

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 September 30, 2020

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

(State or other Jurisdiction of Incorporation or Organization)

74-3262176

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

15150 Preston Road, Suite #300
Dallas, Texas

(Address of Principal Executive Offices)

75248

(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:

<u>Title of each class</u>	<u>Trading symbol(s)</u>	<u>Name of exchange on which registered</u>
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," "smaller reporting company" and an "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 November 16, 2020, there were 531,023,743 shares of the registrant's common stock outstanding.

NATURALSHRIMP INCORPORATED
FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2020

TABLE OF CONTENTS

Page

[PART I. FINANCIAL INFORMATION](#)

[ITEM 1. Financial Statements](#) 3

[Condensed Consolidated Balance Sheets as of September 30, 2020 \(unaudited\) and March 31, 2020](#) 3

Condensed Consolidated Statements of Operations for the Three and Six Month Ended September 30, 2020 and 2019 (unaudited)	4
Condensed Consolidated Statements of Stockholders' Deficit for the Three and Six Months Ended September 30, 2020 and 2019 (unaudited)	5
Condensed Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2020 and 2019 (unaudited)	6
Notes to Condensed Consolidated Financial Statements (unaudited)	7
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
ITEM 3. Quantitative and Qualitative Disclosures about Market Risk	29
ITEM 4. Controls and Procedures	29
PART II. OTHER INFORMATION	30
ITEM 1. Legal Proceedings	30
ITEM 1A. Risk Factors	30
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	31
ITEM 3. Defaults Upon Senior Securities	31
ITEM 4. Mine Safety Disclosures	31
ITEM 5. Other Information	31
ITEM 6. Exhibits	32
SIGNATURES	33

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATURALSHRIMP INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2020 <u>(unaudited)</u>	March 31, 2020
ASSETS		
Current assets		
Cash	\$ 315,601	\$ 109,491
Prepaid expenses	154,117	128,693
Insurance settlement	-	917,210
Total current assets	<u>469,718</u>	<u>1,155,394</u>
Fixed assets	1,430,519	707,808
Other assets		
Construction-in-process	1,896,226	-
Right of Use asset	275,400	275,400
Deposits	20,633	178,198
Total other assets	<u>2,192,259</u>	<u>453,598</u>
Total assets	<u>\$ 4,092,496</u>	<u>\$ 2,316,800</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$ 809,597	\$ 641,146
Accrued interest	78,134	81,034
Accrued interest - related parties	161,520	296,624
Other accrued expenses	309,485	1,204,815
Short-term Promissory Note and Lines of credit	578,153	570,497
Bank loan	8,438	8,904
Payroll Protection Program loan	103,200	-
Convertible debentures	168,000	463,161
Notes payable - related parties	1,247,162	1,221,162
Dividends payable	94,306	-
Derivative liability	-	176,000
Warrant liability	-	90,000
Total current liabilities	<u>3,557,995</u>	<u>4,753,343</u>
Bank loans, less current maturities	210,509	225,837
Note payable - related party, less current maturities	263,604	-
Lease Liability	275,400	275,400
Total liabilities	<u>4,307,508</u>	<u>5,254,580</u>
Commitments and contingencies (Note 10)		
Stockholders' deficit		
Series A Convertible Preferred stock, \$0.0001 par value, 5,000,000 shares authorized 5,000,000 shares issued and outstanding at September 30, 2020 and March 31, 2020	500	500
Series B Convertible Preferred stock, \$0.0001 par value, 5,000 shares authorized, 1,696 and 2,250 shares issued and outstanding at September 30, 2020 and March 31, 2020, respectively	-	-
Common stock, \$0.0001 par value, 900,000,000 shares authorized, 531,023,743 and 379,742,524 shares issued and outstanding at September 30, 2020 and March 31, 2020, respectively	53,103	37,975
Additional paid in capital	48,638,480	43,533,242
Accumulated deficit	<u>(48,821,413)</u>	<u>(46,427,396)</u>
Total stockholders' deficit attributable to NaturalShrimp, Inc. shareholders	(129,330)	(2,855,679)
Non-controlling interest in NAS	(85,682)	(82,101)
Total stockholders' deficit	<u>(215,012)</u>	<u>(2,937,780)</u>
Total liabilities and stockholders' deficit	<u>\$ 4,092,496</u>	<u>\$ 2,316,800</u>

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

NATURALSHRIMP INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended		For the Six months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Sales	\$ -	\$ -	\$ -	\$ -
Operating expenses:				
General and administrative	401,029	378,371	737,008	637,737
Research and development	79,550	-	79,550	-
Facility operations	68,271	15,035	79,643	139,559
Depreciation and amortization	8,896	13,319	19,677	25,563
Total operating expenses	<u>557,746</u>	<u>406,725</u>	<u>915,878</u>	<u>802,859</u>
Net loss from operations	<u>(557,746)</u>	<u>(406,725)</u>	<u>(915,878)</u>	<u>(802,859)</u>
Other income (expense):				
Interest expense	(29,490)	(57,043)	(59,516)	(119,531)
Amortization of debt discount	-	(254,994)	-	(476,373)
Financing costs	(2,643)	(82,949)	(64,452)	(164,218)
Change in fair value of derivative liability	-	(55,000)	(29,000)	(39,000)
Loss on warrant settlement	-	-	-	(50,000)
Total other income (expense)	<u>(32,133)</u>	<u>(449,986)</u>	<u>(152,968)</u>	<u>(849,122)</u>
Loss before income taxes	(589,879)	(856,711)	(1,068,846)	(1,651,981)
Provision for income taxes	-	-	-	-
Net loss	(589,879)	(856,711)	(1,068,846)	(1,651,981)
Less net loss attributable to non-controlling interest	(1,686)		(3,581)	
Net loss attributable to NaturalShrimp Inc.	<u>(588,193)</u>	<u>(856,711)</u>	<u>(1,065,265)</u>	<u>(1,651,981)</u>
Amortization of beneficial conversion feature on Series B PS	(807,000)	-	(1,100,000)	
Dividends	(83,960)		(228,752)	
Net loss available for common stockholders	<u>\$ (1,479,153)</u>	<u>\$ (856,711)</u>	<u>\$ (2,394,017)</u>	<u>\$ (1,651,981)</u>
EARNINGS PER SHARE (Basic and diluted)	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING (Basic and diluted)	<u>451,549,772</u>	<u>326,488,640</u>	<u>419,177,832</u>	<u>317,572,350</u>

