

# MCIG, INC.

## FORM 10-Q (Quarterly Report)

Filed 12/11/19 for the Period Ending 07/31/19

Address	10752 DEERWOOD PARK BLVD, SUITE 100 JACKSONVILLE, FL, 32256
Telephone	570-778-6459
CIK	0001525852
Symbol	MCIG
SIC Code	2111 - Cigarettes
Industry	Tobacco
Sector	Consumer Non-Cyclicals
Fiscal Year	04/30

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

**Form 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended July 31, 2019

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: 000-55986**

**MCIG, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

**27-4439285**

(State or other jurisdiction of  
incorporation or organization)

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

**10752 Deerwood Park Blvd, Suite 100, Jacksonville, Florida**

**32256**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

**(570) 778-6459**

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if smaller reporting company)

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

As of February 15, 2019, the Company had 516,624,596 shares of common stock, \$0.0001 par value outstanding.

Transitional Small Business Disclosure Format Yes  No

**mCig, Inc.**  
**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements	3
Condensed Consolidated Balance Sheets as of July 31, 2019 and April 30, 2019 (unaudited)	4
Condensed Consolidated Statements of Operations for the three months ended July 31, 2019 and 2018 (unaudited)	5
Condensed Consolidated Statements of Cash Flows for the three months ended July 31, 2019 and 2018 (unaudited)	6
Notes to Condensed Consolidated Financial Statements (unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures about Market Risk	23
Item 4. Controls and Procedures	23

**PART II. OTHER INFORMATION**

Item 1. Legal Proceedings	24
Item 1A. Risk Factors	24
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 3. Defaults Upon Senior Securities	25
Item 4. Mine Safety Disclosures	25
Item 5. Other Information	25
Item 6. Exhibits	26
<b>SIGNATURES</b>	<b>27</b>

**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****Interim Condensed Financial Statements and Notes to Interim Financial Statements**

## General

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with the instructions to Form 10-Q. Therefore, they do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' equity in conformity with generally accepted accounting principles. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the financial statements included in the Company's annual report on Form 10-K for the year ended April 30, 2019. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the three months ended July 31, 2019 are not necessarily indicative of the results that can be expected for the year ending April 30, 2020.

**mCig, Inc.**  
**and SUBSIDIARIES**  
**Consolidated Balance Sheets**

ASSETS	July 31, 2019 (unaudited)	April 30, 2019
Current Assets		
Cash and cash equivalents	\$ 195,439	\$ 281,832
Accounts receivable, net	216,714	265,181
Inventory	410,738	818,359
Work in Progress	-	21,605
Notes and other receivable	751,858	130,193
Prepaid expenses	3,840	13,940
Total current assets	1,578,589	1,531,110
Property, plant and equipment, net	504,778	2,676,734
Cost basis investment	685,949	911,534
Equity investment	2,722,075	-
Intangible assets, net	658,777	486,896
Total assets	\$ 6,150,168	\$ 5,606,274
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 692,599	\$ 830,621
Due to shareholder	1,221,871	1,219,412
Other current liabilities	338,777	391,885
Deferred revenue	-	20,977

Total current liabilities	2,253,247	2,462,895
Long term liabilities		
Notes payable	275,000	275,000
Total long term liabilities	275,000	275,000
Total Liabilities	2,528,247	2,737,895
Stockholders' equity		
Preferred stock, \$0.0001 par value; 50,000,000 shares authorized; 4,350,000 shares issued and outstanding, as of July 31, 2019 and April 30, 2019, respectively.	435	435
Common stock, \$0.0001 par value; 560,000,000 shares authorized; 516,624,596 and 515,124,596 shares issued and outstanding, as of July 31, 2019 and April 30, 2019, respectively.	51,662	51,512
Treasury stock	(680,330)	(680,330)
Additional paid in capital	13,809,445	13,968,212
Accumulated deficit	(9,586,094)	(9,265,671)
Total stockholders' equity	3,595,118	4,074,158
Non-controlling interest	26,803	(1,205,779)
Total equity	3,621,921	2,868,379
Total liabilities and stockholders' equity	\$ 6,150,168	\$ 5,606,274

See accompanying notes to unaudited consolidated financial statements.

4

***mCig, Inc.***  
***and SUBSIDIARIES***  
***Consolidated Statements of Operations***  
***(unaudited)***

	For the Three Months ended July 31,	
	2019	2018
Sales	\$ 497,400	\$ 630,676
Construction costs	-	149,195
Merchandise	222,716	224,930
Commissions	10,140	44,087
Merchant fees, shipping, and other costs	12,597	72,394
Amortization and depreciation as a COG	-	120,817
Total Cost of Sales	245,453	611,423
Gross Profit	251,947	19,253
Selling, general, and administrative	129,061	72,114
Professional fees	18,594	55,419
Stock based compensation	108,000	28,990
Marketing & advertising	35,697	38,619
Research and development	-	-
Consultant fees	103,957	328,979
Bad Debts	3,152	-
Amortization and depreciation	69,795	76,042
Total operating expenses	468,256	600,163
Income (Loss) from operations	(216,309)	(580,910)
Other income (expense)	(81,460)	523
Net income from operations	(297,769)	(580,387)
Loss on discontinued operations	(11,583)	-
Net income(loss) before minority interest	(309,352)	(580,387)
Gain attributable to non-controlling interest	(11,071)	132,503
Net income (loss) attributable to controlling interest	\$ (320,423)	\$ (447,884)

Basic and diluted (Loss) per share:		
Income(Loss) per share from continuing operations	(0.0006)	(0.0011)
Income(Loss) per share	(0.0006)	(0.0011)
Weighted average shares outstanding - basic and diluted	516,510,466	422,253,533

See accompanying notes to unaudited consolidated financial statements.

5

**mCig, Inc.**  
**and SUBSIDIARIES**  
**Statements of Cash Flows**  
*(unaudited)*

For the Three Months  
Ended July 31,

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities:</b>		
Net (Loss)	(320,423)	\$ (580,387)
<i>Adjustments to reconcile net loss to net</i>		
<i>Cash provided by (used in) operating activities:</i>		
Depreciation and amortization	69,795	196,859
Common stock issued for services	108,000	28,990
Net affect to cash flow from non-consolidation	(157,192)	-
Minority interest in earnings of subsidiaries, net	103,888	-
<i>Decrease (Increase) in:</i>		
Accounts receivable, net	48,467	144,527
Other receivable	(307)	1,529
Inventories	429,226	(1,016,980)
Prepaid expenses and other current assets	10,100	66,185
Accounts payable, accrued expenses and taxes payable	(138,022)	240,947
Deferred revenue	(20,977)	(1,245)
Reserve for uncollectable accounts	-	(34)
Total adjustment to reconcile net income to net cash	452,978	(339,222)
Net cash provided In operating activities	132,555	(919,609)
<b>Cash flows from investing activities:</b>		
<i>Increase (Decrease) in:</i>		
Cost basis investments	-	50,000
Acquisition of property, plant and equipment	(167,057)	(1,925)
Acquisition of intangible assets	(1,241)	(9,552)
Net cash received in investing activities	(168,298)	38,523
<b>Cash Flows From Financing Activities:</b>		
Borrowing from related party, net	2,459	396,839
Notes Payable	(53,108)	-
Proceeds from Issuance of Stock, Net	-	422,049
Net Cash Provided By Financing Activities	(50,649)	818,888
Net Change in Cash	(86,392)	(62,198)
Cash at Beginning of Year	281,831	511,950
Cash at End of Period	\$ 195,439	\$ 449,752
<b>Supplemental Disclosure of Cash Flows Information:</b>		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
<b>Non-cash Investing and Financing Activities:</b>		
Conversion of cost basis to equity investment of OBITX	474,997	\$ -

See accompanying notes to unaudited consolidated financial statements.

