

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

Commission File Number 000-55431



MASSROOTS, INC.

(Exact name of business as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

46-2612944

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

7083 Hollywood Blvd, Office 4084 Los Angeles, CA

(Address of principal executive offices)

90028

(Zip code)

(833) 467-6687

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 16, 2018, there were 163,017,534 shares of the registrant's common stock issued and outstanding.

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FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q may be “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are often, but not always, made through the use of words or phrases such as “believe,” “will,” “expect,” “anticipate,” “estimate,” “intend,” “plan” and “would.” These statements are based on current expectations, estimates and projections about our business based in part on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and are likely to, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those set forth in “Item 1A. Risk Factors” in our Annual Report on Form 10-K, as amended by our Quarterly Reports on Form 10-Q.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Any forward-looking statements speak only as of the date on which they are made, and we disclaim any obligation to publicly update or release any revisions to these forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events, except as required by law.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MASSROOTS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2018 <u>(unaudited)</u>	December 31, 2017 <u>(audited)</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 15,948	\$ 1,201,587
Prepaid expenses	116,408	16,556
TOTAL CURRENT ASSETS	132,356	1,218,143
Property and equipment - net	43,553	55,146
OTHER ASSETS		
Investments	403,249	403,249
Software Cost, net of amortization of \$596,176 and \$389,459	656,824	863,941
Deposits and other assets	36,000	33,502
Total Other Assets	1,096,073	1,300,692
TOTAL ASSETS	1,271,982	2,573,981
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	160,708	1,257,783
Accrued payroll and related	2,992,562	1,601,232
Advances	933,500	800,394
Convertible notes payable, net of debt discount of \$0 and \$248,009	-	796,991
Derivative liability	-	9,493,307
TOTAL CURRENT LIABILITIES	4,086,770	13,949,707
TOTAL LIABILITIES	4,086,770	13,949,707
STOCKHOLDERS' DEFICIT		
Blank check preferred stock, \$0.001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock, \$0.001 par value, 500,000,000 shares authorized; 155,787,534 and 112,165,839 shares issued and outstanding	155,788	112,166
Common stock to be issued, 130,000 and 12,572,500 shares, respectively	130	12,573
Additional paid in capital	70,209,463	63,315,749
Subscriptions receivable	-	(564,000)
Accumulated deficit	(73,180,169)	(74,252,214)
TOTAL STOCKHOLDERS' DEFICIT	(2,814,788)	(11,375,726)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 1,271,982	\$ 2,573,981

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MASSROOTS, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
REVENUES	\$ 2,237	\$ 142,873	\$ 3,729	\$ 277,614
OPERATING EXPENSES				
Advertising	367,974	368,812	432,551	562,243
Payroll and related expense	1,403,253	1,069,276	1,828,983	1,921,136
Stock based compensation	75,398	9,140,970	3,192,648	14,371,973
Other general and administrative expenses	935,778	1,567,556	2,365,501	2,927,078
Amortization of Software costs	109,852	-	207,117	-
Total General and Administrative expenses	2,892,255	12,146,614	8,026,800	19,782,430
(LOSS) FROM OPERATIONS	(2,890,018)	(12,003,741)	(8,023,071)	(19,504,816)
OTHER INCOME (EXPENSE)				
Gain on sale of securities	-	75,000	-	75,000
Gain on change in fair value of derivative liabilities	-	298,087	-	351,985
Interest expense	(47,996)	-	(398,191)	-
Total Other Income (Expense)	(47,996)	373,087	(398,191)	426,985
Net Loss before Income Taxes	(2,938,014)	(11,630,654)	(8,421,262)	(19,077,831)
Provision for Income taxes (benefit)	-	-	-	-
NET (LOSS)	\$ (2,938,014)	\$ (11,630,654)	\$ (8,421,262)	\$ (19,077,831)
Net loss per common share-basic and diluted	\$ (0.02)	\$ (0.13)	\$ (0.06)	\$ (0.22)
Weighted average common shares outstanding-basic and diluted	154,576,286	91,784,190	148,240,344	86,057,738

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MASSROOTS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(UNAUDITED)

	<u>Common Stock</u>		<u>Common Stock to be Issued</u>		<u>Additional Paid</u>	<u>Subscriptions</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>In Capital</u>	<u>Receivable</u>	<u>Deficit</u>	
Balance as of December 31, 2017	112,165,839	\$ 112,166	12,572,500	\$ 12,573	\$ 63,315,749	\$ (564,000)	\$ (74,252,214)	\$ (11,375,726)
Reclassify fair value of derivative liabilities to retained earnings	-	-	-	-	-	-	9,493,307	9,493,307
Issuance of common stock previously to be issued	14,362,500	14,363	(14,362,500)	(14,363)	-	564,000	-	564,000
Common stock shares to be retired in 2018	(1,790,000)	(1,790)	1,790,000	1,790	-	-	-	-
Common stock issued upon conversion of debentures	3,742,648	3,743	-	-	632,507	-	-	636,250
Sale of common stock	13,700,000	13,700	-	-	2,726,300	-	-	2,740,000
Common shares issued upon cashless exercise of options	95,134	95	-	-	(95)	-	-	-
Common shares issued upon cashless exercise of warrants	7,647,413	7,647	-	-	(7,647)	-	-	-
Common stock issued upon exercise of warrants for cash	1,370,000	1,370	-	-	321,630	-	-	323,000
Common stock issued for services	4,494,000	4,494	-	-	2,425,853	-	-	2,430,347
Share based compensation	-	-	-	-	762,301	-	-	762,301
Common shares issued in lieu of interest expense	-	-	130,000	130	32,865	-	-	32,995
Net Loss	-	-	-	-	-	-	(8,421,262)	(8,421,262)
Balance as of June 30, 2018	<u>155,787,534</u>	<u>\$ 155,788</u>	<u>130,000</u>	<u>\$ 130</u>	<u>\$ 70,209,463</u>	<u>\$ -</u>	<u>\$ (73,180,169)</u>	<u>\$ (2,814,788)</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MASSROOTS, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS
(UNAUDITED)

