

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Grom Social Enterprises, Inc.

Form: 10-Q

Date Filed: 2019-11-19

Corporate Issuer CIK: 1662574

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, 2019

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

For the transition period from _____ to _____

Commission File Number: 000-55585

Grom Social Enterprises, Inc.

(Exact name of registrant as specified in its charter)

Florida

46-5542401

(State or other jurisdiction of incorporation or organization)

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

2060 NW Boca Raton Blvd. #6, Boca Raton, Florida

33431

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (561) 287-5776

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Not applicable	Not applicable	Not applicable

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input 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 13(a) of the Exchange Act.

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

As of November 19, 2019, 162,383,351 shares of the registrant's common stock were outstanding.

GROM SOCIAL ENTERPRISES

Table of Contents

Part I – FINANCIAL INFORMATION

Item 1. Financial Statements	4
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	5
Item 3. Quantitative and Qualitative Disclosures about Market Risk	9
Item 4. Controls and Procedures	10

Part II – OTHER INFORMATION

Item 1. Legal Proceedings	11
Item Risk Factors	11
1A.	
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	11
Item 3. Defaults upon Senior Securities	11
Item 4. Mine Safety Disclosures	11
Item 5. Other Information	11
Item 6. Exhibits	12

CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon our current assumptions, expectations, and beliefs concerning future developments and their potential effect on our business. In some cases, you can identify forward-looking statements by the following words: “may,” “will,” “could,” “would,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “approximately,” “estimate,” “predict,” “project,” “potential,” “continue,” “ongoing,” or the negative of these terms or other comparable terminology, although the absence of these words does not necessarily mean that a statement is not forward-looking. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by any forward-looking statements.

Factors that may cause or contribute actual results to differ from these forward-looking statements include, but are not limited to, for example:

- adverse economic conditions;
- the Company’s ability to raise capital to fund its operations
- the Company’s ability to monetize its gromsocial.com database of users
- industry competition
- the Company’s ability to integrate its acquisitions
- The Company’s inability to attract and retain qualified senior management and technical personnel; and
- other risks and uncertainties related to the social media, animation services, nutritional products, and web filtering services marketplace and our business strategy.

All forward-looking statements speak only as of the date of this Report. We undertake no obligation to update any forward-looking statements or other information contained herein. Stockholders and potential investors should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions, and expectations reflected in or suggested by the forward-looking statements in this Report are reasonable, we cannot assure stockholders and potential investors that these plans, intentions or expectations will be achieved.

These forward-looking statements represent our intentions, plans, expectations, assumptions, and beliefs about future events and are subject to risks, uncertainties and other factors. Considering these risks, uncertainties, and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of the Quarterly Report on Form 10-Q for the three months ended September 30, 2019.

Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, a change in events, conditions, circumstances or assumptions underlying such statements, or otherwise.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Our unaudited consolidated financial statements included in this Form 10-Q are as follows:

- F-1 [Unaudited Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018](#)
- F-2 [Interim Unaudited Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2019 and 2018](#)
- F-3 [Unaudited Consolidated Statements of Stockholders Equity \(Deficit\) as September 30, 2019 and 2018](#)
- F-7 [Interim Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2019 and 2018](#)
- F-8 [Notes to Interim Unaudited Consolidated Financial Statements](#)

GROM SOCIAL ENTERPRISES INC.
Consolidated Balance Sheets (Unaudited)

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 582,597	\$ 633,593
Accounts receivable, net	1,066,117	1,123,493
Inventory, net	30,500	9,018
Prepaid expenses and other current assets	392,646	449,840
Total current assets	<u>2,071,860</u>	<u>2,215,944</u>
Operating lease right of use assets	938,844	—
Property and equipment, net	946,358	1,036,313
Goodwill	8,853,261	8,853,261
Intangible assets, net	6,049,984	6,340,171
Deferred tax assets, net -- noncurrent	276,585	249,833
Other assets	80,856	114,601
Total assets	<u>\$ 19,217,748</u>	<u>\$ 18,810,123</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,090,300	\$ 682,285
Accrued liabilities	1,337,346	1,433,037
Advanced payments and deferred revenues	1,118,784	1,120,228
Convertible debentures, net -- current	7,050,901	676,223
Derivative liabilities (Note 12)	98,883	—
Senior secured promissory notes, net -- current	—	3,828,818
Related party payables	772,551	1,181,645
Income taxes payable	—	41,097
Total current liabilities	<u>11,468,765</u>	<u>8,963,333</u>
Convertible debentures, net of loan discounts	241,419	2,410,614
Lease liabilities	955,487	—
Contingent purchase consideration	429,000	429,000
Other noncurrent liabilities	230,776	224,797
Total liabilities	<u>13,325,447</u>	<u>12,027,744</u>
Commitments and contingencies	—	—
Stockholders' Equity:		
Preferred stock, \$0.001 par value. 10,000,000 shares authorized; 925,000 and zero shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	925	—
Common stock, \$0.001 par value. 200,000,000 shares authorized; 152,317,806 and 138,553,655 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	152,318	138,554
Additional paid-in capital	54,959,981	52,254,286
Accumulated earnings (deficit)	(49,093,408)	(45,457,207)
Accumulated other comprehensive income	(127,515)	(153,254)
Total stockholders' equity	<u>5,892,301</u>	<u>6,782,379</u>
Total liabilities and equity	<u>\$ 19,217,748</u>	<u>\$ 18,810,123</u>

The accompanying notes are an integral part of the consolidated financial statements.

GROM SOCIAL ENTERPRISES INC.

Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Sales	\$ 2,233,747	\$ 2,053,185	\$ 6,275,688	\$ 5,864,490
Cost of goods sold	1,028,892	813,238	2,893,766	2,259,363
Gross margin	<u>1,204,855</u>	<u>1,239,947</u>	<u>3,381,922</u>	<u>3,605,127</u>
Operating expenses:				
Depreciation and amortization	215,972	206,563	664,771	611,650
Selling and marketing	19,407	35,749	80,440	147,103
General and administrative	1,227,074	1,312,903	3,971,464	4,257,147
Professional fees	180,911	464,909	814,573	1,147,888
Stock based compensation	16,200	17,580	48,600	186,743
Total operating expenses	<u>1,659,564</u>	<u>2,037,704</u>	<u>5,579,848</u>	<u>6,350,531</u>
Income (loss) from operations	<u>(454,709)</u>	<u>(797,757)</u>	<u>(2,197,926)</u>	<u>(2,745,404)</u>
Other income (expense)				
Interest income (expense), net	(391,802)	(324,614)	(1,081,584)	(833,073)
Derivative expense	(42,140)	-	(42,140)	-
Gain (loss) on settlement of debt	-	-	(363,468)	-
Unrealized gain (loss) on change in fair value of derivative liabilities	(13,473)	-	(13,473)	-
Other gains (losses)	22,816	(14,649)	62,390	19,857
Total other income (expense)	<u>(424,599)</u>	<u>(339,263)</u>	<u>(1,438,275)</u>	<u>(813,216)</u>
Income (loss) before income taxes	<u>(879,308)</u>	<u>(1,137,020)</u>	<u>(3,636,201)</u>	<u>(3,558,620)</u>
Provision for income taxes (benefit)	-	-	-	23,409
Net income (loss)	<u>(879,308)</u>	<u>(1,137,020)</u>	<u>(3,636,201)</u>	<u>(3,582,029)</u>
Convertible preferred stock beneficial conversion feature and other discounts accreted as a deemed dividend	-	-	(740,899)	-
Net loss attributable to common stockholders	<u>\$ (879,308)</u>	<u>\$ (1,137,020)</u>	<u>\$ (4,377,100)</u>	<u>\$ (3,582,029)</u>
Basic and diluted earnings (loss) per common share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>
Weighted-average number of common shares outstanding:				
Basic and diluted	144,780,176	126,387,518	143,739,573	126,017,416
Comprehensive loss:				
Net income (loss)	\$ (879,308)	\$ (1,137,020)	\$ (3,636,201)	\$ (3,582,029)
Foreign currency translation adjustment	4,669	(30,689)	25,739	(141,166)
Comprehensive income (loss)	<u>\$ (874,639)</u>	<u>\$ (1,167,709)</u>	<u>\$ (3,610,462)</u>	<u>\$ (3,723,195)</u>

The accompanying notes are an integral part of the consolidated financial statements.

GROM SOCIAL ENTERPRISES INC.
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

Three Months Ended	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Value	Shares	Value				
Balance, June 30, 2018	—	\$ —	127,328,822	\$ 127,329	\$ 49,493,776	\$ (43,288,577)	\$ (187,821)	\$ 6,144,707
Net income (loss)	—	—	—	—	—	(1,137,020)	—	(1,137,020)
Change in foreign currency translation	—	—	—	—	—	—	(30,689)	(30,689)
Issuance of common stock in connection with sales made under private offerings	—	—	304,870	305	75,913	—	—	76,218
Issuance of common stock in connection with the exercise of common stock purchase warrants	—	—	—	—	—	—	—	—
Issuance of common stock as compensation to employees, officers and/or directors	—	—	—	—	—	—	—	—
Issuance of common stock in exchange for consulting, professional and other services	—	—	200,000	200	66,800	—	—	67,000
Issuance of common stock in lieu of cash for loans payable and other accrued obligations	—	—	1,612,903	1,613	498,387	—	—	500,000
Issuance of common stock in connection with the issuance of convertible debenture(s)	—	—	209,722	210	65,709	—	—	65,919
Issuance of common stock in connection with the amendment of terms of promissory note(s)	—	—	—	—	—	—	—	—
Issuance of common stock in connection with the acquisition of a business	—	—	—	—	—	—	—	—
Recognition of beneficial conversion features related to convertible debentures	—	—	—	—	—	—	—	—
Stock based compensation expense related to stock options	—	—	—	—	1,380	—	—	1,380
Balance, September 30, 2018	—	\$ —	129,656,317	\$ 129,657	\$ 50,201,965	\$ (44,425,597)	\$ (218,510)	\$ 5,687,515

GROM SOCIAL ENTERPRISES INC.
Consolidated Statements of Changes in Stockholders' Equity (Unaudited) (continued)

Three Months Ended	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Value	Shares	Value				
Balance, June 30, 2019	925,000	\$ 925	147,268,620	\$ 147,269	\$ 54,079,515	\$ (48,214,100)	\$ (132,184)	\$ 5,881,425
Net income (loss)	–	–	–	–	–	(879,308)	–	(879,308)
Change in foreign currency translation	–	–	–	–	–	–	4,669	4,669
Issuance of common stock in connection with sales made under private offerings	–	–	3,716,667	3,717	306,283	–	–	310,000
Issuance of common stock in exchange for consulting, professional and other services	–	–	787,276	787	147,012	–	–	147,799
Issuance of common stock in lieu of cash for accounts payable, loans payable and other accrued obligations	–	–	465,113	465	362,035	–	–	362,500
Issuance of common stock in connection with the issuance of convertible debenture(s)	–	–	80,130	80	13,406	–	–	13,486
Recognition of beneficial conversion features related to convertible debentures	–	–	–	–	51,730	–	–	51,730
Balance, September 30, 2019	925,000	\$ 925	152,317,806	\$ 152,318	\$ 54,959,981	\$ (49,093,408)	\$ (127,515)	\$ 5,892,301

GROM SOCIAL ENTERPRISES INC.
Consolidated Statements of Changes in Stockholders' Equity (Unaudited) (continued)

Nine Months Ended	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Value	Shares	Value				
Balance, December 31, 2017	—	\$ —	124,273,548	\$ 124,274	\$ 47,901,532	\$ (40,843,568)	\$ (77,344)	\$ 7,104,894
Net income (loss)	—	—	—	—	—	(3,582,029)	—	(3,582,029)
Change in foreign currency translation	—	—	—	—	—	—	(141,166)	(141,166)
Issuance of common stock in connection with sales made under private offerings	—	—	304,870	305	75,913	—	—	76,218
Issuance of common stock in connection with the exercise of common stock purchase warrants	—	—	256,455	256	61,244	—	—	61,500
Issuance of common stock as compensation to employees, officers and/or directors	—	—	595,321	595	291,848	—	—	292,443
Issuance of common stock in exchange for consulting, professional and other services	—	—	834,500	835	401,415	—	—	402,250
Issuance of common stock in lieu of cash for loans payable and other accrued obligations	—	—	1,898,530	1,899	669,477	—	—	671,376
Issuance of common stock in connection with the issuance of convertible debenture(s)	—	—	538,093	538	263,641	—	—	264,179
Issuance of common stock in connection with the amendment of terms of promissory note(s)	—	—	805,000	805	481,445	—	—	482,250
Issuance of common stock in connection with the acquisition of a business	—	—	150,000	150	52,350	—	—	52,500
Recognition of beneficial conversion features related to convertible debentures	—	—	—	—	800	—	—	800
Stock based compensation expense related to stock options	—	—	—	—	2,300	—	—	2,300
Balance, September 30, 2018	—	\$ —	129,656,317	\$ 129,657	\$ 50,201,965	\$ (44,425,597)	\$ (218,510)	\$ 5,687,515

GROM SOCIAL ENTERPRISES INC.
Consolidated Statements of Changes in Stockholders' Equity (Unaudited) (continued)

Nine Months Ended	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Value	Shares	Value				
Balance, December 31, 2018	—	\$ —	138,553,655	\$ 138,554	\$ 52,254,286	\$ (45,457,207)	\$ (153,254)	\$ 6,782,379
Net income (loss)	—	—	—	—	—	(3,636,201)	—	(3,636,201)
Change in foreign currency translation	—	—	—	—	—	—	25,739	25,739
Issuance of Series A preferred stock with common stock in connection with sales made under private offerings	925,000	925	—	—	410,226	—	—	411,151
Issuance of common stock in connection with sales of Series A preferred stock	—	—	4,625,000	4,625	509,224	—	—	513,849
Beneficial conversion feature related to preferred stock	—	—	—	—	231,050	—	—	231,050
Deemed dividend on conversion of convertible preferred stock to common stock	—	—	—	—	(231,050)	—	—	(231,050)
Accretion of Series A preferred stock	—	—	—	—	509,849	—	—	509,849
Deemed dividend on accretion of Series A preferred stock	—	—	—	—	(509,849)	—	—	(509,849)
Issuance of common stock in connection with sales made under private offerings	—	—	4,950,000	4,950	490,050	—	—	495,000
Issuance of common stock in exchange for consulting, professional and other services	—	—	2,664,058	2,664	604,132	—	—	606,796
Issuance of common stock in lieu of cash for accounts payable, loans payable and other accrued obligations	—	—	564,833	565	388,875	—	—	389,440
Issuance of common stock in connection with the issuance of convertible debenture(s)	—	—	160,260	160	32,258	—	—	32,418
Issuance of common stock in connection with the amendment of terms of promissory note(s)	—	—	800,000	800	219,200	—	—	220,000
Recognition of beneficial conversion features related to convertible debentures	—	—	—	—	51,730	—	—	51,730
Balance, September 30, 2019	925,000	\$ 925	152,317,806	\$ 152,318	\$ 54,959,981	\$ (49,093,408)	\$ (127,515)	\$ 5,892,301

The accompanying notes are an integral part of the consolidated financial statements.

