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 EXCHANGE ACT OF 1934**

For the Quarterly Period Ended December 31, 2019

or

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

For the Transition Period from _________ to _________

Commission file number: 000-54030

NATURALSHRIMP INCORPORATED
(Exact name of registrant as specified in its charter)

Nevada	**74-3262176**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

15150 Preston Road, Suite #300 Dallas, Texas	**75248**
(Address of Principal Executive Offices)	(Zip Code)

(888) 791-9474
(Registrant's telephone number, including area code)

N/A
(Former address)

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

Title of each class	Trading symbol(s)	Name of exchange on which registered
None	N/A	N/A

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 ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of "large accelerated filer," "accelerated filer," a "smaller reporting company" and an "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 7(a)(2)(B) of the Securities Act: ☐

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

As of February 11, 2020, there were 369,096,888 shares of the registrant's common stock outstanding.

NATURALSHRIMP INCORPORATED
FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2019

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATURALSHRIMP INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2019 (Unaudited)	March 31, 2019
ASSETS		
Current assets		
Cash	$ 582,990	$ 137,499
Notes receivable	1,700	1,700
Inventory	4,200	4,200
Prepaid expenses	126,929	35,286
Total current assets	715,819	178,685
Fixed assets		
Land	202,293	202,293
Buildings	1,645,454	1,328,161
Machinery and equipment	1,224,118	934,621
Autos and trucks	19,063	14,063
Furniture and fixtures	22,060	22,060
Accumulated depreciation	(1,364,130)	(1,322,609)
Fixed assets, net	1,748,858	1,178,589
Other assets		
Construction-in-process	919,239	377,504
Right of Use asset	252,140	-
Deposits	20,633	10,500
Total other assets	1,192,012	388,004
Total assets	$ 3,656,689	$ 1,745,278
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$ 632,030	$ 576,028
Accrued interest - related parties	284,624	295,184
Other accrued expenses	769,897	609,243
Short-term Promissory Note and Lines of credit	679,083	139,418
Bank loan	222,736	228,725
Current maturities of convertible debentures, less debt discount of $61,382 and $511,640, respectively	629,233	494,451
Convertible debentures, related party	18,600	87,600
Notes payable - related parties	1,271,162	1,271,162
Derivative liability	130,000	157,000
Warrant liability	93,000	93,000
Total current liabilities	4,730,365	3,951,811
Lines of credit	-	650,453
Lease Liability	252,140	-
Total liabilities	4,982,505	4,602,264
Commitments and contingencies (Note 9)		
Stockholders' deficit		
Series A Convertible Preferred stock, $0.0001 par value, 5,000,000 shares authorized, 5,000,000 shares issued and outstanding at December 31, 2019 and March 31, 2019	500	500
Series B Convertible Preferred stock, $0.0001 par value, 5,000 shares authorized, 1,250 and 0 shares issued and outstanding at December 31, 2019 and March 31, 2019, respectively	-	-
Common stock, $0.0001 par value, 900,000,000 shares authorized, 354,116,535 and 301,758,293 shares issued and outstanding at December 31, 2019 and March 31, 2019, respectively	35,411	30,177
Additional paid in capital	42,434,545	38,335,782
Accumulated deficit	(43,744,909)	(41,223,445)
	(1,274,453)	(2,856,986)
Non-controlling interest in NAS	(51,363)	-
Total stockholders' deficit	(1,325,816)	(2,856,986)
Total liabilities and stockholders' deficit	$ 3,656,689	$ 1,745,278

The accompanying footnotes are in integral part of these condensed consolidated financial statements.

NATURALSHRIMP INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Sales	$ -	$ -	$ -	$ -
Operating expenses:				
Facility operations	41,375	22,479	180,934	66,442
General and administrative	306,834	223,821	944,571	654,119
Research and development	101,500	-	101,500	-
Depreciation and amortization	15,958	17,726	41,521	53,171
Total operating expenses	465,667	264,026	1,268,526	773,732
Net loss from operations	(465,667)	(264,026)	(1,268,526)	(773,732)
Other income (expense):				
Interest expense	(40,820)	(68,634)	(160,351)	(205,561)
Amortization of debt discount	(38,831)	(342,724)	(515,204)	(1,051,707)
Financing costs	(53,528)	(77,390)	(217,746)	(1,361,735)
Change in fair value of derivative liability	58,000	(211,500)	19,000	1,116,500
Change in fair value of warrant liability	-	-	-	(47,000)
Loss on warrant settlement	-	-	(50,000)	-
Total other income (expense)	(75,179)	(700,248)	(924,301)	(1,549,503)
Loss before income taxes	(540,846)	(964,274)	(2,192,827)	(2,323,235)
Provision for income taxes	-	-	-	-
Net loss	(540,846)	(964,274)	(2,192,827)	(2,323,235)
Less net loss attributable to non-controlling interest	(51,363)	-	(51,363)	-
Net loss attributable to Natural Shrimp Inc.	(489,483)	(964,274)	(2,141,464)	(2,323,235)
Amoritzation of beneficial conversion feature on Series B PS	(380,000)	-	(380,000)	-
Net loss available for common stockholders	$ (869,483)	$ (964,274)	$ (2,521,464)	$ (2,323,235)
EARNINGS PER SHARE (Basic and diluted)	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.02)
WEIGHTED AVERAGE SHARES OUTSTANDING (Basic and diluted)	345,260,292	165,284,849	326,835,226	129,672,152

The accompanying footnotes are in integral part of these condensed consolidated financial statements.

NATURALSHRIMP INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Series A Preferred stock		Series B Preferred stock		Common stock		Additional paid in	Accumulated	Non-controlling	Total stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	deficit	interest	deficit
Balance April 1, 2019	5,000,000	$ 500	-	$ -	301,758,293	$ 30,177	$ 38,335,782	$ (41,223,445)	-	$ (2,856,986)
Issuance of shares under equity financing agreement					11,482,721	1,148	1,498,852			1,500,000
Issuance of shares upon conversion					3,000,000	300	29,700			30,000
Beneficial conversion feature							58,548			58,548
Net loss								(795,270)	-	(795,270)
Balance June 30, 2019	5,000,000	$ 500	-	$ -	316,241,014	$ 31,625	$ 39,922,882	$ (42,018,715)	$ -	$ (2,063,708)
Purchase of Series B Preferred shares			250	-			250,000			250,000
Issuance of shares upon conversion					14,000,000	1,400	138,600			140,000
Issuance of shares under equity financing agreement					3,275,060	326	273,675			274,001
Net loss								(856,711)	-	(856,711)
Balance September 30, 2019	5,000,000	$ 500	250	$ -	333,516,074	$ 33,351	$ 40,585,157	$ (42,875,426)	$ -	$ (2,256,418)
Purchase of Series B Preferred shares			1,250	-			1,250,000			1,250,000
Issuance of shares upon conversion					20,600,461	2,060	211,388			213,448
Reclass of derivative liability upon conversion of related convertible debentures							8,000			8,000
Beneficial conversion feature related to the Series B Preferred Shares							380,000	(380,000)		
Net loss								(489,483)	(51,363)	(540,846)
Balance December 31, 2019	5,000,000	$ 500	1,500	$ -	354,116,535	$ 35,411	$ 42,434,545	$ (43,744,909)	$ (51,363)	$ (1,325,816)

	Preferred stock		Common stock		Additional paid in	Accumulated	Total stockholders'
	Shares	Amount	Shares	Amount	Capital	deficit	deficit
Balance April 1, 2018	-	-	97,656,095	$ 9,766	$ 27,743,352	$ (34,012,864)	$ (6,259,746)
Issuance of shares for cash			220,000	22	15,378		15,400
Issuance of shares upon conversion			37,887,704	3,789	511,932		515,721
Reclass of derivative liability upon conversion or redemption of related convertible debentures					1,305,000		1,305,000

Net loss						(1,097,109)	(1,097,109)
Balance June 30, 2018	-	$ -	135,763,799	$ 13,577	$ 29,575,662	$ (35,109,973)	$ (5,520,734)
Issuance of shares upon conversion			25,966,857	2,596	144,607		147,203
Issuance of shares upon exercise of warrants			11,214,272	1,121	148,879		150,000
Issuance of shares as commitment fee in relation to convertible debentures			3,000,000	300	34,200		34,500
Conversion of common shares into Series A Convertible Preferred stock	5,000,000	500	(75,000,000)	(7,500)	7,000		-
Reclass of derivative liability upon conversion or redemption of related convertible debentures					435,500		435,500
Net loss						(261,523)	(261,523)
Balance September 30, 2018	5,000,000	$ 500	100,944,928	$ 10,094	$ 30,345,848	$ (35,371,496)	$ (5,015,054)
Issuance of shares upon conversion			133,376,806	13,338	451,777		465,115
Reclass of derivative liability upon conversion or redemption of related convertible debentures					812,000		812,000
Issuance of shares under equity financing agreement			19,999,999	2,000	162,516		164,516
Net loss						(964,274)	(964,274)
Balance December 31, 2018	5,000,000	$ 500	254,321,733	$ 25,432	$ 31,772,141	$ (36,335,770)	$ (4,537,697)

The accompanying footnotes are in integral part of these condensed consolidated financial statements.

NATURALSHRIMP INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended	
	December 31, 2019	December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (2,141,464)	$ (2,323,235)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation expense	41,521	53,171
Amortization of debt discount	515,204	1,051,707
Change in fair value of derivative liability	(19,000)	(1,116,500)
Change in fair value of warrant liability	-	47,000
Financing costs related to convertible debentures	-	1,361,735
Default penalty	27,000	-
Net loss attributable to non-controlling interest	(51,363)	-
Shares issued for services	-	-
Changes in operating assets and liabilities:		
Inventory	-	(4,200)
Prepaid expenses and other current assets	(91,643)	(543)
Deposits	(10,133)	-
Accounts payable	56,002	(1,403)
Other accrued expenses	180,728	103,732
Accrued interest - related parties	(10,560)	145,641
Cash used in operating activitites	(1,503,708)	(682,895)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for machinery and equipment	(611,790)	(5,350)
Cash paid for construction in process	(541,735)	(75,404)
CASH USED IN INVESTING ACTIVITIES	(1,153,525)	(80,754)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bank loan	(5,989)	(5,689)
Repayment line of credit short-term	(110,788)	(3,153)
Notes receivable	-	150,000
Proceeds from sale of stock	1,774,001	179,916
Proceeds from sale of Series B Convertible Preferred stock	1,500,000	-
Proceeds from convertible debentures	100,000	565,800
Payments on convertible debentures	(85,500)	(123,037)
Payments on convertible debentures, related party	(69,000)	-
Cash provided by financing activitites	3,102,724	763,837
NET CHANGE IN CASH	445,491	188
CASH AT BEGINNING OF PERIOD	137,499	24,280
CASH AT END OF PERIOD	$ 582,990	$ 24,468
INTEREST PAID	$ 170,911	$ 96,018
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Shares issued upon conversion	$ 383,448	$ 1,128,068
Shares issued upon exercise of warrants	$ -	$ 150,000
Right of Use asset and Lease liability	$ 275,400	$ -
Notes receivable for convertible debentures	$ -	$ 90,000
Conversion of common shares to Series A Preferred Shares	$ -	$ 500

The accompanying footnotes are in integral part of these condensed consolidated financial statements.

NATURALSHRIMP INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2019
(Unaudited)

NOTE 1 – NATURE OF THE ORGANIZATION AND BUSINESS

Nature of the Business

NaturalShrimp Incorporated ("NaturalShrimp" or the "Company"), a Nevada corporation, is a biotechnology company and has developed a proprietary technology that allows it to grow Pacific White shrimp (Litopenaeus vannamei, formerly Penaeus vannamei) in an ecologically controlled, high-density, low-cost environment, and in fully contained and independent production facilities. The Company's system uses technology which allows it to produce a naturally-grown shrimp "crop" weekly, and accomplishes this without the use of antibiotics or toxic chemicals. The Company has developed several proprietary technology assets, including a knowledge base that allows it to produce commercial quantities of shrimp in a closed system with a computer monitoring system that automates, monitors and maintains proper levels of oxygen, salinity and temperature for optimal shrimp production. Its initial production facility is located outside of San Antonio, Texas.