	Six months ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (8,421,262)	\$ (19,077,831)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	222,532	11,934
Stock based compensation	3,192,648	11,691,085
Interest and amortization of debt discount	383,192	
Gain on sale of securities	-	(75,000)
Change in fair value of re-priced and modified options	-	2,680,888
Change in fair value of derivative liabilities	-	(351,985)
Changes in operating assets and liabilities		
Accounts receivables	-	6,889
Prepaid and other	(99,852)	-
Advance settlement	(10,394)	-
Security deposit	(2,498)	-
Deferred revenue	-	(27,010)
Accounts payable and other liabilities	294,255	(63,039)
Net Cash used in operating activities	(4,441,379)	(5,204,069)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquired from acquisition of DDDigital LLC	-	8,672
Proceeds from sale of securities	-	250,000
Purchase of equity investment	-	(100,002)
Purchase of Property and Equipment	(3,822)	(56,041)
Net Cash used in investing activities	(3,822)	102,629
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from stock subscription	-	35,000
Proceeds from common stock sales	3,304,000	-
Proceeds from exercise of warrants	323,000	4,723,197
Repayment of advance	(360,000)	-
Proceeds from advances	503,500	-
Repayment of loans	(510,938)	-
Net cash provided by financing activities	3,259,562	4,758,197
NET DECREASE IN CASH	(1,185,639)	(343,243)
Cash, beginning of period	1,201,587	374,490
Cash, end of period	<u>\$ 15,948</u>	<u>\$ 31,247</u>
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	<u>\$ 15,000</u>	<u>\$ -</u>
Cash paid during period for taxes	<u>\$ -</u>	<u>\$ -</u>
Non cash investing and financing activities:		
Common stock issued in settlement of debt	<u>\$ 636,250</u>	<u>\$ 108,100</u>
Proceeds received from subscriptions receivable	<u>\$ 564,000</u>	<u>\$ -</u>
Common stock issued to acquire DDDigital LLC	<u>\$ -</u>	<u>\$ 2,883,220</u>
Net assets acquired from acquisition of DDDigital LLC	<u>\$ -</u>	<u>\$ 15,588</u>
Reclassification of derivative liability to equity upon warrant exercise(s)	<u>\$ -</u>	<u>\$ 610,967</u>
Derivative liability reclassified to retained earnings	<u>\$ 9,493,307</u>	<u>\$ -</u>
Interest settled with common stock	<u>\$ 32,995</u>	<u>\$ -</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MASSROOTS, INC.
Notes to Condensed Financial Statements
June 30, 2018
(unaudited)

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

MassRoots, Inc. (“MassRoots” or the “Company”) has created a technology platform for the cannabis industry focused on enabling users to share their cannabis content, follow their favorite dispensaries, and stay connected with the legalization movement. The Company was incorporated in the State of Delaware on April 26, 2013.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Our consolidated financial statements include the accounts of DDDigital, Inc., Odava, Inc., and MassRoots Blockchain Technologies, Inc. All intercompany transactions were eliminated during consolidation.

NOTE 2 – GOING CONCERN AND MANAGEMENT’S LIQUIDITY PLANS

As of June 30, 2018, the Company had cash of \$15,948 and working capital deficit (current liabilities in excess of current assets) of \$2,814,788. During the six months ended June 30, 2018, the Company used net cash in operating activities of \$4,441,379. These conditions raise substantial doubt about the Company’s ability to continue as a going concern for one year from the issuance of the financial statements.

During the six months of 2018, the Company received \$323,000, \$3,304,000, \$106,000 and \$397,500 approximately from the exercise of common stock warrants, sale of common stock, issuances of debt notes, and proceeds from simple agreements for future tokens, respectively. The Company does not have cash sufficient to fund operations for the next fiscal year.

The Company’s primary source of operating funds since inception has been cash proceeds from private placements of common stock, proceeds from the exercise of warrants and options and issuance of notes payable. The Company has experienced net losses and negative cash flows from operations since inception and expects these conditions to continue for the foreseeable future. The Company will require additional financing to fund future operations.

Management’s plans with regard to these matters encompass the following actions: 1) obtain funding from new and potentially current investors to alleviate the Company’s working capital deficiency, and 2) implement a plan to generate sales. The Company’s continued existence is dependent upon its ability to translate its user base into sales. However, the outcome of management’s plans cannot be ascertained with any degree of certainty.

Accordingly, the accompanying condensed consolidated financial statements have been prepared in conformity with U.S. GAAP, which contemplates continuation of the Company as a going concern and the realization of assets and satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the condensed consolidated financial statements do not necessarily purport to represent realizable or settlement values. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Securities Exchange Commission (“SEC”) Form 10-Q and Article 8 of Regulation S-X of the Securities Act of 1933, and reflect the accounts and operations of the Company and those of our subsidiaries.

MASSROOTS, INC.
Notes to Condensed Financial Statements
June 30, 2018
(unaudited)

All intercompany accounts and transactions have been eliminated in consolidation. Accordingly, the accompanying interim unaudited condensed consolidated financial statements do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the unaudited condensed consolidated financial position of the Company as of June 30, 2018, the unaudited condensed consolidated results of operations for the three and six months ended June 30, 2018 and 2017, and the unaudited condensed consolidated results of cash flows for the six months ended June 30, 2018 and 2017 have been included. These interim unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and, therefore, should be read in conjunction with the consolidated financial statements and related notes contained in the Company's most recent Annual Report on Form 10-K/A filed with the SEC on April 29, 2018. The December 31, 2017 balances reported herein are derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2017, filed with the SEC on April 29, 2018. The results for the interim periods are not necessarily indicative of results to be expected for the full year.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates include stock-based compensation, fair values relating to derivative liabilities and the valuation allowance related to deferred tax assets. Actual results may differ from these estimates.

Fair Value of Financial Instruments

ASC subtopic 825-10, Financial Instruments ("ASC 825-10") requires disclosure of the fair value of certain financial instruments. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments. All other significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

The Company follows ASC 825-10, which permits entities to choose to measure many financial instruments and certain other items at fair value.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Company considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives of 3 to 5 years. Repair and maintenance costs are expensed as occurred. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings.

Acquisitions and Subsidiaries

Subsidiaries are all entities over which MassRoots has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether MassRoots controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to MassRoots.

The purchase method of accounting is used to account for the acquisition of subsidiaries by MassRoots. The cost of an acquisition is measured as the fair value of the assets transferred in consideration, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the MassRoots' share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

MASSROOTS, INC.
Notes to Condensed Financial Statements
June 30, 2018
(unaudited)

Inter-company transactions, balances and unrealized gains on transactions between MassRoots' companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. For the three months ended June 30, 2018 and 2017, the company charged to operations \$367,974 and \$368,812, respectively, as advertising expense. For the six months ended June 30, 2018 and 2017, respectively, the company charged to operations \$432,551 and \$562,243 as advertising expense.

Stock Based Compensation

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on vesting dates and interim financial reporting dates until the service period is complete. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period.

