IN THE SUPREME COURT OF THE STATE OF NEVADA

JDD, LLC; TCS PARTNERS, LLC; JOHN SAUNDERS; and TREVOR SCHMIDT,

Petitioners,

vs.

THE HONORABLE TIMOTHY C. WILLIAMS, EIGHTH JUDICIAL DISTRICT COURT IN AND FOR THE COUNTY OF CLARK,

Respondent,

-and-

ITEM 9 LABS CORP. f/k/a Airware Labs Corp. and Crown Dynamics Corp.; ITEM 9 PROPERTIES, LLC; STRIVE MANAGEMENT, LLC f/k/a Strive Life; VIRIDIS GROUP I9 CAPITAL, LLC; VIRIDIS GROUP HOLDINGS, LLC; SNOWELL HOLDINGS, LLC; ANDREW BOWDEN; DOUGLAS BOWDEN; BRYCE SKALLA; and CHASE HERSCHMAN,

Real Parties in Interest.

Case No.: 81212-10

District Court Case No.: A-20-

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APPENDIX TO PETITIONER'S WRIT OF MANDAMUS

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Docket 83344 Document 2021-23181

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DISTRICT COURT

CLARK COUNTY, NEVADA

JDD, LLC, a Nevada limited liability company; TCS Partners, LLC, a Nevada limited liability company; JOHN SAUNDERS, an individual; and TREVOR SCHMIDT, an individual

Plaintiffs,

vs.

MARIMED INC. f/k/a Worlds Online, Inc., a Delaware corporation; ITEM 9 LABS CORP. f/k/a Airware Labs Corp. and Crown Dynamics Corp., a Delaware corporation; ITEM 9 PROPERTIES LLC, a Nevada limited liability company; THE HARVEST FOUNDATION LLC f/k/a, a Nevada limited liability company a/k/a THE HARVEST FOUNDATION, LLC; STRIVE MANAGEMENT L.L.C. d/b/a Strive Life, a Nevada limited liability company; STRIVE WELLNESS OF NEVADA, LLC d/b/a Strive Life, a Nevada limited liability company; STRIVE WELLNESS OF NEVADA 2 L.L.C. d/b/a Strive Life, a Nevada limited liability company; VIRIDIS GROUP I9 CAPITAL, LLC, an Arizona limited liability company; VIRIDIS GROUP HOLDINGS, LLC, an Arizona limited liability company; SNOWELL HOLDINGS, LLC, an Ohio limited liability company; ROBERT FIREMAN, an individual; JON LEVINE, an individual; ANDREW BOWDEN, an individual; DOUGLAS BOWDEN, an individual; BRYCE SKALLA, an individual; JEFFREY RASSAS, an individual; DONALD BURTON, an individual; LARRY LEMONS, an individual; JEFFREY YOKIEL, an individual; JEROME YOKIEL, an individual; SARA GULLICKSON, an individual; CHASE HERSCHMAN, an individual; DOE INDIVIDUALS I through X, and ROE BUSINESS ENTITIES XI through XX, inclusive,

Defendants.

CASE NO.: A-20-811232-C

DEPT. NO.: XXVI

PLAINTIFFS' OPPOSITION TO DEFENDANTS ITEM 9 LABS CORP., VIRIDIS GROUP I9 CAPITAL LLC, VIRIDIS GROUP HOLDINGS, LLC, ANDREW BOWDEN, DOUGLAS BOWDEN, BRYCE SKALLA, JEFFREY RASSAS, AND CHASE HERSCHMAN'S MOTION FOR ATTORNEYS' FEES AND COSTS

Hearing date: June 8, 2021

Hearing time: 9:05 a.m.

Plaintiffs, JDD, LLC; TCS Partners, LLC; JOHN SAUNDERS; and TREVOR SCHMIDT, by and through undersigned counsel, hereby opposes the Motion for Fees filed by Defendants' Item 9 Labs Corp., Viridis Group I9 Capital LLC, Viridis Group Holdings, LLC, Andrew Bowden, Douglas Bowden, Bryce Skalla, Jeffrey Rassas, And Chase Herschman's Motion For Attorneys Fees And Costs ("I9 Defendants").

MEMORANDUM

I. INTRODUCTION

The Court should deny the I9 Defendants' motion for attorneys fees because the complaint was brought in good faith based upon research conducted by a third-party.

This Court granted I9 Defendants' motion to dismiss *without prejudice*. At some point Plaintiffs will finally be able to commence discovery and actually piece together what happened to the approximately $750,000.00 they entrusted to Harvest Foundation, Larry Lemons and Donald Burton.

Further, Plaintiffs were not permitted to conduct limited discovery on any issue with the I9 Defendants; therefore, it is inappropriate for the Court to award fees for allegedly "groundless" claims against I9 Defendants, since no determination has been made regarding the complicity of I9 Defendants and Donald Burton and Larry Lemons.

Plaintiffs respectfully request the Court deny the motion for fees, or at least stay a decision until after Plaintiffs finally have their chance to conduct discovery.

II. FACTUAL BACKGROUND

The TCS Agreement

In or about the beginning of 2015, Plaintiff Trevor Schmidt learned of Harvest — a Clark County, Nevada, limited liability company that holds a special use permit and two licenses for recreational and medical cannabis cultivation — and met two of its owners and officers, Donald Burton and Larry Lemons. Compl. ¶¶ 8, 15-16, 32. Schmidt then toured the Harvest facility and

expressed interest in investing in its operations and becoming part of the company. *Id.* ¶ 33.

On or about January 22, 2015, after negotiations with Burton and Lemon, Schmidt, as the managing member of Plaintiff TCS Partners, LLC ("TCS"), entered into a Membership Interest Sales Agreement ("TCS Agreement") with Burton and Lemons, who were acting as officers of Harvest. *Id.* ¶ 34. A true and accurate copy of the TCS Agreement is attached to Plaintiffs' First Amended Complaint as Exhibit 1. *Id.* ¶ 36 & Ex. 1.

Under Section 1 of the TCS Agreement, Burton and Lemons agreed to transfer 9.9% of the total membership interests in Harvest to Schmidt in exchange for Schmidt's payment of $371,250.00. *Id.* ¶ 35. Section 1 of the TCS Agreement stated that, upon the transfer of the 9.9% interest to TCS, the other members of Harvest would retain the following percentages of the total ownership interests: Burton would own 25.05%; Lemons would own 25.05%; Jeffrey Yokiel would own 30%; and Jerome Yokiel would own 10%. *Id.* ¶ 36 & Ex. 1 at 1.

Additionally, under Section 4 of the TCS Agreement, Burton and Lemons, as officers of Harvest, agreed that there would be no additional transfer of any equity or membership interest in Harvest for a period of twelve months, to prevent TCS's 9.9% membership from being diluted. *Id.* ¶ 37. Further, under Sections 5 and 6 of the TCS Agreement, TCS would be entitled to a pro rata share of any distributions of profits and would have the right to vote as a member of Harvest pursuant to Harvest's operating agreement. *Id.* ¶ 38 & Ex. 1 at 2.

Also, Burton and Lemons reaffirmed that they would continue as Harvest's CEO and COO, respectively, and as managing members. *Id.* Finally, under Section 8 of the TCS Agreement, Harvest's operating agreement and all other governing documents were to be revised to reflect TCS's 9.9% membership interest, with a copy of the TCS Agreement to be attached thereto. *Id.* ¶ 39 & Ex. 1 at 2.

On or about January 22, 2015, TCS performed all of its obligations under the TCS Agreement by wiring the full $371,250.00 to Harvest. *Id.* ¶ 40.

The JDD Agreement

In or about 2016, Plaintiff John Saunders learned of Harvest and expressed interest in becoming part of the company to Burton, Lemons, and Schmidt. *Id.* ¶ 41. In or about 2016, as managing member of Plaintiff JDD, LLC, Saunders entered into an agreement with Burton and Lemon, acting in their respective capacities as CEO and COO of Harvest and as members of Harvest, to purchase 9.9% of the Harvest membership interests (the "JDD Agreement"). *Id.* ¶ 42. Although this deal was not memorialized in a fully integrated writing like the TCS Agreement, Saunders engaged in a series of negotiations with Burton and Lemons—via text, emails, and other documents—to purchase his 9.9% interest, and all members of Harvest approved or otherwise ratified the JDD Agreement. *Id.* ¶¶ 43-45.

Under the JDD Agreement, JDD agreed to pay $370,000.00 to Harvest for 9.9% of the total membership interests in Harvest, and, like TCS, JDD was expressly granted the rights to vote and receive distributions. *Id.* ¶ 46. Moreover, under the JDD Agreement, Saunders was appointed as Harvest's Chief Financial Officer, was to be paid an annual salary of $70,000.00, and was to be given an active role in Harvest's operations. *Id.* ¶ 47.

As with the TCS Agreement, the JDD Agreement required Harvest's other members, except TCS, to transfer portions of their own respective membership interests to JDD. *Id.* ¶ 48. Thus, the new distribution of membership interests was to be:

- Burton would own 24.1%;
- Lemons would own 24.1%;
- Jeffrey Yokiel would own 22%;
- Jerome Yokiel would own 10%;
- TCS would own 9.9%; and
- JDD would own 9.9%.

Id. ¶ 49.

Moreover, as part of the JDD Agreement, TCS and JDD's interests were to remain undiluted by any future sale or transfer of interests by other members. *Id.* ¶ 50. In fact, TCS and JDD retained a right of first refusal to purchase any of the other Harvest members' ownership interests, if any owner proposed the sale or transfer of his or her respective membership interests. *Id.* ¶ 51.

Also, as part (the "Exclusive Authorizations Rights") of the JDD Agreement, Burton and Lemons (acting as CEO and COO of Harvest, respectively) agreed that Harvest would not sell any of Harvest's assets, including its licenses, or make any additional marijuana deal regarding Harvest's operations in Nevada, without the express prior written authorization of both JDD and TCS. *Id.* ¶ 52. Finally, TCS and JDD were to receive a pro rata share of any cash distributions that Harvest would make to its members, as the JDD Agreement closely mirrored the terms of the TCS agreement. *Id.* ¶ 53. (The complaint specifically alleges that the I9 Defendants and Harvest entered into precisely such arrangements.)

On or about May 6, 2016, JDD made a partial payment of $200,000.00 to Harvest under the JDD Agreement. *Id.* ¶ 56. On or about June 17, 2016, JDD paid the remaining $170,000 to Harvest, as the JDD Agreement required. *Id.* ¶ 57.

Plaintiffs' Exclusion from Harvest

Initially, Burton and Lemons actively involved Plaintiffs in drafting an amended operating agreement for Harvest and kept Plaintiffs apprised of Harvest's operations. *Id.* ¶ 60. In fact, in or around 2016, Saunders attended the Third Annual Marijuana Business and Conference Expo (the "2016 Conference") in Las Vegas with Burton and Lemons. *Id.* ¶¶ 61, 89.

In or about mid-2016, Burton and Lemons became less responsive and more confrontational with regard to the proposed amended Harvest operating agreement. *Id.* ¶ 64. Then Burton and Lemons began excluding Plaintiffs from Harvests's business operations altogether. *Id.* ¶ 65. Specifically, Saunders attempted to participate in Harvest's operations as CFO, but Burton

and Lemons repeatedly excluded him. *Id.* at ¶ 66. Additionally, Burton and Lemons refused Plaintiffs' multiple requests to review Harvest's books and records, in violation of both Harvests's operating agreement and NRS 86.241, claiming that the books and records were not "ready" for review. *Id.* ¶ 67.

In or around 2017, after several unsuccessful attempts to reconcile with Burton and Lemons and to participate in the operations of the business, Plaintiffs demanded that Harvest buy out their entire membership interests. *Id.* ¶ 68. For several months afterward, Burton and Lemons claimed to be working on a plan to do so—but they never provided any concrete plan. *Id.* ¶ 69.

Although Plaintiffs were frustrated by Burton's and Lemons's unfulfilled promises, they nonetheless continued to attempt to amicably resolve the dispute without resorting to litigation. *Id.* ¶ 70. In or about the beginning of 2018, however, Burton and Lemons became unresponsive to Plaintiffs' requests. *Id.* ¶ 71.

In or about 2018, Plaintiffs began to suspect that Defendants were deliberately concealing Harvest's financial situation from Plaintiffs, and that Harvest might lack the means to buy out their membership interests. *Id.* ¶ 72. Plaintiffs renewed their demand for Harvests's books and records, and in or about August of 2018, Burton finally resumed communications with Plaintiffs and told them that the books and records were "ready" for review and that their buyout requests had been "submitted." *Id.* ¶¶ 73-74.

After months of difficulty in arranging the inspection, Saunders finally was given access to Harvest's books and records—and discovered that Harvest had *failed to keep any books and records since its inception*. *Id.* ¶¶ 75-78. And Harvest's bookkeeper revealed that all of Harvest's transactions had been conducted with cash, with Burton and Lemons personally removing it from and depositing it in a safe box in the office. *Id.* ¶ 79.

After that, Saunders worked with Harvest's office manager to implement proper financial records. *Id.* ¶ 80. For the next several months, Saunders continued to attempt to fulfill his role as

CFO and to assist in the business's operations while awaiting his buyout, but Burton and Lemons refused to respond to his calls and emails. *Id.* ¶ 81.

Finally, in or around September 2019, and in response to Saunders's request for his 2018 K-1 and a demand for the buyout to be finalized, Lemons asked to set up a phone call. *Id.* ¶ 82. Lemons failed to answer his phone and continued to evade Saunders's calls and emails. *Id.* ¶ 83. Plaintiffs then filed suit.

Plaintiffs' research before filing the ill-fated First Amended Complaint

Plaintiffs asked Brian Roche to investigate the facts and circumstances surrounding their $741,250.00 collective investment into Harvest Foundation. **Exhibit** 1, ¶5. Mr. Roche is an experienced investigator with a background in matters pertaining to investment such as this. *Id.*, ¶6. Roche conducted an intensive investigation and due diligence on the matters pleaded in the First Amended Complaint ("FAC"). *Id.*, ¶7. Roche's investigation covered a wide array of resources. *Id.*, ¶¶8 – 13. The research supported the filing of claims against the I9 Defendants. *Id.*, ¶¶26 – 28. The complaint against the I9 Defendants was brought in good faith. *Id.*, ¶29.

III. ARGUMENT

A district court *may* award attorneys fees to a "prevailing party" when it finds that the opposing party "brought of maintained [a claim] without *reasonable ground*[s]" NRS 18.010(2)(b); *Patush v. Las Vegas Bistro, LLC*, 135 Nev. Adv. Op. 46, 449 P.3d 467 (2019). To support such a discretionary award, "there must be evidence in the record supporting the proposition that the complaint was brought without *reasonable grounds* or to harass the other party." *Chowdhry v. NLVH, Inc.*, 109 Nev. 478, 486, 851 P.2d 459, 464 (1993).

Here, Plaintiffs had reasonable grounds to name the I9 Defendants, as detailed in the Declaration of Brian Roche. Absent discovery, Plaintiffs should not be penalized for the current inability to substantiate the I9 Defendants' involvement without detailed specificity. Plaintiffs reasonably believed and alleged that the I9 Defendants were part of Defendant Harvest's,

Burton's, and Lemons's web of deceit, or had somehow gained possession or control of Harvest assets in contravention to Plaintiffs' rights. There is no evidence in the record that the Plaintiffs intentionally made false allegations or disregarded the truth prior to naming the I9 Defendants.

This Court, after considering arguments of counsel, granted I9 Defendants' motion to dismiss, *without prejudice*. The Plaintiffs have yet to have a day of discovery in this matter. The Court accepted the representations of the I9 Defendants, and rejected the claims of Plaintiffs in their complaint that, if proven true, would give rise to the claims pleaded by them.

Further, because the dismissal was *without prejudice*, I9 Defendants does not meet the "prevailing party" standard. As noted by the Nevada Supreme Court in *145 E. Harmon II Tr. v. Residences at MGM Grand - Tower A Owners' Ass'n*, 460 P.3d 455, 459 (Nev. 2020), "[t]he Ninth Circuit distinguishes between dismissals with and without prejudice, explaining that a "dismissal without prejudice does not alter the legal relationship of the parties because the defendant remains subject to the risk of re-filing." *Cadkin v. Loose*, 569 F. 3d 1142, 1148 (9th Cir. 2009) (quoting *Oscar v. Alaska Dep't of Educ. & Early Dev.,* 541 F.3d 978, 981 (9th Cir. 2008)). Here, the I9 Defendants are also subject to being brought back into the case once discovery has taken place.

Finally, the fees requested are exorbitant. The impressive professional experience and qualities of the attorneys is beyond question, and the per hour rates appear reasonable; however, almost $80,000.00 for a motion to dismiss is excessive.

The motion to dismiss was 20 pages, and the reply 13 pages. Based on the request for $77,787.50 in fees, this works out to $2,359.95 in fees *per page* of motion practice. That appears *per se* unreasonable. An hour of attorney time plus an hour of paralegal or law clerk time per page would be far more reasonable.

/ / /

IV. CONCLUSION

For the foregoing reasons, Plaintiffs respectfully request the Court deny the motion for fees, or hold any such decision in abeyance until at least some discovery is conducted. If the Court is inclined to grant the motion for fees and costs, Plaintiffs respectfully request the fee award be reduced, as detailed above.

DATED this 19th day of May, 2021.

Respectfully submitted,

/s/ Lee Iglody
Lee I. Iglody, Esq.
Attorney for Plaintiffs

CERTIFICATE OF SERVICE

I hereby certify that on the 19th day of May, 2021, the foregoing **OPPOSITION TO MOTION FOR FEES** was served on the parties via electronic service through Odyssey pursuant to NEFCR 9, NRCP 5(b) and EDCR 7.26.

/s/ Lee Iglody

EXHIBIT 1

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DISTRICT COURT
CLARK COUNTY, NEVADA

JDD, LLC, a Nevada limited liability company; TCS Partners, LLC, a Nevada limited liability company; JOHN SAUNDERS, an individual; and TREVOR SCHMIDT, an individual Plaintiffs, vs. MARIMED INC. f/k/a Worlds Online, Inc., a Delaware corporation; ITEM 9 LABS CORP. f/k/a Airware Labs Corp. and Crown Dynamics Corp., a Delaware corporation; ITEM 9 PROPERTIES LLC, a Nevada limited liability company; THE HARVEST FOUNDATION LLC f/k/a, a Nevada limited liability company a/k/a THE HARVEST FOUNDATION, LLC; STRIVE MANAGEMENT L.L.C. d/b/a Strive Life, a Nevada limited liability company; STRIVE WELLNESS OF NEVADA, LLC d/b/a Strive Life, a Nevada limited liability company; STRIVE WELLNESS OF NEVADA 2 L.L.C. d/b/a Strive Life, a Nevada limited liability company; VIRIDIS GROUP I9 CAPITAL, LLC, an Arizona limited liability company; VIRIDIS GROUP HOLDINGS, LLC, an Arizona limited liability company; ROBERT FIREMAN, an individual; JON LEVINE, an individual; ANDREW BOWDEN, an individual; DOUGLAS BOWDEN, an individual; BRYCE SKALLA, an individual; JEFFREY RASSAS, an individual; DONALD BURTON, an individual; LARRY LEMONS, an individual; JEFFREY YOKIEL, an individual; JEROME YOKIEL, an individual; SARA GULLICKSON, an individual; CHASE HERSCHMAN, an individual; DOE INDIVIDUALS I through X, and ROE BUSINESS ENTITIES XI through XX, inclusive, Defendants. _____	**CASE NO**.: A-20-811232-C **DEPT. NO**.: XXVI **DECLARATION OF BRIAN ROCHE**

I, Brian Roche, hereby declare:

1. I am over 18 years of age and a resident of Nevada.

2. I have personal knowledge of the facts set forth herein, except those stated upon information and belief, and as to those, I believe them to be true.

3. I could and would competently testify under oath regarding the facts contained herein, if called upon to do so.

4. I am a non-party to this case and have no personal interest in this litigation, financial or otherwise.

5. In or around April, 2020, I was asked by Plaintiff's to review the facts and circumstances surrounding their $741,250 collective investment made into Harvest Foundation, LLC ("Harvest"), Donald Burton ("Burton"), Larry Lemons ("Lemons"), Jeffrey Yokiel ("Jeffrey"), and Jerome Yokiel ("Jermone" and collectively the "Harvest Defendants".)

6. I have over 20+ years of extensive worldwide business experience in investigation, background reporting, due diligence, underwriting, and legal matters pertaining to investments such as this.

7. For two (2) months I conducted extensive investigation and due diligence on the matters pleaded in the First Amended Complaint ("FAC".)

8. I have personal knowledge and confirmed by reviewing bank statements, communications, and documents that the Harvest Defendants received $371,250.00 from Plaintiff TCS Partners, LLC ("TCS") on or about January 22, 2015 in exchange for 9.9% non-diluted membership interest in Harvest and other rights.

9. I have personal knowledge and confirmed by reviewing bank statements, communications, and documents that the Harvest Defendants received another $200,000 from

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Plaintiff JDD, LLC ("JDD") on or around May 6, 2016 and $170,000 on or around June 17, 2016 in exchange for 9.9% non-diluted membership interest in Harvest and other rights.

10. For over two (2) months I conducted an investigation and research by reviewing the public filings of Defendants Marimed, Inc. ("Marimed") and Item 9 Properties, LLC ("Item 9".) I was able to access these public filings by accessing the United States Securities and Exchange Commission ("SEC") Edgar database located here: https://www.sec.gov/edgar/search-and-access.

11. Specifically in my investigation and research, I thoroughly reviewed the last three (3) years' worth of documents for each entity, including, but not limited to: 8-K current reports, 10-K annual reports, Proxy (annual meeting) and information statements, and Ownership Disclosures.

12. Additionally in my investigation and research, I reviewed multiple lawsuits involving all of the parties by accessing Pacer and the State Court and county websites in California, Nevada and Arizona.

13. Additionally in my investigation and research, I reviewed the licensing information through the Nevada Cannabis Compliance Board, Clark County Business Licenses, and Nevada Secretary of State Website confirming ownership and management information as pleaded in the FAC.

14. Through this investigation and research, I confirmed that Marimed is registered to conduct business in the State of Nevada with the Secretary of State and that Paragraphs 1-22 of the FAC concerning the Defendants, their entities, and their ownership and management in each of these entities listed as Defendants are true and correct.

15. Beginning on or around June 18, 2020, I engaged in ongoing and extensive communications telephonically and through email with Defendants Robert Fireman ("Fireman"),

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Chief Executive Officer ("CEO") of Defendant Marimed and Bryce Skalla ("Skalla") on behalf of Item 9.

16. During these telephonic and email communications which lasted over a month, I began to piece this matter together and validate the fraud that took place based on Marimed, Item 9, and their related entities and individuals conduct as pleaded.

17. These representations, which Plaintiff's relied on, occurred on December 30, 2014 January 5, 2015 and January 20, 2015 in telephone and in person conversations with Defendants Burton, Lemons, Jeffrey, Jerome and Gullickson prior to Plaintiff TCS making the First Investment.

18. The representations, which Plaintiff's relied on, also occurred March 30, 2015, May 4, 2015, and June 12, 2015 in person and over the phone prior to Plaintiff JDD prior making the Second Investment. This also included further representations reconfirming the same made during an in-person meeting on November 12, 2015 in Las Vegas, Nevada.

19. The representations were also reconfirmed in numerous in person meetings and telephone conversations over the phone on October 1, 2016, October 22, 2016, September 24, 2017, September 25, 2017, October 11, 2017, November 29, 2017.

20. Specifically, I exchanged emails with Fireman confirming the same as well as discussing the Membership Interest Purchase Agreement ("Marimed Purchase Agreement") Marimed executed in order to acquire Harvest and the representations of Marimed in their Form 10-Q dated November 9, 2020 in which they attest the following:

a) the issuance of $1,000,000 shares of MariMed's common stock to only two (2) of the owners of Harvest Burton and Lemons which have been issued;

(b) $1,200,000.00 of the Company's common stock at closing based on the price of the common stock the day prior ("Closing Price");

(c) warrants to purchase 400,000 shares of the Company's common stock at an exercise price equal to the Closing Price; and

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(d) MariMed paid Harvest over $1,000,000.00 as of June, 2020 and invested another $2,200,000 into Harvest operations. Further, it stated that MariMed had a cash reserve of $10,700,000 at December 31, 2019 which included reserves against the accounts receivable balances of Harvest of $239,000.00.

True and correct copy of the Marimed 10-Q is attached hereto as **Exhibit** 1.

21. On June 22, 2020 at approximately 3 p.m., I spoke to Fireman over the phone for approximately 30 minutes. During that call we discussed my investigation and research, our emails, and the documents provided.

22. During this call he told me he was aware of who Plaintiff's owners Trevor Schmidt and John Saunders were, was aware of their investment into Harvest, and was aware of their collective 20% ownership in Harvest.

23. He specifically told me that he met John Saunders in person on November 12, 2015 along with his partner and Chief Financial Officer ("CFO") of Marimed Jon Levine, and Burton, and Lemons at the 3rd Annual Marijuana Business and Conference Expo at the Rio Hotel and Casino in Las Vegas, Nevada well before the Marimed Purchase Agreement was consummated.

24. During this call we also discussed his personal knowledge and the involvement of Marimed in dealings with Item 9 and other Defendants Strive Management, LLC, Strive Wellness of Nevada, LLC, Strive Wellness of Nevada 2, LLC, Viridis Group I9 Capital, LLC, Viridis Group, Holdings, LLC, Snowell Holdings, LLC, and the individual Defendants Fireman, Jon Levine, Andrew Bowden, Douglas Bowden, Bryce Skalla, Jeffrey Rassas, Sara Gullickson, and Chjase Hershcman (collectively "Item 9 Defendants") were all in "business together" and owners, officers, managers, and/or directors of the Defendant entities.

25. During subsequent telephone conversations and emails, Fireman represented Gullickson's involvement in all aspect of Marimed, Harvest, and Item 9's licensing in Nevada, and in fact represented she was the CEO of Item 9 before being fired for fraud.

LEE IGLODY, ESQ.
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26. During a telephone call on June 19, 2020 with Bryce Skalla on behalf of the Item 9 Defendants, Skalla represented the same to me and referenced a lawsuit Item 9 filed against Gullickson in this regard. True and correct copies of these emails exchanged with Skalla are attached hereto as **Exhibit** 2.

27. Specifically, both Fireman and Skalla confirmed to me over the telephone and in multiple emails exchanged the following, which was also described in detail and confirmed by me based on a review the Item 9 Form 10-Q in August, 2020:

(a) the Item 9 Defendants made a capital contribution of $1,500,000.00 into Strive Management, LLC, a Nevada limited liability company, the management arm of Defendant Strive Wellness ("Item 9 Agreements") which owns two (2) valuable Cannabis license in Nye, County;

(b) This capital was based on a total investment of $2,700,000.00 from Viridis I9 and Viridis Holdings under a Revenue Participation Agreement;

(c) In exchange for this capital contribution secured by Defendants Viridis I9 and Viridis Holdings, Defendant Item 9 received a 20% membership interest in Strive Management with the remaining ownership held by Burton, Lemons, and Gullickson;

(d) The Item 9 Agreements also include Item 9 acquiring an additional 31% ownership of Strive Management and Strive Wellness;

(e) The Item 9 Agreements also include Item 9 investing $5,500,000.00 in order to construct a facility in Nevada which will be wholly owned by Item 9 and leased to Strive Management, of which $3,000,000.00 has already been invested;

(d) In exchange for the investments contemplated under the Item 9 Agreements, Defendants Viridis I9, Viridis Holdings, Andrew, and Douglas would receive waterfall revenue participation including 5% of Item 9's gross revenue from Nevada operations and scaling down to a lower percentage in perpetuity and that Defendants would own an aggregate of 51% of the Nevada operations which represent tens of millions of dollars. Item 9's most recent 10K dated January 14, 2020 represented the breach by describing an Item 9 and Harvest Joint Venture in Nevada.