The Company has two wholly-owned subsidiaries including NaturalShrimp Corporation, NaturalShrimp Global, Inc. and 51% owned Natural Aquatic Systems, Inc. ("NAS").

Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the nine months ended December 31, 2019, the Company had a net loss available for common stockholders of approximately $2,521,000. At December 31, 2019, the Company had an accumulated deficit of approximately $43,745,000 and a working capital deficit of approximately $4,015,000. These factors raise substantial doubt about the Company's ability to continue as a going concern, within one year from the issuance date of this filing. The Company's ability to continue as a going concern is dependent on its ability to raise the required additional capital or debt financing to meet short and long-term operating requirements. During the nine months ended December 31, 2019, the Company received net cash proceeds of approximately $100,000 from the issuance of convertible debentures, approximately $1,774,000 from the issuance of approximately 14,758,000 common shares of the Company's common stock through an equity financing agreement, and $1,500,000 from the sale of 1,500 Series B Preferred shares. Subsequent to December 31, 2019, the Company received $500,000 from the sale of Series B Preferred shares. (See Note 10). Management believes that private placements of equity capital and/or additional debt financing will be needed to fund the Company's long-term operating requirements. The Company may also encounter business endeavors that require significant cash commitments or unanticipated problems or expenses that could result in a requirement for additional cash. If the Company raises additional funds through the issuance of equity or convertible debt securities, the percentage ownership of its current shareholders could be reduced, and such securities might have rights, preferences or privileges senior to our common stock. Additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, the Company may not be able to take advantage of prospective business endeavors or opportunities, which could significantly and materially restrict our operations. The Company continues to pursue external financing alternatives to improve its working capital position. If the Company is unable to obtain the necessary capital, the Company may have to cease operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited financial information as of and for the three and nine months ended December 31, 2019 and 2018 has been prepared in accordance with GAAP in the U.S. for interim financial information and with the instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, such financial information includes all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our financial position at such date and the operating results and cash flows for such periods. Operating results for the nine months ended December 31, 2019 are not necessarily indicative of the results that may be expected for the entire year or for any other subsequent interim period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the rules of the U.S. Securities and Exchange Commission, or the SEC. These unaudited financial statements and related notes should be read in conjunction with our audited financial statements for the year ended March 31, 2019 included in the Company's Annual Report on Form 10-K filed with the SEC on July 1, 2019.

The condensed consolidated balance sheet at March 31, 2019 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles in the U.S. for complete financial statements.

Consolidation

The consolidated financial statements include the accounts of NaturalShrimp Incorporated and its wholly-owned subsidiaries, NaturalShrimp Corporation, NaturalShrimp Global and 51 % owned Natural Aquatic Systems, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Basic and Diluted Earnings/Loss per Common Share

Basic and diluted earnings or loss per share ("EPS") amounts in the consolidated financial statements are computed in accordance with ASC 260 – 10 "Earnings per Share", which establishes the requirements for presenting EPS. Basic EPS is based on the weighted average number of shares of common stock outstanding. Diluted EPS is based on the weighted average number of shares of common stock outstanding and dilutive common stock equivalents. Basic EPS is computed by dividing net income or loss available to common stockholders (numerator) by the weighted average number of shares of common stock outstanding (denominator) during the period. For the nine months ended December 31, 2019, the Company had approximately $709,000 in convertible debentures whose approximately 22,895,000 underlying shares are convertible at the holders' option at conversion prices ranging from $0.01 to $0.30 for fixed conversion rates, and 57% - 60% of the defined trading price for variable conversion rates and approximately 848,000 warrants with an exercise price of 45% of the market price of the Company's common stock, which were not included in the calculation of diluted EPS as their effect would be anti-dilutive. For the nine months ended December 31, 2018, the Company had approximately $974,000 in principal on convertible debentures whose approximately 96,842,000 underlying shares are convertible at the holders' option at conversion prices ranging from 34% - 75% of the defined trading price and approximately 10,637,000 warrants with an exercise price of 45% of the market price of the Company's common stock, which were not included in the calculation of diluted EPS as their effect would be anti-dilutive.

Fair Value Measurements

ASC Topic 820, "*Fair Value Measurement"*, requires that certain financial instruments be recognized at their fair values at our balance sheet dates. However, other financial instruments, such as debt obligations, are not required to be recognized at their fair values, but GAAP provides an option to elect fair value accounting for these instruments. GAAP requires the disclosure of the fair values of all financial instruments, regardless of whether they are recognized at their fair values or carrying amounts in our balance sheets. For financial instruments recognized at fair value, GAAP requires the disclosure of their fair values by type of instrument, along with other information, including changes in the fair values of certain financial instruments recognized in income or other comprehensive income. For financial instruments not recognized at fair value, the disclosure of their fair values is provided below under *"Financial Instruments."*

Nonfinancial assets, such as property, plant and equipment, and nonfinancial liabilities are recognized at their carrying amounts in the Company's balance sheets. GAAP does not permit nonfinancial assets and liabilities to be remeasured at their fair values. However, GAAP requires the remeasurement of such assets and liabilities to their fair values upon the occurrence of certain events, such as the impairment of property, plant and equipment. In addition, if such an event occurs, GAAP requires the disclosure of the fair value of the asset or liability along with other information, including the gain or loss recognized in income in the period the remeasurement occurred.

The Company did not have any Level 1 or Level 2 assets and liabilities at December 31, 2019 and March 31, 2019.

The Derivative liabilities are Level 3 fair value measurements.

The following is a summary of activity of Level 3 liabilities during the nine months ended December 31, 2019 and 2018:

Derivatives

	2019	2018
Derivative liability balance at beginning of period	$ 157,000	$ 3,455,000
Additions to derivative liability for new debt	--	1,897,000
Reclass to equity upon conversion or redemption	(8,000)	(2,552,500)
Change in fair value	(19,000)	(1,116,500)
Balance at end of period	$ 130,000	$ 1,683,000

At December 31, 2019, the fair value of the derivative liabilities of convertible notes was estimated using the following weighted-average inputs: the price of the Company's common stock of $0.11; a risk-free interest rate of 1.55%, and expected volatility of the Company's common stock of 98.46%, and the various estimated reset exercise prices weighted by probability.

At December 31, 2018, the fair value of the derivative liabilities of convertible notes was estimated using the following weighted-average inputs: the price of the Company's common stock of $0.02; a risk-free interest rate ranging from 2.45% to 2.63%, and expected volatility of the Company's common stock ranging from 315.25% to 448.43%, and the various estimated reset exercise prices weighted by probability.

Warrant liability

	2019	2018
Warrant liability balance at beginning of period	$ 93,000	$ 277,000
Reclass to equity upon exercise	-	(150,000)
Change in fair value	-	47,000
Balance at end of period	$ 93,000	$ 174,000

At December 31, 2019, the fair value of the warrant liability was estimated using the following weighted-average inputs: the price of the Company's common stock of $0.11; a risk-free interest rate of 1.55%, and expected volatility of the Company's common stock ranging of 281.4%.

At December 31, 2018, the fair value of the warrant liability was estimated using the following weighted-average inputs: the price of the Company's common stock of $0.02 a risk-free interest rate of 2.46%, and expected volatility of the Company's common stock of 350.2%.

Financial Instruments

The Company's financial instruments include cash and cash equivalents, receivables, payables, and debt and are accounted for under the provisions of ASC Topic 825, "*Financial Instruments*". The carrying amount of these financial instruments, with the exception of discounted debt, as reflected in the consolidated balance sheets approximates fair value.

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, the Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2019 and March 31, 2019.

Concentration of Credit Risk

The Company maintains cash balances at two financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of December 31, 2019 the Company's cash balance exceeded FDIC coverage. As of March 31, 2019, the Company's cash balance did not exceed FDIC coverage. The Company has not experienced any losses in such accounts and periodically evaluates the credit worthiness of the financial institutions and has determined the credit exposure to be negligible.

Fixed Assets

Equipment is carried at historical value or cost and is depreciated over the estimated useful lives of the related assets. Depreciation on buildings is computed using the straight-line method, while depreciation on all other fixed assets is computed using the Modified Accelerated Cost Recovery System (MACRS) method, which does not materially differ from GAAP. Estimated useful lives are as follows:

Buildings	27.5 – 39 years
Other Depreciable Property	5 – 10 years
Furniture and Fixtures	3 – 10 years

Maintenance and repairs are charged to expense as incurred. At the time of retirement or other disposition of equipment, the cost and accumulated depreciation will be removed from the accounts and the resulting gain or loss, if any, will be reflected in operations.

The consolidated statements of operations reflect depreciation expense of approximately $16,000 and $42,000 and $18,000 and $53,000 for the three and nine months ended December 31, 2019 and 2018, respectively.

Commitments and Contingencies

Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) The standard requires all leases that have a term of over 12 months to be recognized on the balance sheet with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the income statement will be dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). The Company adopted ASU 2016-02 on April 1, 2019, and the adoption resulted in the recognition of a Right of Use Asset ("ROU") and a Lease Liability for a new equipment lease entered into on June 24, 2019 (Note 8).

During the nine months ended December 31, 2019, there were several new accounting pronouncements issued by the Financial Accounting Standards Board. Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company's consolidated financial statements.

Management's Evaluation of Subsequent Events

The Company evaluates events that have occurred after the balance sheet date of December 31, 2019, through the date which the consolidated financial statements were issued. Based upon the review, other than described in Note 10 – Subsequent Events, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the consolidated financial statements.

NOTE 3 – SHORT-TERM NOTE AND LINES OF CREDIT

On November 3, 2015, the Company entered into a short-term note agreement with Community National Bank for a total value of $50,000. The short-term note had a stated interest rate of 5.25%, maturity date of December 15, 2017 and had an initial interest only payment on February 3, 2016. On July 18, 2018, the short-term note was replaced by a promissory note for the outstanding balance of $25,298, which bears interest at 8% with a maturity date of July 18, 2021. The short-term note is guaranteed by an officer and director. The balance of the note at December 31, 2019 and March 31, 2019 was $14,116 and $20,193, respectively.

The Company also has a working capital line of credit with Extraco Bank. On April 30, 2019, the Company renewed the line of credit for $372,675. The line of credit bears an interest rate of 5.0% that is compounded monthly on unpaid balances and is payable monthly. The line of credit matures on April 30, 2020 and is secured by certificates of deposit and letters of credit owned by directors and shareholders of the Company. On April 12, 2019, prior to the renewal, the Company paid $100,000 on the loan. The balance of the line of credit is $372,675 and $472,675 at December 31, 2019 and March 31, 2019, respectively.

The Company also has additional lines of credit with Extraco Bank for $100,000 and $200,000, which were renewed on January 19, 2019 and April 30, 2019, respectively, with maturity dates of January 19, 2020 and April 30, 2020, respectively. The lines of credit bear interest at a rate of 6.5% and 5%, respectively, that is compounded monthly on unpaid balances and is payable monthly. They are secured by certificates of deposit and letters of credit owned by directors and shareholders of the Company. The balance of the lines of credit was $276,958 at both December 31, 2019 and March 31, 2019. On January 8, 2020, the Company paid off the $100,000 line of credit.

The Company also has a working capital line of credit with Capital One Bank for $50,000. The line of credit bears an interest rate of prime plus 25.9 basis points, which totaled 31.4% as of December 31, 2019. The line of credit is unsecured. The balance of the line of credit was $9,580 at both December 31, 2019 and March 31, 2019.

The Company also has a working capital line of credit with Chase Bank for $25,000. The line of credit bears an interest rate of prime plus 10 basis points, which totaled 15.50% as of December 31, 2019. The line of credit is secured by assets of the Company's subsidiaries. The balance of the line of credit is $10,237 at December 31, 2019 and March 31, 2019.