GROM SOCIAL ENTERPRISES INC.
Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Cash flows from operating activities of continuing operations:		
Net income (loss)	\$ (3,636,201)	\$ (3,582,029)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	664,771	611,650
Amortization of debt discount	417,198	325,619
Common stock issued for financing costs	32,418	2,250
Common stock issued in exchange for fees and services	606,797	330,250
Deferred taxes	(26,752)	(6,175)
Derivative expense	42,140	—
Stock based compensation	48,600	294,743
Loss on extinguishment of debt	363,468	—
Unrealized (gain) loss on change in fair value of derivative liabilities	13,473	—
Changes in operating assets and liabilities:		
Accounts receivable	57,376	(64,853)
Inventory	(21,481)	(120,512)
Prepaid expenses and other current assets	8,594	501,811
Operating lease right of use assets	16,802	—
Other assets	33,745	8,911
Accounts payable	434,854	565,678
Accrued liabilities	266,809	311,492
Advanced payments and deferred revenues	(1,445)	290,174
Income taxes payable and other noncurrent liabilities	(35,118)	(43,033)
Related party payables	(409,095)	(242,611)
Net cash provided by (used in) operating activities	(1,123,047)	(816,635)
Cash flows from investing activities:		
Purchase of fixed assets	(284,629)	(700,493)
Net cash provided by (used in) investing activities	(284,629)	(700,493)
Cash flows from financing activities:		
Proceeds from issuance of preferred stock, net of issuance costs	411,151	—
Proceeds from issuance of common stock, net of issuance costs	1,008,849	76,218
Proceeds from exercise of common stock purchase warrants, net of issuance costs	—	61,500
Proceeds from issuance of convertible debentures	95,000	1,496,389
Proceeds from issuance of senior, secured promissory notes	—	80,000
Repayments of convertible debentures	(184,000)	(75,000)
Net cash provided by (used in) financing activities	1,331,000	1,639,107
Effect of exchange rates on cash and cash equivalents	25,680	(156,266)
Net increase (decrease) in cash and cash equivalents	(50,996)	(34,287)
Cash and cash equivalents at beginning of period	633,593	436,869
Cash and cash equivalents at end of period	\$ 582,597	\$ 402,582
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 521,408	\$ 70,253
Cash paid for income taxes	\$ —	\$ —
Supplemental disclosure of non-cash investing and financing activities:		
Common stock issued related to acquisition of business	\$ —	\$ 52,500
Common stock issued for financing costs incurred in connection with convertible and promissory notes	\$ —	\$ 744,179
Common stock issued in connection with long term service contracts	\$ —	\$ 72,000
Common stock issued to reduce convertible and promissory notes payable	\$ —	\$ 671,376
Common stock issued to reduce accounts payable and other accrued liabilities	\$ 389,440	\$ —
Discount for beneficial conversion features on convertible debentures	\$ 51,730	\$ 801
Discount related to fair value of derivative liabilities associated with convertible debentures	\$ 43,270	\$ —

The accompanying notes are an integral part of the consolidated financial statements.

GROM SOCIAL ENTERPRISES, INC.
Notes to Consolidated Unaudited Financial Statements

1. NATURE OF OPERATIONS

We operate our business through the following five wholly-owned subsidiaries:

- Grom Social, Inc. ("Grom Social") was incorporated in the State of Florida on March 5, 2012 and operates our social media network designed for children.
- TD Holdings Limited ("TD Holdings"), which was acquired in July 2016, was incorporated in Hong Kong on September 15, 2005 and operates through its subsidiary companies, Top Draw Animation Hong Kong Limited ("TDAHK") and Top Draw Animation, Inc. ("Top Draw" or "TDA"). The group's principal activities are the production of animated films based in Manila, the Philippines.
- Grom Educational Services, Inc. ("GES"), was incorporated in the State of Florida on January 17, 2017, and operates our NetSpective Webfiltering services to schools and libraries.
- Grom Nutritional Services, Inc. ("GNS") was incorporated in the State of Florida on April 19, 2017. We intend to market and distribute four flavors of a nutritional supplement to children through GNS.
- Illumination America Lighting, Inc. ("IAL"), was incorporated in the State of Florida on August 21, 2017. IAL operates our LED lighting business that was our principal business prior to the Share Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going Concern

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the twelve-month period following the date of these financial statements. On a consolidated basis, the Company has incurred significant operating losses since inception.

The Company does not expect that existing operational cash flow will be sufficient to fund presently anticipated operations and has incurred significant operating losses since inception and has a working capital deficit which raises substantial doubt about the Company's ability to continue as a going concern. Therefore, the Company will need to raise additional funds and is currently exploring alternative sources of financing. Historically, the Company has raised capital through private placements, convertible debentures and officer loans as an interim measure to finance working capital needs and may continue to raise additional capital through the sale of common stock or other securities, and short-term loans. The Company will be required to continue to so until its consolidated operations become profitable. However, there can be no assurance that the Company will be successful in raising sufficient capital when needed.

Management's Representation of Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared by the Company without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted as allowed by such rules and regulations, and management believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements include all of the adjustments, which in the opinion of management are necessary to a fair presentation of financial position and results of operations. All such adjustments are of a normal and recurring nature. Interim results are not necessarily indicative of results for a full year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements at December 31, 2018 and 2017, as presented in the Company's Annual Report on Form 10-K filed on April 16, 2019 with the SEC.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with GAAP and are expressed in United States dollars. For the three and nine months ended September 30, 2019, the consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Grom Social, TD Holdings, GES, GNS, and IAL.

TD Holdings was acquired on July 1, 2016; and GES was formed in January 2017 to manage the NetSpective assets and business which were acquired on January 1, 2017. GNS, which was formed in April 2017, has not recorded any material activity through the date of this Report.

All intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of 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. The most significant estimates relate to revenue recognition, valuation of accounts receivable and inventories, purchase price allocation of acquired businesses, impairment of long-lived assets and goodwill, valuation of financial instruments, income taxes, and contingencies. The Company bases its estimates on historical experience, known or expected trends and various other assumptions that are believed to be reasonable given the quality of information available as of the date of these financial statements. The results of these assumptions provide the basis for making estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance provided in ASC Topic 606 ("ASC 606") requires entities to use a five-step model to recognize revenue by allocating the consideration from contracts to performance obligations on a relative standalone selling price basis. Revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. The standard also requires new disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASC 606 also includes Subtopic 340-40, *Other Assets and Deferred Costs - Contracts with Customers*, which requires the deferral of incremental costs of obtaining a contract with a customer. This new guidance was initially effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016, and early adoption was not permitted. However, in July 2015, the FASB voted to defer the effective date of this ASU by one year for reporting periods beginning after December 15, 2017, with early adoption permitted as of the original effective date. As a result, the effective date for the Company is January 1, 2018.

Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. The Company adopted this ASU in accordance with the modified retrospective method, effective January 1, 2018, for all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018, are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP.

Under the applicable revenue recognition guidance for fiscal years 2017 and prior, these transactions were recognized when the amounts were billed to the customer.

As a result of the Company's transition to ASC 606, the Company recorded a net change in beginning retained earnings of \$263,741 on January 1, 2018, due to the cumulative effect of adopting ASC 606.

Animation Revenue

Under ASC 606, the Company's animation revenues are generated primarily from contracts with customers for preproduction and production services related to the development of animated movies and television series. TDA preproduction activities include producing storyboards, location design, model and props design, background color and color styling. For production, TDA focuses on library creation, digital asset management, background layout scene assembly, posing, animation and after-effects. We provide our services under fixed-price contracts. Under fixed-price contracts, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit or could incur a loss.

We account for a contract after it has been approved by all parties to the arrangement, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

We evaluate the services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. The services in our contracts are distinct from one another as the referring parties typically can direct all, limited, or single portions of the various preproduction and production activities required to create and design an entire episode to us and we, therefore, have a history of developing stand-alone selling prices for all of these distinct components. Accordingly, our contracts are typically accounted for as containing multiple performance obligations.

We determine the transaction price for each contract based on the consideration we expect to receive for the distinct services being provided under the contract.

We recognize revenue as performance obligations are satisfied and the customer obtains control of the services. In determining when performance obligations are satisfied, we consider factors such as contract terms, payment terms and whether there is an alternative future use of the product or service. Substantially all of our revenue is recognized over time as we perform under the contract due to the contractual terms present in each contract which irrevocably transfer control of the work product to the customer as the services are performed.

For performance obligations recognized over time, revenue is recognized based on the extent of progress towards completion of the performance obligation, generally using the percentage-of-completion cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer as we incur costs on our contracts. Under the percentage-of-completion cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs to complete the performance obligation.

Webfiltering Revenue

Revenue from subscription sales for webfiltering at NetSpective is recognized on a pro-rata basis over the subscription period. Typically, a subscriber purchases computer hardware and a service license for a period of use between one year to five years for software and support. The subscriber is billed in full at the time of the sale. The Company immediately recognizes any revenue attributable to the computer hardware as it is non-refundable, and control of the hardware has passed to the customer. The advanced billing for software and service is initially recorded as deferred revenue and subsequently recognized as revenue over time evenly throughout the subscription period. Adoption of ASC 606 had no impact on NetSpective's revenues.

Substantially all of the revenue at TDA and NetSpective comes from North America in the form of animation and webfiltering services, respectively. Historically and going forward, TDA's business is concentrated on five to eight key clients, that vary from year to year based upon discrete projects which become available based on the popularity of a particular TV series, or the expected acceptance of new animated series. TDA receives advance payments for a significant portion of the work it performs. NetSpective, as consistent with industry practice receives full payment in advance of providing webfiltering services over a period of one to five years. Revenue recognition under ASC 606 and historically was unrelated to the timing of milestone or advance payments. NetSpective's business is focused on forty to fifty US-based school districts located in the US. Both TDA and NetSpective earn revenue via services transferred over time to the client. Approximately 10% of NetSpective's business is recognized at a point in time due to the non-refundable sale of computer hardware associated with web filtering services.

Contract Assets and Liabilities

Revenues from NetSpective contracts are all billed in advance and therefore represent contract liabilities until fully recognized on a ratable basis over the contract life. Animation revenue contracts vary with movie contracts typically allowing for progress billings over the contract term while other episodic development activities are typically billable upon delivery of the performance obligation for an episode. These episodic activities typically create unbilled contract assets between episode delivery dates while movies can create contract assets or liabilities based on the progress of activities versus the arranged billing schedule.

The following table depicts the composition of our contract assets and liabilities as of September 30, 2019, and December 31, 2018:

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Animation contract assets	\$ 1,042,548	\$ 1,040,309
NetSpective contract assets	14,868	74,743
Other contract assets	8,701	8,441
Total contract assets	<u>\$ 1,066,117</u>	<u>\$ 1,123,493</u>
Animation contract liabilities	\$ 406,585	\$ 380,749
NetSpective contract liabilities	700,699	727,979
Other contract liabilities	11,500	11,500
Total contract liabilities	<u>\$ 1,118,784</u>	<u>\$ 1,120,228</u>

Fair Value Measurements

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820 "Fair Value Measurements and Disclosures" ("ASC 820") defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable.

Level 3 - Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of September 30, 2019, and December 31, 2018. The Company uses the market approach to measure fair value for its Level 1 financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The respective carrying value of certain balance sheet financial instruments approximates its fair value. These financial instruments include cash, trade receivables, related party payables, accounts payable, accrued liabilities and short-term borrowings. Fair values were estimated to approximate carrying values for these financial instruments since they are short term in nature, and they are receivable or payable on demand.

The estimated fair value of assets and liabilities acquired in business combinations and reporting units and long-lived assets used in the related asset impairment tests utilize inputs classified as Level 3 in the fair value hierarchy.

The Company determines the fair value of contingent consideration based on a probability-weighted discounted cash flow analysis. The fair value remeasurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in the fair value hierarchy. In each period, the Company reassesses its current estimates of performance relative to the stated targets and adjusts the liability to fair value. Any such adjustments are included as a component of Other Income (Expense) in the Consolidated Statements of Operations and Comprehensive Loss.

The following table summarizes the change in the Company's financial assets and liabilities measured at fair value as of September 30, 2019, and December 31, 2018.

	Level 1	Level 2	Level 3
Earnout liability	\$ —	\$ —	\$ 429,000
Fair value, December 31, 2017			\$ 429,000
Change in fair value			—
Fair value, December 31, 2018			\$ 429,000
Change in fair value			—
Fair value, September 30, 2019			\$ 429,000

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of convertible and other promissory notes are reviewed to determine whether they contain embedded derivative instruments that are required to be accounted for separately from the host contract and recorded on the balance sheet at fair value. The fair value of derivative liabilities is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results.

Beneficial Conversion Features

In accordance with FASB ASC 470-20, "Debt with Conversion and Other Options" the Company records a beneficial conversion feature ("BCF") related to the issuance of convertible debt or preferred stock instruments that have conversion features at fixed rates that are in-the-money when issued. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The intrinsic value is generally calculated at the commitment date as the difference between the conversion price and the fair value of the common stock or other securities into which the security is convertible, multiplied by the number of shares into which the security is convertible. If certain other securities are issued with the convertible security, the proceeds are allocated among the different components. The portion of the proceeds allocated to the convertible security is divided by the contractual number of the conversion shares to determine the effective conversion price, which is used to measure the BCF. The effective conversion price is used to compute the intrinsic value. The value of the BCF is limited to the basis that is initially allocated to the convertible security.

Stock Purchase Warrants

The Company accounts for warrants issued to purchase shares of its common stock as equity in accordance with FASB ASC 480, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, Distinguishing Liabilities from Equity*.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents consist of cash on deposit with banks and money market funds, the fair value of which approximates cost. The Company maintains its cash balances with a high-credit-quality financial institution. At times, such cash may be more than the Federal Deposit Insurance Corporation-insured limit of \$250,000. The Company has not experienced any losses in such accounts, and management believes the Company is not exposed to any significant credit risk on its cash and cash equivalents.

Accounts Receivable

Accounts receivable are customer obligations due under normal trade terms which are recorded at net realizable value. The Company establishes an allowance for doubtful accounts based on management's assessment of the collectability of trade receivables. A considerable amount of judgment is required in assessing the amount of the allowance. The Company makes judgments about the creditworthiness of each customer based on ongoing credit evaluations and monitors current economic trends that might impact the level of credit losses in the future. If the financial condition of the customers were to deteriorate, resulting in their inability to make payments, a specific allowance will be required.

Recovery of bad debt amounts previously written off is recorded as a reduction of bad debt expense in the period the payment is collected. If the Company's actual collection experience changes, revisions to its allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Inventory

Inventory consists of animation supplies used for the sole purpose of completing animation projects at Top Draw, and saleable computer hardware used by customers to facilitate the Company's NetSpective webfiltering services.

Property and Equipment

Property and equipment are stated at cost or fair value if acquired as part of a business combination. Depreciation is computed by the straight-line method and is charged to operations over the estimated useful lives of the assets. Maintenance and repairs are charged to expense as incurred. The carrying amount and accumulated depreciation of assets sold or retired are removed from the accounts in the year of disposal and any resulting gain or loss is included in results of operations. The estimated useful lives of property and equipment are as follows:

Computers, software, and office equipment	1 – 5 years
Machinery and equipment	3 – 5 years
Vehicles	5 years
Furniture and fixtures	5 – 10 years
Leasehold improvements	Lesser of the lease term or estimated useful life

Construction in process is not depreciated until the construction is completed and the asset is placed into service.

Goodwill and Intangible Assets

Goodwill represents the future economic benefit arising from other assets acquired that could not be individually identified and separately recognized. The goodwill arising from the Company's acquisitions is attributable to the value of the potential expanded market opportunity with new customers. Intangible assets have either an identifiable or indefinite useful life. Intangible assets with identifiable useful lives are amortized on a straight-line basis over their economic or legal life, whichever is shorter. The Company's amortizable intangible assets consist of customer relationships and non-compete agreements. Their estimated useful lives range from 1.5 to 10 years. The Company's indefinite-lived intangible assets consist of trade names.

Goodwill and indefinite-lived assets are not amortized but are subject to annual impairment testing unless circumstances dictate more frequent assessments. The Company performs an annual impairment assessment for goodwill during the fourth quarter of each year and more frequently whenever events or changes in circumstances indicate that the fair value of the asset may be less than the carrying amount. Goodwill impairment testing is a two-step process performed at the reporting unit level. Step one compares the fair value of the reporting unit to its carrying amount. The fair value of the reporting unit is determined by considering both the income approach and market approaches. The fair values calculated under the income approach and market approaches are weighted based on circumstances surrounding the reporting unit. Under the income approach, the Company determines fair value based on estimated future cash flows of the reporting unit, which are discounted to the present value using discount factors that consider the timing and risk of cash flows. For the discount rate, the Company relies on the capital asset pricing model approach, which includes an assessment of the risk-free interest rate, the rate of return from publicly traded stocks, the Company's risk relative to the overall market, the Company's size and industry and other Company-specific risks. Other significant assumptions used in the income approach include the terminal value, growth rates, future capital expenditures and changes in future working capital requirements. The market approaches use key multiples from guideline businesses that are comparable and are traded on a public market. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount exceeds its fair value, then the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit as calculated in step one. In this step, the fair value of the reporting unit is allocated to all of the reporting unit's assets and liabilities in a hypothetical purchase price allocation as if the reporting unit had been acquired on that date. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess.

Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates, strategic plans, and future market conditions, among others. There can be no assurance that the Company's estimates and assumptions made for purposes of the goodwill impairment testing will prove to be accurate predictions of the future. Changes in assumptions and estimates could cause the Company to perform an impairment test prior to scheduled annual impairment tests.