6

**mCig, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 1. Organization and Basis of Presentation**

The accompanying consolidated audited financial statements of mCig, Inc., (the "Company", "we", "our"), have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC").

**Basis of Presentation and Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries and have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). All significant intercompany accounts and transactions have been eliminated.

The consolidated financial statements include the accounts of the Company and its subsidiaries:

- CAACres, Inc., ("CAACres") – 80% ownership
- CAL Foundation (FKA NewCo2, Inc.) ("CALF") – 80% ownership
- mCig Internet Sales, Inc., ("MINT")
- Tuero Asset Management, Inc. ("TAMI")
- Vapolution, Inc., ("VAPO")
- VitaCig, Inc., ("VITA")

**Description of Business**

The Company was incorporated in the State of Nevada on December 30, 2010 originally under the name Lifetech Industries, Inc. Effective August 2, 2013, the name was changed from "Lifetech Industries, Inc." to "mCig, Inc." reflecting the new business model. All agreements related to the Lifetech business were terminated and closed as of April 30, 2014. It will not have any impact on the current and future operations because all of these agreements are related to the previous business directions of the Company.

The Company initially earned revenue through wholesale and retail sales of electronic cigarettes, vaporizers, and accessories in the United States. It offered electronic cigarettes and related products through its online store at [www.mcig.org](http://www.mcig.org), as well as through the company's wholesale, distributor, and retail programs. We expanded operations to include the VitaCig brand in 2014.

The Company has been involved in the marijuana and cannabinoid (CBD), and electronic cigarette industries. It currently markets, sales, services, and distributes cannabis wholesale supplies, CBD products, software, and electronic cigarettes, vaporizers, and accessories internationally and in the United States.

In 2018 we added agriculture by entering into a relationship with FarmOn! Foundation, a not-for-profit New York based business, planting approximately 13-acres of hemp crops under a license obtained by FarmOn! Foundation in New York state. FarmOn! Foundation has unilaterally attempted to terminate the agreement, has failed to compensate MCIG for the crop, and has failed to reimburse MCIG the funds paid for production of the hemp. MCIG has initiated legal action to protect its shareholders rights and to ensure MCIG is properly compensated for the endeavor.

We acquired approximately two acres of land in California City, California and obtained three cannabis licenses (cultivating, manufacturing, and distribution of cannabis products in California).

In addition, the Company continues to look at strategic acquisitions in product and service developments for future growth. On June 30, 2018 we acquired 80% of CBJ Distributing, a cannabis supply company in Nevada.

---

During this fiscal year, we operated multiple websites (which are not incorporated as part of this Form 10K report). The Company's primary website is [www.mciggroup.com](http://www.mciggroup.com)

**Subsidiaries of the Company**

The Company currently operates, in addition to mCig, Inc., the following subsidiaries which are consolidated:

***CAACres, Inc.***

CAACres, Inc., ("CAACres") was incorporated on May 10, 2018 under the laws of the state of California. CAACres was created to participate in the Joint Venture with Cal Foundation for the cultivation, manufacturing, and distribution of cannabis products within the state of California. CAACres is an agriculture venture for the cultivation, manufacturing and distribution of cannabis products. We are

currently assessing the requirements for the build out of the land acquired in California City, California for this project.

***CAL Foundation (FKA Newco2, Inc)***

NewCo2, Inc., was created on January 19, 2018 as a California not-for-profit company. We own 80% of the not-for-profit business. NewCo2, Inc., maintains three cannabis licenses in the State of California. On August 6, 2018 the name was changed to Cal Acres Foundation, Inc.

***CBJ Distributing, LLC***

On June 30, 2018 the company elected to exercise its option to acquired Cannabiz Supply with an effective date of May 1, 2018. The purchase price was \$3,457,796.

***mCig Internet Sales, Inc.***

On June 1, 2016, the Company incorporated mCig Internet Sales, Inc., (“mCig Internet”) in the state of Florida in order to operate our CBD business and to consolidate all wholesale and online retail sales from various websites. mCig Internet is a wholly owned subsidiary of the Company.

***Tuero Asset Management, Inc.***

We incorporated Tuero Asset Management, Inc., in which to manage all our intellectual and intangible assets.

***Vapolution, Inc.***

On January 23, 2014, the Company entered into a Stock Purchase Agreement acquiring 100% ownership in Vapolution, Inc., which manufactures and retails home-use vaporizers. As part of this transaction, mCig, Inc. issued 5,000,000 common shares to shareholders of Vapolution, Inc. in two separate payments of 2,500,000 common shares. The shareholders of Vapolution, Inc. retained the right to rescind the transaction, which expired on January 23, 2015 but was extended to May 23, 2015. Subsequently, on August 25, 2015, the final payment to the shareholders of Vapolution as extended to September 30, 2015 and the right to rescind the transaction was extended to June 30, 2017. On April 30, 2015 the Company impaired the \$625,000 initial investment into Vapolution, Inc., but maintains the \$67,500 investment on its balance sheet for the second payment.

On January 23, 2014, Paul Rosenberg, CEO of mCig, Inc. cancelled an equal amount (2,500,000 shares) of common shares owned by him resulting in a net non-dilutive transaction to existing mCig, Inc. shareholders. The remaining 2,500,000 of common shares owned by Paul Rosenberg were cancelled to offset the 2,500,000 new shares issued from the treasury to complete the purchase of Vapolution, Inc.

On January 17, 2017 the Company entered into a settlement agreement with the previous owners of Vapolution, Inc., whereby they returned to the Company 1,700,000 shares of MCIG common stock, \$961 in cash, and \$40,541 in inventory. Prior to this, Vapolution was not incorporated in to the consolidated financial statements of the Company. Effective January 17, 2017 we began consolidating Vapolution with the Company’s financial reports. Vapolution, Inc., is wholly owned by mCig, Inc.

***VitaCig, Inc.***

On May 26, 2016 we incorporated VitaCig, Inc., (“VitaCig”) in the state of Florida. VitaCig headquarters our global e-cig operations. VitaCig, Inc., is a wholly owned subsidiary of the Company.

---

**Note 2. Summary of Significant Accounting Policies**

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company, the wholly owned subsidiaries of MINT, TAMI, VAPO, and VITA. We have also consolidated our subsidiaries in which we have controlling interest. These subsidiaries include CAACRES, and CALF. Significant intercompany balances and transactions have been eliminated.

**Concentration of Credit Risk and Significant Customers**

Financial instruments which potentially subject the Company to a concentration of credit risk consist principally of temporary cash investments and accounts receivable. The Company places its temporary cash investments with financial institutions insured by the FDIC.