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

NATURALSHRIMP INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

	Series A Preferred stock		Series B Preferred stock		Common stock		Additional paid in Capital	Accumulated deficit	Non-controlling interest	Total stockholders' deficit
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance March 31, 2020	5,000,000	\$ 500	2,250	\$ -	379,742,524	\$ 37,975	\$43,533,243	\$(46,427,396)	\$ (82,101)	(2,937,780)
Issuance of common stock upon conversion					37,926,239	3,793	222,644			226,437
Reclass of derivative liability upon conversion or redemption of related convertible debentures							205,000			205,000
Purchase of Series B Preferred shares			1,250	-			1,250,000			1,250,000
Beneficial conversion feature related to the Series B Preferred Shares							293,000	(293,000)		-
Dividends payable on Series B PS								(144,792)		(144,792)
Series B PS Dividends in kind issued			50	-			56,458			56,458
Conversion of Series B PS to common stock			(800)	-	33,569,730	3,357	(3,357)			-
Common stock issued in Vista Warrant settlement					17,500,000	1,750	608,250			610,000
Reclass of warrant liability upon the cancellation of warrants under Vista Warrant settlement							90,000			90,000
Common stock issued to consultant					1,250,000	125	61,125			61,250
Net loss								(477,072)	(1,895)	(478,967)
Balance June 30, 2020	<u>5,000,000</u>	<u>\$ 500</u>	<u>2,750</u>	<u>\$ -</u>	<u>469,988,493</u>	<u>\$ 47,000</u>	<u>\$46,316,363</u>	<u>\$(47,342,260)</u>	<u>\$ (83,996)</u>	<u>\$(1,062,394)</u>
Issuance of common stock upon conversion					1,014,001	101	125,635			125,736
Purchase of Series B Preferred shares			1,250	-			1,250,000			1,250,000
Beneficial conversion feature related to the Series B Preferred Shares			65	-			807,000	(807,000)		-
Dividends payable on Series B PS								(83,960)		(83,960)
Series B PS Dividends in kind issued							77,984			77,984
Conversion of Series B PS to common stock			(2,369)	-	58,521,249	5,852	(5,852)			-
Common stock issued to consultant					1,500,000	150	67,350			67,500
Net loss								(588,193)	(1,686)	(589,879)
Balance September 30, 2020	<u>5,000,000</u>	<u>\$ 500</u>	<u>1,696</u>	<u>\$ -</u>	<u>531,023,743</u>	<u>\$ 53,103</u>	<u>\$48,638,480</u>	<u>\$(48,821,413)</u>	<u>\$ (85,682)</u>	<u>\$(215,012)</u>
	Series A Preferred stock		Series B Preferred stock		Common stock		Additional paid in Capital	Accumulated deficit	Non-controlling interest	Total stockholders' deficit
	Shares	Amount	Shares	Amount	Shares	Amount				
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	<u>5,000,000</u>	<u>\$ 500</u>	<u>-</u>	<u>\$ -</u>	<u>316,241,014</u>	<u>\$ 31,625</u>	<u>\$39,922,882</u>	<u>\$(42,018,715)</u>	<u>\$ -</u>	<u>\$(2,063,708)</u>
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	<u>5,000,000</u>	<u>\$ 500</u>	<u>250</u>	<u>\$ -</u>	<u>333,516,074</u>	<u>\$ 33,351</u>	<u>\$40,585,157</u>	<u>\$(42,875,426)</u>	<u>\$ -</u>	<u>\$(2,256,418)</u>

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

NATURALSHRIMP INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended	
	September 30, 2020	September 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss attributable to NaturalShrimp Inc.	\$ (1,065,265)	\$ (1,651,981)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation expense	19,677	25,563
Amortization of debt discount	-	476,373
Change in fair value of derivative liability	29,000	39,000
Default penalty	41,112	27,000
Net loss attributable to non-controlling interest	(3,581)	-
Shares issued for services	128,750	-
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(25,424)	(72,826)
Deposits	-	(10,133)
Accounts payable	168,448	63,571
Other accrued expenses	(174,926)	37,268
Accrued interest	13,000	-
Accrued interest - related parties	18,096	82,862
Cash used in operating activities	(851,113)	(983,303)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for machinery and equipment	(742,388)	(267,283)
Cash received from Insurance settlement	917,210	-
Cash paid for construction in process	(1,738,661)	(487,218)
CASH USED IN INVESTING ACTIVITIES	(1,563,839)	(754,501)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bank loan	(15,794)	(3,946)
Payment of related party notes payable	(24,000)	-
Repayment line of credit short-term	7,656	(104,008)
Proceeds from Payroll Protection Program loan	103,200	-
Proceeds from issuance of common shares under equity agreement	-	1,774,001
Proceeds from sale of Series B Convertible Preferred stock	2,500,000	250,000
Proceeds from convertible debentures	-	100,000
Payments on convertible debentures	-	(85,500)
Payments on convertible debentures, related party	-	(47,000)
Cash received in relation to Vista warrant settlement	50,000	-
Cash provided by financing activities	2,621,062	1,883,547
NET CHANGE IN CASH	206,110	145,743
CASH AT BEGINNING OF PERIOD	109,491	137,499
CASH AT END OF PERIOD	\$ 315,601	\$ 283,242
INTEREST PAID	\$ 41,420	\$ 36,669
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Shares issued upon conversion	\$ 336,437	\$ 170,000
Dividends in kind issued	\$ 134,443	\$ 275,400
Shares issued on Vista Warrant settlement	\$ 610,000	\$ -
Note payable, related party, issued in place of Settlement Agreement	\$ 383,604	\$ -

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

NATURALSHRIMP INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2020
(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 six months ended September 30, 2020, the Company had a net loss available for common stockholders of approximately \$2,394,000. At September 30, 2020, the Company had an accumulated deficit of approximately \$48,821,000 and a working capital deficit of approximately \$3,088,000. 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 six months ended September 30, 2020, the Company received net cash proceeds of \$2,500,000 from the sale of 2,500 Series B Preferred shares. Subsequent to September 30, 2020, the Company received \$250,000 from the sale of Series B Preferred shares (See Note 11). 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 six months ended September 30, 2020 and 2019 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 three and six months ended September 30, 2020 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, 2020 included in the Company’s Annual Report on Form 10-K filed with the SEC on June 26, 2020.

The condensed consolidated balance sheet at March 31, 2020 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 six months ended September 30, 2020, the Company had approximately \$168,000 in convertible debentures whose approximately 672,000 underlying shares are convertible at the holders’ option at a fixed conversion price of \$0.25 which were not included in the calculation of diluted EPS as their effect would be anti-dilutive. For the six months ended September 30, 2019, the Company had approximately \$1,033,000 in principal on convertible debentures whose approximately 40,717,000 underlying shares are convertible at the holders’ option at conversion prices ranging from \$0.01 to \$0.30 for fixed conversion rates, and 34% - 60% of the defined trading price for variable conversion rates and approximately 551,000 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 September 30, 2020 and March 31, 2020.

The Derivative liabilities are Level 3 fair value measurements.

The following is a summary of activity of Level 3 liabilities during the six months ended September 30, 2020 and 2019:

Derivatives

	2020	2019
Derivative liability balance at beginning of period	\$ 176,000	\$ 157,000
Reclass to equity upon conversion or redemption	(205,000)	-
Change in fair value	29,000	39,000
Balance at end of period	<u>\$ -</u>	<u>\$ 196,000</u>

At September 30, 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 \$0.17; a risk-free interest rate of 1.88%, and expected volatility of the Company's common stock of 110.05%, and the various estimated reset exercise prices weighted by probability.