(e) In February 2020, the Company executed an agreement with the other members of Strive Management, LLC to purchase the remaining 80% of Strive Management, LLC ("Strive"), as well as the Nevada licenses its members held in another entity;

(f) The Company agreed to pay $500,000 in cash, $1,000,000 in an unsecured note payable, 3,250,000 shares of the Company's restricted common stock and issue 2,000,000 warrants exercisable into the Company's common stock. The warrants are to be issued upon the earlier of September 30, 2020 or three months following the date on which each provisional certificate becomes a final certificate.

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Nowhere in any of these public filings that I reviewed during my investigation did it reference or acknowledge Plaintiffs or their collective 19.8% ownership interest in these endeavors. True and correct copies of I9 10Q and 10K are attached hereto as **Exhibits** 3 & 4.

28. These public filings all reference Marimed, Harvest, and the Item 9 Defendants and their operations in Nevada. On November 15, 2019, Gullickson voluntarily resigned as Chief Executive Officer and member of the Board of Directors of Item 9 Labs and then was sued for the exact conduct pleaded in the FAC.

29. The First Amended Complaint was brought in good faith upon the facts gathered by me over months of research and investigation.

I declare under penalty of perjury under the law of the State of Nevada and the laws of the United States that the foregoing is true and correct.

Dated this 18th day of May, 2021.

Brian Roche

LEE IGLODY, ESQ.
2580 St. Rose Pkwy., Suite 330
Henderson, Nevada 89074
(702) 425-5366

EXHIBIT 2

Gmail

Brian Roche <br@rochecorp.com>

Marimed Deal

1 message

Brian Roche <br@rochecorp.com> Fri, Jun 19, 2020 at 5:06 PM
To: bryce@item9labs.com, abowden@item9labs.com, Jeffrey@item9labs.com

Bryce great call way to diffuse the situation. You're a good dude. Attached is the Marimed deal and the recent 10K by them discussing the Harvest deal. Look this over and your Asset Agreement for the distribution license in NV you bought from that whore Gullickson and Harvest and let's chat over the weekend. Pretty sure one of you (Marimed or Item 9) isn't getting what they think they are getting (or what they think they paid for).

Liquidity and Capital Resources

As of December 31, 2019, the Company reported cash and cash equivalents of approximately $739,000 and negative working capital of approximately $29.2 million, compared to cash and cash equivalents of approximately $4.1 million and working capital of approximately $5.8 million as of December 31, 2018. The decline in working capital from year-to-year was primarily the result of (i) the issuance of $17.0 million of promissory notes to fund the purchase of large quantities of top-grade hemp seeds at volume discounts which then were sold to GenCanna, a related party, at market rates (the "Seed Transactions"), (ii) the write off of the receivable balance due from GenCanna of approximately $29.0 million following GenCanna's Chapter 11 filing, (iii) the recording in 2019 of a bad debt reserve against the receivable and working capital balances due from Kind of approximately $11.2 million in the aggregate in light of the current litigation between the Company and Kind, and (iv) the recording in 2019 of a bad debt reserve against the receivable and working capital balances due from Harvest of approximately $2.2 million in the aggregate due to the anticipated effect on Harvest's operations from a weakened local economy due to the coronavirus pandemic. Please refer to the footnote disclosures accompanying the Company's audited consolidated financial statements for the years ended December 31, 2019 and 2018, included in Part I of this report, for further discussion of the Seed Transactions and the receivable reserves.

Nevada

In August 2019, the Company entered into a purchase agreement to acquire 100% of the ownership interests of The Harvest Foundation LLC ("Harvest"), its cannabis-licensed client. Documentation requesting approval of the transaction has been submitted to the state cannabis commission, which is pending. Harvest holds both medical and recreational adult-use cannabis cultivation licenses, and operates in approximately 10,000 square feet of an industrial building that the Company leases and has built out into a cannabis cultivation facility.

Clark, Nevada

The Company is leasing approximately 10,000 square feet of an industrial building that we built out into a cannabis cultivation facility. This facility is subleased to the Company's licensed cannabis client under a sub-lease which is coterminous with the Company's lease for 10 years expiring in 2024.

Stockholders

As of March 31, 2020, the Company had 728 stockholders of record and 230,292,407 outstanding shares of common stock.

Harvest payment	$ 1,000	$ -

Accounts Receivable

Accounts receivable consist of trade receivables and are carried at their estimated collectible amounts.

The Company provides credit to its clients in the form of payment terms. The Company limits its credit risk by performing credit evaluations of its clients and maintaining a reserve, if deemed necessary, for potential credit losses. Such evaluations include the review of a client's outstanding balances with consideration towards such client's historical collection experience, as well as prevailing economic and market conditions and other factors. Based on such evaluations, the Company maintained a reserve of approximately $10.7 million and $150,000 at December 31, 2019 and 2018, respectively. The 2019 reserve primarily consisted of reserves against the accounts receivable balances of Kind of approximately $9.7 million and Harvest of approximately $239,000, as further disclosed in Note 17 – *Bad Debts*.

(36)

The Harvest Foundation LLC

In November 2018, the Company issued a letter of intent to acquire 100% of the ownership interests of The Harvest Foundation LLC ("Harvest"), the Company's cannabis-licensed client in the state of Nevada. In August 2019, the parties entered into a purchase agreement governing the transaction. The acquisition is conditioned upon legislative approval of the transaction, which is expected to occur by the end of 2020. Upon consummation, the operations of Harvest will be consolidated into the Company's financial statements.

The purchase price is comprised of the issuance of (i) 1,000,000 shares of the Company's common stock, in the aggregate, to two owners of Harvest, which as a good faith deposit, were issued upon execution of the purchase agreement; (ii) $1.2 million of the Company's common stock at closing, based on the closing price of the common stock on the day prior to legislative approval of the transaction, and (iii) warrants to purchase 400,000 shares of the Company's common stock at an exercise price equal to the closing price of the Company's common stock on the day prior to legislative approval of the transaction. These shares are restricted and will be returned to the Company in the event the transaction does not close by a date certain. As the transaction has not been consummated, the issued shares were recorded at par value within the *Stockholders' Equity* section of the balance sheet at December 31, 2019.

NOTE 6 – DUE FROM THIRD PARTIES

At December 31, 2019 and 2018, the following table reflects amounts that were advanced by the Company to its cannabis-licensed clients primarily for working capital purposes, and the carrying amount of such advances after write-offs:

	2019	2018
Kind Therapeutics USA Inc. (Maryland licensee)	$ 1,475,675	$ 2,679,496
Harvest Foundation LLC (Nevada licensee)	1,938,787	248,796
KPG of Anna LLC (Illinois licensee acquired Oct. 2019)	–	482,700
KPG of Harrisburg LLC (Illinois licensee acquired Oct. 2019)	–	449,385
Total working capital advances to third parties	3,414,462	3,860,377
Reserves against working capital advances	(3,414,462)	–
Due from third parties, net	$ –	$ 3,860,377

When a client is able to organically fund its ongoing operations, such client will issue a promissory note to the Company for the cumulative advances made up to that point, which will then be paid down monthly over a specified period of time. The Company has successfully employed this strategy in the past, and accordingly, in January 2019, KPG of Anna LLC and KPG of Harrisburg LLC issued promissory notes to the Company as further described in Note 7 – *Notes Receivable*.

In December 2019, the Company recorded bad debt reserves against the working capital advance balances due from (i) Kind of approximately $1.5 million in light of the ongoing litigation between the Company and Kind, and (ii) Harvest of approximately $1.9 million because of the anticipated effect on Harvest's operations from a weakened local economy due to the coronavirus pandemic.

Virus-free. www.avg.com

2 attachments

10K.pdf
554K

8-2019 MEMBERSHIP INTEREST PURCHASE AGREEMENT-3.pdf
2296K

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019

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

For the transition period from _____ to _____

Commission File number 0-54433

MARIMED INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	27-4672745 **(I.R.S. Employer Identification No.)**

10 Oceana Way
Norwood, MA 02062
(Address of Principal Executive Offices)

617-795-5140
(Registrant's Telephone Number, Including Area Code)

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	Not Applicable	Not Applicable

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.001 par value
(Title of Class)

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

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

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 [X] 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

[ ] Large Accelerated Filer	[X] Accelerated Filer
[ ] Non-Accelerated Filer	[X] Smaller reporting company
	[X] Emerging growth company

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 Act.): Yes [ ] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price as of June 28, 2019 of $2.02 per share, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $264.7 million.

At March 31, 2020, the issuer had outstanding 230,292,407shares of Common Stock, par value $.001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

The information in response to Part III of this Report are incorporated herein by reference to the registrant's Definitive Proxy Statement, to be filed on or before April 29, 2020, with respect to its 2020 Annual Meeting of Stockholders.

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve risks and uncertainties and our actual results could differ significantly from those discussed herein. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as "anticipate," "expect," "estimate," "could," "should," "would," "project," "predict," "intend," "plan," "will," "believe," and similar language, including those set forth in the discussion under "Description of Business," "Risk Factors" and "Management's Discussion and Analysis or Plan of Operation" as well as those discussed elsewhere in this Form 10-K. We base our forward-looking statements on information currently available to us, and we believe that the assumption and expectations reflected in such forward-looking statements are reasonable, and we assume no obligation to update them. Statements contained in this Form 10-K that are not historical facts are forward-looking statements that are subject to the "safe harbor" created by the Private Securities Litigation Reform Act of 1995.

PART I

ITEM 1. BUSINESS.

Overview

MariMed Inc. (the "Company") is a leader in the emerging cannabis industry. The Company is an expert in the development, operation, management and optimization of facilities for the cultivation, production and dispensing of medicinal and recreational cannabis and cannabis-infused products. To date, the Company has developed in excess of 300,000 square feet of state-of-the-art, regulatory-compliant facilities in five states – Delaware, Illinois, Maryland, Massachusetts, and Nevada.

At the outset of the Company's entrance into the cannabis industry, the Company provided advisory services and assistance to its clients in the procurement of state-issued cannabis licenses, leased its aforementioned cannabis facilities to these newly-licensed clients, and provided industry-leading expertise and oversight in all aspects of their cannabis operations, as well as ongoing regulatory, accounting, human resources, and administrative services. During this time, the Company successfully secured, on behalf of its clients, 13 cannabis licenses across six states – two in Delaware, three in Illinois, one in Nevada, one in Rhode Island, three in Maryland, and three in Massachusetts.

Since entering the cannabis industry, the Company has demonstrated an excellent track record developing and operating licensed cannabis facilities, implementing its proprietary operating procedures, and industry best practices. In 2018, the Company commenced a strategic plan to transition from an advisory firm that provides cannabis licensing, operational consulting and real estate services, to a direct owner of cannabis licenses and operator of seed-to-sale operations, dedicated to the improvement of health and wellness through the use of cannabinoids and cannabis products.

The Company's strategic plan consists of the acquisition of its cannabis-licensed clients who currently lease the Company's facilities, and the consolidation of these entities under the MariMed banner. The Company has played a key role in the successes of these entities, from the securing of their cannabis licenses, to the development of facilities that are models of excellence, to providing operational and corporate guidance. Accordingly, the Company believes it is well suited to own these facilities and manage the continuing growth of their operations.

A goal in completing this transition is to present a simpler, more transparent financial picture to the investor community. Once the consolidation is complete, the Company's financial statements will provide a clearer representation of the revenues, earnings, and other financial metrics that the Company is generating, rather than a fee-for-service revenue model that reports only consulting and management fees, and does not reflect the full breadth of the Company's overall business.

To date, acquisitions of the licensed businesses in Massachusetts and Illinois have been state-approved and completed, with the remaining entities located in Maryland, Nevada, and Rhode Island at various stages of completion and state approvals as further discussed below. When implemented, all of the Company's cannabis-licensed clients will be fully consolidated into the Company, establishing it as a fully integrated seed-to-sale multistate operator of licensed cannabis businesses.

Each of the remaining potential acquisitions is subject to the respective state's approval under its laws governing the ownership and transfer of cannabis licenses. The completion of the entire plan requires a modification of current cannabis license ownership laws in in Delaware and Rhode Island, and therefore there is no assurance that the Company will be successful in fully implementing its plan. However, the Company continues to develop additional revenue and business in the states in which it operates and plans to leverage its success in these markets to expand into other states where cannabis is and becomes legal.

The Company has also created its own brands of precision-dosed, cannabis-infused products designed to treat specific health conditions, alleviate medical symptoms, or achieve a certain effect. These products are developed by the Company in cooperation with state-licensed facilities and operators who meet the Company's strict standards, including all natural—not artificial or synthetic—ingredients. The Company licenses its product formulations only to knowledgeable manufacturing professionals who agree to adhere to the Company's precise scientific formulations using its trademarked product recipes.

The Company's branded products are licensed under brand names including Kalm Fusion™, Nature's Heritage™, and Betty's Eddies™, and are distributed in the form of dissolvable strips, tablets, powders, microwaveable popcorn, fruit chews, and with more varieties in development. The Company also has exclusive sublicensing rights in certain states to distribute DabTabs™ vaporization tablets infused with cannabis concentrates, the Binske® line of cannabis products made from premium artisan ingredients, and the clinically tested medicinal cannabis strains developed in Israel by Tikun Olam™. The Company intends to continue licensing and distributing its brands as well as other top brands in the Company's current markets and in partnerships in other state markets across the country where product sale is legal.

In anticipation of the growing demand for hemp-derived cannabidiol ("CBD"), in 2018, the Company invested $30.0 million in GenCanna Global Inc. ("GenCanna"), a Kentucky-based cultivator, producer, and distributor of hemp and GMP-quality CBD oils and isolates. Concurrent with this investment, the Company acquired MediTaurus LLC ("MediTaurus"), a company operating in the United States and Europe that has developed proprietary CBD formulations under its Florance™ brand.

The transactions with GenCanna and MediTaurus, along with the Company's cannabis platform and product experience, enabled the Company to expand into the emerging global CBD market just as the U.S Farm Bill was adopted in late 2018 which descheduled industrial hemp and hemp-derived CBD as controlled substances and classified them as agricultural commodities. This new law enabled a new emerging industry of CBD oils, isolates, and infused products within the United States. In early 2019, the Company established a wholly owned subsidiary, MariMed Hemp Inc. ("MariMed Hemp") to market and distribute hemp-derived CBD products across several vertical markets.

Over the Company's short history operating in the cannabis industry, it has fostered an excellent reputation for strong management, with clients that have thrived in their respective markets. The Company's goal is to continue this success as it transitions from a manager and advisor to an owner and operator of cannabis businesses. The Company's strengths can be summarized as follows:

Professional Management

The Company's management is one of the most experienced and long-tenured in the cannabis industry. It has had considerable success creating and developing defined business, operating and security plans; sourcing real estate for cannabis facilities in receptive municipalities; and raising capital to purchase and develop facilities; adhering operations to regulations established by individual state governments, and writing award-winning applications for clients applying for licenses in new and established cannabis-legal states. These skills are important as the Company expands its footprint into new states on both a direct ownership and management services basis.

Development of State-of-the-Art Cannabis Facilities and Operations

The Company has developed state-of-the-art cannabis cultivation, production, and dispensary facilities in multiple states utilizing the Company's proprietary practices and implementing industry best practices. Its facilities are examples of operational excellence under the Company's proven management policies and processes.

Cannabis Brand Creation

The Company has developed unique brands of precision-dosed cannabis-infused products which are currently licensed and distributed in cannabis-legal states. The Company intends to continue expanding both its brand portfolio and the licensing of its branded products into additional cannabis-legal states and overseas.

Investment in Hemp Production, Branding, and Distribution

The Company has the potential for vast growth in the hemp-derived CBD market. It was one of the first cannabis companies to expand in the CBD market with its investment in GenCanna, which will ensure the Company has access to a safe and reliable source of hemp-derived CBD to meet the increasing market demand for CBD-infused products.

GenCanna planted and harvested in excess of 6,000 acres in 2019, making it one of the largest hemp producers in the United States. In recent months GenCanna has found itself in a difficult financial situation which has had a direct impact on the Company's financial results as further described below.

Technological and Scientific Innovation

The Company is diligent in identifying and reviewing the latest sciences and processes applicable to the cultivation, distillation, production, packaging, securing, and distribution of cannabis and cannabis-infused products. The Company has obtained the highest quality cannabis strains and genetics. It is at the leading edge of patient education and physician outreach for cannabis, and it seeks strategic relationships with companies that are at the forefront of extraction and distillation.

Education and Knowledge Sharing

The rapid growth of legal cannabis and hemp-derived CBD markets presents a global paradigm shift and challenges to medical professionals and consumers who seek scientific knowledge and research regarding the medical benefits of certain strains and products of cannabis and hemp. The Company provides educational research and studies on its brands and products to its growing community of healthcare professionals and consumers. As cannabis becomes more mainstream, medical providers will need to be educated on how to prescribe or make recommendations to their patients, and consumers will need to learn how to gain the most benefit from certain strains, genetics, or formulations.

As part of its education initiative, the Company is assembling a Scientific Advisory Board (the "SAB") that includes some of the most knowledgeable scientists and researchers focused on the scientific application of cannabis and hemp for health and wellness. The SAB's goals will include the development of strategies to address the most widespread and debilitating medical and dietary conditions through the utilization of cannabis- and hemp-based therapies.

Cannabis Consolidation Plan

The following is a summary of the progress the Company has made towards its strategic transition from a management and advisory firm in the cannabis space, to a direct owner of cannabis licenses and seed-to-sale operations across six states – DE, IL, NV, MD, MA, and RI.

Massachusetts

In December 2018, the Massachusetts Cannabis Control Commission (the "MCCC") approved the conversion of ARL Healthcare Inc. ("ARL"), the Company's cannabis-licensed client, from a non-profit entity to a for-profit corporation and the transfer of ownership to the Company. ARL holds cannabis licenses for cultivation, production and dispensing.

The Company's 10,000 square foot dispensary, developed within its 22,700 square foot property in Middleboro, received approval from the MCCC to commence operations in December 2019. The Company's recently- completed 70,000 square foot cultivation and production facility, developed within its 138,000 square foot property in New Bedford, received approval from the MCCC to commence operations in January 2020, with its first harvest to be completed in the first quarter of 2020,

Illinois

In October 2019, the Illinois Department of Financial & Professional Regulation (the "IDFPR") approved the Company's acquisition of KPG of Anna LLC and KPG of Harrisburg LLC, the Company's two cannabis-licensed clients that operate Company-built and -owned medical marijuana dispensaries in the state of Illinois (both entities collectively, the "KPGs"). As part of this transaction, the Company also acquired the selling parties' interests in Mari Holdings IL LLC ("Mari-IL"), the Company's subsidiary which owns the real estate in which the KPGs' dispensaries are located.

Effective October 1, 2019, 100% of the operations of these entities have been consolidated into the Company's financial statements. Additionally, on January 1, 2020, the IDFPR legalized recreational adult-use cannabis, allowing the Company to operate both medical and recreational adult-use programs in the Anna and Harrisburg dispensaries. Under this new law, the Company has the right to open two additional dispensaries under the current licenses, which are in the planning stages.

Maryland

In December 2018, the Company entered into a memorandum of understanding ("MOU") to acquire Kind Therapeutics USA Inc. ("Kind"), its cannabis-licensed client that holds licenses for the cultivation, production, and dispensing of medical cannabis. The MOU provides for a total purchase price of $6.3 million in cash, 2,500,000 shares of the Company's common stock, and other consideration. The acquisition is subject to approval by the Maryland Medical Cannabis Commission, which approval is not expected prior to October 2020.

Also in December 2018, MariMed Advisors Inc, the Company's wholly owned subsidiary, and Kind entered into a management agreement to provide Kind with comprehensive management services in connection with the business and operations of Kind, and Mari Holdings MD LLC, the Company's majority-owned subsidiary, entered into a 20-year lease with Kind for Kind's utilization of the Company's 180,000 square foot cultivation and production facility in Hagerstown, MD. Additionally, in October 2019, the Company purchased a 9,000 square foot building in Anne Arundel County which it is developing into a dispensary.

The current owners of Kind have attempted to renegotiate the terms of the MOU, even though the MOU contain all the definitive material terms with respect to the acquisition transaction and confirms the management and lease agreements. The Company engaged with the sellers in good faith in an attempt to reach updated terms acceptable to both parties, however the sellers failed to reciprocate in good faith, resulting in an impasse. Incrementally, both parties through counsel further sought to resolve the impasse, however such initiative resulted in both parties commencing legal proceedings. As a result, the consummation of this acquisition will likely be delayed and may not ultimately be completed. For further information, see Part II, Item 1. *Legal Proceedings* in this report.

Nevada

In August 2019, the Company entered into a purchase agreement to acquire 100% of the ownership interests of The Harvest Foundation LLC ("Harvest"), its cannabis-licensed client. Documentation requesting approval of the transaction has been submitted to the state cannabis commission, which is pending. Harvest holds both medical and recreational adult-use cannabis cultivation licenses, and operates in approximately 10,000 square feet of an industrial building that the Company leases and has built out into a cannabis cultivation facility.

Delaware

Delaware's current cannabis program is for medical use only, and requires license holders to be not-for-profit entities. The Company provides comprehensive management and real estate services to First State Compassion Center ("FSCC"), its cannabis-licensed client whom the Company assisted in its being granted Delaware's first ever seed-to-sale medical cannabis license and the holder of two of the four statewide licenses.

FSCC operates out of the Company's 47,000 square foot seed-to-sale facility in Wilmington, and its 4,000 square foot leased retail location in Lewes. In 2019, the Company signed a lease with an option to purchase a 100,000 square foot building in Milford, which it is currently developing into a second cultivation and production facility for FSCC.

The state is expected to allow "for-profit" ownership of cannabis licenses in the near future, at which time the Company will seek to acquire FSCC and obtain ownership of the licenses and operations.

Rhode Island

Rhode Island currently has a medical cannabis program where license holders must be not-for-profit entities. The Company is in continuing discussions to acquire, subject to state approval, ownership interests of the management company that oversees the operations of the Company's client, the Thomas C. Slater Compassion Center ("Slater"). If the transaction is completed, the Company will generate management fees until the state allows "for-profit" ownership, at which time the Company will seek to acquire Slater's cannabis licenses and operations.

Significant Transactions in the Current Period

During 2019, the Company, through its MariMed Hemp subsidiary, entered into several hemp seed sale transactions with GenCanna whereby the Company acquired large quantities of top-grade feminized hemp seeds with proven genetics at volume discounts that it sold to GenCanna at market rates. The seeds met the U.S. government's definition of federally legal industrial hemp, which was descheduled as a controlled substance and classified as an agricultural commodity upon the signing of the 2018 U.S. Farm Bill.

The Company purchased $20.75 million of hemp seed inventory which it sold and delivered to GenCanna for $33.2 million. The Company provided GenCanna with extended payment terms through December 2019, to coincide with the completion of the seeds' harvest, although the payment by GenCanna was not contingent upon the success of such harvest or its yield. To partially fund the seed purchases, the Company raised $17.0 million in debt financings.

By the end of 2019, GenCanna had not paid the amount it owed the Company for its seed purchases due to several challenges it faced late in the year, including a fire at its main processing and lab facility, the domestic decline of CBD selling prices, and the contraction of the cannabis capital markets. In February 2020, GenCanna filed for voluntary reorganization under Chapter 11 with the U.S. Bankruptcy Court in the Eastern District of Kentucky. The filing is intended to permit GenCanna to operate its business while working through a reorganization plan that could include refinancing of its existing indebtedness, or an alternative restructuring transaction such as a sale.

As required by the relevant accounting guidance, the Company initially recorded the $33.2 million due from GenCanna as a related party receivable, with approximately $29.0 million recognized as related party revenue, and approximately $4.2 million classified as unearned revenue (such amount representing the Company's 33.5% ownership portion of the profit on these transactions, which was to have been recognized as revenue upon payment by GenCanna). As a result of GenCanna's Chapter 11 filing, the Company wrote off the receivable balance of approximately $29.0 million and the unearned revenue balance of approximately $4.2 million. Additionally, the Company recorded a charge to net income of approximately $30.2 million, which reduced to zero the carrying value of the Company's investment in GenCanna.

GenCanna recently announced the completion of one the largest recorded hemp harvests in Kentucky, which exceeded 6,000 acres. The Company's management believes that GenCanna's Chapter 11 filing and ensuing restructuring will facilitate GenCanna's ability to refinance its senior debt and arrange for the orderly payment of amounts due to its creditors, including the $33.2 million owed to the Company; however, there are no assurances that it will achieve this outcome or that the amount owed to the Company will be paid.

In addition to the foregoing adjustments, the Company recorded bad debt reserves in 2019 against the receivable and working capital balances due from (i) Kind of approximately $11.2 million in the aggregate, in light of the ongoing litigation between the Company and Kind, and (ii) Harvest of approximately $2.2 million in the aggregate, due to the anticipated effect on Harvest's operations from a weakened local economy due to the coronavirus pandemic. These charges are further described in the footnotes accompanying the Company's audited financial statements included in this report.

The Company expects the coronavirus pandemic to likewise have a negative impact on the operations of certain entities in which the Company has invested and to whom the Company has extended loans. For that reason, the Company also wrote off (i) three notes receivable balances of approximately $1.6 million in the aggregate, (ii) goodwill of approximately $2.7 million associated with the Company's acquisition of MediTaurus, and (iii) the carrying value of a $500,000 investment. These items are further described in the footnotes accompanying the Company's audited financial statements included in this report.

Corporate History

The Company was incorporated in the state of Delaware in January 2011 as a wholly-owned subsidiary of Worlds Inc. (formerly Worlds.com Inc.) under the name Worlds Online Inc. In May 2011, Worlds Inc. spun-off the Company to its stockholders. At its inception, the Company operated online virtual environments which did not gain traction with users.

In early 2014, the Company transitioned its operational focus to the emerging cannabis industry and made its first acquisition of a cannabis business.

In June 2017, the Company changed its name to MariMed Inc. and its ticker symbol to MRMD. The Company's common stock is quoted on the OTCQX exchange.

In July 2017, Robert Fireman was named as the Company's CEO and President, and Jon R. Levine as the CFO, Treasurer, and Secretary.

In October 2017, the Company acquired the intellectual property, formulations, recipes, proprietary equipment, know-how, and other certain assets of the Betty's Eddies™ brand of cannabis-infused fruit chews.

In April 2018, the Company acquired iRollie LLC, a manufacturer of branded cannabis products and accessories for consumers, and custom product and packaging for companies in the cannabis industry.

In August 2018, the Company purchased a 23% ownership interest in an entity that provides a customer relationship management and marketing platform, branded under the name Sprout, specifically designed for companies in the cannabis industry. In early 2020, Sprout was being used by over 150 cannabis dispensaries.

During the period September 2018 to November 2018, in a series of investments, the Company purchased an aggregate of $30.0 million of subordinated secured convertible debentures of GenCanna. In February 2019, the Company converted the debentures plus accrued interest through the conversion date into a 33.5% equity interest of GenCanna on a fully diluted basis.

In October 2018, the Company entered into a purchase agreement to acquire KPG of Anna LLC and KPG of Harrisburg LLC, the Company's two cannabis-licensed clients that operate medical marijuana dispensaries in the state of Illinois (both entities collectively, the "KPGs"), and the KPGs' owners' interests in Mari Holdings IL LLC, the Company's subsidiary that owns the real estate where the KPGs' two dispensaries are located. On October 1, 2019, the Illinois Department of Financial & Professional Regulation approved the Company's acquisition of the KPGs and Mari-IL. As of such date, the KPGs and Mari-IL are wholly-owned subsidiaries of the Company. On January 1, 2020, the state legalized adult-use cannabis, which was added to the Company's two existing cannabis licenses, thereby increasing the Company's operations in the state to service both medical and recreational cannabis consumers.

In October 2018, the Company's cannabis-licensed client in Massachusetts, ARL Healthcare Inc. ("ARL"), filed a plan of entity conversion with the state to convert from a non-profit entity to a for-profit corporation, with the Company as the sole shareholder of the for-profit corporation. ARL holds three cannabis licenses from the state of Massachusetts for the cultivation, production and dispensing of cannabis. In November 2018, the Company received written confirmation of state approval of the conversion plan from the state, making ARL a wholly-owned subsidiary of the Company.