Concentrations of credit risk with respect to trade receivables are limited due to the diverse group of customers to whom the Company sells. The Company establishes an allowance for doubtful accounts when events and circumstances regarding the collectability of its receivables warrant based upon factors such as the credit risk of specific customers, historical trends, other information and past bad debt history. The outstanding balances are stated net of an allowance for doubtful accounts.

Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

We determine revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, we satisfy a performance obligation.

### **Segment Information**

In accordance with the provisions of *SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information*, the Company is required to report financial and descriptive information about its reportable operating segments. The Company identifies its operating segments as divisions based on how management internally evaluates separate financial information, business activities and management responsibility. Company management has determined that reporting segments are no longer required as the company currently operates in the retail market. We will continue to report the segments for historical purposes as applicable in order to properly compare the retail segment through April 30, 2020. In addition to the corporate segment, the Company reporting segments for FY 2019 were:

- Cultivation, Manufacturing, and Distribution
- Retail Sales
- Media and Technology
- Agriculture

### **Inventory**

In accordance with *ASU 2015-11 – Inventory (Topic 330) – Simplifying the Measurement of Inventory*, the Company's inventory consists of finished product, mCig products valued at the lower of cost or market valuation under the first-in, first-out method of costing.

As of July 31, 2019, the Company had no allowance for obsolescence.

---

### **Property, Plant, and Equipment**

Property, plant and equipment ("PPE") are stated at cost less accumulated depreciation and amortization. Expenditures for maintenance and repairs are charged to expense as incurred. Additions, improvements and major replacements that extend the life of the asset are capitalized.

Depreciation and amortization is recorded using the straight-line method over the estimated useful lives of depreciable assets, which are generally three to five years.

### **Accounts Receivable**

The Company's accounts receivable in its retail operations. As the retail division is either paid through credit card processing and prepaid wholesale purchases, the Company projects insignificant amounts of outstanding accounts receivable for its retail division. The Company recognizes receipt of payment at the time the funds are deposited with the merchant services account of the Company. When the merchant services vendor determines to maintain a reserve for potential refunds and chargebacks, the Company reviews the reserve, to i) determine if the reserve is probably uncollectible, and ii) if a loss is probable, a reasonable estimate of the amount of the loss. We then allocate a portion of the reserve for bad debt, in accordance with *FASB ASC 450-20-25-2*. Once the vendor releases the funds, the bad debt reserve is appropriately reversed. At the time of acquisition of CBJ the Company accepted the accounts receivable with a lien on the stock issued as collateral for the collection of those receivables. As of July 31, 2019, the Company has created a reserve of \$111,835 for the accounts receivable for CBJ. Due to the discontinued operations of Grow Contractors and the settlement agreement, the Company has eliminated the construction reserve for the period ending July 31, 2018. The Company recognized \$111,835 and \$586,525 as an uncollectable reserve for the three months ending July 31, 2019 and July 31, 2018, respectively.

### **Intangible Assets**

The Company's intangible assets consist of certain website development costs that is amortized over their useful life in accordance with the guidelines of *ASC 350-30 General Intangible Other than Goodwill* and *ASC 350-50 Website Development Costs*.

### **Basic and Diluted Net Loss Per Share**

The Company follows *ASC Topic 260 – Earnings Per Share*, and *FASB 2015-06, Earnings Per Share* to account for earnings per share. Basic earnings per share ("EPS") calculations are determined by dividing net loss by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share calculations are determined by dividing net income by the weighted average number of common shares and dilutive common share equivalents outstanding. During periods when common stock equivalents, if any, are anti-dilutive they are not considered in the computation.

Basic net earnings (loss) per common share are computed by dividing the net earnings (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share are computed using the weighted average number of common and dilutive common stock equivalent shares outstanding during the period. Dilutive common stock equivalent shares consist of Series A convertible preferred stock, convertible debentures, stock options and warrant common stock equivalent shares.

### Concentration of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of cash and trade receivables. Concentrations of credit risk with respect to trade receivables are limited due to the clients that comprise our customer base and their dispersion across different business and geographic areas. We estimate and maintain an allowance for potentially uncollectible accounts and such estimates have historically been within management's expectations.

We rely almost exclusively on one Chinese factory as our principle supplier for our e-cig products. Therefore, our ability to maintain operations is dependent on this third-party manufacturer.

Our cash balances are maintained in accounts held by major banks and financial institutions located in the United States. The Company may occasionally maintain amounts on deposit with a financial institution that are in excess of the federally insured limit of \$250,000. The risk is managed by maintaining all deposits in high quality financial institutions. The Company had \$0 and \$0 in excess of federally insured limits at April 30, 2019 and 2018.

### Note 3. Going Concern

The Company's financial statements are prepared using generally accepted accounting principles, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. Because the business is new and has a limited history and relatively few sales, no certainty of continuation can be stated. The accompanying financial statements for the three months ended July 31, 2019 and 2018 have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

10

The Company has suffered losses from operations and has an accumulated deficit, which raise substantial doubt about its ability to continue as a going concern.

Management is taking steps to raise additional funds to address its operating and financial cash requirements to continue operations in the next twelve months. Management has devoted a significant amount of time in the raising of capital from additional debt and equity financing. However, the Company's ability to continue as a going concern is dependent upon raising additional funds through debt and equity financing and generating revenue. There are no assurances the Company will receive the necessary funding or generate revenue necessary to fund operations. The financial statements contain no adjustments for the outcome of this uncertainty.

### Note 4. Property, Plant and Equipment

The following is a detail of equipment at July 31, 2019 and April 30, 2019:

	Property, Plant, and Equipment	
	As of July 31, 2019	As of April 30, 2019
Office furniture	\$ 29,090	\$ 29,090
Rollies machine	5,066	5,066
Computer equipment	1,544	1,544
420 Cloud	3,129,412	3,129,412
Farm equipment	30,765	30,765
Warehouse equipment	210,296	67,471
Plant Development	21,605	-
Land	292,500	292,500
Total acquisition cost	\$ 3,720,278	\$ 3,555,848
Accumulated depreciation	850,836	835,986
Write-down	43,128	43,128
Discontinued operations	2,321,536	-
Total property, plant, and equipment	\$ 504,778	\$ 2,676,734

Depreciation expense on property, plant and equipment was \$14,850 and \$451,858 for the three months ended July 31, 2019 and 2018, respectively.

### Note 5: Work in Progress

The Company reports its development of the facilities for its land owned in California as work in progress. The Company has expended funds in site development and design. The Company expended \$0 for the quarter ending July 31, 2019 and \$21,605 for the year ended April 30, 2019.

**Note 6: Inventory**

Inventory is primarily held in retail sales. Inventory consists of resale items. We had \$410,738 in inventory as of July 31, 2019 compared to \$410,193 as of April 30, 2019.

**Note 7: Accounts Receivable**

The Company's accounts receivable is from its direct customers. From our direct customers we have \$328,549.

We utilize high risks credit card processing companies. Vendors tasked with accepting all credit card payments for purchases from its customers, are typically held in escrow for potential chargebacks. As traditional credit card processing is unavailable in the cannabis markets, we utilize services that require greater holding periods and higher retention requirements. While the Company expects these receivables to be fully collectible it has created an allowance for doubtful accounts for the period.

We have created a reserve for uncollectable accounts in the amount of \$111,835.