NOTE 4 – BANK LOAN

On January 10, 2017, the Company entered into a promissory note with Community National Bank for $245,000, at an annual interest rate of 5% and a maturity date of January 10, 2020 (the "CNB Note"). The CNB Note is secured by certain real property owned by the Company in LaCoste, Texas, and is also personally guaranteed by the Company's President, as well as certain shareholders of the Company. The balance of the CNB Note is $222,736 at December 31, 2019 and $228,725 at March 31, 2019. The CNB note is in technical default as of the date of this filing, and the Company is in negotiations with the bank to extend the maturity date.

NOTE 5 – CONVERTIBLE DEBENTURES

September 14, 2018 Debenture

On September 14, 2018, the Company entered into a 12% convertible promissory note for $112,500, with an OID of $10,250, which matures on March 14, 2019. There is a right of prepayment in the first 180 days, but there is no right to repay after 180 days. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. The Company has not maintained the required share reservation under the terms of the note agreement. The Company believes it has sufficient available shares of the Company's common stock in the event of conversion for these notes. The interest rate increases to a default rate of 24% for events as set forth in the agreement, including if the market capitalization is below $5 million, or there are any dilutive issuances. There is also a cross default provision to all other notes. In the event of default, the outstanding principal balance increases to 150%, and if the Company fails to maintain the required authorized share reserve, the outstanding principal increases to 200%. Additionally, If the Company enters into a 3(a)(9) or 3(a)(10) issuance of shares there are liquidation damages of 25% of principal, not to be below $15,000. The Company must also obtain the noteholder's written consent before issuing any new debt. Additionally, if the note is not repaid by the maturity date the principal balance increases by $15,000. The market capitalization is below $5 million and therefore the note was in default, however, the holder has issued a waiver to the Company on this default provision.

The note is convertible into shares of the Company's common stock at a variable conversion rate that is equal to the lesser of 60% of the lowest trading price for the last 20 days prior to the issuance of the note or 60% of the lowest market price over the 20 days prior to conversion. The conversion price shall be adjusted upon subsequent sales of securities at a price lower than the original conversion price. There are additional 10% adjustments to the conversion price for events set forth in the agreement, including if the conversion price is less than $0.01, if the Company is not DTC eligible, the Company is no longer a reporting company, or the note cannot be converted into free trading shares on or after nine months from issue date. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. The conversion feature meets the definition of a derivative and therefore requires bifurcation and is accounted for as a derivative liability.

On December 13, 2018 the holder converted $11,200 of principal into 4,000,000 shares of common stock of the Company.

On January 25, 2019 the outstanding principal of $101,550, plus an additional $56,375 of default principal and $13,695 in accrued interest of the note was purchased from the noteholder by a third party, who extended the maturity date. The new balance outstanding as of December 31, 2019 is $171,620.

December 6, 2018 Debenture

On December 6, 2018, the Company entered into an 10% convertible promissory note for $210,460, which matures on September 6, 2019. During the first 180 days the convertible redeemable note is in effect, the Company may redeem the note at a prepayment percentage of 120% to 130% of the outstanding principal and accrued interest based on the redemption date's passage of time ranging from 60 days to 180 days from the date of issuance of the debenture. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. In the event of default, as set forth in the agreement, the outstanding principal balance increases to 150%. The Company did not pay the outstanding principal and accrued interest of approximately $54,000 on the maturity date of September 6, 2019, and therefore the principal was increased by the default penalty of 50%, amounting to approximately $27,000. In addition to standard events of default, an event of default occurs if the common stock of the Company shall lose the "bid" price for its Common Stock, on trading markets, including the OTCBB, OTCQB or an equivalent replacement exchange. If the Company enters into a 3(a)(9) or 3(a)(10) issuance of shares there are liquidation damages of 25% of principal, not to be below $15,000. The Company must also obtain the noteholder's written consent before issuing any new debt. The note is convertible at a fixed conversion price of $0.01. If an event of default occurs, the fixed conversion price is extinguished and replaced by a variable conversion rate that is 70% of the lowest trading prices during the 20 days prior to conversion. The fixed conversion price shall reset upon any future dilutive issuance of shares, options or convertible securities. The conversion feature at issuance meets the definition of conventional convertible debt and therefore qualifies for the scope exception in Accounting Standards Codification ("ASC") 815-10-15-74(a) and would not be bifurcated and accounted for separately as a derivative liability. The Company analyzed the conversion feature under ASC 470-20, "Debt with conversion and other options", and based on the market price of the common stock of the Company on the date of funding as compared to the conversion price, determined there was a $136,799 beneficial conversion feature to recognize, which will be amortized over the term of the note using the effective interest method. There was not any amortization expense recognized during the three months ended December 31, 2019, as the beneficial conversion feature was fully amortized as of September 30, 2019. The amortization expense recognized during the nine months ended December 31, 2019 amounted to approximately $91,000,.

On June 27, 2019 the holder converted $30,000 of principal into 3,000,000 shares of common stock of the Company. On three occasions during the three months ended September 30, 2019, the holder converted $140,000 of principal into 14,000,000 shares of common stock of the Company. The note was fully converted on two occasions during October 2019.

December 31, 2018 Debenture

On December 31, 2018, the Company entered into an 10% convertible promissory note for $135,910, which matures on September 30, 2019. The maturity date has been extended to March 1, 2020. During the first 180 days the convertible redeemable note is in effect, the Company may redeem the note at a prepayment percentage of 120% to 130% of the outstanding principal and accrued interest based on the redemption date's passage of time ranging from 60 days to 180 days from the date of issuance of the debenture. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. In the event of default, as set forth in the agreement, the outstanding principal balance increases to 150%. In addition to standard events of default, an event of default occurs if the common stock of the Company shall lose the "bid" price for its Common Stock, on trading markets, including the OTCBB, OTCQB or an equivalent replacement exchange. If the Company enters into a 3(a)(9) or 3(a)(10) issuance of shares there are liquidation damages of 25% of principal, not to be below $15,000. The Company must also obtain the noteholder's written consent before issuing any new debt. The note is convertible at a fixed conversion price of $0.01. If an event of default occurs, the fixed conversion price is extinguished and replaced by a variable conversion rate that is 70% of the lowest trading prices during the 20 days prior to conversion. The fixed conversion price shall reset upon any future dilutive issuance of shares, options or convertible securities. The conversion feature at issuance meets the definition of conventional convertible debt and therefore qualifies for the scope exception in Accounting Standards Codification ("ASC") 815-10-15-74(a) and would not be bifurcated and accounted for separately as a derivative liability. The Company analyzed the conversion feature under ASC 470-20, "Debt with conversion and other options", and based on the market price of the common stock of the Company on the date of funding as compared to the conversion price, determined there was a $88,342 beneficial conversion feature to recognize, which will be amortized over the term of the note using the effective interest method. There was not any amortization expense recognized during the three months ended December 31, 2019, as the beneficial conversion feature was fully amortized as of September 30, 2019. The amortization expense recognized during the nine months ended December 31, 2019 amounted to approximately $59,000.

January 16, 2019 Debenture

On January 16, 2019, the Company entered into an 10% convertible promissory note for $205,436, with an OID of $18,686, for a purchase price of $186,750, which matures on October 16, 2019. The maturity date has been extended to March 1, 2020. During the first 180 days the convertible redeemable note is in effect, the Company may redeem the note at a prepayment percentage of 120% to 130% of the outstanding principal and accrued interest based on the redemption date's passage of time ranging from 60 days to 180 days from the date of issuance of the debenture. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. In the event of default, as set forth in the agreement, the outstanding principal balance increases to 150%. In addition to standard events of default, an event of default occurs if the common stock of the Company shall lose the "bid" price for its Common Stock, on trading markets, including the OTCBB, OTCQB or an equivalent replacement exchange. If the Company enters into a 3(a)(9) or 3(a)(10) issuance of shares there are liquidation damages of 25% of principal, not to be below $15,000. The Company must also obtain the noteholder's written consent before issuing any new debt. The note is convertible at a fixed conversion price of $0.01. If an event of default occurs, the fixed conversion price is extinguished and replaced by a variable conversion rate that is 70% of the lowest trading prices during the 20 days prior to conversion. The fixed conversion price shall reset upon any future dilutive issuance of shares, options or convertible securities. The conversion feature at issuance meets the definition of conventional convertible debt and therefore qualifies for the scope exception in Accounting Standards Codification ("ASC") 815-10-15-74(a) and would not be bifurcated and accounted for separately as a derivative liability. The Company analyzed the conversion feature under ASC 470-20, "Debt with conversion and other options", and based on the market price of the common stock of the Company on the date of funding as compared to the conversion price, determined there was a $176,675 beneficial conversion feature to recognize, which will be amortized over the term of the note using the effective interest method. The amortization expense recognized during the three and nine months ended December 31, 2019 amounted to approximately $59,000 and $128,000, respectively.

On two occasions during the three months ended December 31, 2019, the holder converted $101,661 of principal into 12,000,000 shares of common stock of the Company.

February 4, 2019 Debenture

On February 4, 2019, the Company entered into an 10% convertible promissory note for $85.500, with an OID of $7,500, for a purchase price of $75,000, which matures on November 4, 2019. During the first 180 days the convertible redeemable note is in effect, the Company may redeem the note at a prepayment percentage of 120% to 130% of the outstanding principal and accrued interest based on the redemption date's passage of time ranging from 60 days to 180 days from the date of issuance of the debenture. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. In the event of default, as set forth in the agreement, the outstanding principal balance increases to 150%. In addition to standard events of default, an event of default occurs if the common stock of the Company shall lose the "bid" price for its Common Stock, on trading markets, including the OTCBB, OTCQB or an equivalent replacement exchange. If the Company enters into a 3 (a)(9) or 3(a)(10) issuance of shares there are liquidation damages of 25% of principal, not to be below $15,000. The Company must also obtain the noteholder's written consent before issuing any new debt. The note is convertible at a fixed conversion price of $0.01. If an event of default occurs, the fixed conversion price is extinguished and replaced by a variable conversion rate that is 70% of the lowest trading prices during the 20 days prior to conversion. The fixed conversion price shall reset upon any future dilutive issuance of shares, options or convertible securities. The conversion feature at issuance meets the definition of conventional convertible debt and therefore qualifies for the scope exception in ASC 815-10-15-74(a) and would not be bifurcated and accounted for separately as a derivative liability. The Company analyzed the conversion feature under ASC 470-20, "Debt with conversion and other options", and based on the market price of the common stock of the Company on the date of funding as compared to the conversion price, determined there was a $85,500 beneficial conversion feature to recognize, which will be amortized over the term of the note using the effective interest method.

On August 6, 2019, the Company exercised its option to redeem the February 4, 2019 debenture, for a redemption price of approximately $132,000. The principal of $85,500 and interest of approximately $5,000 was derecognized with the additional $27,000 paid upon redemption recognized as a financing cost and $15,000 for legal fees. As a result of the redemption, the unamortized discount related to the redeemed balance of $38,000 was immediately expensed.

March 1, 2019 Debenture

On March 1, 2019, the Company entered into an 10% convertible promissory note for $168,000, with an OID of $18,000, for a purchase price of $150,000, which matures on November 1, 2019. The maturity date has been extended to March 1, 2020. During the first 180 days the convertible redeemable note is in effect, the Company may redeem the note at a prepayment percentage of 100% to 130% of the outstanding principal and accrued interest based on the redemption date's passage of time ranging from 60 days to 180 days from the date of issuance of the debenture. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. In the event of default, as set forth in the agreement, the outstanding principal balance increases to 150%. In addition to standard events of default, an event of default occurs if the common stock of the Company shall lose the "bid" price for its Common Stock, on trading markets, including the OTCBB, OTCQB or an equivalent replacement exchange. If the Company enters into a 3(a)(9) or 3(a)(10) issuance of shares there are liquidation damages of 25% of principal, not to be below $15,000. The Company must also obtain the noteholder's written consent before issuing any new debt. The note is convertible at a fixed conversion price of $0.25. If an event of default occurs, the fixed conversion price is extinguished and replaced by a variable conversion rate that is 70% of the lowest trading prices during the 20 days prior to conversion. The fixed conversion price shall reset upon any future dilutive issuance of shares, options or convertible securities. The conversion feature at issuance meets the definition of conventional convertible debt and therefore qualifies for the scope exception in ASC 815-10-15-74(a) and would not be bifurcated and accounted for separately as a derivative liability. The Company analyzed the conversion feature under ASC 470-20, "Debt with conversion and other options", and based on the market price of the common stock of the Company on the date of funding as compared to the conversion price, determined there was a $134,000 beneficial conversion feature to recognize, which will be amortized over the term of the note using the effective interest method. There was not any amortization expense recognized during the three months ended December 31, 2019, as the beneficial conversion feature was fully amortized as of September 30, 2019. The amortization expense recognized during the nine months ended December 31, 2019 amounted to approximately $100,000,.