Warrant liability

	2020	2019
Warrant liability balance at beginning of period	\$ 90,000	\$ 93,000
Reclass to equity upon cancellation or exercise	(90,000)	-
Change in fair value	-	-
Balance at end of period	<u>\$ -</u>	<u>\$ 93,000</u>

At September 30, 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 \$0.12; a risk-free interest rate of 1.71%, and expected volatility of the Company's common stock of 268.05%.

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 September 30, 2020 and March 31, 2020.

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 September 30, 2020 the Company's cash balance exceeded FDIC coverage. As of March 31, 2020, 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 \$9,000 and \$20,000 for the three and six months ended September 30, 2020 and \$13,000 and \$26,000 for the three and six months ended September 30, 2019, 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

As of September 30, 2020, 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 September 30, 2020, through the date which the consolidated financial statements were issued. Based upon the review, other than described in Note 11 – 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 – FIXED ASSETS

A summary of the fixed assets as of September 30, 2020 and March 31, 2020 is as follows:

	September 30, 2020	March 31, 2020
Land	\$ 202,293	\$ 202,293
Buildings	541,862	509,762
Machinery and equipment	932,275	221,987
Autos and trucks	19,063	19,063
	1,695,493	953,105
Accumulated depreciation	(264,974)	(245,297)
Fixed assets, net	\$ 1,430,519	\$ 707,808

On March 18, 2020, the Company's research and development plant in La Coste, Texas was destroyed by a fire. The Company believes that it was caused by a natural gas leak, but the fire was so extensive that the cause was undetermined. The majority of the damage was to their pilot production plant, which destroyed a large portion of the fixed assets of the Company. The property destroyed had a net book value of \$1,909,495, which was written off and recognized as Loss due to fire during the year ended March 31, 2020. The Company filed a claim with their insurance company, and as of June 2, 2020, received all the proceeds, which totaled \$917,210. The Company is currently purchasing replacement fixed assets and reconstructing their pilot production plant.

NOTE 4 – SHORT-TERM NOTE AND LINES OF CREDIT

The Company has a working capital line of credit with Extraco Bank. On April 30, 2020, the line of credit was renewed with a maturity date of April 30, 2021 for a balance of \$372,675. The line of credit bears an interest rate of 5.0%, that is compounded monthly and to be paid with the principal on the maturity date. The line of credit matures on April 30, 2021 and is secured by certificates of deposit and letters of credit owned by directors and shareholders of the Company. The balance of the line of credit is \$372,675 at both September 30, 2020 and March 31, 2020.

The Company also has an additional line of credit with Extraco Bank for \$200,000, which was renewed with a maturity date of April 30, 2021, for a balance of \$177,778. The lines of credit bear interest at a rate of 5%, that is compounded monthly and to be paid with the principal on the maturity date. The line of credit is secured by certificates of deposit and letters of credit owned by directors and shareholders of the Company. The balance of the line of credit was \$177,778 at both September 30, 2020 and March 31, 2020.

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 29.15% as of September 30, 2020. The line of credit is unsecured. The balance of the line of credit was \$9,580 at both September 30, 2020 and March 31, 2020.

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 13.25% as of September 30, 2020. The line of credit is secured by assets of the Company's subsidiaries. The balance of the line of credit is \$10,237 at September 30, 2020 and March 31, 2020.

NOTE 5 – BANK LOAN

On April 10, 2020, the Company obtained a Paycheck Protection Program (“PPP”) loan in the amount of \$103,200 pursuant to the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). Interest on the loan is at the rate of 1% per year, and all loan payments are deferred for six months, at which time the balance is payable in 18 monthly installments if not forgiven in accordance with the CARES Act and the terms of the promissory note executed by the Company in connection with the loan. The promissory note contains events of default and other provisions customary for a loan of this type. As required, the Company intends to use the PPP loan proceeds for payroll, healthcare benefits, and utilities. The program provides that the use of PPP Loan amount shall be limited to certain qualifying expenses and may be partially or wholly forgiven in accordance with the requirements set forth in the CARES Act.

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. On January 10, 2020, the loan was modified, with certain terms amended. The modified note is for the principal balance of \$222,736, with initial monthly payments of \$1,730 through February 1, 2037, when all unpaid principal and interest will be due and payable. The loan has an initial yearly rate of interest of 5.75% , which may change beginning on February 1, 2023 and each 36 months thereafter, to the Wall Street Journal Prime Rate plus 1%, but never below 4.25%. The monthly payments may change on the same dates as the interest changes. The Company is also allowed to make payments against the principal at any time. The balance of the CNB Note is \$218,947 at September 30, 2020, \$8,990 of which was in current liabilities, and \$222,736 at March 31, 2020, of which \$8,904 was in current liabilities.

On November 3, 2015, the Company entered into a short-term note agreement with Community National Bank for a total value of \$50,000, with a maturity date of December 15, 2017. 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 note is guaranteed by an officer and director. The balance of the note at September 30, 2020 and March 31, 2020 was \$7,656 and \$12,005, respectively.

Maturities on Bank loan is as follows:

Years ended:	
March 31, 2021	\$ 108,041
March 31, 2022	20,730
March 31, 2023	9,240
March 31, 2024	9,786
March 31, 2025	10,364
Thereafter	171,642
	<u>\$ 329,803</u>

NOTE 6 – CONVERTIBLE DEBENTURES

August 24, 2018 Debenture

On August 24, 2018, the Company entered into a 10% convertible note in the principal amount of \$55,000, convertible into shares of common stock of the Company, which matures August 24, 2019. The interest rate increases to 24% per annum upon an event of default, as set forth in the agreement, including a cross default to all other outstanding notes, and if the debenture is not paid at maturity the principal due increases by 10%. If the Company loses its bid price the principal outstanding on the debenture increases by 20%, and if the Company’s common stock is delisted, the principal increases by 50%.

The note is convertible into shares of the Company’s common stock at a price per share equal to 57% of the lowest closing bid price for the last 20 days. The discount is increased an additional 10%, to 47%, upon a “DTC chill”. The conversion feature meets the definition of a derivative and therefore requires bifurcation and will be accounted for as a derivative liability.

During the first 180 days the convertible redeemable note is in effect, the Company may redeem the note at amounts ranging from 130% to 145% of the principal and accrued interest balance, based on the redemption date's passage of time ranging from 60 days to 180 days from the date of issuance of the debenture. On January 10, 2019 the outstanding principal of \$55,000 and accrued interest of \$1,974 was purchased from the noteholder by a third party, for \$82,612. The additional \$25,638 represents the redemption amount owing to the original noteholder and increases the principal amount due to the new noteholder and was recognized as financing cost.

During the fourth fiscal quarter of 2019, in three separate conversions, the holder converted \$57,164 of principal into 9,291,354 shares of common stock of the Company. As a result of the conversions the derivative liability related to the debenture was remeasured immediately prior to the conversions with an overall increase in the fair value of \$65,000 recognized, with the fair value of the derivative liability related to the converted portion, of \$171,000 being reclassified to equity. The key valuation assumptions used consist, in part, of the price of the Company's common stock on the dates of conversion, of \$0.28 to \$0.40; a risk-free interest rate of 2.36% to 2.41% and expected volatility of the Company's common stock, of 343.98% to 374.79%, and the various estimated reset exercise prices weighted by probability.