**Note 8. Intangible Assets:**

The following reflects our intangible assets:

<b>Intangible Assets</b>				
	As of		As of	
	July 31, 2019		April 30, 2019	
Domains	\$	365,847	\$	365,847
Trademarks		455,860		455,860
Website		23,983		30,491
California City cannabis licenses		228,085		-
VitaCBD		200,000		200,000
Total acquisition cost	\$	1,273,775	\$	1,052,198
Less: Amortization		(536,143)		(486,447)
Adjustment for sale of asset		(72,880)		(72,880)
Write-offs		(5,975)		(5,975)
Current Intangible Assets	\$	658,777	\$	486,896

**Note 9. Cost Basis Investments**

The Company has invested \$3,713,194 through July 31, 2019. A breakdown of these investments includes:

<b>Cost Basis Investments</b>				
	As of		As of	
	July 31, 2019		April 30, 2019	
Stony Hill Corp	\$	700,000	\$	700,000
Omni Health, Inc		152,023		152,023
CBJ Distributing Option		-		-
New York Hemp Pilot Program		-		50,000
California City cannabis licenses		-		225,585
Agri-Contractors, LLC		-		160,008
Redfern BioSystems, Inc.		9,949		9,949
Total acquisition cost	\$	861,972	\$	1,297,565
Impairment		(176,023)		(386,031)
Total current value	\$	685,949	\$	911,534

**Note 10. Equity Investments**

As OBITX is no longer a subsidiary controlled by the Company we have reclassified the investment as an equity basis investment. Effective May 1, 2019 OBITX is no longer consolidated with MCIG's financial statements. The Company records its equity investment (loss) as other income(expense) on the profit and loss statement.

**Note 11. Business Segments:**

The Company no longer operates primarily in segments. We will continue to report segments for fiscal year 2020 in order to provide our shareholders a comparable performance capability. In FY2019, which ended April 30, 2019, we had 4 segments; i) cultivation, manufacturing, and distribution, ii) retail sales, iii) technology, and iv) agriculture, and vi) corporate.

12

Information concerning the revenues and operating income (loss) for the three months ended July 31, 2019 and 2018, and the identifiable assets for the segments in which the Company operates are shown in the following table:

<b>Business Segments</b>						
<b>For the quarter ended July 31, 2019</b>	<b>CMD</b>	<b>Retail</b>	<b>Technology</b>	<b>Agriculture</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ -	\$ 497,400	\$ -	\$ -	\$ -	\$ 497,400
Segment Income (Loss) from Operations	-	35,201	-	-	(355,624)	(320,423)
Total Assets	-	918,707	-	-	5,231,461	6,150,168
Capital Expenditures	-	-	-	-	-	-
Depreciation and Amortization	-	26,718	-	-	43,077	69,795
<b>For the quarter ended July 31, 2018</b>	<b>CMD</b>	<b>Retail</b>	<b>Technology</b>	<b>Agriculture</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ 70,000	\$ 560,676	\$ -	\$ -	\$ -	\$ 630,676
Segment Income from Operations	(120,442)	116,719	(144,852)	(143,848)	(155,461)	(447,884)
Total Assets	692,130	674,908	4,372,928	(179,504)	6,181,610	11,742,072
Capital Expenditures	-	-	278,278	(529,788)	290,489	38,979
Depreciation and Amortization	2,070	28,028	121,702	2,067	43,077	196,944

**Note 12. Non-GAAP Accounting and GAAP Reconciliation – Net Income and EBITDA**

The Company reports all financial information required in accordance with generally accepted accounting principles (GAAP). The Company believes, however, that evaluating its ongoing operating results will be enhanced if it also discloses certain non-GAAP information because it is useful to understand MCIG's performance that many investors believe may obscure MCIG's ongoing operational results.

For example, MCIG uses non-GAAP net income (Adjusted Net Income), which excludes stock-based compensation, amortization of acquired intangible assets, impairment of intangible assets, costs from acquisitions, restructurings and other infrequently occurring items, non-cash deferred tax provision and litigation and related settlement costs. MCIG uses EBITDA and Adjusted Net Income, which adjusts net income (loss) for amortization of intangible assets, impairment of intangible assets, stock-based compensation, costs related to acquisitions, restructuring and other infrequently occurring items, settlement of litigation, gains or losses on dispositions, pro forma adjustments to exclude lines of business that have been acquired during the periods presented, current cash tax provision, depreciation, and interest expense (income), net.

The company believes that excluding certain costs from Adjusted Net Income and EBITDA provides a meaningful indication to investors of the expected on-going operating performance of the company. Whenever MCIG uses such historical non-GAAP financial measures, it provides a reconciliation of historical non-GAAP financial measures to the most closely applicable GAAP financial measure. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these historical non-GAAP financial measures to their most directly comparable GAAP financial measure.

The following tables reflect the non-GAAP Consolidated Statements of Operations for the three months ended July 31, 2019 and July 31, 2018, respectively.

13

*mCig, Inc.*  
and *SUBSIDIARIES*  
*Adjusted Consolidated Statements of Operations*

	For the Three Months ended July 31,	
	<b>2019</b>	<b>2018</b>
Sales	\$ 497,400	\$ 630,676
Construction costs	-	149,195

Merchandise	222,716	224,930
Commissions	10,140	44,087
Merchant fees, shipping, and other costs	12,597	72,394
Amortization and depreciation as a COG	-	-
<b>Total Cost of Sales</b>	<b>245,453</b>	<b>490,606</b>
Gross Profit	251,947	140,070
Selling, general, and administrative	129,061	72,114
Professional fees	18,594	55,419
Stock based compensation	-	-
Marketing & advertising	35,697	38,619
Research and development	-	-
Consultant fees	103,957	328,979
Bad Debts	-	-
Amortization and depreciation	-	76,042
<b>Total operating expenses</b>	<b>287,309</b>	<b>571,173</b>
Income (Loss) from operations	(35,362)	(431,103)
Other income (expense)	-	-
Net income from operations	(35,362)	(431,103)
Loss on discontinued operations	-	-
Net income(loss) before minority interest	(35,362)	(431,103)
Gain attributable to non-controlling interest	-	132,503
Net income (loss) attributable to controlling interest	<u>\$ (35,362)</u>	<u>\$ (298,600)</u>
Basic and diluted (Loss) per share:		
Income(Loss) per share from continuing operations	(0.0001)	(0.0007)
Income(Loss) per share	<u>(0.0001)</u>	<u>(0.0007)</u>
Weighted average shares outstanding - basic and diluted	<u>516,510,466</u>	<u>422,253,533</u>

See accompanying notes to unaudited consolidated financial statements.

The following table is a reconciliation of the EBITDA and Adjusted Net Income (non-GAAP measures) to the Net Income with the GAAP Consolidated Statements of Operation for the three months ended July 31, 2019 and July 31, 2018, respectively.

