

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

FORM 10-K

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

For the fiscal year ended December 31, 2020

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

(State or other jurisdiction of incorporation or organization)

82-2484160

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

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

(Address of principal executive offices)

33431

(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
None	N/A	N/A

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) 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," or "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter was \$12,188,480.

As of April 12, 2021, there were 190,284,001 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
Item 1. Business	1
Item 1A. Risk Factors	13
Item 1B. Unresolved Staff Comments	26
Item 2. Properties	27
Item 3. Legal Proceedings	26
Item 4. Mine Safety Disclosures	26
<u>PART II</u>	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
Item 6. Selected Financial Data	29
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	40
Item 8. Financial Statements and Supplementary Data	F-1
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	41
Item 9A. Controls and Procedures	41
Item 9B. Other Information	41
<u>PART III</u>	
Item 10. Directors, Executive Officers, and Corporate Governance	42
Item 11. Executive Compensation	47
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	49
Item 13. Certain Relationships and Related Transactions, and Director Independence	51
Item 14. Principal Accounting Fees and Services	52
<u>PART IV</u>	
Item 15. Exhibits, Financial Statement Schedules	54
Item 16. Form 10-K Summary	56
Signatures	57

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. Such forward-looking statements include, among others, those statements including the words "believes", "anticipates", "expects", "intends", "estimates", "plans" and words of similar import. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Forward-looking statements are based on our current expectations and assumptions regarding our business, potential target businesses, the economy, and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you therefore that you should not rely on any of these forward-looking statements as statements of historical fact or as guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements include our ability to raise capital when needed and on acceptable terms and conditions; our ability to make acquisitions and integrate acquired businesses into our company; our ability to attract and retain management with experience in the social media business; the intensity of competition; and changes in the political and regulatory environment and in business and fiscal conditions in the United States and overseas. These risks and others described under the section "Risk Factors" below are not exhaustive.

All forward-looking statements speak only as of the date of this Annual Report. Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, or other information contained herein, whether as a result of new information, future events, a change in events, conditions, circumstances or assumptions underlying such statements, or otherwise. We caution you therefore that you should not rely on any of these forward-looking statements as statements of historical fact or as guarantees or assurances of future performance.

All references in this Annual Report to the "Company", "we", "us", or "our", are to Grom Social Enterprises, Inc., a Florida corporation, and its consolidated subsidiaries.

PART I

ITEM 1. BUSINESS

Overview

We were incorporated under the laws of the State of Florida on April 14, 2014, as Illumination America, Inc.

Effective August 17, 2017, we acquired Grom Holdings pursuant to the terms of the Share Exchange Agreement entered into on May 15, 2017. In connection with the Share Exchange, the Company issued an aggregate of 110,853,883 shares of its common stock to the Grom Holdings stockholders, pro rata to their respective ownership percentage of Grom Holdings. Each share of Grom Holdings was exchanged for 4.17 shares of our common stock. As a result, the stockholders of Grom Holdings owned approximately 92% of the Company's issued and outstanding shares of common stock at such time.

In connection with the Share Exchange, we changed our name from Illumination America, Inc. to "Grom Social Enterprises, Inc."

We are a media, technology and entertainment company that focuses on delivering content to children under the age of 13 years in a safe secure platform that is compliant with Children's Online Privacy Protection Act ("COPPA") and can be monitored by parents or guardians. We operate our business through the following four 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 under the age of 13 years.

- TD Holdings Limited (“TD Holdings”) was incorporated in Hong Kong on September 15, 2005. TD Holdings operates through its two wholly-owned subsidiaries: (i) Top Draw Animation Hong Kong Limited, a Hong Kong corporation (“Top Draw HK”) and (ii) Top Draw Animation, Inc., a Philippines corporation (“Top Draw Philippines”). The group’s principal activities are the production of animated films and televisions series.
- Grom Educational Services, Inc. (“GES”) was incorporated in the State of Florida on January 17, 2017. GES operates our web filtering services provided to schools and government agencies.
- Grom Nutritional Services, Inc. (“GNS”) was incorporated in the State of Florida on April 19, 2017. GNS intends to market and distribute nutritional supplements to children. GNS has not generated any revenue since its inception.

Recent Developments

On September 14, 2020, our board of directors (the “Board”) approved and on September 16, 2020, our shareholders approved the granting of authority to the Board to amend the Company’s articles of incorporation to effect a reverse stock split of the issued and outstanding shares of the Company’s common stock, by a ratio of no less than 1-for-2 and no more than 1-for-25, with the exact ratio to be determined by the Board in its sole discretion (the “Reverse Split”), and with such Reverse Split to be effective at such time and date, if at all, as determined by the Board in its sole discretion.

Our common stock is currently quoted on the OTCQB under the symbol “GRMM”. We intend for the Board to effect the Reverse Split in connection with a currently intended listing of our common stock on the Nasdaq Capital Market as Nasdaq listing requirements include, among other things, a stock price threshold. However, we cannot guarantee that such Reverse Split will occur based on the ratio stated above, that such Reverse Split will be necessary or will occur in connection with the listing of our common stock on the Nasdaq Capital Market, or that the Nasdaq Stock Market will approve listing of our common stock upon such Reverse Split.

If our stock does not trade at a minimum per share price for which a Reverse Split by a ratio of 1-for-25 or less will result in a minimum price necessary for the listing of our common stock on the Nasdaq Capital Market, we may request our shareholders to authorize a larger reverse stock split. The Reverse Split will not impact the number of authorized shares of common stock which will remain at 500,000,000 shares.

Business

We are a media, technology and entertainment company focused on delivering content to children under the age of 13 years in a safe secure Children’s Online Privacy Protection Act (“COPPA”) compliant platform that can be monitored by parents or guardians.

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

- Grom Social was incorporated in the State of Florida on March 5, 2012 and operates our social media network designed for children under the age of 13 years.
- TD Holdings was incorporated in Hong Kong on September 15, 2005. TD Holdings operates through its two wholly-owned subsidiaries, Top Draw HK and Top Draw Philippines. The group’s principal activities are the production of animated films and televisions series.
- GES was incorporated in the State of Florida on January 17, 2017 and operates our web filtering services provided to schools and government agencies.
- GNS was incorporated in the State of Florida on April 19, 2017. GNS intends to market and distribute nutritional supplements to children. GNS has not generated any revenue since its inception.

Grom Social

Grom Social is a media, technology and entertainment company for kids focused on producing original content on Grom Social’s website,

www.gromsocial.com and mobile application. Visitors to the Grom Social website may log on via mobile phone, desktop computer or tablet and chat with friends, view original content or play games created by us.

The name “Grom” is derived from Australian surfing slang and is defined by us to mean “a promising young individual who is quick to learn.” Grom Social was conceptualized and developed in 2012 by Zachary Marks, who was 12 years old at the time. He is the son of our Chief Executive Officer, Darren Marks.

Our business model is based upon providing children under the age of 13 with a safe environment on the Internet while promoting “fun,” “wholesomeness” and “family values.” We require that each child receive parental approval prior to gaining full access to the Grom Social platform. In certain jurisdictions and circumstances, we allow parents, teachers and guardians (collectively, “Guardians”) to sign up groups of children at one time. If a Guardian’s approval is not granted, a child’s account will not be opened. If a child does not follow the proper registration process, he or she will be considered a user with limited access. Limited access does not allow the child to chat with other children or visit certain sections of the platform.

Based on data provided by Google Data Analytics and Joomla Management Systems, in February 2021, our platforms have generated approximately 22,000,000 users in over 200 countries and territories since our inception in 2012. We define a “user” as any child under the age of 13 who registers for a Grom Social account through the website or downloads the Grom Social app from a mobile app store, and any parent who registers for a Grom Social account, any parent who registers or downloads the MamaBear app and any student or faculty that uses our NetSpective web filtering platform.

Monthly active users (“MAUs”) is a usage metric which reveals the total number of users who visit our platforms within a 30-day period. As of February 2, 2021, there were approximately 2,300,000 MAUs on all platforms.

Based upon statistics provided by the Joomla Management System, the average online duration of users logged onto our Grom Social platforms is approximately 51 minutes.

Grom Social App

In May 2019, our Grom Social mobile application (or “app”) for Apple Store and Google Play Store was approved within each platform’s family designated section. The Apple Store markets iPhone operating system (“IOS”) applications for download solely on Apple devices. The Google Play Store markets applications for download on Android devices.

We communicate with the children through messaging on a child’s profile page and through seventeen unique Grom characters that engage with children with many additional “fun” and safety features.

We believe our mobile app is the only children’s app where kids can:

- Openly (free-form) chat with each other without restriction as opposed to having to choose from pre-selected words to make sentences;
- Record videos of themselves to post in a social environment and use enhanced facial features, masks, and filters while doing so;
- upload videos that are COPPA compliant;
- View 1400 hours of exclusive Grom TV content - video on demand platform for kids which is free and curated to provide only safe and educational content for children.
- Message and chat with cartoon characters and cast members;
- Communicate with users and parents (through the MamaBear app described below) regardless of where they may be navigating on the Grom Social website. This feature eliminates the need to leave the section of the site in which they are engaged.

We have established the following safeguards and procedures which we believe will ensure our Grom Social platform is a safe place for children:

- **Account Approval:** We have account creation procedures to help ensure that only children under the age of 13 can create an account. If a child submits a request to open an account on the Grom Social website or mobile apps, we send an email notification to his or her parents that their child has applied to create a Grom Social account. If the child’s parents approve the account, by using one of three methods that are approved by COPPA guidelines, the account is opened. If a parent’s approval is not given, the account will not be opened, and the child will have limited access to the Grom Social website.
- **Parental Involvement:** By requiring parental approval for a child to open an account and to interact with other users on Grom Social, we hope to ensure that parents are aware of and involved with their child’s activity on the website. Further, we believe that parental involvement provides us with the ability to market products and services to parents.
- **Digital Citizenship Educational Content** – Children are encouraged to take and pass an internet safety course and receive a Digital Citizen License from us in order to gain increased access to the features provided on the Grom Social platforms.
- **Limited Data Collection of Child and Parent** – No digital profiles will be built for children or parents. The information we collect is for analytical data only and is limited to parent email, birthdate, gender and country locations.
- **Content Monitoring:** We have software that monitors posts for inappropriate content using standard “keyword” filter technology. If a post contains inappropriate content, it will not appear on the platform and the poster will be sent a warning about offensive content. We believe that through monitoring content we can promote social responsibility and digital citizenship. We view this as a learning opportunity but will ban users if the problem persists.
- **Anti-bullying:** We have software that monitors the Grom Social website for bullying. In addition to monitoring the interaction between children on the website, we also post messages that strongly emphasize anti-bullying and actively promotes social responsibility and digital citizenship. Additionally, our platform has received the “KidSafe Seal of Approval” from KidSafe, an independent safety certification service and seal-of-approval program designed exclusively for children-friendly websites and technologies, including online game sites, educational services, virtual worlds, social networks, mobile apps, tablet devices, connected toys, and other similar online and interactive services.

- **Use of “Gromatars”:** Children on Grom Social create animated pictures, which we call “Gromatars,” to represent themselves on Grom Social without providing a real-life photograph. Gromatars are viewed as profile pictures on a user’s home wall, and when a user leaves a comment or “like” on a public page. Kids can build and customize their Gromatars by selecting over 200 different options such as the eyes, nose, hair, teeth, ears, skin color, hairstyle, and color.

These safeguards and procedures are a critical component of our business model. We believe that children are increasingly accessing the Internet at younger ages and therefore the need for safe, age-appropriate platforms for younger children to browse and interact with other children is increasing. According to recent statistics on GuardChild.com:

- 81% of children from 9 to 17 years-old say they visited a social networking site in the past three months;
- 41% of teens had a negative experience as a result of using social networking; and
- 88% of teens have seen someone be mean or cruel to another person on a social networking site.
 - 70% of children have accidentally encountered online pornography
 - 90% of children from 8 to 16 years-old have seen online pornography
 - 65% of children from 8 to 14 years-old have been involved in a cyber-bullying incident

GuardChild.com is a website providing software and applications to promote safe Internet browsing for children and statistics collected from various resources including: Social Media and Young Adults, Pew Internet & American Life Project, Global Insights Into Family Life Online, Norton/Symantec & StrategyOne, Teen/Mom Internet Safety Survey, McAfee & Harris Interactive, Pew Research Center, FOSI, Cable in the Classroom 2011, Journal of Adolescent Health, National Cyber Security Alliance (NCSA)-McAfee Online Safety Study, American Osteopathic Association, Social Media and Young Adults, Pew Internet, American Life Project and Grunwald Associates.

MamaBear App

MamaBear is a mobile, all-in-one parenting app that we acquired in September 2016. By using MamaBear, a parent can follow and protect their child's online presence by monitoring their social networking/media accounts, including, Facebook, Instagram, Twitter, and YouTube. The app is available for IOS devices through the Apple Store and Android devices through the Google Play Store. MamaBear provides parents with a powerful all-in-one safety and awareness tool that we believe offers a unique set of social media monitoring features, family mapping.

Content

In addition to providing a safe, fun, social media platform for children to interact with their peers, we create our own content consisting of animated characters, interactive chats, videos, blogs, and games geared to provide wholesome family entertainment. We create our own short-form content consisting of animated characters, interactive chats, videos, blogs, games and five live action shows released weekly. We currently have over 1,400 hours of live action shows in our content library. This exclusive content is only available on our platforms.

Our Grom Social app features include direct messaging, video recordings with face filters and effects, notifications, profiles with custom colors, Gromatar cartoon avatars, over 1,400 hours of Grom TV exclusive videos on demand, a search and discovery section, hashtags and mentions in post descriptions, liking, commenting, sharing of content, including the ability to share photos, videos and doodle drawings in direct messages. With this feature set and the safety permissions in place, the app will provide children their own social platform similar to the popular adult platforms, but in a safe controlled environment. Kids can upload videos along with a variety of different music, similar to TikTok. Users also have a vast variety of face filters similar to Snapchat and Instagram. The Company produces up to 5 new short-form videos each week similar to Netflix to maintain user engagement.

According to a survey released on October 29, 2019 from Common Sense Media, a nonprofit that tracks young people's tech habits reports, twice as many young people watch videos every day as they did four years ago, and the average time spent watching videos, mostly on YouTube has roughly doubled, to an hour a day. The survey also found that on average, American children from 8 to 12-years old spend 4 hours and 44 minutes on screen media each day and teens average 7 hours and 22 minutes, not including time spent using screens for school or homework. Based upon statistics provided by the Joomla Management System, the average online duration of users logged onto our Grom Social platform was approximately 51 minutes as of February 2, 2021. We believe the longer duration time is a result of our ability to better engage users through our original content.

Strategy

- **Advertising Revenue.** We believe that our app will enable us to begin to generate advertising revenue and the growth of our database may attract high-profile companies to advertise on our Grom Social website and mobile platforms, although there can be no assurances that advertisers will use our website or mobile app. We intend to emphasize to advertisers what we believe is the unique level of parental involvement on Grom Social. We currently have an agreement with SuperAwesome one of the largest COPPA complaint kid advertising companies in the world. A number of SuperAwesome's clients, including Disney, Nickelodeon, and McDonalds are currently advertising on our platform. In addition, we currently have several advertisers that are advertising on our newly created Grom Safe Ads advertising program that allows pre-approved (by Grom) COPPA complaint ads to run on our platforms
- **Subscription Based Premium Content.** Although we currently do not charge a subscription fee, we hope to be able to move to a subscription-based model in the future. We are continuously making software upgrades which will hope will enable us to offer premium content to users for which they will be charged a monthly subscription fee. Users that sign up for a premium program will become Grom Club Members which will enable them to utilize current and new features to:
 - Create and view interactive videos that can be shared with other Grom Club Members, with non-paying Grom users and with any other third parties in their approved network;
 - Receive exclusive Gromatar options and accessories including masks, voice modification, face modification, special effects, and numerous filters.
 - Have unlimited access to new premium games;

- Engage in exclusive chats with athletes and celebrities that we hope to engage in the future;
- Receive discounts on Grom Social merchandise;
- Turn off ads; and
- Participate in Bookstore pre/reviews and live readings.

Publishing and Distribution

We believe that Grom Social offers a great way to get user feedback and see how kids respond to content. We believe offering book titles to be previewed and added to wish lists for parents to purchase is a good way to get titles out to the Grom Social kids demographic.

Comments could be used for reviews and a rating star system could be implemented. Badges could be awarded to users to complete different book titles, similar to an online e-book store.

Authors could schedule a live reading where users would be able to log on during the live time-period and listen to the author live read a chapter of their book to the kids, with Q&A with the author live in public forum.

- **Online Game Fees.** The games currently available to users on our website are free. We intend to offer users an option to pay to play exclusive games and/or pay for game upgrades. These games may be developed by us, such as Grom Skate, where the character skates through three worlds collecting coins, doing tricks and avoiding obstacles and solving geometry problems, or obtained from outside developers and adapted to use on our website.
- **Licensing Merchandise Revenue.** We hope to create Grom Social apparel and other merchandise for purchase through our website and mobile app and enter into licensing and merchandise agreements.

Partnerships and Collaborations

The Company believes that due to its strong youth following that it can be a valuable resource to many organizations and sports leagues looking to build, reconnect and/or maintain their brand among the youth market. The Company has designed an opportunity for clients to utilize existing programming and broadcasts by condensing long programming such as 3-4 hour baseball games, 8 hour-a-day surfing events and 6-hour golf rounds into engaging short-form content wrapped in gaming and animation utilizing celebrities and athlete interaction.

Intellectual Property Strategy

The Company plans to produce, develop, license and purchase a number of intellectual properties and monetize by franchise, licensing and merchandising opportunities in addition to hosting on its own platform. To satisfy and help fill the demand for content, the Company intends to continue to create original content as well as use underutilized content.

Throughout our monetization efforts, we will maintain a free version of the app in an effort to not negatively impact our user base. The Grom Social website and mobile app have generated nominal revenues to date.

TD Holdings

TD Holdings is a holding company that operates through its two wholly-owned subsidiaries Top Draw Hong Kong and (ii) Top Draw Philippines. Based in Manila, Philippines, the group's principal activities are the production of animated films and television series. Top Draw Hong Kong, which owns our animation studio in Manila, Philippines, contracts with third parties for the production of animated films and television series. Through an intercompany agreement, Top Draw Philippines then does the production work at our studio in Manila, Philippines.

Top Draw Philippines is a full-service production and pre-production animation studio working with international clients. It specializes in providing two-dimensional digital production services for animated television series and movies on a contract basis or under co-production arrangements.

Top Draw Philippines’ pre-production services include planning and creating storyboards, location design, model and props design, background color and color styling. Its production services focus on library creation, digital asset management, background layout scene assembly, posing, animation and after-effects. Top Draw Philippines currently provides services to high-profile properties, including Tom and Jerry, My Little Pony and Disney Animation’s Penn Zero: Part-Time Hero. Its studio produces over two hundred half-hour segments of animated content for television annually, which we believe makes it one of the top producers of animation for television worldwide.

The following table depicts some of Top Draw Philippines’ recent notable projects:

Show	Client	Number of Series in Years	Period
My Little Pony	DHX Media	10	2010-2019
My Little Pony - Equestrian Girls	DHX Media	7	2012-2013, 2015-2019
Tom and Jerry	Slap Happy Cartoons	5	2015-2019
Polly Pocket	WildBrain (formerly DHX Media)	3	2017-2020
Glitch Techs	Nickelodeon	1	2018-2019
Carmen Sandiego	WildBrain (formerly DHX Media)	2	2019-2020
Rhyme Time Town	DreamWorks	1	2019-2020
Archibald’s Next Big Thing	DreamWorks	1	2020-2021
Polly Pocket S3	DHX Media	3	2021
The Loud House Movie	New Nickelodeon Animation	1	2021
Bionic Max	Gaumont Animation	1	2021
Vikingskool	Samka Production	1	2021

Grom Educational Services, Inc.

On January 2, 2017, we acquired certain assets including Internet content filtering software called “NetSpective Webfilter” from TeleMate.net. Since inception, we have sold hardware and/or subscriptions for web filtering software to thousands of schools with more than 4,000,000 children in attendance. Clients pay for hardware within 30 days of delivery and in advance for filtering service ranging between one to five years. We offer a proprietary digital citizenship program that assists K-12 schools in the United States to comply with The Children’s Internet Protection Act (“CIPA”) requirements. CIPA requirements include the use Internet content filters and implementation of other protective measures to prevent children from exposure to harmful online content.

Grom Nutritional Services, Inc.

GNS was formed with the intention of developing, marketing and distributing nutritional supplement beverages to children to support the healthy development of neurological structure and intellectual development of cognitive skills. We initially intend to market and distribute nutritional based supplements to our user base of children and their parents, then subsequently expand our marketing efforts to the wholesale/retail grocery, convenience, and big box sectors. GNS has had no significant operations to date, but the Company is exploring partnerships.

Acquisition Strategy

Our acquisition strategy is to acquire synergistic companies, products or intellectual property that will help grow our Grom Social user base and operate profitably as both a stand-alone enterprise as well as enhance Grom’s overall monetization strategy.

Acquisition of TD Holdings

On July 1, 2016, we entered into a share sale agreement (the “TDH Share Sale Agreement”) for the acquisition of 100% of the capital stock of TD Holdings for which we paid \$4,000,000 in cash, issued a 5% secured promissory note in the principal amount of \$4,000,000 which originally matured on July 1, 2018 (the “TDH Note”), and 7,367,001 shares of our common stock valued at \$4,240,000, or approximately \$0.58 per share, to the selling shareholders of TDH (“TDH Sellers”).

Under the terms of the TDH Share Sale Agreement, we were also required to make additional payments (“Earnout Payments”) of up to \$5,000,000 to the TDH Sellers, if TD Holdings achieved certain adjusted earnings before interest, taxes, depreciation, and amortization (“EBITDA”) during the three-year period following the acquisition (the “Earnout Period”), to be paid 25% in cash and the balance in shares of common stock at a share

price equal to the lower of a 10% discount to our last private placement price per share prior to making the Earnout Payment, or if such shares are listed on a recognized stock exchange and publicly traded, at a 10% discount to the previous 20 day weighted average closing price per share.

No earnout was achieved for the original three-year Earnout Period. The original Earnout Period was extended to December 31, 2019, pursuant to the First Amendment described below. However, no earnout was achieved during the extended Earnout Period through December 31, 2019.

First Amendment to the TDH Share Sale Agreement

On January 3, 2018, we entered into an amendment to the TDH Share Sale Agreement with the TDH Sellers (the “First Amendment”). Under the terms of the First Amendment:

- the maturity date of the TDH Note was extended from July 1, 2018 until July 1, 2019 (the “First Note Extension Period”);
- the interest rate on the TDH Note was increased from 5% to 10% during the First Note Extension Period;
- during the First Note Extension Period, interest will be paid quarterly in arrears, instead of annually in arrears. The first such quarterly interest payment of \$100,000 was due on September 30, 2018; and
- the Earnout Period was extended to December 31, 2019.

As consideration for the First Amendment, we issued 800,000 shares of our common stock valued at \$480,000 to the TDH Sellers.

Second Amendment to the TDH Share Sale Agreement

On January 15, 2019, we entered into a second amendment to the TDH Share Sale Agreement with the TDH Sellers (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.
- the TDA Sellers shall have the right to convert the TDH Note at a conversion price of \$0.27 per share, in whole or in part at any time prior to the maturity, subject to the terms and conditions set forth in the Second Amendment.
- In the event that the notes are not repaid prior to July 2, 2019, no funds shall be transferred by TDH to the Company.
- The payment terms of the contingent earnout was modified from 50% payable in cash and 50% payable in stock to 75% payable in cash and 25% payable in stock.

As consideration for the Second Amendment, we issued 800,000 shares of our common stock valued at \$220,000 to the TDH Sellers.

Third Amendment to the TDH Share Sale Agreement

On March 16, 2020, we entered into a third amendment to the TDH Share Sale Agreement with the TDH Sellers (the “Third Amendment”). We used the proceeds received from the TDH Secured Notes Offering to pay the TDH Sellers \$3,000,000 of the principal due under the TDH Notes, leaving an outstanding principal balance due to the TDH Sellers under the TDH Note of \$1,000,000 in principal (plus accrued interest and costs). In addition, accrued interest of \$361,767 due to the TDH Sellers pursuant to the TDH Note was agreed to be paid in three monthly installments of \$93,922 commencing April 16, 2020, and 12 monthly installments of \$6,667 commencing April 16, 2020.

The terms of the Third Amendment provide that, among other things:

- the maturity date of the TDH Note be extended one year to June 30, 2021;
- the interest rate of the TDH Note be increased to 12%;
- a first priority security interest on the shares of TDH and TDAHK, pari passu with the holders of the TDH Secured Notes secure the obligations under the TDH Note; and

- the balance of the TDH Note be paid monthly in arrears, amortized over a four-year period.

Acquisition of the MamaBear Mobile Software Application Assets

On September 30, 2016, we purchased the online application and website “MamaBear” from GeoWaggle, LLC. As consideration therefor, we issued 208,500 shares of our common stock valued at approximately \$162,500, or approximately \$0.78 per share.

Acquisition of the NetSpective Webfilter Assets

On January 1, 2017, we acquired NetSpective webfilter assets from TeleMate.net Software, LLC, a Georgia limited liability company, (“TeleMate”) pursuant to an asset purchase agreement (the “NetSpective APA”). Under the terms of the NetSpective APA, we issued a three-year 0.68% \$1,000,000 redeemable, convertible promissory note to TeleMate (the “TeleMate Note”). The TeleMate Note is convertible into our common stock at a conversion rate of \$0.78 per share. If not converted by TeleMate by November 1, 2019, the note may be converted by the Company into shares of common stock at a conversion rate of \$0.48 per share. In addition, we entered into a master services agreement (“MSA”) with TeleMate under which TeleMate provided engineering and sales support for twelve months and assumed all risks of NetSpective negative cash flow for one year.

Additionally, TeleMate was entitled to an earnout payment of up to \$362,500, payable in our common stock at a price of \$0.78 per share or 464,744 shares, if the NetSpective WebFilter assets generated \$362,500 in “net cash flow” as defined in the NetSpective APA over a one-year period. Such net cash flow milestone was achieved and NetSpective became entitled to such earnout payment. However, TeleMate did not meet the terms of the MSA and failed to remit \$146,882 collected on our behalf from NetSpective customers pursuant to the MSA. As a result, on January 12, 2018, we entered into a First Modification to the NetSpective APA (the “First Modification”).

Under the terms of the First Modification, TeleMate agreed to pay us in monthly installments of \$10,000 against their outstanding balance of \$146,822. Additionally, the TeleMate Note may not be converted or any earnout shares issued until the outstanding balance is paid in full, and all interest payments under the TeleMate Note were suspended until all payments owing the Company were made. If and when TeleMate is permitted to convert the TeleMate Note, the number of shares converted thereunder will be subject to a one-year leak-out agreement.

In April 2019, TeleMate paid the TeleMate Note in full. On December 4, 2019, the Company converted the outstanding principal and interest of \$1,013,200 under the TeleMate Note into 2,113,428 shares of its common stock.

Acquisition of the Assets of Fyoosion LLC

On December 27, 2017, we acquired all of the assets of Fyoosion LLC, a Delaware limited liability company (“Fyoosion”), which included proprietary software, its website, and source code. The acquired software utilizes a digital automation marketing platform to help companies to efficiently generate sales leads and improve customer retention.

In consideration therefor, we issued an aggregate of 300,000 shares of our common stock to Fyoosion. Such shares were subject to a -leak-out agreement limiting the number of shares that could be sold for one year following the acquisition to 25% of the daily average trading volume during the period prior to such sale. The Company’s proposed business in the first year utilizing the acquired assets did not attain EBITDA of \$125,000, and accordingly, Fyoosion was not entitled to 200,000 additional shares as provided in the acquisition agreement.

Business Strategy

We hope to grow our business through a combination of marketing initiatives and synergistic acquisitions in an effort to increase our Grom Social user base to a large enough size to enable us to attract advertisers and paid users for our premium content. However, there can be no assurance that our strategy will be successful or that our revenues will increase as a result of our business strategies.

Our Growth Strategy

Our current growth strategy is as follows:

- *Increase the size of our database of users of Grom Social.* Comparable to other successful social media companies, we believe the key strategy to our future success is to grow the size of our database. Although the revenue from Grom Social is now nominal, we believe that our database will continue to increase due to our production of original content and through synergies such as our MamaBear

application which has approximately 1,250,000 downloads since inception, with approximately 90,000,000 total sessions. We intend to launch a marketing campaign, subject to raising sufficient capital, to increase awareness of the Grom Social platforms. There can be no assurance that we can continue to grow the Grom platforms, and if we are successful in doing so, that we will be able to generate revenues from the website and mobile app.