In November 2018, the Company issued a letter of intent to acquire The Harvest Foundation LLC, the Company's client awarded a cannabis license for cultivation in the state of Nevada. In August 2019, the parties entered into a purchase agreement governing the transaction. The acquisition is conditional upon state approval, which is expected to occur by the end of 2020.

In December 2018, the Company executed a memorandum of understanding ("MOU") to acquire Kind Therapeutics USA Inc. ("Kind"), its client in the state of Maryland that holds licenses for the cultivation, production, and dispensing of medical cannabis. The MOU provides for a total purchase price of $6.3 million in cash, 2,500,000 shares of the Company's common stock, and other consideration. The transaction is subject to the approval by the Maryland Medical Cannabis Commission, which approval was not expected prior to October 2020. Recently, the sellers of Kind have attempted to renegotiate the terms of the MOU. Even though the MOU contains all the definitive material terms with respect to the acquisition transaction and confirms certain management and lease agreements, the selling parties now allege that the MOU is not an enforceable agreement. The Company engaged with the sellers in good faith in an attempt to reach updated terms acceptable to both parties, however the sellers failed to reciprocate in good faith, resulting in an impasse. Incrementally, both parties through counsel further sought to resolve the impasse, however such initiative resulted in both parties commencing legal proceedings, which are currently pending. For further information, see Part II, Item 1. *Legal Proceedings* in this report.

In December 2018, the Company and Kind entered into a management service agreement to whereby the Company provides Kind with comprehensive management services, and a 20-year lease with for the leasing to Kind of the Company's 180,000 square foot facility in Hagerstown, Maryland.

In January 2019, the Company entered into an agreement with Maryland Health & Wellness Center Inc. ("MHWC"), an entity that has been pre-approved for a cannabis dispensing license, to provide MHWC with a $300,000 construction loan in connection with the buildout of MHWC's proposed dispensary location. Upon the two-year anniversary of final state approval of MHWC's dispensing license, the Company shall have the right, subject to state approval, to convert the promissory note underlying the construction loan into 20% ownership of MHWC. The Company also entered into a consulting services agreement to provide MHWC with advisory and oversight services over a three-year period relating to the development, administration, operation, and management of MHWC's proposed dispensary in Maryland.

In January 2019, the Company converted a $250,000 note receivable from Chooze Corp., an entity that develops CBD- and THC-infused products intended to prevent debilitating side effects, into a 2.7% ownership interest in the entity.

In January 2019, the Company established MariMed Hemp Inc., a wholly-owned subsidiary to develop, market, and distribute hemp-based CBD brands and products, and to provide hemp producers with bulk quantities of hemp genetics and biomass. During the quarter ended September 30, 2019, MariMed Hemp launched Hemp Engine™, a store-within-a-store turnkey distribution platform of CBD-based products for retailers.

In May 2019, the Company issued 500,000 shares of its common stock in exchange for an 8.95% interest in Terrace Inc. ("Terrace"), a Canadian entity that develops and acquires international cannabis assets. In November 2019, the common stock of Terrace commenced public trading on the Toronto Stock Venture Exchange

In June 2019, the Company executed a purchase agreement to acquire MediTaurus LLC, a company established by Jokubas Ziburkas PhD, a neuroscientist and leading authority on hemp-based CBD and the endocannabinoid system. MediTaurus operates in the United States and Europe and has developed proprietary CBD formulations sold under its Florance™ brand.

In July 2019, the Company entered into a licensing agreement for the exclusive manufacturing and distribution in seven states of the Binske® portfolio of products, a brand known for utilizing best-in-class proprietary strains and craft ingredients in its edibles, concentrates, vaporizers, and topicals.

In August 2019, the Company extended a loan of $250,000 to High Fidelity Inc., a company that owns and operates two seed-to sale medical marijuana facilities in the state of Vermont, and produces its own line of CBD products.

In October 2019, the Company closed on the purchase of a 9,000 square foot building in Annapolis, MD which it intends to develop into a medical marijuana dispensary.

Competition

The Company's goal is to become a fully integrated multistate operator ("MSO") of seed-to-sale cannabis operations. The Company is different than some of the other MSO's in that it has incubated its client businesses from the bottom up, built its own brands and branded products, and has retained its core management team from inception. Other MSO's have raised significantly more capital, including on the Canadian Stock Exchange, and acquired assets in more states than the Company has to date.

Additionally, while Company has a comprehensive suite of products and services for the cannabis industry, it faces competition from companies of varying sizes and geographic reach, who produce and sell similar products. Some of these companies provide a subset of the Company's product and service offerings, while others are able to provide an equivalent level of the products and services offered by the Company. The Company's sales could be reduced significantly if its competitors develop and market products that are more effective, more convenient, or are less expensive than its products. Going forward, as cannabis and hemp products become more mainstream and have greater acceptance, it is likely that larger and more established companies, with greater available resources including name recognition and national distribution networks, will enter the field. At the same time, the Company believes the emerging cannabis industry is growing at such a pace that there are more opportunities available than current cannabis businesses can support. With abundant opportunities, the Company at times works with others to insure a positive image in new and emerging states. Until recently, the black market and illegal cannabis traffickers that controlled this industry years ago from the shadows are a lesser competitive threat as such groups are diminishing.

Intellectual Property

The Company has currently filed for trademark protection for its Kalm Fusion™ and Betty's Eddies™ branded product lines.

The Company's proprietary processing, and manufacturing techniques and technologies, while not patented at this time, are kept strictly confidential. The Company enters into and enforces confidentiality agreements with key employees and consultants to protect its IP and general know-how.

Employees

As of December 31, 2019, the Company had a total of 97 employees, of which 81 were full-time. In addition, the Company utilized a variety of supporting consultants and oversaw many employees of its cannabis-licensee clients to implement its policies and procedures.

Website Access to Company Reports

The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on the Company's website at www.marimedinc.com as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission.

In addition, copies of the Company's annual report will be made available, free of charge, on written request.

ITEM 1A. RISK FACTORS

The Company's business is subject to numerous risks, including but not limited to those set forth below. The Company's operations and performance could also be subject to risks that do not exist as of the date of this report but emerge thereafter as well as risks that the Company does not currently deem material.

Risks related to the Company's operations

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

In their report on our December 31, 2019 financial statements, our auditors expressed substantial doubt as to our ability to continue as a going concern. A going concern qualification could impair our ability to finance our operations through the sale of debt or equity securities. Our ability to continue as a going concern will depend, in large part, on our ability to obtain additional financing and generate positive cash flow from operations, neither of which is certain. If we are unable to achieve these goals, our business would be jeopardized and we may not be able to continue operations.

Additional Financing Requirements and Access to Capital.

In order to fund necessary working capital to implement our business consolidation plan and satisfy current debt obligations, we will have to obtain debt financing, and/or sell additional equity securities in future financings. Additional equity financings may cause further dilution for existing stockholders. Current markets conditions and the COVID-19 pandemics impact on the global economy are having a significant adverse impact on both debt and equity financings. There can be no assurance that any such additional financing will be available or, if available, that its terms will be satisfactory to us. In addition, our costs and expenses may be higher than anticipated, and there can be no assurance that we will not be required to seek additional financing to meet our operating cash requirements or other financing and debt service needs. Failure to obtain additional financing would have material adverse effect on our results of operation and, could result in our defaulting under current debt payment obligations.

Raising additional funds by issuing convertible debt or equity securities may cause dilution to our existing stockholders, restrict our operations or require us to relinquish proprietary rights.

To the extent that we raise additional capital by issuing convertible debt or equity securities, the share ownership of existing stockholders will be diluted. Further, any future debt financing may involve covenants that restrict our operations, including limitations on our ability to incur liens or additional debt, pay dividends, redeem our stock, make certain investments and engage in certain merger, consolidation or asset sale transactions, among other restrictions. In addition, future debt financings may require us to pledge certain assets as security for such debt.

Marijuana remains illegal under federal law.

Marijuana remains illegal under federal law. It is a Schedule I controlled substance. Even in those jurisdictions in which the use of medical marijuana has been legalized at the state level, its prescription is a violation of federal law. The United States Supreme Court has ruled that it is the federal government that has the right to regulate and criminalize cannabis, even for medical purposes. Therefore, federal law criminalizing the use of marijuana trumps state laws that legalize its use for even medicinal purposes. At present the states are standing tall against the federal government, maintaining existing laws and passing new ones in this area. States continue to exert this freedom notwithstanding Attorney General Sessions officially leaving prosecution discretion against state licensed cannabis facilities to local US Attorneys district by district, which position has yet to be addressed by Attorney General Barr. This was a change from the Obama administration which under Attorney General Holder, had a policy decision to allow states to implement these laws and not prosecute anyone operating in accordance with applicable state law. The United States House of Representatives continues to not fund in the budget any funds for the Department of Justice to prosecute state compliant licensed cannabis companies. However, we continually face election cycles, and a new administration or the United States Congress could introduce a less favorable policy. A change in the federal attitude towards enforcement could cripple the industry. However, the medical marijuana industry is our primary target market, and if this industry was unable to operate, we would lose the majority of our potential clients, which would have a significantly negative impact on our business, operations and financial condition.

Our continued growth is dependent on additional states legalizing marijuana.

Continued development of the marijuana market is dependent upon continued legislative authorization of marijuana at the state level for medical and adult recreational use. Any number of factors could slow or halt the progress. Further, progress, while encouraging, is not assured and the process normally encounters set-backs before achieving success. While there may be ample public support for legislative proposal, key support must be created in the legislative committee or a bill may never advance to a vote. Numerous factors impact the legislative process. Any one of these factors could slow or halt the progress and adoption of marijuana for medical and/or recreational purposes, which would limit the market for our products and negatively impact our ability to grow into other states.

It will be difficult for you to evaluate us based on our past performance because we are a relatively new company in a new emerging industry with a limited operating history.

We have been actively engaged in the marijuana related business for a relatively short period of time and, accordingly, have only limited financial results on which you can evaluate our company and operations. We are subject to, and must be successful in addressing, the risks typically encountered by new enterprises and companies operating in the rapidly evolving cannabis marketplace, including those risks relating to:

- the failure to develop brand name recognition and reputation;
- the failure to achieve market acceptance of our services;
- a slowdown in general consumer acceptance of legalized marijuana; and
- an inability to grow and adapt our business to evolving consumer demand.

The medical cannabis industry faces strong opposition from traditional medicines.

It is believed by many that existing, entrenched, well-funded, businesses may have a strong economic opposition to the medical marijuana industry as currently formed. For example, we believe that the pharmaceutical industry does not want to cede control of any compound that could become a strong selling drug. Specifically, medical marijuana will likely adversely impact the existing market for Marinol, the current "marijuana pill" sold by mainstream pharmaceutical companies. Further, the medical marijuana industry could face a material threat from the pharmaceutical industry should marijuana displace other drugs or simply encroach upon the pharmaceutical industry's market share for compounds such as marijuana and its component parts. The pharmaceutical industry is well funded with a strong and experienced lobby that eclipses the funding of the medical marijuana movement. Any inroads the pharmaceutical industry makes in halting or rolling back the medical marijuana movement could have a detrimental impact on the market for our products and thus on our business, operations and financial condition.

Our clients may have difficulty accessing the service of banks, which may make it difficult for them to purchase our products and services.

As discussed above, the use of marijuana is illegal under federal law. Therefore, there are banks that will not accept for deposit funds from sale of cannabis and may choose not to do business with our clients. While a member of the United States Congress has stated he will seek an amendment to banking regulations and laws in order to allow banks to transact business with state-authorized medical marijuana businesses, there can be no assurance his legislation will be successful, that banks will decide to do business with medical marijuana retailers, or that in the absence of legislation state and federal banking regulators will not create issues on banks handling funds generated from an activity that is illegal under federal law. Notwithstanding, the Company has been able to secure state-chartered banks that are in compliance with federal law and provide certain banking services to companies in the cannabis industry. The inability of potential clients in our target market to open accounts and otherwise use the service of banks may make it difficult for them to purchase our products and services.

We may not be able to economically comply with any new government regulation that may be adopted with respect to the cannabis industry.

New legislation or regulation, or the application of existing laws and regulations to the medical and consumer cannabis industries could add additional costs and risks to doing business. We are subject to regulations applicable to businesses generally and laws or regulations directly applicable to communications over the Internet and access to e-commerce. Although there are currently few laws and regulations regulating the cannabis products, it is reasonable to assume that as cannabis use becomes more mainstream that the FDA and or other federal, state and local governmental agencies will impose regulations covering the cultivation, purity, privacy, quality control, security and many other aspects of the industry, all of which will likely raise the cost of compliance thereby reducing profits or even making it more difficult to continue operations, either of which scenarios, if they occur, could have a negative impact on our business and operations.

Our limited resources may restrict our ability to manage any growth we may experience.

Growth of our business may place a significant strain on our management systems and resources and may require us to implement new operating and financial systems, procedures and controls. Our failure to manage our growth and expansion could adversely affect our business, results of operations and financial condition. Failure to implement new systems effectively or within a reasonable period of time could adversely affect our business, results of operations and financial condition. The Company is constantly looking to add additional qualified talent to the management team to support its growth, but there is no assurance we will be successful in identifying and/or hiring such people.

The market may not readily accept our products.

Demand and market acceptance for our licensed branded new cannabis-infused products are subject to a high level of uncertainty. The successful introduction of any new product requires a focused, efficient strategy to create awareness of and desire for the products. For example, in order to achieve market acceptance for our marijuana products we will need to gain market and patient acceptance. Despite management's efforts to gather data before introducing new products as a means to minimize the risk of product non-acceptance, no assurance can be given that our efforts will be successful.

Our marketing strategy may be unsuccessful and is subject to change as a result of a number of factors, including changes in market conditions (including the emergence of new market segments which in our judgment can be readily exploited through the use of our technology), the nature of possible license and distribution arrangements and strategic alliances which may become available to us in the future and general economic, regulatory and competitive factors. There can be no assurance that our strategy will result in successful product commercialization or that our efforts will result in initial or continued market acceptance for our proposed products.

If we are unable to protect our intellectual property rights, competitors may be able to use our technology or trademarks, which could weaken our competitive position.

We rely on a combination of copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We also intend to enter into confidentiality or license agreements with our employees, consultants and customers, and control access to and distribution of our products, and other proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products.

If we lose our key employee or fail to hire and retain other talented employees when necessary, our operations could be harmed.

The success of our business is currently dependent, in large part, on the personal efforts of Messrs. Robert Fireman, Jon R. Levine, and Timothy Shaw, our chief executive officer, chief financial officer, and chief operating officer, respectively. The loss of their services could have a material adverse effect on our business. The success of our business is currently dependent, in large part, upon our ability to hire and retain additional qualified management, marketing, technical, financial, and other personnel if and when our growth so requires. Competition for qualified personnel is intense and we may not be able to hire or retain such additional qualified personnel. Any inability to attract and retain qualified management and other personnel would have a material adverse effect on our ability to grow our business and operations.

In order to sustain and grow our business, we must be able to enhance our existing products and develop and introduce new products and services to respond to changing market demand.

The markets in which we operate are characterized by frequently changing customer demand and the introduction of new products and services. In order to be successful, we must be able to enhance our existing services and products and develop and introduce new products and services to respond to changing market demand. The development and enhancement of services and products entails significant risks, including:

- the failure to conform our services and products to evolving industry standards;
- the inability to develop, introduce and market enhancements to our existing services and products or new services and products on a timely basis; and
- the non-acceptance by the market of such new service and products.

We currently have only limited resources to enhance our technology or to develop new products.

We face competition from entities with greater resources than we have.

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and experience than the Company. Increased competition by larger and better-financed competitors could materially and adversely affect the business, financial condition, results of operations or prospects of the Company.

Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. To become and remain competitive, the Company will require research and development, marketing, sales and support. The Company may not have sufficient resources to maintain research and development, marketing, sales and support efforts on a competitive basis which could materially and adversely affect the business, financial condition, results of operations or prospects of the Company.

The introduction of a recreational model for cannabis production and distribution may impact the medical marijuana market. The impact of this potential development may be negative for the Company, and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

A change in federal laws regarding the classification of cannabis as a controlled substance, interstate cannabis commerce, banking for entities in the cannabis industry, or other related regulations may have a significant influence on the Company's business.

Results of clinical research, if unfavorable, could have a negative impact on the industries in which we operate and consequently on our business model.

Research in Canada, the United States and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although the Company believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Future research studies and clinical trials may reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Anti-money laundering laws and regulations can limit our ability to access financing and hamper our growth.

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), the Criminal Code (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In February 2014, the Financial Crimes Enforcement Network ("FCEN") of the U.S. Department of the Treasury issued a memorandum providing instructions to banks seeking to provide services to marijuana related businesses (the "FCEN Memo"). The FCEN Memo states that in some circumstances, it may not be appropriate to prosecute banks that provide services to marijuana-related businesses for violations of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on Cannabis-related violations of the CSA. It is unclear at this time whether the current administration will follow the guidelines of the FCEN Memo. Under U.S. federal law, banks or other financial institutions that provide a Cannabis-related business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

We face the prospect of claims of product liability if anyone is harmed by our products.

The Company's products will be produced for sale directly to end consumers, and therefore there is an inherent risk of exposure to product liability claims, regulatory action and litigation if the products are alleged to have caused loss or injury. In addition, the production and sale of the Company's products involves the risk of injury to end users due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human or animal consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that its products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. While the Company has product liability insurance coverage in place and works with third party providers to ensure they do as well, a product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation, and could have a material adverse effect on its business and operational results.

We are subject to compliance with environmental regulations which can be onerous and costly.

The Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government environmental approvals and permits are currently, and may in the future, be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from implementing its proposed business activities or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage due to its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations which could have a material adverse effect on its business and operational results.

We are subject to potential risks related to, and arising from, acquiring companies.

The Company is in the process of acquiring several companies and intends to acquire other companies in the future. There are risks inherent in any such acquisition. Specifically, there could be unknown or undisclosed risks or liabilities of such companies for which the Company is not sufficiently indemnified. Any such unknown or undisclosed risks or liabilities could materially and adversely affect the Company's financial performance and results of operations. The Company could encounter additional transaction and integration related costs or other factors such as the failure to realize all of the benefits from such acquisitions. All of these factors could cause dilution to the Company's earnings per share or decrease or delay the anticipated accretive effect of the acquisition and cause a decrease in the market price of the Company's securities. The Company may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of any such acquired company with its existing operations. If integration is not managed successfully by the Company's management, the Company may experience interruptions in its business activities, deterioration in its employee and customer relationships, increased costs of integration and harm to its reputation, all of which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company may experience difficulties in combining corporate cultures, maintaining employee morale and retaining key employees. The integration of any such acquired companies may also impose substantial demands on the Management. There is no assurance that these acquisitions will be successfully integrated in a timely or cost-efficient manner, or at all.

In the event we are sued for any reason, we would face potential cost and interference with our business operations.

The Company is, and may from time to time become, party to litigation in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company is, or becomes, involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating. Even if the Company is involved in litigation and wins, litigation can redirect significant Company resources. Litigation may also create a negative perception of the Company's brand.

Risks related to the Company's common stock

Possible issuances of our capital stock would cause dilution to our existing shareholders.

We currently have approximately 230.3 million shares of common stock outstanding and we are authorized to issue up to 500 million shares. Therefore, we will be able to issue a substantial number of additional shares without obtaining shareholder approval. In the event we elect to issue additional shares of common stock in connection with any financing, acquisition or otherwise, current shareholders could find their holdings substantially diluted, which means they will own a smaller percentage of our company. In addition, we are authorized to issue up to 50 million shares of preferred stock that our board of directors can issue under any terms it wants and without any shareholder approval.

The exercise or conversion of outstanding warrants and options into common stock will dilute the percentage ownership of our other shareholders. The sale of such common stock or other common stock in the open market could adversely affect the market price of our common stock.

As of December 31, 2019 and 2018, there were 18,051,357 and 18,916,211, respectively, of potentially dilutive securities in the form of outstanding options and warrants. Also as of such dates, there were (i) $10.0 million and $8.6 million, respectively, of outstanding convertible debentures payable, and (ii) $350,000 of outstanding convertible promissory notes in both years, that were potentially dilutive, whose conversion into common stock is based on a discount to the market value of common stock on or about the future conversion date. More convertible securities will likely be granted in the future to our officers, directors, employees or consultants and as part of future financings. The exercise of outstanding stock options and warrants and conversion of notes and debentures will dilute the percentage ownership of our other shareholders. Sales, or the expectation of sales, of a substantial number of shares of our common stock in the private or public markets could adversely affect the prevailing market price of our common stock.

Potential Volatility of Common Share Price

The market price of the Company's common stock could be subject to significant fluctuations. Some of the factors that may cause the market price of the common stock to fluctuate include:

(a) the public's reaction to the Company's press releases, announcements and filings with regulatory authorities and those of its competitors;

(b) fluctuations in broader stock market prices and volumes;

(c) changes in market valuations of similar companies;

(d) investor perception of the Company, its prospects or the industry in general;

(e) additions or departures of key personnel;

(f) commencement of or involvement in litigation;

(g) changes in the regulatory landscape applicable to the Company, the dietary supplement and/or the cannabis and hemp industries;

(h) media reports, publications or public statements relating to, or public perceptions of, the regulatory landscape applicable to the Company, the cannabis or the hemp industry, whether correct or not;

(i) announcements by the Company or its competitors of strategic alliances, significant contracts, new technologies, acquisitions, commercial relationships, joint ventures or capital commitments;

(j) variations in the Company's quarterly results of operations or cash flows or those of other comparable companies;

(k) revenues and operating results failing to meet the expectations of securities analysts or investors in a particular period;

(l) changes in the Company's pricing policies or the pricing policies of its competitors;

(m) future issuances and sales of the Company's common stock;

(n) sales of the Company's common stock by insiders of the Company;

(o) third party disclosure of significant short positions;

(p) demand for and trading volume of the Company's common stock;

(q) changes in securities analysts' recommendations and their estimates of the Company's financial performance;

(r) short-term fluctuation in stock price caused by changes in general conditions in the domestic and worldwide economies or financial markets; and

(s) the other risk factors described in this section or other sections of this 10-K.

The realization of any of these risks and other factors beyond the Company's control could cause the market price of the common stock to decline significantly.

In addition, broad market and industry factors may harm the market price of the Company's common stock. Hence, the price of the common stock could fluctuate based upon factors that have little or nothing to do with the Company, and these fluctuations could materially reduce the price of the common stock regardless of the Company's operating performance. In the past, following a significant decline in the market price of a company's securities, there have been instances of securities class action litigation having been instituted against that company. If the Company were involved in any similar litigation, it could incur substantial costs, Management's attention and resources could be diverted and it could harm the Company's business, operating results and financial condition

The Company has no plans to pay dividends on our common stock.

We do not expect to declare or pay dividends on the common stock in the foreseeable future. In addition, the payment of cash dividends may be limited or prohibited by the terms of any future loan agreements.

We are subject to "penny stock" regulations which may adversely impact the liquidity and price of our common stock.

Our common stock is currently deemed a "penny stock." Penny stocks generally are equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information on penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, broker-dealers who sell such securities to persons other than established customers and accredited investors (generally, those persons with assets in excess of $1,000,000 (excluding the value of their primary residence) or annual income exceeding $200,000 or $300,000 together with their spouse), the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction.

These requirements could reduce the level of trading activity, if any, in the secondary market for our common stock. As a result of the foregoing, our shareholders may find it more difficult to sell their shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company currently owns and leases the following properties throughout the United States.

Wilmington, Delaware

The Company owns a 45,070 square foot facility on 2.25 acres within a fenced-in business park which it purchased in September 2016 and developed into a cannabis cultivation, processing, and dispensary facility. The property is secured under a mortgage with the Bank of New England that matures in 2031. The facility is leased to a cannabis licensee company occupying 100% of the space under a 20-year triple net lease expiring in 2035.

Lewes, Delaware

The Company leases 4,000 square feet of retail space in a newly-built multi-use building. This five-year lease with a five-year option to extend the term commenced in October 2016. We built out the space into a cannabis dispensary which is sub-leased to the same licensed cannabis company occupying the Wilmington facility, under a five-year triple net lease with a five-year option to extend.

Milford, Delaware

In March 2019, the Company entered into a lease of a 100,000 square foot warehouse that it intends to build into a cultivation and processing facility. The lease term is 10 years, with an option to extend the term for three additional five-year periods. Construction of the first 60,000 square feet of this facility has commenced and is estimated to be completed by late 2020.

Anna, Illinois

The Company owns a 3,400 free-standing retail building that is secured under a mortgage with DuQuoin State Bank maturing in 2020, provided it is not annually renewed by the bank, which the bank has done every year of this mortgage (the "DSQ Mortgage"). The property is leased to the Company's state licensed cannabis dispensary under a 20-year triple net lease expiring in 2036.

Harrisburg, Illinois

The Company owns a 3,400 free-standing retail building, also secured under the DSQ Mortgage. The property is leased to the Company's state licensed cannabis dispensary under a 20-year triple net lease expiring in 2036.

Hagerstown, Maryland

The Company owns a 180,000 square foot manufacturing facility that it has developed into cannabis cultivation and production facility. The property secures a $3 million promissory note to an accredited investor which matures in 2020. This facility is leased to the company's cannabis licensed client under a 20 year triple net lease expiring in 2038.

Annapolis, Maryland

In October 2019, the Company purchased a free-standing 10,000 square foot industrial building which it is developing into a medical marijuana dispensary.

Clark, Nevada

The Company is leasing approximately 10,000 square feet of an industrial building that we built out into a cannabis cultivation facility. This facility is subleased to the Company's licensed cannabis client under a sub-lease which is coterminous with the Company's lease for 10 years expiring in 2024.

New Bedford, Massachusetts

The Company owns 138,000 square foot industrial property located on 21.95 acres within the New Bedford Industrial Park. The property secures a mortgage with the Bank of New England that matures in 2027. Approximately half of the available square footage is leased to a non-cannabis manufacturing company under a five-year lease. The Company developed the other half of the building into a cannabis cultivation and processing facility which was approved for operations in January 2020.

Middleborough, Massachusetts

In July 2017, the Company purchased a 22,700 square foot retail and warehouse building located on the main street of this municipality. The property secures a $2.0 million promissory note issued to an accredited investor that matures in December 2021. The Company has constructed a 10,000 square foot retail dispensary which will be leased to the same cannabis licensee that leases the Company's New Bedford facility under a 20-year lease that started in mid-2019.

Norwood Massachusetts

The Company's corporate offices are located in Norwood, Massachusetts. This 10,000 square foot space is under a 10-year lease expiring in 2028 with a related party which contain a 5-year extension option.

ITEM 3. LEGAL PROCEEDINGS.

In July 2019, Thomas Kidrin, the former chief executive officer and a former director of the Company, filed a complaint in the Massachusetts Superior Court, Suffolk County, captioned Thomas Kidrin v. MariMed Inc., et. al., Civil Action No. 19-2173D. In the complaint, Mr. Kidrin alleges that the Company failed to pay all wages owed to him and breached his employment agreement, dated August 30, 2012, and requests multiple damages, attorney fees, costs, and interest. The Company has moved to dismiss certain counts of the complaint and has asserted counterclaims against Mr. Kidrin alleging breach of contract, breach of fiduciary duty, money had and received, and unjust enrichment. The Company believes that the allegations in the complaint are without merit and intends to vigorously defend this matter and prosecute its counterclaims.