14

<b>Adjusted Net Income Reconciliation</b>		
	As of April 30,	
	<b>2019</b>	<b>2018</b>
<b>CONSOLIDATED STATEMENT of OPERATIONS:</b>		
Net Income (Loss)	\$ (320,423)	\$ (447,884)
Interest	4,375	17
Depreciation and Amortization	69,795	196,944
EBITDA	<u>\$ (246,253)</u>	<u>\$ (250,923)</u>
Adjustment for Non-Intangible Asset Depreciation	-	(76,127)
Stock Based Compensation	108,000	28,990
Gains not in ordinary course of business	77,085	-
Loss on discontinued operations	11,583	-
Settlements, bad debts, and legal costs	3,152	-
Gain attributable to non-controlling interest	11,071	(540)
Adjusted net income	<u>\$ (35,362)</u>	<u>\$ (298,600)</u>

#### **Note 12. Acquisition**

On May 1, 2018, the Company exercised its option to acquire CBJ Distributing, LLC. The Company acquired all cash, inventory, prepaid expenses, inventory, fixed assets, and intellectual property for a total of \$3,578,861. The Company issued \$3,388,078 in MCIG stock at the rate of \$0.29 per share and paid \$190,783 in cash through reduction of loans, option price, and accounts receivable owed by CBJ

Distributing to the Company. As a condition to this acquisition, the Company entered into Employment Agreements with Charlie Fox and Alex Levitsky.

In accordance to rule, the following table reflects the determination of the purchase price of the CBJ Distributing, LLC business:

<b>Acquisition of CBJ Distributing</b>		
Cash	\$	112,557
Accounts Receivable		158,064
Prepaid Expenses		3,840
Inventory		385,379
Fixed Assets		47,758
Total assets acquired	\$	707,598
Current Liabilities	\$	94,226
Total liabilities assumed	\$	94,226
<b>Total Purchase Price</b>		
Stock issued as part of acquisition (11,293,593)	\$	3,388,078
Reduction of Loan Receivable		1,529
Reduction of Accounts Receivable		139,254
Conversion of stock option		50,000
Total Purchase Price	\$	3,578,861
Total assets acquired		(707,598)
Total liabilities assumed		94,226
Gains in assets		540
Investment into CBJ Distributing	\$	2,966,029

The Company adjusted the investment to \$ 1,198,272 during its impairment analysis at the conclusion of the April 30, 2019 fiscal year audit.

#### **Note 13. Related Parties and Related Party Transactions**

The Company entered a Line of Credit with Paul Rosenberg (see Subsequent Events) for up to \$100,000 in funding on May 1, 2016. During 2016, the Company had various transactions in which Paul Rosenberg, the Company's CEO and Chairman of the Board personally paid expenses on behalf of the Company. As of April 30, 2018, the Company borrowed \$173,312 from Paul Rosenberg. On May 1, 2018, the Company increased the amount of the Line of Credit and Convertible Promissory Note for up to \$250,000 in funding by Paul Rosenberg to accurately record the day-to-day transactions of the Company and Paul Rosenberg. In February 2019 we increased the line of credit to \$1,000,000. As of July 31, 2019, the Company owed Mr. Rosenberg \$1,221,871, which does not include the amount owed Mr. Rosenberg under accounts payable for services covered under his employment agreement which was not paid to Mr. Rosenberg.

OBITX has a line of credit agreement with MCIG for up to \$1,000,000. Currently OBITX has borrowed \$621,858 against the line of credit. The line of credit has been periodically extended to support the initial operations of OBITX. OBITX was previously consolidated with MCIG financial statements, but effective May 1, 2019 MCIG no longer has a controlling interest in OBITX.

#### **Note 14. Stockholders' Equity**

##### **Common Stock**

As of July 31, 2019, the Company was authorized to issue 560,000,000 common shares at a par value of \$0.0001. As of July 31, 2019, the Company had issued and outstanding 516,624,596 common shares.

During the three months ended July 31, 2019 the Company issued 1,500,000 for legal services rendered.

##### **Preferred Stock**

The Company has authorized 50,000,000 shares of preferred stock, of which it has designated 23,000,000 as Series A Preferred, at \$0.0001 par value. The Company has 4,350,000 issued and outstanding as of July 31, 2019. Each share of the Preferred Stock has 10 votes on all matters presented to be voted by the holders of the Company's common stock.

#### **Note 15. Subsequent Events**

The Company entered into a settlement agreement with Paul Rosenberg to settle its outstanding debt owed to the related party. Paul Rosenberg cancelled the approximately \$1.2 million owed him by the Company in exchange for the 80% ownership of CAACres.

---

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion should be read in conjunction with our condensed consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the consolidated financial statements and related notes thereto in our Annual Report on Form 10-K for the year ended April 30, 2019.*

*Certain statements in this section contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this report and not clearly historical in nature are forward-looking, and the words "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "intends," "potential," and similar expressions (as well as other words or expressions referencing future events, conditions or circumstances) generally are intended to identify forward-looking statements. Any statements in this report that are not historical facts are forward-looking statements. Actual results may differ materially from those discussed from time to time in the Company's Securities and Exchange Commission filings. The Company undertakes no obligation to update or revise any forward-looking statement for events or circumstances after the date on which such statement is made except as required by law.*

### HISTORY AND BACKGROUND

We were incorporated in the State of Nevada on December 30, 2010 originally under the name Lifetech Industries, Inc. All agreements related to the Lifetech business were terminated and closed as of April 30, 2014. Effective August 2, 2013, the name was changed from "Lifetech Industries, Inc." to "mCig, Inc." The Company's common stock is traded under the symbol "MCIG." The Company is based in Jacksonville, Florida.

### GENERAL

Originally, we were formed to open and operate a full-service day spa in Montrose, California. In October 2013 we repositioned ourselves as a technology company focused on two long-term secular trends sweeping the globe: (1) The decriminalization and legalization of marijuana for medicinal or recreational purposes; and, (2) the adoption of electronic vaporizing cigarettes (commonly known as "eCigs").

The Company initially earned revenue through wholesale and retail sales of electronic cigarettes, vaporizers, and accessories in the United States. It offered electronic cigarettes and related products through its online store at [www.mcig.org](http://www.mcig.org), as well as through the company's wholesale, distributor, and retail programs. We expanded operations to include the VitaCig brand in 2014.

In FY2015 we began offering hemp-based cannabinoid ("CBD") products through various websites.

In 2016 the Company expanded its products and services to include construction.

In 2017 we added consulting services in the cannabis industry. In addition, we launched a social media platform, 420Cloud, in the cannabis markets.

In 2018 we added agriculture by entering into a relationship with FarmOn! Foundation, a not-for-profit New York based business, planting approximately 13-acres of hemp crops under a license obtained by FarmOn! Foundation in New York state. FarmOn! Foundation has unilaterally attempted to terminate the agreement, has failed to compensate MCIG for the crop, and has failed to reimburse MCIG the funds paid for production of the hemp. MCIG has initiated legal action to protect its shareholders rights and to ensure MCIG is properly compensated for the endeavor (see legal proceeding).

In addition, we acquired approximately two acres of land in California City, California and obtained three cannabis licenses (cultivating, manufacturing, and distribution of cannabis products in California).

In addition, the Company continues to look at strategic acquisitions in product and service developments for future growth. On June 30, 2018 we acquired 80% of CBJ Distributing, a cannabis supply company in Nevada.

During this fiscal year, we operated multiple websites (which are not incorporated as part of this Form 10Q report). The Company's primary website is [www.mcigroup.com](http://www.mcigroup.com).