Long-Lived Assets

The Company reviews its property and equipment and any identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The test for impairment is required to be performed by management at least annually. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted operating cash flow expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Intangible assets are stated at cost and reviewed annually to examine any impairments, usually assuming an estimated useful lives of 3 to 5 years. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings.

Indefinite Lived Intangibles and Goodwill Assets

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, "Business Combinations," where the total purchase price is allocated to the tangible and identified intangible assets acquired and liabilities assumed based on their estimated fair values. The purchase price is allocated using the information currently available, and may be adjusted, up to one year from acquisition date, after obtaining more information regarding, among other things, asset valuations, liabilities assumed and revisions to preliminary estimates. The purchase price in excess of the fair value of the tangible and identified intangible assets acquired less liabilities assumed is recognized as goodwill.

The Company tests for indefinite lived intangibles and goodwill impairment in the fourth quarter of each year and whenever events or circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable.

Segment Reporting

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the Chief Executive Officer, or decision-making group, in deciding the method to allocate resources and assess performance. The Company currently has one reportable segment for financial reporting purposes, which represents the Company's core business.

MASSROOTS, INC.
Notes to Condensed Financial Statements
June 30, 2018
(unaudited)

Net Earnings (Loss) Per Common Share

The Company computes earnings (loss) per share under ASC subtopic 260-10, Earnings Per Share (“ASC 260-10”). Net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the “treasury stock” and/or “if converted” methods as applicable.

The computation of basic and diluted income (loss) per share, for the three and six months ended June 30, 2018 and 2017 excludes potentially dilutive securities when their inclusion would be anti-dilutive, or if their exercise prices were greater than the average market price of the common stock during the period.

Potentially dilutive securities excluded from the computation of basic and diluted net loss per share are as follows:

	June 30, 2018	June 30, 2017
Options to purchase common stock	15,371,765	17,248,942
Warrants to purchase common stock	34,626,339	7,793,847
Totals	<u>49,998,104</u>	<u>25,042,789</u>

Reclassification

Certain reclassifications have been made to the prior years’ data to conform to the current year presentation. These reclassifications had no effect on reported income (losses).

Recent Accounting Pronouncements

There are other various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

FASB ASU 2017-01 (Topic 805), “Business Combinations: Clarifying the Definition of a Business” – Issued in January 2017, ASU 2017-01 revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. This guidance was effective for the Company in the first fiscal quarter of 2018. The Company believes the standard does not have a material impact on our consolidated financial statements and related disclosures.

FASB ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)” – Issued in August 2016, the amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under ASC Topic 230, “Statement of Cash Flows”. The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company has adopted this guidance and does not believe it materially impacts its consolidated financial statements and related disclosures.

MASSROOTS, INC.
Notes to Condensed Financial Statements
June 30, 2018
(unaudited)

FASB ASU No. 2014-09 (Topic 606), "Revenue from Contracts with Customers" – Issued in May 2014, ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers using a five-step model that requires entities to exercise judgment when considering the terms of the contracts. In August 2015, the FASB issued ASU No. 2015-14, "*Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*". This amendment defers the effective date of ASU 2014-09 by one year. In March 2016, the FASB issued ASU 2016-08, "*Principal versus Agent Considerations (Reporting Gross versus Net)*", which amends the principal versus agent guidance and clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. In addition, the FASB issued ASU Nos. 2016-20, "*Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*" and 2016-12, "*Narrow-Scope Improvements and Practical Expedients*", both of which provide additional clarification of certain provisions in Topic 606. These ASC updates are effective for annual reporting periods beginning after December 15, 2017, but early adoption is permitted. Early adoption is permitted only as of annual reporting periods after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method.

The Company expects to apply the guidance using the modified retrospective transition method. The Company does not expect the adoption of ASU 2014-09 to have a material impact on the Company's financial position or results of operations but will result in additional disclosures regarding the Company's revenue recognition policies. The Company also does not expect the adoption of ASU 2014-09 will require material or significant changes to its internal controls over financial reporting. In connection with the application of that guidance and the adoption of ASU 2014-09, the Company expects that it will expand its revenue recognition inquiries and update its questionnaires primarily to identify matters that would signal variable consideration implications under the new guidance.

FASB ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which is included in Accounting Standards Codification (ASC) 205, Presentation of Financial Statements" - Issued August 2014, this update provides an explicit requirement for management to assess an entity's ability to continue as an ongoing concern, and to provide related footnote disclosures in certain circumstances.

The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company has adopted this standard and included the necessary disclosures in the footnotes to our financial

FASB ASU 2016-02, Leases (Topic 842) - ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Early application is permitted for all public business entities and all nonpublic business entities upon issuance. The adoption of this standard is not expected to have a material impact on the Company's financial position and results of operations.

FASB ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" - The amendment is part of the FASB's simplification initiative and is intended to simplify the accounting around share-based payment award transactions. The amendments include changing the recording of excess tax benefits from being recognized as a part of surplus capital to being charged directly to the income statement, changing the classification of excess tax benefits within the statement of cash flows, and allowing companies to account for forfeitures on an actual basis, as well as tax withholding changes. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The adoption of this standard has not had a material impact on the Company's financial position and results of operations.

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FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force) – Adopted in November 2016, this ASU requires that the reconciliation of the beginning-of-period and end-of-period amounts shown in the statement of cash flows include cash and restricted cash equivalents. This ASU is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of this standard is not expected to have a material impact on the Company’s financial position and results of operations.

FASB issued ASU 2017-11, Earnings Per Share (“ASC 260”), Distinguishing Liabilities from Equity (“ASC 480”), and Derivatives and Hedging (“ASC 815”) -- Adopted in July 2017, A SU No. 2017-11 is intended to simplify the accounting for financial instruments with characteristics of liabilities and equity. Among the issues addressed are: (i) determining whether an instrument (or embedded feature) is indexed to an entity’s own stock; (ii) distinguishing liabilities from equity for mandatorily redeemable financial instruments of certain nonpublic entities; and (iii) identifying mandatorily redeemable non-controlling interests. The Company has adopted ASU No. 2017-11 effective for the Company on January 1, 2018. The adoption of ASU No. 2017-11 has eliminated the derivative liabilities from the Company’s financial statements.

There are other various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

NOTE 4 – INVESTMENTS

As of June 30, 2018, the carrying value of our investments in privately held companies totaled \$403,249. These investments are accounted for as cost method investments, as we own less than 20% of the voting securities and do not have the ability to exercise significant influence over operating and financial policies of the entities.