On November 13, 2019, Kind Therapeutics USA Inc. ("Kind") commenced an action in the Circuit Court for Washington County, MD captioned Kind Therapeutics USA, Inc. vs. MariMed, Inc., et al. (Case No. C-21-CV-19-000670) alleging, inter alia, breach of contract, breach of fiduciary duty, unjust enrichment, and seeking a declaratory judgment, injunctive relief, an accounting and damages in excess of $75,000. On November 15, 2019, the Company filed counterclaims against Kind and a third-party complaint against the Members of Kind (Jennifer DiPietro, Susan Zimmerman, and Sophia Leonard-Burns) and William Tham, alleging breach of contract with respect to each of the Memorandum of Understanding ("MOU") and the Management Agreement ("MSA"), unjust enrichment, promissory estoppel/detrimental reliance, and fraud in the inducement, and seeking a declaratory judgement that the MOU is an enforceable contract, specific performance of such contact, and the establishment of a constructive trust

for the Company's benefit. Both parties, MariMed (including MariMed Holdings MD, LLC and MariMed Advisors, Inc.) and Kind, brought motions for a temporary restraining order and a preliminary injunction. By Opinion and Order entered on November 21, 2019, the Court denied both parties motions for a temporary restraining order. In its opinion, the Court specifically noted that, contrary to Kind's allegations, the MSA and Lease "appear to be independent, valid and enforceable contracts." Each party's preliminary injunction motion is currently pending before the Court. The Company believes that its claims for breach of contract with respect to MOU, the MSA, as well as its claims for unjust enrichment, promissory estoppel/detrimental reliance, and fraud in the inducement are meritorious. Further, the Company believes that Kind's claims against the Company are without merit. The Company intends to aggressively prosecute and defend the action.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

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

The Company's common stock currently trades on the OTCQX market under the MRMD ticker symbol. Any over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Stockholders

As of March 31, 2020, the Company had 728 stockholders of record and 230,292,407 outstanding shares of common stock.

Dividends

The Company has never declared or paid a dividend on its common stock, and it does not anticipate paying cash or other dividends in the foreseeable future.

Recent Sales of Unregistered Securities

In October 2019, the Company issued 1,000,000 shares of common stock representing the purchase price of the acquisition of the KPG's and the minority interests of Mari-IL

In November 2019, the Company sold 215,000 shares of common stock at a price of $0.70 per share, resulting in total proceeds of $150,000. Also during this month, the Company issued 172,663 shares of common stock to settle an outstanding obligation that approximated $121,000.

During the period October 2019 to November 2019, the Company issued three-year and four-year warrants to purchase 510,000 shares of common stock at exercise prices ranging from $0.75 to $1.37 per share.

In December 2019, the holder of Company-issued debentures converted $1,100,000 of principal and approximately $17,000 of accrued interest into subscriptions on 3,004,131 shares of common stock at a conversion price of $0.37 per share. Such common shares were issued in January 2020.

In December 2019, the Company issued 2,435,116 shares of common stock to retire a promissory note with a principal balance of $950,000 and accrued interest of $97,100.

In December 2019, the Company's CEO and an independent board member exercised stock options to purchase 200,000 and 132,499 shares of common stock, respectively, at weighted average exercise prices of $0.11 and $0.08 and $0.14 per share, respectively.

In December 2019, the Company granted 32,726 shares of common stock to employees at an aggregate value of approximately $29,000. These granted shares were issued in January 2020.

During the period October 2019 to December 2019, the Company granted options to purchase 1,665,000 shares of common stock at exercise prices of $0.42 to $1.00 per share. Also during this period, options to purchase 856,251 shares of common stock were forfeited.

The securities described above were issued to accredited investors in private transactions not involving a public offering or the payment of commissions and were deemed to be exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon Sections 4(a)(2) and/or 4(a)(5) of the Securities Act and Regulation D promulgated thereunder. A legend restricting the sale, transfer, or other disposition of these securities other than in compliance with the Securities Act was placed on the securities issued in the foregoing transactions.

Company Equity Compensation Plans

The following table sets forth information as of December 31, 2019 with respect to compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance.

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 stockholders[1]	6,271,250	$	1.51	38,535,000
Equity compensation plans not approved by stockholders	0	$	0	0
Total	6,271,250			38,535,000

(1) Consist of options exercisable for (i) 250,000 shares granted under the Company's the 2011 Stock Option and Restricted Stock Award Plan; and (ii) 6,021,250 shares granted under the Incentive Plan (hereinafter defined) of which 4,556,250 shares continue to be subject to the terms of the Company's 2018 Stock Award and Incentive Plan.

In August 2019, the Company's board of directors approved the Amended and Restated 2018 Stock Award and Incentive Plan (the "Incentive Plan"), based on the board's belief that awards authorized under the Incentive Plan provide incentives for the achievement of important performance objectives and promote the long-term success of the Company. In September 2019, the Incentive Plan was approved by the stockholders at the Company's annual stock-holders meeting.

The Incentive Plan is an omnibus plan, authorizing a variety of equity award types as well as cash and long-term incentive awards. An aggregate of 40,000,000 shares are reserved for delivery to participants, and may be used for any type of award under the Incentive Plan. Shares actually delivered in connection with an award will be counted against such number of reserved shares. Shares will remain available for new awards if an award under the Incentive Plan expires, is forfeited, canceled, or otherwise terminated without delivery of shares or is settled in cash. Each award under the Incentive Plan is subject to the Company's claw back policy in effect at the time of grant of the award.

The board of directors may amend, suspend, discontinue, or terminate the Incentive Plan or the authority to grant awards thereunder without stockholder approval, except as required by law or regulation or under rules of the stock exchange, if any, on which the Company's stock may then be listed. Unless earlier terminated, grants under the Incentive Plan will terminate ten years after stockholder approval of the Incentive Plan, and the Incentive Plan will terminate when no shares remain available and the Company has no further obligation with respect to any outstanding award.

ITEM 6. SELECTED FINANCIAL DATA

The Company is a "smaller reporting company" as defined by Regulations S-K and as such, is not required to provide the information contained in this item pursuant to Regulation S-K.

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

Forward Looking Statements

When used in this form 10-K and in future filings by the Company with the Commission, words or phrases such as "anticipate," "believe," "could," "would," "should," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward looking statements, each of which speak only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company has no obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different. These factors include, but are not limited to, changes that may occur to general economic and business conditions; changes in current pricing levels that we can charge for our services and products or which we pay to our suppliers and business partners; changes in political, social and economic conditions in the jurisdictions in which we operate; changes to regulations that pertain to our operations; changes in technology that render our technology relatively inferior, obsolete or more expensive compared to others; changes in the business prospects of our business partners and customers; increased competition, including from our business partners; and enforcement of federal cannabis related laws.

The following discussion should be read in conjunction with the financial statements and related notes which are included in this report under Item 8.

We do not undertake to update our forward-looking statements or risk factors to reflect future events or circumstances.

Overview

MariMed Inc. (the "Company") is a leader in the emerging cannabis industry. The Company is an expert in the development, operation, management and optimization of facilities for the cultivation, production and dispensing of medicinal and recreational cannabis and cannabis infused products. To date, the Company has developed in excess of 300,000 square feet of state-of-the-art, regulatory-compliant facilities in five states – Delaware, Illinois, Maryland, Massachusetts, and Nevada.

At the outset of the Company's entrance into the cannabis industry, the Company provided advisory services and assistance to its clients in the procurement of state-issued cannabis licenses, leased its aforementioned cannabis facilities to these newly-licensed clients, and provided industry-leading expertise and oversight in all aspects of their cannabis operations, as well as ongoing regulatory, accounting, human resources, and administrative services. During this time, the Company successfully secured, on behalf of its clients, 13 cannabis licenses across six states – two in Delaware, three in Illinois, one in Nevada, one in Rhode Island, three in Maryland, and three in Massachusetts.

Since entering the cannabis industry, the Company has demonstrated an excellent track record developing and operating licensed cannabis facilities, implementing its proprietary operating procedures, and industry best practices. In 2018, the Company commenced a strategic plan to transition from an advisory firm that provides cannabis licensing, operational consulting and real estate services, to a direct owner of cannabis licenses and operator of seed-to-sale operations, dedicated to the improvement of health and wellness through the use of cannabinoids and cannabis products.

The Company's strategic plan consists of the acquisition of its cannabis-licensed clients who currently lease the Company's facilities, and the consolidation of these entities under the MariMed banner. The Company has played a key role in the successes of these entities, from the securing of their cannabis licenses, to the development of facilities that are models of excellence, to providing operational and corporate guidance. Accordingly, the Company believes it is well suited to own these facilities and manage the continuing growth of their operations.

A goal in completing this transition is to present a simpler, more transparent financial picture to the investor community. Once the consolidation is complete, the Company's financial statements will provide a clearer representation of the revenues, earnings, and other financial metrics that the Company is generating, rather than a fee-for-service revenue model that reports only consulting and management fees, and does not reflect the full breadth of the Company's overall business.

To date, acquisitions of the licensed businesses in Massachusetts and Illinois have been state-approved and completed, with the remaining entities located in Maryland, Nevada, and Rhode Island at various stages of completion and state approvals as further discussed below. When implemented, all of the Company's cannabis-licensed clients will be fully consolidated into the Company, establishing it as a fully integrated seed-to-sale multistate operator of licensed cannabis businesses.

Each of the remaining potential acquisitions is subject to the respective state's approval under its laws governing the ownership and transfer of cannabis licenses. The completion of the entire plan requires a modification of current cannabis license ownership laws in in Delaware and Rhode Island, and therefore there is no assurance that the Company will be successful in fully implementing its plan. However, the Company continues to develop additional revenue and business in the states in which it operates and plans to leverage its success in these markets to expand into other states where cannabis is and becomes legal.

The Company has also created its own brands of precision-dosed, cannabis-infused products designed to treat specific health conditions, alleviate medical symptoms, or achieve a certain effect. These products are developed by the Company in cooperation with state-licensed facilities and operators who meet the Company's strict standards, including all natural—not artificial or synthetic—ingredients. The Company licenses its product formulations only to knowledgeable manufacturing professionals who agree to adhere to the Company's precise scientific formulations using its trademarked product recipes.

The Company's branded products are licensed under brand names including Kalm Fusion™, Nature's Heritage™, and Betty's Eddies™, and are distributed in the form of dissolvable strips, tablets, powders, microwaveable popcorn, fruit chews, and with more varieties in development. The Company also has exclusive sublicensing rights in certain states to distribute DabTabs™ vaporization tablets infused with cannabis concentrates, the Binske® line of cannabis products made from premium artisan ingredients, and the clinically tested medicinal cannabis strains developed in Israel by Tikun Olam™. The Company intends to continue licensing and distributing its brands as well as other top brands in the Company's current markets and in partnerships in other states markets across the country where product sale is legal.

In anticipation of the growing demand for hemp-derived cannabidiol ("CBD"), in 2018, the Company invested $30.0 million in GenCanna Global Inc. ("GenCanna"), a Kentucky-based cultivator, producer, and distributor of hemp and GMP-quality CBD oils and isolates. Concurrent with this investment, the Company acquired MediTaurus LLC ("MediTaurus"), a company operating in the United States and Europe that has developed proprietary CBD formulations under its Florance™ brand.

The transactions with GenCanna and MediTaurus, along with the Company's cannabis platform and product experience, enabled the Company to expand into the emerging global CBD market just as the U.S Farm Bill was adopted in late 2018 which descheduled industrial hemp and hemp-derived CBD as controlled substances and classified them as agricultural commodities. This new law enabled a new emerging industry of CBD oils, isolates, and infused products within the United States. In early 2019, the Company established a wholly owned subsidiary, MariMed Hemp Inc. ("MariMed Hemp") to market and distribute hemp-derived CBD products across several vertical markets.

Over the Company's short history operating in the cannabis industry, it has fostered an excellent reputation for strong management, with clients that have thrived in their respective markets. The Company's goal is to continue this success as it transitions from a manager and advisor to an owner and operator of cannabis businesses.

Significant Transactions in the Current Period

During 2019, the Company, through its MariMed Hemp subsidiary, entered into several hemp seed sale transactions with GenCanna whereby the Company acquired large quantities of top-grade feminized hemp seeds with proven genetics at volume discounts that it sold to GenCanna at market rates. The seeds met the U.S. government's definition of federally legal industrial hemp, which was descheduled as a controlled substance and classified as an agricultural commodity upon the signing of the 2018 U.S. Farm Bill.

The Company purchased $20.75 million of hemp seed inventory which it sold and delivered to GenCanna for $33.2 million. The Company provided GenCanna with extended payment terms through December 2019, to coincide with the completion of the seeds' harvest, although the payment by GenCanna was not contingent upon the success of such harvest or its yield. To partially fund the seed purchases, the Company raised $17.0 million in debt financings.

By the end of 2019, GenCanna had not paid the amount it owed the Company for its seed purchases due to several challenges it faced late in the year, including a fire at its main processing and lab facility, the domestic decline of CBD selling prices, and the contraction of the cannabis capital markets. In February 2020, GenCanna filed for voluntary reorganization under Chapter 11 with the U.S. Bankruptcy Court in the Eastern District of Kentucky. The filing is intended to permit GenCanna to operate its business while working through a reorganization plan that could include refinancing of its existing indebtedness, or an alternative restructuring transaction such as a sale.

As required by the relevant accounting guidance, the Company initially recorded the $33.2 million due from GenCanna as a related party receivable, with approximately $29.0 million recognized as related party revenue, and approximately $4.2 million classified as unearned revenue (such amount representing the Company's 33.5% ownership portion of the profit on these transactions, which was to have been recognized as revenue upon payment by GenCanna). As a result of GenCanna's Chapter 11 filing, the Company wrote off the unearned revenue balance of approximately $4.2 million and receivable balance of approximately $29.0 million. Additionally, the Company recorded a charge to net income of approximately $30.2 million, which reduced to zero the carrying value of the Company's investment in GenCanna.

GenCanna recently announced the completion of the largest recorded hemp harvest in Kentucky, which exceeded 6,000 acres. The Company's management believes that GenCanna's Chapter 11 filing and ensuing restructuring will facilitate GenCanna's ability to refinance its senior debt and arrange for the orderly payment of amounts due to its creditors, including the $33.2 million owed to the Company; however, there are no assurances that it will achieve this outcome or that the amount owed to the Company will be paid.

In addition to the foregoing adjustments, the Company recorded bad debt reserves in 2019 against receivable and working capital balances due from (i) Kind of approximately $11.2 million in the aggregate, in light of the ongoing litigation between the Company and Kind, and (ii) Harvest of approximately $2.2 million in the aggregate, due to the anticipated effect on Harvest's operations from a weakened local economy due to the coronavirus pandemic. These charges are further described in the footnotes accompanying the Company's audited financial statements included in this report.

The Company expects the coronavirus pandemic to likewise have a negative impact on the operations of certain entities in which the Company has invested and to whom the Company has extended loans. For that reason, the Company wrote off (i) three notes receivable balances of approximately $1.6 million in the aggregate, (ii) goodwill of approximately $2.7 million associated with the Company's acquisition of MediTaurus, and (iii) the carrying value of a $500,000 investment. These items are further described in the footnotes accompanying the Company's audited financial statements included in this report.

Revenues

The Company's revenues are currently comprised of the following primary categories:

Real Estate – The Company's state-of-the-art, regulatory-compliant cannabis facilities are leased to its cannabis-licensed clients over 20-year lease terms. The Company generates rental income from occupancy, tenant improvements, equipment rentals, and additional rental income based on the success of the cannabis licensees.

Management –The Company receives fees for providing comprehensive oversight of its clients' entire cannabis cultivation, production, and dispensary operations. Along with this oversight, the Company provides human resources, regulatory, accounting, sales, marketing, and reporting services.

Licensing – The Company derives licensing revenue from the sale of its branded precision-dosed cannabis-infused products, such as Kalm Fusion™ and Betty's Eddies™, to regulated dispensaries throughout the country.

Consulting – The Company assists third parties in securing cannabis licenses, and provides advisory services in the areas of facility design and development, and cultivation and dispensing best practices.

Supply Procurement – The Company maintains large volume discounts with top national vendors of cultivation and production supplies and equipment, which the Company acquires and resells at competitive prices to its cannabis-licensed clients or third parties.

Product Sales – The Company's direct sales of cannabis, hemp, and products derived from these plants are classified under this revenue category. In 2019, the Company commenced the direct sale of acquired hemp seed inventory. As the Company continues to explore opportunities to continue such sales, significant product sales are expected to be generated from (i) the distribution of the Company's acquired and developing hemp-derived CBD product lines, (ii) the dispensary and wholesale operations of ARL in Massachusetts and the KPGs in Illinois, and (iii) the Company's planned cannabis-licensee acquisitions in Maryland and Nevada.

Expenses

The Company classifies its expenses into three broad categories:

- cost of revenues, which includes the direct costs associated with the generation of the Company's revenues;
- operating expenses, which include the sub-categories of personnel, marketing and promotion, general and administrative, bad debts, and goodwill write-downs; and
- non-operating income and expenses, which include the sub-categories of interest expense, interest income, losses on debt settlements, losses on equity investments, changes in the fair value of non-consolidated investments, and other one-time gains or losses.

Liquidity and Capital Resources

As of December 31, 2019, the Company reported cash and cash equivalents of approximately $739,000 and negative working capital of approximately $29.3 million, compared to cash and cash equivalents of approximately $4.1 million and working capital of approximately $5.8 million as of December 31, 2018. The decline in working capital from year-to-year was primarily the result of (i) the issuance of $17.0 million of promissory notes to fund the purchase of large quantities of top-grade hemp seeds at volume discounts which then were sold to GenCanna, a related party, at market rates (the "Seed Transactions"), (ii) the write off of the receivable balance due from GenCanna of approximately $29.0 million following GenCanna's Chapter 11 filing, (iii) the recording in 2019 of a bad debt reserve against the receivable and working capital balances due from Kind of approximately $11.2 million in the aggregate in light of the current litigation between the Company and Kind, and (iv) the recording in 2019 of a bad debt reserve against the receivable and working capital balances due from Harvest of approximately $2.2 million in the aggregate due to the anticipated effect on Harvest's operations from a weakened local economy due to the coronavirus pandemic. Please refer to the footnote disclosures accompanying the Company's audited consolidated financial statements for the years ended December 31, 2019 and 2018, included in Part I of this report, for further discussion of the Seed Transactions and the receivable reserves.

While the bankruptcy of GenCanna, previously discussed in Part I of this report, has had a significant impact on the Company's short-term capital resources, the Company successfully completed several financing transactions subsequent to December 31, 2019 to generate liquidity and working capital. As further disclosed in Note 21 – *Subsequent Events* of the Company's audited financial statements, the Company raised approximately $4.4 million as part of an exchange agreement with two institutional stockholders, and $935,000 from the issuance of convertible debentures. Additionally, the Company has extended the maturity dates of approximately $19.4 million of promissory notes, and is in the process of finalizing the documentation to extend another $3.0 million of promissory notes.

Moreover, as of the filing date of this report, the Company has obtained a commitment from an accredited investor for a $12.0 million loan, secured by the Company's real estate, at a rate of 10% per annum with a one-year term, and an option to extend for an additional year. This transactions is expected to close upon the lender's completion of its due diligence, which is in its final stages, although there is no assurance that it will close in the foreseeable future or at all. Also as of the filing date of this report, the Company is in discussions with financial institutions to consider generating liquidity from the Company's unencumbered real property through mortgage-backed financings, the refinancing of certain outstanding mortgage loans, the sales-leaseback of certain properties, and/or a combination thereof. Based on preliminary discussions, such financings could potentially generate upwards of $17.0 million from such transactions, however the Company has not signed any commitments it has received to date and there are no assurances that it will.

In addition to the aforementioned financing transactions that have been consummated and that are in progress, the operations of the Company's recently acquired entities in Illinois and Massachusetts are expected to generate considerable liquidity and working capital for the Company. Since their acquisition, the KPGs in Illinois have generated approximately $1.0 million of pretax income for the Company, which has exceeded forecasts. The cultivation and production facility acquired in Massachusetts will soon complete its first harvest and commence full scale selling operations in this robust market.

In connection with the preparation of its financial statements for the year ended December 31, 2019, the Company's management evaluated the Company's ability to continue as a going concern in accordance with the ASU 2014-15, *Presentation of Financial Statements–Going Concern (Subtopic 205-40)*, which requires an assessment of relevant conditions or events, considered in the aggregate, that are known or reasonably knowable by management on the issuance dates of the financial statements which indicated the probable likelihood that the Company will be unable to meet its obligations as they become due within one year after the issuance date of the financial statements.

As part of its evaluation, management assessed known events, trends, commitments, and uncertainties, which at the time included the status of its consolidation plan, the GenCanna bankruptcy, the amount of capital raised by the Company during the past two calendar years, the recent level of cannabis industry investment activity, the stock price movement of public cannabis companies, the actions and/or results of certain bellwether cannabis companies, the measure of cannabis investor confidence, and the changes to state laws with respect to adult-use recreational and medical cannabis use.

The Company believes that it will close incremental debt financings in the foreseeable future, and it projects that its operating profit will organically support its day-to-day operations by the latter part of 2020. However, since there are no assurances that another financing transaction will be consummated, or that the Company will meet or exceed its projections in light of the unknown current state of the global economy, there are similarly no assurances that the Company will be able to meet all of its obligations as they become due within one year after the issuance date of the financial statements.

Operating Activities

For the year ended December 31, 2019, net cash used in operating activities approximated $24.1 million, compared to approximately $2.9 million for the same period in 2018. The rise of cash used in operations was primarily due to (i) the purchases of hemp seed inventory of approximately $20.75 million as part of the Seed Transactions, from which the Company generated zero income as the related amounts due from GenCanna were entirely written off, and (ii) cash outflows of approximately $2.0 million for the payment of interest on promissory notes and the purchase of inventory for the Company's two locations in the state of Massachusetts that commenced operations in late 2019 and early 2020.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2019 was approximately $12.5 million, compared to approximately $40.1 million for the same period in 2018. The decrease was principally caused by the Company's $30.0 million investment in GenCanna in 2018, offset by increases to loans to third-parties from $550,000 in 2018 to $2.43 million in 2019.

Financing Activities

Net cash used in financing activities for the year ended December 31, 2019 was approximately $33.3 million, compared to approximately $45.8 million for the same period in 2018. In 2019, the Company raised approximately $19. 8 million from the issuance of promissory notes, $9.6 million from the issuance of convertible debentures, and $2.75 million from the sale of common stock.

In 2018, the Company raised approximately $31.8 million from the sale of common stock, $10.0 million from the issuance of convertible debentures, and approximately $3.2 million from the issuance of a promissory note. In addition, capital of $2.0 million was extended to the Company for building improvements on its New Bedford, MA property by the mortgagee.

These funds were used to execute on the Company's strategy to become a fully integrated multistate operator of seed-to-sale cannabis operations, to continue the development of its regulated facilities, to grow its hemp operations, to expand its branded licensing business, and for working capital purposes.

Results of Operations

Year ended December 31, 2019 compared to year ended December 31, 2018

Total revenues for the year ended December 31, 2019 increased to approximately $45.6 million from approximately $11.9 million for the same period in 2018. The year-over-year increase of approximately $33.8 million was primarily due to the Seed Transactions of approximately $29.0 million, the receipt of which has been written off as explained above. Excluding the Seed Transaction, revenues for the year ended December 31, 2019 increased to approximately $16.6 million, a 40.0% increase from approximately $11.9 million for the same period in 2018.This significant increase was primarily due to (i) cannabis sales of the KPGs in Illinois acquired by the Company in October 2019, (ii) management and additional rental fees from the Company's cannabis-licensed clients in Delaware and Maryland, such fees earned based on a percentage of the increasing revenue generated by these clients, and (iii) new distribution channels secured for the Company's Betty's Eddies™ and Kalm Fusion™ branded product lines.

Cost of revenues increased to approximately $26.9 million for the year ended December 31, 2019 from to approximately $4.0 million for the year ended December 31, 2018. The year-over-year increase of approximately $22.9 million was also due to the Seed Transactions, which comprised $20.75 million of the increase. Excluding the Seed Transactions, cost of revenues for the year ended December 31, 2019 increased to approximately $6.2 million from approximately $4.0 million for the same period in 2018. As a percentage of revenue, these costs increased from 37.1% in 2019 to 34.1% in 2018 due to the fact that the Company's cultivation and production facility in Massachusetts was in the midst of its first harvest and was ramping up its manufacturing operations at year end in order for full scale selling operations to start in 2020.

As a result of the foregoing, gross profit increased to approximately $18.7 million for the year ended December 31, 2019 from approximately $7.8 million for the same period a year ago, an increase of 139.4%. Excluding the Seed Transactions, gross profit increased to approximately $10.4 million for the year ended December 31, 2019 from approximately $7.8 million for the same period a year ago, an increase of 33.4%.

Personnel expenses increased to approximately $3.8 million for the year ended December 31, 2019 from approximately $1.4 million for the same period a year ago. . The increase was primarily due to the hiring of additional staff to support (i) higher levels of revenue and (ii) the Company's expansion into a direct owner and operator and operator of seed-to-sale cannabis and hemp operations.

Marketing and promotion costs increased to approximately $370,000 for the year ended December 31, 2019 from approximately $292,000 for the same period a year ago. As a percentage of revenues excluding the Seed Transactions, however, these costs fell slightly to 2.2% from 2.5% of revenues.

General and administrative costs decreased to approximately $8.9 million for the year ended December 31, 2019 from approximately $10.1 million for the same period a year ago. This decrease is primarily due to an approximate $3.9 million reduction of amortization expense on stock option and stand-alone warrant issuances based on fewer issuances and a lower Company stock price in 2019 compared to 2018, offset by increases in (i) rent and utilities in of a property lease in Milford, DE that commenced in 2019 and which the Company is developing into an additional cultivation and production facility for its client in that state, and (ii) professional fees.

Bad debts increased to approximately $44.5 million for the year ended December 31, 2019 from $150,000 for the same period a year ago as a result of the aforementioned write-off of the GenCanna receivable ($29.0 million) following GenCanna's Chapter 11 filing, and reserves recorded against balances due from Kind ($11.2 million) given the current litigation between the Company and Kind, and Harvest ($2.2 million) due to the anticipated effect on Harvest's operations from a weakened local economy due to the coronavirus pandemic.

Goodwill write-downs, were approximately $2.7 million for the year ended December 31, 2019 and approximately $1.3 million for the same period a year ago. The 2019 expense was due to the write off of intangible assets associated with the Company's acquisition of MediTaurus. The 2018 expense related to the excess consideration paid for the acquisitions of ARL and iRollie. Please refer to Note 3 – *Acquisitions* of the Company's audited financial statements where these acquisitions are described in further detail.

As a result of the above, the Company incurred an operating loss of approximately $41.6 million for the year ended December 31, 2019, compared to approximately $5.4 million for the same period in 2018. Excluding the aforementioned one-time receivable and goodwill write-downs and reserves, operating income increased to approximately $7.5 million for the year ended December 31, 2019 from approximately $1.9 million for the same period a year ago.

Net non-operating expenses increased to approximately $40.3 million for the year ended December 31, 2019 from approximately $8.0 million for the same period a year ago. The increase is primarily due to (i) the approximate $30.2 million write-down of the Company's investment in and previously realized equity in earnings of GenCanna, an equity method investment, (ii) an approximate $5.0 million increase in discounts and beneficial conversion features on Company-issued debt (recorded under *Interest Expense* on the statement of operations), and (iii) an increase in interest expense paid and accrued of approximately $3.3 million due to higher levels of debt carried in 2019, offset by (a) an approximate $4.1 million decrease in the loss associated with the settlement of debt, and (b) the net settlement proceeds received in 2019 of $2.9 million from the AgriMed matter.

As a result of the foregoing, the Company incurred a net loss of approximately $81.9 million in 2019 and approximately $13.3 million in 2018.

2020 Plans

In 2020, the Company intends (subject to state and regulatory approvals) to complete the consolidation of its cannabis- licensed clients as previously discussed in the section *Consolidation Plans* within ITEM 1. *BUSINESS* above. When completed, the Company will operate as a fully integrated seed-to-sale multistate cannabis operator.

In addition to completing the consolidation, the Company's 2020 focus will be on the following key areas:

1) Grow the operations of the Company's recently opened dispensary in Middleboro, MA and cultivation and production facility in New Bedford, MA, and develop two additional dispensaries in this state.