April 17, 2019 Debenture

On April 17, 2019, the Company entered into an 10% convertible promissory note for $110,000, with an OID of $10,000, for a purchase price of $100,000, which matures on January 23, 2020. The maturity date has been waived as of the date of this filing. During the first 180 days the convertible redeemable note is in effect, the Company may redeem the note at a prepayment percentage of 120% to 130% of the outstanding principal and accrued interest based on the redemption date's passage of time ranging from 60 days to 180 days from the date of issuance of the debenture. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. In the event of default, as set forth in the agreement, the outstanding principal balance increases to 150%. In addition to standard events of default, an event of default occurs if the common stock of the Company shall lose the "bid" price for its Common Stock, on trading markets, including the OTCBB, OTCQB or an equivalent replacement exchange. If the Company enters into a 3 (a)(9) or 3(a)(10) issuance of shares there are liquidation damages of 25% of principal, not to be below $15,000. The Company must also obtain the noteholder's written consent before issuing any new debt. The note is convertible at a fixed conversion price of $0.124. If an event of default occurs, the fixed conversion price is extinguished and replaced by a variable conversion rate that is 70% of the lowest trading prices during the 20 days prior to conversion. The fixed conversion price shall reset upon any future dilutive issuance of shares, options or convertible securities. The conversion feature at issuance meets the definition of conventional convertible debt and therefore qualifies for the scope exception in ASC 815-10-15-74(a) and would not be bifurcated and accounted for separately as a derivative liability. The Company analyzed the conversion feature under ASC 470-20, "Debt with conversion and other options", and based on the market price of the common stock of the Company on the date of funding as compared to the conversion price, determined there was an approximately $59,000 beneficial conversion feature to recognize, which will be amortized over the term of the note using the effective interest method. The amortization expense recognized during the three and nine months ended December 31, 2019 amounted to approximately $20,000 and $59,000, respectively.

NOTE 6 – STOCKHOLDERS' DEFICIT

Preferred Stock

As of December 31, 2019 and March 31, 2019, the Company had 200,000,000 shares of preferred stock authorized with a par value of $0.0001. Of this amount, 5,000,000 shares Series A preferred stock are authorized and outstanding.

On September 5, 2019, the Board authorized the issuance of 5,000 preferred shares to be designated as Series B Preferred Stock ("Series B PS"). The Series B PS have a par value of $0.0001, a stated value of $1,200 and no voting rights. The Series B PS are redeemable at the Company's option, at percentages ranging from 120% to 135% for the first 180 days, based on the passage of time. The Series B are also redeemable at the holder's option, upon the occurrence of a triggering event which includes a change of control, bankruptcy, and the inability to deliver Series B PS requested under conversion notices. The triggering redemption amount is at the greater of (i) 135% of the stated value or (ii) the product of the volume-weighted average price ("VWAP") on the day proceeding the triggering event multiplied by the stated value divided by the conversion price. As the redemption feature at the holder's option is contingent on a future triggering event, the Series B PS is considered contingently redeemable, and as such the preferred shares are classified in equity until such time as a triggering event occurs, at which time they will be classified as mezzanine.

The Series B PS is convertible, at the discounted market price which is defined as the lowest VWAP over last 20 days. The conversion price is adjustable based on several situations, including future dilutive issuances. As the Series B PS does not have a redemption date and is perpetual preferred stock, it is considered to be an equity host instrument and as such the conversion feature is not required to be bifurcated as it is clearly and closely related to the equity host instrument.

Series B Preferred Equity Offering

On September 17, 2019, the Company entered into a Securities Purchase Agreement ("SPA") with GHS Investments LLC, a Nevada limited liability company ("GHS") for the purchase of up to 5,000 shares of Series B PS at a stated value of $1,200 per share, or for a total net proceeds of $5,000,000 in the event the entire 5,000 shares of Series B PS are purchased. On September 17, 2019, the Company received an initial tranche of $250,000 under the SPA. During the three months ended December 31, 2019 the Company received $1,250,000 for the issuance of 1,250 Series B PS.

Equity Financing Agreement 2019

On August 23, 2019, the Company entered into a new Equity Financing Agreement ("Equity Financing Agreement") and Registration Rights Agreement ("Registration Rights Agreement") with GHS. Under the terms of the Equity Financing Agreement, GHS agreed to provide the Company with up to $11,000,000 upon effectiveness of a registration statement on Form S-1 (the "Registration Statement") filed with the U.S. Securities and Exchange Commission (the "Commission").

Following effectiveness of the Registration Statement, the Company shall have the discretion to deliver puts to GHS and GHS will be obligated to purchase shares of the Company's common stock, par value $0.0001 per share (the "Common Stock") based on the investment amount specified in each put notice. The maximum amount that the Company shall be entitled to put to GHS in each put notice shall not exceed two hundred percent (200%) of the average daily trading dollar volume of the Company's Common Stock during the ten (10) trading days preceding the put, so long as such amount does not exceed $500,000. Pursuant to the Equity Financing Agreement, GHS and its affiliates will not be permitted to purchase and the Company may not put shares of the Company's Common Stock to GHS that would result in GHS's beneficial ownership equaling more than 4.99% of the Company's outstanding Common Stock. The price of each put share shall be equal to eighty percent (80%) of the Market Price (as defined in the Equity Financing Agreement). Puts may be delivered by the Company to GHS until the earlier of thirty-six (36) months after the effectiveness of the Registration Statement or the date on which GHS has purchased an aggregate of $11,000,000 worth of Common Stock under the terms of the Equity Financing Agreement.

The Registration Rights Agreement provides that the Company shall (i) use its best efforts to file with the Commission the Registration Statement within 30 days of the date of the Registration Rights Agreement; and (ii) have the Registration Statement declared effective by the Commission within 30 days after the date the Registration Statement is filed with the Commission, but in no event more than 90 days after the Registration Statement is filed. The Registration Statement was filed on October 8, 2019 and as of this filing has not yet been deemed effective.

Equity Financing Agreement 2018

On August 21, 2018, the Company entered into the first Equity Financing Agreement and Registration Rights Agreement with GHS. Under the terms of the first Equity Financing Agreement, GHS agreed to provide the Company with up to $7,000,000 upon effectiveness of a registration statement on Form S-1 filed with the U.S. Securities and Exchange Commission. The registration statement was filed and deemed effective on September 19, 2018.

Following effectiveness of the first registration statement, the Company had the discretion to deliver puts to GHS and GHS was obligated to purchase shares of the Company's common stock, based on the investment amount specified in each put notice. The maximum amount that the Company was entitled to put to GHS in each put notice was not to exceed two hundred percent (200%) of the average daily trading dollar volume of the Company's Common Stock during the ten (10) trading days preceding the put, so long as such amount did not exceed $300,000. Pursuant to the first Equity Financing Agreement, GHS and its affiliates will not be permitted to purchase, and the Company may not put shares of the Company's Common Stock to GHS that would result in GHS's beneficial ownership equaling more than 9.99% of the Company's outstanding Common Stock. The price of each put share was to be equal to eighty percent (80%) of the Market Price (as defined in the Equity Financing Agreement). Puts may be delivered by the Company to GHS until the earlier of thirty-six (36) months after the effectiveness of the Registration Statement or the date on which GHS has purchased an aggregate of $7,000,000 worth of Common Stock under the terms of the Equity Financing Agreement.

During the three months ended June 30, 2019, the Company put to GHS for the issuance of 11,482,721 shares of common stock for a total of $1,500,000.On July 2, 2019, the Company put to GHS for the issuance of 3,275,060 shares of common stock, at $0.09, for a total of $274,000.

Options and Warrants

The Company has not granted any options since inception.

The Company granted warrants in connection with various convertible debentures in previous periods. As of December 31, 2019 and March 31, 2019, there are 848,000 and 444,000 (after adjustment) remaining warrants to purchase shares of common stock outstanding, classified as a warrant liability, which expire on January 31, 2022, with an exercise price of 45% of the market value of the common shares of the Company on the date of exercise.

The warrant liability was revalued at December 31, 2019, resulting in no change to the fair value of the warrant liability for the nine months ended December 31, 2019.

NOTE 7 – RELATED PARTY TRANSACTIONS

Accrued Payroll – Related Parties

Included in other accrued expenses on the accompanying consolidated balance sheet as of December 31, 2019 is approximately $185,000 owing to the former Chief Executive Officer of the Company, approximately $56,000 owing to the President of the Company, and approximately $96,000 owing to a key employee.

Notes Payable – Related Parties

On April 20, 2017, the Company entered into a convertible debenture with an affiliate of the Company whose managing member is the Treasurer, Chief Financial Officer, and a director of the Company (the "affiliate"), for $140,000. The convertible debenture matures one year from date of issuance, and bears interest at 6%. Upon an event of default, as defined in the debenture, the principal and any accrued interest becomes immediately due, and the interest rate increases to 24%. The convertible debenture is convertible at the holder's option at a conversion price of $0.30. As of March 31, 2018, the Company had paid $52,400 on this note, with $87,600 remaining outstanding as of March 31, 2019. On July 26, 2019, the Company paid $47,000 on this note and on December 17, 2019, $22,000, leaving $18,600 remaining outstanding on the note as of December 31, 2019. Subsequent to period end, on February 4, 2020, the Company paid off the remaining $18,600.

NaturalShrimp Holdings, Inc.

On January 1, 2016 the Company entered into a notes payable agreement with NaturalShrimp Holdings, Inc.("NSH"), a shareholder. Between January 16, 2016 and March 7, 2016, the Company borrowed $134,750 under this agreement. An additional $601,361 was borrowed under this agreement in the year ended March 31, 2017. The note payable has no set monthly payment or maturity date with a stated interest rate of 2%. As of December 31, 2019 and March 31, 2019 the outstanding balance is approximately $735,000.

Shareholder Notes

The Company has entered into several working capital notes payable to multiple shareholders of NSH and Bill Williams, a former officer and director, and a current shareholder of the Company, for a total of $486,500. The notes are unsecured and bear interest at 8%. These notes had stock issued in lieu of interest and have no set monthly payment or maturity date. The balance of these notes at December 31, 2019 and March 31, 2019 was $426,404 and $426,404, respectively, and is classified as a current liability on the consolidated balance sheets. At December 31, 2019 and March 31, 2019, accrued interest payable was $266,616 and $241,032, respectively.

Shareholders

In 2009, the Company entered into a note payable to Randall Steele, a shareholder of NSH, for $50,000. The note bears interest at 6.0% and was payable upon maturity on January 20, 2011, and is currently in default. The note is unsecured. The balance of the note at December 31, 2019 and March 31, 2019 was $50,000, respectively, and is classified as a current liability on the consolidated balance sheets.

Beginning in 2010, the Company started entering into several working capital notes payable with various shareholders of NSH for a total of $290,000 and bearing interest at 8%. The balance of these notes at December 31, 2019 and March 31, 2019 was $104,647 and is classified as a current liability on the consolidated balance sheets.

NOTE 8 – LEASE

On June 24, 2019, the Company entered into a service and equipment lease agreement for water treatment services, consumables and equipment. The lease term is for five years, with a renewal option of an additional five years, with a monthly lease payment of $5,000. The Company analyzed the classification of the lease under ASC 842, and as it did not meet any of the criteria for a financing lease it has been classified as an operating lease. The Company determined the Right of Use asset and Lease liability values at inception calculated at the present value of all future lease payments for the lease term, using an incremental borrowing rate of 5%. The Lease Liability will be expensed each month, on a straight line basis, over the life of the lease.