During the twelve months ended December 31, 2017, the Company acquired 23,810 shares of Class A common stock of Hightimes Holding Corp. for \$100,002, or \$4.20 per share. As a result of a forward share split of 1.93:1 on January 15th, 2018, MassRoots currently has 45,974 shares of Class A Common Stock. The acquired Class A common stock are considered non-marketable securities.

On July 13, 2017, the Company purchased an unsecured convertible promissory note in the principal amount of \$300,000 from Cannaregs, Ltd, a Colorado limited liability company (“Cannaregs”). The note bears interest at a rate of 5% per annum and matures on at December 19, 2019. In the event Cannaregs consummates an equity financing in excess of \$2,000,000 prior to the maturity date of the note, the outstanding principal and any accrued and unpaid interest automatically converts to equity securities of the same class or series issued by Cannaregs at the lesser of: a) 90% of the price paid per equity security or b) a price reflecting a valuation cap of \$4,500,000.

On July 17, 2017, MassRoots converted the note to 430,622 shares of CannaRegs’ common stock, approximately 4.31% of CannaRegs’ issued and outstanding shares as of June 30, 2018.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2018 and December 31, 2017 is summarized as follows:

	June 30, 2018	December 31, 2017
Computers	\$ 57,000	\$ 55,244
Office equipment	45,657	43,590
Subtotal	102,657	98,834
Less accumulated depreciation	(59,104)	(43,688)
Property and equipment, net	<u>\$ 43,553</u>	<u>\$ 55,146</u>

Depreciation expense for the three months ended June 30, 2018 and 2 017 was \$5,189 and \$6,158, respectively; and \$15,415 and \$11,934 for the six months ended June 30, 2018 and 2017, respectively.

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NOTE 6 – SOFTWARE COSTS

On December 15, 2016, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Whaxy Inc., a wholly-owned subsidiary of the Company (“Merger Subsidiary”), DDDigital Inc., a Colorado corporation (“DDDigital”), Zachary Marburger, an individual acting solely in his capacity as Stockholder Representative, and all of the stockholders of DDDigital. Pursuant to the Merger Agreement, the parties agreed to merge Merger Subsidiary with and into DDDigital, whereby DDDigital survived as a wholly-owned subsidiary of MassRoots (the “Merger”).

On January 25, 2017 (the “Effective Date”), the Merger was completed and became effective upon the filing of certificates of merger with the respective Secretary of State of the States of Delaware and Colorado, in such forms as required by, and executed in accordance with, the relevant provisions of the Delaware General Corporation Law and the Colorado Business Corporation Act.

Pursuant to the terms of the Merger Agreement, each share of DDDigital’s common stock was to be exchanged for a number of shares of the Company’s common stock (or a fraction thereof), based on an exchange ratio, as ultimately calculated, equal to approximately 5.273-for-1, such that 1 share of the Company’s common stock was issued for every 5.273 shares of DDDigital’s common stock.

On the Effective Date, the Company issued 2,926,830 shares of the Company’s common stock *pro rata* to all stockholders of DDDigital (the “Share Consideration”) in exchange for all of their shares of DDDigital’s common stock. At the same time, each share of the common stock of Merger Subsidiary was converted into and exchanged for one share of common stock of DDDigital held by the Company, and all shares of DDDigital common stock outstanding immediately prior to the Effective Date automatically cancelled and retired. DDDigital continued as a surviving wholly-owned subsidiary of the Company, and Merger Subsidiary ceased to exist.

Also pursuant to the terms of the Merger Agreement, the Company paid cash consideration, in December 2016, of \$40,000 to Zachary Marburger and \$20,000 to Micah Davidson, as repayment of outstanding debts owed by DDDigital to the individuals.

As a condition to the closing of the Merger, the Company hired Zachary Marburger as its Vice President of Strategy, and engaged Micah Davidson as a Senior Software Engineer. As a condition of Mr. Marburger’s employment and pursuant to the Merger Agreement, the Company will pay Mr. Marburger an additional \$40,000 following the one-year anniversary of his constant employment with the Company.

Cash (paid in December 2016)	\$ 60,000
2,926,830 shares of the Company’s common stock	2,883,220
Liabilities assumed	40,140
Total purchase price	<u>\$ 2,983,360</u>
Cash	\$ 8,672
Accounts receivable	3,583
Property and equipment	3,333
Software	1,253,000(1)
Goodwill	<u>1,714,772</u>
Assets acquired	<u>\$ 2,983,360</u>

(1) The estimated useful life for Software development is assumed at 3 years. The acquisition was completed in January 2017, however the allocation of proceeds to identifiable assets was recognized during fourth quarter.

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NOTE 7 – CONVERTIBLE NOTES PAYABLE

On August 17, 2017, the Company issued secured convertible notes to certain accredited investors in the aggregate principal amount of \$1,045,000. The notes mature on February 18, 2018 and accrue no interest. Net proceeds received were \$942,500 after deduction of legal and other fees. If the Company exercises its right to prepay the notes, the Company shall make payment to the investors in an amount equal to the sum of the then outstanding principal amount of the notes that the Company desires to prepay, multiplied by (a) 1.1, during the first ninety (90) days after the execution of the note, or (b) 1.25, at any point thereafter. The notes are convertible into shares of the Company's common stock at a price per share equal to the lower of (i) \$0.75 and (ii) a 25% discount to the price at which the Company next conducts an offering after the issuance date of the notes; provided, however, if any part of the principal amount of the notes remains unpaid at its maturity date, the conversion price will be equal to 65% of the average of the three trading days with the lowest daily weighted average prices of the Company's common stock occurring during the fifteen days prior to the notes' maturity date.

In connection with the issuance of the notes, the Company and the investors also entered into a security agreement pursuant to which the notes are secured by all of the assets of the Company currently held or thereafter acquired.

In connection with the issuance of the notes, the Company issued five-year warrants to purchase an aggregate of 2,090,000 shares of Company's common stock with an initial exercise price of \$0.50. The warrants contain certain anti-dilutive (reset) provisions.

From January 1 to January 16, 2018, the Company made payment to the Holders of the August 2017 convertible debt in an aggregate of (i) \$510,937.50 in cash and (ii) pursuant to the right of conversion of the Notes, issued an aggregate of 3,742,648 shares of the Company's common stock. The Company believes that it has completed all of its obligations under the Notes and they are retired.

NOTE 8 – CAPITAL STOCK

Preferred Stock

The Company is authorized to issue 10,000,000 shares of Blank Check Preferred Stock, par value \$0.001 per share. As of June 30, 2018, there were no shares of Blank Check Preferred Stock issued and outstanding.