2) Introduce the Company's Nature Heritage™ branded flower and popular infused-product brands such as Betty's Eddies™ and Kalm Fusion™ into the robust Massachusetts medical and adult-use marketplace.

2) Expand the profitability of the dispensaries in Anna and Harrisburg in Illinois—which legalized recreational adult-use of cannabis at the start of 2020, in addition to its continuing medical use cannabis program—and develop two additional dispensaries in this state

3) Strengthen operations in Maryland and Delaware by adding over 100,000 square feet of new cannabis cultivation and processing facilities.

4) Drive licensing fees through the sale of branded products at the Company's owned and managed facilities and with strategic partners into additional markets.

5) Continue to build brands and distribution of CBD-infused products through the Company's MariMed Hemp subsidiary, and continue to work to reorganize and reset the Company's efforts with GenCanna to create value.

No assurances can be given that any of these plans will come to fruition or that if implemented will necessarily yield positive results.

The following transactions have occurred in early 2020:

GenCanna Bankruptcy Filing

In February 2020, GenCanna filed for voluntary reorganization under Chapter 11 of the Bankruptcy Code with the U.S. Bankruptcy Court in the Eastern District of Kentucky. The filing is intended to permit GenCanna to operate its business while working through a reorganization plan that could include refinancing of its existing indebtedness, or an alternative restructuring transaction such as a sale.

Consequently, as of December 31, 2019, the Company wrote off the outstanding receivable balance from GenCanna of approximately $29.0 million and the related balance of unearned revenue of approximately $4.2 million as previously discussed in Item 1. *Business.*

Additionally, the Company recorded a charge to net income of approximately $30.2 million, classified under *Loss on Equity Investments* on the statement of operations for the year ended December 31, 2019, which reduced to zero the carrying value of the Company's previous investment in GenCanna as previously discussed in Item 1. *Business.*

GenCanna recently announced the completion of the largest recorded hemp harvest in Kentucky, which exceeded 6,000 acres. The Company's management believes that GenCanna's Chapter 11 filing and ensuing restructuring will facilitate GenCanna's ability to refinance its senior debt and arrange for the orderly payment of amounts due to its creditors, including the $33.2 million owed to the Company; however, there are no assurances that it will achieve this outcome.

Exchange Agreement

In February 2020, the Company entered into an exchange agreement with two institutional stockholders (the "TIS") whereby the TIS loaned the Company an aggregate of $4,417,500. In return for the loans, and the Company (i) issued promissory notes to the TIS for the aggregate amount, bearing interest at 16.5% per annum and maturing in August 2021, with a right to extend the maturity date through February 2022 upon payment of an extension fee. and (ii) exchanged 4,903,333 shares of the Company's common stock previously acquired by the TIS, for an equal number of shares of newly designated Series B convertible preferred stock.

In connection with the exchange agreement, the Company filed (i) a certificate of designation to designate the rights and preferences of the Series B convertible preferred stock, and (ii) a certificate of elimination to return all shares of the Series A convertible preferred stock, of which no shares were issued or outstanding at the time of filing, to the status of authorized and unissued shares of undesignated preferred stock.

Issuance of Additional Debenture

In February 2020, the Company sold to the holder of the $20,000,000 convertible debentures previously issued by the Company (the "$20M Debentures") an additional convertible debenture in the principal amount of $1,000,000 bearing interest at a rate of 6.5% per annum that matures one year from issuance, with a 6.5% issuance discount, resulting in net proceeds to the Company of $935,000 (the "$1M Debenture").

The terms of the $1M Debenture are substantially consistent with the terms of the $20M Debentures. The SPA, registration rights agreement, and addendum to the SPA were all amended and restated to incorporate the $1M Debenture. As part of issuance of the $1M Debenture, the Company issued three-year warrants to the Holder to purchase 180,000 shares of common stock at an exercise prices of $0.75 per share.

Promissory Note Extensions

In February 2020, the Company and MariMed Hemp issued an $11.5 million promissory note (the $11.5M Note") which amended and restated their previously issued $10.0 million secured promissory note to an unaffiliated party. The $11.5M Note bears interest at a rate of 15% per annum and matures on June 15, 2020, with monthly interest payments and minimum amortization payments of $3.0 million in the aggregate due on or before April 30, 2020, of which the Company has already paid $2.3 million. The $11.5M Note is secured by a first priority security interest in the assets of certain of the Company's subsidiaries and brands, and a pledge of the Company's ownership interest in certain of its subsidiaries. The $11.5M Note imposes certain covenants on the borrowers effective on the date of the amendment agreement.

The Company also extended the maturity dates of another $9.4 million of promissory notes, and is in the process of finalizing the documentation to extend an additional $3.0 million of promissory notes.

Loan Commitment

In February, the Company received a commitment from an accredited investor for a $12.0 million loan, secured by the Company's real estate, at a rate of 10% per annum with a one-year term, and an option to extend for an additional year. The loan contains an origination fee of four points and a prepayment penalty of two months interest. This transactions is expected to close upon the lender's completion of its due diligence, which is in its final stages, although there is no assurance that it will close in the foreseeable future or at all.

Conversion of Debentures Payable

In January 2020, the holder of the $20M Debentures converted $1,000,000 of principal and approximately $205,000 of accrued interest into 3,555,859 shares of common stock at a conversion price of $0.34 per share.

Promissory Note Paydown

In February, the Company paid cash to retire a promissory note in the principal amount of $100,000 which matured during that month.

Equity Transactions

In the first quarter of 2020, the Company issued 3,236,857 shares of common stock associated with the subscriptions on common stock outstanding at December 31, 2019 and previously disclosed in Note 13 – *Equity*. These subscriptions were comprised of (i) 32,726 shares in connection with common stock granted in 2019; (ii) 3,004,131 shares with respect to the December 2019 conversion of a portion of the $20M Debentures, and (iii) 200,000 shares associated with exercise of stock options by the Company's CEO.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Inflation

In the opinion of management, inflation has not had a material effect on the Company's financial condition or results of its operations.

Seasonality

In the opinion of management, the Company's financial condition and results of its operations are not materially impacted by seasonal sales.

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350)* which simplifies goodwill impairment testing by requiring that such periodic testing be performed by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The Company is currently evaluating the impact of Topic 350 on its consolidated financial statements and related disclosures, which is effective for fiscal years, including interim periods, beginning after December 15, 2019.

In addition to the above, the Company has reviewed all other recently issued, but not yet effective, accounting pronouncements, and does not believe the future adoption of any such pronouncements will have a material impact on its financial condition or the results of its operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is a "smaller reporting company" as defined by Regulation S-K and, as such, is not required to provide the information contained in this item pursuant to Regulation S-K.

ITEM 8. FINANCIAL STATEMENTS.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of MariMed, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of MariMed, Inc. (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

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 audit 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.

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 suffered recurring net losses from operations and has a net capital deficiency, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are discussed in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

M&K CPAS, PLLC.

We have served as the Company's auditor since 2018.

Houston, TX

March 31, 2020

MariMed Inc.
Consolidated Balance Sheets

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 738,688	$ 4,104,315
Accounts receivable, net	1,669,139	5,376,966
Deferred rents receivable	1,796,825	2,096,384
Due from third parties, net	-	3,860,377
Note receivable, current portion	311,149	51,462
Inventory	1,219,429	90,460
Investments	1,449,144	-
Other current assets	192,368	128,552
Total current assets	7,376,742	15,708,516
Property and equipment, net	42,792,369	34,099,864
Intangibles	2,364,042	185,000
Investments	1,324,661	1,672,163
Note receivable, less current portion	1,639,496	1,092,376
Debentures receivable	-	30,000,000
Right-of-use assets under operating leases	5,787,423	-
Right-of-use assets under finance leases	111,103	-
Due from related parties	-	119,781
Other assets	175,905	82,924
Total assets	$ 61,571,741	$ 82,960,624
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 4,719,069	$ 3,915,430
Accrued expenses	5,395,996	1,588,368
Deferred rents payable	-	105,901
Notes payable	23,112,742	3,877,701
Mortgages payable, current portion	223,888	188,231
Operating lease liabilities, current portion	917,444	-
Finance lease liabilities, current portion	38,412	-
Due to related parties	1,454,713	276,311
Other current liabilities	858,176	-
Total current liabilities	36,720,440	9,951,942
Mortgages payable, less current portion	7,112,842	7,348,581
Debentures payable	5,835,212	3,557,440
Operating lease liabilities, less current portion	5,399,414	-
Finance lease liabilities, less current portion	75,413	-
Other liabilities	100,200	338,200
Total liabilities	55,243,521	21,196,163
Stockholders' equity:		
Series A convertible preferred stock, $0.001 par value; 50,000,000 shares authorized at December 31, 2019 and 2018; no shares issued or outstanding at December 31, 2019 and 2018	-	-
Common stock, $0.001 par value; 500,000,000 shares authorized at December 31, 2019 and 2018; 228,408,024 and 211,013,043 shares issued and outstanding at December 31, 2019 and 2018, respectively	228,408	211,013
Common stock subscribed but not issued; 3,236,857 and 97,136 shares at December 31, 2019 and 2018, respectively	1,168,074	169,123
Additional paid-in capital	112,245,730	87,180,165
Accumulated deficit	(106,760,527)	(25,575,808)
Noncontrolling interests	(553,465)	(220,032)
Total stockholders' equity	6,328,220	61,764,461
Total liabilities and stockholders' equity	$ 61,571,741	$ 82,960,624

See accompanying notes to consolidated financial statements.

MariMed Inc.
Consolidated Statements of Operations

	Year Ended December 31, 2019	Year Ended December 31, 2018
Revenues	$ 16,575,395	$ 11,851,915
Revenues from related party	29,029,249	-
Total revenues	45,604,644	11,851,915
Cost of revenues	26,902,916	4,041,122
Gross profit	18,701,728	7,810,793
Operating expenses:		
Personnel	3,841,725	1,339,832
Marketing and promotion	369,577	292,477
General and administrative	8,886,086	10,052,731
Bad debts	44,539,820	150,000
Goodwill write-downs	2,662,669	1,331,785
Total operating expenses	60,299,877	13,166,825
Operating income	(41,598,149)	(5,356,032)
Non-operating income (expenses):		
Interest expense	(12,718,952)	(4,366,295)
Interest income	467,798	593,214
Loss on debt settlements, net	(5,180)	(4,133,481)
Loss on equity investments	(30,334,503)	(43,221)
Change in fair value of investments	(640,856)	-
Other	2,948,917	2,858)
Total non-operating expenses, net	(40,282,776)	(7,952,641)
Net income (loss)	$ (81,880,925)	(13,308,673)
Net income (loss) attributable to noncontrolling interests	$ (696,206)	295,395
Net income (loss) attributable to MariMed Inc.	$ (81,184,719)	$ (13,604,068)
Net income (loss) per share	$ (0.39)	$ (0.07)
Weighted average common shares outstanding	208,720,496	192,376,020

See accompanying notes to consolidated financial statements.

MariMed Inc.
Consolidated Statements of Stockholders' Equity

	Series A Convertible Preferred Stock Subscribed But Not Issued		Common Stock		Common Stock Subscribed But Not Issued		Additional	Accumulated	Non-Controlling	Total Stockholders'
	Shares	Amount	Shares	Par Value	Shares	Amount	Paid-In Capital	Deficit	Interests	Equity
Balances at December 31, 2017	500,000	$ 500	176,850,331	$ 176,850	1,000,000	$ 370,000	$ 22,256,060	$ (11,971,740)	$ 175,490	$ 11,007,160
Conversion of Series A preferred stock	(500,000)	(500)	970,988	971			33,573			34,044
Sales of common stock			19,188,980	19,189			31,801,812			31,821,001
Common stock issued for acquisitions			642,575	643			1,194,917			1,195,560
Common stock issued to settle obligations					18,000	74,160				74,160
Equity issued for services			3,420,526	3,421			3,671,697			3,675,118
Issuance of subscribed common shares			1,000,000	1,000	(1,000,000)	(370,000)	369,000			-
Equity conversion			222,222	222			(222)			-
Amortization of stock option grants							3,945,398			3,945,398
Amortization of stand-alone warrant issuances							1,815,219			1,815,219
Exercise of stock options			654,602	655			38,345			39,000
Exercise of warrants			2,142,710	2,143	-	-	383,252			385,395
Discount on debentures payable							1,057,833			1,057,833
Discount on promissory notes							1,709,595			1,709,595
Beneficial conversion feature on debentures payable							5,569,908			5,569,908
Conversions of debentures payable			524,360	524			1,434,982			1,435,506
Conversions of promissory notes			1,568,375	1,568			1,902,748			1,904,316
Settlement of promissory notes			3,827,374	3,827	79,136	94,963	9,996,048			10,094,838
Distributions									(690,917)	(690,917)
Net income (loss)								(13,604,068)	295,395	(13,308,673)
Balances at December 31, 2018	-	$ -	211,013,043	$ 211,013	97,136	$ 169,123	$ 87,180,165	$ (25,575,808)	$ (220,032)	$ 61,764,461
Sales of common stock			1,014,995	1,015			2,748,985			2,750,000
Common stock issued for acquisitions			2,520,000	2,520			2,468,317		837,002	3,307,839
Common stock issued for investments			500,000	500			1,589,500			1,590,000
Common stock issued to settle obligations			172,663	173			125,871			126,044
Issuance of subscribed shares			97,136	97	(97,136)	(169,123)	169,026			-
Stock grants			108,820	109	32,726	29,438	193,601			223,148
Amortization of stock option grants							1,457,684			1,457,684
Amortization of stand-alone warrant issuances							391,932			391,932
Exercise of stock options			3,061,808	3,062	200,000	22,000	422,438			447,500
Exercise of warrants			686,104	686			611,755			612,441
Discount on debentures payable							1,148,056			1,148,056
Discount on promissory notes							605,780			605,780
Beneficial conversion feature on debentures payable							4,235,469			4,235,469
Conversion of debentures payable			6,798,339	6,798	3,004,131	1,116,636	7,852,486			8,975,920
Settlement of promissory notes			2,435,116	2,435			1,044,665			1,047,100
Distributions									(474,229)	(474,229)
Net income (loss)								(81,184,719)	(696,206)	(81,880,925)
Balances at December 31, 2019	-	$ -	228,408,024	$ 228,408	3,236,857	$ 1,168,074	$ 112,245,730	$ (106,760,527)	$ (553,465)	$ 6,328,220

The above statements do not show a column for Series A convertible stock as the balances are zero and there is no activity in the periods presented. See accompanying notes to consolidated financial statements.

MariMed Inc.
Consolidated Statements of Cash Flows

	Year Ended December 31, 2019	Year Ended December 31, 2018
Cash flows from operating activities:		
Net income (loss) attributable to MariMed Inc.	$ (81,184,719)	$ (13,604,068)
Net income (loss) attributable to noncontrolling interests	(696,206)	295,395
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	999,106	657,854
Amortization of intangibles	197,500	
Amortization of stock grants	223,148	-
Amortization of option grants	1,457,684	3,945,398
Amortization of stand-alone warrant issuances	391,932	1,815,219
Amortization of warrants attached to debt	2,455,964	1,171,330
Amortization of beneficial conversion feature	5,242,483	1,522,107
Amortization of original issue discount	183,867	-
Goodwill write-downs	2,662,669	1,331,785
Bad debts	44,539,820	150,000
Loss on sale of fixed assets	-	(2,858)
Equity issued to settle obligations	5,180	1,024,117
Loss on preferred stock conversions	-	34,044
Loss on debt settlements	-	3,334,366
Loss on equity investments	30,334,503	43,221
Change in fair value of investments	640,856	-
Changes in operating assets and liabilities:		
Accounts receivable	(37,701,009)	(4,073,482)
Deferred rents receivable	299,559	(1,485,595)
Due from third parties	1,355,746	(3,387,906)
Inventory	(495,394)	-
Other current assets	(63,815)	156,547
Other assets	(92,981)	163,462
Accounts payable	632,471	3,614,087
Accrued expenses	3,436,024	183,032
Deferred rents payable	(105,901)	105,901
Operating lease payments	529,434	-
Finance lease interest payments	(6,414)	-
Unearned revenue	-	-
Other current liabilities	858,176	-
Other liabilities	(238,000)	98,187
Net cash used in operating activities	(24,138,317)	(2,907,857)
Cash flows from investing activities:		
Purchase of property and equipment	(9,668,521)	(8,924,311)
Purchase of cannabis licenses	(308,815)	-
Acquisitions	(211,823)	13,494
Investment in third party companies	-	(800,000)
Investment in convertible debentures	-	(30,000,000)
Investment in notes receivable	(2,680,000)	(550,000)
Interest on notes receivable	211,989	(15,116)
Proceeds from notes receivable	-	45,553
Proceeds from sale of equipment	-	145,382
Due from related parties	119,781	15,000
Net cash used in investing activities	(12,537,389)	(40,069,998)
Cash flows from financing activities:		
Issuance of common stock	2,750,000	31,821,001
Issuance of common stock subscriptions	-	55,620
Issuance of interest in subsidiary	-	-
Issuance of promissory notes	19,760,000	3,206,338
Payments on promissory notes	-	(700,000)
Proceeds from issuance of debentures	9,600,000	10,007,094
Proceeds from mortgages	-	2,000,000
Payments on mortgages	(200,081)	(114,141)
Exercise of stock options	97,500	39,000
Exercise of warrants	612,441	385,395
Due to related parties	1,178,402	(217,451)
Finance lease principal payments	(13,954)	-
Distributions	(474,229)	(690,917)
Net cash provided by financing activities	33,310,079	45,791,939
Net change to cash and cash equivalents	(3,365,627)	2,814,084
Cash and cash equivalents at beginning of period	4,104,315	1,290,231
Cash and cash equivalents at end of period	$ 738,688	$ 4,104,315
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,294,810	$ 1,286,007
Cash paid for income taxes	$ 52,126	$ 12,584
Non-cash activities:		

Conversion of debentures receivable	$ 30,000,000	$ -
Operating lease right-of-use assets and liabilities	$ 7,251,837	$ -
Finance lease right-of-use assets and liabilities	$ 172,605	$ -
Conversions of debentures payable	$ 8,975,920	$ 1,435,506
Beneficial conversion feature on debentures payable	$ 4,235,469	$ 5,569,908
Discount on debentures payable	$ 1,148,056	$ 1,057,833
Discount on promissory notes	$ 605,780	$ 1,709,595
Common stock issued to settle debt	$ 1,047,100	$ 7,589,788
Common stock issued to settle obligations	$ 120,864	$ 18,540
Common stock issued for acquisitions	$ 2,470,840	$ 266,682
Common stock issued for investments	$ 1,590,000	$ 915,006
Harvest payment	$ 1,000	$ -
Conversion of notes receivable to investment	$ 257,687	$ -
Issuance of common stock associated with subscriptions	$ 169,123	$ 370,000
Conversion of advances to notes receivable	$ 855,913	$ -
Exercise of options via the reduction of obligation	$ 350,000	$ -
Cashless exercise of stock options	$ 1,762	$ -
Reclass of accrued interest from notes payable	$ 127,450	$ -
Reclass of accrued interest from debentures payable	$ 62,748	$ -
Conversions of promissory notes	$ -	$ 1,075,000

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

MariMed Inc. (the "Company") is a leader in the emerging cannabis industry. The Company is an expert in the development, operation, management and optimization of facilities for the cultivation, production and dispensing of medicinal and recreational cannabis and cannabis-infused products. To date, the Company has developed in excess of 300,000 square feet of state-of-the-art, regulatory-compliant facilities in five states – Delaware, Illinois, Maryland, Massachusetts, and Nevada.

At the outset of the Company's entrance into the cannabis industry, the Company provided advisory services and assistance to its clients in the procurement of state-issued cannabis licenses, leased its aforementioned cannabis facilities to these newly-licensed clients, and provided industry-leading expertise and oversight in all aspects of their cannabis operations, as well as ongoing regulatory, accounting, human resources, and administrative services. During this time, the Company successfully secured, on behalf of its clients, 13 cannabis licenses across six states – two in Delaware, three in Illinois, one in Nevada, one in Rhode Island, three in Maryland, and three in Massachusetts.

Since entering the cannabis industry, the Company has demonstrated an excellent track record developing and operating licensed cannabis facilities, implementing its proprietary operating procedures, and industry best practices. In 2018, the Company commenced a strategic plan to transition from an advisory firm that provides cannabis licensing, operational consulting and real estate services, to a direct owner of cannabis licenses and operator of seed-to-sale operations, dedicated to the improvement of health and wellness through the use of cannabinoids and cannabis products.

The Company's strategic plan consists of the acquisition of its cannabis-licensed clients who currently lease the Company's facilities, and the consolidation of these entities under the MariMed banner. The Company has played a key role in the successes of these entities, from the securing of their cannabis licenses, to the development of facilities that are models of excellence, to providing operational and corporate guidance. Accordingly, the Company believes it is well suited to own these facilities and manage the continuing growth of their operations.

A goal in completing this transition is to present a simpler, more transparent financial picture to the investor community. Once the consolidation is complete, the Company's financial statements will provide a clearer representation of the revenues, earnings, and other financial metrics that the Company is generating, rather than a fee-for-service revenue model that reports only consulting and management fees, and does not reflect the full breadth of the Company's overall business.

To date, acquisitions of the licensed businesses in Massachusetts and Illinois have been state-approved and completed, with the remaining entities located in Maryland, Nevada, and Rhode Island at various stages of completion and state approvals as further discussed below. When implemented, all of the Company's cannabis-licensed clients will be fully consolidated into the Company, establishing it as a fully integrated seed-to-sale multistate operator of licensed cannabis businesses.

Each of the remaining potential acquisitions is subject to the respective state's approval under its laws governing the ownership and transfer of cannabis licenses. The completion of the entire plan requires a modification of current cannabis license ownership laws in in Delaware and Rhode Island, and therefore there is no assurance that the Company will be successful in fully implementing its plan. However, the Company continues to develop additional revenue and business in the states in which it operates and plans to leverage its success in these markets to expand into other states where cannabis is and becomes legal.

The Company has also created its own brands of precision-dosed, cannabis-infused products designed to treat specific health conditions, alleviate medical symptoms, or achieve a certain effect. These products are developed by the Company in cooperation with state-licensed facilities and operators who meet the Company's strict standards, including all natural—not artificial or synthetic—ingredients. The Company licenses its product formulations only to knowledgeable manufacturing professionals who agree to adhere to the Company's precise scientific formulations using its trademarked product recipes.

The Company's branded products are licensed under brand names including Kalm Fusion™, Nature's Heritage™, and Betty's Eddies™, and are distributed in the form of dissolvable strips, tablets, powders, microwaveable popcorn, fruit chews, and with more varieties in development. The Company also has exclusive sublicensing rights in certain states to distribute DabTabs™ vaporization tablets infused with cannabis concentrates, the Binske® line of cannabis products made from premium artisan ingredients, and the clinically tested medicinal cannabis strains developed in Israel by Tikun Olam™. The Company intends to continue licensing and distributing its brands as well as other top brands in the Company's current markets and in partnerships in other states markets across the country where product sale is legal.

In anticipation of the growing demand for hemp-derived cannabidiol ("CBD"), in 2018, the Company invested $30.0 million in GenCanna Global Inc. ("GenCanna"), a Kentucky-based cultivator, producer, and distributor of hemp and GMP-quality CBD oils and isolates. Concurrent with this investment, the Company acquired MediTaurus LLC ("MediTaurus"), a company operating in the United States and Europe that has developed proprietary CBD formulations under its Florance™ brand.

The transactions with GenCanna and MediTaurus, along with the Company's cannabis platform and product experience, enabled the Company to expand into the emerging global CBD market just as the U.S Farm Bill was adopted in late 2018 which descheduled industrial hemp and hemp-derived CBD as controlled substances and classified them as agricultural commodities. This new law enabled a new emerging industry of CBD oils, isolates, and infused products within the United States. In early 2019, the Company established a wholly owned subsidiary, MariMed Hemp Inc. ("MariMed Hemp") to market and distribute hemp-derived CBD products across several vertical markets.

The Company's stock is quoted on the OTCQX market under the ticker symbol MRMD.

The Company was incorporated in Delaware in January 2011 under the name Worlds Online Inc. Initially, the Company developed and managed online virtual worlds. By early 2014, this line of business effectively ceased operating and the Company pivoted into the legal cannabis industry.

Significant Transactions in the Current Period

During 2019, the Company, through its MariMed Hemp subsidiary, entered into several hemp seed sale transactions with GenCanna whereby the Company acquired large quantities of top-grade feminized hemp seeds with proven genetics at volume discounts that it sold to GenCanna at market rates. The seeds met the U.S. government's definition of federally legal industrial hemp, which was descheduled as a controlled substance and classified as an agricultural commodity upon the signing of the 2018 U.S. Farm Bill.

The Company purchased $20.75 million of hemp seed inventory which it sold and delivered to GenCanna for $33.2 million. The Company provided GenCanna with extended payment terms through December 2019, to coincide with the completion of the seeds' harvest, although the payment by GenCanna was not contingent upon the success of such harvest or its yield. To partially fund the seed purchases, the Company raised $17.0 million in debt financings which is reflected in *Notes Payable* on the balance sheet and further discussed in Note 11 – *Debt*.

By the end of 2019, GenCanna had not paid the amount it owed the Company for its seed purchases due to several challenges it faced late in the year, including a fire at its main processing and lab facility, the domestic decline of CBD selling prices, and the contraction of the cannabis capital markets. In February 2020, GenCanna filed for voluntary reorganization under Chapter 11 with the U.S. Bankruptcy Court in the Eastern District of Kentucky. The filing is intended to permit GenCanna to operate its business while working through a reorganization plan that could include refinancing of its existing indebtedness, or an alternative restructuring transaction such as a sale.

As required by the relevant accounting guidance, the Company initially recorded the $33.2 million due from GenCanna as a related party receivable, with approximately $29.0 million recognized as related party revenue, and approximately $4.2 million classified as unearned revenue (such amount representing the Company's 33.5% ownership portion of the profit on these transactions, which was to have been recognized as revenue upon payment by GenCanna). As a result of GenCanna's Chapter 11 filing, the Company wrote off the receivable balance of approximately $29.0 million and the entire unearned revenue balance of approximately $4.2 million. Additionally, the Company recorded a charge to net income of approximately $30.2 million, which reduced to zero the carrying value of the Company's investment in GenCanna.

In addition to the foregoing adjustments, the Company recorded bad debt reserves in 2019 against the receivable and working capital balances due from (i) Kind of approximately $11.2 million in the aggregate, in light of the ongoing litigation between the Company and Kind, and (ii) Harvest of approximately $2.2 million in the aggregate, due to the anticipated effect on Harvest's operations from a weakened local economy due to the coronavirus pandemic. These charges are further described in Note 6 – *Due From Third Parties* and Note 17 – *Bad Debts.*

The Company expects the coronavirus pandemic to likewise have a negative impact on the operations of certain entities in which the Company has invested and to whom the Company has extended loans. For that reason, the Company also wrote off (i) three notes receivable balances of approximately $1.6 million in the aggregate, (ii) goodwill of approximately 2.7 million associated with the Company's acquisition of MediTaurus, and (iii) the carrying value of a $500,000 investment. These items are further described in Note 3 – *Acquisitions*, Note 4 – *Investments*, and Note 7 – *Notes Receivable*.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Certain reclassifications have been made to prior periods' data to conform to the current period presentation. These reclassifications had no effect on reported income (losses) or cash flows.

Going Concern

In connection with the preparation of its financial statements for the year ended December 31, 2019, the Company's management evaluated the Company's ability to continue as a going concern in accordance with the ASU 2014-15, *Presentation of Financial Statements–Going Concern (Subtopic 205-40)*, which requires an assessment of relevant conditions or events, considered in the aggregate, that are known or reasonably knowable by management on the issuance dates of the financial statements which indicated the probable likelihood that the Company will be unable to meet its obligations as they become due within one year after the issuance date of the financial statements.