For the three and nine months ended December 31, 2019 the lease expense was $15,000 and $30,000, and the amortization of the Right of Use asset was $11,702 and $23,260.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Executive Employment Agreements – Bill Williams and Gerald Easterling

On April 1, 2015, the Company entered into employment agreements with each of Bill G. Williams, as the Company's Chief Executive Officer, and Gerald Easterling as the Company's President, effective as of April 1, 2015 (the "Employment Agreements").

The Employment Agreements are each terminable at will and each provide for a base annual salary of $96,000. In addition, the Employment Agreements each provide that the employee is entitled, at the sole and absolute discretion of the Company's Board of Directors, to receive performance bonuses. Each employee will also be entitled to certain benefits including health insurance and monthly allowances for cell phone and automobile expenses.

Each Employment Agreement provides that in the event employee is terminated without cause or resigns for good reason (each as defined in their Employment Agreements), the employee will receive, as severance the employee's base salary for a period of 60 months following the date of termination. In the event of a change of control of the Company, the employee may elect to terminate the Employment Agreement within 30 days thereafter and upon such termination would receive a lump sum payment equal to 500% of the employee's base salary.

Each Employment Agreement contains certain restrictive covenants relating to non-competition, non-solicitation of customers and non-solicitation of employees for a period of one year following termination of the employee's Employment Agreement.

On August 15, 2019, Mr. Bill Williams resigned from his position as Chairman of the Board and Chief Executive Officer of the Company, effective August 31, 2019. A separation agreement is currently being negotiated.

Vista Capital Investments, LLC

On April 30, 2019, a complaint was filed against the Company in the U.S. District Court in Dallas, Texas alleging that the Company breached a provision in a common stock purchase warrant (the "Vista Warrant") issued by the Company to Vista Capital Investments, LLC ("Vista"). Vista alleges that the Company failed to issue certain shares of the Company's common stock as was required under the terms of the Vista Warrant. Vista is currently seeking money damages in the approximate amount of $7,000,000, which the Company believes is unwarranted and excessive, as well as costs and reimbursement of expenses. As of the date hereof, no hearing has been scheduled, but the Company is vigorously defending itself against these claims, preparing a counter-claim against Vista and taking such other appropriate action, in addition to seeking for other costs and relief as may be appropriate. The Company is currently in discussions with Vista and has accrued $50,000 for the settlement of this complaint, which is recognized as "loss on warrant settlement" on the accompanying Statement of Operations in the nine months ended December 31, 2019.

Contingent Events

On August 5, 2019, the Company received a formal notice from the Texas Parks and Wildlife Department for the Company's facility in La Coste, Texas due to the detection of IHHNV, a viral disease of Pacific white shrimp, from two Postlarvae ("PL") shipments from the Company's Texas hatchery supplier in March and April of this year. At the time of receipts of such shipments from the hatchery in March and April, the Company was notified by its supplier that the shipments were virus free. Based on the Company's quality control procedures during the course of the shrimp farming process in the Company's tanks and, in this case the slower than normal growth rate indicating possible compromise, the Company undertook to have lots independently tested by the University of Arizona Pathology Laboratory in Tucson. Based on those tests, IHHNV was detected and the Company's facility was placed under quarantine until further notice by Texas Parks and Wildlife Department and the United States Department of Agriculture/Animal and Plant Health Inspection Service. Such quarantine notice also imposes no discharge of any culture water to state waters (creeks, rivers, streams, bays) and no sales of any shrimp until further notice. The Company's system of tanks prevents crossover contamination in order to quickly begin restocking of PL shrimp from a different hatchery beginning in August in different tanks. Such orders have been placed and are expected to be placed into production as soon as inspection is passed and the quarantine has been lifted. Furthermore, the Company has enhanced its system to include nursery tanks that will allow the Company to evaluate the health of the shrimp through much earlier testing in its quality control process. While the Company expects to incur costs associated with the proper disposal of such batches, it does not expect it to be material.

NOTE 10 – SUBSEQUENT EVENTS

Sale of Series B PS

Subsequent to period end, on January 7, 2020, and January 31, 2020, the Company received further tranches of $250,000 each under the SPA.

Issuance of Common Stock under Convertible Notes

Subsequent to December 31, 2019, the GHS December 30, 2018 debenture and related accrued interest was fully converted into 14,980,353 shares of the Company's common stock.

Notes Payable – Related Parties

On February 4, 2020, the Company paid the remaining outstanding balance of $18,600 of the convertible debenture owed an affiliate of the Company whose managing member is the Treasurer, Chief Financial Officer, and a director of the Company (Note 7).

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

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes a number of forward-looking statements that reflect management's current views with respect to future events and financial performance. Forward-looking statements are projections in respect of future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other comparable terminology. These statements include statements regarding the intent, belief or current expectations of us and members of our management team, as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks set forth in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2019, as filed with the U.S. Securities and Exchange Commission (the "SEC") on July 1, 2019, any of which may cause our company's or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied in our forward-looking statements. These risks and factors include, by way of example and without limitation:

- our ability to successfully commercialize our equipment and shrimp farming operations to produce a market-ready product in a timely manner and in enough quantity;
- absence of contracts with customers or suppliers;
- our ability to maintain and develop relationships with customers and suppliers;
- our ability to successfully integrate acquired businesses or new brands;
- the impact of competitive products and pricing;
- supply constraints or difficulties;
- the retention and availability of key personnel;
- general economic and business conditions;
- substantial doubt about our ability to continue as a going concern;
- our need to raise additional funds in the future;
- our ability to successfully recruit and retain qualified personnel in order to continue our operations;
- our ability to successfully implement our business plan;
- our ability to successfully acquire, develop or commercialize new products and equipment;
- the commercial success of our products;
- intellectual property claims brought by third parties; and
- the impact of any industry regulation.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, or performance. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events, or changes in the future operating results over time, except as required by law. We believe that our assumptions are based upon reasonable data derived from and known about our business and operations. No assurances are made that actual results of operations or the results of our future activities will not differ materially from our assumptions.

As used in this Quarterly Report on Form 10-Q and unless otherwise indicated, the terms "Company," "we," "us," and "our" refer to NaturalShrimp Incorporated and its wholly-owned subsidiaries: NaturalShrimp Corporation ("NSC"), NaturalShrimp Global, Inc. ("NS Global") and Natural Aquatic Systems, Inc. Unless otherwise specified, all dollar amounts are expressed in United States dollars.

Corporate History

We were incorporated in the State of Nevada on July 3, 2008 under the name "Multiplayer Online Dragon, Inc." Effective November 5, 2010, we effected an 8-for-1 forward stock split, increasing the issued and outstanding shares of our common stock from 12,000,000 shares to 96,000,000 shares. On October 29, 2014, we effected a 1-for-10 reverse stock split, decreasing the issued and outstanding shares of our common stock from 97,000,000 to 9,700,000.

On November 26, 2014, we entered into an Asset Purchase Agreement (the "Agreement") with NaturalShrimp Holdings, Inc. a Delaware corporation ("NSH"), pursuant to which we agreed to acquire substantially all of the assets of NSH which assets consisted primarily of all of the issued and outstanding shares of capital stock of NSC and NS Global, and certain real property located outside of San Antonio, Texas (the "Assets").

On January 30, 2015, we consummated the acquisition of the Assets pursuant to the Agreement. In accordance with the terms of the Agreement, we issued 75,520,240 shares of our common stock to NSH as consideration for the Assets. As a result of the transaction, NSH acquired 88.62% of our issued and outstanding shares of common stock; NSC and NS Global became our wholly-owned subsidiaries, and we changed our principal business to a global shrimp farming company.

In connection with our receipt of approval from the Financial Industry Regulatory Authority ("FINRA"), effective March 3, 2015, we amended our Articles of Incorporation to change our name to "NaturalShrimp Incorporated."

Business Overview

We are a biotechnology company and have developed a proprietary technology that allows us to grow Pacific White shrimp (Litopenaeus vannamei, formerly Penaeus vannamei) in an ecologically controlled, high-density, low-cost environment, and in fully contained and independent production facilities. Our system uses technology which allows us to produce a naturally-grown shrimp "crop" weekly, and accomplishes this without the use of antibiotics or toxic chemicals. We have developed several proprietary technology assets, including a knowledge base that allows us to produce commercial quantities of shrimp in a closed system with a computer monitoring system that automates, monitors and maintains proper levels of oxygen, salinity and temperature for optimal shrimp production. Our initial production facility is located outside of San Antonio, Texas.

NS Global, one of our wholly-owned subsidiaries, owns less than 1% of NaturalShrimp International A.S. in Europe. Our European-based partner, NaturalShrimp International A.S., Oslo, Norway, is responsible for the construction cost of its facility and initial operating capital.

The first facility built in Spain for NaturalShrimp International A.S. is GambaNatural de España, S.L. The land for the first facility was purchased in Medina del Campo, Spain, and construction of the 75,000 sq. ft. facility was completed in 2016. Medina del Campo is approximately seventy-five miles northwest of Madrid, Spain.

On October 16, 2015, we formed Natural Aquatic Systems, Inc. ("NAS"). The purpose of the NAS is to formalize the business relationship between our Company and F&T Water Solutions LLC for the joint development of certain water technologies. The technologies shall include, without limitation, any and all inventions, patents, intellectual property and know-how dealing with enclosed aquatic production systems worldwide. This includes construction, operation, and management of enclosed aquatic production, other than shrimp, facilities throughout the world, co-developed by both parties at our facility located outside of La Coste, Texas. On December 25, 2018, we were awarded U.S. Patent "Recirculating Aquaculture System and Treatment Method for Aquatic Species" covering all indoor aquatic species that utilizes proprietary art.

The Company has two wholly-owned subsidiaries, including NSC, NS Global and a 51% owned subsidiary, NAS.

Evolution of Technology and Revenue Expectations

Historically, efforts to raise shrimp in a high-density, closed system at the commercial level have been met with either modest success or outright failure through "BioFloc Technology." Infectious agents such as parasites, bacteria and viruses are the most damaging and most difficult to control. Bacterial infection can in some cases be combated through the use of antibiotics (although not always), and in general, the use of antibiotics is considered undesirable and counter to "green" cultivation practices. Viruses can be even worse, in that they are immune to antibiotics. Once introduced to a shrimp population, viruses can wipe out entire farms and shrimp populations, even with intense probiotic applications.

Our primary solution against infectious agents is our “Vibrio Suppression Technology.” We believe this system creates higher sustainable densities, consistent production, improved growth and survival rates and improved food conversion without the use of antibiotics, probiotics or unhealthy anti-microbial chemicals. Vibrio Suppression Technology helps to exclude and suppress harmful organisms that usually destroy “BioFloc” and other enclosed technologies.

In 2001, we began research and development of a high density, natural aquaculture system that is not dependent on ocean water to provide quality, fresh shrimp every week, fifty-two weeks a year. Our initial system was successful, but we determined that it would not be economically feasible due to high operating costs. Over the next several years, using the knowledge we gained from developing the first system, we developed a shrimp production system that eliminated the high costs associated with the previous system. We have continued to refine this technology, eliminating bacteria and other problems that affect enclosed systems, and now have a successful shrimp growing process. We have produced thousands of pounds of shrimp over the last few years in order to develop a design that will consistently produce quality shrimp that grow to a large size at a specific rate of growth. This included experimenting with various types of natural live and synthesized feed supplies before selecting the most appropriate nutritious and reliable combination. It also included utilizing monitoring and control automation equipment to minimize labor costs and to provide the necessary oversight for proper regulation of the shrimp environment. However, there were further enhancements needed to our process and technology in order to begin production of shrimp on a commercially viable scale and to generate revenues.