Common Stock

The Company is authorized to issue 500,000,000 shares of common stock, par value \$0.001 per share. As of June 30, 2018, there were 155,787,534 shares of common stock issued and outstanding and 130,000 shares of common stock to be issued.

The following common stock transactions were recorded during the six months ended June 30, 2018:

The Company issued an aggregate of 14,362,500 shares of its common stock recorded as to be issued on December 31, 2017.

The Company retired an aggregate of 1,790,000 shares of its common stock recorded as to be retired on December 31, 2017.

The Company issued an aggregate of 4,494,000 shares of its common stock, having an aggregate fair value of \$2,430,347, for services.

The Company issued an aggregate of 95,134 shares for its common stock upon the cashless exercise of common stock options.

The Company issued an aggregate of 7,647,413 shares of its common stock for the cashless exercise of common stock warrants.

The Company issued an aggregate of 3,742,648 shares of its common stock for the settlement of convertible debt.

The Company issued an aggregate of 1,370,000 shares of its common stock upon the exercise of common stock warrants for net proceeds of \$323,000.

The issued an aggregate of 13,700,000 shares of common stock for cash.

The Company received \$564,000 recorded as subscription receivable as of December 31, 2017.

The Company recorded as to be issued an aggregate of 130,000 shares for interest on convertible debt.

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NOTE 9- WARRANTS

In January 2018, the Company issued warrants to purchase 250,000 shares of common stock at \$0.20 per share to a service provider of the Company. The estimated fair value of \$86,483 was charged to current period operations. The fair market value was calculated using the Black Scholes Option Pricing Model, assuming approximately 2.49% risk-free interest, 0% dividend yield, 112.14% volatility, and expected life of 5 years.

In January 2018, in conjunction with the sale of the Company's common stock, the Company granted 13,700,000 warrants to purchase the Company's common stock at \$0.40 per share, exercisable through January 31, 2023.

Warrants outstanding and exercisable at June 30, 2018 are as follows:

Exercise Price	Warrants Outstanding	Weighted Avg. Remaining Life	Warrants Exercisable
\$ 0.01 – 0.25	9,782,660	4.30	9,782,660
0.26 – 0.50	19,140,002	4.52	19,140,002
0.51 – 0.75	50,000	1.78	50,000
0.76 – 1.00	5,100,002	1.25	5,100,002
1.01 – 2.00	146,200	0.48	146,200
2.01 and up	407,475	0.36	407,475
	34,626,339		34,626,339

A summary of the warrant activity for the six months ended June 30, 2018 is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2017	35,187,847	\$ 0.41	2.3	\$ 9,314,959
Grants	13,950,000	\$ 0.40		
Exercised	(14,139,508)	\$ 0.29		
Forfeited/Cancelled	(372,000)	\$ 1.00		
Vested and expected to vest at June 30, 2018	34,626,339	\$ 0.45	3.9	\$ 381,306
Exercisable at June 30, 2018	34,626,339	\$ 0.45	3.9	\$ 381,306

The aggregate intrinsic value outstanding stock warrants was \$381,306, based on warrants with an exercise price less than the Company's stock price of \$0.24 as of June 30, 2018, which would have been received by the warrant holders had those warrant holders exercised their warrants as of that date.

NOTE 10 – STOCK OPTIONS

The Company's stockholders approved our 2014 Equity Incentive Plan in June 2014 (the "2014 Plan"), our 2015 Equity Incentive Plan in December 2015 (the "2015 Plan"), our 2016 Equity Incentive Plan ("2016 Plan") in October 2016 and our 2017 Equity Incentive Plan in December 2016 ("2017 Plan", and together with the 2014 Plan, 2015 Plan and 2016 Plan, the "Plans"). The Plans are identical, except for number of shares reserved for issuance under each. As of December 31, 2017, the Company had granted an aggregate of 39,500,000 securities under the plans, with 0 available for future issuances.

The Plans provide for the grant of incentive stock options to our employees and our parent and subsidiary corporations' employees, and for the grant of non-statutory stock options, stock bonus awards, restricted stock awards, performance stock awards and other forms of stock compensation to our employees, including officers, consultants and directors. Our Plans also provide that the grant of performance stock awards may be paid out in cash as determined by the committee administering the Plans.

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During the six months ended June 30, 2018, the Company granted ten-year options outside of our Plans to purchase up to 1,250,000 shares of common stock. The fair value of \$459,834, was determined using the Black-Scholes Option Pricing Model, assuming approximately 2.78% - 2.94% risk-free interest, 0% dividend yield, 116.08% - 116.28% volatility, and expected life of ten years and will be charged to operations over the vesting terms of the options.

The summary terms of the issuances are as follows:

Exercise Price	Number of Options	Vesting Terms
\$ 0.36	250,000	Immediately
0.40	1,000,000	Immediately

Stock options outstanding and exercisable on June 30, 2018 are as follows:

Exercise Price	Number of Options	Remaining Life In Years	Number of Options Exercisable
\$0.01 – 0.25	1,056,786	5.93	1,056,786
0.26 - 0.50	1,939,631	8.77	1,939,631
0.51 – 0.75	1,820,112	8.18	1,820,112
0.76 - 1.00	9,926,072	8.21	9,854,072
1.01 - 2.00	629,164	8.11	629,164
	<u>15,371,765</u>		<u>15,299,765</u>

A summary of the stock option activity for the six months ended June 30, 2018 is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2017	14,378,432	\$ 0.76	8.48	\$ 771,359
Grants	1,250,000	0.39		
Exercised	(256,667)	0.51		
Forfeiture/Canceled	--			
Outstanding at June 30, 2018	15,371,765	0.73	8.12	\$ 147,950
Exercisable at June 30, 2018	15,299,765	\$ 0.73	8.12	\$ 147,950

The aggregate intrinsic value outstanding stock options was \$147,950, based on options with an exercise price less than the Company's stock price of \$0.24 as of June 30, 2018, which would have been received by the option holders had those option holders exercised their options as of that date.

Due to a clerical error, MassRoots' Annual Report on Form 10-K filed on April 16, 2018, as amended on April 30, 2018, stated that 2,454,761 options were canceled/expired for the twelve months ending December 31, 2017 and the options outstanding as of December 31, 2017 were 14,377,570. It should have stated that 2,863,7125 options were canceled/expired for the twelve months ending December 31, 2017 and the options outstanding as of December 31, 2017 were 14,378,432. While we are correcting this error in this Quarterly Report on Form 10-Q and subsequent filings, we do not believe it has a material impact on our fiscal 2017 financial statements.