Marketing initiatives. We plan to use celebrities and high-profile athletes as role models, content providers and overall brand ambassadors. The Company as recently entered into long-term with US Olympic surfing team member and the current world #2, 18-year old Caroline Marks. Our user base will be able to follow Caroline leading up to the 2021 Olympics in Tokyo and follow as she competes on the world tour.

- *Expand Core Products.* We manage our brands through strategic product development initiatives, including introducing new products and modifying our existing intellectual property. Our marketing team and development teams strive to develop enhanced products to offer added technological, aesthetic and functional improvements to our portfolio of products.
- *Pursue Strategic Acquisitions.* We supplement our internal growth with strategic and synergistic acquisitions.

Competition

Grom Social

The markets in which we compete are characterized by innovation and new and rapidly evolving technologies. We believe we will face significant and intense competition in every aspect of our intended business, including from Facebook, YouTube, Twitter, and Google, which offer a variety of Internet products, services, and content that will compete for our user's Internet time and spending dollars. In addition to facing general competition from these large, well-funded companies, we also face competition from smaller Internet companies that offer products and services that may compete directly with Grom Social for users, such as TikTok, SnapChat, Video Star and Zoomerang. Additionally, as we introduce new services and products, as our existing services and products evolve, or as other companies introduce new products and services, we may become subject to additional competition from:

- Companies that offer products that replicate either partial or the full range of capabilities we intend to provide.
- Companies that develop applications, particularly mobile applications, that provide social or other communications functionality, such as messaging, photo-and video-sharing, and micro-blogging.
- Companies that provide web-and mobile-based information and entertainment products and services that are designed to engage our target audience and capture time spent on mobile devices and online.

Many of these companies have substantially greater resources than us.

We believe that the following features differentiate us from our competitors and provide us with a possible competitive advantage with respect to our target market:

- We provide children with a social media experience in a safe and controlled environment;
- We encourage direct parental involvement and oversight;
- We produce content developed by “kids and for kids”;
- We have developed a registration process to safely register children on the website;
- We provide live monitoring of the website by trained individuals to help protect children from malicious content that may be found on other social networking sites available to children, supplemented by standard “bad word” filtering software; and
- We have developed the only COPPA compliant app that offers live commenting, hashtags, streaming video content and the ability to

record and share videos.

We believe that Grom Social is one of the only social media platforms that offers games, chatrooms, educational services, social interaction, exclusive content, global connectivity, and group collaboration to develop new content and activities based on user behavior in one platform.

TD Holdings

We have extensive competition in our animation business from production companies in Korea, Taiwan, Canada, India and, to a lesser degree, China, Malaysia, Singapore, and Thailand. Businesses in these countries, such as Malaysia, may receive government subsidies which can increase competitive pressure.

Our intention is for Top Draw Philippines to remain competitive for the production of family-oriented, animated television series and movies and other family-oriented entertainment products produced by major movie studios, including Disney, DreamWorks Animation, Warner Bros. Entertainment, Netflix, Nickelodeon, and numerous other independent motion picture production companies.

The primary competitors of Top Draw Philippines in the Philippines are Toon City Animation, Snipple Animation Studio, and Synergy 88 Digital.

Growth in the television industry is being driven by larger streaming companies such as Netflix, Disney Plus, NBC, Amazon Prime, and Facebook. Competition is primarily based on the ability to reach an audience directly and deliver products that meet consumer demand. The success of these streaming companies is primarily related to the size and reach of their user or subscriber base.

Grom Educational Services

We believe our primary competitors for web filtering products and services are iBoss, Lightspeed, Go Guardian and Securly. There are other large companies that offer web filtering products including Forcepoint (Websense), Bluecoat, Palo Alto Networks, Barracuda and Cisco. However, we believe these companies are enterprise focused whereby they sell numerous products with web filtering representing a minimal component of their portfolio.

Grom Nutritional Services

We believe that consumer awareness regarding the benefits of dietary supplements and new product availability are the major drivers for the market worldwide. The global nutritional supplements market size was valued at \$273.9 billion in 2018 and is anticipated to expand at a compound annual growth rate of 6.4% over the forecast period from 2019 to 2025, according to Grand View Research. The largest of our competitors are Axxess Pharma Inc., Celsius Holdings, Inc., GNC Holdings Inc., and Pfizer Inc.

Government Regulation

We are subject to several U.S. federal and state and foreign laws and regulations that affect companies conducting business on the Internet. Many of these laws and regulations are still evolving and being tested in courts and could be interpreted in ways that could harm our business. These may involve user privacy and data protection, rights of publicity, content, intellectual property, advertising, marketing, distribution, data security, data retention and deletion, personal information, electronic contracts and other communications, competition, protection of minors, consumer protection, telecommunications, product liability, taxation, economic or other trade prohibitions or sanctions, securities law compliance, and online payment services. In particular, we are subject to federal, state, and foreign laws regarding privacy and protection of data. Foreign data protection, privacy, and other laws and regulations can be more restrictive than those in the United States. U.S. federal and state and foreign laws and regulations, which in some cases can be enforced by private parties in addition to government entities, are constantly evolving and can be subject to significant change. In addition, the application, interpretation, and enforcement of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. There are also a number of legislative proposals pending before federal, state, and foreign legislative and regulatory bodies. including data protection regulation.

In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services.

Our platforms follow the guidelines of the Children's Online Privacy Protection Act of 1998, 15 U.S.C. 6501–6505. COPPA imposes certain



requirements on operators of websites or online services directed to children under 13 years of age, and on operators of other websites or online services that have actual knowledge that they are collecting personal information online from a child under 13 years of age.

Additionally, our K-12 NetSpective web filter clients are subject to CIPA, which was enacted by Congress in 2000 to address concerns about children's access to obscene or harmful content over the Internet. CIPA imposes certain requirements on schools or libraries that receive discounts for Internet access or internal connections through the E-rate program – a program that makes certain communications services and products more affordable for eligible schools and libraries. In early 2001, the FCC issued rules implementing CIPA and provided updates to those rules in 2011.

The nutritional supplements that we intend to market to children are governed by the US Food and Drug Administration (“FDA”). The FDA defines supplements as a product intended to increase its levels in the diet. These may include vitamins, minerals, herbs, amino acids, or other plant-based substances. Over-the-counter supplements do not undergo the same formal approval process as prescription and over-the-counter drugs. The FDA does not require supplement manufacturers to submit their products to the FDA for review nor receive FDA approval, however, before marketing, companies must ensure they are not making false claims on the product label to mislead consumers. Like other food substances, dietary supplements are not subject to the safety and efficacy testing requirements imposed on drugs, and unlike drugs they do not require prior approval by the FDA; however, they are subject to the FDA regulations regarding adulteration and misbranding.

Intellectual Property

To establish and protect our proprietary rights we rely on a combination of trademarks, copyrights, trade secrets, including know-how, license agreements, confidentiality procedures, non-disclosure agreements with third parties, employee non-disclosure and invention assignment agreements, and other contractual rights. We do not believe that our proprietary website is dependent on any single copyright or groups of related patents or copyrights. We currently own six trademarks as follows:

Country	Mark	Status	Class	Serial Number	Filing Date	Registration Number	Registration Date	Owner Name	Expiration Date
US	GROM SOCIAL	Registered	045	85562637	03/07/2012	4236835	11/06/2012	Grom Social LLC	11/06/2022
US and INTL		Registered	042, 045	85632192	05/22/2012	4242103	11/13/2012	Grom Social LLC	11/13/2022
US	GROM	Registered	042	85808178	12/20/2012	4464931	01/14/2014	Grom Social LLC	01/14/2024
US	GROMPOUND	Registered	041	85865569	03/04/2013	4380376	08/06/2013	Grom Social, LLC	08/06/2023
US	TECHTOPIA	Registered	009	86346608	07/24/2014	4820748	09/29/2015	Grom Social, Inc.	09/29/2021
US and INTL	GROM FANTASY SURFER	Pending	100, 101	88257301	01/10/2019	N/A	N/A	Grom Social Enterprises, Inc.	N/A
US and INTL	MAMABEAR	Registered	021, 023, 026, 036, 038	85631796	05/22/2012	4351472	06/11/2013	Grom Holdings Inc.	06/11/2023
US and INTL		Pending	05, 06, 018, 044, 046, 051, 052	90197048	09/21/2020	N/A	N/A	Grom Nutritional Services, Inc.	N/A

Employees

As of April 12, 2021, the Company had twelve full-time employees, one part-time employee and 4 independent contractors in the United States and Top Draw had 77 full-time employees and 63 part-time and 287 contracted employees in the Philippines.

Item 1A Risk Factors

Risks Related to our Business

Investing in our common stock involves a high degree of risk. Before investing in our common stock, you should carefully consider the risks described below, as well as the other information in this Annual Report, including our consolidated financial statements and the related notes. In addition, we may face additional risks and uncertainties not currently known to us, or which as of the date of this registration statement we might not consider significant, which may adversely affect our business. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case the trading price of our common stock could decline due to any of these risks or uncertainties, and you may lose part or all of your investment.

Risks Related to our Business and Industry

Our independent auditors have expressed their concern as to our ability to continue as a going concern.

On a consolidated basis, the Company has incurred significant operating losses since inception and has a working capital deficit. The Company's financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Because the Company does not expect that existing operational cash flow will be sufficient to fund presently anticipated operations, this 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 of its equity securities and convertible notes and through 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 by obtaining short-term loans. The Company will be required to continue to do so until its consolidated operations become profitable.

These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. If we are unable to obtain sufficient funding, our business, prospects, financial condition and results of operations will be materially and adversely affected, and we may be unable to continue as a going concern.

We have a \$1,000,000 note issued to the TDH Sellers which matures on June 30, 2021 and \$3,000,000 in notes issued to certain accredited investors which mature on March 16, 2024 that are secured by all of the assets of TDH.

On March 16, 2020, the maturity date of the TDH Note was extended from April 1, 2020 to June 30, 2021. If the TDH Note is not paid in full by June 30, 2021, the TDH Sellers could foreclose on their collateral causing us to lose our TDH subsidiary. Furthermore, we issued \$3,000,000 of our 12% senior secured convertible notes, dated March 16, 2020, to certain accredited investors. If the senior secured convertible notes are not paid in full by March 16, 2024, the accredited investors could foreclose on their collateral causing us to lose our TDH subsidiary. Either occurrence would have a material adverse impact on the Company.

Our future performance will depend on the continued engagement of key members of the management team of the Company.

Our future performance depends to a large extent on the continued services of members of the Company's current management and other key personnel, including Zach Marks. While we have employment agreements with Messrs. Marks, Dearing and Leiner, the failure to secure the continued services of these or other key personnel for any reason, could have a material adverse effect on our business, operations, and prospects. We currently do not carry "key man insurance" on any of our executives.

If we fail to retain existing users or add new users, or if our users decrease their level of engagement, our revenue, financial results, and business may be significantly harmed.

The size of our user base and our users' level of engagement are critical to our success. We have over 10 million Grom Social users under the age of 13 and an almost equal number of parents in our database as of May 28, 2020. Our future financial performance will be significantly determined by our success in adding, retaining, and engaging users. If people do not perceive our site and the content that we offer to be enjoyable, engaging, reliable, and trustworthy, we may not be able to attract or retain users or otherwise maintain or increase the frequency and duration of their interaction on our website. A number of other social networking companies that achieved early popularity have since seen their active user bases or

levels of engagement decline, in some cases precipitously. There is no guarantee that we will not experience a similar erosion of our user base or engagement levels. A decrease in user retention, growth, or engagement could render us less attractive to developers and advertisers, which may have a material and adverse impact on our revenue, business, financial condition, and results of operations. Any number of factors could potentially negatively affect our ability to attract and retain user and to increase their engagement on the website, including, if:

- our users decide to spend their time on competing sites;
- we fail to introduce new and improved content or if we introduce new content or services that are not favorably received;
- we are unable to successfully balance our efforts to provide a compelling user experience with the decisions we make with respect to the frequency, prominence, and size of ads and other commercial content that we display;
- we are unable to continue to develop products for mobile devices that users find engaging, that work with a variety of mobile operating systems and networks, and that achieve a high level of market acceptance;
- there are changes in user sentiment about the quality or usefulness of our products or concerns related to privacy and sharing, safety, security, or other factors;
- we are unable to manage and prioritize information to ensure users are presented with content that is interesting, useful, and relevant to them;
- there are adverse changes in our products that are mandated by legislation or regulatory authorities;
- technical or other problems prevent us from delivering our products in a rapid and reliable manner or otherwise affect the user experience;
- we adopt policies or procedures related to areas such as sharing or user data that are perceived negatively by our users or the general public; or
- we fail to provide adequate customer service to users, developers, or advertisers;

If we are unable to maintain and increase our user base and user engagement, our revenue, financial results, and future growth potential may be adversely affected.

Our strategy at Grom Social to create new and original content, charge users for that content and attempt to secure advertisers to pay to advertise on our app, could fail to attract or retain users or generate revenue.

Our ability to retain, increase, and engage our user base and to increase our revenue will depend heavily on our ability to create successful new content, both independently and in conjunction with third parties. If new or enhanced content fails to engage users, developers, or advertisers, we may fail to attract or retain users or to generate sufficient revenue, operating margin, or other value to justify our investments, and our business may be adversely affected. In the future, we may invest in new products and initiatives to generate revenue, but there is no guarantee these approaches will be successful. If we are not successful with new approaches to monetization, we may not be able to maintain or grow our revenue as anticipated or recover any associated development costs, and our financial results could be adversely affected.

If we are not able to maintain and enhance our brand, or if events occur that damage our reputation and brand, our ability to expand our user base may be impaired, and our business and financial results may be harmed.

We believe that maintaining and enhancing the Grom Social brand is central to expanding our base of users and advertisers. Many of our new users are referred by existing users, and therefore we strive to ensure that our users remain favorably inclined towards our brand. Maintaining and enhancing our brand will depend largely on our ability to continue to provide age-appropriate, enjoyable, reliable, trustworthy, and innovative content and services, which we may not do successfully. We may introduce new content or terms of service that users do not like, which may negatively affect our brand. Additionally, the actions of third-party developers may affect our brand if users do not have a positive experience using third-party apps and websites integrated with our website. We also may fail to provide adequate customer service, which could erode confidence in

our brand. Our brand may also be negatively affected by the actions of users that are deemed to be hostile or inappropriate to other users, or by users acting under false or inauthentic identities. Maintaining and enhancing our brand may require us to make substantial investments and these investments may not be successful. If we fail to successfully promote and maintain the Grom brand or if we incur excessive expenses in this effort, our business and financial results may be adversely affected.

Our Grom Social platform may be misused by users, despite the safeguards we have in place to protect against such behavior.

Users may be able to circumvent the controls we have in place to prevent abusive, illegal or dishonest activities and behavior on our website, and may engage in such activities and behavior despite these controls. For example, our Grom Social platform could be used to exploit children and to facilitate individuals seeking to engage in improper communications or contact with children. Such potential behavior of such users would injure our other users and would jeopardize the reputation and integrity of our Grom Social platform. Fraudulent users could also post fraudulent profiles or create false or unauthorized profiles on behalf of other, non-consenting parties. This behavior could expose us to liability or lead to negative publicity that could injure the reputation of our Grom Social platform and materially adversely affect our brand.

We could experience system failures or capacity constraints that could negatively impact our Grom Social platform and business.

Our ability to provide reliable service to our users largely depends on the efficient and uninterrupted operation of our Grom Social platform, relying on people, processes, and technology to function effectively. Any significant interruption to, failure of, or security breaches affecting, our Grom Social platform could result in significant expense, a loss of users, and harm to our business and reputation. Interruptions, system failures or security breaches could result from a wide variety of causes, including disruptions to the Internet, malicious attacks or cyber incidents such as unauthorized access, loss or destruction of data (including confidential and/or personal customer information), account takeovers, computer viruses or other malicious code, and the loss or failure of systems over which we have no control. The failure of our Grom Social platform, or the loss of data, could result in disruption to our operations, damage to our reputation and remediation costs, which could individually or in the aggregate adversely affect our business and brand.

Improper access to or disclosure of our users' information, or violation of our terms of service or policies, could harm our reputation and adversely affect our business.

Our efforts to protect the information that our users have chosen to share using Grom Social may be unsuccessful due to the actions of third parties, software bugs or other technical malfunctions, employee error or malfeasance, or other factors. In addition, third parties may attempt to fraudulently induce employees or users to disclose information in order to gain access to our data or our users' data. If any of these events occur, our users' information could be accessed or disclosed improperly. We have a privacy policy that governs the use of information that users have chosen to share using the Grom Social website and how that information may be used by us and third parties. Some third-party developers may store the information provided by our users through apps on the Grom Social platform or websites. If these third parties or developers fail to adopt or adhere to adequate data security practices or fail to comply with our terms and policies, or in the event of a breach of their networks, our users' data may be improperly accessed or disclosed.

Any incidents involving unauthorized access to or improper use of the information of our users or incidents involving violation of our terms of service or policies, including our privacy policy, could damage our reputation and our brand and diminish our competitive position. In addition, the affected users or government authorities could initiate legal or regulatory action against us in connection with such incidents, which could cause us to incur significant expense and liability or result in orders or consent decrees forcing us to modify our business practices. Any of these events could have a material and adverse effect on our business, reputation, or financial results.

We face intense competition in all aspects of our business including competition in the animation and web filtering businesses. If we do not provide features and content that will engage and attract users, advertisers and developers we may not remain competitive, and our potential revenues and operating results could be adversely affected.

We face intense competition in almost every aspect of our business, including from companies such as Facebook, YouTube, Twitter and Google, which offer a variety of Internet products, services, content, and online advertising offerings, as well as from mobile companies and smaller Internet companies that offer products and services that may compete directly with Grom Social for users, such as Yoursphere, Fanlala, Franktown Rocks and Sweet High. As we introduce new services and products, as our existing services and products evolve, or as other companies introduce new products and services, we may become subject to additional competition.

Some of our current and potential competitors have significantly greater resources and better competitive positions than we do. These factors may allow our competitors to respond more effectively than us to new or emerging technologies and changes in market requirements. Our competitors may develop products, features, or services that are similar to ours or that achieve greater market acceptance, may undertake more far-reaching and successful product development efforts or marketing campaigns, or may adopt more aggressive pricing policies. In addition, our users, content providers or application developers may use information shared by our users through Grom Social in order to develop products or features that compete with us. Certain competitors, including Facebook, could use strong or dominant positions in one or more markets to gain a competitive advantage against us in areas where we operate including: by creating a social networking experience similar to ours with similar content and features. As a result, our competitors may acquire and engage users at the expense of the growth or engagement of our user base, which may negatively affect our business and financial results.

We believe that our ability to compete effectively depends upon many factors, including:

- the age appropriateness, attractiveness, safety, ease of use, performance, and reliability of the Grom Social platform, our content and products compared to our competitors;
- the size and composition of our user base;
- the engagement of our users with our products;
- the timing and market acceptance of content, services, and products, including developments and enhancements to our or our competitors' content, services and products;
- our ability to monetize our products, including our ability to successfully monetize mobile usage;
- the frequency, size, and relative prominence of the ads and other commercial content displayed by us or our competitors;
- customer service and support efforts;
- marketing and selling efforts;
- responding to changes mandated by legislation or regulatory authorities, some of which may have a disproportionate effect on us;
- acquisitions or consolidation within our industry, which may result in more formidable competitors;
- our ability to attract, retain, and motivate talented employees, particularly programmers;
- our ability to cost-effectively manage and grow our operations; and
- our reputation and brand strength relative to our competitors.

If we are not able to effectively compete, our user base and level of user engagement may decrease, which could make us less attractive to developers and advertisers and materially and adversely affect our revenue and results of operations.

Failure to manage our growth effectively could cause our business to suffer and have an adverse effect on our financial condition and operating results.

Failure to manage our growth effectively could cause our business to suffer and have an adverse effect on our financial condition and operating results. To manage our growth effectively, we must continually evaluate and evolve our business and manage our employees, operations, finances, technology and development, and capital investments efficiently. Our efficiency, productivity and the quality of our Grom Social platform, animation business and web filtering user services and content may be adversely impacted if we fail to appropriately coordinate across our business operations. Additionally, rapid growth may place a strain on our resources, infrastructure, and ability to maintain the quality of our Grom Social platform. If and when our structure becomes more complex as we add additional staff, we will need to improve our operational, financial and management controls as well as our reporting systems and procedures. Our failure to manage our growth could disrupt our operations and ultimately

prevent us from generating revenues.

We collect, process, share, retain and use personal information and other data, which subjects us to governmental regulations and other legal obligations related to privacy, and our actual or perceived failure to comply with such obligations could harm our business.

A variety of federal, state and foreign laws and regulations govern privacy and the collection, use, retention, sharing and security of personal information. We collect, process, use, share and retain personal information and other user data, including information about our users as they interact with our platform, and we have a privacy policy concerning our use of data on our platform. We are subject to COPPA which regulates the collection, use, and disclosure of personal information from children under 13 years of age. and CIPA, which addresses concerns about children's access to obscene or harmful content over the Internet.

Any failure or perceived failure by us to comply with COPPA, CIPA, or other applicable privacy laws and regulations or with our privacy policy or any compromise of security that results in the unauthorized release or transfer of sensitive information, which may include personally identifiable information or other user data, may result in governmental enforcement actions or litigation, which could be costly to defend and may require us to pay significant fines or damages. Such failures or perceived failures could also result in public statements against us by consumer advocacy groups, our users or others, which could harm our brand and could cause our users, and parents to lose trust in us which in turn could have an adverse effect on our business. Additionally, if third parties we work with, such as advertisers, vendors, content or platform providers, violate applicable laws or our policies, such violations may also put the information of our users at risk and could, in turn, have an adverse effect on our business.

We also are or may become required to comply with varying and complex privacy laws and regulations in multiple jurisdictions, and laws and regulations in foreign jurisdictions are sometimes more restrictive than those in the United States. Complying with these laws as they evolve could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

As a result of our collection, retention, and use of personal data, we are or may become subject to diverse laws and regulations in the United States and foreign jurisdictions mandating notification to affected individuals in the event that personal data (as defined in the various governing laws) is accessed or acquired by unauthorized persons. Complying with such numerous and complex regulations in the event of unauthorized access would be expensive and difficult, and failure to comply with these regulations could subject us to regulatory scrutiny and additional liability.

User trust regarding privacy and data security is very important to our brand and the growth of our business, and privacy or data security concerns relating to our Grom Social platform could damage our reputation and brand and deter current and potential users from using our platform, even if we are in compliance with applicable privacy and data security laws and regulations.

Users may curtail or stop their use of our Grom Social platform if our security measures are compromised, if our platform is subject to attacks that degrade or deny the ability of users to access our platform or if our member data is compromised.

Our Grom Social platform collects, processes, stores, shares, discloses and uses the information of our users and their communications. We are vulnerable to computer viruses, break-ins, phishing attacks, and attempts to overload our servers with denial-of-service and other cyber-attacks and similar disruptions from unauthorized use of our computer systems. Our security measures may also be breached due to employee error, malfeasance or otherwise. Several recent, highly publicized data security breaches and denial of service attacks at other companies have heightened public awareness of this issue and may embolden individuals or groups to target our systems. Any of the foregoing could lead to interruptions, delays or platform shutdowns, causing loss of critical data or the unauthorized disclosure or use of personally identifiable or other confidential or sensitive information, such as credit card information or information about our members. If our security is compromised, we could experience platform performance or availability problems, the complete shutdown of our platform or the loss or unauthorized disclosure of confidential or sensitive information. We could be subject to liability and litigation and reputational harm, and our users may be harmed, lose confidence in us and decrease or terminate the use of our platform.

We also rely on certain third parties to provide critical services and to store sensitive customer information. For example, our platform is hosted using data centers operated by third parties. However, we have little or no control over the security measures implemented by these parties, and if these measures are compromised, we could be exposed to similar risks and liabilities to those described above.

Unauthorized parties may also fraudulently induce employees or members to disclose sensitive information in order to gain access to our information or the information of our members or access this information through other means. They might also abuse our systems in other ways, such as by sending spam, which could diminish or otherwise degrade the experience of our members or by compromising or gaining unauthorized access to member accounts. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and are becoming increasingly sophisticated, they often are not recognized until launched against a target. Furthermore, such attacks may originate from less regulated and remote areas around the world, and we may be unable to proactively address these techniques or to implement adequate preventative measures. Any or all of these issues could negatively impact our ability to attract new members and increase engagement by existing members, cause existing members to stop using our platform or subject us to lawsuits, regulatory fines or other action or liability, thereby harming our business and operating results.

Moreover, if a high-profile security breach occurs with respect to another social media provider, our users and potential users may lose trust in the security of our platform generally, which could adversely impact our ability to retain existing users or attract new ones.

Future business acquisitions, strategic investments or alliances, if any, as well as business acquisition transactions, could disrupt our business and may not succeed in generating the intended benefits and may, therefore, adversely affect our business, revenue and results of operations.

We completed the acquisition of TD Holdings in 2016 and we may in the future explore potential acquisitions of companies or technologies, strategic investments, or alliances to strengthen our business. Acquisitions involve numerous risks, any of which could harm our business, including:

- our due diligence may fail to identify all of the problems, liabilities or other shortcomings or challenges of an acquired business, product or technology, including issues related to intellectual property, product quality or architecture, regulatory compliance practices, or accounting practices or employee issues;
- failure to successfully integrate acquired businesses;
- diversion of management's attention from operating our business to addressing acquisition integration challenges;
- difficulties in coordinating geographically disparate organizations and corporate cultures and integrating management personnel with different business backgrounds;
- anticipated benefits may not materialize;
- retention of employees from the acquired company;
- integration of the acquired company's accounting, management information, human resources, and other administrative systems;
- coordination of product development and sales and marketing functions;
- liability for activities of the acquired company before the acquisition, including patent and trademark infringement, claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, users, former stockholders or other third parties.

Failure to appropriately mitigate these risks or other issues related to such strategic investments and acquisitions could result in reducing or completely eliminating any anticipated benefits of transactions and harm our business generally. Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses or the impairment of goodwill, any of which could harm our business, financial condition, and operating results.

competitors, traffic to our websites could decline.

We depend in part on various internet search websites, such as Google.com, Bing.com, Yahoo.com, and other websites to direct a significant amount of traffic to our websites. Search websites typically provide two types of search results, algorithmic and purchased listings. Algorithmic listings generally are determined and displayed as a result of a set of unpublished formulas designed by search engine companies in their discretion. Purchased listings generally are displayed if particular word searches are performed on a search engine. We rely on both algorithmic and purchased search results, as well as advertising on other internet websites, to direct a substantial share of visitors to our websites and to direct traffic to the advertiser customers we serve. If these internet search websites modify or terminate their relationship with us or we are outbid by our competitors for purchased listings, meaning that our competitors pay a higher price to be listed above us in a list of search results, traffic to our websites could decline. Such a decline in traffic could affect our ability to generate advertising revenue and could reduce the desirability of advertising on our websites.

We may have difficulty scaling and adapting our existing network infrastructure to accommodate increased traffic and technology advances or changing business requirements, which could cause us to incur significant expenses and lead to the loss of users and advertisers.

To be successful, our network infrastructure has to perform well and be reliable. The greater the user traffic and the greater the complexity of our products and services, the more computer power we will need. We could incur substantial costs if we need to modify our websites or our infrastructure to adapt to technological changes. If we do not maintain our network infrastructure successfully, or if we experience inefficiencies and operational failures, the quality of our products and services and our users' experience could decline. Maintaining an efficient and technologically advanced network infrastructure is particularly critical to our business because of the pictorial nature of the products and services provided on our websites. A decline in quality could damage our reputation and lead us to lose current and potential users and advertisers. Cost increases, loss of traffic or failure to accommodate new technologies or changing business requirements could harm our operating results and financial condition.

We are a holding company organized in Florida, with no operations of our own, and we depend on our subsidiaries, incorporated in Hong Kong, Manila and Florida for cash to fund our operations.

Our operations are conducted entirely through our subsidiaries and our ability to generate cash to fund operations or to meet debt service obligations is dependent on the earnings and the receipt of funds from our subsidiaries. Deterioration in the financial condition, earnings or cash flow of TD Holdings and its subsidiaries for any reason could limit or impair their ability to make payments to us. Additionally, to the extent that we need funds and our subsidiaries are restricted from making such distributions under applicable law or regulation or are otherwise unable to provide such funds, it could materially adversely affect our business, financial condition, results of operations or prospects.