Our current system consists of a reception tank where the shrimp are acclimated, then moved to a larger grow-out tank for the rest of the twenty-four week cycle. During 2016, we engaged in additional engineering projects with third parties to further enhance our indoor production capabilities. For example, through our relationship with Trane, Inc., a division of Ingersoll-Rand Plc (“Trane”), Trane has provided a detailed audit to use data to build and verify the capabilities of then initial Phase 1 prototype of a Trane-proposed three tank system at our La Coste, Texas facility. The Company contracted F&T Water Solutions and RGA Labs, Inc. (“RGA Labs”) to complete final engineering and building of the initial patent-pending modified Electrocoagulation system for the grow-out, harvesting and processing of fully mature, antibiotic-free Pacific White Leg shrimp. The design will present a viable pathway to begin generating revenue and producing shrimp on a commercially viable scale. The design is completed and was installed in early June 2018 by RGA Labs, and final financing for the system is expected to be provided by one of the Company’s existing intuitional investors. The first post larvae (PL) arrived from the hatchery on July 3, 2018. The Company used the shrimp for sampling to key potential customers and special events such as the Texas Restaurant Association trade show. The Company also received two production PL lots from Global Blue Technologies on March 21, 2019 and April 17, 2019 and from American Penaeid, Inc. on August 7, 2019. Because the shrimp displayed growth that was slower than normal, the Company had a batch tested by an independent lab at the University of Arizona. The shrimp tested positive for Infectious hypodermal and hematopoietic necrosis (“IHHNV”) and the Texas Parks and Wildlife Department was notified that the facility was under quarantine. On August 26, 2019, the Company was forced to terminate all lots due to the infection. The Company will begin restocking on shrimp in the refurbished facility sections. On August 30, 2019, the Company received notice that it was in compliance again and the quarantine had been lifted. During the aforementioned quarantine, the Company decided to begin an approximately $1,000,000 facility renovation demolishing the interior 16 wood structure lined tanks (720,000 gallons). The Company would be replacing the previous tanks with 40 new fiberglass tanks (600,000 gallons) at a cost of approximately $400,000 allowing complete production flexibility with more smaller tanks. The Company expects that the first shrimp tanks harvest target date will be April 2020. In order to solidify the existing facility production process, the Company has purchased eight electrocoagulation units from F&T Water Solutions for a combined purchase and installation price of approximately $700,000.

Other Developments During the Nine Months Ended December 31, 2019

On August 15, 2019, Mr. Bill Williams resigned from his position as Chairman of the Board and Chief Executive Officer of the Company, effective August 31, 2019. Mr. Williams’s resignation was not the result of any disagreement with the Company on any matter relating to the Company’s operations, policies or practices.

Results of Operations

Comparison of the Three Months Ended December 31, 2019 to the Three Months Ended December 31, 2018

Revenue

We have not earned any significant revenues since our inception and, although we expect revenues to begin in six to nine months, we do not expect them to be significant at that time.

Expenses

Our expenses for the three months ended December 31, 2019 are summarized as follows, in comparison to our expenses for the three months ended December 31, 2018:

	Three Months Ended December 31,	
	2019	2018
Facility operations	$ 41,375	$ 22,479
Salaries and related expenses	109.733	109,623
Rent	4,351	2,953
Professional fees	116,844	70,535
Other general and administrative expenses	75,906	40,710
Research and development	101,500	-
Depreciation	15,958	17,726
Total	$ 465,667	$ 264,026

Operating expenses for the three months ended December 31, 2019 were $465,667, representing an increase of 76.4% compared to operating expenses of $264,026 for the same period in 2018. The overall increase in expenses is mainly due to the Company progressing with their testing and planning to begin commercial operations, which resulted in a ramp up of costs, including increases for employees and related costs, consultants, travel costs. Additionally, the Company's subsidiary, NAS, began activities during the quarter, which included costs for research and development of their technology and the treatment lab. Legal fees, included in professional fees, also increased due to the registration statement and other securities involvement. Depreciation expense decreased slightly as many of the fixed assets currently in use have become fully depreciated, and the fixed assets related to the facility are still in construction in progress and depreciation has not yet begun on these assets.

Comparison of the Nine Months Ended December 31, 2019 to the Nine Months Ended December 31, 2018

Revenue

We have not earned any significant revenues since our inception and, although we expect revenues to begin in six to nine months, we do not expect them to be significant at that time.

Expenses

Our expenses for the nine months ended December 31, 2019 are summarized as follows, in comparison to our expenses for the nine months ended December 31, 2018:

	Nine Months Ended December 31,	
	2019	2018
Facility operations	$ 180,934	$ 66,442
Salaries and related expenses	337,265	314,788
Rent	12,163	8,983
Professional fees	266,455	193,478
Other general and administrative expenses	328,688	136,540
Research and development	101,500	-
Depreciation	41,521	53,171
Total	$ 1,268,526	$ 773,402

Operating expenses for the nine months ended December 31, 2019 were $1,268,526, representing an increase of 63.9% compared to operating expenses of $773,402 for the same period in 2018. The overall increase in expenses is mainly the result an increase in facility operations, as well as increases in salaries and general and administrative costs, as the Company is progressing with their testing and planning to begin commercial operations, and has engaged new employees and consultants and there has been a related increase in maintenance and repairs. Additionally, the Company's subsidiary, NAS, began activities during the quarter, which included costs for research and development of their technology and the treatment lab. Legal fees, included in professional fees, also increased approximately $80,000 during the nine months ended December 31, 2019 as compared to the prior year, due to the registration statement and other securities involvement. Depreciation expense decreased as many of the fixed assets currently in use have become fully depreciated, and the fixed assets related to the facility are still in construction in progress and depreciation has not yet begun on these assets.

Liquidity, Financial Condition and Capital Resources

As of December 31, 2019, we had cash on hand of approximately $583,000 and a working capital deficiency of approximately $4,015,000 as compared to cash on hand of approximately $137,000 and a working capital deficiency of approximately $3,773,000 as of March 31, 2019. The increase in working capital deficiency for the nine months ended December 31, 2019 is mainly due to the increase in cash on hand in current assets, increases in accounts payable and accrued expenses and an increase in the current maturity of the bank loan, discussed in further detail below, in current liabilities.

Working Capital Deficiency

Our working capital deficiency as of December 31, 2019, in comparison to our working capital deficiency as of March 31, 2019, can be summarized as follows:

	December 31, 2019	March 31, 2019
Current assets	$ 715,819	$ 178,685
Current liabilities	4,730,365	3,951,811
Working capital deficiency	$ 4,014,546	$ 3,773,126

The increase in current assets is mainly due to the increase of approximately $445,000 in cash on hand, which is a result of the cash received in funding through the equity financing agreement and sale of Series B PS as well as new convertible debentures. Additionally, prepaid assets increased by approximately $90,000 consisting of legal retainers and expected settlement amounts. The increase in current liabilities is primarily due to the entire balance of the bank loan and lines of credit now being current, as the outstanding balances are now due April 2020 or prior. Accrued expenses increased by approximately $160,000, consisting mainly of $50,000 for an estimated legal settlement and accrued legal fees of approximately $70,000. Additionally, there is an increase of approximately $135,000 in the convertible debenture balance due to the new convertible debenture and the amortization of the existing debt discounts.

Cash Flows

Our cash flows for the nine months ended December 31, 2019, in comparison to our cash flows for the three months ended December 31, 2018, can be summarized as follows:

	Nine Months Ended December 31,	
	2019	2018
Net cash used in operating activities	$ (1,503,708)	$ (682,895)
Net cash used in investing activities	(1,153,525)	(80,754)
Net cash provided by financing activities	3,102,724	763,837
Net change in cash	$ 634,353	$ 188

The increase in net cash used in operating activities in the nine months ended December 31, 2019, compared to the same period in 2018, mainly relates the decrease in the gain on the change in fair value of the derivative of approximately $1,098,000 due to the reduced amounts of convertible debt whose conversion features were required to be bifurcated and recognized as derivative liability, as well as the expenses in the prior year occurring in relation to new convertible debentures for the excess financing costs of approximately $1,372,000 and the change in fair value of the warrant liability of $47,000, which do not occur in the current period. Additionally, amortization of the debt discount decreased in the current period by approximately $537,000 as compared to the nine months ended December 31, 2018.

The net cash used in investing activities in the nine months ended December 31, 2019 included an increase in costs paid on construction in process on the new facility as compared to the same period in 2018, construction on the existing facilities and the purchase of machinery and equipment.

The net cash provided by financing activities increased between periods, with the increased cash provided by financing activities primarily arising from the additional proceeds received from the equity financing agreement of $1,774,000 and $1,500,000 for the sale of Series B PS during the nine months ended December 31, 2019, offset by a decrease in proceeds for new convertible debentures during fiscal 2019 as compared to fiscal 2018 and by payments made on the convertible debt with related party, and the credit line in fiscal 2019.

Our cash position was approximately $583,000 as of December 31, 2019. Management believes that our cash on hand and working capital are not sufficient to meet our current anticipated cash requirements for the next twelve months, as described in further detail under the section titled "*Going Concern*" below.

Recent Financing Arrangements and Developments During the Period

Short-Term Debt and Lines of Credit

On November 3, 2015, the Company entered into a short-term note agreement with Community National Bank for a total value of $50,000. The short-term note had a stated interest rate of 5.25%, maturity date of December 15, 2017 and had an initial interest only payment on February 3, 2016. On July 18, 2018, the short-term note was replaced by a promissory note for the outstanding balance of $25,298, which bears interest at 8% with a maturity date of July 18, 2021. The short-term note is guaranteed by an officer and director. The balance of the note at December 31, 2019 and March 31, 2019 was $14,116 and $20,193, respectively.

The Company also has a working capital line of credit with Extraco Bank. On April 30, 2019, the Company renewed the line of credit for $372,675. The line of credit bears an interest rate of 5.0% that is compounded monthly on unpaid balances and is payable monthly. The line of credit matures on April 30, 2020 and is secured by certificates of deposit and letters of credit owned by directors and shareholders of the Company. On April 12, 2019, prior to the renewal, the Company paid $100,000 on the loan. The balance of the line of credit is $372,675 and $472,675 at December 31, 2019 and March 31, 2019, respectively.

The Company also has additional lines of credit with Extraco Bank for $100,000 and $200,000, which were renewed on January 19, 2019 and April 30, 2019, respectively, with maturity dates of January 19, 2020 and April 30, 2020, respectively. The lines of credit bear an interest rate of 6.5% and 5%, respectively, that is compounded monthly on unpaid balances and is payable monthly. They are secured by certificates of deposit and letters of credit owned by directors and shareholders of the Company. The balance of the lines of credit was $276,958 at both December 31, 2019 and March 31, 2019. On January 8, 2020, the Company paid off the $100,000 line of credit.

The Company also has a working capital line of credit with Capital One Bank for $50,000. The line of credit bears an interest rate of prime plus 25.9 basis points, which totaled 31.4% as of March 31, 2019. The line of credit is unsecured. The balance of the line of credit was $9,580 at both December 31, 2019 and March 31, 2019.

The Company also has a working capital line of credit with Chase Bank for $25,000. The line of credit bears an interest rate of prime plus 10 basis points, which totaled 15.5% as of March 31, 2019. The line of credit is secured by assets of the Company's subsidiaries. The balance of the line of credit is $10,237 at December 31, 2019 and March 31, 2019.

Bank Loan

On January 10, 2017, we entered into a promissory note agreement with Community National Bank in the principal amount of $245,000, with an annual interest rate of 5% and a maturity date of January 10, 2020 (the "CNB Note"). The CNB Note is secured by certain real property owned by the Company in La Coste, Texas, and is also personally guaranteed by the Company's President and Chairman of the Board, as well as certain non-affiliated shareholders of the Company. The balance of the CNB Note is $222,736 at December 31, 2019 and $228,759 at March 31, 2019.