---

## INDUSTRY OVERVIEWS

### Cannabis Industry

In the United States, the use and possession of cannabis is illegal under federal law for any purpose, by way of the Controlled Substances

Act of 1970. Under the CSA, cannabis is classified as a Schedule I substance, determined to have a high potential for abuse and no accepted medical use – thereby prohibiting even medical use of the drug. At the state level, however, policies regarding the medical and recreational use of cannabis vary greatly, and in many states conflict significantly with federal law.

The medical use of cannabis is legalized (with a doctor's recommendation) in 33 states, four out of five permanently inhabited U.S. territories, and the District of Columbia. Fourteen other states have laws that limit THC content, for the purpose of allowing access to products that are rich in cannabidiol (CBD), a non-psychoactive component of cannabis. Although cannabis remains a Schedule I drug, the Rohrabacher–Farr amendment prohibits federal prosecution of individuals complying with state medical cannabis laws.

The recreational use of cannabis is legalized in 11 states (Alaska, California, Colorado, Illinois, Maine, Massachusetts, Michigan, Nevada, Oregon, Vermont, and Washington) the District of Columbia, the Northern Mariana Islands, and Guam. Another 15 states and the U.S. Virgin Islands have decriminalized Commercial distribution of cannabis is allowed in all jurisdictions where cannabis has been legalized, except Vermont and the District of Columbia. Prior to January 2018, the Cole Memorandum provided some protection against the enforcement of federal law in states that have legalized, but it was rescinded by former Attorney General Jeff Sessions.

Although the use of cannabis remains federally illegal, some of its derivative compounds have been approved by the Food and Drug Administration for prescription use. Cannabinoid drugs which have received FDA approval are Marinol (THC), Syndros (THC), Cesamet (nabilone), and Epidiolex (cannabidiol). For non-prescription use, cannabidiol derived from industrial hemp is legal at the federal level but legality (and enforcement) varies by state.

The dichotomy between federal and state laws has also limited the access to banking and other financial services by marijuana businesses. The U.S. Department of Justice and the U.S. Department of Treasury issued guidance for banks considering conducting business with marijuana dispensaries in states where those businesses are legal, pursuant to which banks must now file a Marijuana Limited Suspicious Activity Report that states the marijuana business is following the government's guidelines with regard to revenue that is generated exclusively from legal sales. However, since the same guidance noted that banks could still face prosecution if they provide financial services to marijuana businesses, it has led to the widespread refusal of the banking industry to offer banking services to marijuana businesses operating within state and local laws.

#### E-Cig Industry

The e-cigarette market was valued at \$11.5 billion in 2018 and is anticipated to register a CAGR of 21.6% during 2019-2024. Rising awareness pertaining to harmful effects of smoking is one of the major drivers observed in the market. Moreover, changing consumer preferences, increasing number of vape shops and designated stores, as well as new product innovations are propelling the growth of the e-cigarette market.

Based on product, the e-cigarette market is categorized into cig-a-like, vaporizer, T-Vapor and vape mod; of which, vaporizer category accounted for the highest share in 2018, owing to its moderate cost, dense aerosol production, and flexibility where it can be used with different type of flavors. Development in vaping technology and increased flavor offerings are further expected to attract more users to the existing customer base. Furthermore, e-cigarette manufacturers have been promoting their offerings as an economical alternative to the traditional tobacco cigarettes, which might attract more users.

On the basis of distribution channel, e-cigarette market has been categorized into tobacconist, hypermarket/supermarket, vape shops, online, and others. Among these, tobacconist category has led the distribution channel, closely followed by vape shops. However, market for online channels is expected to witness the highest CAGR during the forecast period, owing to the increasing adoption of e-commerce; where manufacturers are either selling their product through online partner channels like Amazon, Alibaba, Craigslist or through their own online portals.

On the basis of region, Europe has been observed as the largest e-cigarette market, globally. Majority of the revenues can be attributed to the U.K., France, and Russian markets. The level of e-cigarette usage is increasing across the region, where according to European Union (EU), one in seven traditional cigarette smokers classify themselves as current e-cigarette smokers.

In the United States, in 2016, the Food and Drug Administration ("FDA") finalized a rule extending the regulatory authority to cover all tobacco products, including vaporizers, vape pens, hookah pens, electronic cigarettes (E-Cigarettes), e-pipes, and all other Electronic Nicotine Delivery Systems ("ENDS"). FDA now regulates the manufacture, import, packaging, labeling, advertising, promotion, sale, and distribution of ENDS. This includes components and parts of ENDS but excludes accessories.

---

Under the new guidance, all companies that make, modify, mix, manufacture, fabricate, assemble, process, label, repack, relabel, or import any tobacco product are considered tobacco product manufacturers. Importers of finished tobacco products may be distributors and manufacturers of tobacco products. Importers who do not own or operate a domestic establishment engaged in the manufacture, preparation, compounding or processing of a tobacco product are not required to register their establishment or provide product listing. However, they must comply with all other applicable tobacco product manufacturer requirements.

More than 95% of our e-cig sales are international sales.

## Cannabidiol (CBD) Industry

Since 1992, when the Endocannabinoid System (ECS) was discovered, many different studies have been conducted on the role it plays in our health and disease management. Since we all possess an ECS, it makes logical sense that we would all benefit in some way with the inclusion of CBD and other cannabinoids in our daily lives.

This research coupled with the spreading legalization of recreational and medical cannabis is why CBD has become mainstream. The increasing worldwide access to CBD products is dispelling many of the myths around it. People who are new to cannabis are recognizing its benefits. The continued growth of the cannabis industry will rely on educating people who are unfamiliar or wary about the plant.

Additionally, the 2018 Farm Bill legalized hemp farming, removing this plant rich in CBD from the Controlled Substance Act and restoring it to its traditional place as an agricultural commodity. This bill will allow states to regulate hemp farming and move forward the industrialization of the hemp plant. As this scale up hemp-based CBD products will become ever more common. The hemp-CBD market is projected to grow from just under \$600 million in 2018 to \$22 billion by 2022.

## Hemp Industry

There are an estimated 25,000 products derived from hemp, that fall into nine submarkets: agriculture, textiles, recycling, automotive, furniture, food and beverages, paper, construction materials, and personal care.

The estimated total retail value of hemp products sold in the U.S. in 2016 was \$688 million, a 20% increase from the previous year. There is an average of 15% annual growth in U.S. retail sales from 2010-2015. China is the largest importer of raw and processed hemp fiber in the U.S. Canada is the predominant importer of hemp seed and oil cake.

## **DESCRIPTION OF SUBSIDIARIES**

### ***mCig Internet Sales, Inc.***

On June 1, 2016, the Company incorporated mCig Internet Sales, Inc., (“mCig Internet”) in the state of Florida in order to operate our CBD business and to consolidate all wholesale and online retail sales from various websites. mCig Internet is a wholly owned subsidiary of the Company.

### ***VitaCig, Inc.***

On May 26, 2016 we incorporated VitaCig, Inc., (“VitaCig”) in the state of Florida. VitaCig headquarters our global e-cig operations. VitaCig, Inc., is a wholly owned subsidiary of the Company.

### ***Tuero Asset Management, Inc.***

We incorporated Tuero Asset Management, Inc., in which to manage all our intellectual and intangible assets.

### ***CAL Acres Foundation (FKA Newco2, Inc)***

Cal Foundation was created on January 19, 2018 as a California not-for-profit company. We own 80% of the not-for-profit business. Cal Foundation maintains three cannabis licenses in the State of California.

