of 3.75% per annum with repayment beginning in the twelfth month following the date of the note.

During November 2020, the Company commenced an offering of up to $5,000,000 of 11% Convertible Secured Promissory Notes (the "Notes"). The Notes bear interest at a eleven percent (11%) annual rate, payable quarterly in arrears. Interest will be paid in shares of the Company's common stock in the range of $1.00 to $1.50 per share. The Notes mature 2 years from the closing date. The Notes are convertible into the Company's common stock in the range of $1.00 to $1.50 per share.

Commencing on the one (1) year anniversary of the issuance of the Notes and ending eleven (11) months thereafter (i.e. one month prior to the maturity date), the Company may at any time upon thirty (30) days prior written notice repurchase any or all outstanding Notes without penalty or premium; provided, that the holder may convert the Note prior to the end of the Notice Period, as defined in the Note.

The Notes are secured by all assets of the Company and its subsidiaries, and are subordinate to the security interest granted to holders of the Series A Notes and Series B Notes previously issued by the Company. The Notes are subject to certain covenants and other provisions customary for a transaction of this nature. The Company received $505,000 in gross proceeds pursuant to the issuance of Notes and incurred broker fees of $32,200.

On February 16, 2021, the Company executed a Second Draw Paycheck Protection Term Note and received proceeds of $276,201, the terms of which are the same as the PPP Note. All or a portion of the PPP Note is eligible to be forgiven if all eligible employee retention criteria are met and the funds are used for eligible purposes. The Company has not determined an amount eligible for forgiveness.

Without consideration of any revenue or additional fundraising, at the Company's current rate of expenditure, we expect that our current capital will not be sufficient to cover our future operating costs for twelve months.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

**Critical Accounting Policies and Estimates**

For a discussion of our accounting policies and related items, please see the Notes to the unaudited Consolidated Financial Statements, included in Note 2.

**ITEM 3. QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide the information required by this item.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report (the "Evaluation Date"), the Company carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer (our Chief Executive Officer and Chief Financial Officer, respectively), of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. Based upon this evaluation, our Chief Executive Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were not effective to provide reasonable assurance that (i) information required to be disclosed in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms and (ii) our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act 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.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Company's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

**Changes in Internal Control Over Financial Reporting**

There were no changes in internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the three months ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are not a party to any current or pending legal proceedings.

### ITEM 1A. RISK FACTORS

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide the information required by this item.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

| No. | Description of Exhibit | Note |
|---|---|---|
| 3.1 | Certificate of Incorporation, Amendments to Articles of Incorporation and Articles of Merger | (2) |
| 3.2 | Second Amended and Restated By-Laws of the Company | (3) |
| 10.1 | Promissory Note, dated January 16, 2018, issued by the Company to Rio Vista Investments, LLC. | (4) |
| 10.2 | Warrant, dated January 18, 2018, issued by the Company to Rio Vista Investments, LLC. | (4) |
| 10.3 | Promissory Note, dated January 19, 2018, | (4) |
| 10.4 | Warrant, dated January 19, 2018 | (4) |
| 10.5 | Promissory Note, dated March 8, 2018, issued by the Company to Michael T. Smith. | (5) |
| 10.6 | Warrant, dated March 9, 2018, issued by the Company to Michael T. Smith. | (5) |
| 10.7 | Promissory Note, dated March 12, 2018, issued by the Company to Boies Partners, Inc. | (5) |
| 10.8 | Warrant, dated March 12, 2018, issued by the Company to Boies Partners, Inc. | (5) |
| 31.1 | Certification of Principal Executive Officer and Principal Financial and Accounting Officer as required by Rule 13a-14 or 15d-14 of the Exchange Act, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | (1) |
| 32.1 | Certification of Principal Financial and Accounting Officer as required by Rule 13a-14 or 15d-14 of the Exchange Act, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | (1) |
| 101 | The following materials from the Company's Quarterly Report on Form 10-Q for the nine-months ended September 30, 2019 are formatted in XBRL (eXtensible Business Reporting Language): (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Cash Flows, and (iv) the Notes to the Financial Statements. | (1) |

(1) Filed herewith.
(2) Incorporated by reference from the Company's Registration Statement on Form 10, filed with the SEC on December 29, 2014.
(3) Incorporated by reference from the Company's Current Report on Form 8-K, filed with the SEC on October 5, 2015.
(4) Incorporated by reference from the Company's Current Report on Form 8-K, filed with the SEC on January 25, 2018.
(5) Incorporated by reference from the Company's Current Report on Form 8-K, filed with the SEC on March 14, 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.

ZERO GRAVITY SOLUTIONS, INC.
(Registrant)

Dated: August 10, 2021

By: /s/ Timothy A. Peach
Timothy A. Peach, Acting Chief Executive Officer
(Principal Executive Officer) Chief Financial Officer
(Principal Accounting Officer)

**EXHIBIT 31.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, I, Timothy A. Peach, certify that:

1. I have reviewed this report on Form 10-Q of Zero Gravity Solutions, Inc., for the fiscal quarter ended September 30, 2019;

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 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. I have disclosed, based on my 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 reasonable 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 controls over financial reporting.

Date: August 10, 2021

/s/ Timothy A. Peach

Timothy A. Peach
Chief Executive Officer, Principle Executive
Officer, Principal Accounting Officer, Chief
Financial Officer

**EXHIBIT 32.1**

**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 the quarterly report of Zero Gravity Solutions, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Timothy A. Peach, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 10, 2021

/s/ Timothy A. Peach

Timothy A. Peach
Chief Executive Officer, Principle Executive
Officer, Principal Accounting Officer, Chief
Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.