Convertible Debentures

On December 6, 2018, the Company entered into an 10% convertible promissory note for $210,460, which matures on September 6, 2019. During the first 180 days the convertible redeemable note is in effect, the Company may redeem the note at a prepayment percentage of 120% to 130% of the outstanding principal and accrued interest based on the redemption date's passage of time ranging from 60 days to 180 days from the date of issuance of the debenture. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. In the event of default, as set forth in the agreement, the outstanding principal balance increases to 150%. The Company did not pay the outstanding principal and accrued interest of approximately $54,000 on the maturity date of September 6, 2019, and therefore the principal was increased by the default penalty of 50%, amounting to approximately $27,000. In addition to standard events of default, an event of default occurs if the common stock of the Company shall lose the "bid" price for its Common Stock, on trading markets, including the OTCBB, OTCQB or an equivalent replacement exchange. If the Company enters into a 3(a)(9) or 3(a)(10) issuance of shares there are liquidation damages of 25% of principal, not to be below $15,000. The Company must also obtain the noteholder's written consent before issuing any new debt. The note is convertible at a fixed conversion price of $0.01. If an event of default occurs, the fixed conversion price is extinguished and replaced by a variable conversion rate that is 70% of the lowest trading prices during the 20 days prior to conversion. The fixed conversion price shall reset upon any future dilutive issuance of shares, options or convertible securities. On June 27, 2019 the holder converted $30,000 of principal into 3,000,000 shares of common stock of the Company. On three occasions during the three months ended September 30, 2019, the holder converted $140,000 of principal into 14,000,000 shares of common stock of the Company. The note was fully converted on two occasions during October 2019.

On December 31, 2018, the Company entered into an 10% convertible promissory note for $135,910, which matures on September 30, 2019. The maturity date has been extended to March 1, 2020. During the first 180 days the convertible redeemable note is in effect, the Company may redeem the note at a prepayment percentage of 120% to 130% of the outstanding principal and accrued interest based on the redemption date's passage of time ranging from 60 days to 180 days from the date of issuance of the debenture. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. In the event of default, as set forth in the agreement, the outstanding principal balance increases to 150%. In addition to standard events of default, an event of default occurs if the common stock of the Company shall lose the "bid" price for its Common Stock, on trading markets, including the OTCBB, OTCQB or an equivalent replacement exchange. If the Company enters into a 3(a)(9) or 3(a)(10) issuance of shares there are liquidation damages of 25% of principal, not to be below $15,000. The Company must also obtain the noteholder's written consent before issuing any new debt. The note is convertible at a fixed conversion price of $0.01. If an event of default occurs, the fixed conversion price is extinguished and replaced by a variable conversion rate that is 70% of the lowest trading prices during the 20 days prior to conversion. The fixed conversion price shall reset upon any future dilutive issuance of shares, options or convertible securities.

On January 16, 2019, the Company entered into an 10% convertible promissory note for $205,436.60, with an OID of $18,6867, for a purchase price of $186,750.55, which matures on October 16, 2019. The maturity date has been extended to March 1, 2020. During the first 180 days the convertible redeemable note is in effect, the Company may redeem the note at a prepayment percentage of 120% to 130% of the outstanding principal and accrued interest based on the redemption date's passage of time ranging from 60 days to 180 days from the date of issuance of the debenture. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. In the event of default, as set forth in the agreement, the outstanding principal balance increases to 150%. In addition to standard events of default, an event of default occurs if the common stock of the Company shall lose the "bid" price for its Common Stock, on trading markets, including the OTCBB, OTCQB or an equivalent replacement exchange. If the Company enters into a 3(a)(9) or 3(a)(10) issuance of shares there are liquidation damages of 25% of principal, not to be below $15,000. The Company must also obtain the noteholder's written consent before issuing any issue new debt. The note is convertible at a fixed conversion price of $0.01. If an event of default occurs, the fixed conversion price is extinguished and replaced by a variable conversion rate that is 70% of the lowest trading prices during the 20 days prior to conversion. The fixed conversion price shall reset upon any future dilutive issuance of shares, options or convertible securities.

On two occasions during the three months ended December 31, 2019, the holder converted $101,661 of principal into 12,000,000 shares of common stock of the Company.

On February 4, 2019, the Company issued a 10% convertible promissory note for $85,500, with an OID of $7,500, for a purchase price of $75,000, which matures on November 4, 2019. During the first 180 days the convertible redeemable note is in effect, the Company may redeem the note at a prepayment percentage of 120% to 130% of the outstanding principal and accrued interest based on the redemption date's passage of time ranging from 60 days to 180 days from the date of issuance of the debenture. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. In the event of default, as set forth in the agreement, the outstanding principal balance increases to 150%. In addition to standard events of default, an event of default occurs if the common stock of the Company shall lose the "bid" price for its Common Stock, on trading markets, including the OTCBB, OTCQB or an equivalent replacement exchange. If the Company enters into a 3 (a)(9) or 3(a)(10) issuance of shares there are liquidation damages of 25% of principal, not to be below $15,000. The Company must also obtain the noteholder's written consent before issuing any issue new debt. The note is convertible at a fixed conversion price of $0.01. If an event of default occurs, the fixed conversion price is extinguished and replaced by a variable conversion rate that is 70% of the lowest trading prices during the 20 days prior to conversion. The fixed conversion price shall reset upon any future dilutive issuance of shares, options or convertible securities. On August 6, 2019, the Company exercised its option to redeem the February 4, 2019 debenture, for a redemption price of approximately $132,000. The principal of $85,500 and interest of approximately $5,000 was derecognized with the additional $27,000 paid upon redemption recognized as a financing cost and $15,000 for legal fees. As a result of the redemption, the unamortized discount related to the redeemed balance of $38,000 was immediately expensed.

On March 1, 2019, the Company entered into an 10% convertible promissory note for $168,000, with an OID of $18,000, for a purchase price of $150,000, which matures on November 1, 2019. The maturity date has been extended to March 1, 2020. During the first 180 days the convertible redeemable note is in effect, the Company may redeem the note at a prepayment percentage of 100% to 130% of the outstanding principal and accrued interest based on the redemption date's passage of time ranging from 60 days to 180 days from the date of issuance of the debenture. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. In the event of default, as set forth in the agreement, the outstanding principal balance increases to 150%. In addition to standard events of default, an event of default occurs if the common stock of the Company shall lose the "bid" price for its Common Stock, on trading markets, including the OTCBB, OTCQB or an equivalent replacement exchange. If the Company enters into a 3 (a)(9) or 3(a)(10) issuance of shares there are liquidation damages of 25% of principal, not to be below $15,000. The Company must also obtain the noteholder's written consent before issuing any new debt. The note is convertible at a fixed conversion price of $0.25. If an event of default occurs, the fixed conversion price is extinguished and replaced by a variable conversion rate that is 70% of the lowest trading prices during the 20 days prior to conversion. The fixed conversion price shall reset upon any future dilutive issuance of shares, options or convertible securities.

On April 17, 2019, the Company entered into an 10% convertible promissory note for $110,000, with an OID of $10,000, for a purchase price of $100,000, which matures on January 23, 2020. During the first 180 days the convertible redeemable note is in effect, the Company may redeem the note at a prepayment percentage of 120% to 130% of the outstanding principal and accrued interest based on the redemption date's passage of time ranging from 60 days to 180 days from the date of issuance of the debenture. Per the agreement, the Company is required at all times to have authorized and reserved three times the number of shares that is actually issuable upon full conversion of the note. In the event of default, as set forth in the agreement, the outstanding principal balance increases to 150%. In addition to standard events of default, an event of default occurs if the common stock of the Company shall lose the "bid" price for its Common Stock, on trading markets, including the OTCBB, OTCQB or an equivalent replacement exchange. If the Company enters into a 3 (a)(9) or 3(a)(10) issuance of shares there are liquidation damages of 25% of principal, not to be below $15,000. The Company must also obtain the noteholder's written consent before issuing any new debt. The note is convertible at a fixed conversion price of $0.124. If an event of default occurs, the fixed conversion price is extinguished and replaced by a variable conversion rate that is 70% of the lowest trading prices during the 20 days prior to conversion.

Sale and Issuance of Common Stock

During the nine months ended December 31, 2019, the Company issued 37,601,461 shares of the Company's common stock upon conversion of approximately $383,000 of their outstanding convertible debt and accrued interest.

Equity Financing Agreement

On August 21, 2018, the Company entered into an Equity Financing Agreement ("Equity Financing Agreement") and Registration Rights Agreement ("Registration Rights Agreement") with GHS Investments LLC, a Nevada limited liability company ("GHS"). Under the terms of the Equity Financing Agreement, GHS agreed to provide the Company with up to $7,000,000 upon effectiveness of a registration statement on Form S-1 (the "Registration Statement") filed with the U.S. Securities and Exchange Commission (the "Commission"). The Registration Statement was filed, and deemed effective on September 19, 2018.

Following effectiveness of the Registration Statement, the Company has the discretion to deliver puts to GHS and GHS will be obligated to purchase shares of the Company's common stock, par value $0.0001 per share (the "Common Stock") based on the investment amount specified in each put notice. The maximum amount that the Company shall be entitled to put to GHS in each put notice shall not exceed two hundred percent (200%) of the average daily trading dollar volume of the Company's Common Stock during the ten (10) trading days preceding the put, so long as such amount does not exceed $300,000. Pursuant to the Equity Financing Agreement, GHS and its affiliates will not be permitted to purchase and the Company may not put shares of the Company's Common Stock to GHS that would result in GHS's beneficial ownership equaling more than 9.99% of the Company's outstanding Common Stock. The price of each put share shall be equal to eighty percent (80%) of the Market Price (as defined in the Equity Financing Agreement). Puts may be delivered by the Company to GHS until the earlier of thirty-six (36) months after the effectiveness of the Registration Statement or the date on which GHS has purchased an aggregate of $7,000,000 worth of Common Stock under the terms of the Equity Financing Agreement. Additionally, in accordance with the Equity Financing Agreement, the Company shall issue GHS a promissory note in the principal amount of $15,000 to offset transaction costs (the "Note"). The Note bears interest at the rate of 8% per annum, is not convertible and is due 180 days from the issuance date of the Note. Through the year ended March 31, 2019, the Company put to GHS for the issuance of approximately 22,132,000 shares of common stock, for a total of approximately $465,000.

During the nine months ended December 31, 2019, the Company put to GHS for the issuance of 14,744,646 shares of common stock for a total of $1,774,000.

Series B Preferred Equity Offering

On September 5, 2019, the Board authorized the issuance of 5,000 preferred shares to be designated as Series B Preferred Stock. The Series B PS have a par value of $0.0001, a stated value of $1,200 and no voting rights. The Series B PS are redeemable at the Company's option, at percentages ranging from 120% to 135% for the first 180 days, based on the passage of time. The Series B are also redeemable at the holder's option, upon the occurrence of a triggering event which includes a change of control, bankruptcy, and the inability to deliver Series B PS requested under conversion notices. The triggering redemption amount is at the greater of (i) 135% of the stated value or (ii) the product of the volume-weighted average price ("VWAP") on the day proceeding the triggering event multiplied by the stated value divided by the conversion price. As the redemption feature at the holder's option is contingent on a future triggering event, the Series B PS is considered contingently redeemable, and as such the preferred shares are classified in equity until such time as a triggering event occurs, at which time they will be classified as mezzanine.

The Series B PS is convertible, at the discounted market price which is defined as the lowest VWAP over last 20 days. The conversion price is adjustable based on several situations, including future dilutive issuances. As the Series B PS does not have a redemption date and is perpetual preferred stock, it is considered to be an equity host instrument and as such the conversion feature is not required to be bifurcated as it is clearly and closely related to the equity host instrument.

On September 17, 2019, the Company entered into a Securities Purchase Agreement with GHS for the purchase of up to 5,000 shares of Series B PS at a stated value of $1,200 per share, or for a total net proceeds of $5,000,000 in the event the entire 5000 shares of Series B PS are purchased. During the nine months ended December 31, 2019, the Company received $1,500,000 for the issuance of 1,500,000 Series B PS.

Shareholder Note Payable

On April 20, 2017, the Company issued an additional Six Percent (6%) Unsecured Convertible Note to Dragon Acquisitions in the principal amount of $140,000. The note accrues interest at the rate of six percent (6%) per annum, and matures one (1) year from the date of issuance. Upon an event of default, the default interest rate will be increased to twenty-four percent (24%), and the total amount of principal and accrued interest shall become immediately due and payable at the holder's discretion. The note is convertible into shares of the Company's common stock at a conversion price of $0.30 per share, subject to adjustment. As of December 31, 2019, the Company has paid $121,400 on this note, with $18,600 remaining outstanding as of March 31, 2019.