The Company performed its annual fair value assessment at December 31, 2018, on its subsidiaries with material goodwill and intangible asset amounts on their respective balance sheets and determined that no impairment exists.

Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets whenever events or changes in circumstances have indicated that an asset may not be recoverable. The long-lived asset is grouped with other assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows is less than the carrying value of the assets, the assets are written down to the estimated fair value.

The Company evaluated the recoverability of its long-lived assets on December 31, 2018 on its subsidiaries with material amounts on their respective balance sheets and determined that no impairment exists.

Income Taxes

The Company accounts for income taxes under FASB ASC 740, "Accounting for Income Taxes". Under FASB ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under FASB ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. FASB ASC 740-10-05, "Accounting for Uncertainty in Income Taxes" prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities.

The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company assesses the validity of its conclusions regarding uncertain tax positions on a quarterly basis to determine if facts or circumstances have arisen that might cause it to change its judgment regarding the likelihood of a tax position's sustainability under audit.

Right of Use Assets and Lease Liabilities

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (ASC 842). The standard requires lessees to recognize almost all leases on the balance sheet as a right of use ("ROU") asset and a lease liability and requires leases to be classified as either an operating or a finance type lease. The standard excludes leases of intangible assets or inventory. The standard became effective for the Company beginning January 1, 2019. The Company adopted ASC 842 using the modified retrospective approach, by applying the new standard to all leases existing at the date of initial application. Results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under ASC 842, while prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting under ASC 840. The Company elected the package of practical expedients permitted under the standard, which also allowed the Company to carry forward historical lease classifications. The Company also elected the practical expedient related to treating lease and non-lease components as a single lease component for all equipment leases as well as electing a policy exclusion permitting leases with an original lease term of less than one year to be excluded from the ROU assets and lease liabilities.

Under ASC 842, the Company determines if an arrangement is a lease at inception. ROU assets and liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. As most of the Company's leases do not provide an implicit rate, the Company estimated the incremental borrowing rate in determining the present value of lease payments. The ROU asset also includes any lease payments made prior to commencement and is recorded net of any lease incentives received. The Company lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options.

Operating leases are included in operating lease right-of-use assets, operating lease liabilities, current and operating lease liabilities, non-current on the Company's condensed consolidated balance sheets.

As a result of the adoption of ASC 842 on January 1, 2019, the Company recorded both operating lease ROU assets of \$1,032,898 and operating lease liabilities of \$1,032,898. The adoption did not impact the Company's beginning retained earnings, or prior year consolidated statements of income and statements of cash flows.

Foreign Currency Translation

The functional and reporting currency of TD Holdings and TDAHK is the Hong Kong Dollar. The functional and reporting currency of Top Draw is the Philippine Peso. Management has adopted ASC 830 "Foreign Currency Matters" for transactions that occur in foreign currencies. Monetary assets denominated in foreign currencies are translated using the exchange rate prevailing at the balance sheet date. Average monthly rates are used to translate revenues and expenses.

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods.

Assets and liabilities of the Company's operations are translated into the reporting currency, United States dollars, at the exchange rate in effect at the balance sheet dates. Revenue and expenses are translated at average rates in effect during the reporting periods. Equity transactions are recorded at the historical rate when the transaction occurred. The resulting translation adjustment is reflected as accumulated other comprehensive income, a separate component of stockholders' equity in the statement of stockholders' equity.

Differences may arise in the amount of bad debt expense, depreciation expense and amortization expense reported in the Company's operating results as compared to the corresponding change in the allowance for doubtful accounts, accumulated depreciation, and accumulated amortization, respectively, due to foreign currency translation. These translation adjustments are reflected in accumulated other comprehensive income, a separate component of the Company's stockholders' equity.

Comprehensive Gain or Loss

ASC 220 "Comprehensive Income," establishes standards for the reporting and display of comprehensive income and its components in the financial statements. As of September 30, 2019 and December 31, 2018, the Company determined that it had items that represented components of comprehensive income (loss) and, therefore, has included a statement of comprehensive income (loss) in the financial statements.

Advertising expenses

Advertising costs are expensed as incurred and included in selling and marketing expenses.

Shipping and handling costs

Shipping and handling costs related to the acquisition of goods from vendors are included in the cost of sales.

Basic and Diluted Net Income (Loss) Per Share

The Company computes net income (loss) per share in accordance with ASC 260, "Earnings per Share". ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common stockholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. These potential dilutive shares include 6,560,325 shares from convertible notes, 25,517,850 vested stock options and 5,731,901 stock purchase warrants. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive.

Recent accounting pronouncements

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements and does not believe that there are any other new pronouncements that have been issued that might have a material impact on its financial position or results of operations.

3. ACCOUNTS RECEIVABLE, NET

The following table sets forth the components of the Company's accounts receivable at September 30, 2019, and December 31, 2018:

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Billed accounts receivable	\$ 732,589	\$ 419,802
Unbilled accounts receivable	333,528	703,691
Total accounts receivable	<u>\$ 1,066,117</u>	<u>\$ 1,123,493</u>

As of September 30, 2019, and December 31, 2018, the Company evaluated its outstanding trade receivables and determined that its allowance for bad debts was sufficiently reserved. No bad debt expense was recorded during the nine-month period ended September 30, 2019 and the year ended December 31, 2018.

During the nine-month period ended September 30, 2019, the Company had five customers that accounted for 61.2% of revenues and two customers that accounted for 40.1% of accounts receivable.

During the year ended December 31, 2018, the Company had three customers that accounted for 50.1% of revenues and one customer that accounted for 9.2% of accounts receivable.

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

The following table sets forth the components of the Company's prepaid expenses and other current assets at September 30, 2019, and December 31, 2018:

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Collaborative development agreement	\$ 23,942	\$ 95,766
Prepaid rent	32,618	31,773
Vendor advances	17,378	7,867
Prepaid service agreements	243,185	174,920
Employee advance and other payroll related items	22,579	16,208
Other prepaid expenses and current assets	52,944	123,306
Total	\$ 392,646	\$ 449,840

Prepaid expenses and other assets represent prepayments made in the normal course and in which the economic benefit is expected to be realized within twelve months.

5. PROPERTY AND EQUIPMENT

The following table sets forth the components of the Company's property and equipment at September 30, 2019 and December 31, 2018:

	<u>September 30, 2019</u>			<u>December 31, 2018</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Computers, software and office equipment	\$ 2,118,169	\$ (1,766,484)	\$ 351,685	\$ 1,937,987	\$ (1,508,104)	\$ 429,883
Construction in progress	38,648	(—)	38,648	—	(—)	—
Machinery and equipment	172,192	(117,937)	54,255	167,731	(99,900)	67,831
Vehicles	156,771	(72,404)	84,367	153,927	(120,728)	33,199
Furniture and fixtures	391,916	(311,266)	80,650	381,248	(284,410)	96,838
Leasehold improvements	1,059,125	(722,372)	336,753	1,031,687	(623,125)	408,562
Total fixed assets	\$ 3,936,821	\$ (2,990,463)	\$ 946,358	\$ 3,672,580	\$ (2,636,267)	\$ 1,036,313

For the nine-month periods ended September 30, 2019 and 2018, the Company recorded depreciation expense of \$374,584 and \$279,692, respectively.

6. LEASES

The Company has entered into operating leases primarily for real estate. These leases have terms which range from three years to five years, and often include one or more options to renew or in the case of equipment rental, to purchase the equipment. These operating leases are listed as separate line items on the Company's Consolidated Balance Sheet and represent the Company's right to use the underlying asset for the lease term. The Company's obligation to make lease payments are also listed as separate line items on the Company's Consolidated Balance Sheet.

Operating lease ROU assets and liabilities commencing after January 1, 2019 are recognized at commencement date based on the present value of lease payments over the lease term. Based on the present value of the lease payments for the remaining lease term of the Company's existing leases, the Company recognized ROU assets and lease liabilities for operating leases of approximately \$938,884 in assets and \$955,487 in liabilities as of September 30, 2019. In the nine months ended September 30, 2019, the Company recognized approximately \$281,322 in total lease costs.

Because the rate implicit in each lease is not readily determinable, the Company uses its incremental borrowing rate to determine the present value of the lease payments.

Information related to the Company's operating right-of-use assets and related lease liabilities were as follows:

	Nine Months Ended September 30, 2019
Cash paid for operating lease liabilities	\$ 264,519
Weighted-average remaining lease term (in years)	3.6
Weighted-average discount rate	10%
Minimum future lease payments	\$ 1,170,089

The following table presents the Company's future minimum lease obligation under ASC 840 as of September 30 2019:

2019	85,318
2020	352,888
2021	367,636
2022	335,659
2023	28,589

7. GOODWILL AND INTANGIBLE ASSETS

The following table sets forth the changes in the carrying amount of the Company's goodwill at September 30, 2019, and December 31, 2018:

Balance, December 31, 2017	\$ 8,800,761
Acquisition of Bonnie Boat & Friends assets	52,500
Balance, December 31, 2018	\$ 8,853,261
Activity for the period ended September 30, 2019	-
Balance September 30, 2019	\$ 8,853,261

The following table sets forth the components of the Company's intangible assets at September 30, 2019, and December 31, 2018:

	September 30, 2019			December 31, 2018			
	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Intangible assets subject to amortization:							
Customer relationships	10.00	\$ 1,600,286	(516,393)	1,083,893	\$ 1,600,286	\$ (396,371)	\$ 1,203,915
Mobile software applications	2.00	282,500	(282,500)	–	282,500	(282,500)	–
NetSpective webfiltering software	2.00	1,134,435	(623,939)	510,496	1,134,435	(453,774)	680,661
Noncompete agreements	1.50	846,638	(846,638)	–	846,638	(846,638)	–
Subtotal		3,863,859	(2,269,470)	1,594,389	3,863,859	(1,979,283)	1,884,576
Intangible assets not subject to amortization:							
Trade names		4,455,595	–	4,455,595	4,455,595	–	4,455,595
Total intangible assets		\$ 8,319,454	\$ (2,269,470)	\$ 6,049,984	\$ 8,319,454	\$ (1,979,283)	\$ 6,340,171

The Company recorded amortization expense for intangible assets subject to amortization of \$290,187 and \$331,958 for the nine months ended September 30, 2019 and 2018, respectively.

8. OTHER ASSETS

Other assets are comprised solely of guarantee deposits at TDA which are refundable upon termination of contract or delivery of subject matter of the contract. These are initially recorded at cost which is the fair value at the time of transaction and are subsequently measured at amortized cost.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Trade payables are recognized initially at the transaction price and subsequently measured at the undiscounted amount of cash or other consideration expected to be paid. Accrued expenses are recognized based on the expected amount required to settle the obligation or liability.

The following table sets forth the components of the Company's accrued liabilities on September 30, 2019, and December 31, 2018.

	September 30, 2019	December 31, 2018
Earnout consideration payable in connection with NetSpective acquisition	\$ –	\$ 362,500
Executive and employee compensation	1,138,424	792,402
Interest on convertible debentures and promissory notes	163,747	210,221
Other accrued expenses and liabilities	35,175	67,914
Total accrued liabilities	\$ 1,337,346	\$ 1,433,037

On July 1, 2019, the Company issued 465,113 shares of its common stock in satisfaction of the earnout consideration payable related to the NetSpective acquisition.

10. RELATED PARTY PAYABLES

The Company has engaged the Chief Executive Officer, Darren Mark's family to assist in the development of the Grom Social website and to create original content for the site. Since these individuals have been responsible for creating in excess of 500 episodes of original content. Mr. Marks wife Sarah; his sons Zach the founder of Grom, Luke, Jack, Dawson, and his daughters Caroline and Victoria all work for the Company either as employees or contractors.

- The amount they were paid for the year ended December 31, 2018 are as follows: Sarah \$33,600, Zach \$90,000, Luke \$33,800, Jack \$5,400, Victoria \$6,750 and Caroline \$11,250. The total annual compensation payable to these six individuals for the period ended December 31, 2018, was \$180,800.
- For the nine-month period ended September 30, 2019, these individuals were paid a total of \$70,800.

The Company believes the amounts paid to these individuals is below market rate for the value of the services performed. This expenditure for services provided by the Marks family is expected to continue for the foreseeable future. Members of the Marks family are actively involved on a daily basis in creating all of the current content for the website which includes numerous videos on social responsibility, anti-bullying, digital citizenship, unique blogs, and special events.

Liabilities Due to Executive and Other Officers

Messrs. Darren Marks and Melvin Leiner, both officers of the Company, have made numerous loans to Grom to help fund operations. These loans are non-interest bearing and callable on demand. No such loans have been made to the Company since the year ended December 31, 2017. The loan balances are classified as short-term obligations under Related Party Payables on the Company's balance sheet.

During 2017 and 2018 Mr. Marks and Mr. Leiner on several occasions agreed to convert a portion of their loans into equity. These transactions are summarized as follows:

<u>Name</u>	<u>Date</u>	<u>Amount of Loan Principal Converted to Equity</u>	<u>Conversion Price per Share</u>	<u>Closing Price of Common Stock on Conversion Date</u>	<u>Shares of Common Stock Issued</u>
Darren Marks	12/29/2017	333,333	\$ 0.50	0.30	666,666
	10/15/2018	333,333	\$ 0.31	0.19	1,075,268
Melvin Leiner	12/29/2017	166,667	\$ 0.50	0.30	333,334
	10/15/2018	166,667	\$ 0.31	0.19	537,635

As of September 30, 2019 and December 31, 2018, the outstanding amounts due to Mr. Marks totaled \$362,930 and \$469,506, respectively, and the outstanding amounts due to Mr. Leiner totaled \$336,629 and \$451,944, respectively.

As of September 30, 2019 and December 31, 2018, the Company owed \$50,000 to Dr. Thomas Rutherford, a director on its board, who extended a short-term loan to the Company. Additionally, as of September 30, 2019 and December 31, 2018, the Company owed \$22,992 and \$210,145, respectively, to Wayne and Stella Dearing, collectively, who extended loans to Top Draw Animation. These loans were made to the Company to finance working capital needs.

As of September 30, 2019 and December 31, 2018, the aggregate balance of related party payables was \$772,551 and \$1,181,645 respectively.

11. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities are comprised solely of retirement benefit costs. The Philippine Republic Act (RA) No. 7641, mandates all private employers to provide retirement benefits to employees who upon reaching the age of sixty years or more, but not beyond sixty-five years, have served at least five years in the said establishment. The amount of retirement benefit was defined as "at least one-half month salary for every year of service, a fraction of at least six months being considered as one whole year".

The balance of the accrued retirement benefit cost as of September 30, 2019 and December 31, 2018 amounted to \$230,776 and \$224,797 respectively.

12. DEBT

Convertible Debentures

The following tables set forth the components of the Company's, convertible debentures as of September 30, 2019, and December 31, 2018:

	September 30, 2019	December 31, 2018
Redeemable unsecured convertible note - TeleMate	\$ 1,000,000	1,000,000
Principal value of secured convertible notes	6,738,708	2,822,708
Loan discounts	(446,388)	(735,871)
Less: Current portion	(7,050,901)	(676,223)
Total convertible notes, net - noncurrent	<u>\$ 241,419</u>	<u>\$ 2,410,614</u>

Redeemable Convertible Note – Variable Conversion Price

On July 9, 2019, the Company entered into a convertible note payable with an unrelated party for \$100,000 of which included \$5,000 in third party fees resulting in net cash proceeds to the Company of \$95,000. The convertible note payable carries interest at a rate of 10% per annum, is due on July 9, 2020 and is convertible into common stock of the Company at the option of the noteholder six months after issuance at a rate equal to a 30% discount from the lowest volume weighted average price of the Company's common stock in the preceding 20 trading days.

The Company analyzed the conversion feature of the agreement for a beneficial conversion feature, for which the Company concluded that a beneficial conversion feature existed. The beneficial conversion feature was measured using the commitment-date stock price and its fair value was determined to be \$51,730. This amount is recorded as a debt discount and is amortized as interest expense over the term of the related convertible note.

The Company analyzed the conversion feature of the agreement for derivative accounting consideration and determined that the embedded conversion features should be classified as a derivative because the exercise price of these convertible notes are subject to a variable conversion rate.