Future capital raises may dilute our existing stockholders' ownership and/or have other adverse effects on our operations.

If we raise additional capital by issuing equity securities, our existing stockholders' percentage ownership may decrease, and these stockholders may experience substantial dilution. If we raise additional funds by issuing debt instruments, these debt instruments could impose significant restrictions on our operations, including liens on our assets. If we raise additional funds through collaborations and licensing arrangements, we may be required to relinquish some rights to our technologies or products, or to grant licenses on terms that are not favorable to us or could diminish the rights of our stockholders.

Our intellectual property rights are critical to our success, and the loss of such rights could materially adversely affect our business.

We regard our trademarks, copyrights, and other intellectual property rights as critical to our success and attempt to protect such intellectual property with registered and common law trademarks and copyrights, restrictions on disclosure and other actions to prevent infringement. However, there can be no assurance that other third parties will not infringe or misappropriate our trademarks and similar proprietary rights. If we lose some or all of our intellectual property rights, our business may be materially adversely affected.

We may be subject to claims alleging the intellectual property subject to our licensing agreements is violating the intellectual property rights of others.

We may face significant expense and liability as a result of litigation or other proceedings relating to patents and intellectual property rights of others. We could be required to participate in interference proceedings involving issued patents and pending applications of another entity. The cost to us of any such proceeding could be substantial. An adverse outcome in an interference proceeding could require us to cease using the technology,

substantially modify it or to license rights from prevailing third parties. There is no guarantee that any prevailing patent owner would offer us a license so that we could continue to engage in activities claimed by the patent, or that such a license is made available to us, could be acquired on commercially acceptable terms. In addition, third parties may, in the future, assert other intellectual property infringement claims against us with respect to our services, technologies or other matters.

Risks Related to Grom Nutritional Services

The Company's supplement that it intends to market to children, will be subject FDA regulations.

Although the FDA does not require supplement manufacturers to submit their products to the FDA for review nor receive FDA approval before marketing, companies must ensure they are not making false or misleading claims on the product label. Like other food substances, dietary supplements are not subject to the safety and efficacy testing requirements imposed on drugs, and unlike drugs they do not require prior approval by the FDA; however, they are subject to FDA regulations regarding adulteration and misbranding. In the event we do not properly follow FDA regulation and guidelines we could be subject to regulatory action that would have a material adverse impact on the Company.

Risks Related to Top Draw Animation

Since Top Draw's business operations are located in the Philippines, our results of operations or financial condition could be materially adversely affected by economic or political developments in the Philippines.

Top Draw's business operations are located in the Philippines. As a result, we are subject to certain risks presented by the Philippine economy and regulatory environment. We believe that the Philippine government exercises substantial control over virtually every sector of the Philippine economy through regulations and, in some cases, state-ownership. Our ability to operate Top Draw's business in the Philippines may be harmed by changes in the local laws and regulations, including those relating to employment, taxation, business regulation, intellectual property rights, property, and other matters.

In the event of adverse weather conditions, calamity or epidemic that may occur in the Philippines, the lack of a fully developed infrastructure could have a material adverse impact on Top Draw's business.

The vast majority of Top Draw's employees do not own an automobile and must commute to work using public transportation. Additionally, the power grid in the Philippines is considered substandard compared to developed countries. Any negative event that impacts public transportation or power generation could result in Top Draw's employees not being able to go to the office to perform their work thus potentially delaying projects.

Operating Top Draw in the Philippines subjects us to challenges and risks unique to operating a business in the Philippines and if we are unable to manage those challenges and risks, the growth of our business could be limited, and our business could suffer.

Operating Top Draw in the Philippines subjects us to a number of risks and challenges that specifically relate to our Philippine operations. Our Philippine operations may not be successful if we are unable to meet and overcome these challenges, which could limit the growth of our business and may have an adverse effect on our revenue and operating results. These risks and challenges include:

- difficulties and costs of staffing and managing foreign operations, including any impairment to our relationship with employees caused by the change in ownership;
- restrictions imposed by local labor practices and laws on our business and operations;

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- exposure to different business practices and legal standards;
 - unexpected changes in regulatory requirements;
 - the imposition of government controls and restrictions;
 - political, social and economic instability and the risk of war, terrorist activities or other international incidents;

- the failure of telecommunications and connectivity infrastructure;
- natural disasters and public health emergencies;
- potentially adverse tax consequences; and
- lack of intellectual property protection.

Although we report our results of operations in U.S. dollars, approximately 89.0% of our revenue is currently denominated in foreign currencies. We do not hedge against currency fluctuations and unfavorable fluctuations in foreign currency exchange rates. Such fluctuations could have a material adverse effect on our results of operations.

Because our consolidated financial statements are presented in U.S. dollars, we must translate our Top Draw's revenues, expenses, and income, as well as assets and liabilities, into U.S. dollars at exchange rates in effect during or at the end of each reporting period. Therefore, changes in the value of the U.S. dollar against other currencies will affect our revenues, operating income and the value of balance-sheet items, including intercompany payables and receivables, originally denominated in other currencies. These changes cause our growth in consolidated earnings stated in U.S. dollars to be higher or lower than our growth in other currencies when compared against other periods.

An increase in the value of other currencies, against the U.S. dollar could increase costs for delivery of our digital animation services by increasing labor and other costs that are denominated in other currencies. Conversely, a decrease in the value of other currencies, against the U.S. dollar could place us at a competitive disadvantage compared to service providers that benefit to a greater degree from such a decrease and can, as a result, deliver services at a lower cost.

Historically, Top Draw's business has been reliant and concentrated upon a limited number of key clients, the loss of any one of which could have a material adverse effect on Top Draw's and our revenue and financial condition.

During the year ended December 31, 2020, Top Draw accounted for approximately 89.0% of our consolidated revenue. During the same period, three of Top Draw's clients accounted for approximately 68.5% of our consolidated revenue. Although the relative percentages by client may change from quarter to quarter, the reliance upon a limited number of clients is not expected to change for the foreseeable future. As a result, a decrease in business or revenue from any one or more of these key clients could materially negatively impact Top Draw's and our revenue, results of operation, and financial condition.

The success of Top Draw, and consequently our success, depends on certain key employees.

The success of Top Draw, and consequently our success depends to a significant extent on the performance of certain senior management personnel and other key employees. In particular, we are dependent upon the services of Wayne Dearing and Stella Dearing to operate and manage Top Draw. The loss of the services of Wayne or Stella Dearing could have a material adverse effect on our business, revenue, and results of operations.

In order for our digitally animated content and related products to be successful, we must develop appealing creative content.

The success of each digitally animated feature developed and produced by Top Draw depends in large part upon our ability to develop and produce compelling stories and characters that will appeal to our target audience. Traditionally, this process has been extremely difficult. While we believe Top Draw has enjoyed success with its digitally animated features, there can be no assurance that similar levels of success will be achieved by Top Draw's subsequent features and our other future projects.

We expect to experience intense competition with respect to Top Draw's digitally animated features and related content.

We expect that Top Draw's digitally animated features will compete with family-oriented, animated and live-action feature films and other family-oriented entertainment products produced by major movie studios, including Disney, DreamWorks Animation SKG, Inc., Warner Bros. Entertainment, Sony Pictures Entertainment, Fox Entertainment Group Inc., Paramount Pictures, Lucasfilm Ltd., Universal Studios, Inc., MGM/UA, and Studio Ghibli as well as numerous other independent motion picture production companies.

We believe competition from animated feature films and family-oriented feature films will likely continue to intensify over the next several years.

Some of the other movie studios with which we compete have significantly greater financial, marketing and other resources than we do. In addition to the box office and home video competition, other family-oriented features and films will compete with Top Draw Animation's digital features.

If we are not able to produce digital features and content that can compete successfully with offerings from our competitors, it could have a material adverse impact on our business, revenue, and results of operations.

Risks Related to Our Common Stock

We do not anticipate paying any cash dividends on our common stock in the foreseeable future; therefore, capital appreciation, if any, of our common stock, will be your sole source of gain for the foreseeable future.

We have never declared or paid cash dividends on our common stock. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business. In addition, future loan arrangements, if any, may contain, terms prohibiting or limiting the amount of dividends that may be declared or paid on our common stock. As a result, capital appreciation, if any, of our common stock, will be your sole source of gain for the foreseeable future.

Our Board may authorize and issue shares of new classes of stock that could be superior to or adversely affect you as a holder of our common stock.

Our Board has the power to authorize and issue shares of classes of stock, including preferred stock that have voting powers, designations, preferences, limitations and special rights, including preferred distribution rights, conversion rights, redemption rights and liquidation rights without further shareholder approval which could adversely affect the rights of the holders of our common stock. In addition, our Board could authorize the issuance of a series of preferred stock that has greater voting power than our common stock or that is convertible into our common stock, which could decrease the relative voting power of our common stock or result in dilution to our existing shareholders. Also, our Board has discretion to effect a reverse stock split of the issued and outstanding shares of the Company's common stock, by a ratio of no less than 1-for-2 and no more than 1-for-25, with the exact ratio to be determined by the Board in its sole discretion, which may have a dilutive effect on shareholders' holdings.

Any of these actions could significantly adversely affect the investment made by holders of our common stock. Holders of common stock could potentially not receive dividends that they might otherwise have received. In addition, holders of our common stock could receive less proceeds in connection with any future sale of the Company, whether in liquidation or on any other basis.

The voting and conversion rights of our issued and outstanding shares of Series B Stock will have the effect of diluting the voting power of existing common stockholders.

Our authorized capital stock includes 25,000,000 shares of preferred stock, of which 2,000,000 shares are designated as Series A Stock and 10,000,000 shares are designated as Series B Stock. As of the date hereof, no shares of our Series A Stock and 9,215,059 shares of Series B Stock are issued and outstanding. The holders of our outstanding shares of Series B Stock may at any time, after the 12-month anniversary of the issuance of their shares of Series B Stock, convert each such shares into shares of our common stock at a conversion price equal to the 30-day volume weighted average price ("VWAP") of a share of common stock. In addition, the Company may, at any time, require conversion of all or any of the Series B Stock then outstanding at a 50% discount to the 30-day VWAP. The conversion of shares of our Series B Stock will dilute your interests. The 30-day VWAP of our common stock for the period ended April 12, 2021 was \$0.148566. Therefore, if all of the outstanding shares of our Series B Stock were converted as of April 12, 2021, we would have 62,026,519 additional shares of common stock issued and outstanding.

In addition, the holders of shares of our Series B Stock vote together as a single class with the holders of shares of our common stock, with each share entitling the holder to 50 votes per share. Therefore, as of the date hereof, the holders of our 9,215,059 shares of Series B Stock have an aggregate of 460,752,950 votes, representing 70.8% of our voting power.

The effects of the voting and conversion rights tied to shares of our Series B Stock may affect the rights of our common stockholders by, among other things, restricting dividends on our common stock, diluting the voting power of our common stockholders, reducing the market price of our common stock, or impairing the liquidation rights of our common stock.

Substantial future sales of shares of our common stock could cause the market price of our common stock to decline.

The market price of shares of our common stock could decline as a result of substantial sales of our common stock, particularly sales by our

directors, executive officers and significant stockholders, a large number of shares of our common stock becoming available for sale or the perception in the market that holders of a large number of shares intend to sell their shares.

Our shares will be subordinate to all of our debts and liabilities, which increases the risk that you could lose your entire investment.

Our shares are equity interests that will be subordinate to all of our current and future indebtedness with respect to claims on our assets. In any liquidation, all of our debts and liabilities must be paid before any payment is made to our shareholders.

The market price of our shares of common stock is subject to fluctuation.

The market prices of our shares may fluctuate significantly in response to factors, some of which are beyond our control, including:

- The announcement of new products by our competitors
- The release of new products by our competitors
- Developments in our industry or target markets
- General market conditions including factors unrelated to our operating performance

Recently, the stock market, in general, has experienced extreme price and volume fluctuations. Continued market fluctuations could result in extreme market volatility in the price of our shares of common stock which could cause a decline in the value of our shares.

There is currently a limited trading market for our shares.

There is currently only a limited trading market for our common stock. We cannot predict the extent investor interest will lead to the development of an active trading market or how liquid that trading market might become. If an active trading market does not develop or is not sustained, it may be difficult for investors to sell shares of our common stock at a price that is attractive or at all. In such a case, you may find that you are unable to achieve any benefit from your investment or liquidate your shares.

Our stock is a penny stock. Trading of our stock may be restricted by the SEC's penny stock regulations which may limit a shareholder's ability to buy and sell our stock.

The SEC has adopted a number of rules to regulate "penny stock" that restricts transactions involving stock which is deemed to be penny stock. These rules may have the effect of reducing the liquidity of penny stocks. "Penny stocks" generally are equity securities with a price of less than \$5.00 per share (other than securities registered on certain national securities exchanges or quoted on Nasdaq if current price and volume information with respect to transactions in such securities is provided by the exchange or system). Our shares of common stock constitute, "penny stock" within the meaning of the rules. The additional sales practice and disclosure requirements imposed upon U.S. broker-dealers may discourage such broker-dealers from effecting transactions in shares of our common stock, which could severely limit the market liquidity of such shares of common stock and impede their sale in the secondary market.

A U.S. broker-dealer selling penny stock to anyone other than an established customer or "accredited investor" (generally, an individual with a net worth in excess of \$1,000,000 or an annual income exceeding \$200,000, or \$300,000 together with his or her spouse) must make a special suitability determination for the purchaser and must receive the purchaser's written consent to the transaction prior to sale, unless the broker-dealer or the transaction is otherwise exempt. In addition, the "penny stock" regulations require the U.S. broker-dealer to deliver, prior to any transaction involving a "penny stock", a disclosure schedule prepared in accordance with SEC standards relating to the "penny stock" market, unless the broker-dealer or the transaction is otherwise exempt. A U.S. broker-dealer is also required to disclose commissions payable to the U.S. broker-dealer and the registered representative and current quotations for the securities. Finally, a U.S. broker-dealer is required to submit monthly statements disclosing recent price information with respect to the "penny stock" held in a customer's account and information with respect to the limited market in "penny stocks".

Stockholders should be aware that, according to the SEC, the market for "penny stocks" has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) "boiler room" practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after

prices have been manipulated to a desired level, resulting in investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities.

Our officers, directors and principal stockholders own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.

Our directors, executive officers and significant stockholders have substantial control over us and could delay or prevent a change in corporate control. Our directors, executive officers and holders of more than 5% of our common stock, together with their affiliates, will beneficially own, in the aggregate, 32.1% of our outstanding common stock, based on 190,284,001 shares outstanding as of April 12, 2021. As a result, these shareholders, acting together, would have the ability to control the outcome of matters submitted to our shareholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, would have the ability to control the management and affairs of our company. Accordingly, this concentration of ownership might adversely affect the market price of our common stock by:

- impeding a merger, consolidation, takeover, or other business combination involving us; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of the company.

The market price for our common stock is particularly volatile given our status as a relatively unknown company with a small and thinly traded public float, and lack of profits, which could lead to wide fluctuations in our share price.

The market for our common stock is characterized by significant price volatility when compared to the shares of larger, more established companies that have large public floats, and we expect that our share price will continue to be more volatile than the shares of such larger, more established companies for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common stock is, compared to the shares of such larger, more established companies, sporadically and thinly traded. The price for our common stock could, for example, decline precipitously in the event that a large number of our common stock is sold on the market without commensurate demand. Secondly, we are a speculative or “risky” investment due to our lack of profits to date. As a consequence of this enhanced risk, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares of common stock on the market more quickly and at greater discounts than would be the case with the stock of a larger, more established company that has a large public float. Many of these factors are beyond our control and may decrease the market price of our common stock regardless of our operating performance.

If and when a larger trading market for our common stock develops, the market price of our common stock is still likely to be highly volatile and subject to wide fluctuations.

The market price of our common stock may be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond our control, including, but not limited to:

- variations in our revenues and operating expenses;
- actual or anticipated changes in the estimates of our operating results or changes in stock market analyst recommendations regarding our common stock, other comparable companies or our industry generally;
- market conditions in our industry, the industries of our customers and the economy as a whole;
- actual or expected changes in our growth rates or our competitors’ growth rates;
- developments in the financial markets and worldwide or regional economies;
- announcements of innovations or new products or services by us or our competitors;

- announcements by the government relating to regulations that govern our industry;
- sales of our common stock or other securities by us or in the open market;
- changes in the market valuations of other comparable companies; and
- other events or factors, many of which are beyond our control, including those resulting from such events, or the prospect of such events, including war, terrorism and other international conflicts, public health issues including health epidemics or pandemics, such as the recent outbreak of COVID-19, and natural disasters such as fire, hurricanes, earthquakes, tornados or other adverse weather and climate conditions, whether occurring in the United States or elsewhere, could disrupt our operations, disrupt the operations of our suppliers or result in political or economic instability.

In addition, if the market for technology stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or operating results. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry, even if these events do not directly affect us. Each of these factors, among others, could harm the value of your investment in our common stock. In the past, following periods of volatility in the market, securities class-action litigation has often been instituted against companies. Such litigation, if instituted against us, could result in substantial costs and diversion of management's attention and resources, which could materially and adversely affect our business, operating results and financial condition.

Risks Related to Covid-19

The uncertainty and extent of the Covid-19 pandemic may continue to have an adverse effect on our operations and on the global capital markets.

The current outbreak of Covid-19 could continue to have a material and adverse effect on the Company's business operations. These could include disruptions or restrictions on the Company's ability to travel or to distribute its products, as well as temporary closures of production facilities. Any such disruption or delay would likely impact our sales and operating results. In addition, Covid-19 has resulted in a widespread health crisis that could adversely affect the economies and financial markets of many other countries, resulting in an economic downturn that could affect demand for our products and significantly impact our operating results.

As the result of current restrictions put in place to address COVID-19, we have limited access to our corporate and Manila offices, cannot efficiently and fully access our data and records, and many of our corporate and administrative staff is required to work remotely, disrupting interactions among our staff, with our customers and suppliers, and with our accountants, consultants and advisors. The extent to which our results continue to be affected by COVID-19 will largely depend on future developments which cannot be accurately predicted, including the duration and scope of the pandemic, governmental and business responses to the pandemic and the impact on the global economy, demand for our products, and our ability to provide our products, particularly as result of our employees working remotely and/or the closure of certain offices and production facilities. While these factors are uncertain, the COVID-19 pandemic or the perception of its effects could continue to have a material adverse effect on our business, financial condition, results of operations, or cash flows.

We may not be entitled to forgiveness of our recently received PPP Loans, and our application for the PPP Loans could in the future be determined to have been impermissible or could result in damage to our reputation.

On May 3, 2020 and May 14, 2020, we received proceeds of \$127,958 and \$100,954, respectively, from loans under the Paycheck Protection Program of the CARES Act, a portion of which may be forgiven, which we used to retain current employees, maintain payroll and make lease and utility payments. The PPP Loans mature on May 3, 2022 and May 14, 2022, respectively, and bear annual interest at a rate of 1.0%. Commencing on the date that is the latter of (i) the date that is the 10th month after the end of the Company's PPP Loans covered period (as described below) and (ii) assuming the Company has applied for PPP Loans forgiveness within the period described in clause (i), the date on which SBA remits the loan forgiveness amount on the Company's PPP Loans to the PPP lender (or notifies such lender that no loan forgiveness is allowed), we are required to pay the lender equal monthly payments of principal and interest as required to fully amortize by May 3, 2022 and May 14, 2022, respectively, any principal amount outstanding on the PPP Loans as of November 1, 2022 and November 12, 2020, respectively. A portion of the PPP Loans may be forgiven by the SBA upon our application and upon documentation of expenditures in accordance with the SBA requirements. Under the CARES Act, loan forgiveness is available for the sum of documented payroll costs, covered rent payments, covered mortgage interest and covered utilities

during the twenty-four week period or, if elected by the Company, the eight week period beginning on the date of the loan is advanced. Not more than 40% of the forgiven amount may be for non-payroll costs. The amount of the PPP Loans eligible to be forgiven may be limited due to declines in headcount, whether voluntary or involuntary, or if salaries and wages for employees with salaries of \$100,000 or less annually are reduced by more than 25% as compared to the period of January 1, 2020 through March 31, 2020. We will be required to repay any portion of the outstanding principal that is not forgiven, along with accrued interest, in accordance with the amortization schedule described above, and we cannot provide any assurance that we will be eligible for loan forgiveness, that we will ultimately apply for forgiveness, or that any amount of the PPP Loans will ultimately be forgiven by the SBA.

In order to apply for the PPP Loan, we were required to certify, among other things, that the current economic uncertainty made the PPP Loan request necessary to support our ongoing operations. We made this certification in good faith after analyzing, among other things, our financial situation and access to alternative forms of capital, and believe that we satisfied all eligibility criteria for the PPP Loan, and that our receipt of the PPP Loan is consistent with the broad objectives of the Paycheck Protection Program of the CARES Act. The certification described above does not contain any objective criteria and is subject to interpretation. On April 23, 2020, the SBA issued guidance stating that it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith. The lack of clarity regarding loan eligibility under the Paycheck Protection Program has resulted in significant media coverage and controversy with respect to public companies applying for and receiving loans. If, despite our good-faith belief that given our Company's circumstances we satisfied all eligible requirements for the PPP Loan, we are later determined to have violated any of the laws or governmental regulations that apply to us in connection with the PPP Loan, such as the False Claims Act, or it is otherwise determined that we were ineligible to receive the PPP Loan, we may be subject to penalties, including significant civil, criminal and administrative penalties and could be required to repay the PPP Loan in its entirety. In addition, receipt of a PPP Loan may result in adverse publicity and damage to reputation, and a review or audit by the SBA or other government entity or claims under the False Claims Act could consume significant financial and management resources. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease approximately 2,100 square feet of office space as our principal executive offices in Boca Raton, Florida for approximately \$4,000 per month pursuant to a three-year lease expiring on September 30, 2021.

Our animation business leases portions of three floors comprised of an 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. We currently pay approximately \$24,000 per month for such space (which increases by approximately 5% per year). These leases expire in December 2022.

Our web filtering business leases approximately 1,400 square feet in Norcross, Georgia, for approximately \$2,100 per month pursuant to a five-year lease which expires in December 2023. The lease payments increase by approximately 3% annually.

We believe our leased space for the present time is adequate and additional space at comparable prices is available at all locations.

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings to which we are a party or in which any director, officer or affiliate of ours, any owner of record or beneficially of more than 5% of any class of our voting securities, or security holder is a party adverse to us or has a material interest adverse to us.

ITEM 4. MINE SAFETY DISCLOSURES

None

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our shares of our common stock are quoted on the OTCQB under the symbol "GRMM." Such quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and do not necessarily represent actual transactions.

The last reported sales price of our common stock on the OTCQB on April 12, 2021, was \$0.19.

Holders

As of April 12, 2021, there were 533 shareholders of record of our common stock.

Dividends

We have never declared or paid any cash dividends on our common stock. We intend to retain future earnings, if any, to finance the expansion of our business. As a result, the Company does not anticipate paying any cash dividends in the foreseeable future.

Securities Authorized for Issuance Under Equity Compensation Plan

The following table provides information regarding our equity compensation plans as of December 31, 2020:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	–	–	–
Equity compensation plans not approved by security holders ⁽¹⁾	12,382,350(1)	\$ 0.48	–

(1) Represents (i) options to purchase an aggregate of 9,984,600 shares of common stock issued to officers and employees for services provided to the Company at exercise prices between \$0.24 and \$0.78 and (ii) options to purchase an aggregate of 2,397,750 shares of common stock issued to consultants and contractors for services provided to the Company at exercise prices between \$0.24 and \$0.78.

Unregistered Sales of Equity Securities

Except as set forth below, there were no sales of equity securities during the period covered by this Annual Report that were not registered under the Securities Act and were not previously reported in a Quarterly Report on Form 10-Q or a Current Report on Form 8-K filed by the Company.

On October 14, 2020, the Company issued 1,535,507 shares of common stock to a noteholder upon the conversion of \$52,861 in convertible note principal and \$1,527 of accrued interest.

On December 1, 2020, the Company issued 295,441 shares of common stock to a contractor for technology design services provided to the Company.

On December 21, 2020, the Company issued 79,297 shares of common stock to a contractor for technology design services provided to the Company.

The above issuances did not involve any underwriters, underwriting discounts or commissions, or any public offering and we believe are exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) thereof and/or Regulation D promulgated thereunder. The investors represented to us that they were accredited investor and were acquiring the shares for investment purposes only and not with a view to, or for sale in connection with, any distribution thereof and that they could bear the risks of the investment.

ITEM 6. SELECTED FINANCIAL DATA

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The following discussion and analysis should be read in conjunction with our financial statements and the related notes thereto. The management's discussion and analysis contain forward-looking statements, such as statements of our plans, objectives, expectations, and intentions. Any statements that are not statements of historical fact are forward-looking statements. When used, the words "believe," "plan," "intend," "anticipate," "target," "estimate," "expect" and the like, and/or future tense or conditional constructions ("will," "may," "could," "should," etc.), or similar expressions, identify certain of these forward-looking statements. These forward-looking statements are subject to risks and uncertainties, including those under "Risk Factors," which appear in elsewhere in this Annual Report, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of several factors. We do not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Annual Report.

Overview

We were incorporated under the laws of the State of Florida on April 14, 2014, as Illumination America, Inc.

Effective August 17, 2017, we acquired Grom Holdings pursuant to the terms of the Share Exchange Agreement entered into on May 15, 2017. In connection with the Share Exchange, the Company issued an aggregate of 110,853,883 shares of its common stock to the Grom Holdings stockholders, pro rata to their respective ownership percentage of Grom Holdings. Each share of Grom Holdings was exchanged for 4.17 shares of our common stock. As a result, the stockholders of Grom Holdings owned approximately 92% of the Company's issued and outstanding shares of common stock at such time.

In connection with the Share Exchange, we changed our name from Illumination America, Inc. to "Grom Social Enterprises, Inc."

We are a media, technology and entertainment company that focuses on delivering content to children under the age of 13 years in a safe secure platform that is compliant with COPPA and can be monitored by parents or guardians. We operate our business through the following four wholly-owned subsidiaries:

- Grom Social was incorporated in the State of Florida on March 5, 2012 and operates our social media network designed for children under the age of 13 years.
- TD Holdings was incorporated in Hong Kong on September 15, 2005. TD Holdings operates through its two wholly-owned subsidiaries: (i) Top Draw HK and (ii) Top Draw Philippines. The group's principal activities are the production of animated films and television series.
- GES was incorporated in the State of Florida on January 17, 2017. GES operates our web filtering services provided to schools and government agencies.
- GNS was incorporated in the State of Florida on April 19, 2017. GNS intends to market and distribute nutritional supplements to children. GNS has not generated any revenue since its inception.

Impact of COVID-19

The Company has experienced significant disruptions to its business and operations due to circumstances related to COVID-19, and as a result of delays caused government-imposed quarantines, office closings and travel restrictions, which affect both the Company's and its service providers. The Company has significant operations in Manila, Philippines, which was locked down by the government on March 12, 2020 due to concerns related to the spread of COVID-19. As a result of the Philippines government's call to contain COVID-19, the Company's animation studio, located in Manila, Philippines, which accounts for approximately 89% of the Company's total revenues on a consolidated basis, has been closed.

Recent Events

Series B Preferred Stock Designation

On August 4, 2020, the Company filed a Certificate of Designation of Preferences, Rights and Limitations of Series B Stock with the Secretary of State of the State of Florida designating 10,000,000 shares as Series B Stock. The Series B Stock ranks senior and prior to all other classes or series of the Company's preferred stock and common stock.

The holder may at any time after the 12-month anniversary of the issuance of the shares of Series B Stock convert such shares into common stock at a conversion price equal to the 30-day volume weighted average price ("VWAP") of a share of common stock for each share of Series B Stock to be converted. In addition, the Company at any time may require conversion of all or any of the Series B Stock then outstanding at a 50% discount to the 30-day VWAP.

Each share of Series B Stock entitles the holder to fifty votes for each share of Series B Stock. The consent of the holders of at least two-thirds of the shares of Series B Stock is required for the amendment to any of the terms of the Series B Stock, to create any additional class of stock unless the stock ranks junior to the Series B Stock, to make any distribution or dividend on any securities ranking junior to the Series B Stock, to merge or sell all or substantially all of the assets of the Company or acquire another business or effectuate any liquidation of the Company. Cumulative dividends accrue on each share of Series B Stock at the rate of 8% per annum of the stated value of \$1.00 per share and are payable in common stock in arrears quarterly commencing 90 days from issuance.