On May 5, 2020, the remaining outstanding balance of \$29,057 was converted into 2,039,069 shares of common stock of the Company, at a conversion rate of \$0.014. As a result of the conversion the derivative liability related to the debenture was remeasured immediately prior to the conversions with an overall increase in the fair value of \$8,000 recognized, with the fair value of the derivative liability related to the converted portion, of \$30,000 being reclassified to equity. The key valuation assumptions used consist, in part, of the price of the Company's common stock on the dates of conversion of \$0.03; a risk-free interest rate of 0.13% and expected volatility of the Company's common stock, of 158.29%, and the various estimated reset exercise prices weighted by probability.

September 14, 2018 Debenture

On September 14, 2018, the Company entered into a 12% convertible promissory note for \$112,500, with an original issuance discount (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 has been 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 \$81,970 of default principal and \$13,695 in accrued interest of the note, resulting in a new balance of \$197,215, was purchased from the noteholder by a third party, who extended the maturity date.

On three separate dates during the first quarter of the fiscal year ending March 31, 2021, the remaining outstanding balance was converted into 35,887,170 shares of common stock of the Company, at a conversion rate of \$0.006. As a result of the conversion the derivative liability related to the debenture was remeasured immediately prior to the conversions with an overall increase in the fair value of \$8,000 recognized, with the fair value of the derivative liability related to the converted portion, of \$30,000 being reclassified to equity. The key valuation assumptions used consist, in part, of the price of the Company's common stock on the dates of conversion of \$0.03; a risk-free interest rate of 0.13% and expected volatility of the Company's common stock, of 158.29%, and the various estimated reset exercise prices weighted by probability.

March 1, 2019 Debenture

On March 1, 2019, the Company entered into a 10% convertible promissory note for \$168,000, with an OID of \$18,000, for a purchase price of \$150,000, which originally matured on November 1, 2019. The maturity date has been extended to September 1, 2020, with the noteholders waiving the default penalties through December 31, 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 and six months ended September 30, 2020, as the beneficial conversion feature was fully amortized as of September 30, 2019. The amortization expense recognized during the three and six months ended September 30, 2019 amounted to approximately \$50,000.

April 17, 2019 Debenture

On April 17, 2019, the Company entered into a 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 extended until September 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 \$0.124. 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. There was not any amortization expense recognized during the three and six months ended September 30, 2020, as the beneficial conversion feature was fully amortized as of September 30, 2019. The amortization expense recognized during the three and six months ended September 30, 2019 amounted to approximately \$20,000. On September 14, 2020, the outstanding balance of \$110,000 was converted into 1,014,001 shares of common stock of the Company, at a conversion rate of \$0.124.

NOTE 7 – STOCKHOLDERS' DEFICIT

Preferred Stock

As of September 30, 2020 and March 31, 2020, 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 of Series A preferred stock are authorized and outstanding, and 5,000 shares Series B preferred stock are authorized and 2,750 outstanding, respectively.

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. During the six months ended September 30, 2020 the Company received \$2,500,000 for the issuance of 2,500 Series B PS. During the six months ended September 30, 2019, the Company received an initial tranche of \$250,000 under the SPA. Subsequent to the period end, the Company issued 250 Series B Preferred Shares in various tranches of the SPA, totaling \$250,000.

During the six months ended September 30, 2020, the Company has converted 3,054 Series B PS plus 115 Series B PS dividends-in-kind into 92,090,979 shares of the Company's common stock.

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.

Common Shares Issued to Consultants

On August 24, 2020, the Company issued 1,500,000 shares of common stock to a consultant per an agreement entered into on June 25, 2020. The agreement has a six month term, and therefore the fair value of \$67,500, based on the market value of \$0.045 on the grant date, will be recognized over the term of the agreement, with \$32,500 expensed during the three months ended September 30, 2020.

On June 12, 2020, the Company issued 1,250,000 shares of common stock to a consultant, with the fair value of \$61,250 based on the market price of \$0.049 on the date issued and which was recognized as professional services in the three months ended June 30, 2020.

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. The remaining outstanding warrants were cancelled in connection with the legal settlement with Vista Capital Investments, LLC, on April 9, 2020. See discussion in Note 10. The related warrant liability was revalued upon cancellation on April 9, 2020, resulting in no change to the fair value of the warrant liability and the \$90,000 fair value was reclassified to equity.

As of September 30, 2019, there were 551,452 (after adjustment) remaining warrants to purchase shares of common stock outstanding, classified as a warrant liability, which were to 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.

NOTE 8 – RELATED PARTY TRANSACTIONS

Accrued Payroll – Related Parties

Included in other accrued expenses on the accompanying consolidated balance sheet is approximately \$84,000 owing to the President of the Company, and approximately \$175,000, owing to a key employee (which includes \$50,000 in both fiscal years, from consulting services prior to his employment) as of both September 30, 2020 and March 31, 2020. These amounts include both accrued payroll and accrued allowances and expenses.

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 September 30, 2020 and March 31, 2020 the outstanding balance is approximately \$735,000. At September 30, 2020 and March 31, 2020, accrued interest payable was approximately \$58,000 and \$51,000, respectively.

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 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 was \$356,404 at September 30, 2020 and \$426,404 at March 31, 2020, respectively, and is classified as a current liability on the consolidated balance sheets. At September 30, 2020 and March 31, 2020, accrued interest payable was approximately \$140,000 and \$240,000, respectively.

On July 15, 2020, the Company issued a promissory note to Ms. Williams in the amount of \$383,604 to settle the amounts that had been recognized per the separation agreement with the late Mr. Bill Williams dated August 15, 2019 (Note 10) for his portion of the related party notes and related accrued interest discussed above, and accrued compensation and allowances. The note bears interest at one percent per annum, and calls for monthly payments of \$8,000 until the balance is paid in full.

Shareholders

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 September 30, 2020 and March 31, 2020 was \$54,647 and is classified as a current liability on the consolidated balance sheets.

NOTE 9 – 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. As of September 30, 2020 and March 31, 2020, the lease is on hold while the Company waits for new equipment to be delivered and installed. As the lease is on hold there has been no lease expense or amortization of the Right of Use asset for the three and six months ended September 30, 2020.

For the three and six months ended September 30, 2019 the lease expense was \$15,000, and the amortization of the Right of Use asset was \$11,702.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Executive Employment Agreements –Gerald Easterling

On April 1, 2015, the Company entered into an employment agreement with Gerald Easterling at the time as the Company's President, effective as of April 1, 2015 (the "Employment Agreement").

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

The Employment Agreement provides that in the event the employee is terminated without cause or resigns for good reason (as defined in their Employment Agreement), 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.