The aggregate fair value of the derivative at the issuance date of the note was \$85,410 which was recorded as a derivative liability on the balance sheet. The Company recorded a debt discount of \$43,270 which was up to the face value of the convertible note with the excess fair value at initial measurement of \$42,140 being recognized as derivative expense.

At September 30, 2019, the Company remeasured the fair value of its derivative liability at \$98,883 and recorded a \$13,473 loss from change in fair value for the nine months ended September 30, 2019. The fair value of the embedded derivative was determined using a Black-Scholes option pricing model based on the following assumptions: (1) expected volatility of 107%, (2) risk-free interest rate of 1.75%, (3) an exercise price of \$0.084, and (4) an expected life of 0.78 of a year.

First Amendment of TDH Share Sale Agreement

On January 3, 2018, we entered into an amendment (the "First Amendment") to the TDH share sale agreement with the individuals that sold TDH to the Company ("TDH Sellers"). Under the terms of the First Amendment:

- the maturity date of the \$4.0 million promissory note issued to the TDH Sellers by the Company on June 20, 2016 as part of the acquisition of TDH by the Company (the "TDH Note"), was extended from July 1, 2018 until July 1, 2019 (the "Note Extension Period");
- the interest rate on the TDH Note was increased from 5% to 10% during the Note Extension Period;
- during the Note Extension Period, the interest payments terms were changed to be paid quarterly in arrears, instead of annually in arrears; and
- the period eligible for additional consideration to be earned by the TDH Sellers contingent upon the achievement of certain milestones, as defined in the TDH share sale agreement, was extended to December 31, 2019.

As consideration for the First Amendment, the Company issued an additional 800,000 shares of its common stock to the TDH Sellers.

Second Amendment of the TDH Share Sale Agreement

On January 15, 2019, we entered into a second amendment to the TDH share sale agreement (the "Second Amendment"). Under the terms of the Second Amendment:

- the maturity date of the TDH Note was extended from July 1, 2019, to April 2, 2020.
- in the event the TDH Note is not repaid prior to July 2, 2019: (i) no management fee shall be paid by TDA to the Company as provided in the share sale agreement in which the Company acquired TDH.
- the TDH Sellers shall have the right to convert the TDH Note at a conversion price of \$0.27 per share, either in whole or in part at any time prior to the maturity, subject to the terms and conditions set forth in the Second Amendment

As a result of the inclusion of a \$0.27 conversion feature, under the guidelines of ASC 470-20-40-7 through 40-9, this element of the Second Amendment was considered an extinguishment and subsequent reissuance of the TDH Note as a convertible promissory note. As a result, the Company recorded a loss from the extinguishment of debt of \$363,468 related to the Second Amendment during the nine months ended September 30, 2019.

Redeemable Unsecured Convertible Note - TeleMate

On January 1, 2017, the Company issued a three-year 0.68% redeemable convertible note for \$1,000,000 (the "Telemate Note") to Telemate.Net Software LLC ("Telemate") in connection with the acquisition of the NetSpective Webfiltering assets. All Telemate Note principal and accrued interest is payable January 1, 2020. The Telemate Note is convertible at the election of the noteholders into the Company's common stock at a conversion rate of \$0.78 per share. Furthermore, if not previously converted by the noteholders, the Telemate Note may be converted by the Company into shares of the Company's common stock at a rate of \$0.48 per share commencing on November 1, 2019.

Under the terms of the asset purchase agreement, dated January 1, 2017, between Telemate and the Company, in which TeleMate had the obligation to collect certain monies on behalf of the Company, TeleMate failed to remit \$146,882 it had collected on the Company's behalf from NetSpective customers. As a result of TeleMate's non-payment, and to avoid litigation, on January 12, 2018, we entered into a First Modification to the asset purchase agreement (the "Modification").

Under the terms of the Modification, TeleMate agreed:

- to pay the Company \$10,000 per month against their outstanding balance of \$146,822;
- not to exercise the conversion feature of its \$1.0 million promissory note, nor will any of the \$362,500 earnout shares (464,744) be issued until all payments are made in full;
- to extend the December 31, 2019 maturity date of the Telemate Note indefinitely until all payments are made in full; and
- that all interest payments (\$6,800 annually) due from the Company to TeleMate under the Telemate Note be suspended indefinitely until all payments are made in full.

Telemate completed repaying its obligation to the Company in full in April 2019. In the event that TeleMate converts the Telemate Note, the number of shares converted thereunder will be subject to a one-year leakout agreement. In the event that TeleMate does not convert the Telemate Note by October 1, 2019, the Company has the right to force conversion at a conversion price of \$0.48 per share.

Newbridge Offering

On November 30, 2018, the Company closed a private offering in which it sold 12% secured convertible promissory notes in an aggregate principal amount of \$552,000 and issued an aggregate of 730,974 shares of its common stock to nine accredited investors pursuant to a private placement memorandum and subscription agreement. The Notes which are due and payable two years from issuance are secured by certain assets of the Company and rank senior to all other indebtedness of the Company except for the \$4,000,000 promissory notes (the "TD Notes") issued to TD Holdings in connection with the Share Sale Agreement, dated June 30, 2016, as amended. Messrs. Marks and Leiner also pledged an aggregate of 10,000,000 shares pursuant to a pledge and security agreement to secure the timely payment of the Notes. The Notes are convertible, in whole or in part, by the note holder at a conversion rate of \$0.40 if the Company's common stock trades or is quoted at more than \$0.40 per share for 10 consecutive days. The conversion price is subject to an adjustment resulting from certain corporate actions including the subdivision or combination of stock, payment of dividends, reorganization, reclassification, consolidations, merger or sale of the Company.

Interest on the Note is payable monthly in 21 equal installments commencing four months after the issuance of the Notes. Upon the occurrence of an “event of default” as described in the Notes, the interest rate will increase to 15% and the Notes shall become immediately due and payable. The Company may prepay the Notes in full at any time by paying accrued interest and 110% of the outstanding principal balance. Newbridge Securities Corporation acted as exclusive placement agent for the offering and received (i) \$55,200, (ii) 113,586 shares of common stock; and (iii) \$11,040, representing a non-accountable expense allowance, for its services.

Secured Convertible Notes 2018

During the year ended December 31, 2018, the Company issued to accredited investors in private offerings two-year secured, convertible, original issue discount (“OID”) notes for aggregate gross proceeds of \$1,238,485. The notes were issued with OID discounts of 20%, or \$247,697, have an interest rate of 10% per annum, are payable semiannually in cash, and are convertible into shares of common stock at a fixed conversion price of \$0.50 per share if converted within one year of issuance and \$0.78 per share thereafter.

During the year ended December 31, 2017, the Company privately placed a series of secured, convertible, original issue discount (OID) notes with accredited investors for gross proceeds of \$601,223. The Notes were issued with OID discounts of 10.0%, or \$60,122. The notes carried an interest rate of 10% per annum, payable semiannually in cash, for a two-year term with a fixed conversion price of \$0.78.

In connection with the issuance of the above convertible notes, the Company also issued an aggregate of 150,305 shares of common stock as an inducement to lend. These shares were valued at \$78,321 with share prices ranging between \$0.38 and \$0.54 per share. The Company recorded the value of these shares as a loan discount to be amortized as interest expense over the term of the related convertible notes.

Maturities of the Company’s borrowings for each of the next two years are as follows:

2019	\$	676,223
2020	\$	7,062,485

13. STOCKHOLDERS’ EQUITY

Preferred Stock

The Company is authorized to issue 25,000,000 shares of preferred stock at a par value of \$0.001.

On February 22, 2019, the Company designated 2,000,000 shares of its preferred stock as 10% Series A Convertible preferred stock, par value \$0.001 per share (“Series A Stock”). The Series A Stock is convertible, at any time, into five shares of common stock of the Company.

On each of February 27, 2019 and March 11, 2019, the Company received \$400,000 from the sale of 400,000 shares of Series A Stock to accredited investors in private offerings pursuant to Section 4(a)(2) and/or Rule 506(b) of Regulation D, as promulgated under the Securities Act of 1933, as amended (the “Securities Act”). As an inducement to purchase the Series A Stock, each investor also received 2,000,000 restricted shares of the Company’s common stock.

On April 2, 2019, the Company received \$125,000 from the sale of 125,000 shares of Series A Stock to an accredited investor in a private offering pursuant to Section 4(a)(2) and/or Rule 506(b) of Regulation D, as promulgated under the Securities Act. As an inducement to purchase the Series A Stock, the investor also received 625,000 restricted shares of the Company's common stock.

As a result of the issuance of the Series A Stock, we recorded a beneficial conversion feature and other discounts as a deemed dividend on our income statement of \$740,899.

As of September 30, 2019, an aggregate 925,000 shares of Series A Stock were issued and outstanding. No shares of preferred stock were issued and outstanding as of December 31, 2018.

Common stock

The Company is authorized to issue 500,000,000 shares of common stock at a par value of \$0.001 and had 152,317,806 and 138,553,655 shares of common stock issued and outstanding as of September 30, 2019, and December 31, 2018, respectively.

On June 12, 2019, the Company filed Articles of Amendment to its Articles of Incorporation with the Secretary of State of Florida to increase the Company's authorized shares of common stock from 200,000,000 shares to 500,000,000 shares, which amendment was approved by the Company's board of directors on April 4, 2019 and its shareholders by consent solicitation on May 31, 2019.

Common Stock Issued in Private Placements

During the nine-month period ended September 30, 2019, the Company issued 4,950,000 shares of common stock and warrants to purchase 4,950,000 shares of common stock at an exercise price of \$0.25 in private placements for proceeds of \$495,000.

During the nine-month period ended September 30, 2018 the Company issued 304,870 shares of stock in private placements for proceeds of \$76,218 with a share price of approximately \$0.25 per share.

Common Stock Issued in Connection with the Exercise of Warrants

During the nine months ended September 30, 2019, no common stock purchase warrants were exercised.

During the nine months ended September 30, 2018, the Company issued 256,455 shares of common stock for proceeds of \$61,500 under a series of stock warrant exercises with an exercise price of \$0.24 per share.

Common Stock Issued in Exchange for Consulting, Professional and Other Services

During the nine months ended September 30, 2019, the Company did not issue any of its shares of common stock to employees, officers, and directors. The Company issued 2,664,058 shares of common stock with a fair value of \$606,796 to consultants and other professionals in lieu of cash payments for services provided to the Company.

During the nine months ended September 30, 2018, the Company issued 595,321 shares of common stock with a fair market value of \$292,443 to employees, officers and directors in lieu of cash payments. Additionally, the Company issued 834,500 shares of common stock with a fair value of \$402,250 to consultants and other professionals in lieu of cash payments for services provided to the Company.

Each share issuance made in exchange for services was valued based upon the trading price of the Company's common stock on the OTC markets on the date the services were performed.

Common Stock Issued in lieu of Cash for Loans Payable and Other Accrued Obligations

During the nine months ended September 30, 2019, the Company issued 564,833 shares of common stock with a fair market value of \$389,440 to satisfy loans payable and other accrued obligations. See Note – Accounts Payable and Accrued Liabilities for more information.

During the nine months ended September 30, 2018, the Company issued 1,898,530 shares of common stock with a fair market value of \$671,376 to satisfy loans payable and other accrued obligations.

Common Stock Issued in Connection with the Issuance of Convertible Debentures

During the nine months ended September 30, 2019, the Company issued 160,260 shares of common stock as a result of certain penalties incurred in connection with certain unsecured, convertible note agreements. The fair value of the shares aggregated \$32,418 and was recorded as interest expense in the Company's consolidated financial statements.

During the nine months ended September 30, 2018, the Company issued 538,093 shares of common stock with a fair market value of \$264,179 to investors as an inducement to lend in connection with the issuance of its unsecured, convertible notes. The fair value of the shares was recorded as interest expense in the Company's consolidated financial statements.

Common Stock Issued in the Acquisition of a Business

During the nine months ended September 30, 2018, the Company issued 150,000 shares valued at \$52,000 in connection with the acquisition of the assets of Bonnie Boat & Friends.

Common Stock Issued in Connection with the Amendments of the Terms of a Promissory Note

During each of the nine months ended September 30, 2019 and September 30, 2018, the Company issued 800,000 shares valued at \$480,000 and \$220,000 respectively, in connection with the amendment to the \$4.0 million TDA Sellers Note. See Note 12 – Debt for more information.

During the nine months ended September 30, 2018, the Company also issued 5,000 shares valued at \$2,250 in connection with the amendment of a \$40,000 promissory note.

Stock Purchase Warrants

The stock purchase warrants have been accounted for as equity in accordance with FASB ASC 480, Accounting for Derivative Financial Instruments Indexed to, and potentially settled in, a company's own stock, distinguishing liabilities from equity.

The following table reflects all outstanding and exercisable warrants at September 30, 2019, and December 31, 2018. All stock warrants are exercisable for a period between three and five years from the date of issuance.

	<u>Number of Warrants Outstanding</u>	<u>Weighted Avg. Exercise Price</u>	<u>Weighted Avg. Contractual Life (Yrs.)</u>
Balance January 1, 2017	7,608,154	\$ 0.26	0.75
Warrants issued	567,166	\$ 1.50	2.00
Less: Warrants exercised	(7,107,765)	\$ 0.24	
Warrants forfeited	(29,190)	\$ 0.24	
December 31, 2017	<u>1,038,365</u>	<u>\$ 1.36</u>	<u>2.38</u>
Warrants issued	-	-	
Warrants exercised	(256,455)	-	
Balance 31, 2018	781,910	\$ 1.36	1.38
Warrants issued	4,950,000	0.25	3.00
Warrants forfeited	-	-	
Warrants exercised	-	-	
Balance September 30, 2019	<u>5,731,910</u>	<u>\$ 0.40</u>	<u>1.87</u>

Stock Options

The following table represents all outstanding and exercisable stock options as of September 30, 2019.

	<u>Options Issued</u>	<u>Options Forfeited</u>	<u>Options Outstanding</u>	<u>Vested Options</u>	<u>Exercise Price</u>	<u>Weighted Average Remaining Life in Years</u>
	10,862,850	3,961,500	6,901,350	6,901,350	\$ 0.24	3.97
	9,695,250	9,695,250	-	-	\$ 0.36	-
	938,250	938,250	-	-	\$ 0.48	-
	13,135,500	-	13,135,500	13,135,500	\$ 0.72	0.41
	5,481,000	-	5,481,000	5,481,000	\$ 0.78	1.75
Total	<u>40,112,850</u>	<u>14,595,000</u>	<u>25,517,850</u>	<u>25,517,850</u>	<u>\$ 0.60</u>	<u>2.34</u>

The Company did not issue any stock options during the nine months ended September 30, 2019 or for the nine months ended September 30, 2018.

For the nine months ended September 30, 2019 and 2018, the Company recorded no expense and \$920, respectively in stock-based compensation expense related to these stock options.

14. COMMITMENTS AND CONTINGENCIES

In the United States, the Company leases approximately 1550 square feet of office space in Boca Raton, Florida for \$4,227 per month pursuant to a three-year lease expiring on September 30, 2021. The Florida office is the location of the Company's corporate headquarters and administrative staff.

The Company's animation business leases portions of three floors comprising in the aggregate of approximately 28,800 square feet in the West Tower of the Philippine Stock Exchange Centre in Pasig City, Manila for administration and production purposes. The monthly rent is approximately \$22,533 for the aggregate space (which increases by approximately 5% annually). These leases expire in December 2022.

The Company opened a 1,400 square foot office in Norcross, Georgia on January 1, 2018, to operate its NetSpective division. The monthly rent is \$2,055 which increases by approximately 3% annually, pursuant to a five-year lease which expires in December 2023.

15. SUBSEQUENT EVENTS

In accordance with FASB ASC 855-10 Subsequent Events, the Company has analyzed its operations subsequent to September 30, 2019 to the date these consolidated financial statements were issued, and has determined that it does not have any material subsequent events to disclose in these consolidated financial statements, except as follows:

As of November 11, 2019, the Company entered into Debt Exchange Agreements (each, a "Debt Exchange Agreement") with a total of 21 purchasers (the "Holders"), pursuant to which the Holders exchanged an aggregate of \$1,774,597 of indebtedness evidenced by 10% convertible promissory notes (the "Notes") for an aggregate of 10,095,259 shares of common stock of the Company (the "Shares"). The price per Share in the debt exchange was \$0.175. The Shares were issued without any restrictions.