Upon a liquidation, dissolution or winding up of the Company, the holders of the Series B Stock are entitled to \$1.00 per share plus all accrued and unpaid dividends. No distribution may be made to holders of shares of capital stock ranking junior to the Series B Stock upon a liquidation until Series B stockholders receive their liquidation preference. The holders of 66 2/3% of the then outstanding shares of Series B Stock, may elect to deem a merger, reorganization or consolidation of the Company into or with another corporation, not affiliated with said majority, or other similar transaction or series of related transactions in which more than 50% of the voting power of the Company is disposed of in exchange for property, rights or securities distributed to holders thereof by the acquiring person, firm or other entity, or the sale of all or substantially all of the assets of the Company.

Discretionary Reverse Stock Split

On September 14, 2020, the Board approved and on September 16, 2020, the shareholders approved the granting of authority to the Board to amend the Company's articles of incorporation to effect the Reverse Split at such time and date, if at all, as determined by the Board in its sole discretion.

Series B Stock Purchases

On August 2, 2020, November 30, 2020, February 17, 2021, and March 31, 2021, the Company entered into subscription agreements with accredited investors pursuant to which the Company sold an aggregate of 250,000 shares, 233,500 shares, 300,000 shares, and 650,000 shares of Series B Stock for aggregate gross proceeds of \$250,000, \$233,500, \$300,000, and \$650,000, respectively.

On August 6, 2020, the Company, entered into debt exchange agreements (the “Debt Exchange Agreements”) with holders of the Company’s (a) 10% convertible notes in the aggregate amount of \$411,223 of outstanding principal and accrued and unpaid interest; (b) 12% secured convertible notes, which were secured against the assets of TD Holdings, in the aggregate amount of \$1,101,000 of outstanding principal and accrued and unpaid interest; and (iii) 12% secured convertible notes, which were secured against all of the other assets of the Company in the aggregate amount of \$782,500 of outstanding principal and accrued and unpaid interest (collectively, the “Exchange Notes”). Pursuant to the terms of the Debt Exchange Agreements, the holders of the Exchange Notes exchanged the outstanding Exchange Notes, and all amounts owed by the Company thereunder, for an aggregate of 3,623,884 shares of the Company’s newly designated 8% Series B convertible preferred stock (the “Series B Stock”). At the time of the exchange, all amounts due under the Exchange Notes were deemed to be paid-in-full and the Exchange Notes were cancelled.

In addition, on August 6, 2020, the Company entered into exchange agreements (the “Series A Exchange Agreements” and together with the Debt Exchange Agreements, the “Exchange Agreements”) with the holders of 925,000 issued and outstanding shares of the Company’s Series A Stock. Pursuant to the terms of the Series A Exchange Agreements, the holders of Series A Stock exchanged their shares for an aggregate of 1,202,500 shares of the Company’s Series B Stock. At the time of the exchange, all of the exchanged shares of Series A Preferred Stock were cancelled.

November 2020 Exchange Agreements

On November 30, 2020, the Company, entered into Debt Exchange Agreements with holders of two of the Company’s convertible promissory notes in the aggregate amount of \$200,000 of outstanding principal and accrued and unpaid interest. The holders of the notes exchanged the outstanding notes, and all amounts owed by the Company thereunder for an aggregate of 316,000 shares of Series B Stock. At the time of the exchange, all amounts due under the notes were deemed to be paid in full and the notes were cancelled.

February 2021 Exchange Agreements

On February 17, 2021, the Company, entered into Debt Exchange Agreements with holders of three of the Company’s convertible promissory notes in the aggregate amount of \$1,700,905 of outstanding principal and accrued and unpaid interest. The holders of the notes exchanged the outstanding notes, and all amounts owed by the Company thereunder for an aggregate of 2,564,175 shares of Series B Stock. At the time of the exchange, all amounts due under the notes were deemed to be paid in full and the notes were cancelled.

In connection with the execution and delivery of the Exchange Agreements, the holders of the notes and the Series A stockholders executed and delivered proxies to Darren Marks and Melvin Leiner, both officers and directors of the Company, granting each of them the power to vote all their shares in the Company for a period of two years. As a result, Messrs. Marks and Leiner, collectively, have an aggregate of 528,756,135, votes, or 81.2% of the voting capital of the Company.

EMA Financial Financing

On November 30, 2020, the Company entered into a securities purchase agreement with EMA Financial, LLC, a Delaware limited liability company (“EMA”), pursuant to which the Company issued EMA a nine-month 8% convertible promissory note in the principal amount of \$260,000 (the “EMA Note”) for a \$234,000 investment. The term of the EMA Note may be extended by EMA up to an additional year. EMA also has the right to purchase an additional nine-month convertible promissory note on the same terms.

If the Company fails to maintain the listing and trading and of its common stock, or does not comply with the SEC reporting obligations, such failure will result in liquidated damages of \$15,000 payable to EMA, at its election, in cash or an additional EMA Note.

EMA will have the right of first refusal to participate in future financings of the Company to the extent that such participation would not result in EMA and its affiliates beneficially owning more than 4.99% of the Company’s outstanding shares of common stock. If future financings of the Company have more favorable terms than the EMA Note, EMA will be entitled to such favorable terms. Failure to timely notify EMA of a financing will result in liquidated damages of \$1,000 per day in cash, or, at the option of EMA, as additional EMA Note principal.

EMA has piggyback registration rights for shares issuable upon conversion of the EMA Note. Failure to register EMA’s shares will result in liquidated damages of 50% of the outstanding principal amount of the EMA Note, but not less than \$25,000, payable to EMA, at its election, in cash or additional EMA Note principal.

If the Company engages in capital raising transactions, EMA may compel the Company to redeem up to 25% of the outstanding balance of the EMA Note from the gross proceeds of such transaction, or 100%, if such financing is \$1,000,000 or greater.

EMA is entitled to liquidated damages of \$250 for each business day that the delivery of unlegended shares is not timely made and, if the delivery is late for an aggregate of 30 days during any 360-day period, EMA may require the Company to redeem such shares at a price per share as set forth in the EMA Note.

If delivery of the common stock issuable upon conversion the EMA Note is not timely made, the Company will pay EMA \$250 per day in cash or, at the option of EMA, as additional EMA Note principal.

The Company's performance and payment obligations under the EMA Note are jointly and severally guaranteed by the Company's subsidiaries.

If the EMA Note is not paid when due, it will bear interest at 24% per annum until paid.

The EMA Note is convertible into common stock of the Company at any time after 180 days from issuance, provided that no such conversion would result in beneficial ownership by EMA and its affiliates of more than 4.99% of the Company's outstanding shares of common stock.

The conversion price of the EMA Note is equal to the lower of: (i) \$0.06 per share, or (ii) 70% of the lowest trading price of the common stock during the ten consecutive trading days including and immediately preceding the conversion date. If an event of default as described in the EMA Note has occurred, EMA may elect to use a conversion price equal to the lower of: (i) the lowest traded price of the common stock on the trading day immediately preceding the date of issuance of the EMA Note, or (ii) 70% of either the lowest traded price or the closing bid price. The conversion price of the EMA Note is subject to adjustment in the event of stock distributions, subdivisions, combinations, splits or reclassifications. The conversion price is also subject to a 15% discount if the Company's common stock is chilled for DTC deposit or for certain other trading restrictions if the Company ceases to be a reporting company, or the EMA Note cannot be converted into free trading shares after 181 days from the issuance date.

If in connection with a merger, consolidation, exchange of shares, recapitalization, reorganization, or other similar event, shares are changed into the same or a different number of shares of another class of stock or securities of the Company or another entity, or in case of any sale or conveyance of substantially all of the assets of the Company, EMA has the right to receive, in lieu of common stock, such securities or assets which EMA would have been entitled to receive if the EMA Note been converted in full immediately prior to such transaction.

If the Company makes a distribution of its assets to its common shareholders as a dividend, stock repurchase, or otherwise, EMA is entitled, to receive the amount of such assets which would have been payable to EMA with respect to shares issuable upon such conversion had such shares been converted.

If the Company issues convertible securities or rights to purchase securities or other property pro rata to its shareholders, EMA will be entitled to acquire such securities or rights upon the same terms as if the EMA Note had been converted.

The Company pay prepay the EMA Note at any time until 180 days following the date of issuance of the EMA Note at a 105% premium if prior to 30 days, 115% if from 31 days through 60 days, 120% if from 61 days through 90 days, 125% if from 91 days through 120 days; 130% if from 121 days through 159 days; 135% if from 151 days through 180 days following the date of issuance of the EMA Note.

The EMA Note contains certain negative covenants, including restricting the Company from certain distributions, stock repurchases, borrowing, sale of assets, loans and exchange offers.

Upon the occurrence of an event of default as described in the EMA Note, the Note will become immediately due and payable at a default interest rate of 125% of the then outstanding principal amount of the EMA Note plus any other default interest or amounts owing to EMA or the parity value of common stock as calculated in accordance with the terms of the EMA Note.

Quick Capital Financing

On December 17, 2020, the Company entered into a note purchase agreement with Quick Capital, LLC, a Wyoming limited liability company ("Quick Capital"), pursuant to which the Company issued Quick Capital a nine-month convertible promissory note in the principal amount of \$113,587 (the "Quick Note") for a \$100,000 investment, which included an original issuance discount of 8% and a \$4,500 credit for Quick Capital's

transaction expenses. In connection with the Note issuance, Quick Capital was also issued a three-year warrant (the “Quick Warrant”) to purchase up to an aggregate of 1,183,197 shares of the Company’s common stock at an exercise price of \$0.05 per share (the “Quick Warrant Shares”).

Quick Capital is entitled to a cash payment of \$25,000 as liquidated damages for any failure to include all shares issuable upon the conversion of the Quick Note and the exercise of the Quick Warrant on any registration statement filed with the SEC. For twelve months following the issuance of the Quick Note, Quick Capital will have the right of first refusal to participate in future financings proposed to the Company by bonafide third parties on the same terms as such third party. If the Company receives cash proceeds, the Quick Capital has the right to require that such proceeds be used to repay outstanding amounts under the Quick Note.

The Company must use its best efforts to uplist its common stock to Nasdaq or the New York Stock Exchange within 90 days of the issuance of the Quick Note.

The Quick Note may be prepaid in whole or in part, subject to a 10% premium if prepaid in the first 60 days of the term of the Quick Note and a 30% premium thereafter.

The Quick Note may be converted into shares of common stock at (i) a 30% discount to the lowest price per share of any debt or securities offering by the Company if the Company’s common stock is listed on Nasdaq or NYSE within 90 days of the Quick Note issuance; (ii) the lesser of (A) \$0.04 or (B) a 30% discount to the average of the two lowest closing prices during the ten trading days prior to the conversion date; (iii) \$0.04 per share, upon an event of default as described in the Quick Note. If delivery of conversion shares is not timely made, the Company is obligated to pay Quick Capital \$2,000 for each day that the delivery is late as liquidated damages. The conversion price of the Quick Note will be reduced if the Company issues common stock or grants derivative securities for consideration at a price less than the conversion price to the amount of the consideration of such dilutive issuance.

If the Company makes a distribution of its assets, Quick Capital will be entitled to receive the amount of such assets which would have been payable had Quick Capital been the holder of such shares on the record date for such distribution. If the Company issues convertible securities or rights to purchase securities or other property pro rata to its common shareholders, Quick Capital will be entitled to acquire such securities or rights upon the same terms as if Quick Capital had converted the Quick Note.

The Quick Note also contains certain restrictive covenants limiting the Company’s ability to repurchase its securities, incur debt, sell its assets, make loans, or engage in exchange offers.

If the Company receives cash proceeds from any source, Quick Capital has the right to require the Company to apply such proceeds to repay outstanding amounts owed under the Quick Note.

If an event of default (as described in the Quick Note) occurs, the Quick Note will become immediately due and payable in an amount equal to (i) 150% of the then outstanding principal amount of the Quick Note plus any other default interest or amounts owing to Quick Capital or (ii) the parity value of common stock as calculated in accordance with the terms of the Quick Note.

Quick Capital is entitled to the same terms of future financings of the Company that are more favorable than the terms of the Quick Note.

The Quick Warrant provides, among other things, that if the Quick Warrant Shares are not timely delivered, the Company will be obligated to pay \$3,000 per day as liquidated damages. If there is no effective registration statement covering the Quick Warrant Shares, Quick Capital may exercise the Quick Warrant on a cashless basis in accordance with the terms of the Quick Warrant. The exercise price and number of Quick Warrant Shares are subject to adjustment in the event of certain corporate actions as described in the Quick Warrant, including stock dividends, distributions, stock splits and dilutive issuances. Upon the occurrence of certain fundamental transactions including mergers, the sale of all of the Company’s assets and tender offers, Quick Capital will be entitled to alternative consideration related to those transactions.

The Quick Note may not be converted and the Quick Warrant may not be exercised if after giving effect to such conversion or exercise, as the case may be, Quick Capital and its affiliates would beneficially own more than 4.99% of the outstanding common stock of the Company.

Auctus Fund Financing

On February 9, 2021, the Company entered into a securities purchase agreement (the “Auctus Purchase Agreement”) with Auctus Fund, LLC, a Delaware limited liability company (“Auctus”), pursuant to which the Company issued Auctus a one-year convertible promissory note in the

principal amount of \$500,000 which accrues interest at 12% per annum (the “Auctus Note”) for proceeds of \$428,000 (after deducting fees and expenses related to the transaction). Auctus was also issued a five-year warrant (the “Auctus Warrant”) to purchase 6,250,000 shares of the Company’s common stock, at an exercise price of \$0.06 per share (the “Auctus Warrant Shares”).

The Company granted Auctus piggyback registration rights with respect to the shares underlying the Auctus Note and the Auctus Warrant. In addition, the Company agreed that, while any amount remains unpaid under the Auctus Note, it would not sell securities on more favorable terms than those provided to Auctus, without adjusting Auctus’ terms accordingly. Further, among other things, the Company agreed that, while any amount remains unpaid under the Auctus Note, it would not enter into any variable rate transactions.

In the event the Company fails to pay any amount when due under the Auctus Note, the interest rate will increase to the greater of 16%, or the maximum amount permitted by law. The Auctus Note may not be prepaid. Auctus may convert any amount due under the Auctus Note at any time and its affiliates into shares of common stock at a conversion price of \$0.06 per share; provided, that no such conversion would result in Auctus beneficially owning in excess of 4.99% of the Company’s then outstanding common stock. The conversion price and number of shares issuable upon conversion of the Auctus Note will be subject to adjustment for any subdivision or consolidation of shares and other dilutive events.

Auctus may not exercise the Auctus Warrant with respect to any number of Auctus Warrant Shares that would cause it to beneficially own in excess of 4.99% of the Company’s common stock. The Auctus Warrant may be exercised for cash, or, if the “market price” of the Company’s common stock is greater than the Auctus Warrant’s exercise price, and there is not an effective registration statement covering the Auctus Warrant Shares, the Auctus Warrant may be exercised on a cashless basis. The number of Warrant Shares is subject to adjustment for subdivision or consolidation of shares and other dilutive events, or in the event the Company effects a reorganization, reclassification, merger, consolidation, disposition of assets, or other fundamental transaction.

FirstFire Global Financing

On March 11, 2021 the Company entered into a securities purchase agreement (the “FirstFire Purchase Agreement”) with FirstFire Global Opportunities Fund, LLC, a Delaware limited liability company (“FirstFire”), pursuant to which the Company issued to FirstFire a one-year 12% convertible promissory note in the principal amount of \$300,000 (the “FirstFire Note”). In connection with the issuance of the FirstFire Note, FirstFire was also issued a five-year warrant (the “FirstFire Warrant”) to purchase up to an aggregate of 3,750,000 shares of the Company’s common stock (the “FirstFire Warrant Shares”), at an exercise price of \$0.06 per share. The net proceeds received by the Company were \$270,000, after deducting an original issue discount in the amount of \$30,000.

In the event the Company fails to pay any amount when due under the FirstFire Note, the interest rate will increase to the lesser of 20%, or the maximum amount permitted by law. At any time while the FirstFire Warrant Shares are subject to an effective registration statement, or, if no registration statement covering the FirstFire Warrant Shares is effective, at any time after 180 days from the date of issuance, FirstFire may convert any amount due under the FirstFire Note into shares of the Company’s common stock (“FirstFire Conversion Shares”) at a conversion price of \$0.06 per share; provided, however, that, if an event of default exists, the conversion price will be the lesser of (i) \$0.03 per share, or (ii) 70% of the lowest trading price of the Company’s common stock during the ten consecutive trading days prior to the conversion. FirstFire may not convert any portion of the FirstFire Note of the FirstFireWarrant that would cause it and its affiliates to beneficially own in excess of 4.99% of the Company’s common stock (which may be waived, up to 9.99%, by FirstFire upon 61 days' prior notice to the Company). The conversion price and number of shares of the Company’s common stock issuable upon conversion of the FirstFire Note will be subject to adjustment in the event of any merger, consolidation, distribution of shares, or other dilutive issuances.

The FirstFire Warrant may be exercised for cash, or, if there is not an effective registration statement covering the FirstFire Warrant Shares, on a cashless basis. The exercise price and number of Warrant Shares is subject to adjustment for subdivision or consolidation of shares, or other dilutive issuances.

Pursuant to the FirstFire Purchase Agreement, the Company agreed that, while any of the FirstFire Note, the FirstFire Conversion Shares, the FirstFire Warrants, or the FirstFire Warrant Shares remain outstanding, it would not sell securities on more favorable terms than those provided to FirstFire without adjusting FirstFire’s securities to incorporate those more favorable terms.

FirstFire has a right of first refusal to participate in sale of the Company’s securities for a period of 18 months and mandatory registration rights with respect to the FirstFire Conversion Shares and the FirstFire Warrant Shares.

Curiosity Ink Media Letter of Intent

On April 1, 2021, the Company entered into a binding letter of intent with Curiosity Ink Media, LLC, a California limited liability company (“Curiosity”), Russell Hicks (“Hicks”), Brent Watts (“Watts”), and the other members of Curiosity (collectively, the “Sellers”), pursuant to which the Company agreed to acquire an aggregate of 80% of Curiosity’s membership interests (the “80% Membership Interests”) from the Sellers, on a pro rata basis, for a purchase price of \$3,678,000, of which: (i) \$400,000 is payable in cash, to be used to pay down a portion of loans made to Curiosity by Hicks and Watts; (ii) \$3,000,000 is payable in shares of the Company’s common stock, valued at a price per share equal to the 20-day volume-weighted average price of the Company’s common stock; and (iii) \$278,000 is payable by the issuance to Hicks and Watts of 8% convertible promissory notes payable in equal monthly installments, on an amortized basis over 18 months. The Sellers will have the opportunity to receive up to an additional \$2,000,000 in acquisition consideration, paid in shares of the Company’s common stock, based upon the successful execution of certain specified contracts and/or material agreements. The Sellers will also have the opportunity to receive an additional \$17,500,000 in purchase consideration, paid 50% in cash and 50% in shares of the Company’s common stock, based upon achieving certain performance milestones through December 31, 2023. The Company has the exclusive right to acquire the 80% Membership Interests through June 30, 2021. The consummation of the acquisition is contingent upon the parties entering into a definitive agreement and other closing conditions.

Results of Operations

For the years ended December 31, 2020 and December 31, 2019

Revenue

Revenue for the year ended December 31, 2020 was \$6,159,531, compared to revenue of \$8,296,997 during the year ended December 31, 2019, representing a decrease of \$2,137,466 or 25.8%.

Animation revenue for the year ended December 31, 2020 was \$5,483,332, compared to animation revenue of \$7,565,672 during the year ended December 31, 2019, representing a decrease of \$2,082,340 or 27.5%. The decrease in animation revenue is primarily attributable to the decline in the overall number of contracts completed, and client delays to the timing and production of certain animation projects due to concerns related to the spread of COVID-19.

Web filtering revenue for the year ended December 31, 2020 was \$673,182, compared to web filtering revenue of \$723,800 during the year ended December 31, 2019, representing a decrease of \$50,618 or 7.0%. The decrease is primarily due to a decline in organic sales growth, and the timing or loss of multi-year contract renewals.

Subscription and advertising revenue from our Grom Social website, Grom Social mobile application and MamaBear safety mobile application have been nominal. Subscription and advertising revenue for the year ended December 31, 2020 was \$3,017 compared to subscription and advertising revenue of \$7,525 during the year ended December 31, 2019, representing a decrease of \$4,508 or 59.9%, primarily attributable to a decrease in marketing and promotion activities.

Gross Profit

Our gross profits vary significantly by subsidiary. Historically, our animation business has realized gross profits between 45% and 55%, while our web filtering business has realized gross profits between 75% and 90%. Additionally, our gross profits may vary from period to period due to the nature of the business of each subsidiary, and the timing and volume of customer contracts and projects. Current gross margins percentages may not be indicative of future gross margin performance.

Gross profit for the years ended December 31, 2020 and 2019 were \$2,806,891, or 45.6%, and \$3,686,036, or 44.4%, respectively. The decrease in gross profit is primarily attributable to the higher percentage of web filtering revenue to total revenue when compared to the prior year, and higher contract margins realized in our animation business.

Operating Expenses

Operating expenses for the year ended December 31, 2020 were \$6,188,689, compared to operating expenses of \$6,664,933 during the year ended December 31, 2019, representing a decrease of \$476,244 or 7.2%. The decrease is primarily attributable to a decrease in general and administrative expenses and professional services fees resulting from reduced investor relations services and general cost cutting efforts undertaken by the Company. General and administrative expenses were \$4,462,095 for the year ended December 31, 2020, compared to \$5,140,100 for the year ended

December 31, 2019, representing a decrease of \$678,005 or 13.2%. Professional fees were \$623,014 for the year ended December 31, 2020, compared to \$908,093 for the year ended December 31, 2019, representing a decrease of \$285,079 or 31.4%. At December 31, 2020, we performed our annual impairment tests as prescribed by ASC 350 on the carrying value of our goodwill and recorded an impairment charge totaling \$472,757; of which \$420,257 was attributed to the assets of Fyoosion LLC acquired in 2017 and \$52,500 was attributed to the assets of Bonnie Boat and Friends acquired in 2018.

Other Income (Expense)

Net other expense for the year ended December 31, 2020 was \$2,585,662, compared to a net other expense of \$1,577,002 for the year ended December 31, 2019, representing an increase of \$1,008,660 or 64.0%. The increase in net other expense is primarily attributable to the loss recorded on the extinguishment of debt realized through the conversion of convertible promissory notes into shares of our Series B Stock.

Interest expense is comprised of interest accrued and paid on our convertible notes and recorded from the amortization of note discounts. Interest expense was \$1,398,731 for the year ended December 31, 2020, compared to \$1,705,123 during the year ended December 31, 2019, representing a decrease of \$306,392 or 18.0%. The decrease is attributable to servicing lower levels of debt and recording lower amortization expense on note discounts during the year ended December 31, 2020.

During the year ended December 31, 2020, we recorded extinguishment losses of \$1,312,983 related to the conversion of approximately \$2.6 million of convertible promissory notes into 3,939,884 shares of our Series B preferred stock. During the year ended December 31, 2019, we recorded an extinguishment loss of \$363,468 related to the amendment of our \$4,000,000 promissory note issued with our acquisition of TD Holdings. During the year ended December 31, 2019, we also recorded gains of \$429,000 related to the change in fair value of contingent consideration and \$45,521 related to the settlement of certain accounts payable.

Net Loss Attributable to Common Stockholders

We realized a net loss attributable to common stockholders of \$6,020,933, or \$0.03 per share, for the year ended December 31, 2020, compared to a net loss attributable to common stockholders of \$5,332,173, or \$0.04 per share, during the year ended December 31, 2019 representing an increase in net loss attributable to common stockholders of \$688,760 or 12.9%.

Liquidity and Capital Resources

At December 31, 2020, we had cash and cash equivalents of \$120,300.

Net cash used in operating activities for the year ended December 31, 2020 was \$1,223,148, compared to net cash used in operating activities of \$1,697,185 during the year ended December 31, 2019 representing a decrease in cash used of \$474,037. The primary reason for the decrease was due to a change in operating assets and liabilities.

Net cash used in investing activities for the year ended December 31, 2020 was \$574,512, compared to net cash used in investing activities of \$292,911 during the year ended December 31, 2019 representing an increase in cash used of \$281,601. This change is attributable to an increase in the amount of fixed assets purchased and leasehold improvements made by our animation studio in Manilla, Philippines during the year ended December 31, 2020.

Net cash provided by financing activities for the year ended December 31, 2020 was \$1,375,559, compared to net cash provided by financing activities of \$1,807,143 for the year ended December 31, 2019 representing a decrease in cash provided of \$431,584. The decrease is attributable to an increase in the repayment of debt during the year ended December 31, 2020. Our primary sources of cash from financing activities were attributable to \$3,655,000 in proceeds from the sale of 12% senior secured convertible notes and \$483,500 in proceeds from the sale of our Series B Stock in private offerings during the year ended December 31, 2020 as compared to \$1,420,000 in proceeds from the sale of preferred and common stock in private offerings during the year ended December 31, 2019. On March 16, 2020, the Company repaid \$3,000,000 in principal due to the former shareholders of TD Holdings Limited on a convertible note originally dated September 20, 2016.

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 annually. In order to fund our operations for the next twelve months, we believe that we will need to raise \$2,000,000. Historically, we have funded our operations through sales of equity, debt issuances and officer loans. We currently have no commitment from any investment banker or other traditional funding sources and no definitive agreement with any third party to provide us with financing, either debt or equity, and there can be no

assurances that we will be able to raise additional funds, or if we are successful, on favorable terms. Future equity sales may result in dilution to current shareholders and debt may have negative covenants. In addition, the COVID-19 pandemic has had and may continue to have an adverse effect on the capital markets and our ability to raise additional funding. 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.

Going Concern

The accompanying consolidated financial statements have been prepared assuming we will continue as a going concern, which contemplates 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, we have incurred significant operating losses since inception and have a working capital deficit. Because we do not expect that existing operational cash flow will be sufficient to fund presently anticipated operations, this raises substantial doubt about our ability to continue as a going concern. Therefore, we will need to raise additional funds and are currently exploring sources of financing. Historically, we have raised capital through private offerings of debt and equity and officer loans to finance working capital needs. There can be no assurances that we will be able to continue to raise additional capital through the sale of common stock or other securities or obtain short-term loans.

We will need approximately \$2,000,000 to operate and execute our business plan for the next twelve months. Because we do not expect that existing operational cash flow will be sufficient to fund presently anticipated operations, this raises substantial doubt about our ability to continue as a going concern. Therefore, we will need to raise additional funds and are currently exploring alternative sources of financing. Historically, we have raised capital through private offerings of debt and equity and officer loans to finance working capital needs. There can be no assurances that we will be able to continue to raise additional capital through the sale of common stock or other securities or obtain short-term loans.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. 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. We base our 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

The Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The guidance provided in Accounting Standards Codification ("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.

Animation Revenue

Animation revenue is primarily generated from contracts with customers for preproduction and production services related to the development of animated movies and television series. Preproduction activities include producing storyboards, location design, model and props design, background

color and color styling. Production focuses on library creation, digital asset management, background layout scene assembly, posing, animation and after effects. We provide services under fixed-price contracts. Under fixed-price contracts, we agree to perform the specified work for a pre-determined price. To the extent actual costs vary from estimated costs, our profit may increase, decrease, or result in a loss.

We identify a contract under ASC 606 once (i) it is approved by all parties, (ii) the rights of the parties are identified, (iii) the payment terms are identified, (iv) the contract has commercial substance, and (v) 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 standalone 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 made towards completion of the performance obligation. We use the percentage-of-completion cost-to-cost measure of progress because it best depicts the transfer of control to the customer as we incur costs against its 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. The percentage-of-completion cost-to-cost method requires management to make estimates and assumptions that affect the reported amounts of contract 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 the total estimated amount of costs that will be incurred for a project or job.

Web Filtering Revenue

Web filtering revenue from subscription sales is recognized on a pro-rata basis over the subscription period. Typically, a subscriber purchases computer hardware and a software and support service license for a period of use between one year to five years. The subscriber is billed in full at the time of the sale. We immediately recognize revenue attributable to the computer hardware as it is non-refundable and control passes to the customer. The advanced billing component for software and service is initially recorded as deferred revenue and subsequently recognized as revenue on a straight-line basis over the subscription period.

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 December 31, 2020 and December 31, 2019. We use 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.

We determine 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, we reassess our 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.