The 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, the late Mr. Bill Williams resigned from his position as Chairman of the Board and Chief Executive Officer of the Company, effective August 31, 2019. Mr. Easterling replaced him as the Chief Executive Officer of the Company. The separation agreement calls for the continued payment of salary, at \$8,000 semi-monthly, until his accrued compensation in the amount of approximately \$217,000 is paid off, as well as his monthly rent, medical and automobile payments to continue to be paid and deducted against the accrued compensation and debt. After the accrued compensation is fully paid, the payments shall be \$10,000 per month against the remaining debt balance, until such balance is paid in full. On July 15, 2020, the Company issued a promissory note to Ms. Williams in the amount of \$383,604 to settle the amounts agreed to in the separation agreement for accrued compensation and debt (see Note 8).

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 alleged that the Company failed to issue certain shares of the Company's Common Stock as was required under the terms of the Warrant. Vista sought money damages in the approximate amount of \$7,000,000, as well as costs and reimbursement of expenses.

On April 9, 2020, the Company, Vista and David Clark ("Clark"), a principal of Vista, (the "Parties") entered into a Settlement Agreement and Release (the "Settlement Agreement") whereby the Company shall (i) pay to Vista the sum of \$75,000, which the Company wired on April 10, 2020, and (ii) issue to Vista 17,500,000 shares of the Company's Common Stock (the "Settlement Shares"). For a period of time equal to 90-days from the date of the settlement, or July 8, 2020, the Company shall have the right, but not the obligation, to purchase back from Vista 8,750,000 of the Settlement Shares at a price equal to the greater of (i) the volume weighted-average trading price of the Company's common shares over the five preceding trading days prior to the date of the delivery of the Company's written notice of such repurchase or (ii) \$0.02 per share. On May 18, 2020, the Company received \$50,000 as consideration for waiving the purchase option on the Settlement Shares, thereby allowing Vista to retain all of the Settlement Shares. The Vista warrants outstanding were cancelled as part of the Settlement Agreement.

RGA Labs, Inc.

On February 18, 2020, RGA Labs, Inc. ("RGA") filed suit against the Company in the Illinois Circuit Court (23rd District) alleging that the Company owed RGA money pursuant to a written contract for the design and manufacture of certain water treatment equipment commissioned by the Company. The Company disputed the allegations and has counterclaimed against RGA for additional costs and expenses incurred by the Company in correcting, repairing and retro-fitting the equipment to enable it to work in the Company's facilities. The amount in controversy is not material.

Gary Shover

A shareholder of NaturalShrimp Holdings, Inc. (“NSH”), Gary Shover, filed suit against the Company on August 11, 2020 in the Northern District of Texas, Dallas Division, alleging breach of contract for the Company’s failure to exchange common shares of the Company for shares Mr. Shover owns in NSH. The Company has filed its answer to the complaint and is seeking to settle the matter with Mr. Shover with the approval of the Federal District Court. A settlement stipulation has been prepared and approved by the parties and will be filed with the Court along with a proposed order.

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 alleged that the Company failed to issue certain shares of the Company’s Common Stock as was required under the terms of the Warrant. Vista sought money damages in the approximate amount of \$7,000,000, as well as costs and reimbursement of expenses.

On April 9, 2020, the Company, Vista and David Clark (“Clark”), a principal of Vista, (the “Parties”) entered into a Settlement Agreement and Release (the “Settlement Agreement”) whereby the Company shall (i) pay to Vista the sum of \$75,000, which the Company wired on April 10, 2020, and (ii) issue to Vista 17,500,000 shares of the Company’s Common Stock (the “Settlement Shares”). For a period of time equal to 90-days from the date of the settlement, or July 8, 2020, the Company shall have the right, but not the obligation, to purchase back from Vista 8,750,000 of the Settlement Shares at a price equal to the greater of (i) the volume weighted-average trading price of the Company’s common shares over the five preceding trading days prior to the date of the delivery of the Company’s written notice of such repurchase or (ii) \$0.02 per share. On May 18, 2020, the Company received \$50,000 as consideration for waiving the purchase option on the Settlement Shares, thereby allowing Vista to retain all of the Settlement Shares. The Vista warrants outstanding were also cancelled as part of the Settlement Agreement. The \$75,000, as well as the fair market value of the 17,500,000 common shares, which is \$560,000 based on the market value of the Company’s common stock on the settlement date of \$0.32, was accrued in Accrued expenses on the accompanying March 31, 2020 Balance Sheet and recognized as Loss on Warrant settlement in the fourth quarter of the year ending March 31, 2020.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent to the three months ended September 30, 2020, the Company issued 250 Series B Preferred Shares in various tranches of the SPA, totaling \$250,000.

On August 11, 2020, the Company issued a press release announcing that it has signed a letter of intent to acquire the assets of Alder Aqua, formerly known as VeroBlue Farms, in Webster City, Iowa, including, but not limited to, the real property, equipment, tanks, rolling stock, inventory, permits, contracts, customer lists and contracts and other such assets used in the operation of the business. The purchase price will be \$10,000,000, consisting of a \$5,000,000 down payment and notes due in 36 and 48 months. The acquisition is subject to successful due diligence by the Company and is expected to close in the fourth quarter of 2020. Additionally, the facilities located in Blairsburg, Iowa and Buckeye, Iowa are included in the transaction.

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, 2020, as filed with the U.S. Securities and Exchange Commission (the "SEC") on June 26, 2020, 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 on a timely basis to successfully rebuild our research and development plant in La Coste, Texas which was completely destroyed by a fire on March 18, 2020;
- our ability, once our research and development plan is rebuilt, 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 continued ability to raise funding through institutional investors at the pace and quantities required to scale our plant needs to commercialize our products;
- 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;
- business interruptions resulting from geo-political actions, including war, and terrorism or disease outbreaks (such as the outbreak of COVID-19);
- 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 Securities and Exchange Commission (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”) and NaturalShrimp Global, Inc. (“NS Global”) and our 51% owned subsidiary, 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 we 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 was a 50% shareholder of NaturalShrimp Europe GmbH, which ultimately re-domiciled from Switzerland to Norway in the name of NaturalShrimp International A.S. and later changed its name to Gamba International, A.S., supplied the original technology and design support for the first production subsidiary formed in Medina del Campo, Spain and operated as GambaNatural de España, S.L. Today, NS Global holds less than 1% ownership in Norwegian-based Noray Seafood A.S. (formally Gamba International A.S.).

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, NSC and NS Global and owns 51% of NAS.

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 Penacid, 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 had expected that the first shrimp tanks harvest target date will be April 2020.

On March 18, 2020, our research and development plant in La Coste, Texas was destroyed by a fire. The Company believes that it was caused by a natural gas leak, but the fire was so extensive that the cause was undetermined. No one was injured as a result of the fire. The majority of the damage was to our pilot production plant, which comprises approximately 35,000 square feet of the total size of all facilities at the La Coste location of approximately 53,000 square feet, but the fire did not impact the separate greenhouse, reservoirs or utility buildings. We have received total insurance proceeds in the amount of \$917,210, the full amount of our claim. These funds are being utilized to rebuild a 40,000 square foot production facility at the La Coste facility and to repurchase the equipment needed to replace what was lost in the fire. We expect this facility to be operational by January 2021.