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

The following discussion should be read in conjunction with our financial statements and notes thereto included herein. In connection with, and because we desire to take advantage of, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward-looking statements in the following discussion and elsewhere in this Quarterly Report and in any other statement made by, or on our behalf, whether or not in future filings with the Securities and Exchange Commission. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on our behalf. We disclaim any obligation to update forward-looking statements.

Overview

We operate our business through the following five wholly-owned subsidiaries:

- Grom Social, Inc. ("Grom Social") was incorporated in the State of Florida on March 5, 2012 and operates our social media network designed for children.
- TD Holdings Limited ("TD Holdings"), which was acquired in July 2016, was incorporated in Hong Kong on September 15, 2005 and operates through its subsidiary companies, Top Draw Animation Hong Kong Limited ("TDAHK") and Top Draw Animation, Inc. ("Top Draw" or "TDA"). The group's principal activities are the production of animated films based in Manila, the Philippines.
- Grom Educational Services, Inc. ("GES"), was incorporated in the State of Florida on January 17, 2017, and operates our NetSpective Webfiltering services to schools and libraries.
- Grom Nutritional Services, Inc. ("GNS") was incorporated in the State of Florida on April 19, 2017. We intend to market and distribute four flavors of a nutritional supplement to children through GNS.
- Illumination America Lighting, Inc. ("IAL"), was incorporated in the State of Florida on August 21, 2017. IAL operates our LED lighting business that was our principal business prior to the Share Exchange.

Results of Operations

Comparison of Results of Operations for the Three Months Ended September 30, 2019 and 2018

Revenue

During the three months ended September 30, 2019, we generated revenues of \$2,233,747 compared to revenues of \$2,053,185 during the three months ended September 30, 2018, representing an increase of \$180,562, or approximately 8.8%. The increase is primarily attributable to an increase of approximately \$290,366 in revenues from our TDA animation business, offset in part by a decrease in revenues from our NetSpective webfiltering business of approximately \$105,649. Revenues generated by our animation business and our webfiltering business are based on contracts which change from period to period. Until we can generate larger levels of revenue, the amount of revenue recorded from quarter to quarter may change based upon the timing of the completion of contracts.

Gross margin

Gross margin is calculated by subtracting the cost of sales from revenue. Gross margin percentage is calculated by dividing gross margins by revenue. Our gross margins vary significantly by subsidiary. Margins at our largest subsidiary, TDA are approximately 45-57%, margins for our NetSpective web filtering revenues are typically in the 75-78% range. Additionally, margins within subsidiary vary from quarter to quarter and from year to year due to the nature of the business of each subsidiary. Therefore, our consolidated blended gross margin will be subject to significant fluctuation from period to period until we increase our revenue. Current gross margins percentages may not be indicative of future gross margin performance.

Gross margin for the three months ended September 30, 2019, and 2018 were 53.9% and 60.4%, respectively. The decrease in gross margin for the three months ended September 30, 2019 compared to the three months ended September 30, 2018, is primarily attributable to more compressed margins in our animation business; offset in part by improved margins in our webfiltering division.

Operating expenses

Operating expenses were \$1,659,564 for the three months ended September 30, 2019, compared to \$2,037,705 for the three months ended September 30, 2018 representing a decrease of \$378,140, or approximately 18.6%. General and administrative expenses for the three months ended September 30, 2019 were \$1,227,074 compared to general and administrative expenses of \$1,312,903 for the three months ended September 30, 2018, representing a decrease of approximately \$85,829. The decrease is primarily attributable to a decrease in general and administrative expenses resulting from reduced investor relations services and general cost cutting efforts undertaken by the Company. Professional fees were \$180,911 for the three months ended September 30, 2019 compared to \$464,909 for the three months ended September 30, 2018. Depreciation and amortization for the three months ended September 30, 2019 was \$215,972 compared to \$206,563 for the three months ended September 30, 2018, representing an increase due to higher levels of property subject to depreciation. Selling and marketing expenses were \$19,407 during the three months ended September 30, 2019 compared to \$35,749 in the three months ended September 30, 2018.

Other Income (Expense)

Other expense for the three months ended September 30, 2019 was \$424,599 compared to other expense of \$339,263 for the period ended September 30, 2018, representing an increase in other expense of \$85,336. Other expense is primarily composed of interest expense, and the increase is attributable to higher debt levels serviced during the three months ended September 30, 2019.

Net loss

Net loss for the three months ended September 30, 2019, was \$879,308 compared to a net loss of \$1,137,020 for the three months ended September 30, 2018, or a decrease in a net loss of \$257,712 which is primarily attributable to increased revenue and gross margin driven by our animation business and a decrease in general and administrative expenses from cost reduction initiatives undertaken during the three months ended September 30, 2019.

Comparison of Results of Operations for the Nine Months Ended September 30, 2019 and 2018

Revenue

During the nine months ended September 30, 2019, we generated revenues of \$6,275,688 compared to revenues of \$5,864,490 during the nine months ended September 30, 2018, representing an increase of \$411,198, or approximately 7.0%. The increase is primarily attributable to an increase of approximately \$635,844 in revenues from our TDA animation business, offset in part by a decrease in revenues from our NetSpective webfiltering business of approximately \$209,632. Revenues generated by our animation business and our webfiltering business are based on contracts which change from period to period. Until we can generate larger levels of revenue, the amount of revenue recorded from quarter to quarter may change based upon the timing of the completion of contracts.

Subscription and advertising revenue generated by our gromsocial.com website and from our "MamaBear" mobile software safety application for the nine months ended September 30, 2019 was nominal.

Gross margin

Gross margin is calculated by subtracting the cost of sales from revenue. Gross margin percentage is calculated by dividing gross margins by revenue. Our gross margins vary significantly by subsidiary. Margins at our largest subsidiary, TDA are approximately 45-57%, margins for our NetSpective web filtering revenues are typically in the 75-78% range. Additionally, margins within subsidiary vary from quarter to quarter and from year to year due to the nature of the business of each subsidiary. Therefore, our consolidated blended gross margin will be subject to significant fluctuation from period to period until we increase our revenue. Current gross margins percentages may not be indicative of future gross margin performance.

Gross margin for the periods ended September 30, 2019, and 2018 were 53.9% and 61.5%, respectively. The decrease in gross margin for the nine months ended September 30, 2019 compared to 2018, is primarily attributable to more compressed margins in our animation business; offset in part by improved margins in our webfiltering division.

Operating expenses

Operating expenses were \$5,579,848 for the nine months ended September 30, 2019, compared to \$6,350,531 for the nine months ended September 30, 2018 representing a decrease of \$770,683, or approximately 12.1%. The decrease is primarily attributable to a decrease in general and administrative expenses, professional fees and stock-based compensation. For the nine months ended September 30, 2019, general and administrative expenses were \$3,971,464 compared to general and administrative expenses of \$4,257,147 for the nine months ended September 30, 2018, representing a decrease of \$285,683. The decrease is primarily attributable to a decrease in general and administrative expenses, which decrease was a result of reduced investor relations services and general cost cutting efforts undertaken by the Company, and stock-based compensation. Professional fees were \$814,573 for the nine months ended September 30, 2019 as compared to \$1,147,888 for the nine months ended September 30, 2018. During the nine months ended September 30, 2019 depreciation and amortization was \$664,771 compared to \$611,650 for the nine months ended September 30, 2018 due to higher levels of property subject to depreciation in the nine months ended September 30, 2019. Selling and marketing was \$80,440 during the nine months ended September 30, 2019 compared to \$147,103 in the nine months ended September 30, 2018.

Other Income (Expense)

Other expense for the period ended September 30, 2019 was \$1,438,275 compared to other expense of \$813,216 for the period ended September 30, 2018, representing an increase in other expense of \$625,059 primarily attributable to two factors. During the nine months ended September 30, 2019, we recorded a one-time charge of \$363,468 related to the amendment of our \$4,000,000 promissory note issued in the acquisition of TDH. Additionally, our interest expense increased due to higher debt levels serviced during the nine months ended September 30, 2019.

Net loss

Net loss for the nine months ended September 30, 2019, was \$3,636,201 compared to a net loss of \$3,582,029 for the nine months ended September 30, 2018, or an increase in a net loss of \$54,172. The increase is primarily attributable to a non-cash extinguishment of debt charge of \$363,468, offset in part by increased revenue driven by our animation business and a decrease in general and administrative expenses from cost reduction initiatives undertaken during the nine months ended September 30, 2019.

Net loss attributable to common stockholders was \$4,377,100 for the nine months ended September 30, 2019 due to the deemed dividend of \$740,899 paid the preferred stockholders. There were no deemed dividends paid to preferred stockholders during the nine months ended September 30, 2018.

Liquidity and Capital Resources

At September 30, 2019, we had \$582,597 in cash on hand compared to \$633,593 in cash on hand as of December 31, 2018.

Cash Used in Operating Activities

During the nine months ended September 30, 2019, net cash used in operating activities was \$1,123,047 compared to net cash of \$816,634 used in operating activities during the nine months ended September 30, 2018. The increase of \$306,412 in net cash used in operating activities is primarily attributable to an increase in non-cash adjustments, in particular the loss on extinguishment of debt we recorded of \$363,468. Net cash generated by the change in our operating assets and liabilities during the nine months ended September 30, 2019 resulted in a net benefit of \$351,041 as compared to a net benefit of \$1,207,057 during the nine months ended September 30, 2018, representing a decrease of \$856,016.

Cash Used in Investing Activities

Net cash used in investing activities during the period ended September 30, 2019 was \$284,629 compared to net cash of \$700,493 used in investing activities during the nine months ended September 30, 2018. This decrease is attributable to a reduction in the amount of fixed assets purchased during the nine-month period ended September 30, 2019.

Cash Provided by Financing Activities

Net cash provided by financing activities was \$1,331,000 for the nine months ended September 30, 2019 compared to \$1,639,107 for the nine months ended 2018. Our primary sources of net cash provided by financing activities were attributable to \$1,420,000 in proceeds from the sale of preferred and common stock in private placement offerings during the nine months ended September 30, 2019 as compared to \$1,496,389 in proceeds from the sale of convertible notes during the nine months ended September 30, 2018.

Our consolidated financial statements for the nine months ended September 30, 2019 have been prepared assuming we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the next twelve-months. We have incurred annual losses since inception and expect we may incur additional losses in future periods. Additionally, as of September 30, 2019, excluding related party payables to our officers and principal shareholders which are not anticipated to be paid for the foreseeable future, we had a working capital deficit of \$9,396,905.

We currently have a monthly consolidated cash operating loss ranging between \$100,000 to \$150,000, or approximately \$1,200,000 to \$1,800,000 per year. In order to fund our operations for the next twelve months, we believe we will be required to raise approximately \$2,000,000. As of the date of this Report, we have no firm commitment from any investment banker or other traditional funding sources and, while we have had discussions with various potential funding sources, we have no definitive agreement with any third party to provide us with financing, either debt or equity. The failure to obtain the financing necessary to allow us to continue to implement our business plan will have a significant negative impact on our anticipated results of operations.

Historically we have funded our operations through equity issuances, debt issuances and officer loans. We hope to be able to continue to fund our operating losses in a similar manner but there can be no assurances that we will be able to do so or that we will be able to do so on favorable terms. Future equity sales may result in dilution to current shareholders and debt may have negative covenants

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2019, and December 31, 2018.

Critical Accounting Estimates

Our financial statements and accompanying notes have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates, judgments, and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. We continually evaluate the accounting policies and estimates used to prepare the financial statements. The estimates are based on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates made by management. Certain accounting policies that require significant management estimates and are deemed critical to our results of operations or financial position are discussed in our Form 10-K for the year ended December 31, 2018, Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are a smaller reporting company and are not required to provide this information.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, as of September 30, 2019, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2019 to ensure that information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act were recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Act Commission's rules and forms and that our disclosure controls are effectively designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Inherent Limitations – Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. 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. 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 our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdown can occur because of simple error or mistake. In particular, many of our current processes rely upon manual reviews and processes to ensure that neither human error nor system weakness has resulted in erroneous reporting of financial data.

We believe that our financial statements presented in this quarterly report on Form 10-Q fairly present, in all material respects, our financial position, results of operations, and cash flows for the period presented herein.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the last quarterly period covered by this report that has materially affected or is reasonably likely to affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. *Legal Proceedings.*

There are no pending legal proceedings to which the Company is a party or in which any director, officer or affiliate of the Company, any owner of record or beneficially of more than 5% of any class of voting securities of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company. The Company's property is not the subject of any pending legal proceedings

Item 1A. *Risk Factors.*

There have been no material changes to the risk factors disclosed in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on April 16, 2019.

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

Except as set forth below, there were no sales of equity securities sold during the period covered by this Report that were not registered under the Securities Act and were not previously reported in a Current Report on Form 8-K filed by the Company.

During the three months ended September 30, 2019, the Company sold an aggregate 3,100,000 shares of common stock with warrants to purchase 3,100,000 shares of common stock at an exercise price of \$0.25 to accredited investors in a private offering for \$310,000.

The above issuances did not involve any underwriters, underwriting discounts or commissions, or any public offering and we believe is exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) thereof and/or Regulation D promulgated thereunder.

Item 3. *Defaults upon Senior Securities.*

None.

Item 4. *Mine Safety Disclosures.*

Not applicable.

Item 5. *Other Information.*

None.

Item 6. Exhibits.

	SEC Report	
Exhibit No.	Reference No.	Description
4.1	*	Form of Warrant
10.1	*	Form of Subscription Agreement
10.2	10.1	Form of Debt Exchange Agreement (1)
31.1	*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	*	Chief Executive Officer and Chief Financial Officer Certification 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 Labels Linkbase Document
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Filed with the Securities and Exchange Commission on November 15, 2019, as an exhibit, numbered as indicated above, to the Registrant's Current Report on Form 8-K, dated November 11, 2019, which exhibit is incorporated herein by reference.

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: November 19, 2019

By: /s/ Darren Marks
Darren Marks
Chief Executive Officer, President and Chairman
(Principal Executive Officer)

Date: November 19, 2019

By: /s/ Melvin Leiner
Melvin Leiner
Chief Operating Officer, Executive Vice President, Chief Financial
Officer, Director and Secretary (Principal Financial and Accounting
Officer)

THE SECURITIES REPRESENTED HEREBY HAVE BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) TO THE COMPANY, (B) IN COMPLIANCE WITH RULE 144 UNDER THE SECURITIES ACT, IF AVAILABLE, AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS, (C) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT, OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE SECURITIES ACT OR ANY APPLICABLE STATE SECURITIES LAWS, AND THE HOLDER HAS, PRIOR TO SUCH SALE, FURNISHED TO THE COMPANY AN OPINION OF COUNSEL OR OTHER EVIDENCE OF EXEMPTION, IN EITHER CASE REASONABLY SATISFACTORY TO THE COMPANY. HEDGING TRANSACTIONS INVOLVING THESE SECURITIES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE SECURITIES ACT.

Effective Date: [_____, 2019]

Expiration Date: [_____, 2022]

GROM SOCIAL ENTERPRISES, INC.

WARRANT TO PURCHASE COMMON STOCK

GROM SOCIAL ENTERPRISES, INC., a Florida corporation (the "**Company**"), for value received, hereby issues to [insert name of holder], (the "**Holder**") this Warrant (the "**Warrant**") to purchase [_____] shares (each such share a "**Warrant Share**") and all such shares being the "**Warrant Shares**") of the Company's Common Stock (as defined below), at the Exercise Price (as defined below), as adjusted from time to time as provided herein, on or before the Expiration Date, all subject to the following terms and conditions.

This Warrant to purchase shares (collectively, the "**Unit Warrant Shares**") of the Company's Common Stock (as defined below) has been issued in connection with the Company's private placement offering ("**Offering**") of units consisting of one (1) share of the Company's Common Stock and one (1) Unit Warrant Share exercisable for one share of the Common Stock exercisable for a three-year period solely to the accredited investor, in accordance with, and subject to, the terms and conditions described in the in the Subscription Agreement entered into by and between the Company and the Holder set forth on the signature pages affixed thereto (the "**Purchase Agreement**"). Capitalized terms used herein without definition have the meanings ascribed to them in the Purchase Agreement.