As part of its evaluation, management assessed known events, trends, commitments, and uncertainties, which at the time included the status of its consolidation plan, the GenCanna bankruptcy, the amount of capital raised by the Company during the past two calendar years, the recent level of cannabis industry investment activity, the stock price movement of public cannabis companies, the actions and/or results of certain bellwether cannabis companies, the measure of cannabis investor confidence, and the changes to state laws with respect to adult-use recreational and medical cannabis use.

At December 31, 2019, the Company had negative working capital of approximately $31.0 million, and for the year then ended, incurred negative cash flow from operations of approximately $24.8 million. For further discussion on these metrics and the Company's liquidity and capital resources, please refer to Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* of the Company's Form 10-K for the fiscal year ended December 31, 2019.

In early 2020, the Company raised approximately $4.4 million as part of an exchange agreement with two institutional stockholders, and $935,000 from the issuance of convertible debentures. Additionally, the Company has extended the maturity dates of approximately $19.4 million of promissory notes, and is in the process of finalizing the documentation to extend another $3.0 million of promissory notes. These transactions are further disclosed in Note 21 – *Subsequent Events*.

Moreover, as of the filing date of this report, the Company has obtained a commitment from an accredited investor for a $12.0 million loan, secured by the Company's real estate, at a rate of 10% per annum with a one-year term, and an option to extend for an additional year. This transactions is expected to close upon the lender's completion of its due diligence, which is in its final stages, although there is no assurance that it will close in the foreseeable future or at all. Also as of the filing date of this report, the Company is in discussions with financial institutions to consider generating liquidity from the Company's unencumbered real property through mortgage-backed financings, the refinancing of certain outstanding mortgage loans, the sales-leaseback of certain properties, and/or a combination thereof. Based on preliminary discussions, such financings could potentially generate upwards of $17.0 million from such transactions, however the Company has not signed any commitments it has received to date and there are no assurances that it will.

In addition to the aforementioned financing transactions that have been consummated and that are in progress, the operations of the Company's recently acquired entities in Illinois and Massachusetts are expected to generate considerable liquidity and working capital for the Company. The state of Illinois legalized adult-use cannabis in January 2020, which was added to the Company's two existing cannabis licenses, thereby increasing the Company's operations in this state to service both medical and recreational cannabis consumers. In Massachusetts, the cultivation and production facility acquired by the Company will soon complete its first harvest and commence full scale selling operations in this state's robust cannabis market.

The Company believes that it will close incremental debt financings in the foreseeable future, and it projects that its operating profit will organically support its day-to-day operations by the latter part of 2020. However, since there are no assurances that another financing transaction will be consummated, or that the Company will meet or exceed its projections in light of the unknown current state of the global economy, there are similarly no assurances that the Company will be able to meet all of its obligations as they become due within one year after the issuance date of these financial statements

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of MariMed Inc. and the following majority-owned subsidiaries:

Subsidiary:	Percentage Owned
MariMed Advisors Inc.	100.0%
Mia Development LLC	89.5%
Mari Holdings IL LLC	100.0%
Mari Holdings MD LLC	97.4%
Mari Holdings NV LLC	100.0%
Hartwell Realty Holdings LLC	100.0%
iRollie LLC	100.0%
ARL Healthcare Inc.	100.0%
KPG of Anna LLC	100.0%
KPG of Harrisburg LLC	100.0%
MariMed Hemp Inc.	100.0%
MediTaurus LLC	70.0%

Intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts within the financial statements and disclosures thereof. Actual results could differ from these estimates or assumptions.

Cash Equivalents

The Company considers all highly liquid investments with a maturity date of three months or less to be cash equivalents. The fair values of these investments approximate their carrying values.

The Company's cash and cash equivalents are maintained with recognized financial institutions located in the United States. In the normal course of business, the Company may carry balances with certain financial institutions that exceed federally insured limits. The Company has not experienced losses on balances in excess of FDIC limits and management believes the Company is not exposed to significant risks in that regard.

Accounts Receivable

Accounts receivable consist of trade receivables and are carried at their estimated collectible amounts.

The Company provides credit to its clients in the form of payment terms. The Company limits its credit risk by performing credit evaluations of its clients and maintaining a reserve, if deemed necessary, for potential credit losses. Such evaluations include the review of a client's outstanding balances with consideration towards such client's historical collection experience, as well as prevailing economic and market conditions and other factors. Based on such evaluations, the Company maintained a reserve of approximately $10.7 million and $150,000 at December 31, 2019 and 2018, respectively. The 2019 reserve primarily consisted of reserves against the accounts receivable balances of Kind of approximately $9.7 million and Harvest of approximately $239,000, as further disclosed in Note 17 – *Bad Debts*.

Inventory

Inventory is carried at the lower of cost or net realizable value, with the cost being determined on a first-in, first-out (FIFO) basis. The Company allocates a certain percentage of overhead cost to its manufactured inventory; such allocation is based on square footage and other industry-standard criteria. The Company reviews physical inventory for obsolescence and/or excess and will record a reserve if necessary. As of the date of this report, no reserve was deemed necessary.

Investments

Investments are comprised of equity holding of private companies. These investments are recorded at fair value on the Company's consolidated balance sheet, with changes to fair value included in income. Investments are evaluated for permanent impairment and are written down if such impairments are deemed to have occurred.

Revenue Recognition

On January 1, 2018, the Company adopted the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 606, *Revenue from Contract with Customers,* as amended by subsequently issued Accounting Standards Updates. This revenue standard requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. The recognition of revenue is determined by performing the following consecutive steps:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract(s);
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract(s); and
- Recognize revenue as the performance obligation is satisfied.

Additionally, when another party is involved in providing goods or services to the Company's clients, a determination is made as to who—the Company or the other party—is acting in the capacity as the principal in the sale transaction, and who is merely the agent arranging for goods or services to be provided by the other party.

The Company is typically considered the principal if it controls the specified good or service before such good or service is transferred to its client. The Company may also be deemed to be the principal even if it engages another party (an agent) to satisfy some of the performance obligations on its behalf, provided the Company (i) takes on certain responsibilities, obligations and risks, (ii) possesses certain abilities and discretion, or (iii) other relevant indicators of the sale. If deemed an agent, the Company would not recognize revenue for the performance obligations it does not satisfy.

The adoption of this standard did not have a significant impact on the Company's consolidated operating results, and accordingly no restatement has been made to prior period reported amounts.

The Company's main sources of revenue are comprised of the following:

- Real Estate – rental income and additional rental fees from leasing of the Company's regulatory-compliant cannabis facilities to its clients, which are cannabis-licensed operating companies. Rental income is generally a fixed amount per month that escalates over the respective lease terms, while additional rental fees are based on a percentage of tenant revenues that exceed a specified amount.

- Management – fees for providing the Company's cannabis clients with corporate services and operational oversight of their cannabis cultivation, production, and dispensary operations. These fees are based on a percentage of such clients' revenue, and are recognized after services have been performed.

- Supply Procurement – the Company maintains volume discounts with top national vendors of cultivation and production resources, supplies, and equipment, which the Company acquires and resells to its clients or third parties within the cannabis industry. The Company recognizes this revenue after the delivery and acceptance of goods by the purchaser.

- Licensing – revenue from the sale of precision-dosed, cannabis-infused products, such as Kalm Fusion™ and Betty's Eddies™, to legal dispensaries throughout the United States. The recognition of this revenue occurs when the products are delivered.

- Consulting – fees from third-parties where the Company provides assistance in securing cannabis licenses, and advisory services in the areas of facility design and development, and cultivation and dispensing best practices. These fees are recognized as the services are performed.

- Product Sales – direct sales of cannabis, hemp, and products derived from these plants. During 2019, such revenue was generated from (i) the post-acquisition dispensary operations of both ARL in Massachusetts and the KPGs in Illinois, and (ii) the sales of hemp and CBD products by MariMed Hemp and MediTaurus. This revenue is recognized when products are delivered or at retail points-of-sale.

Research and Development Costs

Research and development costs are charged to operations as incurred.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation, with depreciation recognized on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term, if applicable. When assets are retired or disposed, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income. Repairs and maintenance are charged to expense in the period incurred.

The estimated useful lives of property and equipment are generally as follows: buildings and building improvements, seven to thirty-nine years; tenant improvements, the remaining duration of the related lease; furniture and fixtures, seven years; machinery and equipment, five to ten years. Land is not depreciated.

The Company's property and equipment are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from the undiscounted future cash flows of such asset over the anticipated holding period. An impairment loss is measured by the excess of the asset's carrying amount over its estimated fair value.

Impairment analyses are based on management's current plans, asset holding periods, and currently available market information. If these criteria change, the Company's evaluation of impairment losses may be different and could have a material impact to the consolidated financial statements.

For the years ended December 31, 2019 and 2018, based on the results of management's impairment analyses, there were no impairment losses.

Leases

The consolidated financial statements reflect the Company's adoption of ASC 842, *Leases*, as amended by subsequent accounting standards updates, utilizing the modified retrospective transition approach which calls for applying the new standard to all of the Company's leases effective January 1, 2019, which is the effective date of adoption.

ASC 842 is intended to improve financial reporting of leasing transactions. The most prominent change from previous accounting guidance is the requirement to recognize right-of-use assets and lease liabilities on the consolidated balance sheet representing the rights and obligations created by operating leases that extend more than twelve months in which the Company is the lessee. The Company elected the package of practical expedients permitted under ASC 842. Accordingly, the Company accounted for its existing operating leases that commenced before the effective date as operating leases under the new guidance without reassessing (i) whether the contracts contain a lease, (ii) the classification of the leases (iii) the accounting for indirect costs as defined in ASC 842.

The Company determines if an arrangement is a lease at inception. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Non-lease components within lease agreements are accounted for separately. Right-of-use assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term, utilizing the Company's incremental borrowing rate. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Impairment of Long-Lived Assets

The Company evaluates the recoverability of its fixed assets and other assets in accordance with ASC 360-10-15,*Impairment or Disposal of Long-Lived Assets.* Impairment of long-lived assets is recognized when the net book value of such assets exceeds their expected cash flows, in which case the assets are written down to fair value, which is determined based on discounted future cash flows or appraised values.

Fair Value of Financial Instruments

The Company follows the provisions of ASC 820, *Fair Value Measurement*, to measure the fair value of its financial instruments, and ASC 825,*Financial Instruments,* for disclosures on the fair value of its financial instruments. To increase consistency and comparability in fair value measurements and related disclosures, ASC 820 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of fair value hierarchy defined by ASC 820 are:

Level 1 Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2 Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3 Pricing inputs that are generally observable inputs and not corroborated by market data.

The carrying amounts of the Company's financial assets and liabilities, such as cash and accounts payable approximate their fair values due to the short maturity of these instruments.

The fair value of option and warrant issuances are determined using the Black-Scholes pricing model and employing several inputs such as the expected life of instrument, the exercise price, the expected risk-free interest rate, the expected dividend yield, the value of the Company's common stock on issuance date, and the expected volatility of such common stock. The following table summarizes the range of inputs used by the Company during the prior two fiscal years:

	2019	2018
Life of instrument	1.5 to 4.0 years	0.5 to 5.0 years
Volatility factors	1.039 to 1.106	1.019 to 2.086
Risk-free interest rates	1.42% to 2.28%	1.65% to 3.07%
Dividend yield	0%	0%

The expected life of an instrument is calculated using the simplified method pursuant to Staff Accounting Bulletin Topic 14,*Share-Based Payment*, which allows for using the mid-point between the vesting date and expiration date. The volatility factors are based on the historical two-year movement of the Company's common stock prior to an instrument's issuance date. The risk-free interest rate is based on U.S. Treasury rates with maturity periods similar to the expected instruments life on the issuance date.

The Company amortizes the fair value of option and warrant issuances on a straight-line basis over the requisite service period of each instrument.

Extinguishment of Liabilities

The Company accounts for extinguishment of liabilities in accordance with ASC 405-20,*Extinguishments of Liabilities.* When the conditions for extinguishment are met, the liabilities are written down to zero and a gain or loss is recognized.

Stock-Based Compensation

The Company accounts for stock-based compensation using the fair value method as set forth in ASC 718,*Compensation—Stock Compensation,* which requires a public entity to measure the cost of employee services received in exchange for an equity award based on the fair value of the award on the grant date, with limited exceptions. Such value will be incurred as compensation expense over the period an employee is required to provide service in exchange for the award, usually the vesting period. No compensation cost is recognized for equity awards for which employees do not render the requisite service.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740,*Income Taxes.* Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent management concludes it is more likely than not that the assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. The Company did not take any uncertain tax positions and had no adjustments to unrecognized income tax liabilities or benefits for the years ended December 31, 2019 and 2018.

Related Party Transactions

The Company follows ASC 850, *Related Party Disclosures*, for the identification of related parties and disclosure of related party transactions.

In accordance with ASC 850, the Company's financial statements include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business, as well as transactions that are eliminated in the preparation of financial statements.

Comprehensive Income

The Company reports comprehensive income and its components following guidance set forth by ASC 220,*Comprehensive Income*, which establishes standards for the reporting and display of comprehensive income and its components in the consolidated financial statements. There were no items of comprehensive income applicable to the Company during the period covered in the financial statements.

Earnings Per Share

Earnings per common share is computed pursuant to ASC 260,*Earnings Per Share*. Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is computed by dividing net income by the sum of the weighted average number of shares of common stock outstanding plus the weighted average number of potentially dilutive securities during the period.

As of December 31, 2019 and 2018, there were 18,051,357 and 18,916,211, respectively, of potentially dilutive securities in the form of outstanding options and warrants. Also as of such dates, there were (i) $10.0 million and $8.6 million, respectively, of outstanding convertible debentures payable, and (ii) $350,000 of outstanding convertible promissory notes in both years, that were potentially dilutive, whose conversion into common stock is based on a discount to the market value of common stock on or about the future conversion date.

For the years ended December 31, 2019 and 2018, all potentially dilutive securities had an anti-dilutive effect on earnings per share, and in accordance with ASC 260, were excluded from the diluted net income per share calculations, resulting in identical basic and fully diluted net income per share for these periods. The potentially dilutive securities may dilute earnings per share in the future.

Commitments and Contingencies

The Company follows ASC 450, *Contingencies*, which requires the Company to assess the likelihood that a loss will be incurred from the occurrence or non-occurrence of one or more future events. Such assessment inherently involves an exercise of judgment. In assessing possible loss contingencies from legal proceedings or unasserted claims, the Company evaluates the perceived merits of such proceedings or claims, and of the relief sought or expected to be sought.

If the assessment of a contingency indicates that it is probable that a material loss will be incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

While not assured, management does not believe, based upon information available at this time, that a loss contingency will have material adverse effect on the Company's financial position, results of operations or cash flows.

Beneficial Conversion Features on Convertible Debt

Convertible instruments that are not bifurcated as a derivative pursuant to ASC 815, *Derivatives and Hedging*, and not accounted for as a separate equity component under the cash conversion guidance are evaluated to determine whether their conversion prices create an embedded beneficial conversion feature at inception, or may become beneficial in the future due to potential adjustments.

A beneficial conversion feature is a nondetachable conversion feature that is "in-the-money" at the commitment date. The in-the-money portion, also known as the intrinsic value of the option, is recorded in equity, with an offsetting discount to the carrying amount of convertible debt to which it is attached. The discount is amortized to interest expense over the life of the debt with adjustments to amortization upon full or partial conversions of the debt.

Risk and Uncertainties

The Company is subject to risks common to companies operating within the legal and medical marijuana industries, including, but not limited to, federal laws, government regulations and jurisdictional laws.

Noncontrolling Interests

Noncontrolling interests represent third-party minority ownership of the Company's consolidated subsidiaries. Net income attributable to noncontrolling interests is shown in the consolidated statements of operations; and the value of net assets owned by noncontrolling interests are presented as a component of equity within the balance sheets.

Off Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350)* which simplifies goodwill impairment testing by requiring that such periodic testing be performed by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The Company is currently evaluating the impact of this ASU on its consolidated financial statements and related disclosures, which is effective for fiscal years, including interim periods, beginning after December 15, 2019.

In addition to the above, the Company has reviewed all other recently issued, but not yet effective, accounting pronouncements, and does not believe the future adoption of any such pronouncements will have a material impact on its financial condition or the results of its operations.

NOTE 3 – ACQUISITIONS

ARL Healthcare Inc.

In October 2018, the Company's cannabis-licensed client in Massachusetts, ARL Healthcare Inc. ("ARL"), filed a plan of entity conversion with the state to convert from a non-profit entity to a for-profit corporation, with the Company as the sole shareholder of the for-profit corporation. ARL holds three cannabis licenses from the state of Massachusetts for the cultivation, production and dispensing of cannabis.

On November 30, 2018, the conversion plan was approved by the Massachusetts Secretary of State, and effective December 1, 2018, ARL was consolidated into the Company as a wholly-owned subsidiary.

The acquisition was accounted for in accordance with ASC 805, *Business Combinations*. The following table summarizes the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed on the acquisition date:

Equipment	$	21,000
Cannabis licenses		185,000
Accounts payable		(120,689)
Due to related parties		(92,765)
Total identifiable net assets		(7,454)
Goodwill		731,902
Total fair value of consideration	$	724,448

The total consideration paid by the Company was equal to the forgiveness of amounts owed to the Company by ARL. Accordingly, the transaction gave rise to goodwill of approximately $732,000, which the Company wrote off in 2018. The balance of acquired cannabis licenses was included in *Intangibles* within the asset section of the Company's balance sheet at December 31, 2018. This intangible asset was fully amortized by December 2019.

In 2019, the Company paid for the annual renewal ARL's cannabis license. At December 31, 2019, the carrying value less amortization was approximately $138,000.

KPG of Anna LLC and KPG of Harrisburg LLC

In October 2018, the Company entered into a purchase agreement to acquire 100% of the ownership interests of KPG of Anna LLC and KPG of Harrisburg LLC, the Company's two cannabis-licensed clients that operate medical marijuana dispensaries in the state of Illinois (both entities collectively, the "KPGs"), from the current ownership group of the KPGs (the "Sellers"). As part of this transaction, the Company also acquired the Sellers' ownership interests of Mari Holdings IL LLC, the Company's subsidiary which owns the real estate in which the KPGs' dispensaries are located ("Mari-IL").

In October 2019, the transaction was approved by the Illinois Department of Financial & Professional Regulation, and 1,000,000 shares of the Company's common stock, representing the entire purchase price, were issued to the Sellers. Effective October 1, 2019, the KPGs and Mari-IL became wholly-owned subsidiaries of the Company with 100% of the operations of these entities consolidated into the Company's financial statements as of that date. The KPGs contributed revenues of approximately $1.3 million and pretax income of approximately $79,000 since the date of acquisition.

The acquisition was accounted for in accordance with ASC 805. The following table summarizes the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed on the acquisition date:

Cash and cash equivalents	$	443,980
Inventory		113,825
Intangibles		2,067,727
Minority interests		138,356
Accounts payable		(642,033)
Accrued expenses		(186,005)
Due to third parties		(1,020,850)
Total fair value of consideration	$	915,000

Consolidated unaudited pro forma results of operations for the Company are presented below assuming this 2019 acquisition had occurred at January 1, 2018, the beginning of the reporting period of these financial statements.

	Year Ended December 31,			
		2019		2018
Total revenues	$	48,444,052	$	14,417,923
Net income (loss)	$	(81,705,403)	$	(13,514,832)
Net income (loss) per share	$	(0.39)	$	(0.07)

Pro forma financial information is not necessarily indicative of the Company's actual results if the transaction had been completed during the periods reflected above, nor is it necessarily an indication of future operating results. Amounts do not include any operating efficiencies or costs savings that the Company would have been able to achieve.

The Harvest Foundation LLC

In November 2018, the Company issued a letter of intent to acquire 100% of the ownership interests of The Harvest Foundation LLC ("Harvest"), the Company's cannabis-licensed client in the state of Nevada. In August 2019, the parties entered into a purchase agreement governing the transaction. The acquisition is conditioned upon legislative approval of the transaction, which is expected to occur by the end of 2020. Upon consummation, the operations of Harvest will be consolidated into the Company's financial statements.

The purchase price is comprised of the issuance of (i) 1,000,000 shares of the Company's common stock, in the aggregate, to two owners of Harvest, which as a good faith deposit, were issued upon execution of the purchase agreement, (ii) $1.2 million of the Company's common stock at closing, based on the closing price of the common stock on the day prior to legislative approval of the transaction, and (iii) warrants to purchase 400,000 shares of the Company's common stock at an exercise price equal to the closing price of the Company's common stock on the day prior to legislative approval of the transaction. These shares are restricted and will be returned to the Company in the event the transaction does not close by a date certain. As the transaction has not been consummated, the issued shares were recorded at par value within the *Stockholders' Equity* section of the balance sheet at December 31, 2019.

Kind Therapeutics USA Inc.

In December 2018, the Company entered into a memorandum of understanding ("MOU") to acquire Kind Therapeutics USA Inc. ("Kind"), its client in Maryland that holds licenses for the cultivation, production, and dispensing of medical cannabis. The MOU provides for a total purchase price of $6.3 million in cash, 2,500,000 shares of the Company's common stock, and other consideration. The acquisition is subject to the approval by the Maryland Medical Cannabis Commission, which approval is not expected prior to October 2020.

Also in December 2018, MariMed Advisors Inc, the Company's wholly owned subsidiary, and Kind entered into a management agreement pursuant to which the Company provides comprehensive management services in connection with the business and operations of Kind, and Mari Holdings MD LLC, the Company's majority-owned subsidiary, entered into a 20-year lease with Kind for its utilization of the Company's 180,000 square foot cultivation and production facility in Hagerstown, MD. Additionally, in October 2019, Mari Holdings MD LLC purchased a 9,000 square foot building in Anne Arundel County, MD for the development of a dispensary which would be leased to Kind.

Recently, the sellers of Kind have attempted to renegotiate the terms of the MOU. Even though the MOU contains all the definitive material terms with respect to the acquisition transaction and confirms the management and lease agreements, the selling parties now allege that the MOU is not an enforceable agreement. The Company engaged with the sellers in good faith in an attempt to reach updated terms acceptable to both parties, however the sellers failed to reciprocate in good faith, resulting in an impasse, resulting in both parties commencing legal proceedings. For further information, see Part II, Item 1. *Legal Proceedings* in this report.

MediTaurus LLC

In May 2019, the Company entered into a purchase agreement to acquire MediTaurus LLC ("MediTaurus"), a company formed and owned by Jokubas Ziburkas PhD, a neuroscientist and leading authority on CBD and its interactions with the brain and endocannabinoid system. MediTaurus currently operates in the United States and Europe and has developed proprietary CBD formulations sold under its Florance™ brand.

Pursuant to the purchase agreement, the Company acquired 70% of MediTaurus on June 1, 2019, and will acquire the remaining 30% of MediTaurus on June 1, 2020. The purchase price for the initial 70% was $2.8 million, comprised of cash payments totaling $720,000 and 520,000 shares of the Company's common stock valued at $2,080,000. The purchase price of the remaining 30%, payable in cash or stock at the Company's option, shall be equal to a defined percentage of the Company's receipts from the licensing of certain MediTaurus technology and products that existed on June 1, 2019 (all such technology and products, the "MT Property"). For a period of ten years following June 1, 2020, certain former members of MediTaurus shall be paid a royalty on the Company's receipts from the licensing of MT Property, with the royalty percentage commencing at 10% and decreasing to 2% over time.

The acquisition was accounted for in accordance with ASC 10. The following table summarizes the allocation, adjusted in September 2019, of the purchase price to the fair value of the assets acquired and liabilities assumed on the acquisition date:

Cash and cash equivalents	$	64,196
Accounts receivable		5,362
Inventory		519,750
Goodwill		2,662,669
Accounts payable		(777)
Total value of MediTaurus		3,251,200
Noncontrolling interests in MediTaurus		(975,360)
Total fair value of consideration	$	2,275,840

Based on a valuation of MediTaurus in late 2019, the goodwill on the transaction was adjusted to approximately $2.7 million, which was written off in expectation of the impact of the coronavirus pandemic on MediTaurus' business.

As part of the transaction, the Company hired Dr. Ziburkas as the Company's Chief Innovation Officer, as well as other members of the MediTaurus executive team.

iRollie LLC

Effective April 2018, the Company entered into a purchase agreement whereby 264,317 shares of the Company's common stock were exchanged for 100% of the ownership interests of iRollie LLC ("iRollie"), a manufacturer of branded cannabis products and accessories for consumers, and custom product and packaging for companies in the cannabis industry. The Company acquired, among other assets, iRollie's entire product line, service offerings, client list, and intellectual property, and hired its two co-founders.

The acquisition was accounted for in accordance with ASC 10. The shares of Company common stock, valued at approximately $280,000, were issued to iRollie's former owners in December 2018, at which time the Company adjusted the total goodwill generated by the transaction. The following table summarizes the allocation of the purchase price to the fair value of the assets acquired:

Cash and cash equivalents	$	13,494
Goodwill		266,682
Total fair value of consideration	$	280,176

Prior to the acquisition, iRollie had not been generating positive cash flow as a stand-alone entity, and in conformity with relevant accounting guidance, the goodwill was written off.

AgriMed Industries of PA LLC

In July 2018, the Company entered into a purchase agreement to acquire 100% of the ownership interests of AgriMed Industries of PA LLC ("AgriMed"), an entity that holds a license from the state of Pennsylvania for the cultivation of cannabis. The purchase price was comprised of $8 million, payable in stock and cash, and the assumption of certain liabilities of AgriMed. In February 2019, the Company commenced legal proceedings against AgriMed seeking specific performance of the purchase agreement.

In May 2019, the dispute between the parties was resolved through the cash payment to the Company of $3.1 million and other good and valuable consideration, in exchange for the Company relinquishing its rights under the purchase agreement and releasing its claims against AgriMed. The net amount of approximately $2,949,000, representing the cash payment less legal fees and write-offs of assets and supplies, was recorded in *Other Non-Operating Income* in the Company's consolidated statement of operations for the year ended December 31, 2019.

NOTE 4 – INVESTMENTS

At December 31, 2019 and 2018, the Company's investments were comprised of the following:

	2019	2018
Current investments:		
Terrace Inc.	$ 1,449,144	$ -
Total current investments	$ 1,449,144	$ -
Non-current investments:		
GenCanna Global Inc.	-	-
CVP Worldwide LLC	1,066,975	1,172,163
Iconic Ventures Inc.	-	500,000
Chooze Corp.	257,686	-
Total non-current investments	1,324,661	1,672,163
Total investments	$ 2,773,805	$ 1,672,163

Terrace Inc.

In May 2019, the Company issued 500,000 shares of its common stock, valued at $1.59 million on the date of issuance, to purchase an 8.95% interest in Terrace Inc. ("Terrace"), a Canadian entity that develops and acquires international cannabis assets. The Company has no board representation, nor does it have the ability to exert operational or financial control over the entity.

In November 2019, the common stock of Terrace commenced public trading on the Toronto Stock Venture Exchange. In accordance with ASC 321, *Investments – Equity Securities*, this investment is carried at fair value, with changes to fair value recognized in net income. Prior to Terrace becoming publicly traded, the Company had elected the measurement alternative to value this equity investment without a readily determinable fair value.

At December 31, 2019, the carrying amount of this investment declined to approximately $1.45 million, based on its fair value on such date, and the Company recorded a charge to net income of approximately $141,000.

GenCanna Global Inc.

During 2018, in a series of transactions, the Company purchased $30 million of subordinated secured convertible debentures (the "GC Debentures") of GenCanna. In February 2019, the Company converted the GC Debentures, plus unpaid accrued interest of approximately $229,000 through the conversion date, into common stock of GenCanna equal to a 33.5% ownership interest in GenCanna on a fully diluted basis. Concurrent with the conversion, Company's CEO was appointed to GenCanna's board and the Company was granted certain rights, including the rights of inspection, financial information, and participation in future security offerings of GenCanna.