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 our 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. Our amortizable intangible assets consist of customer relationships and non-compete agreements. Their useful lives range from 1.5 to 10 years. Our 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. We perform an annual impairment assessment for goodwill and indefinite-lived assets 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, we determine 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, we rely 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, our risk relative to the overall market, our 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.

Indefinite-lived intangible assets are evaluated for impairment at the individual asset level by assessing whether it is more likely than not that the asset is impaired (for example, that the fair value of the asset is below its carrying amount). If it is more likely than not that the asset is impaired, its carrying amount is written down to its fair value.

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 our 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 us to perform an impairment test prior to scheduled annual impairment tests.

We performed our annual fair value assessment at December 31, 2020 on our subsidiaries with material goodwill and intangible asset amounts on their respective balance sheets and determined that an impairment charge of \$472,757 was necessary.

Long-Lived Assets

We evaluate the recoverability of our 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.

We evaluated the recoverability of our long-lived assets at December 31, 2020, respectively on its subsidiaries with material amounts on their respective balance sheets and determined that no impairment exists.

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 except as noted below:

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). ASU 2017-04 simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under this pronouncement, an entity would perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and would recognize an impairment change for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized is not to exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects will be considered, if applicable. ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and should be applied on a prospective basis.

On November 15, 2019, the FASB issued ASU 2019-10, which (1) provides a framework to stagger effective dates for future major accounting standards and (2) amends the effective dates for certain major new accounting standards to give implementation relief to certain types of entities. Specifically, ASU 2019-10 amends the effective date for ASU 2017-04 to fiscal years beginning after December 15, 2022, and interim periods therein.

Early adoption continues to be permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not anticipate the adoption of ASU 2017-04 will have a material impact on its financial statements for both annual and interim reporting periods.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)* which enhances and simplifies various aspects of the income tax accounting guidance, including requirements such as tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. The amendment will be effective for public companies with fiscal years beginning after December 15, 2020; early adoption is permitted. We are evaluating the impact of this amendment on our consolidated financial statements.

In February 2020, the FASB issued ASU 2020-02, *Financial Instruments-Credit Losses (Topic 326) and Leases (Topic 842) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)* which amends the effective date of the original pronouncement for smaller reporting companies. ASU 2016-13 and its amendments will be effective for us for interim and annual periods in fiscal years beginning after December 15, 2022. We believe the adoption will modify the way we analyze financial instruments, but we do not anticipate a material impact on results of operations. We are in the process of determining the effects adoption will have on our consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815 – 40)*, (“ASU 2020-06”). ASU 2020-06 simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity’s own equity. The ASU2020-06 amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is evaluating the impact of this guidance on its consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**GROM SOCIAL ENTERPRISES, INC.
INDEX TO FINANCIAL STATEMENTS**

	<u>Page</u>
<u>Report of Independent Registered Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2020 and 2019</u>	F-3
<u>Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2020 and 2019</u>	F-4
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2020 and 2019</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2020 and 2019</u>	F-8
<u>Notes to the Consolidated Financial Statements</u>	F-9

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of Grom Social Enterprises, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Grom Social Enterprises, Inc. (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Going Concern Uncertainty

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred significant operating losses since inception and has a working capital deficit which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BF Borgers CPA PC

We have served as the Company's auditor since 2015.
Lakewood, CO
April 13, 2021

F-2

GROM SOCIAL ENTERPRISES, INC.
Consolidated Balance Sheets
At December 31, 2020 and 2019

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 120,300	\$ 506,219
Accounts receivable, net	587,932	545,662
Inventory, net	48,198	29,562
Prepaid expenses and other current assets	386,165	329,128
Total current assets	1,142,595	1,410,571
Operating lease right of use assets	602,775	874,159
Property and equipment, net	965,109	852,145
Goodwill	8,380,504	8,853,261
Intangible assets, net	5,566,339	5,953,255
Deferred tax assets, net -- noncurrent	531,557	238,581
Other assets	76,175	79,065
Total assets	<u>\$ 17,265,054</u>	<u>\$ 18,261,037</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$	1,126,114	\$	808,520
Accrued liabilities		1,794,232		1,651,482
Advanced payments and deferred revenues		967,053		627,082
Convertible notes -- current		2,349,677		4,828,656
Derivative liabilities		–		77,584
Loans payable -- current		189,963		–
Related party payables		143,741		462,137
Income taxes payable		102,870		–
Lease liabilities -- current		304,326		263,252
Total current liabilities		<u>6,977,976</u>		<u>8,718,713</u>
Convertible notes, net of loan discounts		897,349		505,000
Lease liabilities		328,772		633,098
Loans payable		95,931		–
Other noncurrent liabilities		367,544		227,229
Total liabilities		<u>8,667,572</u>		<u>10,084,040</u>
Commitments and contingencies		–		–
Stockholders' Equity:				
Series A preferred stock, \$0.001 par value. 10,000,000 shares authorized; zero and 925,000 shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively		–		925
Series B preferred stock, \$0.001 par value. 8,000,000 shares authorized; 5,625,884 and zero shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively		5,626		–
Common stock, \$0.001 par value. 500,000,000 shares authorized; 188,354,282 and 167,382,807 shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively		188,355		167,383
Additional paid-in capital		64,234,749		58,154,730
Accumulated earnings (deficit)		(55,791,914)		(50,048,481)
Accumulated other comprehensive income		(39,334)		(97,560)
Total stockholders' equity		<u>8,597,482</u>		<u>8,176,997</u>
Total liabilities and equity	\$	<u>17,265,054</u>	\$	<u>18,261,037</u>

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

F-3

GROM SOCIAL ENTERPRISES INC.
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended December 31, 2020 and 2019

	Year Ended December 31, 2020	Year Ended December 31, 2019
Sales	\$ 6,159,531	\$ 8,296,997
Cost of goods sold	<u>3,352,640</u>	<u>4,610,961</u>
Gross margin	2,806,891	3,686,036
Operating expenses:		
Depreciation and amortization	449,379	435,649
Selling and marketing	118,844	116,291
General and administrative	4,462,095	5,140,100
Professional fees	623,014	908,093
Stock based compensation	62,600	64,800
Impairment charge	<u>472,757</u>	<u>–</u>

Total operating expenses	6,188,689	6,664,933
Loss from operations	(3,381,798)	(2,978,897)
Other income (expense)		
Interest expense, net	(1,398,731)	(1,705,123)
Derivative expense	–	(42,140)
Loss on settlement of debt	(1,312,983)	(363,468)
Unrealized gain on change in fair value of derivative liabilities	77,584	7,826
Other gains or income	48,468	525,903
Total other income (expense)	(2,585,662)	(1,577,002)
Loss before income taxes	(5,967,460)	(4,555,899)
Provision for income taxes (benefit)	(224,027)	35,375
Net loss	(5,743,433)	(4,591,274)
Convertible preferred stock beneficial conversion feature and other discounts accreted as a deemed dividend	(277,500)	(740,899)
Net loss attributable to common stockholders	<u>\$ (6,020,933)</u>	<u>\$ (5,332,173)</u>
Basic and diluted earnings (loss) per common share	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>
Weighted-average number of common shares outstanding:		
Basic and diluted	180,182,382	147,441,651
Comprehensive loss:		
Net loss	\$ (5,743,433)	\$ (4,591,274)
Foreign currency translation adjustment	58,226	55,694
Comprehensive loss	<u>\$ (5,685,207)</u>	<u>\$ (4,535,580)</u>

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

F-4

GROM SOCIAL ENTERPRISES, INC.
Consolidated Statement of Changes in Shareholders' Equity
For the Years Ended December 31, 2020 and 2019

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Value	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 loss	–	–	–	–	–	–	–	(4,591,274)	–	(4,591,274)
Change in foreign currency translation	–	–	–	–	–	–	–	–	55,694	55,694
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	–	–	–	–	5,450,000	5,450	539,550	–	–	545,000
Issuance of common stock in exchange for consulting, professional and other services	–	–	–	–	3,877,516	3,877	774,534	–	–	778,411
Issuance of common stock in lieu of cash for loans payable and other accrued obligations	–	–	–	–	1,707,690	1,708	587,732	–	–	589,440

GROM SOCIAL ENTERPRISES, INC.
Consolidated Statement of Changes in Shareholders' Equity (continued)
For the Years Ended December 31, 2020 and 2019

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Value	Shares	Value	Shares	Value				
Issuance of common stock in connection with the issuance of convertible notes	–	–	–	–	160,260	160	32,258	–	–	32,418
Issuance of common stock in connection with the amendment of terms of promissory notes	–	–	–	–	800,000	800	219,200	–	–	220,000
Conversion of convertible notes and accrued interest into common stock	–	–	–	–	12,208,686	12,209	2,775,990	–	–	2,788,199
Recognition of beneficial conversion features related to convertible notes	–	–	–	–	–	–	51,730	–	–	51,730
Balance, December 31, 2019	<u>925,000</u>	<u>\$ 925</u>	<u>–</u>	<u>\$ –</u>	<u>167,382,807</u>	<u>\$ 167,383</u>	<u>\$ 58,154,730</u>	<u>\$ (50,048,481)</u>	<u>\$ (97,560)</u>	<u>\$ 8,176,997</u>
Net loss	–	–	–	–	–	–	–	(5,743,433)	–	(5,743,433)
Change in foreign currency translation	–	–	–	–	–	–	–	–	58,226	58,226
Exchange of Series A preferred stock for Series B preferred stock	(925,000)	(925)	1,202,500	1,202	–	–	(277)	–	–	–
Accretion of Series B preferred stock	–	–	–	–	–	–	277,500	–	–	277,500
Deemed dividend on accretion of Series B preferred stock	–	–	–	–	–	–	(277,500)	–	–	(277,500)
Issuance of Series B preferred stock with common stock in connection with sales made under										

private offerings	–	–	483,500	484	–	–	483,016	–	–	483,500
Exchange of convertible notes and accrued interest for Series B preferred stock	–	–	3,939,884	3,940	–	–	3,935,944	–	–	3,939,884

F-6

GROM SOCIAL ENTERPRISES, INC.
Consolidated Statement of Changes in Shareholders' Equity (continued)
For the Years Ended December 31, 2020 and 2019

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Value	Shares	Value	Shares	Value				
Issuance of common stock as compensation to employees, officers and/or directors	–	–	–	–	420,000	420	35,180	–	–	35,600
Issuance of common stock in exchange for consulting, professional and other services	–	–	–	–	6,487,706	6,488	572,157	–	–	578,645
Issuance of common stock in lieu of cash for accounts payable, loans payable and other accrued obligations	–	–	–	–	500,000	500	49,500	–	–	50,000
Issuance of common stock in connection with the issuance of convertible notes	–	–	–	–	10,869,677	10,870	725,144	–	–	736,014
Issuance of common stock warrants in connection with the issuance of convertible notes	–	–	–	–	–	–	63,991	–	–	63,991

Conversion of convertible notes and accrued interest into common stock	-	-	-	-	2,694,092	2,694	107,743	-	-	110,437
Recognition of beneficial conversion features related to convertible notes	-	-	-	-	-	-	107,621	-	-	107,621
Balance, December 31, 2020	-	\$ -	5,625,884	\$ 5,626	188,354,282	\$ 188,355	\$ 64,234,749	\$ (55,791,914)	\$ (39,334)	\$ 8,597,487

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

F-7

GROM SOCIAL ENTERPRISES INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019

	Year Ended December 31, 2020	Year Ended December 31, 2019
Cash flows from operating activities of continuing operations:		
Net income (loss)	\$ (5,743,433)	\$ (4,591,274)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	848,463	863,994
Amortization of debt discount	629,790	638,626
Provision for doubtful accounts	(35,341)	41,985
Provision for excess or obsolete inventory	-	-
Common stock issued for financing costs	167,614	32,418
Common stock issued in exchange for fees and services	578,645	778,411
Deferred taxes	(292,976)	11,252
Derivative expense	-	42,140
Impairment charge	472,757	-
Stock based compensation	62,600	64,800
Loss on extinguishment of debt	1,312,983	363,468
Unrealized (gain) loss on change in fair value of contingent consideration	-	(429,000)
Unrealized (gain) loss on change in fair value of derivative liabilities	(77,584)	(7,826)
Changes in operating assets and liabilities:		
Accounts receivable	(6,929)	535,846
Inventory	(18,636)	(20,544)
Prepaid expenses and other current assets	(84,037)	55,912
Operating lease right of use assets	30,247	22,406
Other assets	2,891	35,536
Accounts payable	317,524	153,075
Accrued liabilities	347,514	762,909
Advanced payments and deferred revenues	339,970	(493,146)

Income taxes payable and other noncurrent liabilities	243,185	(38,665)
Related party payables	(318,395)	(519,508)
Net cash provided by (used in) operating activities	(1,223,148)	(1,697,185)
Cash flows from investing activities:		
Purchase of fixed assets	(574,512)	(292,911)
Net cash provided by (used in) financing activities	(574,512)	(292,911)
Cash flows from financing activities:		
Proceeds from issuance of preferred stock, net of issuance costs	483,500	411,151
Proceeds from issuance of common stock, net of issuance costs	–	1,058,849
Proceeds from issuance of convertible notes	4,143,500	600,000
Proceeds from loans payable	303,912	–
Repayments of convertible notes	(3,537,335)	(262,857)
Repayments of loans payable	(18,018)	–
Net cash provided by (used in) financing activities	1,375,559	1,807,143
Effect of exchange rates on cash and cash equivalents	36,182	55,579
Net increase (decrease) in cash and cash equivalents	(385,919)	(127,374)
Cash and cash equivalents at beginning of period	506,219	633,593
Cash and cash equivalents at end of period	\$ 120,300	\$ 506,219
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 420,802	\$ 521,408
Cash paid for income taxes	\$ –	\$ –
Supplemental disclosure of non-cash investing and financing activities:		
Common stock issued for financing costs incurred in connection with convertible notes	\$ 568,400	\$ –
Common stock issued to reduce accounts payable and other accrued liabilities	\$ 50,000	\$ 589,440
Common stock warrants issued in connection with convertible notes	\$ 33,056	\$ –
Conversion of convertible debentures and accrued interest into common stock	\$ 110,436	\$ 3,788,199
Discount for beneficial conversion features on convertible notes	\$ 107,621	\$ 51,730
Discount related to fair value of derivative liabilities associated with convertible notes	\$ –	\$ 43,270

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

GROM SOCIAL ENTERPRISES, INC.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

1. NATURE OF OPERATIONS

Grom Social Enterprises, Inc. (the “Company”, “Grom” “we”, “us” or “our”), a Florida corporation f/k/a Illumination America, Inc. (“Illumination”), is a media, technology and entertainment company that focuses on delivering content to children under the age of 13 years in a safe secure platform that is compliant with the Children’s Online Privacy Protection Act (“COPPA” and can be monitored by parents or guardians.

The Company operates its business through the following four wholly-owned subsidiaries:

- Grom Social, Inc. (“Grom Social”) was incorporated in the State of Florida on March 5, 2012 and operates the Company’s social media network designed for children under the age of 13 years.
- TD Holdings Limited (“TD Holdings”) was incorporated in Hong Kong on September 15, 2005. TD Holdings operates through its two subsidiary companies: (i) Top Draw Animation Hong Kong Limited (“TDAHK”), a Hong Kong corporation and (ii) Top Draw Animation,

Inc. (“Top Draw” or “TDA”), a Philippines corporation. The group’s principal activities are the production of animated films and televisions series.

- Grom Educational Services, Inc. (“GES”) was incorporated in the State of Florida on January 17, 2017. GES operates the Company’s web filtering services provided to schools and government agencies.
- Grom Nutritional Services, Inc. (“GNS”) was incorporated in the State of Florida on April 19, 2017. GNS intends to market and distribute nutritional supplements to children. GNS has not generated any revenue since its inception.

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 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.

Because the Company does not expect that existing operational cash flow will be sufficient to fund presently anticipated operations, this 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 obtaining some short-term loans in order to fund its operations.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) and are expressed in United States dollars. For the years ended December 31, 2020 and 2019, the consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Grom Social, TD Holdings, GES, and GNS. All intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. 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

The Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The guidance provided in Accounting Standards Codification (“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.

Animation Revenue

For years ended December 31, 2020 and 2019, the Company recorded a total of \$5,483,332 and \$7,565,672, respectively, of animation revenue from contracts with customers.

Animation revenue is primarily generated from contracts with customers for preproduction and production services related to the development of animated movies and television series. Preproduction activities include producing storyboards, location design, model and props design, background color and color styling. Production focuses on library creation, digital asset management, background layout scene assembly, posing, animation and after effects. The Company provides services under fixed-price contracts. Under fixed-price contracts, the Company agrees to perform the specified work for a pre-determined price. To the extent actual costs vary from estimated costs, the Company's profit may increase, decrease, or result in a loss.

The Company identifies a contract under ASC 606 once (i) it is approved by all parties, (ii) the rights of the parties are identified, (iii) the payment terms are identified, (iv) the contract has commercial substance, and (v) collectability of consideration is probable.

The Company evaluates 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 the Company's 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 standalone selling prices for all of these distinct components. Accordingly, our contracts are typically accounted for as containing multiple performance obligations.

The Company determines the transaction price for each contract based on the consideration it expects to receive for the distinct services being provided under the contract.

The Company recognizes revenue as performance obligations are satisfied and the customer obtains control of the services. In determining when performance obligations are satisfied, the Company considers factors such as contract terms, payment terms and whether there is an alternative future use of the product or service. Substantially all of the Company's revenue is recognized over time as it performs 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.

F-10

For performance obligations recognized over time, revenue is recognized based on the extent of progress made towards completion of the performance obligation. The Company uses the percentage-of-completion cost-to-cost measure of progress because it best depicts the transfer of control to the customer as the Company incurs costs against its 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. The percentage-of-completion cost-to-cost method requires management to make estimates and assumptions that affect the reported amounts of contract 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 the total estimated amount of costs that will be incurred for a project or job.

Web Filtering Revenue

For years ended December 31, 2020 and 2019, the Company recorded a total of \$673,182 and \$723,800, respectively, of web filtering revenue from contracts with customers.

Web filtering revenue from subscription sales is recognized on a pro-rata basis over the subscription period. Typically, a subscriber purchases computer hardware and a software and support service license for a period of use between one year to five years. The subscriber is billed in full at the time of the sale. The Company immediately recognizes revenue attributable to the computer hardware as it is non-refundable and control passes to the customer. The advanced billing component for software and service is initially recorded as deferred revenue and subsequently recognized as revenue on a straight-line basis over the subscription period.

Contract Assets and Liabilities

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. Revenues from web filtering contracts are all billed in advance and therefore represent contract liabilities until fully recognized on a ratable basis over the contract life.

The following table depicts the composition of our contract assets and liabilities as of December 31, 2020 and 2019:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Animation contract assets	\$ 525,709	\$ 513,388
Web filtering contract assets	54,886	24,937
Other contract assets	7,337	7,337
Total contract assets	<u>\$ 587,932</u>	<u>\$ 545,662</u>
Animation contract liabilities	\$ 410,709	\$ 51,054
Web filtering contract liabilities	544,844	564,528
Other contract liabilities	11,500	11,500
Total contract liabilities	<u>\$ 967,053</u>	<u>\$ 627,082</u>

For the years ended December 31, 2020 and 2019, the Company recorded \$51,054 and \$380,749, respectively, in animation revenue and \$399,033 and \$461,843, respectively, in web filtering revenue which was included in each respective year's opening contract liability balance.

F-11

Fair Value Measurements

FASB 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 December 31, 2020 and 2019. 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.

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.

F-12

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.

Accounts receivable includes unbilled accounts receivable. Unbilled accounts receivable is a contract asset related to amounts that are unbilled due to agreed-upon contractual terms in which billing occurs subsequent to revenue recognition. This situation typically occurs when the Company recognizes revenue for episodic development activities performed but not yet billed. Episodic development activities are typically billable upon delivery.

Inventory

Inventory consists of supplies used for the sole purpose of completing animation projects.

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 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 and indefinite-lived assets 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.

Indefinite-lived intangible assets are evaluated for impairment at the individual asset level by assessing whether it is more likely than not that the asset is impaired (for example, that the fair value of the asset is below its carrying amount). If it is more likely than not that the asset is impaired, its carrying amount is written down to its fair value.

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, 2020 on its subsidiaries with material goodwill and intangible asset amounts on their respective balance sheets and determined that an impairment charge of \$472,757 was necessary. See Note 7 – Goodwill and Intangible Assets for more information.

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, 2020, respectively 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* ("ASC 740"). Under 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 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. 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

FASB ASU No. 2016-02, "Leases" (ASC 842) 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, and permits the exclusion of leases with an original lease term of less than one year.

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.

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 FASB 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

FASB ASC 220, *Comprehensive Income* establishes standards for the reporting and display of comprehensive income and its components in the financial statements. At December 31, 2020 and 2019, 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 FASB ASC 260, *Earnings per Share* which 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 shares of common stock outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. These potential dilutive shares include 18,017,076 shares from convertible notes, 23,849,850 shares from vested stock options and 5,664,744 shares from 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 except as noted below:

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under this pronouncement, an entity would perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and would recognize an impairment change for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized is not to exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects will be considered, if applicable. ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and should be applied on a prospective basis.

On November 15, 2019, the FASB issued ASU 2019-10, which (1) provides a framework to stagger effective dates for future major accounting standards and (2) amends the effective dates for certain major new accounting standards to give implementation relief to certain types of entities. Specifically, ASU 2019-10 amends the effective date for ASU 2017-04 to fiscal years beginning after December 15, 2022, and interim periods therein.

Early adoption continues to be permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not anticipate the adoption of ASU 2017-04 will have a material impact on its financial statements for both annual and interim reporting periods.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)* which enhances and simplifies various aspects of the income tax accounting guidance, including requirements such as tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. The amendment will be effective for public companies with fiscal years beginning after December 15, 2020; early adoption is permitted. The Company is evaluating the impact of this amendment on its consolidated financial statements.

In February 2020, the FASB issued ASU 2020-02, *Financial Instruments-Credit Losses (Topic 326) and Leases (Topic 842) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)* which amends the effective date of the original pronouncement for smaller reporting companies. ASU 2016-13 and its amendments will be effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2022. The Company believes the adoption will modify the way the Company analyzes financial instruments, but it does not anticipate a material impact on results of operations. The Company is in the process of determining the effects adoption will have on its consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815 – 40)*, (“ASU 2020-06”). ASU 2020-06 simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity’s own equity. The ASU2020-06 amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is evaluating the impact of this guidance on its consolidated financial statements.

3. ACCOUNTS RECEIVABLE, NET

The following table sets forth the components of the Company’s accounts receivable at December 31, 2020 and 2019:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Billed accounts receivable	\$ 443,806	\$ 353,778
Unbilled accounts receivable	188,029	233,869
Allowance for doubtful accounts	(43,903)	(41,985)
Total accounts receivable, net	<u>\$ 587,932</u>	<u>\$ 545,662</u>

During the year ended December 31, 2020, the Company had three customers that accounted for 68.5% of revenues and two customers that accounted for 29.9% of accounts receivable. During the year ended December 31, 2019, the Company had three customers that accounted for approximately 42.3% of revenues and one customer that accounted for 38.7% 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 December 31, 2020 and 2019:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Prepaid rent	\$ 18,679	\$ 17,863
Vendor advances	6,085	6,221
Prepaid service agreements	101,886	172,602
Employee advance and other payroll related items	74,773	56,356
Other prepaid expenses and current assets	184,742	76,086
Total	<u>\$ 386,165</u>	<u>\$ 329,128</u>

Prepaid expenses and other assets represent advances or 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 December 31, 2020 and 2019:

	December 31, 2020			December 31, 2019		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Capital assets subject to depreciation:						
Computers, software and office equipment	\$ 2,800,872	\$ (2,257,797)	\$ 543,075	\$ 2,184,327	\$ (1,882,567)	\$ 301,760
Machinery and equipment	192,988	(152,149)	40,839	175,761	(125,272)	50,489
Vehicles	163,525	(106,826)	56,699	158,849	(77,133)	81,716
Furniture and fixtures	422,234	(364,655)	57,579	399,512	(323,771)	75,741
Leasehold improvements	1,143,704	(903,381)	240,323	1,081,076	(764,070)	317,006
Total fixed assets	<u>4,723,323</u>	<u>(3,784,808)</u>	<u>938,515</u>	<u>3,999,525</u>	<u>(3,172,813)</u>	<u>826,712</u>
Capital assets not subject to depreciation:						
Construction in progress	26,594	–	26,594	25,433	–	25,433
Total fixed assets	<u>\$ 4,749,917</u>	<u>\$ (3,784,808)</u>	<u>\$ 965,109</u>	<u>\$ 4,024,958</u>	<u>\$ (3,172,813)</u>	<u>\$ 852,145</u>

For the years ended December 31, 2020 and 2019, the Company recorded depreciation expense of \$461,548 and \$477,079 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.

In the United States, the Company leases approximately 2,100 square feet of office space in Boca Raton, Florida at the rate of \$4,000 per month pursuant to a three-year lease which expires in October 2021. The Florida office space is the location of the Company's corporate headquarters and administrative staff.

The Company's animation operations leases portions of three floors aggregating approximately 28,800 square feet in the West Tower of the Philippine Stock Exchange Centre in Pasig City, Manila. The space is used for administration and production purposes. The Company pays approximately \$24,000 per month in the aggregate for such space (which increases by approximately 5% annually). These leases expire in December 2022.

The Company's web filtering operations lease approximately 1,400 square feet of office space in Norcross, Georgia. The Company pays approximately \$2,100 per month pursuant to a five-year lease which expires in December 2023. The lease payment increases by approximately 3% annually.

The future minimum payment obligations at December 31, 2020 for operating leases are as follows:

2021	\$ 367,636
2022	\$ 335,659
2023	\$ 28,588

These operating leases are listed as separate line items on the Company's Consolidated Balance Sheets 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 Sheets.

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 \$602,775 in assets, \$304,326 in current liabilities and \$328,772 in noncurrent liabilities as of December 31, 2020. During the year ended December 31, 2020, the Company recognized approximately \$363,974 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:

	Year Ended December 31, 2020
Cash paid for operating lease liabilities	\$ 355,766
Weighted-average remaining lease term (in years)	2.2
Weighted-average discount rate	10%
Minimum future lease payments	\$ 731,883

The following table presents the amortization of the Company's lease liabilities under ASC 842 at December 31, 2020:

2021	\$ 304,326
2022	\$ 302,781
2023	\$ 25,990

7. GOODWILL AND INTANGIBLE ASSETS

The following table sets forth the changes in the carrying amount of the Company's goodwill for the year ended December 31, 2020:

Balance, December 31, 2019	\$ 8,853,261
Impairment charge	(472,757)
Balance, December 31, 2020	<u>\$ 8,380,504</u>

At December 31, 2020, the Company performed its annual impairment tests as prescribed by ASC 350 on the carrying value of its goodwill and recorded an impairment charge totaling \$472,757; of which \$420,257 was attributed to the assets of Fyoosion LLC acquired in 2017 and \$52,500 was attributed to the assets of Bonnie Boat and Friends acquired in 2018.

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. At December 31, 2020 and 2019, the carrying amount of the Company's goodwill was \$8,380,504 and \$8,853,261, respectively.

The following table sets forth the components of the Company's intangible assets at December 31, 2020 and 2019:

	December 31, 2020				December 31, 2019		
	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	\$ (716,429)	\$ 883,857	\$ 1,600,286	\$ (556,400)	\$ 1,043,886
Mobile software applications	2.00	282,500	(282,500)	-	282,500	(282,500)	-
Web filtering software	5.00	1,134,435	(907,548)	226,887	1,134,435	(680,661)	453,774
Noncompete agreements	2.00	846,638	(846,638)	-	846,638	(846,638)	-
Subtotal	-	<u>3,863,859</u>	<u>(2,753,115)</u>	<u>1,110,744</u>	<u>3,863,859</u>	<u>(1,979,283)</u>	<u>1,497,660</u>
Intangible assets not subject to amortization:							
Trade names	-	4,455,595	-	4,455,595	4,455,595	-	4,455,595
Total intangible assets	-	<u>\$ 8,319,454</u>	<u>\$ (2,753,115)</u>	<u>\$ 5,566,339</u>	<u>\$ 8,319,454</u>	<u>\$ (1,979,283)</u>	<u>\$ 5,953,255</u>

For the years ended December 31, 2020 and 2019, the Company recorded amortization expense for intangible assets subject to amortization of

\$386,916 and \$428,686, respectively.