Going Concern

The audited consolidated financial statements contained in this annual report on Form 10-K have been prepared, assuming that the Company will continue as a going concern. The Company has accumulated losses through the period to December 31, 2019 of approximately $43,745,000 as well as negative cash flows from operating activities of approximately $1,153,000. Presently, the Company does not have sufficient cash resources to meet its plans in the twelve months following December 31, 2019. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management is in the process of evaluating various financing alternatives in order to finance the continued build-out of our equipment and for general and administrative expenses. These alternatives include raising funds through public or private equity markets and either through institutional or retail investors. Although there is no assurance that the Company will be successful with our fund raising initiatives, management believes that the Company will be able to secure the necessary financing as a result of ongoing financing discussions with third party investors and existing shareholders.

The consolidated financial statements do not include any adjustments that may be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent on its ability to obtain additional financing as may be required and ultimately to attain profitability. If the Company raises additional funds through the issuance of equity, the percentage ownership of current shareholders could be reduced, and such securities might have rights, preferences or privileges senior to the rights, preferences and privileges of the Company's common stock. Additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, the Company may not be able to take advantage of prospective business endeavors or opportunities, which could significantly and materially restrict its future plans for developing its business and achieving commercial revenues. If the Company is unable to obtain the necessary capital, the Company may have to cease operations.

Future Financing

We will require additional funds to implement our growth strategy for our business. In addition, while we have received capital from various private placements that have enabled us to fund our operations, these funds have been largely used to develop our processes, although additional funds are needed for other corporate operational and working capital purposes. Subsequent to period end we have raised $500,000 from the sale of Series B Preferred shares. However, not including funds needed for capital expenditures or to pay down existing debt and trade payables, we anticipate that we will need to raise an additional $2,500,000 to cover all of our operational expenses over the next 12 months, not including any capital expenditures needed as part of any commercial scale-up of our equipment. These funds may be raised through equity financing, debt financing, or other sources, which may result in further dilution in the equity ownership of our shares. There can be no assurance that additional financing will be available to us when needed or, if available, that such financing can be obtained on commercially reasonable terms. If we are not able to obtain the additional necessary financing on a timely basis, or if we are unable to generate significant revenues from operations, we will not be able to meet our other obligations as they become due, and we will be forced to scale down or perhaps even cease our operations.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

Effects of Inflation

We do not believe that inflation has had a material impact on our business, revenues or operating results during the periods presented.

Critical Accounting Policies and Estimates

Our significant accounting policies are more fully described in the notes to our financial statements included in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended March 31, 2019. We believe that the accounting policies below are critical for one to fully understand and evaluate our financial condition and results of operations.

Fair Value Measurement

The fair value measurement guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in the valuation of an asset or liability. It establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the fair value measurement guidance are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2 - Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; or

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The Company did not have any Level 1 or Level 2 assets and liabilities at December 31, 2019 and March 31, 2019.

The Derivative and warrant liabilities are Level 3 fair value measurements.

Basic and Diluted Earnings/Loss per Common Share

Basic and diluted earnings or loss per share (“EPS”) amounts in the consolidated financial statements are computed in accordance with ASC 260 – 10 “Earnings per Share”, which establishes the requirements for presenting EPS. Basic EPS is based on the weighted average number of shares of common stock outstanding. Diluted EPS is based on the weighted average number of shares of common stock outstanding and dilutive common stock equivalents. Basic EPS is computed by dividing net income or loss available to common stockholders (numerator) by the weighted average number of shares of common stock outstanding (denominator) during the period. For the nine months ended December 31, 2019, the Company had approximately $709,000 in convertible debentures whose approximately 22,895,000 underlying shares are convertible at the holders’ option at conversion prices ranging from $0.01 to $0.30 for fixed conversion rates, and 57% - 60% of the defined trading price for variable conversion rates and approximately 848,000 warrants with an exercise price of 45% of the market price of the Company’s common stock, which were not included in the calculation of diluted EPS as their effect would be anti-dilutive. For the nine months ended December 31, 2018, the Company had approximately $1974,000 in principal on convertible debentures whose approximately 96,842,000 underlying shares are convertible at the holders’ option at conversion prices ranging from 34% - 75% of the defined trading price and approximately 10,637,000 warrants with an exercise price of 45% of the market price of the Company’s common stock, which were not included in the calculation of diluted EPS as their effect would be anti-dilutive.

Impairment of Long-lived Assets and Long-lived Assets

The Company will periodically evaluate the carrying value of longlived assets to be held and used when events and circumstances warrant such a review and at least annually. The carrying value of a longlived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the longlived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on longlived assets to be disposed of are determined in a similar manner, except that fair values are reduced for the cost to dispose.

Recently Adopted Accounting Pronouncements

Our recently adopted accounting pronouncements are more fully described in Note 2 to our financial statements included herein for the quarter ended December 31, 2019.

Recently Issued Accounting Standards

In February 2016, FASB issued ASU No. 2016-02, *Leases* (Topic 842). The standard requires all leases that have a term of over 12 months to be recognized on the balance sheet with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the income statement will be dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). This standard will be effective for our interim and annual periods beginning January 1, 2019, and must be applied on a modified retrospective basis to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Company adopted ASU 2016-02 on April 1, 2019, and the adoption resulted in the recognition of a Right of Use Asset ("ROU") and a Lease Liability for a new equipment lease entered into on June 24, 2019.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable. As a smaller reporting company, we are not required to provide the information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (who is our Principal Executive Officer) and our Chief Financial Officer and Treasurer (who is our Principal Financial Officer and Principal Accounting Officer), of the effectiveness of the design of our disclosure controls and procedures (as defined by Exchange Act Rules 13a-15(e) or 15d-15(e)) as of December 31, 2019 pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2019 in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. This conclusion is based on findings that constituted material weaknesses. A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's interim financial statements will not be prevented or detected on a timely basis.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, which currently consists of our Chief Executive Officer and Treasurer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO" - 2013) and SEC guidance on conducting such assessments. Our management concluded, as of December 31, 2019, that our internal control over financial reporting was not effective. Management realized there were deficiencies in the design or operation of the Company's internal control that adversely affected the Company's internal controls which management considers to be material weaknesses.

In performing the above-referenced assessment, management had concluded that as of December 31, 2019, there were deficiencies in the design or operation of our internal control that adversely affected our internal controls, which management considers to be material weaknesses, including those described below:

(i) *Lack of Formal Policies and Procedures*. We utilize a third-party independent contractor for the preparation of our financial statements. Although the financial statements and footnotes are reviewed by our management, we do not have a formal policy to review significant accounting transactions and the accounting treatment of such transactions. The third-party independent contractor is not involved in the day to day operations of the Company and may not be provided information from management on a timely basis to allow for adequate reporting/consideration of certain transactions.

(ii) *Audit Committee and Financial Expert*. We do not have a formal audit committee with a financial expert, and thus we lack the board oversight role within the financial reporting process.

(iii) *Insufficient Resources*. We have insufficient quantity of dedicated resources and experienced personnel involved in reviewing and designing internal controls. As a result, a material misstatement of the interim and annual financial statements could occur and not be prevented or detected on a timely basis.

(iv) *Entity Level Risk Assessment*. We did not perform an entity level risk assessment to evaluate the implication of relevant risks on financial reporting, including the impact of potential fraud related risks and the risks related to non-routine transactions, if any, on internal control over financial reporting. Lack of an entity-level risk assessment constituted an internal control design deficiency which resulted in more than a remote likelihood that a material error would not have been prevented or detected and constituted a material weakness.

(v) *Lack of Personnel with GAAP Experience*. We lack personnel with formal training to properly analyze and record complex transactions in accordance with U.S. GAAP.

Our management feels the weaknesses identified above have not had any material effect on our financial results. However, we are currently reviewing our disclosure controls and procedures related to these material weaknesses and expect to implement changes in the near term as resources permit, including identifying specific areas within our governance, accounting and financial reporting processes to add adequate resources to potentially mitigate these material weaknesses.

Our management will continue to monitor and evaluate the effectiveness of our internal controls and procedures and our internal controls over financial reporting on an ongoing basis and is committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within any company have been detected.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Except as described below, we are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our Company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

On April 30, 2019, a complaint was filed against the Company in the U.S. District Court in Dallas, Texas alleging that the Company breached a provision in a common stock purchase warrant (the "Vista Warrant") issued by the Company to Vista Capital Investments, LLC ("Vista"). Vista alleges that the Company failed to issue certain shares of the Company's common stock as was required under the terms of the Vista Warrant. Vista is currently seeking money damages in the approximate amount of $7,000,000, which the Company believes is unwarranted and excessive, as well as costs and reimbursement of expenses. The Company is continuing to vigorously defend itself against these claims, preparing a counter-claim against Vista and taking such other appropriate action, in addition to seeking for other costs and relief as may be appropriate. The Company is currently litigating issues related to forum selection. The Company has accrued $50,000 for the settlement of this complaint, which is recognized as "loss on warrant settlement" on the accompanying Statement of Operations in the three months ended June 30, 2019.

ITEM 1A. RISK FACTORS

As a smaller reporting company, we are not required to provide the information required by this Item. We note, however, that an investment in our common stock involves a number of very significant risks. Investors should carefully consider the risk factors included in the "Risk Factors" section of our Annual Report on Form 10-K for our fiscal year ended March 31, 2019, as filed with SEC on July 1, 2019, in addition to other information contained in such Annual Report and in this Quarterly Report on Form 10-Q, in evaluating the Company and our business before purchasing shares of our common stock. The Company's business, operating results and financial condition could be adversely affected due to any of those risks.

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

During the nine months ended December 31, 2019, the Company received $1,500,000 for the issuance of 1,500 Series B PS.

During the nine months ended December 31, 2019, the Company put to GHS for the issuance of 14,744,646 shares of common stock for a total of $1,774,000.

During the three months ended December 31, 2019, the Company issued 24,000,000 shares of its common stock to a note holder in conversion of $203,322 of principal owed under the note.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1*	Certificate of Designation of Series B Preferred Stock of NaturalShrimp Incorporated
31.1*	Section 302 Certification under the Sarbanes-Oxley Act of 2002 of the Principal Executive Officer
31.2*	Section 302 Certification under the Sarbanes-Oxley Act of 2002 of the Principal Financial Officer and Principal Accounting Officer
32.1**	Section 906 Certification under the Sarbanes-Oxley Act of 2002 of the Principal Executive Officer
32.2**	Section 906 Certification under the Sarbanes-Oxley Act of 2002 of the Principal Financial Officer and Principal Accounting Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* *Filed herewith.*

** *In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.*

SIGNATURES

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

NATURALSHRIMP INCORPORATED

Date: February 13, 2020

By: /s/ *Gerald Easterling*
Gerald Easterling
Chief Executive Officer
(Principal Executive Officer)

NATURALSHRIMP INCORPORATED

Date: February 13, 2020

By: /s/ *William Delgado*
William Delgado
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

NATURALSHRIMP INCORPORATED
CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gerald Easterling, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NaturalShrimp Incorporated;

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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

NATURALSHRIMP INCORPORATED

Date: February 13, 2020

By: /s/ *Gerald Easterling*
Gerald Easterling
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

NATURALSHRIMP INCORPORATED
CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William Delgado, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NaturalShrimp Incorporated;

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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

NATURALSHRIMP INCORPORATED

Date: February 13, 2020

By: /s/ *William Delgado*
William Delgado
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

NATURALSHRIMP INCORPORATED
CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q of NaturalShrimp Incorporated (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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 results of operation of the Company.

NATURALSHRIMP INCORPORATED

Date: February 13, 2020

By: /s/ *Gerald Easterling*
Gerald Easterling
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

NATURALSHRIMP INCORPORATED
CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q of NaturalShrimp Incorporated (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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 results of operation of the Company.

NATURALSHRIMP INCORPORATED

Date: February 13, 2020

By: /s/ *William Delgado*
William Delgado
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)