Since the conversion date, this investment had been accounted for under the equity method. However, as previously discussed in Note 1 – *Organization and Description of Business*, GenCanna filed for voluntary reorganization under Chapter 11 in February 2020 with the U.S. Bankruptcy Court in the Eastern District of Kentucky. As a result, the Company recorded a charge to net income of approximately $30.23 million, classified under *Loss on Equity Investments* on the statement of operations for the year ended December 31, 2019, which reduced the carrying value of this investment to zero.

CVP Worldwide LLC

In August 2018, the Company invested $300,000, of a total contracted cash investment of $500,000, and issued 378,259 shares of its common stock, valued at approximately $915,000, in exchange for a 23% ownership in CVP Worldwide LLC ("CVP"). CVP has developed a customer relationship management and marketing platform, branded under the name Sprout, which is specifically designed for companies in the cannabis industry.

The Company shall assist in the ongoing development and design of Sprout, and in marketing Sprout to companies within the cannabis industry. The Company shall earn a percentage share of Sprout's revenues generated from sales (i) to the Company's clients, and (ii) by the Company to third parties. As of December 31, 2019, no revenue was earned by the Company.

The investment is accounted under the equity method. In 2018, the Company recorded a charge to net income of approximately $43,000 based on its equity in CVP's net loss during the period of the Company's ownership. Such amount reduced the carrying value of the investment to approximately $1,172,000 at December 31, 2018. In 2019, the Company recorded a charge of approximately $105,000 representing the Company's equity in CVP's net loss during year, further reducing the carrying value of the investment to approximately $1,067,000 at December 31, 2019.

Iconic Ventures Inc.

In December 2018, the Company purchased 2,500,000 shares of common stock of Iconic Ventures Inc. ("Iconic") for an aggregate cash payment of $500,000. Iconic has developed DabTabs™, a unique solution for cannabinoid vaporization via a convenient portable tablet that provides precisely measured dosing and acts as a storage system for full spectrum extracts, concentrates and distillates.

The Company's investment equates to a current ownership interest in Iconic of approximately 10%. The Company has no board representation, nor does it have the ability to exert operational or financial control over the entity. In accordance with ASC 321, the Company elected the measurement alternative to value this equity investment without a readily determinable fair value. Under this alternative measurement election, the investment is recorded at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment in Iconic.

In 2019, the Company wrote off the investment after an impairment review that considered the viability of the entity in light of the current economic climateAccordingly, this investment was carried at zero and $500,000 on December 31, 2019 and 2018, respectively.

Chooze Corp.

In January 2019, the entire principal and accrued interest balance of a note receivable from Chooze Corp. of approximately $258,000 was converted into a 2.7% equity interest in Chooze. In accordance with ASC 321, the Company elected the measurement alternative to value this equity investment without a readily determinable fair value. Following the Company's purchase, there has been no impairment to this investment, nor any observable price changes to investments in the entity. Accordingly, this investment was carried at approximately $258,000 at December 31, 2019.

The Company will continue to apply the alternative measurement guidance until this investment does not qualify to be so measured. The Company may subsequently elect to measure this investment at fair value, and if so, shall measure all identical or similar investments in Chooze at fair value. Any subsequent changes in fair value shall be recognized in net income.

Binske®

In July 2019, the Company entered into a licensing agreement for the exclusive manufacturing and distribution in seven eastern U.S. states of the Binske® portfolio of products, a brand known for utilizing best-in-class proprietary strains and craft ingredients in its edibles, concentrates, vaporizers, and topicals. In consideration for the license and other rights, the Company agreed to pay a royalty of 10.0% to 12.5% of gross revenue, as defined, derived from the sale of Binske® products, subject to an annual minimum royalty. No gross revenue was generated as of December 31, 2019.

Vitiprints

In August 2019, the Company terminated the license agreement it had entered into in August 2018 for the use of a patented technology to produce and distribute cannabis products with precise dosing and at increased economies ("Vitiprints"). The licensing agreement had an initial term of five years, and required the Company to make a non-refundable payment of $250,000 which the Company charged to *Cost of Revenues* in August 2018.

NOTE 5 – DEFERRED RENTS RECEIVABLE

The Company is the lessor under several operating leases which contain rent holidays, escalating rents over time, options to renew, requirements to pay property taxes, insurance and/or maintenance costs, and contingent rental payments based on a percentage of monthly tenant revenues. The Company is not the lessor under any finance leases.

The Company recognizes fixed rental receipts from such lease agreements on a straight-line basis over the expected lease term. Differences between amounts received and amounts recognized are recorded under *Deferred Rents Receivable* on the balance sheet. Contingent rentals are recognized only after tenants' revenues are finalized and if such revenues exceed certain minimum levels.

The Company leases the following owned properties:

- Delaware – a 45,000 square foot facility purchased in September 2016 and developed into a cannabis cultivation, processing, and dispensary facility which is leased to a cannabis-licensed client occupying 100% of the space under a triple net lease that commenced in 2017 and expires in 2035.
- Maryland – a 180,000 square foot former manufacturing facility purchased in January 2017 and developed by the Company into a cultivation and processing facility which is leased to a licensed cannabis client under a triple net lease that commenced 2018 and expires in 2037.
- Massachusetts – a 138,000 square foot industrial property of which approximately half of the available square footage is leased to a non-cannabis manufacturing company under a lease that commenced in 2017 and expires in 2022.
- Illinois – two 3,400 square foot free-standing retail dispensaries in the cities of Anna and Harrisburg and leased to the KPGs, each under a 20-year lease that commenced in 2018. With the acquisition of the KPGs as disclosed in Note 3 – *Acquisitions*, this lease was eliminated upon the consolidation of the KPGs in October 2019. Accordingly, the rental receipts on such leases have been removed from the table of future minimum rental receipts below.

The Company subleases the following property:

- Delaware – 4,000 square feet of retail space in a multi-use building space which the Company developed into a cannabis dispensary which is subleased to its cannabis-licensed client under a under a triple net lease expiring in 2021 with a five-year option to extend.

As of December 31, 2019 and 2018, cumulative fixed rental receipts under such leases approximated $9.5 million and $5.4 million, respectively, compared to revenue recognized on a straight-line basis of approximately $11.3 million and $7.5 million. Accordingly, the deferred rents receivable balances at December 31, 2019 and 2018 approximated $1.8 million and $2.1 million, respectively.

Future minimum rental receipts for non-cancelable leases and subleases as of December 31, 2019 were:

2020	$	3,896,550
2021		4,036,550
2022		3,959,709
2023		3,661,821
2024		3,717,080
Thereafter		40,404,470
Total	$	59,676,179

NOTE 6 – DUE FROM THIRD PARTIES

At December 31, 2019 and 2018, the following table reflects amounts that were advanced by the Company to its cannabis-licensed clients primarily for working capital purposes, and the carrying amount of such advances after write-offs:

		2019		2018
Kind Therapeutics USA Inc. (Maryland licensee)	$	1,475,675	$	2,679,496
Harvest Foundation LLC (Nevada licensee)		1,938,787		248,796
KPG of Anna LLC (Illinois licensee acquired Oct. 2019)		-		482,700
KPG of Harrisburg LLC (Illinois licensee acquired Oct. 2019)		-		449,385
Total working capital advances to third parties		3,414,462		3,860,377
Reserves against working capital advances		(3,414,462)		-
Due from third parties, net	$	-	$	3,860,377

When a client is able to organically fund its ongoing operations, such client will issue a promissory note to the Company for the cumulative advances made up to that point, which will then be paid down monthly over a specified period of time. The Company has successfully employed this strategy in the past, and accordingly, in January 2019, KPG of Anna LLC and KPG of Harrisburg LLC issued promissory notes to the Company as further described in Note 7 – *Notes Receivable*.

In December 2019, the Company recorded bad debt reserves against the working capital advance balances due from (i) Kind of approximately $1.5 million in light of the ongoing litigation between the Company and Kind, and (ii) Harvest of approximately $1.9 million because of the anticipated effect on Harvest's operations from a weakened local economy due to the coronavirus pandemic.

NOTE 7 – NOTES RECEIVABLE

At December 31, 2019 and 2018, notes receivable were comprised of the following:

	2019	2018
First State Compassion Center	$ 527,261	$ 578,722
Healer LLC	846,985	307,429
Atalo Holdings Inc.	-	-
Maryland Health & Wellness Center Inc.	323,526	-
High Fidelity Inc.	252,873	-
Chooze Corp.	-	257,687
Total notes receivable	1,950,645	1,143,838
Notes receivable, current portion	311,149	51,462
Notes receivable, less current portion	$ 1,639,496	$ 1,092,376

The Company loaned approximately $700,000 to First State Compassion Center, its Delaware cannabis-licensee client, during the period from October 2015 to April 2016. In May 2016, this client issued a 10-year promissory note, as subsequently amended, to the Company bearing interest at a rate of 12.5% per annum. The monthly payments of approximately $10,100 will continue through April 2026, at which time the note will become due. At December 31, 2019 and 2018, the current portion of this note was approximately $58,000 and $51,000, respectively, and is included in *Notes Receivable, Current Portion* on the respective balance sheets.

In 2018, the Company loaned an aggregate of $300,000 to Healer LLC ("Healer"), an entity that provides cannabis education, dosage programs, and products developed by Dr. Dustin Sulak, an integrative medicine physician and nationally renowned cannabis practitioner. In 2019, the Company loaned Healer an additional aggregate amount of $500,000. The loans bear interest at 6% per annum, with principal and interest payable on the maturity dates which are three years from the respective loan dates.

In 2019, the Company extended loans aggregating $980,000 to Atalo Holdings Inc. ("Atalo"), an agriculture and biotechnology firm specializing in research, development, and production of industrial hemp and hemp-based CBD products. The loans bear interest at 6% per annum, with principal and interest payable on the earlier of April 3, 2020 or the date on which the Company acquires at least 25% of Atalo's outstanding capital stock, in which case the principal and interest due shall be credited toward Company's purchase price for such capital stock. In December 2019, the Company wrote off the entire carrying value of the Atalo note receivable balance based on the expectation that the operations of Atalo would be negatively impacted by the coronavirus pandemic.

In January 2019, the Company entered into an agreement with Maryland Health & Wellness Center Inc. ("MHWC"), an entity that has been pre-approved by the state of Maryland for a cannabis dispensing license, to provide MHWC with a $300,000 construction loan in connection with the buildout of MHWC's proposed dispensary. The Company also entered into a consulting services agreement to provide MHWC with advisory and oversight services over a three-year period relating to the development, administration, operation, and management of MHWC's proposed dispensary in Maryland. The construction loan bears interest at 8% per annum, with principal and interest payable in May 2022, the two-year anniversary of final state approval of MHWC's dispensing license, provided however, that the Company shall have the right, that extends through such two-year anniversary and which is subject to state approval, to convert the promissory note underlying the construction loan into a 20% ownership interest of MHWC. This conversion right of the Company shall terminate if the consulting services agreement is terminated.

In August 2019, the Company loaned $250,000 to High Fidelity Inc., a company that owns and operates two seed-to sale medical marijuana facilities in the state of Vermont and produces its own line of CBD products. The loan bears interest at a rate of 10% per annum, with interest-only monthly payments through its extended maturity in August 2020.

During the period from May to October 2018, the Company loaned $250,000 to Chooze Corp. bearing interest at 8% per annum and maturing in 2021. In January 2019, the entire principal and accrued interest balance of approximately $258,000 was converted into a 2.7% ownership interest in Chooze, as previously discussed in Note 4 – *Investments*.

In January 2019, KPG of Anna LLC and KPG of Harrisburg LLC each issued a promissory note to the Company in the approximate amount of $451,000 and $405,000, respectively, representing the advances made by the Company to these entities through December 31, 2018. The notes bore interest at 12% per annum, with monthly principal and interest payments due through December 2038. With the acquisition of the KPGs as disclosed in Note 3 – *Acquisitions*, these notes were eliminated upon the consolidation of the KPGs in October 2019.

NOTE 8 – INVENTORY

In 2019, the Company purchased $21.6 million of hemp seeds for its wholesale hemp distribution business and to develop hemp-derived CBD products. The seeds meet the U.S. government's definition of federally legal industrial hemp, which was descheduled as a controlled substance and classified as an agricultural commodity upon the signing of the 2018 U.S. Farm Bill. As previously disclosed in Note 1 – *Organization and Description of Business*, the Company sold a majority of these seeds to GenCanna, generating a related party receivable of $33.2 million which was written off as of December 31, 2019.

At December 31, 2019, inventory was comprised of approximately $226,000 of CBD isolate and hemp extract; approximately $476,000 of work-in-process; and approximately $518,000 of finished cannabis and CBD products. At December 31, 2018, inventory was comprised of product packaging and other collateral.

NOTE 9 – DEBENTURES RECEIVABLE

As detailed in Note 4 – *Investments*, the Company converted the GC Debentures into a 33.5% ownership interest in GenCanna in February 2019. Prior to conversion, the GC Debentures bore interest at a rate of 9% per annum and had an original maturity date of three years from issuance. For the year ended December 31, 2018, the Company earned and received interest income of approximately $502,000 on the GC Debentures.

NOTE 10 – PROPERTY AND EQUIPMENT

At December 31, 2019 and 2018, property and equipment consisted of the following:

	2019	2018
Land	$ 3,887,710	$ 3,392,710
Buildings and building improvements	27,063,235	13,566,144
Tenant improvements	7,762,991	5,348,882
Furniture and fixtures	299,645	114,160
Machinery and equipment	4,086,691	1,632,351
Construction in progress	2,827,940	12,205,447
	45,928,212	36,259,694
Less: accumulated depreciation	(3,135,843)	(2,159,830)
Property and equipment, net	$ 42,792,369	$ 34,099,864

During the years ended December 31, 2019 and 2018, additions to property and equipment were approximately $9.7 million and $8.9 million, respectively.

The 2018 additions were primarily comprised of (i) the buildout of properties in Hagerstown, MD, New Bedford, MA, and Middleborough, MA, and (ii) improvements to the Wilmington, DE facility.

The 2019 additions consisted primarily of (i) the commencement of construction in Milford, DE and Annapolis, MD, (ii) the continued buildout of properties in Hagerstown, MD, New Bedford, MA, and Middleborough, MA, and (ii) improvements to the Wilmington, DE and Las Vegas, NV properties.

The 2018 construction in progress balance of approximately $12.2 million was primarily comprised of (i) New Bedford, MA building, improvements and machinery of approximately $9.8 million and (ii) Middleborough, MA building, improvements and fixtures of approximately $2.4 million. All of this construction in progress was placed into service in 2019.

The 2019 construction in progress balance of approximately $2.8 million consisted of the commencement of construction of properties in Milford, DE and Annapolis, MD.

Depreciation expense for the year ended December 31, 2019 and 2018 was approximately $999,000 and $658,000, respectively.

NOTE 11 – DEBT

Mortgages Payable

At December 31, 2019 and 2018, mortgage balances, including accrued but unpaid interest, were comprised of the following:

	2019	2018
Bank of New England – Massachusetts property	$ 4,825,226	$ 4,895,000
Bank of New England – Delaware property	1,682,275	1,791,736
DuQuoin State Bank – Illinois properties	829,229	850,076
Total mortgages payable	7,336,730	7,536,812
Mortgages payable, current portion	(223,889)	(188,231)
Mortgages payable, less current portion	$ 7,112,842	$ 7,348,581

In November 2017, the Company entered into a 10-year mortgage agreement with Bank of New England for the purchase of a 138,000 square foot industrial property in New Bedford, Massachusetts, within which the Company has built a 70,000 square foot cannabis cultivation and processing facility. This mortgage was personally guaranteed by the Company's CEO and CFO. From the mortgage date through May 2019, the Company was required to make monthly payments of interest-only at a rate equal to the prime rate plus 2%, with a floor of 6.25% per annum. From May 2019 to May 2024, the Company is required to make principal and interest payments at a rate equal to the prime rate on May 2, 2019 plus 2%, with a floor of 6.25% per annum. Principal and interest payments shall continue from May 2024 through the end of the lease at a rate equal to the prime rate on May 2, 2024 plus 2%, with a floor of 6.25% per annum. The outstanding principal balance on this mortgage was approximately $4,825,000 and $4,895,000 on December 31, 2019 and 2018, respectively, of which approximately $94,000 and $63,000, respectively, was current.

The Company maintains a second mortgage with Bank of New England, also personally guaranteed by the Company's CEO and CFO, for the 2016 purchase of a 45,070 square foot building in Wilmington, Delaware which was developed into a cannabis seed-to-sale facility and is currently leased to the Company's cannabis-licensed client in that state. The mortgage matures in 2031 with monthly principal and interest payments at a rate of 5.25% per annum through September 2021, and thereafter the rate adjusting every five years to the then prime rate plus 1.5% with a floor of 5.25% per annum. At December 31, 2019 and 2018, the outstanding principal balance on this mortgage was approximately $1,682,000 and $1,792,000, respectively, of which approximately $105,000 and $102,000, respectively, was current.

In May 2016, the Company entered into a mortgage agreement with DuQuoin State Bank ("DSB") for the purchase of two properties which the Company developed into two 3,400 square foot free-standing retail dispensaries in Illinois. On May 5th of each year, this mortgage is due to be repaid unless it is renewed for another year at a rate determined at the discretion of DSB's executive committee. The mortgage was renewed in May 2019 at a rate of 8.5% per annum. At December 31, 2019 and 2018, the outstanding principal balance on this mortgage was approximately $829,000 and $850,000, respectively, of which approximately $24,000 and $23,000, respectively, was current.

Notes Payable

In June 2019, the Company and MariMed Hemp, its wholly-owned subsidiary, issued a secured promissory note in the principal amount of $10 million to an unaffiliated party (the "$10M Note"). The proceeds from the $10M Note were used to finance a portion of the purchases of hemp seed inventory previously discussed in Note 1 – *Organization and Description of Business*. The $10M Note provided for the repayment of principal plus a payment of $1.5 million on January 31, 2020. At December 31, 2019, the pro-rata portion of such payment, based on the term of the $10M Note, approximated $1,307,000 and was charged to interest expense. The $10M Note imposes certain covenants on the borrowers, all of which were complied with as of December 31, 2019.

In February 2020, the Company entered into an amendment agreement with the holder of the $10M Note, whereby the Company and MariMed Hemp issued an amended and restated promissory note in the principal amount of $11,500,000 (the "$11.5M Note"), bearing interest at a rate of 15% per annum, due on June 15, 2020, and with monthly interest payments and minimum amortization payments of $3,000,000 in the aggregate due on or before April 30, 2020, of which the Company has already paid $2,300,000. The $11.5M Note is secured by a first priority security interest in the assets of certain of the Company's subsidiaries and brands, and a pledge of the Company's ownership interest in certain of its subsidiaries. The $11.5M Note imposes certain covenants on the borrowers effective on the date of the amendment agreement.

As part of the $10M Note transaction, the Company issued three-year warrants to purchase 375,000 shares of common stock at an exercise price of $4.50 per share to the holder of the $10M Note. The fair value of these warrants on the issuance date of approximately $601,000 was recorded as a discount to the $10M Note. Approximately $523,000 of the warrant discount was amortized to interest expense in 2019. Accordingly, the carrying value of the $10M Note approximated $9.92 million at December 31, 2019.

In April 2019, MariMed Hemp issued a secured promissory note in the principal amount of $1,000,000 to an unaffiliated party. The proceeds of the note were used to finance a portion of the purchases of hemp seed inventory previously discussed in Note 1 – *Organization and Description of Business.* The note is secured by the collateral assignment of certain receivables from GenCanna (the "Secured Receivables") and certain obligations of GenCanna to MariMed Hemp. The principal balance plus a payment of $180,000, initially due on December 31, 2019, was extended to March 31, 2020 in accordance with the terms of the note, requiring an additional payment of $30,000 payable on the extended due date. MariMed Hemp can elect to repay the note in whole or in part without penalty, provided the noteholder is given proper notice and MariMed Hemp is not in default of the note agreement. Upon such election, the entire payment of $180,000 and additional payment of $30,000 shall be deemed earned by and due to the noteholder.

In March 2019, the Company raised $6 million through the issuance of a secured promissory note to an unaffiliated party bearing interest at a rate of 13% per annum and a service fee of $900,000 (the "$6M Note"). The proceeds of the note were used to finance a portion of the purchases of hemp seed inventory previously discussed in Note 1 – *Organization and Description of Business.* The note is secured by the collateral assignment of certain receivables from and obligations of GenCanna to MariMed Hemp. The note's initial maturity date of December 31, 2019 was extended to April 30, 2020 in accordance with the terms of the note, with the Company paying an extension fee in December 2019 of $300,000 which was charged to interest expense. At December 31, 2019, accrued interest payable on the note approximated $635,000.

In September 2018, the Company raised $3 million from the issuance of a secured promissory note to the same unaffiliated party of the $6M Note, bearing interest at a rate of 10% per annum, with interest payable monthly through an initial maturity date of March 31, 2020 (the "$3M Note"). The Company may elect to prepay the $3M Note in whole or part at any time after December 17, 2018 without premium or penalty provided the noteholder is given proper notice and the Company is not in default of the note agreement. The $3M Note was extended for an additional six months in accordance with its terms, with the interest rate increasing to 12% per annum during the extension period. The $3M Note is secured by the Company's property in Maryland.

As part of $3M Note transaction, the Company issued three-year warrants to the lender's designees to purchase 750,000 shares of the Company's common stock at an exercise price of $1.80 per share. The Company recorded a discount on the $3M Note of approximately $1,511,000 from the allocation of note proceeds to the warrants based on the fair value of such warrants on the issuance date. Approximately $882,000 of the warrant discount was amortized to interest expense during 2018, and the remaining $629,000 was amortized during 2019. At December 31, 2019 and 2018, the carrying value of the $3M Note was $3 million and approximately $2.37 million (principal less the remaining warrant discount of $629,000), respectively.

In addition to the above transactions, the Company raised $2,760,000 in 2019 from the issuance of promissory notes to individuals and accredited investors bearing interest at rates of 10% to 18% per annum, and maturing in 2020 and 2021. No additional promissory notes were issued in 2018 than those previously described above.

Note Settlements

During 2018, holders of previously issued promissory notes with principal balances of $1,075,000 converted such promissory notes into 1,568,375 shares of common stock at conversion prices ranging from $0.65 to $0.90 per share. The conversions resulted in the recording of non-cash losses of approximately $829,000 in the aggregate based on the fair value of the common stock on the dates of conversion. No conversions of promissory notes occurred during 2019.

During 2019 and 2018, the Company issued 2,435,116 shares and 3,827,373 shares of its common stock, respectively, and subscriptions on zero and 79,136 shares of its common stock, respectively to retire promissory notes (principal and accrued interest) of approximately $1,047,000 and $7,590,000, respectively. The Company recorded non-cash losses of approximately $2.5 million in 2018 based on the fair value of the common stock on the retirement dates. No such losses were incurred in 2019.

During 2018, the Company repaid $700,000 of promissory notes. No repayments of promissory notes occurred during 2019.

Debt Maturities

As of December 31, 2019, the aggregate scheduled maturities of the Company's total debt outstanding, inclusive of the promissory notes and mortgages described within this Note 11 – *Debt*, and the convertible debentures described in the following Note 12– *Debentures Payable,* were:

2020	$	21,433,484
2021		11,262,710
2022		280,830
2023		300,248
2024		320,702
Thereafter		5,822,397
Total		39,420,370
Less discounts		(3,135,686)
	$	36,284,684

NOTE 12 – DEBENTURES PAYABLE

In October and November 2018, pursuant to a securities purchase agreement (the "SPA"), the Company sold an aggregate of $10,000,000 of convertible debentures to an accredited investor bearing interest at the rate of 6% per annum that mature two years from issuance, with a 1% issuance discount, resulting in net proceeds to the Company of $9,900,000 (the "$10M Debentures").

The holder of the $10M Debentures (the "Holder") has the right at any time to convert all or a portion of the $10M Debenture, along with accrued and unpaid interest, into the Company's common stock at conversion prices equal to 80% of a calculated average, as determined in accordance with the terms of the $10M Debentures, of the daily volume-weighted price during the ten consecutive trading days preceding the date of conversion. Notwithstanding this conversion right, the Holder shall limit conversions in any given month to certain agreed-upon amounts based on the conversion price, and the Holder shall also be limited from beneficially owning more than 4.99% of the Company's outstanding common stock (potentially further limiting the Holder's conversion right).

The Company shall have the right to redeem all or a portion of the $10M Debentures, along with accrued and unpaid interest, at a 10% premium, provided that the Company first deliver advance written notice to the Holder of its intention to make a redemption, with the Holder allowed to effect certain conversions of the $10M Debentures during such notice period.

Upon a change in control transaction, as defined in the $10M Debentures, the Holder may require the Company to redeem all or a portion of the $10M Debentures at a price equal to 110% of the outstanding principal amount of the $10M Debentures, plus all accrued and unpaid interest thereon. So long as the $10M Debentures are outstanding, in the event the Company enters into a Variable Rate Transaction ("VRT"), as defined in the SPA, the Holder may cause the Company to revise the terms of the $10M Debentures to match the terms of the convertible security issued in such VRT.

In conjunction with the issuance of the $10M Debentures, the Company issued two warrants to the Holder to purchase 142,857 and 181,818 shares of the Company's common stock at exercise prices of $3.50 and $5.50 per share, respectively, and expiring three years from issuance (the "Initial Warrants"). The fair value of the Initial Warrants of approximately $1,058,000 was recorded as a discount to the carrying amount of the $10M Debentures.

Pursuant to the terms of a registration rights agreement with the Holder, entered into concurrently with the SPA and the $10M Debentures, the Company agreed to provide the Holder with certain registration rights with respect to any potential shares issued pursuant to the terms of the SPA, the $10M Debentures, and the Initial Warrants.

Subsequent to entering into the SPA and related agreements, the Company and the Holder executed an addendum to the SPA whereby the Holder agreed to that it would not undertake a conversion of all or a portion of the $10M Debentures that would require the Company to issue more shares than the amount of available authorized shares at the time of conversion, which amount of authorized shares shall not be less than the current authorized number of 500 million shares of common stock. Such addendum eliminated the requirement to bifurcate and account for the conversion feature of the $10M Debentures as a derivative.

Based on the conversion prices of the $10M Debentures in relation to the market value of the Company's common stock, the $10M Debentures provided the Holder with a beneficial conversion feature, as the embedded conversion option was in-the-money on the commitment date. The intrinsic value of the beneficial conversion feature of approximately $5,570,000 was recorded as a discount to the carrying amount of the $10M Debentures, with an offset to additional paid-in-capital.

In May 2019, the Company sold to the Holder an additional $5,000,000 convertible debenture bearing interest at the rate of 6% per annum that matures two years from issuance, with a 1% issuance discount, resulting in net proceeds to the Company of $4,950,000 (the "$5M Debentures"). In each of June and August 2019, the Company sold to the Holder an additional $2,500,000 of convertible debentures, totaling $5,000,000, that mature two years from issuance, with a 7% issuance discount, resulting in aggregate net proceeds to the Company of $4,650,000 (the "Two $2.5M Debentures," and together with the $5M Debentures, the "Additional $10M Debentures").

The terms of the Additional $10M Debentures are consistent with the terms of the $10M Debentures, except that (i) no interest shall accrue on the Two $2.5M Debentures, (ii) the issuance discount on the Two $2.5M Debentures is 7%, compared to 1% on the $10M Debentures and the $5M Debentures, and (iii) other small variations, most notably a cap on the conversion price. The SPA, registration rights agreement, and addendum to the SPA were all amended and restated to incorporate the Additional $10M Debentures.

As part of issuance of the Additional $10M Debentures, the Company issued three-year warrants to the Holder to purchase 550,000 and 300,000 shares of common stock at exercise prices of $3.00 and $5.00 per share, respectively (the "Additional Warrants"). The fair value of the Additional Warrants of approximately $1,148,000 was recorded as a discount to the carrying amount of the Additional $10M Debentures.