Option valuation models require the input of highly subjective assumptions. The fair value of stock-based payment awards was estimated using the Black-Scholes option model with a volatility figure derived historical data. The Company accounts for the expected life of options based on the contractual life of options for non-employees.

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NOTE 11 – RELATED PARTY TRANSACTIONS

None.

NOTE 12 – SUBSEQUENT EVENTS

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued.

On July 5, 2018 (the “Effective Date”), MassRoots, Inc. (the “Company”) entered into separate securities purchase agreements (each a “Securities Purchase Agreement”) with certain accredited investors (the “Investors”) pursuant to which it sold an aggregate of \$1,650,000 in principal amount of convertible secured promissory notes (each a “Note” and collectively, the “Notes”) (including an original issuance discount of 10%) together with warrants (each a “Warrant” and collectively, the “Warrants”) to purchase up to 6,600,000 shares of the Company’s common stock (the “Offering”).

Pursuant to the terms of the Securities Purchase Agreement, from a period of twelve months from the Effective Date, the Company and its subsidiaries are prohibited from entering into an agreement to effect any offer or sale of any securities involving a Variable Rate Transaction (as defined in the Securities Purchase Agreement). In addition, from the Effective Date until such time that no principal amount of the Notes remains outstanding, upon any issuance by the Company or any of its subsidiaries of common stock, Common Stock Equivalents (as defined in the Securities Purchase Agreement) or debt for cash consideration, indebtedness or a combination thereof (a “Subsequent Financing”), the Investors shall, collectively, have the right to participate in the Subsequent Financing in an amount equal to up to 50% of the Subsequent Financing on the same terms, conditions and price provided for in the Subsequent Financing; provided, however, such right shall not apply with respect to an Exempt Issuance (as defined in the Securities Purchase Agreement). Furthermore, pursuant to the terms of the Securities Purchase Agreement, if the Company does not repay amounts due pursuant to the Notes by the Maturity Date (as defined herein), then the Company shall issue to the Investors up to 250,000 shares of the Company’s common stock on a pro rata basis.

Pursuant to the Offering, the Company issued the Investors Notes in the aggregate principal amount of \$1,650,000 (including an original issuance discount of 10%). The Notes are due and payable on January 5, 2019 (the “Maturity Date”), bear no interest and are convertible into shares of the Company’s common stock at the Conversion Price, subject to adjustment. “Conversion Price” means the lower of (i) \$0.25 and (ii) a 15% discount to the price at which the Company next issues common stock or Common Stock Equivalents (as defined in the Securities Purchase Agreement) after the Effective Date; provided, however, in the event that any principal amount of the Note remains outstanding after the Maturity Date, the Conversion Price shall equal 65% of the average of the three lowest daily volume weighted average prices during the 15 days prior to the Maturity Date. The Company is prohibited from effecting a conversion of any Note to the extent that, as a result of any such conversion, the holder, together with its affiliates, would beneficially own more than 4.99% of the number of shares of the Company’s common stock outstanding immediately after giving effect to the issuance of shares of common stock upon conversion of the Note, which beneficial ownership limitation may be increased by the holder up to, but not exceeding, 9.99%. In the event the Company issues shares of common stock or Common Stock Equivalents (as defined in the Securities Purchase Agreement), other than Exempted Issuances (as defined in the Securities Purchase Agreement), for a consideration which is less than the Conversion Price then in effect, then thereafter successively upon each such issuance, the Conversion Price shall be reduced to such lower price. If any Event of Default (as defined in the Note) occurs, then the outstanding principal amount of the Note and other amounts owing in respect thereof shall, at the holder’s election, become immediately due and payable in cash at the Mandatory Default Amount (as defined in the Note). In addition, after the occurrence of any Event of Default that results in the acceleration of the Note, the Note shall accrue interest at an interest rate equal to the lesser of (i) 2% per month or (ii) the maximum rate permitted under applicable law. The Notes may be prepaid at any time upon five days prior written notice to the holder in an amount equal to the following: (i) during the first 90 days after the Effective Date, an amount equal to the principal amount of the Note multiplied by 110% and (ii) after the first 90 days after the Effective Date, an amount equal to the principal amount of the Note multiplied by 125% (collectively, the “Prepayment Multiplier”). If the Company participates in any Subsequent Financing, receives cash proceeds from warrant exercises, or sells any of its assets other than in the ordinary course, while any portion of the Notes remains outstanding, any proceeds of such Subsequent Financing, warrant exercise or asset sale must be applied toward repayment of the Notes, subject to the Prepayment Multiplier.

Pursuant to the Offering, the Company issued the Investors Warrants to purchase up to 6,600,000 shares of the Company’s common stock. The Warrants are exercisable at any time on or after the initial issuance date at a price of \$0.25 per share, subject to adjustment (the “Exercise Price”), and expire five years from the date of issuance. Under certain circumstances, holders of the Warrants may exercise the Warrants on a cashless basis and the Company is prohibited from effecting an exercise of any Warrant to the extent that, as a result of any such exercise, the holder, together with its affiliates, would beneficially own more than 4.99% of the number of shares of the Company’s common stock outstanding immediately after giving effect to the issuance of shares of common stock upon exercise of such Warrant, which beneficial ownership limitation may be increased by the holder up to, but not exceeding, 9.99%. In the event the Company issues shares of common stock or Common Stock Equivalents (as defined in the Securities Purchase Agreement), other than Exempted Issuances (as defined in the Securities Purchase Agreement), for a consideration which is less than the Exercise Price then in effect, then thereafter successively upon each such issuance, the Exercise Price shall be reduced to such lower price.

In July 2018, the Company issued 130,000 shares recorded as to be issued as of June 30, 2018.

On July 26, 2018, the Company issued options to purchase 12,000,000 shares of common stock at \$0.20 per share, including 2,000,000 options to its independent Directors, and 7,100,000 shares of common stock to employees under its 2018 Employee Stock Option Plan. These issuances triggered a ratchet in the warrants to purchase 13,700,000 shares of common stock issued as part of the Company’s January 2018 placement to fall from \$0.40 to \$0.20 per share.



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

You should read the following discussion and analysis in conjunction with our unaudited financial statements and related notes contained in Part I, Item 1 of this Quarterly Report. Please also refer to the note about forward-looking information for information on such statements contained in this Quarterly Report immediately preceding Item 1.