The following table provides information regarding estimated amortization expense for intangible assets subject to amortization for each of the following years ending December 31:

2021	\$	386,916
2022		160,029
2023		160,029
2024		160,029
2025		160,029
Thereafter		83,712
	\$	<u>1,110,744</u>

F-19

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 the 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 at December 31, 2020 and 2019:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Executive and employee compensation	\$ 1,642,959	\$ 1,237,531
Interest on convertible promissory notes	134,127	314,309
Other accrued expenses and liabilities	15,293	99,641
Total accrued liabilities	<u>\$ 1,792,379</u>	<u>\$ 1,651,482</u>

10. RELATED PARTY PAYABLES AND ACTIVITY

Acquisition of TD Holdings

Wayne Dearing, the Managing Director of TD Holdings, was issued a promissory note in the principal amount of \$2,000,000 on July 1, 2016 in connection with the Company's acquisition of TD Holdings. The note, as amended, was due to mature on April 1, 2020. On March 16, 2020, the Company paid Mr. Dearing \$1,500,000 against the principal amount of the note and restructured the remaining \$500,000 in unpaid principal. Under the new terms, the note bears interest at a rate of 12% per annum and matures on June 30, 2021. Principal and interest are payable monthly in arrears, amortized over a four-year period. At December 31, 2020, the principal balance remaining on this note totaled \$441,088 and is classified under Convertible Notes – Current in the Company's consolidated financial statements.

Additionally, Mr. Dearing was entitled to 50% of any earnout payment contingent upon TD Holdings achieving certain financial milestones as defined in the Share Exchange Agreement. The earnout period, as amended, was extended until December 31, 2019. No earnout consideration was achieved, nor payment made, for any measurement period through December 31, 2019.

Mr. Dearing's wife, Stella Dearing, is the Director of Operations of Top Draw and receives an annual salary of \$83,000.

Darren Marks's Family

The Company has engaged the family of Darren Marks, its Chief Executive Officer, to assist in the development of the Grom Social website and

mobile application. These individuals have created over 1,400 hours of original short form content. Sarah Marks, the wife of Darren Marks, our President and Chief Executive Officer, Zach Marks, Luke Marks, Jack Marks, Dawson Marks, Caroline Marks and Victoria Marks, each Darren Marks's children, are, or have been, by the Company employed or independently contracted.

During the year ended December 31, 2020, the Marks family was paid as follows: Zach \$28,050, Dawson \$500, and Victoria \$500. During the year ended December 31, 2019, the Marks family was paid as follows: Sarah \$12,600, Zach \$40,593, Luke \$17,659, Jack \$1,800, Victoria \$2,250 and Caroline \$3,750.

F-20

Compensation for services provided by the Marks family is expected to continue for the foreseeable future. Each member of the Marks family is actively involved in the creation of content for the website and mobile app, including numerous videos focusing on social responsibility, anti-bullying, digital citizenship, unique blogs, and special events.

Liabilities Due to Officers and Directors

Pursuant to verbal agreements, Messrs. Marks and Leiner have made loans to the Company to help fund operations. These loans are non-interest bearing and callable on demand. During the years ended December 31, 2020 and 2019, Mr. Marks loaned \$0 and \$22,000, respectively, and Mr. Leiner loaned \$47,707 and \$81,500, respectively, to the Company.

During the year ended December 31, 2019, Mr. Marks and Mr. Leiner agreed to convert portions 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>Share Price Used for conversion</u>	<u>Trading price of Grom stock on the date of conversion</u>	<u>Shares issued</u>
Darren Marks	12/10/2019	100,000	\$ 0.18	0.10	571,429
Melvin Leiner	12/10/2019	100,000	\$ 0.18	0.10	571,428

At December 31, 2020 and 2019, the outstanding amounts due to Mr. Marks were \$43,429 and \$215,122, respectively, and the outstanding amounts due to Mr. Leiner were \$50,312 and \$210,929, respectively.

On July 13, 2018, our director Dr. Thomas Rutherford loaned the Company \$50,000. The loan is non-interest bearing and callable on demand.

At December 31, 2020 and 2019, the aggregate related party payables were \$143,741 and \$462,137, 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".

At December 31, 2020 and 2019, accrued retirement benefit costs were \$367,544 and \$227,229, respectively.

12. DEBT

Convertible Notes

The following tables set forth the components of the Company's convertible notes at December 31, 2020 and 2019:

December 31, December 31,

	2020	2019
8% Convertible Promissory Notes (Bridge Notes)	\$ 373,587	\$ –
10% Unsecured Convertible Redeemable Notes – Variable Conversion Price	265,000	100,000
10% Secured Convertible Notes with Original Issuance Discounts (OID Notes)	153,250	664,473
12% Senior Secured Convertible Notes (Newbridge)	52,572	289,143
12% Senior Secured Convertible Notes (Original TDH Notes)	882,175	4,000,000
12% Senior Secured Convertible Notes (TDH Secured Notes)	1,645,393	505,000
12% Senior Secured Convertible Notes (Additional Secured Notes)	260,315	–
Loan discounts	(385,266)	(224,958)
Total convertible notes, net	3,247,026	
Less: current portion of convertible notes, net	(2,349,677)	(4,828,658)
Convertible notes, net	<u>\$ 897,349</u>	<u>\$ 505,000</u>

F-21

8% Convertible Promissory Notes (Bridge Notes)

On November 30, 2020, the Company entered into a securities purchase agreement with EMA Financial, LLC (“EMA”) pursuant to which the Company issued to EMA a nine-month 8% convertible promissory note in the principal amount of \$260,000 (the “EMA Note”) for a \$234,000 investment. The term of the EMA Note may be extended by EMA up to an additional year. The EMA Note is convertible into common stock of the Company at any time after 180 days from issuance. The conversion price of the EMA Note is equal to the lower of: (i) \$0.06 per share, or (ii) 70% of the lowest trading price of the common stock during the ten consecutive trading days including and immediately preceding the conversion date.

On December 17, 2020, the Company entered into a note purchase agreement with Quick Capital, LLC (“Quick Capital”) pursuant to which the Company issued Quick Capital a nine-month convertible promissory note in the principal amount of \$113,587 (the “Quick Note”) for a \$100,000 investment, which included an original issuance discount of 8% and a \$4,500 credit for Quick Capital’s transaction expenses. The Quick Note may be converted into shares of common stock at (i) a 30% discount to the lowest price per share of any debt or securities offering by the Company if the Company’s common stock is listed on NASDAQ or NYSE within 90 days of the Quick Note issuance; (ii) the lesser of (A) \$0.04 or (B) a 30% discount to the average of the two lowest closing prices during the ten trading days prior to the conversion date; (iii) \$0.04 per share, upon an event of default as described in the Note.

The Company analyzed the conversion feature of the note 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 \$12,621. This amount is recorded as a debt discount and is amortized as interest expense over the term of the related convertible note.

In connection with the Quick Note issuance, the Company also issued a three-year warrant to purchase up to an aggregate of 1,183,197 shares of the Company’s common stock at an exercise price of \$0.05 per share. ASC 470-20 requires proceeds from the sale of a debt instrument with stock purchase warrants be allocated to the two elements based on the relative fair values of the debt instrument without the warrants and of the warrants themselves at the time of issuance. This resulted in the debt being recorded at a discount which will be amortized to interest expense over the term of the loan using the effective interest method so the debt, at its term, is recorded at its face value. The Company estimated the fair value of this warrant at date of grant using the Black-Scholes option pricing model using the following inputs: (i) stock price on the date of grant of \$0.05, (ii) the contractual term of the warrant of 3 years, (iii) a risk-free interest rate of 0.19% and (iv) an expected volatility of the price of the underlying common stock of 224.3%. As a result, the Company allocated a fair value of \$33,056 to the stock warrants.

At December 31, 2020, the principal balance of these notes was \$373,587 and the remaining balance on the associated loan discounts was \$75,593.

10% Unsecured Convertible Redeemable Note – Variable Conversion Price

On July 9, 2019, the Company issued a convertible redeemable note to an unrelated party in the principal amount of \$100,000 less \$5,000 in third party fees resulting in net cash proceeds to the Company of \$95,000. The note accrues 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 note 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 also analyzed the conversion feature of the note for derivative accounting consideration and determined that the embedded conversion features should be classified as a derivative because the exercise price of the convertible note is 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.

On January 13, 2020, the lender converted \$10,000 of note principal and \$5,000 of accrued interest into 259,300 shares of the Company's common stock. On March 2, 2020, the lender converted \$13,636 of note principal and \$1,364 of accrued interest into 249,285 shares of the Company's common stock. On June 30, 2020, the lender converted \$23,503 of note principal and \$2,545 of accrued interest into 650,000 shares of the Company's common stock. On October 2, 2020, the lender converted the remaining \$52,861 of note principal and \$1,527 of accrued interest into 1,535,507 shares of the Company's common stock. As of December 31, 2020, the principal balance and all interest due under the note was fully satisfied and the associated derivative liability was relieved.

F-22

On March 1, 2020, the Company issued a convertible redeemable note to an unrelated party in the principal amount of \$100,000. The note accrues interest at a rate of 10% per annum, was due on August 31, 2020 and is convertible into common stock of the Company at the option of the noteholder 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 note 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 \$44,129. This amount is recorded as a debt discount and is amortized as interest expense over the term of the note.

In connection with the note issuance, the Company also issued a five-year warrant to purchase up to an aggregate of 500,00 shares of the Company's common stock at an exercise price of \$0.10 per share. ASC 470-20 requires proceeds from the sale of a debt instrument with stock purchase warrants be allocated to the two elements based on the relative fair values of the debt instrument without the warrants and of the warrants themselves at the time of issuance. This resulted in the debt being recorded at a discount which will be amortized to interest expense over the term of the loan using the effective interest method so the debt, at its term, is recorded at its face value. The Company estimated the fair value of this warrant at date of grant using the Black-Scholes option pricing model using the following inputs: (i) stock price on the date of grant of \$0.10, (ii) the contractual term of the warrant of 5 years, (iii) a risk-free interest rate of 0.89% and (iv) an expected volatility of the price of the underlying common stock of 144.4%. As a result, the Company allocated a fair value of \$30,935 to the stock warrants.

At December 31, 2020, the remaining principal balance of \$100,000 and accrued interest of \$8,356 was in default of payment. No formal notices of default or demands for payment have been received by the Company.

On November 20, 2020, the Company issued a convertible redeemable note to an unrelated party in the principal amount of \$165,000 less a \$15,000 original issuance discount resulting in net cash proceeds to the Company of \$150,000. The note accrues interest at a rate of 10% per annum, is due on February 15, 2021 and is convertible into common stock of the Company at the option of the noteholder 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 note 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 \$50,871. This amount is recorded as a debt discount and is amortized as interest expense over the term of the note.

At December 31, 2020, the remaining principal balance of \$165,000 and the remaining balance on the associated loan discounts was \$43,914.

10% Secured Convertible Notes with Original Issuance Discounts (OID Notes)

During the year ended December 31, 2017, the Company issued secured, convertible notes with original issuance discounts to accredited investors for gross proceeds of \$601,223. The notes were issued with original issuance discounts of 10.0%, or \$60,122, bear interest at a rate of 10% per annum, are payable semiannually in cash, and carry a two-year term with a fixed conversion price of \$0.78. In connection with the issuance of these

notes, the Company issued to such investors 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 \$0.48 and \$0.70 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.

On August 6, 2020, the Company entered into debt exchange agreements with certain holders of these 10% convertible notes pursuant to which an aggregate of 331,954 shares of the Company's Series B preferred stock ("Series B Stock") were issued to noteholders for an aggregate of \$211,223 of outstanding principal and accrued and unpaid interest. On November 30, 2020, the Company entered into a debt exchange agreement with the remaining holder of these 10% convertible notes pursuant to which an aggregate of 158,000 shares of Series B Stock were issued to the noteholder for an aggregate of \$111,250 of outstanding principal and accrued and unpaid interest.

At December 31, 2020, the principal balance of these notes was \$0 and all associated loan discounts were fully amortized.

During the year ended December 31, 2018, the Company issued secured, convertible notes with original issuance discounts to accredited investors for gross proceeds of \$1,313,485 in a private offering. The notes were issued with original issuance discounts of 10.0%, or \$131,348, bear interest at a rate of 10% per annum, are payable semiannually in cash, and carry a two-year term with a fixed conversion price of \$0.78. In connection with the issuance of these notes, the Company issued to such investors an aggregate of 328,371 shares of common stock as an inducement to lend. These shares were valued at \$198,259 with share prices ranging between \$0.30 and \$0.81 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.

F-23

On August 6, 2020, the Company entered into debt exchange agreements with certain holders of these 10% convertible notes pursuant to which an aggregate of 316,000 shares of the Company's Series B Stock were issued to noteholders for an aggregate of \$200,000 of outstanding principal and accrued and unpaid interest.

At December 31, 2020, the principal balance of these notes was \$97,250 and all associated loan discounts were fully amortized. While the remaining notes are past their original maturity dates, no formal notices of default or demands for payment have been received by the Company.

During the year ended December 31, 2018, the Company also issued secured, convertible notes with original issuance discounts to accredited investors for gross proceeds of \$356,000 in a private offering. The notes were issued with original issuance discounts of 20.0%, or \$71,200, bear interest at a rate of 10% per annum, are payable semiannually in cash, and carry a two-year term with a fixed conversion price of \$0.50. In connection with the issuance of these notes, the Company issued to such investors an aggregate of 203,000 shares of common stock as an inducement to lend. These shares were valued at \$62,269 with share prices ranging between \$0.29 and \$0.35 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.

At December 31, 2020, the principal balance of these notes was \$56,000 and all associated loan discounts were fully amortized. While the remaining notes are past their original maturity dates, no formal notices of default or demands for payment have been received by the Company.

12% Senior Secured Convertible Notes (Newbridge Offering)

On November 30, 2018, the Company closed a private offering in which it sold 12% secured convertible promissory notes ("12% 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 12% 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 the shareholders of TD Holdings in connection with a share sale agreement dated June 30, 2016, as amended. Messrs. Marks and Leiner pledged an aggregate of 10,000,000 shares of common stock of the Company pursuant to a pledge and security agreement to secure the timely payment of the 12% Notes. The 12% Notes are convertible, in whole or in part, by the note holders 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 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 12% Notes is payable monthly in 21 equal installments commencing four months after the issuance of the 12% Notes. Upon the occurrence of an event of default, the interest rate will increase to 15% and the 12% Notes will become immediately due and payable. The Company may prepay the 12% 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.

At December 31, 2020 and 2019, the remaining principal balance on the 12% Notes was \$52,572 and \$289,143, respectively, and the remaining unamortized discounts were \$0 and \$161,864, respectively.

12% Senior Secured Convertible Notes (Original TDH Notes)

On June 20, 2016, the Company issued \$4,000,000 of senior secured promissory notes to the shareholders of TD Holdings (the “TDH Sellers”) in connection with a share sale agreement pursuant to which the Company acquired 100% of the common stock of TD Holdings (“the TDH Share Sale Agreement”). The notes bear interest at 5.0% per annum and are due on the earlier of (i) June 20, 2018 or (ii) the date on which the Company successfully completes a qualified initial public offering as defined in the agreement. The notes are collateralized by all of the assets of TD Holdings.

First Amendment to the TDH Share Sale Agreement

On January 3, 2018, the Company entered into an amendment to the TDH Share Sale Agreement (the “First Amendment”). Under the terms of the First Amendment:

- The maturity date of the notes was extended from July 1, 2018 until July 1, 2019.
- The interest rate on the notes during for one-year extension period from July 2, 2018 to July 1, 2019 was increased to 10%.

F-24

- Interest is payable quarterly in arrears during the one-year extension period, instead of annually in arrears. The first such quarterly interest payment of \$100,000 is due on September 30, 2018.
- Under the terms of the terms of TDH Share Sale Agreement, the TDH Sellers could earn up to an additional \$5.0 million in contingent earnout payments. The original earnout period ended on December 31, 2018. The First Amendment extended the earnout period by one year to December 31, 2019.

As consideration to enter into the First Amendment, the Company issued 800,000 shares of its common stock valued at \$480,000 to the TDH Sellers.

Second Amendment to the TDH Share Sale Agreement

On January 15, 2019, the Company 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 notes was extended from July 1, 2019 to April 2, 2020.
- The TDH Sellers shall have the right to convert the notes 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.
- In the event that the notes are not repaid prior to July 2, 2019, no funds will be transferred by TDH to the Company.
- The payment terms of the contingent earnout was modified from 50% payable in cash and 50% payable in stock to 75% payable in cash and 25% payable in stock.

As consideration to enter into the Second Amendment, the Company issued an additional 800,000 shares of its common stock valued at \$220,000 to the TDH Sellers.

Due to the inclusion of a conversion feature, the Second Amendment was considered an extinguishment and subsequent reissuance of the notes under the guidelines of ASC 470-20-40-7 through 40-9. As a result, the Company recorded a loss on the extinguishment of debt of \$363,468 related to the Second Amendment during the year ended December 31, 2019.

The principal value of the notes was reclassified to convertible notes, net – current on the Company’s consolidated financial statements.

Third Amendment to the TDH Share Sale Agreement

On March 16, 2020, the Company entered into a third amendment (the “Third Amendment”) to the TDH Share Sale Agreement, pursuant to which the Company’s subsidiary, Grom Holdings, had acquired 100% of the common stock of TDH (representing ownership of the animation studio) from certain individuals (the “TDH Sellers”). The Company used the proceeds received from the TDH Secured Notes Offering to pay the TDH Sellers \$3,000,000 of the principal due under the Original TDH Notes, leaving a balance due to the TDH Sellers of \$1,000,000 in principal (plus accrued interest and costs). In addition, the accrued interest of \$361,767 due to the TDH Sellers pursuant to the Original TDH Notes will be paid by three monthly payments of \$93,922, commencing April 16, 2020, and 12 monthly installments of \$6,667 commencing April 16, 2020.

Pursuant to the Third Amendment, the TDH Sellers and the Company agreed, among other things:

- To extend the maturity date of the remaining Original TDH Notes by one year to June 30, 2021;
- To increase the interest rate on the remaining Original TDH Notes to 12%;
- To grant a first priority security interest on the shares of TDH and TDAHK to the TDH Sellers, pari passu with the holders of the TDH Secured Notes; and
- To pay the balance of the Original TDH Notes monthly in arrears, amortized over a four-year period.

F-25

At December 31, 2020, the principal balance of the Original TDH Notes was \$882,175.

12% Senior Secured Convertible Notes (“TDH Secured Notes”)

On March 16, 2020, the Company sold (the “TDH Secured Notes Offering”) an aggregate \$3,000,000 of its 12% senior secured convertible notes (the “TDH Secured Notes”), to eleven accredited investors (the “TDH Secured Note Lenders”), pursuant to a subscription agreement with the TDH Secured Note Lenders. Interest on the TDH Secured Notes accrues on the outstanding principal amount at the rate of 12% per annum. Principal and interest on the TDH Secured Notes are payable monthly, on an amortized basis over 48 months, with the last payment due on March 16, 2024. Pursuant to the TDH Secured Notes, TD Holdings will pay amounts due under the TDH Secured Notes. Prepayment of amounts due under TDH Secured Notes is subject to a prepayment penalty in an amount equal to 4% of the amount prepaid.

The TDH Secured Notes are convertible at the option of the holders at 75% of the average sales price of the Company’s common stock over the 60 trading days immediately preceding conversion provided that the conversion price shall not be less than \$0.10 per share.

The Company’s obligations under the TDH Secured Notes, are secured by Grom Holdings’ shares of stock of TDH, and of its wholly owned subsidiary, TDAHK. The TDH Secured Notes rank equally and ratably on a pari passu basis with (i) the other TDH Secured Notes and (ii) the Original TDH Notes issued by the Company pursuant to TDH Share Sale Agreement.

If the Company sells the animation studio located in Manila, Philippines, which is currently owned by TDH through TDAHK (the “Animation Studio”), for more than \$12,000,000, and so long as any amount of principal is outstanding under the TDH Secured Notes, the Company will pay the TDH Secured Notes holders from the proceeds of the sale (i) all amounts of principal outstanding under the TDH Secured Notes, (ii) such amount of interest which would be due and payable assuming the TDH Secured Notes were held to maturity (minus any amounts of interest previously paid hereunder), and (iii) an additional 10% of the amount of principal outstanding under the TDH Secured Notes within five days of the closing of such sale.

In connection with the issuance of the TDH Secured Notes, the Company issued to each TDH Secured Note holder shares of common stock equal to 20% of the principal amount of such holder’s TDH Secured Note, divided by \$0.10. Accordingly, an aggregate of 6,000,000 shares of common stock were issued to the TDH Secured Note holders on March 16, 2020. These shares were valued at \$420,000, or \$0.07 per share, which represents fair market value. The Company recorded the value of these shares as a loan discount to be amortized as interest expense over the term of the notes.

On August 6, 2020, the Company entered into debt exchange agreements with certain holders of these 12% TDH Secured Notes pursuant to which an aggregate of 1,739,580 shares of the Company’s Series B Stock were issued to noteholders for an aggregate of \$1,101,000 of outstanding principal and accrued and unpaid interest. On November 30, 2020, the Company entered into debt exchange agreements with another holder of these 10% convertible notes pursuant to which an aggregate of 158,000 shares of Series B Stock were issued to the noteholder for an aggregate of

\$99,633 of outstanding principal and accrued and unpaid interest.

At December 31, 2020, the principal balance of these notes was \$1,654,393 and the remaining balance on the associated loan discounts was \$202,782.

12% Senior Secured Convertible Notes (Additional Secured Notes)

On March 16, 2020, the Company issued to seven accredited investors (the “Additional Secured Note Lenders”) an aggregate of \$1,060,000 of its 12% senior secured convertible notes (the “Additional Secured Notes”) in a private offering pursuant to a subscription agreement with substantially the same terms as the TDH Secured Notes except that the Additional Secured Notes are secured by all of the assets of the Company other than the shares and other assets of TDH and TDAHK, pursuant to a security agreement by and among the Company and the Additional Secured Note Lenders.

Interest on the Additional Secured Notes accrues on the outstanding principal amount at the rate of 12% per annum. Principal and interest on the Additional Secured Notes are payable monthly, on an amortized basis over 48 months, with the last payment due on March 16, 2024. Prepayment of the amounts due under the Additional Secured Notes is subject to a prepayment penalty of 4% of the amount prepaid.

F-26

The Additional Secured Notes are convertible at the option of the holders at 75% of the average sales price of the Company’s common stock over the 60 trading days immediately preceding conversion provided that the conversion price shall not be less than \$0.10 per share.

In connection with the issuance of the Additional Secured Notes, the Company issued to each Additional Secured Note Lender shares of common stock equal to 20% of the principal amount of such holder’s Additional Secured Note, divided by \$0.10. Accordingly, an aggregate of 2,120,000 shares of common stock were issued. These shares were valued at \$148,000, or \$0.07 per share, which represents fair market value. 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.

On August 6, 2020, the Company entered into debt exchange agreements with certain holders of these 12% Additional Secured Notes pursuant to which an aggregate of 1,236,350 shares of the Company’s Series B Stock were issued to noteholders for an aggregate of \$782,500 of outstanding principal and accrued and unpaid interest.

At December 31, 2020, the principal balance of these notes was \$260,315 and the remaining balance on the associated loan discounts was \$62,976.

Future Minimum Principal Payments

The principal repayments based upon the maturity dates of the Company’s borrowings for each of the next five years are as follows:

2021	\$	2,184,677
2022	\$	527,784
2023	\$	594,720
2024	\$	160,111
2025 and thereafter	\$	–

13. INCOME TAXES

The following table sets forth the components of income tax expense (benefit) for the years ended December 31, 2020 and 2019:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Current:		
Federal	\$ –	\$ –
State and local	–	–
Foreign	–	–
Total current	–	–
Deferred:		

Federal	–	–
State and local	–	–
Foreign	(224,027)	35,375
Total deferred	(224,027)	35,375
Total	<u>\$ (224,027)</u>	<u>\$ 35,375</u>

F-27

The following table sets forth a reconciliation of income tax expense (benefit) at the federal statutory rate to recorded income tax expense (benefit) for the years ended December 31, 2020 and 2019:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Tax benefit at the statutory federal rate	–%	–%
Increase (decrease) in rate(s) resulting from:		
Foreign operations, net	3.8	(0.8)
Change in deferred taxes	17.2	21.8
Change in valuation allowance	(17.2)	(21.8)
Total	<u>3.8%</u>	<u>(0.8)%</u>

The following tables set forth the components of income taxes payable at December 31, 2020 and 2019:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Federal	\$ –	\$ –
State and local	–	–
Foreign	–	–
Total	<u>\$ –</u>	<u>\$ –</u>

The following tables set forth the components of deferred income taxes at December 31, 2020 and 2019:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Non-current deferred tax assets:		
Retirement benefits	\$ 110,263	\$ 68,169
Write down of investment(s)	68,408	65,420
Deferred revenue net	149,112	59,016
Other	203,773	45,976
Net operating loss carryforwards	5,009,036	4,661,804
Less: valuation allowance	(5,009,036)	(4,661,804)
Total non-current deferred tax asset	<u>531,557</u>	<u>238,581</u>
Total deferred tax asset	<u>\$ 531,557</u>	<u>\$ 238,581</u>

The deferred tax asset relates solely to the Company’s foreign animation operations. The Company believes these assets are realizable in future periods due to the historic profitability of its animation business.

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act (“TCJA”), which instituted fundamental changes to the taxation of multinational corporations, including a reduction the U.S. corporate income tax rate to 21% beginning in 2018.

The TCJA also requires a one-time transition tax on the mandatory deemed repatriation of the cumulative earnings of certain of the Company’s foreign subsidiaries as of December 31, 2017. To determine the amount of this transition tax, the Company must determine the amount of earnings generated since inception by the relevant foreign subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings, in addition to potentially other factors. The Company believes that no such tax will be due since the foreign subsidiaries have paid taxes locally and that the

cumulative undistributed earnings of the foreign subsidiaries are not material.

As of December 31, 2020, the Company had federal, state and foreign net operating loss carryforwards of approximately \$23.9 million of which \$15.2 million may be available to reduce future liabilities for income taxes through 2037 and \$8.7 million may be available to reduce future liabilities for income taxes indefinitely. The Company has generally established a valuation allowance against these carryforwards based on an assessment that it is more likely than not that these benefits will not be realized in future years.

The Company remains subject to examination in federal, state and foreign jurisdictions in which the Company conducts its operations and files tax returns. These tax years range from 2015 through 2019. The Company believes that the results of current or any prospective audits will not have a material effect on its financial position or results of operations as adequate reserves have been provided to cover any potential exposures related to these ongoing audits.

The Company has made its assessment of the level of tax authority for each tax position, including the potential application of interest and penalties, based on the technical merits and determined that no unrecognized tax benefits associated with the tax positions exist.

14. STOCKHOLDERS' EQUITY

Preferred Stock

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

Series A Preferred Stock

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"). Each share of 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, the Company recorded a beneficial conversion feature and other discounts as a deemed dividend in its condensed consolidated financial statements of \$740,899.

On August 6, 2020, the Company entered into exchange agreements with the holders of 925,000 issued and outstanding shares of the Company's Series A Stock pursuant to which such shares of Series A Stock were exchanged for an aggregate of 1,202,500 shares of the Company's Series B Stock. See Series B Preferred Stock below for more details.

At December 31, 2020 and December 31, 2019, the Company had zero and 925,000 shares of Series A Stock issued and outstanding, respectively.

Series B Preferred Stock

On August 4, 2020, the Company filed with the Secretary of State of the State of Florida a Certificate of Designation of Preferences, Rights and Limitations of Series B Stock designating 10,000,000 shares as Series B Preferred Stock (the "Series B Stock"). The Series B Stock ranks senior and prior to all other classes or series of the Company's preferred stock and common stock.

The holder may at any time after the 12-month anniversary of the issuance of the shares of Series B Stock convert such shares into common stock at a conversion price equal to the 30-day volume weighted average price (“VWAP”) of a share of common stock for each share of Series B Stock to be converted. In addition, the Company at any time may require conversion of all or any of the Series B Stock then outstanding at a 50% discount to the 30-day VWAP.

Each share of Series B Stock entitles the holder to fifty votes for each share of Series B Stock. The consent of the holders of at least two-thirds of the shares of Series B Stock is required for the amendment to any of the terms of the Series B Stock, to create any additional class of stock unless the stock ranks junior to the Series B Stock, to make any distribution or dividend on any securities ranking junior to the Series B Stock, to merge or sell all or substantially all of the assets of the Company or acquire another business or effectuate any liquidation of the Company.