As used in this Warrant, (i) "**Business Day**" means any day other than Saturday, Sunday or any other day on which commercial banks in the City of New York, New York, are authorized or required by law or executive order to close; (ii) "**Common Stock**" means the common stock of the Company, \$0.001 par value per share, including any securities issued or issuable with respect thereto or into which or for which such shares may be exchanged for, or converted into, pursuant to any stock dividend, stock split, stock combination, recapitalization, reclassification, reorganization or other similar event; (iii) "**Exercise Price**" means \$0.25 per share of Common Stock, subject to adjustment as provided herein; (iv) "**Trading Day**" means any day on which the Common Stock is traded on the primary national or regional stock exchange on which the Common Stock is listed, or if not so listed, the OTC Markets, if quoted thereon, is open for the transaction of business; and (v) "**Affiliate**" means any person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, a person, as such terms are used and construed in Rule 144 promulgated under the Securities Act of 1933, as amended (the "**Securities Act**").

1. DURATION AND EXERCISE OF WARRANTS

(a) Exercise Period. The Holder may exercise this Warrant for a period of three (3) years from the Effective Date of this Warrant in whole or in part on any Business Day on or before 5:00 P.M., Eastern Time, on the Expiration Date, at which time this Warrant shall become void and of no value.

(b) Exercise Procedures.

(i) While this Warrant remains outstanding and exercisable in accordance with Section 1(a), the Holder may exercise this Warrant in whole or in part at any time and from time to time by:

(A) delivery to the Company of a duly completed and executed copy of the notice of exercise attached as Exhibit A (the “**Notice of Exercise**”);

(B) surrender of this Warrant to the Secretary of the Company at its principal offices or at such other office or agency as the Company may specify in writing to the Holder; and

(C) payment of the then-applicable Exercise Price per share multiplied by the number of Warrant Shares being purchased upon exercise of the Warrant (such amount, the “**Aggregate Exercise Price**”) made in the form of cash, or by certified check, wire transfer, bank draft or money order payable in lawful money of the United States of America, or in the form of a cashless Exercise to the extent permitted in Section 1(b)(ii) below.

(ii) Upon the exercise of this Warrant in compliance with the provisions of this Section 1(b), and except as limited pursuant to Section 1(b)(iii), the Company shall promptly issue and cause to be delivered to the Holder a certificate for the Warrant Shares purchased by the Holder. Each exercise of this Warrant shall be effective immediately prior to the close of business on the date (the “**Date of Exercise**”) that the conditions set forth in Section 1(b) have been satisfied, as the case may be. On or before the third Business Day following the date on which the Company has received each of the Notice of Exercise and the Aggregate Exercise Price (the “**Exercise Delivery Documents**”), the Company shall transmit an acknowledgment of receipt of the Exercise Delivery Documents to the Company’s transfer agent (the “**Transfer Agent**”). On or before the fifth Business Day following the date on which the Company has received all of the Exercise Delivery Documents (the “**Share Delivery Date**”), the Company shall (X) provided that the Warrant Shares have been registered or that the Warrant Shares are eligible for sale under Rule 144 without restriction and that the Transfer Agent is participating in The Depository Trust Company (“**DTC**”) Fast Automated Securities Transfer Program, upon the request of the Holder and to the extent applicable, Holder’s supplying the Company with required Rule 144 documentation, credit such aggregate number of shares of Common Stock to which the Holder is entitled pursuant to such exercise to the Holder’s or its designee’s balance account with DTC through its Deposit Withdrawal Agent Commission system, or (Y) if the Warrant Shares have not been registered and are not eligible for sale under Rule 144 without restriction or if Transfer Agent is not participating in the DTC Fast Automated Securities Transfer Program, issue and dispatch by overnight courier to the address as specified in the Notice of Exercise, a certificate, registered in the Company’s share register in the name of the Holder or its designee, for the number of shares of Common Stock to which the Holder is entitled pursuant to such exercise. Upon delivery of the Exercise Delivery Documents, the Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date of delivery of the certificates evidencing such Warrant Shares.

(iii) If the Company shall fail for any reason or for no reason to issue to the Holder, within five (5) Business Days of receipt of the Exercise Delivery Documents, a certificate for the number of shares of Common Stock to which the Holder is entitled and register such shares of Common Stock on the Company's share register or to credit the Holder's balance account with DTC for such number of shares of Common Stock to which the Holder is entitled upon the Holder's exercise of this Warrant, and if on or after such Business Day the Holder purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of shares of Common Stock issuable upon such exercise that the Holder anticipated receiving from the Company (a "**Buy-In**"), then the Company shall, within three (3) Business Days after the Holder's request and in the Holder's discretion, either (i) pay cash to the Holder in an amount equal to the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased (the "**Buy-In Price**"), at which point the Company's obligation to deliver such certificate (and to issue such shares of Common Stock) shall terminate, or (ii) promptly honor its obligation to deliver to the Holder a certificate or certificates representing such shares of Common Stock and pay cash to the Holder in an amount equal to the excess (if any) of the Buy-In Price over the product of (A) such number of shares of Common Stock, times (B) the closing bid price on the date of exercise.

(c) **Partial Exercise.** This Warrant shall be exercisable, either in its entirety or, from time to time, for part only of the number of Warrant Shares referenced by this Warrant. If this Warrant is submitted in connection with any partial exercise pursuant to Section 1 hereof and the number of Warrant Shares represented by this Warrant submitted for exercise is greater than the actual number of Warrant Shares being acquired upon such exercise, then the Company shall, as soon as practicable, and in no event later than five (5) Business Days after any exercise, and at its own expense, issue a new Warrant of like tenor representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised.

(e) **Disputes.** In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall promptly issue to the Holder the number of Warrant Shares that are not disputed and resolve such dispute in accordance with Section 15.

2. ISSUANCE OF WARRANT SHARES

(a) The Company covenants that all Warrant Shares will, upon issuance in accordance with the terms of this Warrant, be (i) duly authorized, fully paid and non-assessable, and (ii) free from all liens, charges and security interests, with the exception of claims arising through the acts or omissions of any Holder and except as arising from applicable Federal and state securities laws.

(b) The Company shall register this Warrant upon records to be maintained by the Company for that purpose in the name of the record holder of such Warrant from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner thereof for the purpose of any exercise thereof, any distribution to the Holder thereof and for all other purposes.

(c) The Company will not, by amendment of its certificate of incorporation, by-laws or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all action necessary or appropriate in order to protect the rights of the Holder to exercise this Warrant, or against impairment of such rights.

3. ADJUSTMENTS OF EXERCISE PRICE, NUMBER AND TYPE OF WARRANT SHARES

(a) The Exercise Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 3(a); provided, that notwithstanding the provisions of this Section 3, the Company shall not be required to make any adjustment if and to the extent that such adjustment would require the Company to issue a number of shares of Common Stock in excess of its authorized but unissued shares of Common Stock, less all amounts of Common Stock that have been reserved for issue upon the conversion of all outstanding securities convertible into shares of Common Stock and the exercise of all outstanding options, warrants and other rights exercisable for shares of Common Stock. If the Company does not have the requisite number of authorized but unissued shares of Common Stock to make any adjustment, the Company shall use its commercially reasonable efforts to obtain the necessary stockholder consent to increase the authorized number of shares of Common Stock to make such an adjustment pursuant to this Section 3(a).

(i) Subdivision or Combination of Stock. In case the Company shall at any time subdivide (whether by way of stock dividend, stock split or otherwise) its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced and the number of Warrant Shares shall be proportionately increased, and conversely, in case the outstanding shares of Common Stock of the Company shall be combined (whether by way of stock combination, reverse stock split or otherwise) into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of Warrant Shares shall be proportionately decreased. The Exercise Price and the Warrant Shares, as so adjusted, shall be readjusted in the same manner upon the happening of any successive event or events described in this Section 3(a)(i).

(ii) Dividends in Stock, Property, Reclassification. If at any time, or from time to time, all of the holders of Common Stock (or any shares of stock or other securities at the time receivable upon the exercise of this Warrant) shall have received or become entitled to receive, without payment therefor:

(A) any shares of stock or other securities that are at any time directly or indirectly convertible into or exchangeable for Common Stock, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution, or

(B) additional stock or other securities or property (including cash) by way of spin-off, split-up, reclassification, combination of shares or similar corporate rearrangement (other than shares of Common Stock issued as a stock split or adjustments in respect of which shall be covered by the terms of Section 3(a)(i) above),

then and in each such case, the Exercise Price and the number of Warrant Shares to be obtained upon exercise of this Warrant shall be adjusted proportionately, and the Holder hereof shall, upon the exercise of this Warrant, be entitled to receive, in addition to the number of shares of Common Stock receivable thereupon, and without payment of any additional consideration therefor, the amount of stock and other securities and property (including cash in the cases referred to above) that such Holder would hold on the date of such exercise had such Holder been the holder of record of such Common Stock as of the date on which holders of Common Stock received or became entitled to receive such shares or all other additional stock and other securities and property. The Exercise Price and the Warrant Shares, as so adjusted, shall be readjusted in the same manner upon the happening of any successive event or events described in this Section 3(a)(ii).

(iii) Reorganization, Reclassification, Consolidation, Merger or Sale. If any recapitalization, reclassification or reorganization of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets or other transaction shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or other assets or property (an "**Organic Change**"), then as a condition of such Organic Change, lawful and adequate provisions shall be made by the Company whereby the Holder hereof shall thereafter have the right to purchase and receive (in lieu of the shares of the Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented by this Warrant) such shares of stock, securities or other assets or property as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable assuming the full exercise of the rights represented by this Warrant. In the event of any Organic Change, appropriate provision shall be made by the Company with respect to the rights and interests of the Holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Exercise Price and of the number of shares purchasable and receivable upon the exercise of this Warrant and registration rights) shall thereafter be applicable, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company will not effect any such consolidation, merger or sale unless, prior to the consummation thereof, the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing such assets shall assume by written instrument reasonably satisfactory in form and substance to the Holder executed and mailed or delivered to the registered Holder hereof at the last address of such Holder appearing on the books of the Company, the obligation to deliver to such Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such Holder may be entitled to purchase. If there is an Organic Change, then the Company shall cause to be mailed to the Holder at its last address as it shall appear on the books and records of the Company, at least 10 calendar days before the effective date of the Organic Change, a notice stating the date on which such Organic Change is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares for securities, cash, or other property delivered upon such Organic Change; provided, that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. The Holder is entitled to exercise this Warrant during the 10-day period commencing on the date of such notice to the effective date of the event triggering such notice. In any event, the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing such assets shall be deemed to assume such obligation to deliver to such Holder such shares of stock, securities or assets even in the absence of a written instrument assuming such obligation to the extent such assumption occurs by operation of law.

At the effective time of the Merger, the Holders of all of the Unit Warrants to purchase Unit Warrant Shares of Common Stock of the Company will receive, in exchange for all of their Unit Warrants, warrants to purchase shares of common stock of the Combined Company, at an exchange rate of 1-for-1, with appropriate adjustments and, otherwise, on their original terms and conditions.

(b) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment pursuant to this Section 3, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each Holder of this Warrant a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall promptly furnish or cause to be furnished to such Holder a like certificate setting forth: (i) such adjustments and readjustments; and (ii) the number of shares and the amount, if any, of other property which at the time would be received upon the exercise of the Warrant.

(c) Certain Events. If any event occurs as to which the other provisions of this Section 3 are not strictly applicable but the lack of any adjustment would not fairly protect the purchase rights of the Holder under this Warrant in accordance with the basic intent and principles of such provisions, or if strictly applicable would not fairly protect the purchase rights of the Holder under this Warrant in accordance with the basic intent and principles of such provisions, then the Company's Board of Directors will, in good faith and subject to applicable law, make an appropriate adjustment to protect the rights of the Holder; provided, that no such adjustment pursuant to this Section 3(c) will increase the Exercise Price or decrease the number of Warrant Shares as otherwise determined pursuant to this Section 3.

4. TRANSFERS AND EXCHANGES OF WARRANT AND WARRANT SHARES

(a) Registration of Transfers and Exchanges. Subject to Section 4(c), upon the Holder's surrender of this Warrant, with a duly executed copy of the Form of Assignment attached as Exhibit B, to the Secretary of the Company at its principal offices or at such other office or agency as the Company may specify in writing to the Holder, the Company shall register the transfer of all or any portion of this Warrant. Upon such registration of transfer, the Company shall issue a new Warrant, in substantially the form of this Warrant, evidencing the acquisition rights transferred to the transferee and a new Warrant, in similar form, evidencing the remaining acquisition rights not transferred, to the Holder requesting the transfer.

(b) Warrant Exchangeable for Different Denominations. The Holder may exchange this Warrant for a new Warrant or Warrants, in substantially the form of this Warrant, evidencing in the aggregate the right to purchase the number of Warrant Shares, which may then be purchased hereunder, each of such new Warrants to be dated the date of such exchange and to represent the right to purchase such number of Warrant Shares as shall be designated by the Holder. The Holder shall surrender this Warrant with duly executed instructions regarding such re-certification of this Warrant to the Secretary of the Company at its principal offices or at such other office or agency as the Company may specify in writing to the Holder.

(c) Restrictions on Transfers. This Warrant may not be transferred at any time without (i) registration under the Securities Act or (ii) an exemption from such registration and a written opinion of legal counsel addressed to the Company that the proposed transfer of the Warrant may be effected without registration under the Securities Act, which opinion will be in form and from counsel reasonably satisfactory to the Company.

(d) Permitted Transfers and Assignments. Notwithstanding any provision to the contrary in this Section 4, the Holder may transfer, with or without consideration, this Warrant or any of the Warrant Shares (or a portion thereof) to the Holder's Affiliates (as such term is defined under Rule 144 of the Securities Act) without obtaining the opinion from counsel that may be required by Section 4(c)(ii), provided, that the Holder delivers to the Company and its counsel certification, documentation, and other assurances reasonably required by the Company's counsel to enable the Company's counsel to render an opinion to the Company's Transfer Agent that such transfer does not violate applicable securities laws.

5. MUTILATED OR MISSING WARRANT CERTIFICATE

If this Warrant is mutilated, lost, stolen or destroyed, upon request by the Holder, the Company will, at its expense, issue, in exchange for and upon cancellation of the mutilated Warrant, or in substitution for the lost, stolen or destroyed Warrant, a new Warrant, in substantially the form of this Warrant, representing the right to acquire the equivalent number of Warrant Shares; provided, that, as a prerequisite to the issuance of a substitute Warrant, the Company may require satisfactory evidence of loss, theft or destruction as well as an indemnity from the Holder of a lost, stolen or destroyed Warrant.

6. PAYMENT OF TAXES

The Company will pay all transfer and stock issuance taxes attributable to the preparation, issuance and delivery of this Warrant and the Warrant Shares (and replacement Warrants) including, without limitation, all documentary and stamp taxes; provided, however, that the Company shall not be required to pay any tax in respect of the transfer of this Warrant, or the issuance or delivery of certificates for Warrant Shares or other securities in respect of the Warrant Shares to any person or entity other than to the Holder.

7. FRACTIONAL WARRANT SHARES

No fractional Warrant Shares shall be issued upon exercise of this Warrant. The Company, in lieu of issuing any fractional Warrant Share, shall round up the number of Warrant Shares issuable to nearest whole share.

8. NO STOCK RIGHTS AND LEGEND

No holder of this Warrant, as such, shall be entitled to vote or be deemed the holder of any other securities of the Company that may at any time be issuable on the exercise hereof, nor shall anything contained herein be construed to confer upon the holder of this Warrant, as such, the rights of a stockholder of the Company or the right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or give or withhold consent to any corporate action or to receive notice of meetings or other actions affecting stockholders (except as provided herein), or to receive dividends or subscription rights or otherwise (except as provide herein).

Each certificate for Warrant Shares initially issued upon the exercise of this Warrant, and each certificate for Warrant Shares issued to any subsequent transferee of any such certificate, shall be stamped or otherwise imprinted with a legend in substantially the following form:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) TO THE COMPANY, (B) IN COMPLIANCE WITH RULE 144 UNDER THE SECURITIES ACT, IF AVAILABLE, AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS, (C) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT, OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE SECURITIES ACT OR ANY APPLICABLE STATE SECURITIES LAWS, AND THE HOLDER HAS, PRIOR TO SUCH SALE, FURNISHED TO THE COMPANY AN OPINION OF COUNSEL OR OTHER EVIDENCE OF EXEMPTION, IN EITHER CASE REASONABLY SATISFACTORY TO THE COMPANY. HEDGING TRANSACTIONS INVOLVING THESE SECURITIES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE SECURITIES ACT.