Overview

MassRoots was formed in April 2013 as a technology platform for the cannabis industry. Powered by more than one million registered users, MassRoots enables consumers to rate cannabis products and strains based on their efficacy (i.e., effectiveness for treating ailments such as back-pain or epilepsy) and then presents this information in easy-to-use formats for consumers to make educated purchasing decisions at their local dispensary. Businesses are able to leverage MassRoots by strategically advertising to consumers based on their preferences and tendencies.

Over the past five years, MassRoots has established itself as a leading technology company in the emerging cannabis industry, building a user-base of one million registered users, partnering with some of the most recognized brands in the industry and raising significant capital from institutional and private investors. Since inception, the Company has generated approximately \$1.2 million in revenue.

For much of our history, we have focused on building a consumer-facing application and only recently shifting our efforts to developing our advertising portal. In June 2018, we launched that enables dispensaries to list their location and key information on the MassRoots dispensary finder as well as viewing analytics about their local consumers. We are charging dispensaries a minimum recurring monthly fee, per location, for access to the portal.

With MassRoots' wide-spread audience and following in some of the leading medical cannabis markets in the country, we believe our business portal will be well-received by our client base. According to New Frontier Financial, there are projected to be over 2,700 state-regulated dispensaries in the United States by 2020.

User Growth and Product Distribution Channels

The MassRoots app is distributed free-of-charge through the Apple App Store, the Google Play Marketplace and the Amazon App Store. The MassRoots network is also accessible through desktop and mobile web browsers by navigating to www.massroots.com. Our business and advertising portal can be accessed at www.massroots.com/dispensaries. Through this portal, companies can edit their profiles, distribute information to Users and view analytics such as impressions, views and clicks.

Competitors

We compete with other cannabis information platforms such as WeedMaps and Leafly, which provide information with respect to dispensary locations, strain information and news relating to the cannabis industry. We believe our primary competitive advantage is the community we have created and the significant reviews and data we have collected on key cannabis markets.

Blockchain Technology

In December 2017, we formed MassRoots Blockchain Technologies, Inc., a wholly-owned subsidiary of MassRoots, to explore how blockchain technology may be utilized in the cannabis industry.

For the three months ended June 30, 2018 and 2017

	For the three months ended			
	30-June-18	30-June-17	\$ Change	% Change
Gross revenue	\$ 2,237	\$ 142,873	\$ (140,636)	(98.4%)
Operating expenses	2,892,255	12,146,614	(9,254,359)	(76.2%)
Loss from Operations	(2,890,018)	(12,003,741)	9,113,723	(75.9%)
Other Income /(Expense)	(47,996)	373,087	(421,083)	(112.9%)
Net Loss	\$ (2,938,014)	\$ (11,630,654)	\$ 8,692,640	(74.7%)

Revenues

For the three months ended June 30, 2018 and 2017, we generated revenues of \$2,237 and \$142,873, respectively, a decrease of \$140,636. This was attributed to implementation of a new sales strategy for the company in 2018, which included the deployment of a new online advertising portal for businesses in late June 2018.

Operating Expenses

For the three months ended June 30, 2018 and 2017, our operating expenses were \$2,892,255 and \$12,146,614, respectively, a decrease of \$9,254,359. The decreases during the three months ended June 30, 2018 were mainly attributed to a decrease in stock-based compensation to our employees and key consultants which, for 2018, was \$75,398 as compared to \$9,140,970 for the period ended June 30, 2017 (a non-cash decrease of \$9,065,572). There was an increase in payroll and related expenses of \$333,977 as payroll and related expenses were \$1,403,253 for the three months ended June 30, 2018 as compared to \$1,069,276 for the same period in 2017 related to taxes and penalties attributed to equity issuances to employees not recorded previously, and the Company recorded amortization of software costs of \$109,852 and \$0, for the three months ended June 30, 2018 and 2017, respectively.

Other Income (Expense)

For the three months ended June 30, 2018 and 2017, the Company recorded net interest expense of \$47,996 and \$0, respectively, related to the Company's convertible debt issued in August 2017. As of June 30, 2018 the remaining notes payable had been paid in full. For the three months ended June 30, 2018 and 2017, respectively, the Company recognized a gain of \$0 and \$75,000 on the sale of securities, while for the three months ended June 30, 2018 and 2017, respectively, the company had a \$0 and \$298,087 gain related to the fair value mark to market adjustments of its derivative liabilities.

Net Loss

For the three months ended June 30, 2018 and 2017, we had net losses of \$2,938,014 and \$11,630,654, respectively, a decrease of \$8,692,640, for the reasons discussed above.

For the six months ended June 30, 2018 and 2017

	For the six months ended			
	30-June-18	30-June-17	\$ Change	% Change
Gross revenue	\$ 3,729	\$ 277,614	\$ (273,885)	(98.7%)
Operating expenses	8,026,800	19,782,430	(11,755,630)	(59.4%)
Loss from Operations	(8,023,071)	(19,504,816)	11,481,745	(58.9%)
Other Income /(Expense)	(398,191)	426,985	(825,176)	(193.3%)
Net Loss	\$ (8,421,262)	\$ (19,077,831)	\$ 10,656,570	(55.9%)

Revenues

For the six months ended June 30, 2018 and 2017, we generated revenues of \$3,729 and \$277,614, a decrease of \$273,885. This was attributed to implementation of a new sales strategy for the company in 2018, which included the deployment of a new online advertising portal for businesses in late June 2018.

Operating Expenses

For the six months ended June 30, 2018 and 2017, our operating expenses were \$8,026,800 and \$19,782,430, respectively, a decrease of \$11,755,630. The decrease during the six months ended June 30, 2018 were mainly attributed to a decrease in stock-based compensation to our employees and key consultants which, for 2018, was \$3,192,648 as compared to \$14,371,973 for the period ended June 30, 2017 (a non-cash decrease of \$11,179,325). There was a decrease in payroll and related expenses of \$92,153 as payroll and related expenses were \$1,828,983 for the six months ended June 30, 2018 as compared to \$1,921,136 for the same period in 2017, and the Company recorded amortization of software costs of \$207,117 and \$0, for the six months ended June 30, 2018 and 2017, respectively. The main factor attributed to the decrease in the company's operating expenses was due to a reduction in the Company's employee work-force.

Other Income (Expense)

For the six months ended June 30, 2018 and 2017, the Company recorded net interest expense of \$398,191 and \$0, respectively, related to the Company's convertible debt issued in August 2017. As of June 30, 2018 the remaining notes payable had been paid in full. For the six months ended June 30, 2018 and 2017, respectively, the Company recognized a gain of \$0 and \$75,000 on the sale of securities, while for the six months ended June 30, 2018 and 2017, respectively, the company had a \$0 and \$351,985 gain related to the fair value mark to market adjustments of its derivative liabilities.