Cumulative dividends accrue on each share of Series B Stock at the rate of 8% per annum of the stated value of \$1.00 per share and are payable in common stock in arrears quarterly commencing 90 days from issuance.

Upon a liquidation, dissolution or winding up of the Company, the holders of the Series B Stock are entitled to \$1.00 per share plus all accrued and unpaid dividends. No distribution may be made to holders of shares of capital stock ranking junior to the Series B Stock upon a liquidation until Series B stockholders receive their liquidation preference. The holders of 66 2/3% of the then outstanding shares of Series B Stock, may elect to deem a merger, reorganization or consolidation of the Company into or with another corporation, not affiliated with said majority, or other similar transaction or series of related transactions in which more than 50% of the voting power of the Company is disposed of in exchange for property, rights or securities distributed to holders thereof by the acquiring person, firm or other entity, or the sale of all or substantially all of the assets of the Company.

On June 19, 2020, the Company received gross cash proceeds of \$250,000 from an accredited investor pursuant to the terms of a subscription agreement and subsequently issued an aggregate of 250,000 shares of Series B Stock on August 6, 2020.

On August 6, 2020, the Company entered into debt exchange agreements with holders of the Company’s (i) OID Notes in the aggregate amount of \$411,223 of outstanding principal and accrued and unpaid interest; (ii) TDH Secured Notes, in the aggregate amount of \$1,101,000 of outstanding principal and accrued and unpaid interest; and (iii) Additional Secured Notes, which were secured by all of the other assets of the Company in the aggregate amount of \$782,500 of outstanding principal and accrued and unpaid interest. Pursuant to the terms of the debt exchange agreements, the holders of the notes exchanged outstanding and all amounts owed by the Company thereunder, for an aggregate of 3,623,884 shares of the Company’s Series B Stock. At the time of the exchange, all amounts due under the notes were deemed to be paid-in-full and the notes were cancelled.

In addition, on August 6, 2020, the Company entered into exchange agreements (the “Series A Exchange Agreements”) with the holders of 925,000 issued and outstanding shares of the Company’s Series A Stock. Pursuant to the terms of the Series A Exchange Agreements, the holders of Series A Stock exchanged their shares for an aggregate of 1,202,500 shares of the Company’s Series B Stock. At the time of the exchange, all of the exchanged shares of Series A Stock were cancelled.

On September 22, 2020, the Company received gross cash proceeds of \$233,500 from two accredited investors, pursuant to the terms of a subscription agreement, and subsequently issued an aggregate of 233,500 shares of Series B Stock on November 30, 2020.

On November 30, 2020, the Company entered into debt exchange agreements with holders of the Company’s (i) OID Notes in the aggregate amount of \$111,250 of outstanding principal and accrued and unpaid interest; and (ii) TDH Secured Notes, in the aggregate amount of \$99,633 of outstanding principal and accrued and unpaid interest. Pursuant to the terms of the debt exchange agreements, the holders of the notes exchanged outstanding and all amounts owed by the Company thereunder, for an aggregate of 316,000 shares of the Company’s Series B Stock. At the time of the exchange, all amounts due under the notes were deemed to be paid-in-full and the notes were cancelled.

At December 31, 2020 and 2019, the Company had 5,625,884 and zero shares of Series B Stock issued and outstanding, respectively.

Common stock

The Company is authorized to issue 500,000,000 shares of common stock, par value of \$0.001 per share and had 188,354,282 and 167,382,807

shares of common stock issued and outstanding as of December 31, 2020 and 2019, respectively.

Common Stock Issued in Private Placements

During the year ended December 31, 2019, the Company issued 5,450,000 shares of common stock and warrants to purchase 5,450,000 shares of common stock at an exercise price of \$0.25 for proceeds of \$545,000 under private offerings with accredited investors.

Common Stock Issued as Compensation to Employees, Officers and/or Directors

During the year ended December 31, 2020, the Company issued 420,000 shares of common stock with a fair market value of \$35,600 to employees, officers and/or directors as compensation.

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

During the year ended December 31, 2020, the Company issued 6,487,706 shares of common stock with a fair market value of \$578,645 to contractors for services rendered.

During the year ended December 31, 2019, the Company issued 3,877,516 shares of common stock with a fair market value of \$778,411 to contractors for services rendered.

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

During the year ended December 31, 2020, the Company issued 500,000 shares of common stock with a fair market value of \$50,000 to satisfy loans payable and other accrued obligations.

During the year ended December 31, 2019, the Company issued 1,707,690 shares of common stock with a fair market value of \$589,440 to satisfy loans payable and other accrued obligations.

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

During the year ended December 31, 2019, the Company issued 800,000 shares of common stock valued at \$220,000 to amend the terms of a promissory note.

Common Stock Issued in Connection with the Issuance of Convertible Promissory Notes

During the year ended December 31, 2020, the Company issued 10,869,677 shares of common stock valued at \$736,014 in connection with the issuance of convertible notes. Refer to the disclosures for the TDH Secured Notes and Additional Secured Notes under “Note 12 –Debt” for additional information.

During the year ended December 31, 2019, the Company issued 160,260 shares of common stock valued at \$32,418 in connection with the issuance of convertible notes.

Conversion of Convertible Notes and Accrued Interest into Common stock

During the year ended December 31, 2020, the Company issued 2,694,092 shares of common stock valued at \$110,437 in connection with the conversion of convertible notes and accrued interest into common stock.

During the year ended December 31, 2019, the Company issued 12,208,686 shares of common stock valued at \$2,788,199 in connection with the conversion of convertible notes and accrued interest into common stock.

Stock Purchase Warrants

Stock purchase warrants are accounted for as equity in accordance with 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 December 31, 2020 and 2019. All stock warrants are exercisable for a period ranging from three to five years from the date of issuance. See Note 12 – Debt for more information.

	Number of Warrants Outstanding	Weighted Avg. Exercise Price	Weighted Avg. Contractual Life (Yrs.)
Balance January 1, 2019	781,910	\$ 1.36	1.38
Warrants issued	5,450,000	\$ 0.25	
Warrants exercised	–	\$ –	
Warrants forfeited	(567,166)	\$ –	
December 31, 2019	<u>5,664,744</u>	<u>\$ 0.28</u>	<u>1.79</u>
Warrants issued	1,683,197	\$ 0.06	
Warrants exercised	–	\$ –	
Warrants forfeited	–	\$ –	
Balance 31, 2020	<u>7,347,941</u>	<u>\$ 0.23</u>	<u>1.66</u>

Stock Options

The following table represents all outstanding and exercisable stock options at December 31, 2020.

Year Issued	Options Issued	Options Forfeited	Options Outstanding	Vested Options	Strike Price	Weighted Average Remaining Life (Yrs.)
2013	7,735,350	(834,000)	6,901,350	6,901,350	\$ 0.24	2.72
2015	11,467,500	(11,467,500)	–	–	\$ –	–
2016	5,421,000	–	5,421,000	5,421,000	\$ 0.78	0.19
2018	60,000	–	60,000	60,000	\$ 0.78	2.33
Total	<u>24,683,850</u>	<u>(12,301,500)</u>	<u>12,382,350</u>	<u>12,382,350</u>	<u>\$ 0.48</u>	<u>1.90</u>

During the years ended December 31, 2020 and 2019, the Company did not record any stock-based compensation expense related to stock options.

15. COMMITMENTS AND CONTINGENCIES

None.

16. SUBSEQUENT EVENTS

In accordance with FASB ASC 855-10, *Subsequent Events*, the Company has analyzed its operations subsequent to December 31, 2020 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:

Exchange Agreements

On February 17, 2021, the Company, entered into debt exchange agreements with holders of the Company's convertible promissory notes in the aggregate principal and accrued interest amount of \$1,700,905. Pursuant to the terms of the debt exchange agreements, the noteholders exchanged the outstanding notes, and all amounts owed by the Company thereunder, for an aggregate of 2,564,175 shares of the Company's 8% Series B convertible preferred stock and the notes were cancelled.

Series B Purchases

On February 17, 2021, the Company entered into subscription agreements with two accredited investors, pursuant to which the Company sold an aggregate of 300,000 shares of Series B Stock for aggregate gross proceeds of \$300,000. On March 31, 2021, the Company entered into subscription agreements with three accredited investors, pursuant to which the Company sold the investors an aggregate of 650,000 shares of Series B Stock for aggregate gross proceeds of \$650,000.

Auctus Fund Financing

On February 9, 2021, the Company entered into a securities purchase agreement (the “Auctus Purchase Agreement”) with Auctus Fund, LLC, a Delaware limited liability company (“Auctus”), pursuant to which the Company issued to Auctus a convertible promissory note in the principal amount of \$500,000 (the “Auctus Note”). In connection with the issuance of the Auctus Note, Auctus was also issued a five-year warrant (the “Auctus Warrant”) to purchase up to an aggregate of 6,250,000 shares of the Company’s common stock (the “Auctus Warrant Shares”), at an exercise price of \$0.06 per share. The net proceeds received by the Company were \$428,000 (after deducting fees and expenses related to the transaction). The Company intends to use the net proceeds for working capital and general corporate purposes.

Pursuant to the Auctus Purchase Agreement, the Company granted Auctus piggyback registration rights with respect to the shares underlying the Auctus Note and the Auctus Warrant. In addition, the Company agreed that, while any amount remains unpaid under the Auctus Note, it would not sell securities on more favorable terms than those provided to Auctus, without adjusting Auctus’ terms accordingly. Further, among other things, the Company agreed that, while any amount remains unpaid under the Auctus Note, it would not enter into any variable rate transactions.

The Auctus Note has a principal balance of \$500,000, and a stated maturity date of one year from the date of issuance. The Auctus Note bears interest at a rate of 12% per annum, which is also payable on maturity, with the understanding that the first 12 months of interest (equal to \$60,000) is guaranteed and deemed to be earned in full as of the date of issuance. In the event the Company fails to pay any amount when due under the Auctus Note, the interest rate will increase to the greater of 16%, or the maximum amount permitted by law. The Auctus Note may not be prepaid in whole or in part. Auctus may convert any amount due under the Auctus Note at any time, and from time to time, into shares of the Company’s common stock at a conversion price of \$0.06 per share; *provided, however*, that Auctus may not convert any portion of the Auctus Note that would cause it to beneficially own in excess of 4.99% of the Company’s common stock. The conversion price and number of shares of the Company’s common stock issuable upon conversion of the Auctus Note will be subject to adjustment from time to time for any subdivision or consolidation of shares and other standard dilutive events.

The Auctus Warrant provides for the purchase of up to 6,250,000 shares of the Company’s common stock, an exercise price of \$0.06 per share; *provided, however*, that Auctus may not exercise the Auctus Warrant with respect to any number of Auctus Warrant Shares that would cause it to beneficially own in excess of 4.99% of the Company’s common stock. The Auctus Warrant is exercisable for a term of 5 years from the date of issuance. The Auctus Warrant may be exercised for cash, or, if the “market price” of the Company’s common stock is greater than the Auctus Warrant’s exercise price, and there is not an effective registration statement covering the Auctus Warrant Shares, the Auctus Warrant may be exercised on a cashless basis. The number of shares of common stock to be deliverable upon exercise of the Auctus Warrant is subject to adjustment for subdivision or consolidation of shares and other standard dilutive events, or in the event the Company effects a reorganization, reclassification, merger, consolidation, disposition of assets, or other fundamental transaction.

FirstFire Global Financing

On March 11, 2021 the Company entered into a securities purchase agreement (the “FirstFire Purchase Agreement”) with FirstFire Global Opportunities Fund, LLC, a Delaware limited liability company (“FirstFire”), pursuant to which the Company issued to FirstFire a one-year 12% convertible promissory note in the principal amount of \$300,000 (the “FirstFire Note”). In connection with the issuance of the FirstFire Note, FirstFire was also issued a five-year warrant (the “FirstFire Warrant”) to purchase up to an aggregate of 3,750,000 shares of the Company’s common stock (the “FirstFire Warrant Shares”), at an exercise price of \$0.06 per share. The net proceeds received by the Company were \$270,000, after deducting an original issue discount in the amount of \$30,000.

In the event the Company fails to pay any amount when due under the FirstFire Note, the interest rate will increase to the lesser of 20%, or the maximum amount permitted by law. At any time while the FirstFire Warrant Shares are subject to an effective registration statement, or, if no registration statement covering the FirstFire Warrant Shares is effective, at any time after 180 days from the date of issuance, FirstFire may convert any amount due under the FirstFire Note into shares of the Company’s common stock (“FirstFire Conversion Shares”) at a conversion price of \$0.06 per share; *provided, however*, that, if an event of default exists, the conversion price will be the lesser of (i) \$0.03 per share, or (ii) 70% of the lowest trading price of the Company’s common stock during the ten consecutive trading days prior to the conversion. FirstFire may not convert any

portion of the FirstFire Note of the FirstFireWarrant that would cause it and its affiliates to beneficially own in excess of 4.99% of the Company's common stock (which may be waived, up to 9.99%, by FirstFire upon 61 days' prior notice to the Company). The conversion price and number of shares of the Company's common stock issuable upon conversion of the FirstFire Note will be subject to adjustment in the event of any merger, consolidation, distribution of shares, or other dilutive issuances.

The FirstFire Warrant may be exercised for cash, or, if there is not an effective registration statement covering the FirstFire Warrant Shares, on a cashless basis. The exercise price and number of Warrant Shares is subject to adjustment for subdivision or consolidation of shares, or other dilutive issuances.

Pursuant to the FirstFire Purchase Agreement, the Company agreed that, while any of the FirstFire Note, the FirstFire Conversion Shares, the FirstFire Warrants, or the FirstFire Warrant Shares remain outstanding, it would not sell securities on more favorable terms than those provided to FirstFire without adjusting FirstFire's securities to incorporate those more favorable terms.

FirstFire has a right of first refusal to participate in sale of the Company's securities for a period of 18 months and mandatory registration rights with respect to the FirstFire Conversion Shares and the FirstFire Warrant Shares.

Curiosity Ink Media Letter of Intent

On April 1, 2021, the Company entered into a binding letter of intent with Curiosity Ink Media, LLC, a California limited liability company ("Curiosity"), Russell Hicks ("Hicks"), Brent Watts ("Watts"), and the other members of Curiosity (collectively, the "Sellers"), pursuant to which the Company agreed to acquire an aggregate of 80% of Curiosity's membership interests (the "80% Membership Interests") from the Sellers, on a pro rata basis, for a purchase price of \$3,678,000, of which: (i) \$400,000 is payable in cash, to be used to pay down a portion of loans made to Curiosity by Hicks and Watts; (ii) \$3,000,000 is payable in shares of the Company's common stock, valued at a price per share equal to the 20-day volume-weighted average price of the Company's common stock; and (iii) \$278,000 is payable by the issuance to Hicks and Watts of 8% convertible promissory notes payable in equal monthly installments, on an amortized basis over 18 months. The Sellers will have the opportunity to receive up to an additional \$2,000,000 in acquisition consideration, paid in shares of the Company's common stock, based upon the successful execution of certain specified contracts and/or material agreements. The Sellers will also have the opportunity to receive an additional \$17,500,000 in purchase consideration, paid 50% in cash and 50% in shares of the Company's common stock, based upon achieving certain performance milestones through December 31, 2023. The Company has the exclusive right to acquire the 80% Membership Interests through June 30, 2021. The consummation of the acquisition is contingent upon the parties entering into a definitive agreement and other closing conditions.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures – Our management, with the participation of our principal executive officer and principal financial officer has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of December 31, 2020, the end of the period covered by this Annual Report.

These controls are designed to ensure that information required to be disclosed in the reports we file or submit pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission,

and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial, as appropriate officer to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and the principal financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2020.

Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act. Those rules define internal control over financial reporting as a process designed 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 and include those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and the receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2020. In making this assessment, our management used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in May 2013.

Based on its assessment, management has concluded that as of December 31, 2020, our disclosure controls and procedures and internal control over financial reporting were effective.

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our fourth fiscal quarter, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth information regarding our current directors and executive officers:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Darren Marks	53	Chief Executive Officer, President and Director
Melvin Leiner	81	Executive Vice President, Chief Financial Officer, Chief Operating Officer, Treasurer, Secretary and Director

Norman Rosenthal	67	Director
Robert Stevens	54	Director
Dr. Thomas Rutherford	67	Director

Our directors hold office until the next annual meeting of shareholders of the Company and until their successors have been elected and qualified. Our officers are elected by the Board and serve at the discretion of the Board.

Biographies

Darren Marks, Chief Executive Officer and President

Darren Marks has served as our Chief Executive Officer and director since June 2012 and as our President since the Share Exchange on August 17, 2017. From July 6, 2015 until the Share Exchange, Mr. Marks was chairman, chief executive officer, president and a director of Grom Holdings, Inc. From January 2011 to February 2016, Mr. Marks was the President of DNA Brands, Inc., a beverage distributor and formerly a public company quoted on the OTCBB (“DNA Brands”). Mr. Marks has more than 20 years of executive management experience. In 1991, Mr. Marks co-founded and served as Vice-President of Sims Communications, Inc. a telecommunications company that formerly traded on the Nasdaq (“Sims”), where he was responsible for the creation, design, and funding of a national telecommunications program for clients such as Alamo Rental Car and the American Automobile Association. Mr. Marks attended the University of Florida/Santa Fe Community College from 1986 to 1988.

Mr. Marks’ management and public company experience and his role as Chief Executive Officer and President of the Company, led to the conclusion that he should serve as a director.

Melvin Leiner, Executive Vice President, Chief Financial Officer, Chief Operating Officer, Treasurer, Secretary and Director

Melvin Leiner has served as our Executive Vice President, Chief Financial Officer, Treasurer and Secretary since December 2012 and as our Chief Operating Officer as of the Share Exchange on August 17, 2017. From July 6, 2015, until the Share Exchange, Mr. Marks was vice chairman, executive vice president, chief financial officer, secretary and a director of Grom Holdings, Inc. Mr. Leiner was the co-founder of DNA Brands where, from January 2011 to February 2016, he served as executive vice president and a director. Mr. Leiner co-founded Sims in 1991 where he served as its chairman, president, and chief executive officer until his resignation in 1997. Mr. Leiner has 50 years of entrepreneurial domestic and international business experience ranging from product creation, development to sales and marketing for public and private companies. Mr. Leiner attended Marshall College where he studied business.

Mr. Leiner’s business experience including with public companies and his sales and marketing experience led to the conclusion that he should serve as a director.

Dr. Thomas J. Rutherford, Director

Dr. Thomas J. Rutherford has served as a director of the Company since August 2017 and as a director of Grom Holdings Inc. since July 2015. Dr. Rutherford is an oncologist and a national expert in cancer, with more than 30 years of highly specialized surgical and clinical expertise in gynecologic cancer care. Dr. Rutherford has been the Director of Oncology for South Florida University in Tampa, Florida since January 2017. Prior thereto, from January 2015 through December 2016, Dr. Rutherford was the Director of Oncology for Connecticut Oncology, a Division of Women’s Health of Connecticut and Director of Cancer Services for Western Connecticut Health Network leading more than 100 physician subspecialists including surgeons, medical oncologists and radiation oncologists. Dr. Rutherford served as Chair of Gynecological Oncology at Yale University Medical School until January 2015. Dr. Rutherford has served on the Strategic Advisory Board at Mira Dx, Inc., a Delaware corporation. Dr. Rutherford practiced at Yale Oncology and served as Professor of Oncology and Director of Oncology Fellowship at Yale University School of Medicine from July 1993 through December 2014. Dr. Rutherford received a Bachelor of Science degree in 1976 from Roanoke College, a Master of Science degree from John Carroll University in 1979 and a Ph.D. from the Medical College of Ohio in 1989.

Mr. Rutherford’s operational experience led to the conclusion that he should serve as a director.

Robert Stevens, Director

Robert Stevens has served as a director since June 2018. Mr. Stevens founded Somerset Capital Ltd., a private capital firm that employs industry-specific skillsets to make strategic investments in distressed and turnaround situations as well as merger and direct investments in private and pre-public companies and has served as its president and managing director since 2001. Mr. Stevens also serves as a court-appointed receiver. Mr. Stevens also served as Managing Director of Technology Partners, a private equity and M&A firm, from 2010 to 2013.

Mr. Stevens financial experience led to the conclusion that he should serve as a director.

Norman Rosenthal, Director

Norman Rosenthal has served as a director since June 2018. Mr. Rosenthal founded Tempest Systems Inc., a technology consultancy firm which offers business development, relationship management and competitive intelligence services. and has served as its chief executive officer since 1986. Mr. Rosenthal has also served in senior management/advisory positions at Micro Focus International plc and Computer Associates International, Inc.

Mr. Rosenthal's financial experience led to the conclusion that he should serve as a director.

Significant Employee

Wayne Dearing has served as the Managing Director of TD Holdings (which he founded in November 2002) since we acquired TDH on July 1, 2016. Prior thereto, Mr. Dearing served as a financial and operations leader of Hanna-Barbera Australia and Hanna-Barbera Asia. Mr. Dearing also served as general manager of various divisions of Broadcom Australia, which, at the time, was one of Australia's largest independent media companies.

Board Committees

On June 1, 2018, concurrently with the appointment of two independent directors, Mr. Stevens and Mr. Rosenthal, we formed an Audit Committee, a Compensation Committee, and a Nominating and Governance Committee.

June 1, 2018, concurrently with the appointment of two independent directors, Mr. Stevens and Mr. Rosenthal, we formed an Audit Committee, a Compensation Committee, and a Nominating and Governance Committee.

Mr. Stevens was appointed to the Nominating and Governance Committee, Audit Committee and Compensation Committee. Mr. Stevens was appointed chair of the Audit Committee and "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K.

Mr. Rosenthal was appointed to the Nominating and Governance Committee, Audit Committee and Compensation Committee. Mr. Rosenthal was appointed the chair of the Nominating and Governance Committee.

Dr. Rutherford was appointed to the Nominating and Governance Committee, Audit Committee and Compensation Committee. Dr. Rutherford was appointed the chair of the Compensation Committee.

Audit Committee

The Audit Committee is composed of three independent directors: Robert Stevens (Chair), Thomas Rutherford and Norman Rosenthal. Mr. Stevens is also an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K. Each member of the Audit Committee is an independent director as defined by the rules of the SEC and Nasdaq. The Audit Committee has the sole authority and responsibility to select, evaluate and engage independent auditors for the Company.

The Audit Committee's primary responsibilities are to:

- review our accounting policies and issues which may arise in the course of the audit of our financial statements; and
- select and retain our independent registered public accounting firm.

The Audit Committee meets at least on a quarterly basis to discuss with management the annual audited financial statements and quarterly financial

statements and meets from time to time to discuss general corporate matters.

Compensation Committee

The Compensation Committee is composed of three independent directors: Thomas Rutherford (Chair), Robert Stevens and Norman Rosenthal.

The general responsibilities of our Compensation Committee include:

- approving the compensation of our President and Chief Executive Officer and all other executive officers; and
- approving all equity grants.

The Compensation Committee meets in executive session to determine the compensation of the Chief Executive Officer of the Company. In determining the amount, form, and terms of such compensation, the Committee considers the annual performance evaluation of the Chief Executive Officer conducted by the Board in light of company goals and objectives relevant to Chief Executive Officer compensation, competitive market data pertaining to Chief Executive Officer compensation at comparable companies, and such other factors as it deems relevant, and is guided by, and seeks to promote, the best interests of the Company and its shareholders.

In addition, subject to existing agreements, the Compensation Committee determines the salaries, bonuses, and other matters relating to compensation of the executive officers of the Company using similar parameters. It sets performance targets for determining periodic bonuses payable to executive officers. It also reviews and makes recommendations to the Board regarding executive and employee compensation and benefit plans and programs generally, including employee bonus and retirement plans and programs (except to the extent specifically delegated to a Board appointed committee with authority to administer a particular plan). In addition, the Compensation Committee approves the compensation of non-employee directors and reports it to the full Board.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee consists of Norman Rosenthal (Chair), Thomas Rutherford and Robert Stevens. All members must satisfy the independence requirements of the Exchange Act, the rules adopted by the SEC thereunder and the corporate governance and other listing standards of the Nasdaq as in effect from time to time.

The duties and responsibilities of the Nominating and Corporate Governance Committee include the following:

- develop and recommend to the Board a set of corporate governance guidelines and from time to time, review and reassess the adequacy of such guidelines;
- identify, review and recommend to the Board individuals qualified to become members of the Board; and
- recommend to the Board nominating policies and procedures.

The Nominating and Corporate Governance Committee identifies individuals qualified to become members of the Board, consistent with criteria approved by the Board; recommends to the Board the director nominees for the next annual meeting of stockholders or special meeting of shareholders at which directors are to be elected; recommends to the Board candidates to fill any vacancies on the Board; develops, recommends to the Board, and reviews the corporate governance guidelines applicable to the Company; and oversees the evaluation of the Board and management.

In recommending director nominees for the next annual meeting of shareholders, the Nominating and Governance Committee ensures the Company complies with its contractual obligations, if any, governing the nomination of directors. It considers and recruits candidates to fill positions on the Board, including as a result of the removal, resignation or retirement of any director, an increase in the size of the Board or otherwise. The Committee conducts, subject to applicable law, any and all inquiries into the background and qualifications of any candidate for the Board and such candidate's compliance with the independence and other qualification requirements established by the Committee. The Committee also recommends candidates to fill positions on committees of the Board.

In selecting and recommending candidates for election to the Board or appointment to any committee of the Board, the Nominating and Governance Committee does not believe that it is appropriate to select nominees through mechanical application of specified criteria. Rather, the Nominating and Governance Committee shall consider such factors as it deems appropriate, including, without limitation, the following: personal and professional integrity, ethics and values; experience in corporate management, such as serving as an officer or former officer of a publicly-held company; experience in the Company's industry; experience as a board member of another publicly-held company; diversity of expertise and

experience in substantive matters pertaining to the Company's business relative to other directors of the Company; practical and mature business judgment; and composition of the Board (including its size and structure).

The Nominating and Governance Committee develops and recommends to the Board a policy regarding the consideration of director candidates recommended by the Company's shareholders and procedures for submission by stockholders of director nominee recommendations.

In appropriate circumstances, Nominating and Corporate Committee, in its discretion, will consider and may recommend the removal of a director, in accordance with the applicable provisions of the Company's articles of incorporation, as amended, and amended bylaws. If the Company is subject to a binding obligation that requires director removal structure inconsistent with the foregoing, then the removal of a director shall be governed by such instrument.

The Nominating and Governance Committee oversees the evaluation of the Board and management. It also develops and recommends to the Board a set of corporate governance guidelines applicable to the Company, which the Nominating and Governance Committee shall periodically review and revise as appropriate. In discharging its oversight role, the Nominating and Governance Committee is empowered to investigate any matter brought to its attention.

Family Relationships

There are no family relationships among any of our officers or directors.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to our principal executive, financial and accounting officers (or persons performing similar functions) and have copy of such Code as Exhibit 14.1 to this Annual Report.

Board Leadership Structure and Role in Risk Oversight

Although we have not adopted a formal policy on whether the Chairman and Chief Executive Officer positions should be separate or combined, we have traditionally determined that it is in the best interests of the Company and its shareholders to combine these roles. Due to the small size and early stage of the Company, we believe it is currently most effective to have the Chairman and Chief Executive Officer positions combined. In addition, having one person serve as both Chairman and Chief Executive Officer eliminates the potential for confusion and provides clear leadership for the Company, with a single person setting the tone and managing our operations.

Involvement in Certain Legal Proceedings

To our knowledge, our directors and executive officers have not been involved in any of the following events during the past ten years:

1. any bankruptcy petition filed by or against such person or any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from or otherwise limiting his involvement in any type of business, securities or banking activities or to be associated with any person practicing in banking or securities activities;
4. being found by a court of competent jurisdiction in a civil action, the SEC or the Commodity Futures Trading Commission to have violated a Federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;
5. being subject of, or a party to, any Federal or state judicial or administrative order, judgment decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of any Federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

6. being subject of or party to any sanction or order, not subsequently reversed, suspended, or vacated, of any self-regulatory organization, any registered entity or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Delinquent Section 16(a) Reports

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors and persons beneficially owning more than ten percent of our equity securities ("Reporting Persons"), to file initial reports of ownership and changes in ownership with the Securities and Exchange Commission. Based solely upon a review of the copies of these reports and representations from the Reporting Persons that no other reports were required, we believe that, during our fiscal year ended December 31, 2020, the Reporting Persons timely filed all such reports.