9. NO THIRD-PARTY RIGHTS

This Warrant is not intended, and will not be construed, to create any rights in any parties other than the Company and the Holder, and no person or entity may assert any rights as third-party beneficiary hereunder.

10. NOTICES

All notices, consents, waivers, and other communications under this Warrant must be in writing and will be deemed given to a party when (a) delivered to the appropriate address by hand or by nationally recognized overnight courier service (costs prepaid); (b) sent by facsimile or e-mail with confirmation of transmission by the transmitting equipment; (c) received or rejected by the addressee, if sent by certified mail, return receipt requested, if to the registered Holder hereof; or (d) seven days after the placement of the notice into the mails (first class postage prepaid), to the Holder at the address, facsimile number, or e-mail address furnished by the registered Holder to the Company in accordance with the Subscription Agreement by and between the Company and the Holder or, if the registered Holder is not the original purchaser of this Warrant, then as provided in the Form of Assignment delivered to the Company pursuant to Section 4(a) in connection with the assignment of this Warrant to such Holder, or if to the Company, to it at:

Grom Social Enterprises, Inc.
2060 NW Boca Raton Blvd. #6
Boca Raton, Florida 33431
Attn.: Mel Leiner
Telephone: (561) 287-5776
Facsimile: _____
E-Mail: mel@gromsocial.com

(or to such other address, facsimile number, or e-mail address as the Holder or the Company as a party may designate by notice to the other party in accordance with this Section 10) with a copy to

The Crone Law Group, P.C.
500 Fifth Ave, Suite 938
New York, NY 10110
Attn: Mark E. Crone
Telephone: (860) 202-6845
Facsimile: (818) 688-3130
E-Mail: mcrone@cronelawgroup.com

11. SEVERABILITY

If a court of competent jurisdiction holds any provision of this Warrant invalid or unenforceable, the other provisions of this Warrant will remain in full force and effect. Any provision of this Warrant held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

12. BINDING EFFECT

This Warrant shall be binding upon and inure to the sole and exclusive benefit of the Company, its successors and assigns, the registered Holder or Holders from time to time of this Warrant and the Warrant Shares.

13. TERMINATION; SURVIVAL OF RIGHTS AND DUTIES

(a) This Warrant shall terminate and be of no further force and effect on the earlier of 5:00 P.M., Eastern Time, on the Expiration Date or the date on which this Warrant has been exercised in full.

(b) This Warrant shall terminate upon the Company's payment to the Holder of the Put Price following the Holder's exercise of the Put Right.

14. GOVERNING LAW

This Warrant will be governed by and construed under the laws of the State of Florida without regard to conflicts of laws principles that would require the application of any other law.

15. DISPUTE RESOLUTION

In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall submit the disputed determinations or arithmetic calculations via facsimile within five (5) Business Days of receipt of the Notice of Exercise giving rise to such dispute, as the case may be, to the Holder. If the Holder and the Company are unable to agree upon such determination or calculation of the Exercise Price or the Warrant Shares within three Business Days of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall, at its sole discretion, within five (5) Business Days, submit via facsimile (a) the disputed determination of the Exercise Price to an independent, reputable investment bank selected by the Company and approved by the Holder, or (b) the disputed arithmetic calculation of the Warrant Shares to the Company's independent, outside accountant. The Company shall cause at its expense the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than ten (10) Business Days from the time it receives the disputed determinations or calculations; provided that, if such disputed determination or arithmetic calculation being submitted by the Holder is determined to be incorrect, then the expense of the investment bank or the accountant shall be the responsibility of the Holder. Such investment bank's or accountant's determination or calculation, as the case may be, shall be final, binding and conclusive upon the parties thereto absent demonstrable error.

16. NOTICES OF RECORD DATE

Upon (a) any establishment by the Company of a record date of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or right or option to acquire securities of the Company, or any other right, or (b) any capital reorganization, reclassification, recapitalization, merger or consolidation of the Company with or into any other corporation, any transfer of all or substantially all the assets of the Company, or any voluntary or involuntary dissolution, liquidation or winding up of the Company, or the sale, in a single transaction, of a majority of the Company's voting stock (whether newly issued, or from treasury, or previously issued and then outstanding, or any combination thereof), the Company shall mail to the Holder at least ten (10) Business Days, or such longer period as may be required by law, prior to the record date specified therein, a notice specifying (i) the date established as the record date for the purpose of such dividend, distribution, option or right and a description of such dividend, option or right, (ii) the date on which any such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up, or sale is expected to become effective and (iii) the date, if any, fixed as to when the holders of record of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up.

17. RESERVATION OF SHARES

The Company shall reserve and keep available out of its authorized but unissued shares of Common Stock for issuance upon the exercise of this Warrant, free from pre-emptive rights, such number of shares of Common Stock for which this Warrant shall from time to time be exercisable. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation. Without limiting the generality of the foregoing, the Company covenants that it will use commercially reasonable efforts to take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable Warrant Shares upon the exercise of this Warrant and use commercially reasonable efforts to obtain all such authorizations, exemptions or consents, including but not limited to consents from the Company's stockholders or Board of Directors or any public regulatory body, as may be necessary to enable the Company to perform its obligations under this Warrant.

18. HEADINGS

The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

19. AMENDMENT AND WAIVERS

Any term of this Warrant may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of the Company and the Holders of a majority of the Unit Warrants.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed as of the date first set forth above.

GROM SOCIAL ENTERPRISES, INC.

By: _____
Name: Darren Marks
Title: Chief Executive Officer

EXHIBIT A

NOTICE OF EXERCISE

(To be executed by the Holder of Warrant if such Holder desires to exercise Warrant)

To [Company Name]:

The undersigned hereby irrevocably elects to exercise this Warrant and to purchase thereunder, _____ full shares of [Company Name], Common Stock issuable upon exercise of the Warrant and delivery of \$ _____ (in cash as provided for in the foregoing Warrant) and any applicable taxes payable by the undersigned pursuant to such Warrant.

The undersigned requests that certificates for such shares be issued in the name of:

(Please print name, address and social security or federal employer identification number (if applicable))*

If the shares issuable upon this exercise of the Warrant are not all of the Warrant Shares which the Holder is entitled to acquire upon the exercise of the Warrant, the undersigned requests that a new Warrant evidencing the rights not so exercised be issued in the name of and delivered to:

(Please print name, address and social security or federal employer identification number (if applicable))*

Name of Holder (print): _____
(Signature): _____
(By:) _____
(Title:) _____
Dated: _____

* If Warrant Shares are to be issued in any name other than that of the registered Holder of the Warrant, then the Holder must include an opinion of counsel, reasonably satisfactory to the Company, to the effect that such issuance complies with all applicable securities laws.

EXHIBIT B

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers to each assignee set forth below all of the rights of the undersigned under the Warrant (as defined in and evidenced by the attached Warrant) to acquire the number of Warrant Shares set opposite the name of such assignee below and in and to the foregoing Warrant with respect to said acquisition rights and the shares issuable upon exercise of the Warrant:

Name of Assignee (and social security or federal employer identification number (if applicable))	Address	Number of Shares

If the total of the Warrant Shares are not all of the Warrant Shares evidenced by the foregoing Warrant, the undersigned requests that a new Warrant evidencing the right to acquire the Warrant Shares not so assigned be issued in the name of and delivered to the undersigned.

Name of Holder (print): _____
(Signature): _____
(By:) _____
(Title:) _____
Dated: _____

SUBSCRIPTION AGREEMENT

This Subscription Agreement (this "Agreement") is being delivered by the purchaser identified on the signature page to this Agreement (the "Subscriber") in connection with its investment in **Grom Social Enterprises, Inc.**, a Florida corporation (the "Company"). The Company is conducting a private placement (the "Offering") of units (the "Units") of the Company. Each Unit shall consist of one (1) share of the Company's common stock, par value \$0.001 (the "Common Stock") and one (1) warrant exercisable for one share of the Common Stock at a per share price of **\$0.25** and exercisable for a three-year period.

1. SUBSCRIPTION AND PURCHASE PRICE

(a) Subscription. Subject to the conditions set forth in Section 2 hereof, the Company desires to issue and sell, and the Subscriber hereby subscribes for and agrees to purchase, the number of Units indicated on the signature page hereof on the terms and conditions described herein.

(b) Purchase of Units. The Subscriber understands and acknowledges that the purchase price to be remitted to the Company in exchange for the Units shall be set at **\$0.10 per Unit**, for an aggregate purchase price as set forth the signature page hereof (the "Aggregate Purchase Price"). The Subscriber's delivery of this Agreement to the Company shall be accompanied by payment for the Units subscribed for hereunder, payable in United States Dollars, by wire transfer, or check of immediately available funds delivered contemporaneously with the Subscriber's delivery of this Agreement to the Company in accordance with the wire instructions provided on Exhibit A. The Subscriber understands and agrees that, subject to Section 2 and applicable laws, by executing this Agreement, it is entering into a binding agreement.

2. ACCEPTANCE AND CLOSING PROCEDURES

(a) Closing. The closing of the purchase and sale of the Units hereunder (the "Closing") shall take place at the offices of Grom Social Enterprises, Inc, 2060 NW Boca Raton Blvd. #6 Boca Raton, Florida 33431 or such other place as determined by the Company and may take place in one of more closings.

(c) Following Acceptance or Rejection. The Subscriber acknowledges and agrees that this Agreement and any other documents delivered in connection herewith will be held by the Company. In the event that this Agreement is not accepted by the Company for whatever reason, which the Company expressly reserves the right to do, this Agreement, the Aggregate Purchase Price received (without interest thereon) and any other documents delivered in connection herewith will be returned to the Subscriber at the address of the Subscriber as set forth in this Agreement. If this Agreement is accepted by the Company, the Company is entitled to treat the Aggregate Purchase Price received as an interest free loan to the Company until such time as the Subscription is accepted.

3. THE SUBSCRIBER'S REPRESENTATIONS, WARRANTIES AND COVENANTS

The Subscriber hereby acknowledges, agrees with and represents, warrants and covenants to the Company, as follows:

(a) The Subscriber has full power and authority to enter into this Agreement, the execution and delivery of which has been duly authorized, if applicable, and this Agreement constitutes a valid and legally binding obligation of the Subscriber, except as may be limited by bankruptcy, reorganization, insolvency, moratorium and similar laws of general application relating to or affecting the enforcement of rights of creditors, and except as enforceability of the obligations hereunder are subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or law).

(b) The Subscriber acknowledges its understanding that the Offering and sale of the Units is intended to be exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), by virtue of Section 4 (a)(2) of the Securities Act and the provisions of Regulation D promulgated thereunder ("Regulation D"). In furtherance thereof, the Subscriber represents and warrants to the Company and its affiliates as follows:

(i) The Subscriber realizes that the basis for the exemption from registration may not be available if, notwithstanding the Subscriber's representations contained herein, the Subscriber is merely acquiring the Units for a fixed or determinable period in the future, or for a market rise, or for sale if the market does not rise. The Subscriber does not have any such intention.

(ii) The Subscriber realizes that the basis for exemption would not be available if the Offering is part of a plan or scheme to evade registration provisions of the Securities Act or any applicable state or federal securities laws.

(iii) The Subscriber is acquiring the Units solely for the Subscriber's own beneficial account, for investment purposes, and not with a view towards, or resale in connection with, any distribution of the Units.

(iv) The Subscriber has the financial ability to bear the economic risk of the Subscriber's investment, has adequate means for providing for its current needs and contingencies, and has no need for liquidity with respect to an investment in the Company.

(v) The Subscriber and the Subscriber's attorney, accountant, purchaser representative and/or tax advisor, if any (collectively, the "Advisors") has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of a prospective investment in the Units. If other than an individual, the Subscriber also represents it has not been organized solely for the purpose of acquiring the Units.

(vi) The Subscriber (together with its Advisors, if any) has received all documents requested by the Subscriber, if any, has carefully reviewed them and understands the information contained therein, prior to the execution of this Agreement.

(c) The Subscriber is not relying on the Company or any of its employees, agents, sub-agents or advisors with respect to the legal, tax, economic and related considerations involved in this investment. The Subscriber has relied on the advice of, or has consulted with, only its Advisors. Each Advisor, if any, has disclosed to the Subscriber in writing (a copy of which is annexed to this Agreement) the specific details of any and all past, present or future relationships, actual or contemplated, between the Advisor and the Company or any affiliate or sub-agent thereof.

(d) The Subscriber has carefully considered the potential risks relating to the Company and a purchase of the Units, and fully understands that the Units are a speculative investment that involves a high degree of risk of loss of the Subscriber's entire investment. Among other things, the Subscriber has carefully considered each of the risks described under the heading "*Risk Factors*" in the Company's SEC Filings (as defined below), which risk factors are incorporated herein by reference.

(e) The Subscriber will not sell or otherwise transfer any Units without registration under the Securities Act or an exemption therefrom, and fully understands and agrees that the Subscriber must bear the economic risk of its purchase because, among other reasons, the Units have not been registered under the Securities Act or under the securities laws of any state and, therefore, cannot be resold, pledged, assigned or otherwise disposed of unless they are subsequently registered under the Securities Act and under the applicable securities laws of such states, or an exemption from such registration is available. In particular, the Subscriber is aware that the Units are “restricted securities,” as such term is defined in Rule 144 promulgated under the Securities Act (“Rule 144”), and they may not be sold pursuant to Rule 144 unless all of the conditions of Rule 144 are met. The Subscriber also understands that the Company is under no obligation to register the Units on behalf of the Subscriber or to assist the Subscriber in complying with any exemption from registration under the Securities Act or applicable state securities laws. The Subscriber understands that any sales or transfers of the Units are further restricted by state securities laws and the provisions of this Agreement. The Subscriber understands that the Company may limit further the right to sell or transfer Units by establishing procedures for approval of any such transfer, limiting counsel authorized to review and approve Rule 144 transactions and approving opinion fees, for transfers sought to be permitted under Rule 144, which may result in delays in desired sales or transfers by Subscribers.

(f) No oral or written representations or warranties have been made, or information furnished, to the Subscriber or its Advisors, if any, by the Company or any of its officers, employees, agents, sub-agents, affiliates, advisors or subsidiaries in connection with the Offering, other than any representations of the Company contained herein, and in subscribing for the Units, the Subscriber is not relying upon any representations other than those contained herein.

(g) The Subscriber’s overall commitment to investments that are not readily marketable is not disproportionate to the Subscriber’s net worth, and an investment in the Units will not cause such overall commitment to become excessive.

(h) The Subscriber understands and agrees that the certificates for the Units shall bear substantially the following legend until (i) such Units shall have been registered under the Securities Act and effectively disposed of in accordance with a registration statement that has been declared effective or (ii) in the opinion of counsel for the Company, such Units may be sold without registration under the Securities Act, as well as any applicable “blue sky” or state securities laws:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY APPLICABLE STATE SECURITIES LAWS. SUCH SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT PURPOSES AND MAY NOT BE OFFERED FOR SALE, SOLD, DELIVERED AFTER SALE, TRANSFERRED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FILED BY THE ISSUER WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION COVERING SUCH SECURITIES UNDER THE SECURITIES ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE ISSUER THAT SUCH REGISTRATION IS NOT REQUIRED.

(i) Neither the Securities and Exchange Commission (the “SEC”) nor any state securities commission has approved the Units or passed upon or endorsed the merits of the Offering.

(j) The Subscriber and its Advisors, if any, have had a reasonable opportunity to ask questions of and receive answers from a person or persons acting on behalf of the Company concerning the Offering and the business, financial condition, results of operations and prospects of the Company, and all such questions have been answered to the full satisfaction of the Subscriber and its Advisors, if any.

(k) The Subscriber is unaware of, is in no way relying on, and did not become aware of, the Offering through or as a result of, any form of general solicitation or general advertising, including, without limitation, any article, notice, advertisement or other communication published in any newspaper, magazine or similar media or broadcast over television or radio, or electronic mail over the Internet, in connection with the Offering and is not subscribing for Units and did not become aware of the Offering through or as a result of any seminar or meeting to which the Subscriber was invited by, or any solicitation of a subscription by, a person not previously known to the Subscriber in connection with investments in securities generally.

(l) The Subscriber has taken no action that would give rise to any claim by any person for brokerage commissions, finders' fees or the like relating to this Agreement or the transactions contemplated hereby.