Net Loss

For the six months ended June 30, 2018 and 2017, we had net losses of \$8,421,262 and \$19,077,831, respectively, a decrease of \$10,656,569, for the reasons discussed above.

Liquidity and Capital Resources

Net cash used in operations for the six months ended June 30, 2018 and 2017 was \$4,441,379 and \$5,204,069, respectively. This decrease was primarily caused by net losses of \$8,421,262 and \$19,077,831 for the six months ended June 30, 2018 and 2017, respectively and the utilization of \$112,744 in cash for prepayments, security deposits and an increase in accounts payable and other liabilities as compared to \$294,255 during the same period in 2017. These reductions were offset by non-cash amounts for Depreciation and Amortization and stock based compensation for the six months ended June 30, 2018 and 2017.

Net cash used and provided in investing activities for the six months ended June 30, 2018 and 2017 was \$3,822 and \$102,629, respectively. These investing activities were related to the purchase of equipment for the six months ended June 30, 2018. For the six months ended June 30, 2017 cash provided was attributed to \$56,041 of purchases of property and equipment and the purchase of an equity investment of \$100,002 in HighTimes Holdings Corp. These items were offset by proceeds from sale of securities and we received \$8,672 in connection with the acquisition of DDDigital, LLC.

Net cash provided by financing activities for the six months ended June 30, 2018 and 2017 was \$3,259,562 and \$4,758,197, respectively. During the six months ended June 30, 2018, these funds came mainly from sales of common stock while during the same period in 2017, these funds came mainly from warrant and stock subscriptions, offset by repayments of advances.

These conditions raise substantial doubt about the Company's ability to continue as a going concern for one year from the issuance of the financial statements. The Company's primary source of operating funds since inception has been cash proceeds from private placements of common stock, proceeds from the exercise of warrants and options and issuance of notes payable. The Company has experienced net losses and negative cash flows from operations since inception and expects these conditions to continue for the foreseeable future. The Company will require additional financing to fund future operations. No assurance can be made that such financing will be obtained.

Capital Resources

As of June 30, 2018, we had cash on hand of \$15,948. We currently have no external sources of liquidity such as arrangements with credit institutions or off-balance sheet arrangements that will have or are reasonably likely to have a current or future effect on our financial condition or immediate access to capital.

Off-Balance Sheet Arrangements

As of June 30, 2018, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

For a discussion of our accounting policies and related items, please see the Notes to the Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Quarterly Report.

ITEM 3. QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Pursuant to Rules 13a-15(b) and 15-d-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) of the effectiveness of the Company’s disclosure controls and procedures as of the end of the period covered by this report. The term “disclosure controls and procedures”, as defined under Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based upon such evaluation, the CEO and CFO concluded that our disclosure controls and procedures as of June 30, 2018 were not effective. Due to identified control deficiencies regarding the lack of segregation of duties and the need for a stronger internal control environment, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were ineffective as of the end of the period covered by this report.

The Company’s controls and procedures were ineffective because the Company did not have an adequate process established to ensure appropriate levels of review of accounting and financial reporting matters, which resulted in the Company’s closing process not identifying all required adjustments and disclosures in a timely fashion. We expect that we will need to hire accounting personnel with the requisite knowledge to improve the levels of review of accounting and financial reporting matters. The Company may experience delays in doing so and any such additional employees would require time and training to learn the Company’s business and operating processes and procedures. For the near-term future, until such personnel are in place, this will continue to constitute a material weakness in the Company’s disclosure controls and procedures that could result in material misstatements in the Company’s financial statements not being prevented or detected.

To address the material weaknesses, we performed additional analysis and other procedures in an effort to ensure our financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Our principal executive officer and principal financial officer do not expect that our disclosure controls and procedures or our internal controls will prevent all error or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be subject to litigation and claims arising in the ordinary course of business. We are not currently a party to any material legal proceedings and we are not aware of any pending or threatened legal proceeding against us that we believe could have a material adverse effect on our business, operating results, cash flows or financial condition.

ITEM 1A. RISK FACTORS

As a “smaller reporting company”, we are not required to provide the information required by this Item 1A.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(b) Exhibit Index

No.	Description of Exhibit
3.1	Second Amended and Restated Certificate of Incorporation of MassRoots, Inc. (Incorporated by reference to the Company’s Current Report on Form 8-K filed on June 19, 2018)
31.1*	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 are formatted in eXtensible Business Reporting Language (XBRL): (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Stockholders’ Equity (Deficit), (iv) the Statements of Cash Flows, and (iv) the Notes to the Financial Statements.

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

Date: August 20, 2018

MASSROOTS, INC.

By: /s/ Isaac Dietrich
Isaac Dietrich, Chief Executive Officer
(Principal Executive Officer)

Date: August 20, 2018

By: /s/ Jesus Quintero
Jesus Quintero, Chief Financial Officer
(Principal Financial and Accounting Officer)

**Certification of Chief Executive Officer of MassRoots, Inc.
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Isaac Dietrich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MassRoots, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 20, 2018

/s/ Isaac Dietrich

Isaac Dietrich
Chief Executive Officer
(Principal Executive Officer)

**Certification of Chief Financial Officer of MassRoots, Inc.
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jesus Quintero, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MassRoots, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 20, 2018

/s/ Jesus Quintero

Jesus Quintero
Chief Financial Officer
(Principal Financial and Accounting Officer)

**Statement of Chief Executive Officer
Pursuant to Section 1350 of Title 18 of the United States Code**

Pursuant to Section 1350 of Title 18 of the United States Code as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Isaac Dietrich, Chief Executive Officer of MassRoots, Inc. (the “Company”), hereby certifies that based on the undersigned’s knowledge:

1. The Company’s quarterly report on Form 10-Q for the period ended June 30, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 20, 2018

/s/ Isaac Dietrich

Isaac Dietrich
Chief Executive Officer
(Principal Executive Officer)

**Statement of Chief Financial Officer
Pursuant to Section 1350 of Title 18 of the United States Code**

Pursuant to Section 1350 of Title 18 of the United States Code as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Jesus Quintero, Chief Financial Officer of MassRoots, Inc. (the "Company"), hereby certifies that based on the undersigned's knowledge:

1. The Company's quarterly report on Form 10-Q for the period ended June 30, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 20, 2018

/s/ Jesus Quintero

Jesus Quintero

Chief Financial Officer

(Principal Financial and Accounting Officer)