Changes in Nominating Process

There are no material changes to the procedures by which security holders may recommend nominees to our Board.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth information concerning all cash and non-cash compensation awarded to, earned by or paid to our Chief Executive Officer and the other executive officer with compensation exceeding \$100,000 during 2020 (each a "Named Executive Officer").

SUMMARY COMPENSATION TABLE

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Option Awards (\$)(2)</u>	<u>All Other Compensation (\$)</u>	<u>Total (\$)</u>
Darren Marks	2020	\$ 245,571(1)	\$ –	\$ –	\$ –	\$ 245,571
Chief Executive Officer and President	2019	\$ 245,571(2)	\$ –	\$ –	\$ –	\$ 245,571
Melvin Leiner	2020	\$ 237,369(3)	\$ –	\$ –	\$ –	\$ 237,369
Executive Vice President, Chief Financial Officer and Secretary	2019	\$ 237,369 (4)	\$ –	\$ –	\$ –	\$ 237,369

(1) Includes \$234,321 which Mr. Marks voluntarily agreed to defer. (2) Includes \$153,482 which Mr. Marks voluntarily agreed to defer. (3) Includes \$226,119 which Mr. Leiner voluntarily agreed to defer. (4) Includes \$148,356 which Mr. Leiner voluntarily agreed to defer.

Employment Agreements

On June 1, 2016, the Company entered into an employment agreement with Darren Marks pursuant to which Mr. Marks serves as the Company's Chief Executive Officer. The employment agreement is for an initial term of three years, which term shall be automatically extended for successive and additional two-year periods unless either party shall provide written notice of termination at least 90 days prior to the end of the then-current term. Under the agreement, Mr. Marks is entitled to an annual base salary of \$245,000 (subject to a minimum 5% annual increase each year commencing on January 1, 2017) and an annual incentive bonus of up to an 80% of his base salary. The employment agreement may be terminated by the Company for "cause" (as such term is defined in the agreement), in which case Mr. Marks shall be entitled to his base salary up to the date of termination, without "cause" by the Company or for "good reason" (as such term is defined in the agreement), by Mr. Marks upon 90 days' prior written notice, in which case Mr. Marks shall be entitled to base salary and health benefits for 18 months from the expiration of the agreement and shall have 10 years to exercise any outstanding stock options. The agreement provides that Mr. Marks has the obligation to mitigate any such severance with any income he may subsequently receive. The agreement also provides that Mr. Marks shall not compete with the Company and shall keep all Company information confidential for one year after the term of the agreement.

On June 1, 2016, the Company entered into an employment agreement with Melvin Leiner pursuant to which Mr. Leiner serves as the Company's Executive Vice President and Chief Financial Officer. The employment agreement is for an initial term of three years, which term shall be automatically extended for successive and additional two-year periods unless either party shall provide written notice of termination at least 90 days

prior to the then current term Under the agreement Mr. Leiner is entitled to an annual base salary of \$237,500 (subject to a minimum 5% annual increase each year commencing on January 1, 2017) and an annual incentive bonus of up to 80% of his base salary. The employment agreement may be terminated by the Company for “cause” (as such term is defined in the agreement), in which case Mr. Leiner shall be entitled to his base salary up to the date of termination, without “cause” by the Company or for “good reason”(as such term is defined in the agreement), by Mr. Leiner upon 90 days’ prior written notice, in which case Mr. Leiner shall be entitled to base salary and health benefits for 18 months from the expiration of the agreement and shall have 10 years to exercise any outstanding stock options. The agreement provides that Mr. Leiner has the obligation to mitigate any such severance with any income he may subsequently receive. The agreement also provides that Mr. Leiner shall not compete with the Company and shall keep all Company information confidential for one year after the term of the agreement.

Director Compensation

2020 Director Compensation Table

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Stock Awards</u>	<u>Option Awards</u>	<u>Non-Equity Incentive Plan Compensation</u>	<u>Nonqualified Deferred Compensation Earnings</u>	<u>All Other Compensation</u>	<u>Total</u>
Thomas Rutherford	\$ 6,000	–	–	–	–	–	\$ 6,000
Robert Stevens	\$ 6,000	\$ –	–	–	–	–	\$ 6,000
Norman Rosenthal	\$ 6,000	\$ –	–	–	–	–	\$ 6,000

All directors are reimbursed for out-of-pocket expenses related to their Board duties. Our employee directors Mr. Marks and Mr. Leiner do not receive any compensation for serving as directors. Our three independent directors receive \$1,500 per quarter for their services.

On March 21, 2016, we granted Dr. Rutherford options to purchase 834,400 shares of common stock at \$0.78 per share which was equivalent to the price of our most recent private offering of common stock prior to the option grant. The options were valued at \$552,741 using the Black-Scholes Model. Under the terms of Mr. Rutherford’s option agreement, 50,000 shares vested immediately upon grant, the remaining 150,000 shares vested at the rate of 41,700 shares per month, commencing July 1, 2016.

Upon his appointment as a director, Mr. Stevens was issued 250,000 shares of the Company’s restricted common stock valued at \$0.45 per share or \$112,500, of which 70,000 shares vested immediately with 7,500 shares vesting in 24 equal monthly installments commencing on July 1, 2018.

Upon his appointment as director, Mr. Rosenthal was issued 150,000 shares of the Company’s restricted common stock valued at \$0.45 per share or \$67,500, of which 42,000 shares vested immediately and 4,500 shares will vest in 24 equal monthly installments commencing on the one-month anniversary of the grant date.

Employee Benefit Plans

The Company currently has no employee benefit plans.

2020 Equity Incentive Plan

On September 14, 2020, the Board and on September 16, 2020, the shareholders approved the Company’s 2020 Equity Incentive Plan (the “Plan”). The Plan provides for the grant of nonqualified stock options, incentive stock options, restricted stock awards, restricted RSUs, performance units and performance shares (which may be designed to comply with Section 162(m) of the Internal Revenue Code and stock appreciation rights to officers, directors, key employees, consultants and directors who provide services to the Company. The Company has reserved 60,000,000 shares for issuance under the Plan. As of April 12, 2021, no options to purchase shares of common stock have been issued under the Plan.

Outstanding Equity Awards

The table below reflects all equity awards made to each Named Executive Officer that were outstanding on December 31, 2020.

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2020

Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Darren Marks	2/15/2016	1,042,500	–	\$0.78	2/15/2021
Melvin Leiner	2/15/2016	1,042,500	–	\$0.78	2/15/2021

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table lists, as of April 12., 2021, the number of shares of common stock beneficially owned by (i) each person, entity or group (as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934) known to the Company to be the beneficial owner of more than 5% of the outstanding common stock; (ii) each of our directors (iii) each of our Named Executive Officers and (iv) all executive officers and directors as a group. Information relating to beneficial ownership of common stock by our principal stockholders and management is based upon information furnished by each person using "beneficial ownership" concepts under the rules of the SEC. Under these rules, a person is deemed to be a beneficial owner of a security if that person directly or indirectly has or shares voting power, which includes the power to vote or direct the voting of the security, or investment power, which includes the power to dispose or direct the disposition of the security. The person is also deemed to be a beneficial owner of any security of which that person has a right to acquire beneficial ownership within 60 days. Under the SEC rules, more than one person may be deemed to be a beneficial owner of the same securities, and a person may be deemed to be a beneficial owner of securities as to which he or she may not have any pecuniary interest. Except as noted below, each person has sole voting and investment power with respect to the shares beneficially owned and each stockholder's address is c/o Grom Social Enterprises, Inc., 2060 NW Boca Raton Blvd., #6, Boca Raton, Florida, 33431.

The percentages below are calculated based on 190,284,001 shares of common stock and 9,215,059 shares of Series B Stock issued and outstanding as of April 6, 2021.

Name of Beneficial Owner	Common Stock	Percentage of Common Stock	Series B Preferred Stock	Percentage of Series B Stock	Combined Voting Power
Executive Officers and Directors:					
Darren Marks	17,717,346 (1)	9.3%	–	–	79.5% (11)
Melvin Leiner	10,959,834 (2)	5.8%	–	–	78.5% (12)
Robert Stevens	250,000 (3)	*	–	–	*
Norman Rosenthal	291,700 (4)	*	–	–	*
Thomas J. Rutherford	2,864,475	1.5%	–	–	*
All officers and directors as a group (5 persons)	32,083,355 (5)	16.9%	–	–	81.7% (14)
5% or Greater Holders:					
Denis J. Kerasotes 31 Fairview Lane Springfield, Illinois 62711	**	*	3,816,105 (6)(13)	41.4%	–
Condor Equities, LLC (7) 2535 Webb Girth Road					

Gainesville, Georgia 30507	16,872,942 (8)(13)	8.6%	3,031,300 (13)	32.9%	—
Section 3 Developments (9)					
2415 Alta Monte Drive Cedar Park, Texas 78613	**	*	520,000 (13)	5.6%	
Eileen F. Kerasotes Family Trust (10)					
4747 County Road 501 Bayfield, CO 81122	*	*	472,420 (13)	5.1%	

*Less than 1%

*Less than 1%

**Less than 5%

(1) Represents 17,717,346 shares held by Family Tys, LLC (“Family Tys”), of which Mr. Marks is the managing member and over which Mr. Marks has voting and dispositive power. Does not include an aggregate of (i) 9,140,059 shares of Series B Stock (with 50 votes per share, or 457,002,950 votes in the aggregate) and (ii) 43,076,005 shares, for which Mr. Marks has a voting proxy until August 6, 2022.

(2) Represents 10,959,834 shares held by 4 Life LLC (“4 Life”), of which Mr. Leiner is the managing member and over which Mr. Leiner has voting and dispositive power. Does not include an aggregate of (i) 9,140,059 shares of Series B Stock (with 50 votes per share, or 457,002,950 votes in the aggregate), or (ii) 43,076,005 shares of common stock, for which Mr. Marks has a voting proxy until August 6, 2022.

(3) Represents shares held by Thistle Investments, LLC, of which Mr. Stevens is managing member and over which Mr. Stevens has sole voting and dispositive power.

(4) Represents shares held by Tempest Systems, Inc., of which Mr. Rosenthal is chief executive officer and over which Mr. Rosenthal has sole voting and dispositive power.

(5) Does not include an aggregate of (i) 9,140,059 shares of Series B Stock (with 50 votes per share, or 457,002,950 votes in the aggregate), and (ii) 43,076,005 shares of common stock, for which Messrs. Marks and Leiner have a voting proxy until August 6, 2022.

(6) Includes 25,000 shares held by the Denis J. Kerasotes Trust, dated June 13, 2017, of which Mr. Kerasotes as trustee has sole voting and dispositive power.

(7) Dale Nabb, manager of Condor Equities, LLC (“Condor”), has sole voting and dispositive power of the shares held by Condor.

(8) Includes (i) 2,000,000 shares underlying a convertible note, (ii) an aggregate of 3,200,000 shares underlying currently exercisable warrants at an average exercise price of \$0.23 per share, and (iii) 750,000 shares held by Dale Nabb, manager of Condor.

(9) Michael Tapajna, chief executive officer of Section 3 Developments, Inc. (“Section 3”), has sole voting and dispositive power of the shares held by Section 3.

(10) John G. Kerasotes, as trustee of the Eileen F. Kerasotes Trust, has sole voting and dispositive power over the shares held by such Trust.

(11) Based upon (i) 17,717,346 shares of common stock held by Family Tys of which Mr. Marks is the managing member and over which Mr. Marks has voting and dispositive power and (ii) the voting rights to an aggregate of (A) 43,076,005 shares of common stock held by certain holders of our Series B Stock, and (B) 9,140,056 shares of Series B Stock, having the right to 50 votes for each share of Series B Stock for which Mr. Marks has a voting proxy until August 6, 2022.

(12) Based upon (i) 10,959,834 shares held by 4 Life of which Mr. Leiner is the managing member and over which Mr. Leiner has voting and dispositive power and (ii) and the voting rights to an aggregate of (A) 43,076,005 shares of common stock held by certain holders of our Series B Stock, and (B) 9,140,056 shares of Series B Stock, having the right to 50 votes for each share of Series B Stock for which Mr. Leiner has a voting proxy until August 6, 2022.

(13) Darren Marks, the Company's Chief Executive Officer, President, and a director and Melvin Leiner, the Company's Executive Vice President, Chief Financial Officer, Chief Operating Officer, Treasurer, Secretary and a director, have the voting rights to such shares of Series B Stock and common stock until August 6, 2022, pursuant to voting proxies from such shareholders.

(14) Includes 9,140,059 shares of Series B Stock (with 50 votes per share, or 457,002,950 votes in the aggregate).

Series B Stock

Darren Marks, the Company's Chief Executive Officer, President, and a director and Melvin Leiner, the Company's Executive Vice President, Chief Financial Officer, Chief Operating Officer, Treasurer, Secretary and a director, have all of the voting rights of the Series B Stock until August 6, 2022, pursuant to a proxy from the Series B shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Acquisition of TD Holdings

Wayne Dearing, the Managing Director of TD Holdings, was issued a promissory note in the principal amount of \$2,000,000 on July 1, 2016 in connection with the Company's acquisition of TD Holdings. The note, as amended, was due to mature on April 1, 2020. On March 16, 2020, the Company paid Mr. Dearing \$1,500,000 against the principal amount of the note, and restructured the remaining \$500,000 in unpaid principal. Under the new terms, the note bears interest at a rate of 12% per annum and matures on June 30, 2021. Principal and interest are payable monthly in arrears, amortized over a four-year period.

Additionally, Mr. Dearing was entitled to 50% of any earnout payment contingent upon TD Holdings achieving certain financial milestones as defined in the share exchange agreement. The earnout period, as amended, was extended until December 31, 2019. No earnout consideration was achieved, nor payment made, for any measurement period through December 31, 2019.

Mr. Dearing's wife, Stella Dearing, is the Director of Operations of Top Draw and receives an annual salary of \$83,000.

Marks Family

Sarah Marks, the wife of Darren Marks, our President and Chief Executive Officer, Zach Marks, Luke Marks, Jack Marks and Dawson Marks, Caroline Marks and Victoria Marks, each Darren Marks's children are employed or independently contracted by the Company.

During the year ended December 31, 2020, the Marks family was paid as follows: Zach \$28,050, Dawson \$500, and Victoria \$500. During the year ended December 31, 2019, the Marks family was paid as follows: Sarah \$12,600, Zachary \$40,593, Luke \$17,659, Jack \$1,800, Victoria \$2,250 and Caroline \$3,750.

Liabilities Due to Executive

Pursuant to verbal agreements, Messrs. Marks and Leiner have made loans to the Company to help fund operations. These loans are non-interest bearing and callable on demand. During the years ended December 31, 2020 and 2019, Mr. Marks loaned \$0 and \$22,000, respectively, and Mr. Leiner loaned \$47,707 and \$81,500, respectively, to the Company.

Messrs. Marks and Leiner converted the following portion of their loans to equity:

Name	Date	Amount of Loan Principal Converted to Equity	Share Price Used for c onversion	Stock Price on Conversion Date	Shares Issued
Darren Marks	10/15/2018	333,333	\$ 0.31	\$ 0.19	1,075,268
	12/10/2019	100,000	\$ 0.18	\$ 0.10	579,429
Melvin Leiner	10/15/2018	166,667	\$ 0.31	\$ 0.19	537,635

The outstanding amounts at December 31, 2020 and 2019, due to Mr. Marks were \$43,429 and \$215,122 and the outstanding amounts due to Mr. Leiner were \$50,312 and \$210,929, respectively.

On July 13, 2018, our director Dr. Thomas Rutherford loaned the Company \$50,000. The loan is non-interest bearing and callable on demand.

During the first quarter of 2018, Wayne and Stella Dearing loaned an aggregate of \$435,085 to Top Draw to help to finance working capital needs, capital expenditures, and leasehold improvements at its production facilities in Manila, Philippines. These loans bear interest at a rate of 5% per annum and are callable on demand. As of December 31, 2019, all amounts owed to Mr. and Mrs. Dearing as a result of these loans had been fully repaid.

Common Stock and Stock Options Issued to Directors

On March 21, 2016, we granted Dr. Rutherford options to purchase 834,400 shares of common stock at \$0.78 per share. The options were valued at \$552,741 using the Black-Scholes Model. Under the terms of Mr. Rutherford's option agreement, 50,000 shares vested immediately upon grant, the remaining 150,000 shares vested at the rate of 41,700 shares per month, commencing July 1, 2016.

On June 1, 2018, upon his appointment as a director, Mr. Stevens was issued 250,000 shares of the Company's restricted common stock valued at \$0.45 per share or \$112,500, of which 70,000 shares vested immediately with 7,500 shares vesting in 24 equal monthly installments commencing on July 1, 2018.

On June 1, 2018, upon his appointment as director, Mr. Rosenthal was issued 150,000 shares of the Company's restricted common stock valued at \$0.45 per share or \$67,500, of which 42,000 shares vested immediately and 4,500 shares will vest in 24 equal monthly installments commencing on the one-month anniversary of the grant date.

Voting Proxies

On August 6, 2020, in connection with the execution and delivery of the Exchange Agreements, the holders of the Notes and the Series A stockholders executed and delivered proxies to Darren Marks and Melvin Leiner, granting each of them the power to vote all of their shares in the Company for a period of two years. As a result, Messrs. Marks and Leiner, collectively, have an aggregate of 528,756,135 votes, or 81.2% of the voting capital of the Company.

Director Independence

As of December 31, 2019, our Board is currently composed of five members, three of whom, Dr. Thomas Rutherford, Robert Stevens, and Norman Rosenthal qualify as independent in accordance with the published listing requirements of the NASDAQ Capital Market. The NASDAQ Capital Market independence definition includes a series of objective tests, such as that the directors are not, and have not been for at least three years, one of our employees and that neither the directors nor any of their family members, have engaged in various types of business dealings with us.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table reflects the aggregate fees billed for professional services rendered by our principal accountant, BF Borgers, CPA P.C. ("Borgers"), in years ended December 31, 2020 and 2019:

	<u>December 31, 2019</u>	<u>December 31, 2019</u>
Audit Fees	\$ 210,600	\$ 170,000
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-

Audit Fees. Consists of fees for professional services rendered for the audit of our annual financial statements included in our Annual Reports on Forms 10-K for our fiscal years ended December 31, 2020 and 2019 and reviews of our interim financial statements included in our Quarterly Reports on Form 10-Q.

Audit-Related Fees. Consists of fees for assurance and related services that are reasonably related to the audit. This category includes fees related to assistance consulting on financial accounting/reporting standards.

Tax Fees. Consists of amounts billed for professional services rendered for tax return preparation, tax planning, and tax advice.

All Other Fees. Consists of amounts billed for services other than those noted above.

Audit Committee's Pre-Approval Practice

The Audit Committee of the Board has established its pre-approval policies and procedures, pursuant to which the Audit Committee approved the foregoing audit and audit-related services provided by Borgers in 2020 and 2019 consistent with the Audit Committee's responsibility for engaging our independent auditors. The Audit Committee also considered whether the non-audit services rendered by our independent registered public accounting firm are compatible with an auditor maintaining independence. The Audit Committee has determined that the rendering of such services is compatible with Borgers maintaining its independence. The percentage of hours expended on Borger's engagement to audit our financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees was 0%.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES.

The following exhibits are included with this Annual Report:

Exhibit Number	Description
3.1	Articles of Incorporation (Incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-1, filed with the Securities and Exchange Commission on January 13, 2016)
3.2	Bylaws (Incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-1, filed with the Securities and Exchange Commission on January 13, 2016)
3.3	Amendment to Articles of Incorporation (Incorporated by reference to Exhibit 3.3 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 22, 2017)
3.4	Articles of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 18, 2019)
4.1	Specimen Stock Certificate (Incorporated by reference to Exhibit 3.4 of the Company's Registration Statement on Form S-1, filed with the Securities and Exchange Commission on January 13, 2016)
4.2	Form of Warrant (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 19, 2019)
4.3	Certificate of Designation of Series A Convertible Preferred Stock, dated February 22, 2019 (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 16, 2019)
4.4	Articles of Amendment to Articles of Incorporation, dated May 31, 2019 (incorporated by reference to Exhibit 3.1 to the

Company's Current Report on Form 8-K filed with the SEC on June 18, 2019)

- 4.5** [Description of Securities](#)
- 4.6 [Certificate of Designation of Series B 8% Convertible Preferred Stock](#) (incorporated by reference to Exhibit 4.5 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2020)
- 4.7 [12% Convertible Note, dated February 9, 2021, issued to Auctus Fund, LLC](#) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on February 19, 2021)
- 4.8 [Common Stock Purchase Warrant, dated February 9, 2021, issued to Auctus Fund, LLC](#) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on February 12, 2021)
- 10.1 [Form of Sales Rep Agreement](#) (Incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-1, filed with the Securities and Exchange Commission on January 13, 2016)
- 10.2 [Consulting Agreement and Addendum](#) (Incorporated by reference to Exhibit 10.2 of the Company's Registration Statement on Form S-1, filed with the Securities and Exchange Commission on January 13, 2016)
- 10.3 [Sublease Agreement with Grom Social, Inc.](#) (Incorporated by reference to Exhibit 10.3 of the Company's Registration Statement on Form S-1/A, filed with the Securities and Exchange Commission on March 3, 2016)
- 10.4 [Purchase and Sale Agreement with Forcefield](#) (Incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 6, 2016)
- 10.5 [Copy of Letter of Intent with Grom Holdings, Inc.](#) (Incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 17, 2017)
- 10.6 [Share Exchange Agreement with Grom Holdings, Inc.](#) (Incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 17, 2017)
- 10.7* [Employment Agreement, dated June 1, 2016, between the Company and Darren Marks](#) (Incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 22, 2017)
- 10.8* [Employment Agreement with Melvin Leiner](#) (Incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 22, 2017)

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- 10.9 [Acquisition Agreement of TD Holdings](#) (Incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 22, 2017)
- 10.10 [Memorandum of Understanding with Fyoosion LLC](#) (Incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 6, 2017)
- 10.11 [Asset Purchase Agreement with Fyoosion LLC](#) (Incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 3, 2018)
- 10.12 [Amending Agreement to the Share Sale Agreement for the Entire Issued Share Capital of TD Holdings Limited and the Secured Promissory Note](#) (Incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 5, 2018)
- 10.17 [\\$1.0 Million Convertible Promissory Note with TeleMate.net](#) (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 16, 2019).
- 10.18 [Investment Banking Agreement with Newbridge Securities Corporation](#) (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 16, 2019).
- 10.19 [Form of Pledge and Security Agreement](#) (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 16, 2019).
- 10.20 [Subscription Agreement for Series A Stock](#) (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 16, 2019).
- 10.21 [Purchase and Sale Agreement with TeleMate.Net](#) (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 16, 2019).
- 10.22 [Grom Educational Services Peachtree Pointe Lease](#) (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 16, 2019).
- 10.23 [Form of Subscription Agreement](#) (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 19, 2019)
- 10.24 [Form of Debt Exchange Agreement](#) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 15, 2019)
- 10.25 [Form of 12% Senior Secured Convertible Promissory Note](#) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on March 20, 2020)
- 10.26 [Form of 12% Senior Secured Convertible Promissory Note](#) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on March 20, 2020)

- 10.27 [Form of Subscription Agreement for 12% Senior Secured Convertible Promissory Note](#) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on March 20, 2020)
- 10.28 [Intercreditor Deed](#) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on March 20, 2020)
- 10.29 [Security Agent Agreement, dated March 16, 2020](#) (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on March 20, 2020)
- 10.30 [Third Amendment to the TDH Share Sell Agreement, dated March 16, 2020](#) (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on March 20, 2020)
- 10.31 [Security Agreement, dated March 16, 2020](#) (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on March 20, 2020)
- 10.32 [Form of Subscription Agreement](#) (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the SEC on March 20, 2020)
- 10.33 [Form of Debt Exchange Agreement](#) (incorporated by reference to Exhibit 10.33 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2020)
- 10.34 [Form of Exchange Agreement for Series A 10% Convertible Preferred Stock](#) (incorporated by reference to Exhibit 10.34 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2020)
- 10.35 [Form of Subscription Agreement for Series B Convertible Stock](#) (incorporated by reference to Exhibit 10.35 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2020)

- 10.36 [2020 Equity Incentive Plan](#) (incorporated by reference to Exhibit 10.36 to the Company's Current Report on Form 8-K filed with the SEC on September 21, 2020)
- 10.37 [Form of Incentive Stock Option Agreement](#) (incorporated by reference to Exhibit 10.37 to the Company's Current Report on Form 8-K filed with the SEC on September 21, 2020)
- 10.38 [Form of NonQualified Stock Option Agreement](#) (incorporated by reference to Exhibit 10.38 to the Company's Current Report on Form 8-K filed with the SEC on September 21, 2020)
- 10.39 [Form of Restricted Stock Agreement](#) (incorporated by reference to Exhibit 10.39 to the Company's Current Report on Form 8-K filed with the SEC on September 21, 2020)
- 10.40 [Form of Grant of Stock Appreciation Rights](#) (incorporated by reference to Exhibit 10.40 to the Company's Current Report on Form 8-K filed with the SEC on September 21, 2020)
- 10.41 [Securities Purchase Agreement, dated November 30, 2020, between the Company and EMA Financial, LLC](#) (incorporated by reference to Exhibit 10.43 to the Company's Current Report on Form 8-K filed with the SEC on February 12, 2021)
- 10.42 [8% Convertible Note, dated November 30, 2020 issued to EMA Financial, LLC](#) (incorporated by reference to Exhibit 10.44 to the Company's Current Report on Form 8-K filed with the SEC on February 12, 2021)
- 10.43 [Note Purchase Agreement, dated November 30, 2020, between the Company and Quick Capital, LLC](#) (incorporated by reference to Exhibit 10.45 to the Company's Current Report on Form 8-K filed with the SEC on February 12, 2021)
- 10.44 [\\$113,587 Convertible Note, dated November 30, 2020, issued to Quick Capital, LLC](#) (incorporated by reference to Exhibit 10.46 to the Company's Current Report on Form 8-K filed with the SEC on February 12, 2021)
- 10.45 [Common Stock Purchase Warrant, dated November 30, 2020, issued to Quick Capital, LLC](#) (incorporated by reference to Exhibit 10.47 to the Company's Current Report on Form 8-K filed with the SEC on February 12, 2021)
- 10.46 [Securities Purchase Agreement, dated February 9, 2021, between the Company and Auctus Fund, LLC](#) incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on February 12, 2021)
- 10.47** [Note Cancellation and General Release, dated March 17, 2021 from Newbridge Securities Corporation](#)
- 10.48 [12% Convertible Promissory Note, dated March 11, 2021, issued to FirstFire Fund, LLC](#) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on April 5, 2021)
- 10.49 [Common Stock Purchase Warrant, dated March 11, 2021, issued to FirstFire Fund, LLC](#) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on April 5, 2021)
- 10.50 [Securities Purchase Agreement, dated March 11, 2021, between the Company and FirstFire Fund, LLC](#) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on April 5, 2021)
- 10.51 [Registration Rights Agreement, dated March 11, 2021, between the Company and FirstFire Fund, LLC](#) (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on April 5, 2021)
- 14.1 [Code of Conduct](#) (Incorporated by reference to Exhibit 14.1 of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on April 17, 2018)
- 21.1 [Subsidiaries of the Registrant](#) (Incorporated by reference to Exhibit 21.1 of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on April 17, 2018)

31** [Certification of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14\(a\) under the Exchange Act](#)(filed herewith)

32** [Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002](#) (filed herewith)

101.INS** XBRL Instance Document

101.SCH** XBRL Schema Document

101.CAL** XBRL Calculation Linkbase Document

101.LAB** XBRL Label Linkbase Document

101.PRE** XBRL Presentation Linkbase Document

101.DEF** XBRL Definition Linkbase Document

* Management compensation agreement

** Filed herewith

ITEM 16. FORM 10-K SUMMARY

None

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 thereunder duly authorized.

Grom Social Enterprises, Inc.

Dated: April 13, 2021

By: /s/ Darren Marks

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Darren Marks</u> Darren Marks	Chief Executive Officer, President and Chairman (Principal Executive Officer)	April 13, 2021
<u>/s/ Melvin Leiner</u> Melvin Leiner	Vice Chairman, Executive Vice President, Chief Financial Officer, Director and Secretary (Principal Financial and Accounting Officer)	April 13, 2021
<u>/s/ Dr. Thomas Rutherford</u> Dr. Thomas Rutherford	Director	April 13, 2021
<u>/s/ Robert Stevens</u> Robert Stevens	Director	April 13, 2021
<u>/s/ Norman Rosenthal</u> Norman Rosenthal	Director	April 13, 2021