Results of Operations

Comparison of the Three Months Ended September 30, 2020 to the Three Months Ended September 30, 2019

Revenue

We have not earned any significant revenues since our inception and, although we expect revenues to begin in the third quarter of 2021, we can provide no assurances as to how significant they will be at that time.

Expenses

Our expenses for the three months ended September 30, 2020 are summarized as follows, in comparison to our expenses for the three months ended September 30, 2019:

	Three Months Ended September 30,	
	2020	2019
Salaries and related expenses	\$ 103,818	\$ 118,022
Professional fees	159,178	88,815
Other general and administrative expenses	133,824	167,788
Rent	4,209	3,746
Facility operations	68,271	15,035
Research and development	79,550	-
Depreciation	8,896	13,319
Total	<u>\$ 557,746</u>	<u>\$ 406,725</u>

Operating expenses for the three months ended September 30, 2020 were \$557,746, which is an approximately 37% increase over operating expenses of \$406,725 for the same period in 2019. The overall change in expenses is mainly due to the increase in professional fees resulting from an increase in legal fees this period, related in part to the warrant settlement with Vista, the new expense for research and development and an increase in accounting consulting fees, over the same period in the previous year. The increase of approximately \$53,000 in the three months ended September 30, 2020 for facility operations and the research and development is a result of the Company recommencing with its testing and start-up operations in the production plant. All other costs between periods are fairly consistent.

Comparison of the Six Months Ended September 30, 2020 to the Six Months Ended September 30, 2019

Revenue

We have not earned any significant revenues since our inception and, although we expect revenues to begin in the third quarter of 2021, we can provide no assurances as to how significant they will be at that time.

Expenses

Our expenses for the six months ended September 30, 2020 are summarized as follows, in comparison to our expenses for the six months ended September 30, 2019:

	Six Months Ended September 30,	
	2020	2019
Salaries and related expenses	\$ 214,533	\$ 227,532
Professional fees	287,486	149,611
Other general and administrative expenses	227,146	252,782
Rent	7,843	7,812
Facility operations	79,643	139,559
Research and development	79,550	-
Depreciation	19,677	25,563
Total	<u>\$ 915,878</u>	<u>\$ 802,859</u>

Operating expenses for the six months ended September 30, 2020 were \$915,878, which is an increase of approximately 14% as compared to operating expenses for the same period in 2019. The overall change in expenses is mainly due to the increase in professional fees and the new expense for research and development, offset by the decrease in facility operations between the periods. The increase in professional fees is due to an increase in legal fees this period, related in part to the Vista warrant settlement, and an increase in accounting consulting fees, over the same period in the previous year. The decrease of approximately \$60,000 in facility operations is a result of the fire on March 18, 2020, at our pilot production plant, which is currently in the process of being rebuilt. While we have been starting up the testing and start-up operations in the current quarter of 2020, facility operation expenses for the six months are lower due to reduction of work as a result of the fire. In the three months ending September 30, 2019, the Company was progressing with its testing and planning to begin commercial operations, which had resulted in a ramp-up of costs. All other costs between periods are fairly consistent.

Liquidity, Financial Condition and Capital Resources

As of September 30, 2020, we had cash on hand of approximately \$316,000 and a working capital deficiency of approximately \$3,088,000, as compared to cash on hand of approximately \$109,000 and a working capital deficiency of approximately \$3,598,000 as of March 31, 2020. The decrease in working capital deficiency for the six months ended September 30, 2020 is mainly due to the decrease in current liabilities as a result of decreases in convertible debt and the related derivatives due to conversions of approximately \$336,000 of convertible debt, the Vista settlement in April of 2020, which was accrued as of March 31, 2020 and which consisted of \$560,000 in accrued expenses and \$90,000 in warrant liability, as well as the issuance of the related party note to Ms. Williams in exchange for the amounts owed under the late Mr. William's settlement agreement, a portion of which is now non-current. This is offset by a decrease in current assets as a result of the collection of the insurance settlement of approximately \$917,000.

Working Capital Deficiency

Our working capital deficiency as of September 30, 2020, in comparison to our working capital deficiency as of March 31, 2020, can be summarized as follows:

	September 30, 2020	March 31, 2020
Current assets	\$ 469,718	\$ 1,155,394
Current liabilities	3,557,995	4,753,343
Working capital deficiency	<u>\$ 3,088,277</u>	<u>\$ 3,597,949</u>

The decrease in current assets is due to the receipt of the insurance settlement of approximately \$917,000 which was in current assets as of March 31, 2020. While this decreased current assets as compared to the prior year end, the remaining proceeds have increased cash as of September 30, 2020, by approximately \$206,000. The decrease in current liabilities is primarily due to the issuance of the shares of the Company's common stock in the current period related to the Vista warrant settlement, with a fair value of \$560,000, plus the cash payment to Vista of \$75,000 on April 10, 2020, which were both included in accrued expenses as of March 31, 2020, along with the reclassification of the \$90,000 warrant liability to equity upon cancellation of the Vista warrants. The current liabilities also were decreased by the conversion of approximately \$336,000 of principal of convertible notes and the related reclassification to equity of the total derivative liability upon conversion. Additionally, the issuance of the related party note to Ms. Williams in exchange for the amounts owed under the late Mr. William's settlement agreement, also resulted in a decrease to current liabilities as a portion of the new note payable is now non-current. Lastly, there also is an increase of approximately \$169,000 in accounts payable.

Cash Flows

Our cash flows for the six months ended September 30, 2020, in comparison to our cash flows for the six months ended September 30, 2019, can be summarized as follows:

	Six Months Ended September 30,	
	2020	2019
Net cash used in operating activities	\$ (851,113)	\$ (983,303)
Net cash used in investing activities	(1,563,839)	(754,501)
Net cash provided by financing activities	2,621,062	1,883,547
Net change in cash	<u>\$ 206,110</u>	<u>\$ 145,743</u>

The decrease in net cash used in operating activities in the six months ended September 30, 2020 compared to the same period in 2019 is attributable partly due to the decrease in the net loss, as well as the approximately \$129,000 fair value of the shares issued for services. There also was the decrease in accrued expenses, which was a result of the settlement with Vista and in accrued interest due to related parties, stemming from the issuance of the new Ms. Williams note payable in settlement of the late Mr. Williams separation agreement. This is offset in the current period of no longer recognizing amortization of debt discount, which was \$476,373 in the prior period.

The net cash used in investing activities in the six months ended September 30, 2020 includes cash paid for machinery and equipment and construction in process to rebuild the plant and is offset by the \$917,210 of cash proceeds received from the insurance settlement for the fire to the pilot production plant. In the same period in 2019, the Company used cash for investing activities to purchase machinery and equipment and payments on construction in process on the new facility.