### ***CAAces, Inc.***

CAAces, Inc., (“CAAces”) was incorporated on May 10, 2018 under the laws of the state of California. CAAces was created to participate in the Joint Venture with Cal Foundation for the cultivation, manufacturing, and distribution of cannabis products within the state of California. CAAces is an agriculture venture for the cultivation, manufacturing and distribution of cannabis products. We are currently assessing the requirements for the build out of the land acquired in California City, California for this project.

---

### ***Vapolution, Inc.***

On January 23, 2014, the Company entered into a Stock Purchase Agreement acquiring 100% ownership in Vapolution, Inc., which manufactures and retails home-use vaporizers. As part of this transaction, mCig, Inc. issued 5,000,000 common shares to shareholders of Vapolution, Inc. in two separate payments of 2,500,000 common shares. The shareholders of Vapolution, Inc. retained the right to rescind the transaction, which expired on January 23, 2015 but was extended to May 23, 2015. Subsequently, on August 25, 2015, the final payment to the shareholders of Vapolution as extended to September 30, 2015 and the right to rescind the transaction was extended to June 30, 2017. On April 30, 2015 the Company impaired the \$625,000 initial investment into Vapolution, Inc., but maintains the \$67,500 investment on its balance sheet for the second payment.

On January 23, 2014, Paul Rosenberg, CEO of mCig, Inc. cancelled an equal amount (2,500,000 shares) of common shares owned by him

resulting in a net non-dilutive transaction to existing mCig, Inc. shareholders. The remaining 2,500,000 of common shares owned by Paul Rosenberg were cancelled to offset the 2,500,000 new shares issued from the treasury to complete the purchase of Vapolution, Inc.

On January 17, 2017 the Company entered into a settlement agreement with the previous owners of Vapolution, Inc., whereby they returned to the Company 1,700,000 shares of MCIG common stock, \$961 in cash, and \$40,541 in inventory. Prior to this, Vapolution was not incorporated in to the consolidated financial statements of the Company. Effective January 17, 2017 we began consolidating Vapolution with the Company's financial reports. Vapolution, Inc., is wholly owned by mCig, Inc.

### ***Cannabiz Supply, LLC***

On June 30, 2019 the company elected to exercise its option to acquired Cannabiz Supply with an effective date of May 1, 2019. The purchase price was \$3,457,796.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates, including those related to uncollectible receivables, inventory valuation, deferred compensation and contingencies.

We base our estimates on historical performance and on various other assumptions that we believe to be reasonable under the circumstances. These estimates allow us to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

We believe the following accounting policies are our critical accounting policies because they are important to the portrayal of our financial condition and results of operations and they require critical management judgments and estimates about matters that may be uncertain. If actual results or events differ materially from those contemplated by us in making these estimates, our reported financial condition and results of operations for future periods could be materially affected.

Our operating results for the three months ended July 31, 2019 and 2018 are summarized as follows:

	Three months ended July 31,	
	<u>2019</u>	<u>2018</u>
Sales	\$ 497,400	\$ 630,676
Cost of Sales	245,453	611,423
Gross Profit	251,947	19,253
Total Operating Expenses	468,256	600,163
Other Income	(81,460)	523
Net Loss from Continuing Operations	(297,769)	(580,913)

### **Results of Operations**

#### *Revenue*

Our revenue from operations for the three months ended July 31, 2019 was \$497,400 compared to \$630,676, a decrease of \$133,276 from the three months ended July 31, 2018. This decrease is primarily a result of the elimination of construction income along with a decrease of \$63,276 in retail revenue for the three months ended July 31, 2018.

#### *Cost of Goods Sold*

Our cost of goods sold for the three months ended July 31, 2019 was \$245,453 compared to \$611,423 for the three months ended July 31, 2018. The decrease is primarily elimination of construction cost of goods of \$149,195 along with a decrease in amortization and depreciation previously associated with OBITX for the period ending July 31, 2018 but is no longer consolidated in the quarter ending July 31, 2019.

#### *Gross Profit*

Our gross profit for the three months ended July 31, 2019 was \$251,947 compared to \$19,253 for the three months ended July 31, 2018. The

gross profit of \$251,947 for the three months ended July 31, 2019 represents approximately 51% as a percentage of total revenue. The gross profit of \$19,253 for the three months ended July 31, 2018 represents approximately 3% as a percentage of total revenue. This increase in the gross profit is primarily attributed to the exclusion of amortization of assets directly associated with sales through OBITX which is no longer consolidated.

#### *Operating Expenses*

Our operating expenses decreased by \$131,907 to \$468,256 for the three months ended July 31, 2019, from \$600,163 for the three months ended July 31, 2018.

The decrease was primarily due to the decrease in professional fees of \$36,825, marketing fees of \$2,922, consulting fees of \$225,022, and amortization and depreciation of \$6,247 offset with an increase in selling, general, and administration of \$56,947 and stock based compensation of \$79,010

Our total operating expenses for the three months ended July 31, 2019 of \$468,256 consisted of \$129,061 of selling, general and administrative expenses, \$108,000 in stock based compensation, \$18,594 of professional fees, consulting expense of \$103,957, marketing expense of \$35,697, bad debts of \$3,152 and \$69,795 of amortization and depreciation expenses. Our general and administrative expenses consist of bank charges, telephone expenses, meals and entertainments, computer and internet expenses, postage and delivery, office supplies and other expenses.

#### *Net (Loss)*

Our net loss of \$297,769 for the three months ended July 31, 2019 from a net loss of \$580,387 for the three months ending July 31, 2018 represents a reduction of loss of \$282,618. The decrease in net loss compared to the prior period net loss is primarily a result of the gross profit increase of \$232,694, a decrease in operating expenses of \$131,907 offset with other expenses increase of \$81,983.

### **Liquidity and Capital Resources**

#### *Introduction*

During the three months ended July 31, 2019 we had \$132,555 in cash provided by our operating activities. Our cash on hand as of July 31, 2019 was \$195,439.

#### *Cash Requirements*

We had cash available of 195,439 as of July 31, 2019. Based on our revenues, cash on hand and current monthly burn rate, around break-even, we believe that our operations are sufficient to fund operations through April 2019.

---

### **Sources and Uses of Cash**

#### *Operations*

We gained \$132,555 in cash by operating activities for the three months ended July 31, 2019, as compared to the use of \$919,609 for the three months ended July 31, 2018.

Net cash gained by operations consisted primarily of the net loss of \$320,423 offset by non-cash expenses of \$69,795 in depreciation and amortization of intangible assets, \$108,000 in stock based compensation, and \$103,888 in minority interest earnings of subsidiaries, net offset by \$157,192 in net affect to cash flow caused by the non-consolidation of OBITX. Additionally, changes in assets and liabilities consisted of decreases of \$48,467 in accounts receivable, prepaid expenses of \$10,100, accounts payable of \$138,022, and other receivables of \$307, with decreases in deferred revenue of \$20,977, and inventory of \$429,226.

#### *Investments*

We used \$168,298 in investing activities for the three months ended July 31, 2019 compared to a gain in investing activities of \$38,523 for the three months ended July 31, 2018. Our investing activities was primarily the purchase of new equipment in CBJ Distributing.