(m) The Subscriber is not relying on the Company or any of its employees, agents, or advisors with respect to the legal, tax, economic and related considerations of an investment in the Units, and the Subscriber has relied on the advice of, or has consulted with, only its own Advisors.

(n) The Subscriber acknowledges that any estimates or forward-looking statements or projections furnished by the Company to the Subscriber were prepared by the management of the Company in good faith, but that the attainment of any such projections, estimates or forward-looking statements cannot be guaranteed by the Company or its management and should not be relied upon.

(o) No oral or written representations have been made, or oral or written information furnished, to the Subscriber or its Advisors, if any, in connection with the Offering that are in any way inconsistent with the information contained herein.

(p) (For ERISA plans only) The fiduciary of the ERISA plan (the "Plan") represents that such fiduciary has been informed of and understands the Company's investment objectives, policies and strategies, and that the decision to invest "plan assets" (as such term is defined in ERISA) in the Company is consistent with the provisions of ERISA that require diversification of plan assets and impose other fiduciary responsibilities. The Subscriber or Plan fiduciary (i) is responsible for the decision to invest in the Company; (ii) is independent of the Company and any of its affiliates; (iii) is qualified to make such investment decision; and (iv) in making such decision, the Subscriber or Plan fiduciary has not relied primarily on any advice or recommendation of the Company or any of its affiliates.

(q) This Agreement is not enforceable by the Subscriber unless it has been accepted by the Company, and the Subscriber acknowledges and agrees that the Company reserves the right to reject any subscription for any reason.

(r) The Subscriber will indemnify and hold harmless the Company and, where applicable, its directors, officers, employees, agents, advisors, affiliates and shareholders, and each other person, if any, who controls any of the foregoing from and against any and all loss, liability, claim, damage and expense whatsoever (including, but not limited to, any and all fees, costs and expenses whatsoever reasonably incurred in investigating, preparing or defending against any claim, lawsuit, administrative proceeding or investigation whether commenced or threatened) (a "Loss") arising out of or based upon any representation or warranty of the Subscriber contained herein or in any document furnished by the Subscriber to the Company in connection herewith being untrue in any material respect or any breach or failure by the Subscriber to comply with any covenant or agreement made by the Subscriber herein or therein; provided, however, that the Subscriber shall not be liable for any Loss that in the aggregate exceeds the Subscriber's Aggregate Purchase Price tendered hereunder.

(s) The Subscriber is, and on each date on which the Subscriber continues to own restricted Units from the Offering will be, an “Accredited Investor” as defined in Rule 501(a) under the Securities Act. In general, an “Accredited Investor” is deemed to be an institution with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 (excluding such person’s residence) or annual income exceeding \$200,000 or \$300,000 jointly with his or her spouse.

(t) The Subscriber, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the Offering, and has so evaluated the merits and risks of such investment. The Subscriber has not authorized any person or entity to act as its Purchaser Representative (as that term is defined in Regulation D of the General Rules and Regulations under the Securities Act) in connection with the Offering. The Subscriber is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(u) The Subscriber has reviewed, or had an opportunity to review, all of the SEC Filings, and all “Risk Factors” and “Forward Looking Statements” disclaimers contained therein. In addition, the Subscriber has reviewed and acknowledges it has such knowledge, sophistication, and experience in securities matters, and understands the following additional Risk Factor related to the Company:

4. THE COMPANY’S REPRESENTATIONS, WARRANTIES AND COVENANTS

The Company hereby acknowledges, agrees with and represents, warrants and covenants to the Subscriber, as follows:

(a) Organization and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the state of Florida. The Company is duly qualified to do business, and is in good standing in the states required due to (a) the ownership or lease of real or personal property for use in the operation of the Company’s business or (b) the nature of the business conducted by the Company, except where the failure to do so would not result in a material adverse effect to the Company. The Company has all requisite power, right and authority to own, operate and lease its properties and assets, to carry on its business as now conducted, to execute, deliver and perform its obligations under this Agreement to which it is a party, and to carry out the transactions contemplated hereby and thereby. All actions on the part of the Company and its officers and directors necessary for the authorization, execution, delivery and performance of this Agreement, the consummation of the transactions contemplated hereby and thereby, and the performance of all of the Company’s obligations under this Agreement have been taken or will be taken prior to the Closing. This Agreement has been duly executed and delivered by the Company, and this Agreement is a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms.

(b) Issuance of Units. The Units to be issued to the Subscriber pursuant to this Agreement, when issued and delivered in accordance with the terms of this Agreement, will be duly and validly issued and will be fully paid and non-assessable.

(c) Authorization; Enforcement. The execution, delivery and performance of this Agreement, and the consummation of the transactions contemplated hereby will not (a) constitute a violation (with or without the giving of notice or lapse of time, or both) of any provision of any law or any judgment, decree, order, regulation or rule of any court, agency or other governmental authority applicable to the Company, (b) require any consent, approval or authorization of, or declaration, filing or registration with, any person, (c) result in a default (with or without the giving of notice or lapse of time, or both) under, acceleration or termination of, or the creation in any party of the right to accelerate, terminate, modify or cancel, any agreement, lease, note or other restriction, encumbrance, obligation or liability to which the Company is a party or by which it is bound or to which any assets of the Company are subject, (d) result in the creation of any lien or encumbrance upon the assets of the Company, or upon any Units or other securities of the Company, (e) conflict with or result in a breach of or constitute a default under any provision of those certain articles of incorporation or those certain bylaws of the Company, or (f) invalidate or adversely affect any permit, license, authorization or status used in the conduct of the business of the Company.

(d) SEC Filings. The Company is subject to, and in full compliance with, the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company has made available to each Subscriber through the EDGAR system true and complete copies of each of the Company's Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K and Current Reports on Form 8-K (collectively, the "SEC Filings"), and all such SEC Filings are incorporated herein by reference.

(e) No Financial Advisor. The Company acknowledges and agrees that the Subscriber is acting solely in the capacity of an arm's length purchaser with respect to the Units and the transactions contemplated hereby. The Company further acknowledges that the Subscriber is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereby and any advice given by the Subscriber or any of its representatives or agents in connection with this Agreement and the transactions contemplated hereby is merely incidental to the Subscriber's purchase of the Units. The Company further represents to the Subscriber that the Company's decision to enter into this Agreement has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

(f) Indemnification. The Company will indemnify and hold harmless the Subscriber and, where applicable, its directors, officers, employees, agents, advisors and shareholders, from and against any and all Loss arising out of or based upon any representation or warranty of the Company contained herein or in any document furnished by the Company to the Subscriber in connection herewith being untrue in any material respect or any breach or failure by the Company to comply with any covenant or agreement made by the Company to the Subscriber in connection therewith; provided, however, that the Company's liability shall not exceed the Subscriber's Aggregate Purchase Price tendered hereunder.

(g) Capitalization and Additional Issuances. The authorized, issued and outstanding capital stock of the Company is as set forth in the SEC Filings and all issued and outstanding Units of the Company are validly issued, fully paid and non-assessable. Except as set forth in the SEC Filings and as otherwise required by law, there are no restrictions upon the voting or transfer of any of the Units of capital stock of the Company pursuant to the Company's Articles of Incorporation (the "Articles of Incorporation"), Bylaws or other governing documents or any agreement or other instruments to which the Company is a party or by which the Company is bound.

(h) Private Placements. Assuming the accuracy of the Subscriber's representations and warranties set forth in Section 3, no registration under the Securities Act is required for the offer and sale of the Units by the Company to the Subscribers as contemplated hereby.

(j) Investment Company. The Company is not, and is not an affiliate of, and immediately after receipt of payment for the Units will not be or be an affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The Company shall conduct its business in a manner so that it will not become subject to the Investment Company Act.

5. MISCELLANEOUS PROVISIONS

(a) All parties hereto have been represented by counsel, and no inference shall be drawn in favor of or against any party by virtue of the fact that such party's counsel was or was not the principal draftsman of this Agreement.

(b) Each of the parties hereto shall be responsible to pay the costs and expenses of its own legal counsel in connection with the preparation and review of this Agreement and related documentation.

(c) Neither this Agreement, nor any provisions hereof, shall be waived, modified, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, modification, discharge or termination is sought.

(d) The representations, warranties and agreement of the Subscriber and the Company made in this Agreement shall survive the execution and delivery of this Agreement and the delivery of the Units.

(e) Any party may send any notice, request, demand, claim or other communication hereunder to the Subscriber at the address set forth on the signature page of this Agreement or to the Company at its primary office (including personal delivery, expedited courier, messenger service, fax, ordinary mail or electronic mail), but no such notice, request, demand, claim or other communication will be deemed to have been duly given unless and until it actually is received by the intended recipient. Any party may change the address to which notices, requests, demands, claims and other communications hereunder are to be delivered by giving the other parties written notice in the manner herein set forth.

(f) Except as otherwise provided herein, this Agreement shall be binding upon, and inure to the benefit of, the parties to this Agreement and their heirs, executors, administrators, successors, legal representatives and assigns. If the Subscriber is more than one person or entity, the obligation of the Subscriber shall be joint and several and the agreements, representations, warranties and acknowledgments contained herein shall be deemed to be made by, and be binding upon, each such person or entity and its heirs, executors, administrators, successors, legal representatives and assigns. This Agreement sets forth the entire agreement and understanding between the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements and understandings of any and every nature among them.

(g) This Agreement is not transferable or assignable by the Subscriber.

(h) This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to conflicts of law principles.

(i) The Company and the Subscriber hereby agree that any dispute that may arise between them arising out of or in connection with this Agreement shall be adjudicated before a court located in the City of New York, Borough of Manhattan, and they hereby submit to the exclusive jurisdiction of the federal and state courts of the State of New York located in the City of New York, Borough of Manhattan with respect to any action or legal proceeding commenced by any party, and irrevocably waive any objection they now or hereafter may have respecting the venue of any such action or proceeding brought in such a court or respecting the fact that such court is an inconvenient forum, relating to or arising out of this Agreement or any acts or omissions relating to the sale of the securities hereunder, and consent to the service of process in any such action or legal proceeding by means of registered or certified mail, return receipt requested, postage prepaid, in care of the address set forth herein or such other address as either party shall furnish in writing to the other.

(j) **WAIVER OF JURY TRIAL. IN ANY ACTION, SUIT, OR PROCEEDING IN ANY JURISDICTION BROUGHT BY ANY PARTY AGAINST ANY OTHER PARTY, THE PARTIES EACH KNOWINGLY AND INTENTIONALLY, TO THE GREATEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY AND EXPRESSLY WAIVES FOREVER TRIAL BY JURY.**

(j) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Subscription Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

GROM SOCIAL ENTERPRISES, INC.

Address for Notice:

2060 NW Boca Raton Blvd., Suite #6
Boca Raton, FL 33431

By: _____

Name:

Title:

With a copy to (which shall not constitute notice):

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURE PAGE FOR SUBSCRIBER FOLLOWS]

[SUBSCRIBER SIGNATURE PAGE TO GROM SOCIAL ENTERPRISES, INC.
SUBSCRIPTION AGREEMENT]

IN WITNESS WHEREOF, the undersigned have caused this Subscription Agreement to be duly executed by their respective authorized signatories as of the ____ day of _____, 2019

Name of Subscriber: _____

Signature of Authorized Signatory of Subscriber: _____

Name of Authorized Signatory: _____

Email Address of Authorized Signatory: _____

Facsimile Number of Authorized Signatory: _____

Address for Notice to Subscriber: _____

Address for Delivery of Securities to Subscriber (if not same as address for notice):

Aggregate Purchase Price: \$ _____

Common Stock: _____ **Units**

EIN Number, if applicable, will be provided under separate cover: _____

[SIGNATURE PAGES CONTINUE]

INVESTOR QUESTIONNAIRE

Instructions: Check all boxes below which correctly describe you.

- You are (i) a bank, as defined in Section 3(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), (ii) a savings and loan association or other institution, as defined in Section 3(a)(5)(A) of the Securities Act, whether acting in an individual or fiduciary capacity, (iii) a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (iv) an insurance company as defined in Section 2(13) of the Securities Act, (v) an investment company registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"), (vi) a business development company as defined in Section 2(a)(48) of the Investment Company Act, (vii) a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301 (c) or (d) of the Small Business Investment Act of 1958, as amended, (viii) a plan established and maintained by a state, its political subdivisions, or an agency or instrumentality of a state or its political subdivisions, for the benefit of its employees and you have total assets in excess of \$5,000,000, or (ix) an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and (1) the decision that you shall subscribe for and purchase Units of common stock and warrants to purchase common stock (the "Units"), is made by a plan fiduciary, as defined in Section 3(21) of ERISA, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or (2) you have total assets in excess of \$5,000,000 and the decision that you shall subscribe for and purchase the Units is made solely by persons or entities that are accredited investors, as defined in Rule 501 of Regulation D promulgated under the Securities Act ("Regulation D") or (3) you are a self-directed plan and the decision that you shall subscribe for and purchase the Units is made solely by persons or entities that are accredited investors.
- You are a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, as amended.
- You are an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), with total assets exceeding US\$5,000,000 and not formed for the specific purpose of making investing in a Company.
- You are a director or executive officer of the Company.
- You are a natural person whose individual net worth, or joint net worth with your spouse, exceeds \$1,000,000 (excluding residence) at the time of your subscription for and purchase of the Units.
- You are a natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with your spouse in excess of \$300,000 in each of the two most recent years, and who has a reasonable expectation of reaching the same income level in the current year.
- You are a trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the Units and whose subscription for and purchase of the Units is directed by a sophisticated person as described in Rule 506(b)(2)(ii) of Regulation D.
- You are an entity in which all of the equity owners are persons or entities described in one of the preceding paragraphs.

Check all boxes below which correctly describe you.

With respect to this investment in the Units, your:

Investment Objectives: Aggressive Growth Speculation

Risk Tolerance: Low Risk Moderate Risk High Risk

Are you associated with a FINRA Member Firm? Yes No

Your initials (subscriber and co-subscriber, if applicable) are required for each item below:

____ I/We understand that this investment is not guaranteed.

____ I/We are sophisticated in financial and business affairs and are able to evaluate the risks and merits of an investment in this offering.

____ I/We confirm that this investment is considered "high risk." (This type of investment is considered high risk due to the inherent risks including lack of liquidity and lack of diversification. Success or failure of private placements such as this is dependent on the corporate issuer of these securities and is outside the control of the investors. While potential loss is limited to the amount invested, such loss is possible.)

The Subscriber hereby represents and warrants that all of its answers to this Investor Questionnaire are true as of the date of its execution of the Subscription Agreement pursuant to which it purchased the Units.

Name of Subscriber [please print]

Name of Co-Subscriber [please print]

Signature of Subscriber (Entities please provide signature of Subscriber's duly authorized signatory.)

Signature of Co-Subscriber

Name of Signatory (Entities only)

Title of Signatory (Entities only)

Exhibit A

Wire Instructions

Wells Fargo Bank
3601 N. Federal Highway
Boca Raton, Fl. 33431

Credit Account #: 1348620665

Routing #: 121000248

For credit to: Grom Social Enterprises, Inc.

**CERTIFICATION PURSUANT TO
18 USC, SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002**

I, Darren Marks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Grom Social Enterprises, Inc.;
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 in order 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(s) 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 controls 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 procedure 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 upon such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) 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.

Dated: November 19, 2019

/s/ Darren Marks

Darren Marks, Chief Executive Officer, President, and Chairman
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 USC, SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002**

I, Melvin Leiner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Grom Social Enterprises, Inc.;
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 in order 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(s) 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 controls 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 procedure 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 upon such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) 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.

Dated: November 19, 2019

/s/ Melvin Leiner

Melvin Leiner, Chief Operating Officer, Executive Vice President, Chief Financial Officer, Director and Secretary (Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 USC, SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this quarterly report of Grom Social Enterprises, Inc. (the "Company") on Form 10-Q for the nine month period ended September 30, 2019, as filed with the Securities and Exchange Commission on November 19, 2019 (the "Report"), we, the undersigned, in the capacities and on the date indicated below, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

1. The Report fully complies with the requirements of Rule 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 operations of the Company.

Dated: November 19, 2019

/s/ Darren Marks
Darren Marks, Chief Executive Officer, President, and Chairman
(Principal Executive Officer)

Dated: November 19, 2019

/s/ Melvin Leiner
Melvin Leiner, Chief Operating Officer, Executive Vice President, Chief Financial
Officer, Director and Secretary (Principal Financial and Accounting Officer)