The net cash provided by financing activities increased by approximately \$738,000 between periods. For the current period, the Company received \$2,500,000 from the Securities Purchase Agreement for the sale of Series B Convertible Preferred Stock, as well as \$103,200 from a Paycheck Protection Program ("PPP") loan, which is expected to be forgiven within the current year, and \$50,000 connected to the Vista warrant settlement. In the same period in the prior year, the financing activities primarily arose from the proceeds received from the equity financing agreement of \$1,774,000 and \$100,000 proceeds from a new convertible debenture in April of 2019, and \$250,000 from the initial tranche of the Stock Purchase Agreement of the Series B Convertible Preferred Stock, offset by payments made on the credit line and convertible debentures in fiscal 2020.

Our cash position was approximately \$316,000 as of September 30, 2020. 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 more fully described below.

Recent Financing Arrangements and Developments During the Period

Short-Term Debt and Lines of Credit

The Company has a working capital line of credit with Extraco Bank. On April 30, 2020, the line of credit was renewed with a maturity date of April 30, 2021 for a balance limit of \$372,675. The line of credit bears an interest rate of 5.0%, that is compounded monthly and to be paid with the principal on the maturity date. The line of credit matures on April 30, 2021 and is secured by certificates of deposit and letters of credit owned by directors and shareholders of the Company. The balance of the line of credit is \$372,675 at both September 30, 2020 and March 31, 2020.

The Company also has an additional line of credit with Extraco Bank for \$200,000, which was renewed with a maturity date of April 30, 2021, for a balance of \$177,778. The lines of credit bear interest at a rate of 5%, that is compounded monthly and to be paid with the principal on the maturity date. The line of credit is secured by certificates of deposit and letters of credit owned by directors and shareholders of the Company. The balance of the line of credit was \$177,778 at both September 30, 2020 and March 31, 2020.

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 29.15% as of September 30, 2020. The line of credit is unsecured. The balance of the line of credit was \$9,580 at both September 30, 2020 and March 31, 2020.

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 13.25% as of September 30, 2020. The line of credit is secured by assets of the Company's subsidiaries. The balance of the line of credit is \$10,237 at September 30, 2020 and March 31, 2020.

Bank Loan

On April 10, 2020, the Company obtained a PPP loan in the amount of \$103,200 pursuant to the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Interest on the loan is at the rate of 1% per year, and all loan payments are deferred for six months, at which time the balance is payable in 18 monthly installments if not forgiven in accordance with the CARES Act and the terms of the promissory note executed by the Company in connection with the loan. The promissory note contains events of default and other provisions customary for a loan of this type. As required, the Company intends to use the PPP loan proceeds for payroll, healthcare benefits, and utilities. The program provides that the use of PPP Loan amount shall be limited to certain qualifying expenses and may be partially or wholly forgiven in accordance with the requirements set forth in the CARES Act.

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. On January 10, 2020, the loan was modified, with certain terms amended. The modified note is for the principal balance of \$222,736, with initial monthly payments of \$1,730 through February 1, 2037, when all unpaid principal and interest will be due and payable. The loan has an initial yearly rate of interest of 5.75%, which may change beginning on February 1, 2023 and each 36 months thereafter, to the Wall Street Journal Prime Rate plus 1%, but never below 4.25%. The monthly payments may change on the same dates as the interest changes. The Company is also allowed to make payments against the principal at any time. The balance of the CNB Note is \$218,947 at September 30, 2020, \$8,990 of which was in current liabilities, and \$220,899 at March 31, 2020, of which \$8,904 was in current liabilities.

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 note is guaranteed by an officer and director. The balance of the note at September 30, 2020 and March 31, 2020 was \$7,656 and \$12,005, respectively.

Convertible Debentures

On August 24, 2018, the Company entered into a 10% convertible note in the principal amount of \$55,000, convertible into shares of common stock of the Company, which matures August 24, 2019. The interest rate increases to 24% per annum upon an event of default, as set forth in the agreement, including a cross default to all other outstanding notes, and if the debenture is not paid at maturity the principal due increases by 10%. If the Company loses its bid price the principal outstanding on the debenture increases by 20%, and if the Company's common stock is delisted, the principal increases by 50%. On January 10, 2019 the outstanding principal of \$55,000 and accrued interest of \$1,974 was purchased from the noteholder by a third party, for \$82,612. The additional \$25,638 represents the redemption amount owing to the original noteholder and increases the principal amount due to the new noteholder. The note is convertible into shares of the Company's common stock at a price per share equal to 57% of the lowest closing bid price for the last 20 days. The discount is increased an additional 10%, to 47%, upon a "DTC chill". During the fourth fiscal quarter of 2019, in three separate conversions, the holder converted \$57,164 of principal into 9,291,354 shares of common stock of the Company. On May 5, 2020, the remaining outstanding balance of \$29,057 was converted into 2,039,069 shares of common stock of the Company, at a conversion rate of \$0.014.

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. On January 25, 2019 the outstanding principal of \$101,550, plus an additional \$81,970 of default principal and \$13,695 in accrued interest of the note, resulting in a new balance of \$197,215, was purchased from the noteholder by a third party, who extended the maturity 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 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 has been 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. On December 13, 2018 the holder converted \$11,200 of principal into 4,000,000 shares of common stock of the Company. On three separate dates during the first quarter of the fiscal year ending March 31, 2021, the remaining outstanding balance was converted into 35,887,170 shares of common stock of the Company, at a conversion rate of \$0.006.

On March 1, 2019, the Company entered into a 10% convertible promissory note for \$168,000, with an OID of \$18,000, for a purchase price of \$150,000, which originally matured on November 1, 2019. The maturity date has been extended to September 1, 2020, with the noteholders waiving the default penalties through December 31, 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 a 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 extended to September 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 \$0.124. 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. On September 14, 2020, the outstanding balance of \$110,000 was converted into 1,014,001 shares of common stock of the Company, at a conversion rate of \$0.124.

Sale and Issuance of Common Stock

During the six months ended September 30, 2020, the Company issued 38,940,240 shares of the Company's common stock upon conversion of approximately \$365,000 of their outstanding convertible debt and accrued interest.

During the six months ended September 30, 2020, the Company has converted 3,054 Series B PS plus 115 Series B PS dividends-in-kind into 92,090,979 shares of the Company's common stock.

Common Shares Issued to Consultants

On August 24, 2020, the Company issued 1,500,000 shares of common stock to a consultant per an agreement entered into on June 25, 2020. The agreement has a six month term, and therefore the fair value of \$67,500, based on the market value of \$0.045 on the grant date, will be recognized over the term of the agreement, with \$32,500 expensed during the three months ended September 30, 2020.

On June 12, 2020, the Company issued 1,250,000 shares of common stock to a consultant, with the fair value of \$61,250 based on the market price of \$0.049 on the date issued and which was recognized as professional services in the three months ended June 30, 2020.

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.

During the six months ended September 30, 2020, the Company received \$2,500,000 for the issuance of 2,500 Series B PS.

Going Concern

The audited consolidated financial statements contained in this quarterly report on Form 10-Q have been prepared, assuming that the Company will continue as a going concern. The Company has accumulated losses through the period to September 30, 2020 of approximately \$48,821,000 as well as negative cash flows from operating activities of approximately \$851,000. Presently, the Company does not have sufficient cash resources to meet its plans in the twelve months following the date of issuance of this filing. 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 September 30, 2020, we have raised \$250,000 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, 2020. 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 September 30, 2020 and March 31, 2020.