#### *Financing*

We utilized \$50,649 in financing activities for the three months ended July 31, 2019 compared to receiving \$818,888 for the three months ended July 31, 2018. Our financing activities consisted of an increase of \$2,459 of advances made by a related party offset by a reduction of \$53,108 in notes payable.

Our adjusted operating results for the three months ended July 31, 2019 and 2018 are summarized as follows:

	Three months ended July 31,	
	2019	2018
Sales	\$ 497,400	\$ 630,676
Cost of Sales	245,453	490,606
Gross Profit	251,947	140,070
Total Operating Expenses	287,309	571,173
Net Loss from Continuing Operations	(35,362)	(436,103)

### Adjusted Results of Operations

#### *Adjusted Revenue*

Our adjusted revenue from operations for the three months ended July 31, 2019 was \$497,400 compared to \$630,676, a decrease of \$133,276 from the three months ended July 31, 2018. This decrease is primarily a result of the elimination of construction income along with a decrease of \$63,276 in retail revenue for the three months ended July 31, 2018.

#### *Adjusted Cost of Goods Sold*

Our adjusted cost of goods sold for the three months ended July 31, 2019 was \$245,453 compared to \$490,606 for the three months ended July 31, 2018. The decrease is primarily elimination of construction cost of goods.

#### *Adjusted Gross Profit*

Our adjusted gross profit for the three months ended July 31, 2019 was \$251,947 compared to \$140,070 for the three months ended July 31, 2018. The gross profit of \$251,947 for the three months ended July 31, 2019 represents approximately 51% as a percentage of total revenue. The gross profit of \$140,070 for the three months ended July 31, 2018 represents approximately 22% as a percentage of total revenue. This increase in the gross profit is primarily attributed to the exclusion of construction cost of goods.

#### *Adjusted Operating Expenses*

Our adjusted operating expenses decreased by \$283,864 to \$287,309 for the three months ended July 31, 2019, from \$571,176 for the three months ended July 31, 2018.

The decrease was primarily due to the decrease in professional fees of \$36,825, marketing fees of \$2,922, consulting fees of \$225,022, and amortization and depreciation of \$67,042 offset with an increase in selling, general, and administration of \$56,947.

Our total operating expenses for the three months ended July 31, 2019 of \$287,309 consisted of \$129,061 of selling, general and administrative expenses, \$18,594 of professional fees, consulting expense of \$103,957, marketing expense of \$35,697. Our general and administrative expenses consist of bank charges, telephone expenses, meals and entertainments, computer and internet expenses, postage and delivery, office supplies and other expenses.

#### *Adjusted Net (Loss)*

Our net loss of \$35,362 for the three months ended July 31, 2019 from a net loss of \$431,103 for the three months ending July 31, 2018 represents a reduction of loss of \$395,741. The decrease in net loss compared to the prior period net loss is primarily a result of the gross profit increase of \$111,844, and a decrease in operating expenses of \$283,864.

### 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 we consider material.

### Going Concern

Our financial statements are prepared using generally accepted accounting principles, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. Because the business is relatively new and has a short history and relatively few sales, no certainty of continuation can be stated. The accompanying financial statements for the three months ended July 31, 2019 have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the

normal course of business.

The Company has suffered losses from operations and has an accumulated deficit, which raises substantial doubt about its ability to continue as a going concern

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are a smaller reporting company and therefore, we are not required to provide information required by this Item of Form 10-Q.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosures.

We carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of July 31, 2019. In designing and evaluating the disclosure controls and procedures, management recognizes that there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures.

Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their desired control objectives. Additionally, in evaluating and implementing possible controls and procedures, management is required to apply its reasonable judgment. Based on the evaluation described above, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report because we did not document our Sarbanes-Oxley Act Section 404 internal controls and procedures.

---

As funds become available to us, we expect to implement additional measures to improve disclosure controls and procedures such as implementing and documenting our internal controls procedures.

#### **Changes in internal controls over financial reporting**

There have been no changes in our internal control over financial reporting during the quarter ended July 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### *Limitations on the Effectiveness of Controls*

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The Company's management, including its Principal Executive Officer and its Principal Financial Officer, do not expect that the Company's disclosure controls will prevent or detect all errors and all fraud. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, we may become involved in various lawsuits and legal proceedings that arise in the ordinary course of business. However, litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm our business. Except as set forth below we are currently not aware of any such legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results.

The Company subsidiary, Grow Contractors, Inc., along with the Company and its officers was sued by APEX Management, LLC and

Apex Operations, LLC (the “Solaris” project) for the return of approximately \$600,000 in cash paid for services they allege were never provided. We have countersued for the payment of approximately \$425,000 in services provided that have not yet been paid for. In addition, we have sued both Michael Sassano and Ronald Sassano individually for their roles in the alleged actions. The cases were settled in August 2019, which results have been reflected in this annual filing. The case files were sealed by the state and federal courts for the protection of all parties.

The Company subsidiary, Grow Contractors, Inc., was sued for alleged faulty services provided in the state of Oregon. Grow Contractors alleges it has outstanding, unpaid invoices and services were stopped for lack of payment. The case has been sent to arbitration which is expected to be conducted within the next calendar year.

The Company’s subsidiary, CBJ Distributing, has sued multiple customers in Las Vegas for the collection of unpaid invoices. We have created a reserve for the collection should we not prevail, or the customer is unable to pay should we win.

The company subsidiary, NYAcres, has filed a lawsuit against FarmOn! Foundation, Tessa Edick (our former NYAcres CEO), and multiple FarmOn! Foundation board members. We are seeking enforcement of the agreement entered into by FarmOn! Foundation and Tessa Edick. The Company has invested approximately \$900,000 into this venture and has harvested 28,000 hemp plants from approximately 13 acres of land. A condition to the agreement was that FarmOn! Foundation would obtain permission for both NYAcres and FarmOn! Foundation to grow Hemp through the New York state requirement process. FarmOn! Foundation obtain the license solely in their name. We have made massive improvement to the land, acquired equipment, and had various hemp seeds in inventory when FarmOn! Foundation removed NYAcres from the site. We believe FarmOn! Foundation has utilized our hemp seeds to plant its current crop in production. FarmOn! Foundation is seeking dismissal of the lawsuit.

#### **Item 1A. Risk Factors**

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

24

---

#### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The Company issued 1,500,000 shares of common stock to Carl G. Hawkins for legal services provided through May 8, 2019.

#### **Item 3. Defaults Upon Senior Securities**

There have been no events that are required to be reported under this Item.

#### **Item 4. Mine Safety Disclosures**

There have been no events that are required to be reported under this Item.

#### **Item 5. Other Information**

There have been no events that are required to be reported under this Item.

25

---

#### **Item 6. Exhibits**

31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 *	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 *	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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  
\* Furnished herewith.

---

**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.

**mCig, Inc.**

Dated: December 10, 2019

/s/ Paul Rosenberg  
\_\_\_\_\_  
By: Paul Rosenberg  
Its: Chief Executive Officer  
(Principal Executive Officer)

Dated: December 10, 2019

/s/ Paul Rosenberg  
\_\_\_\_\_  
By: Paul Rosenberg  
Its: Chief Financial Officer  
(Principal Financial Officer)