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 three months ended September 30, 2020, the Company had approximately \$168,000 in convertible debentures whose approximately 672,000 underlying shares are convertible at the holders' option at conversion prices ranging from \$0.124 to \$0.25 for fixed conversion rates which were not included in the calculation of diluted EPS as their effect would be anti-dilutive. For the three months ended September 30, 2019, the Company had approximately \$1,033,000 in principal on convertible debentures whose approximately 40,717,000 underlying shares are convertible at the holders' option at conversion prices ranging from \$0.01 to \$0.30 for fixed conversion rates, and 34% - 60% of the defined trading price for variable conversion rates and approximately 551,000 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 long-lived assets to be held and used when events and circumstances warrant such a review and at least annually. The carrying value of a long-lived 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 long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived 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 September 30, 2020.

Recently Issued Accounting Standards

During the year ended March 31, 2020, 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.

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 September 30, 2020 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 September 30, 2020 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.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2020 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 alleged that the Company failed to issue certain shares of the Company's Common Stock as was required under the terms of the Warrant. Vista sought money damages in the approximate amount of \$7,000,000, as well as costs and reimbursement of expenses.

On April 9, 2020, the Company, Vista and David Clark ("Clark"), a principal of Vista, (the "Parties") entered into a Settlement Agreement and Release (the "Settlement Agreement") whereby the Company shall (i) pay to Vista the sum of \$75,000, which the Company wired on April 10, 2020, and (ii) issue to Vista 17,500,000 shares of the Company's Common Stock (the "Settlement Shares"). For a period of time equal to 90-days from the date of the settlement, or July 8, 2020, the Company shall have the right, but not the obligation, to purchase back from Vista 8,750,000 of the Settlement Shares at a price equal to the greater of (i) the volume weighted-average trading price of the Company's common shares over the five preceding trading days prior to the date of the delivery of the Company's written notice of such repurchase or (ii) \$0.02 per share. On May 18, 2020, the Company received \$50,000 as consideration for waiving the purchase option on the Settlement Shares, thereby allowing Vista to retain all of the Settlement Shares. The Vista warrants outstanding were cancelled as part of the Settlement Agreement.

On February 18, 2020, RGA Labs, Inc. ("RGA") filed suit against the Company in the Illinois Circuit Court (23rd District) alleging that the Company owed RGA money pursuant to a written contract for the design and manufacture of certain water treatment equipment commissioned by the Company. The Company disputed the allegations and has counterclaimed against RGA for additional costs and expenses incurred by the Company in correcting, repairing and retro-fitting the equipment to enable it to work in the Company's facilities. The amount in controversy is not material.

A shareholder of NaturalShrimp Holdings, Inc. ("NSH"), Gary Shover, filed suit against the Company on August 11, 2020 in the Northern District of Texas, Dallas Division, alleging breach of contract for the Company's failure to exchange common shares of the Company for shares Mr. Shover owns in NSH. The Company has filed its answer to the complaint and is seeking to settle the matter with Mr. Shover with the approval of the Federal District Court. A settlement stipulation has been prepared and approved by the parties and will be filed with the Court along with a proposed order.

ITEM 1A. RISK FACTORS

Factors that could cause or contribute to differences in our future financial and operating results include those discussed in the risk factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended March 31, 2020. The risks described in our Form 10-K and this Report are not the only risks that we face. Additional risks not presently known to us or that we do not currently consider significant may also have an adverse effect on the Company. If any of the risks actually occur, our business, results of operations, cash flows or financial condition could suffer.

There have been no material changes to the risk factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended March 31, 2020 filed with SEC on June 26, 2020, other than the following:

We face risks related to Novel Coronavirus (COVID-19) which could significantly disrupt our research and development, operations, sales, and financial results.

Our business could be adversely impacted by the effects of the Novel Coronavirus (COVID-19). In addition to global macroeconomic effects, the Novel Coronavirus (COVID-19) outbreak and any other related adverse public health developments could cause disruption to our operations and manufacturing activities. Our third-party equipment manufacturers, third-party raw material suppliers, and consultants have been and will be disrupted by worker absenteeism, quarantines and restrictions on employees' ability to work, office and factory closures, disruptions to ports and other shipping infrastructure, border closures, or other travel or health-related restrictions which could adversely affect our business and operations. In addition, we have experienced and will experience disruptions to our business operations resulting from quarantines, self-isolations, or other movement and restrictions on the ability of our employees to perform their jobs that may impact our ability to develop and design our products and services in a timely manner or meet required milestones.

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

During the six months ended September 30, 2020, the Company received \$2,500,000 for the issuance of 2,500 Series B PS, issued 37,926,239 shares of its common stock to a note holder in conversion of \$226,437 of principal owed under the note and issued 92,090,979 shares of its common stock to upon conversion of 3,054 Series B PS plus 115 Series B PS dividends-in-kind.

On August 24, 2020, the Company issued 1,500,000 shares of common stock to a consultant per an agreement entered into on June 25, 2020. The agreement has a six month term, and, therefore, the fair value of \$67,500, based on the market value of \$0.045 on the grant date, will be recognized over the term of the agreement, with \$32,500 expensed during the three months ended September 30, 2020.

On June 12, 2020, the Company issued 1,250,000 shares of common stock to a consultant, with the fair value of \$61,250 based on the market price of \$0.049 on the date issued and which was recognized as professional services in the three months ended June 30, 2020.

The above securities were issued in reliance on either the safe harbor of Rule 144 pursuant to Section 4(a)(1) of the Securities Act of 1933, as amended (in the case of shares issued pursuant to conversions of other securities) or the the exemption under Section 4(a)(2) of the Securities Act (in the case of the issuance of the Series B PS and the shares issued to the consultants). The issuance of the Series B PS and the shares issued to the consultants qualified for exemption under Section 4(a)(2) since the issuance by us did not involve a public offering. The offerings were not “public offerings” as defined in 4(a)(2) due to the insubstantial number of persons involved in the transactions, manner of the issuance and number of securities issued. We did not undertake an offering in which we sold a high number of securities to a high number of investors. In addition, the investors had the necessary investment intent as required by Section 4(a)(2) since they agreed to and received securities bearing a legend stating that such securities are restricted pursuant to Rule 144 of the Act. This restriction ensures that these securities would not be immediately redistributed into the market and therefore not be part of a “public offering”. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(a)(2) of the Securities Act for the issuance of the Series B PS and the shares issued to the consultants.

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
31.1 *	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: November 16, 2020

By: /s/ Gerald Easterling

Gerald Easterling
Chief Executive Officer
(Principal Executive Officer)

NATURALSHRIMP INCORPORATED

Date: November 16, 2020

By: /s/ William Delgado

William Delgado
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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: November 16, 2020

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

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: November 16, 2020

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

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: November 16, 2020

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

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: November 16, 2020

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