Based on the conversion prices of the Additional $10M Debentures in relation to the market value of the Company's common stock, the Additional $10M Debentures provided the Holder with a beneficial conversion feature, as the embedded conversion option was in-the-money on the commitment date. The aggregate intrinsic value of the beneficial conversion feature of approximately $4,235,000 was recorded as a discount to the carrying amount of the Additional $10M Debentures, with an offset to additional paid-in-capital.

In November and December 2018, the Holder converted, in two separate transactions, an aggregate of $1,400,000 of principal and approximately $36,000 of accrued interest into 524,360 shares of common stock at conversion prices of $2.23 and $3.04 per share.

In January 2019, the Holder converted, in three separate transactions, an aggregate of $600,000 of principal and approximately $97,000 of accrued interest into 233,194 shares of common stock at conversion prices ranging from $2.90 to $3.06 per share. In April and June 2019, the Holder converted, in four separate transactions, an aggregate of $1,750,000 of principal and approximately $181,000 of accrued interest into 923,185 shares of common stock at conversion prices ranging from $1.74 to $2.74 per share. In July, the Holder converted, in two separate transactions, an aggregate of $2,750,000 of principal and approximately $17,000 of accrued interest into 2,435,144 shares of common stock at conversion prices of $1.08 and $1.70 per share. In September 2019, the Holder converted $2,400,000 of principal and approximately $64,000 of accrued interest into 3,206,816 shares of common stock at a conversion price of $0.77 per share. In December 2019, the Holder converted $1,100,000 of principal and approximately $17,000 of accrued interest into subscriptions on 3,004,131 shares of common stock at a conversion price of $0.37 per share.

All of the aforementioned conversions were performed in accordance with the terms of their respective convertible debenture agreements, and therefore the Company was not required to record a gain or loss on such conversions.

During 2019 and 2018, amortization of the beneficial conversion features, after adjustment for the conversions, approximated $5,242,000 and $1,522,000, respectively; amortization of the discounts from the Initial Warrants and Additional Warrants (together, the "Total Warrants") approximated $1,298,000 and $91,000 respectively; and the amortization of original issue discounts approximated $107,000 and $9,000, respectively. This amortization was charged to interest expense. Additionally, accrued interest expense for such periods approximated $513,000 in 2019 and $98,000 in 2018.

At December 31, 2019, the aggregate outstanding principal balance on the $10M Debentures and the Additional $10M Debentures (together, the "$20M Debentures") was $10,000,000. Also on such date, the unamortized balances of the beneficial conversion feature, the Total Warrants discount, and original issue discounts were approximately $3,041,000, $817,000, and $307,000, respectively. Accordingly, at December 31, 2019, the carrying value of the $20M Debentures was approximately $5,835,000.

At December 31, 2018, the outstanding principal balance on the $10M Debentures was $8,600,000. Also on such date, the unamortized balances of the beneficial conversion feature, Initial Warrants discount, and original issue discounts were approximately $4,048,000, $966,000, and $91,000, respectively, and accrued and unpaid interest was approximately $62,000. Accordingly, at December 31, 2018, the carrying value of the $10M Debentures was approximately $3,557,000.

NOTE 13 – EQUITY

Preferred Stock

In January 2018, all 500,000 shares of subscribed Series A convertible preferred stock then outstanding were converted into 970,988 shares of common stock at a conversion price of $0.55 per share. The Company recorded a non-cash loss on conversion of approximately $34,000 based on the market value of the common stock on the conversion date. At December 31, 2019 and 2018, no shares of Series A convertible preferred stock were issued or outstanding.

In February 2020, the Company filed a certificate of elimination to return all shares of the Series A convertible preferred stock to the status of authorized and unissued shares of undesignated preferred stock. Concurrent with this filing, the Company also filed a certificate of designation to designate the rights and preferences of newly authorized Series B convertible preferred stock, shares of which were issued in February 2020 as further discussed in Note 21 – *Subsequent Events*.

Common Stock

During 2019, the Company sold 1,014,995 shares of common stock at prices of $0.70 and $3.25 per share, resulting in total proceeds of $2,750,000. During 2018, the Company sold 10,111,578 shares of common stock, at prices ranging from $0.50 to $1.30 per share, resulting in total proceeds of approximately $8.5 million.

During 2019 and 2018, the Company issued 97,136 and 1,000,000 common shares, respectively, associated with previously issued subscriptions on common stock with a value of approximately $169,000 and $370,000, respectively.

During 2019 and 2018, the Company issued 172,663 and 3,420,526 common shares, respectively, in exchange for services rendered by third-parties or to otherwise settle outstanding obligations. Based on the market value of the common stock on the dates of issuance, the Company recorded non-cash losses on these settlements of approximately $5,000 in 2019 and $1,024,000 in 2018.

In 2019, the Company granted 141,546 shares of common stock to employees at an aggregate value of approximately $223,000. Of these granted shares, 32,726 were not issued as of December 31, 2019 and were reflected in *Common Stock Subscribed But Not Issued* on the balance sheet. No common stock was granted in 2018.

As previously disclosed in Note 3– *Acquisitions*, the Company issued (i) 264,317 shares of common stock in connection with the acquisition of iRollie in 2018, (ii) 1,000,000 shares of common stock in connection with the acquisition of the KPGs and Mari-IL in 2019, (iii) 1,000,000 shares of stock as a good faith deposit in 2019 on the Harvest acquisition, and (iv) 520,000 shares of commons stock in connection with the acquisition of MediTaurus in 2019.

As previously disclosed in Note 4– *Investments*, the Company issued 500,000 shares of common stock in 2019 to purchase a minority interest in Terrace in 2019, and 378,259 shares of its common stock in 2018 to purchase a minority interest in CVP.

As previously disclosed in Note 11 –*Debt*, the Company issued (i) 1,568,375 shares of common stock in 2018 to former noteholders who converted promissory notes with principal balances of $1,075,000, and (ii) 2,435,116 shares in 2019 and 3,827,373 shares in 2018 of common stock to retire promissory notes (principal and accrued interest) of approximately $1,047,000 in 2019 and $7,590,000 in 2018.

As previously disclosed in Note 12 –*Debentures Payable*, the holder of the $20M Debentures converted (i) in 2018, approximately $1,436,000 of principal and interest into 524,360 shares of common stock, and (ii) in 2019, approximately $8,976,000 of principal and interest into 6,798,339 shares of common stock and subscriptions on 3,004,131 shares of common stock.

As further disclosed in Note 14– *Stock Options*, during 2019 and 2018, 3,261,808 and 760,000 shares of common stock, respectively, were issued in connection with the exercise of stock options.

As further disclosed in Note 15– *Warrants*, during 2019 and 2018, warrants to purchase 686,104 and 2,300,237shares of common stock, respectively, were exercised.

Common Stock Issuance Obligations

At December 31, 2019, the Company was obligated to issue (i) 32,726 shares of common stock, valued at approximately $29,000, in connection with the stock grants disclosed earlier in this Note 13 – *Equity*, (ii) 3,004,131 shares of common stock, valued at approximately $1,117,000, with respect to the December 2019 conversion of a portion of the $20M Debentures as previously disclosed in Note 12 – *Debentures Payable,* and (iii) 200,000 shares of common stock associated with exercise of stock options by the Company's CEO as further disclosed in Note 19 – *Related Party Transactions.* These shares were issued in the first quarter of 2020.

At December 31, 2018, the Company was obligated to issue: (a) 79,136 shares of common stock, valued at approximately $95,000, related to the settlement of a previously issued promissory note with a principal balance of $50,000 and accrued interest of $1,454; and (b) 18,000 shares of common stock, valued at approximately $74,000, for the payment of rent for a leased property in Massachusetts for the months of September 2018 through January 2019. Such shares were subsequently issued in the first quarter of 2019.

Membership Interests

In August 2018, an individual member of Mari Holdings MD LLC, a majority owned subsidiary of the Company ("Mari-MD"), exchanged his 0.5% membership interest in such subsidiary for 222,222 shares of the Company's common stock. In December 2018, a subscriptions receivable balance of $25,000 related to a member's interest in a majority-owned subsidiary was written off, with a corresponding reduction of such member's capital contribution account.

Amended and Restated 2018 Stock Award and Incentive Plan

In August 2019, the Company's board of directors approved the Amended and Restated 2018 Stock Award and Incentive Plan (the "Incentive Plan"), based on the board's belief that awards authorized under the Incentive Plan provide incentives for the achievement of important performance objectives and promote the long-term success of the Company. In September 2019, the Incentive Plan was approved by the stockholders at the Company's annual stock-holders meeting.

The Incentive Plan is an omnibus plan, authorizing a variety of equity award types as well as cash and long-term incentive awards. The Incentive Plan amends and restates the Company's 2018 Stock Award and Incentive Plan (the "Previous Plan"), which was approved by the board of directors in July 2018 but never presented to stockholders for approval. Any grants made under the Previous Plan prior to the approval date of the Incentive Plan shall continue to be governed by the terms of the Previous Plan.

The Incentive Plan authorizes a broad range of awards, including stock options, stock appreciation rights, restricted stock, deferred stock, dividend equivalents, performance shares, cash-based performance awards, and other stock-based awards. Such awards can be granted to employees, non-employee directors and other persons who provide substantial services to the Company and its affiliates. Nothing in the Incentive Plan precludes the payment of other compensation to officers and employees, including bonuses based upon performance, outside of the Incentive Plan.

An aggregate of 40,000,000 shares are reserved for delivery to participants, and may be used for any type of award under the Incentive Plan. Shares actually delivered in connection with an award will be counted against such number of reserved shares. Shares will remain available for new awards if an award under the Incentive Plan expires, is forfeited, canceled, or otherwise terminated without delivery of shares or is settled in cash. Each award under the Incentive Plan is subject to the Company's claw back policy in effect at the time of grant of the award.

The board of directors may amend, suspend, discontinue, or terminate the Incentive Plan or the authority to grant awards thereunder without stockholder approval, except as required by law or regulation or under rules of the stock exchange, if any, on which the Company's stock may then be listed. Unless earlier terminated, grants under the Incentive Plan will terminate ten years after stockholder approval of the Incentive Plan, and the Incentive Plan will terminate when no shares remain available and the Company has no further obligation with respect to any outstanding award.

NOTE 14 – STOCK OPTIONS

During 2019, the Company granted options to purchase 2,565,000 shares of common stock, expiring four and five years from their grant dates, at exercise prices ranging from $0.42 to $1.95 per share. The fair value of these option grants of approximately $1,502,000 is being amortized over their respective vesting periods, of which approximately $544,000 was amortized in 2019.

During 2018, the Company granted options to purchase 4,720,000 shares of common stock, expiring four and five years from their grant dates, at exercise prices ranging from $0.14 to $3.72 per share. The fair value of these option grants of approximately $5,897,000 is being amortized over their respective vesting periods, of which approximately $3,339,000 and $1,534,000 was amortized in 2019 and 2018, respectively.

During 2019, options to purchase 3,667,499 shares of common stock were exercised at prices ranging from $0.08 to $0.77 per share. Of these exercised options, 2,167,499 were exercised on a cashless basis with the exercise prices paid via the surrender of 405,691 shares of common stock.

During 2018, options to purchase 760,000 shares of common stock were exercised at prices ranging from $0.08 to $0.63 per share. Of these exercised options exercised in 2018, 460,000 were exercised on a cashless basis with the exercise price paid via the surrender of 105,398 shares of common stock.

During 2019, options to purchase 117,501 shares of common stock expired, and options to purchase 818,750 shares of common stock were forfeited, resulting in an aggregate reduction of amortization expense of approximately $432,000 in 2019. During 2018, options to purchase 200,000 shares of common stock expired, and options to purchase 250,000 shares of common stock were forfeited, resulting in an aggregate reduction of amortization expense of approximately $71,000 in 2018.

Stock options outstanding and exercisable as of December 31, 2019 were:

Exercise Price	Shares Under Option		Remaining
per Share	Outstanding	Exercisable	Life in Years
$ 0.130	200,000	200,000	0.50
$ 0.140	550,000	550,000	1.00
$ 0.330	50,000	50,000	1.19
$ 0.417	900,000	-	4.99
$ 0.450	125,000	125,000	1.76
$ 0.590	15,000	-	4.94
$ 0.630	300,000	300,000	2.00
$ 0.770	200,000	200,000	3.00
$ 0.900	50,000	50,000	3.37
$ 0.910	50,000	50,000	2.81
$ 0.950	50,000	30,000	3.00
$ 0.992	300,000	-	4.74
$ 1.000	200,000	15,000	4.84
$ 1.350	100,000	-	3.58
$ 1.950	500,000	125,000	3.50
$ 2.320	100,000	100,000	3.70
$ 2.450	2,000,000	2,000,000	2.98
$ 2.500	100,000	50,000	3.66
$ 2.650	200,000	150,000	3.73
$ 2.850	56,250	37,500	2.95
$ 2.850	100,000	50,000	3.95
$ 3.000	25,000	12,500	3.96
$ 3.725	100,000	100,000	3.94
	6,271,250	4,207,500	

NOTE 15 – WARRANTS

In conjunction with the issuance of the $20M Debentures previously disclosed in Note 12– *Debentures Payable*, in 2019 and 2018, the Company issued three-year warrants to purchase 850,000 and 324,675 shares of its common stock, respectively, at exercise prices of $3.00 to $5.00 per share and $3.50 to $5.50 per share, respectively. The fair value of these warrants at issuance approximated $1,148,000 in 2019 and $1,058,000 in 2018, with approximately $1,298,000 amortized to interest expense in 2019, approximately $91,000 in 2018, and the balance to be amortized over the remaining durations of the $20M Debentures.

As part of the $10M Note transaction previously disclosed in Note 11– *Debt*, in 2019, the Company issued three-year warrants to purchase 375,000 shares of common stock at an exercise price of $4.50 per share. The fair value of these warrants at issuance approximated $601,000, with approximately $523,000 of this amount amortized to interest expense during the year, and the balance to be amortized by the initial January 2020 maturity date of the $10M Note.

In connection with $3M Note transaction previously disclosed in Note 11– *Debt*, in 2018, the Company issued three-year warrants to purchase 750,000 shares of the Company's common stock at an exercise price of $1.80 per share. The fair value of these warrants at issuance approximated $1,511,000, with approximately $882,000 amortized to interest expense during 2018, and the remaining $629,000 amortized during 2019.

In addition to the above warrants issued with the $20M Debentures, $10M Note, and $3M Note, in connection with promissory notes issued to individuals in 2019 and 2018, the Company issued warrants to purchase 10,000 and 237,500 shares of common stock, respectively, at an exercise price of $0.75 and $0.55 per share, respectively, expiring four years and three years, respectively, from issuance. The fair value of these warrants at issuance of approximately $5,000 in 2019 and $198,000 in 2018 were fully amortized to interest expense in the year of issuance.

In 2018, alongside the sale of common stock, the Company issued three-year and five-year warrants to purchase 6,098,962 shares of common stock at exercise prices ranging from $1.75 to 4.30 per share. The fair value of these warrants at issuance of approximately $11,146,000 was treated as a reduction to the value of the common stock and charged to *Additional Paid-In Capital* on the balance sheet. No warrants were issued alongside sales of common stock in 2019.

In 2019 and 2018, the Company issued stand-alone warrants to purchase 1,250,000 and 625,000 shares of common stock, respectively, at exercise prices of $0.80 to 1.71 per share in 2019, and $0.20 to $2.45 per share in 2018. The 2019 warrants expire three years from issuance and the 2018 options expire three and five years from issuance. The fair value of the warrant issuances of approximately $392,000 in 2019 and $1,815,000 in 2018 were charged to expense in the year of issuance.

During 2019 and 2018, warrants to purchase 686,104 and 2,300,237 shares of common stock, respectively, were exercised at exercise prices ranging from $0.12 to $1.75 per share in 2019 and $0.10 to $0.75 per share in 2018.

At December 31, 2019 and 2018, warrants to purchase 11,780,107 and 10,606,211 shares of common stock, respectively, were outstanding with exercise prices ranging from $0.15 to $5.50 per share in 2019 and $0.12 to $5.50 per share in 2018.

NOTE 16 – REVENUES

For the years ended December 31, 2019 and 2018, the Company's revenues were comprised of the following major categories:

	2019	2018
Real estate	$ 6,836,316	$ 6,441,160
Management	2,798,738	1,581,548
Supply procurement	3,555,555	3,015,745
Licensing	1,794,161	700,173
Product sales	1,542,037	-
Product sales to related party	29,029,249	-
Other	48,589	113,289
Total revenues	$ 45,604,644	$ 11,851,915

For the year ended December 31, 2019, revenue from three clients represented 92% of total revenues. One of these clients was GenCanna, a related party, with whom the Company conducted the seed sale transactions previously disclosed in Note 1 – *Organization and Description of Business.* The total revenue from these transactions with GenCanna are reflected under *Product Sales To Related Party* in the table above.

Excluding the revenues from GenCanna, two clients represented 78% and 73% of revenues for the years ended December 31, 2019 and 2018, respectively.

NOTE 17 – BAD DEBTS

For the years ended December 31, 2019 and 2018, the Company recorded bad debt expense of approximately $44.5 million and $150,000, respectively.

The amount recorded in 2019 included (i) the write off of the accounts receivable balance due from GenCanna of approximately $29.0 million following GenCanna's Chapter 11 filing, and (ii) the recording of bad debt reserves against the accounts receivable and working capital balances due from Kind of approximately $9.7 million and approximately $1.5 million, respectively, in light of the current litigation between the Company and Kind.

Additionally, 2019 bad debt expense included the following amounts that were based on the Company's expectation of the negative impact of the coronavirus pandemic on the operations of certain of the Company's debtors, and therefore the collectibility thereof: (i) the recording of bad debt reserves against the accounts receivable and working capital balances due from Harvest of approximately $239,000 and $1.9 million, respectively, and (ii) the write off of notes receivable and accrued interest balances due from Atalo of approximately $1.0 million and two other entities of approximately $650,000 in the aggregate.

NOTE 18 – INCOME TAXES

For the years ended December 31, 2019 and 2018, the Company's cumulative net operating losses were approximately $26.3 million and $11.6 million, respectively, and accordingly a tax provision was not required for the years then ended.

The reconciliations between the Company's effective tax rates and the statutory tax rate for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
U.S Federal taxes at the statutory rate	21.0%	21.0%
State taxes net of federal benefit	6.3%	6.3%
Valuation allowance	(27.3)%	(27.3)%
Total	0.0%	0.0%

The approximate income tax effect of each type of temporary difference and carryforward as of December 31, 2019 and 2018 is as follows:

	2019	2018
Deferred tax assets:		
Net operating loss carryforwards	$ 26,291,878	$ 11,559,576
Deferred tax liabilities:		
Fixed assets	(5,421,341)	(3,529,167)
Net deferred tax asset	20,870,537	8,030,409
Valuation allowance	(20,870,537)	(8,030,409)
Total	$ -	$ -

The Company uses the asset and liability method to account for income taxes in accordance with ASC 740, *Income Taxes*. Under this method, deferred income taxes are recognized for the future tax consequences of differences between the tax and financial accounting bases of assets and liabilities at each reporting period. Deferred income taxes are based on enacted tax laws and statutory tax rates applicable to the period in which these differences are expected to affect taxable income. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017. Among other things, the TCJA reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and creates new taxes on certain foreign sourced earnings.

The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P") for which the Company has previously deferred from U.S. income taxes. As of December 31, 2018, the Company has completed its calculation of the total post-1986 foreign E&P for these foreign subsidiaries. The Company has not recognized any adjustments in its income tax expense for its one-time transition tax liability.

The Company has provided a valuation allowance against its net deferred tax assets at December 31, 2019 and 2018. Based upon the level of historical U.S. earnings and future projections over the period in which the net deferred tax assets are deductible, at this time, management believes it is more likely than not that the Company will not realize the benefits of these deductible differences.

The federal net operating losses carryforward indefinitely, subject to an annual limitation of 80% of taxable income. The state net operating losses expire at various dates beginning in 2031. These tax attributes are subject to an annual limitation from equity shifts, which constitute and change of ownership as defined under IRC Section 382, which will limit their utilization. The Company has not completed a study through December 31, 2019 to assess whether an ownership change under Section of 382 of the Code has occurred during 2019, due to the costs and complexities associated with such a study. The Company may have experienced various ownership changes, as defined by the code, as a result of financing transactions. Accordingly, the Company's ability to utilize the aforementioned carryforwards may be limited.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative losses incurred through the period ended December 31, 2019. Such objective evidence limits the ability to consider the subjective evidence, such as the Company's projections for future growth. On the basis of this evaluation, as of December 31, 2019, a valuation allowance has been recorded against all net deferred tax assets as these assets are more likely than not to be unrealized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to the subjective evidence such as the Company's projections for growth.

The Company previously adopted the provision for uncertain tax positions under ASC 740. The adoption did not have an impact on the Company's retained earnings balance. At December 31, 2019 and 2018, the Company had no recorded liabilities for uncertain tax positions and had no accrued interest or penalties related to uncertain tax positions.

The Company files income tax returns in the U.S. federal tax jurisdiction and various state jurisdictions. The Company is currently open to examination under the statute of limitations by the Internal Revenue Service and state jurisdictions for the tax years ended 2016 through 2019. Since the Company is in a U.S. loss carryforward position, carryforward tax attributes generated in prior years may still be adjusted upon future examination if they have or will be used in a future period.

NOTE 19 – RELATED PARTY TRANSACTIONS

During 2019, the Company entered into several hemp seed sale transactions with GenCanna, a related party, whereby the Company acquired large quantities of top-grade feminized hemp seeds at volume discounts that it sold to GenCanna at market rates as previously disclosed in Note 1 – *Organization and Description of Business.*

As disclosed in Note 11– *Debt*, the Company's two mortgages with Bank of New England are personally guaranteed by the Company's CEO and CFO.

In 2019, the Company granted five-year options to purchase 100,000 shares of common stock to each of the Company's three independent board members at an exercise price of $0.99. The aggregate fair value of these options of approximately $191,000 is being amortized over the vesting period, of which approximately $189,000 was amortized at December 31, 2019. In 2018, the Company granted options to purchase 1.45 million shares of common stock to the Company's board members at exercise prices ranging from $0.14 to $0.77 and expiring between December 2020 and December 2022. The aggregate fair value of these options of approximately $480,000 was fully amortized by June 30, 2018.

In 2019, options to purchase 200,000 and 132,499 shares of common stock were exercised by the Company's CEO and an independent board member, respectively, at weighted average exercise prices of $0.11 and $0.08 per share, respectively. The independent board member's options were exercised on a cashless basis with the exercise prices paid via the surrender of 3,108 shares of common stock. At December 31, 2019, the shares of common stock associated with the exercise by the Company's CEO were not issued and reflected in *Common Stock Subscribed But Not Issued* on the balance sheet. In 2018, options to purchase 400,000 shares of common stock were exercised by an independent board member at exercise prices of $0.08 to $0.63 per share on a cashless basis with the exercise prices paid via the surrender of 98,000 shares of common stock.

In 2019 and 2018, options to purchase 117,501 and 200,000 shares of common stock, respectively, were forfeited by board members.

The Company's current corporate offices are leased from a company owned by a related party under a 10-year lease that commenced August 2018 and contains a five-year extension option. Previous to this lease, the Company's former corporate offices were also leased from a company owned by a related party. For the year ended December 31, 2019 and 2018, expenses incurred under these leases approximated $156,000 and $78,000, respectively.

The balance of *Due To Related Parties* at December 31, 2019 and 2018 of approximately $1,455,000 and $276,000, respectively, were comprised of amounts owed of approximately (i) $420,000 and $81,000, respectively, to the Company's CEO and CFO, (ii) $975,000 and $135,000, respectively, to two companies partially owned by these officers, and (iii) $60,000 in both periods to two stockholders of the Company. Such amounts owed are not subject to repayment schedules.

The balance of *Due From Related Parties* at December 31, 2018 of approximately $120,000 was comprised of an advance to an entity partially owned by the Company's CEO and CFO. This amount was entirely offset by payments made to the Company from the related entity. At December 31, 2019, there were no amounts due from related parties.

NOTE 20 – COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company is the lessee under five operating leases and four finance leases. These leases contain rent holidays and customary escalations of lease payments for the type of facilities being leased. The Company recognizes rent expense on a straight-line basis over the expected lease term, including cancelable option periods which the Company fully expects to exercise. Certain leases require the payment of property taxes, insurance and/or maintenance costs in addition to the rent payments.

The details of the Company's operating lease agreements are as follows:

- Delaware – 4,000 square feet of retail space in a multi-use building under a five-year lease that commenced in October 2016 and contains a five-year option to extend the term. The Company developed the space into a cannabis dispensary which is subleased to its cannabis-licensed client.

- Delaware – a 100,000 square foot warehouse leased in March 2019 that the Company is developing into a cultivation and processing facility to be subleased to the same Delaware client. The lease term is 10 years, with an option to extend the term for three additional five-year periods.

- Nevada – 10,000 square feet of an industrial building that the Company has built-out into a cannabis cultivation facility and plans to rent to its cannabis-licensed client under a sub-lease which will be coterminous with this lease expiring in 2024.

- Massachusetts – 10,000 square feet of office space which the Company utilizes as its corporate offices under a 10-year lease with a related party expiring in 2028, with an option to extend the term for an additional five-year period.

- Maryland – a 2,700 square foot 2-unit apartment under a lease that expires in July 2020 with an option to renew for a two-year term.

The Company leases machinery and office equipment under finance leases that expire in February 2022 through June 2024 with such terms being a major part of the economic useful life of the leased property.

The components of lease expense for the year ended December 31, 2019 were as follows:

Operating lease cost	$	832,403
Finance lease cost:		
Amortization of right-of-use assets	$	23,085
Interest on lease liabilities		6,414
Total finance lease cost	$	29,499

The weighted average remaining lease term for operating leases is 9.3 years, and for the finance lease is 3.6 years. The weighted average discount rate used to determine the right-of-use assets and lease liabilities was 7.5% for all leases.

Future minimum lease payments as of December 31, 2019 under all non-cancelable leases having an initial or remaining term of more than one year were:

		Operating Leases		Finance Lease
2020	$	917,444	$	38,412
2021		1,008,227		38,412
2022		949,535		27,123
2023		910,166		23,201
2024		835,411		3,229
Thereafter		4,304,441		-
Total lease payments		8,925,223	$	130,377
Less: imputed interest		(2,608,366)		(16,552)
	$	6,316,857	$	113,825

Terminated Employment Agreement

An employment agreement which commenced in 2012 with Thomas Kidrin, the former CEO of the Company, that provided Mr. Kidrin with salary, car allowances, stock options, life insurance, and other employee benefits, was terminated by the Company in 2017. At December 31, 2019 and 2018, the Company maintained an accrual of approximately $1,043,000 for any amounts that may be owed under this agreement, although the Company contends that such agreement is not valid and no amount is due.

In July 2019, Mr. Kidrin, also a former director of the Company, filed a complaint in the Massachusetts Superior Court, that alleges the Company failed to pay all wages owed to him and breached the employment agreement, and requests multiple damages, attorney fees, costs, and interest. The Company has moved to dismiss certain counts of the complaint and has asserted counterclaims against Mr. Kidrin alleging breach of contract, breach of fiduciary duty, money had and received, and unjust enrichment. The Company believes that the allegations in the complaint are without merit and intends to vigorously defend this matter and prosecute its counterclaims.

Maryland Acquisition

As previously disclosed in Note 3– *Acquisitions*, the sellers of Kind have attempted to renegotiate the terms of the MOU, alleging that the MOU is not an enforceable agreement, despite the MOU containing all the definitive material terms with respect to the acquisition transaction and confirming the management and lease agreements. The Company engaged with the sellers in a good faith attempt to reach updated terms acceptable to both parties, but the non-reciprocation of the sellers resulted in an impasse and both parties commenced legal proceedings.

On November 13, 2019, Kind commenced an action in the Circuit Court for Washington County, MD against the Company alleging, inter alia, breach of contract, breach of fiduciary duty and unjust enrichment, and seeking a declaratory judgment, injunctive relief, an accounting and damages in excess of $75,000. On November 15, 2019, the Company filed counterclaims against Kind and, as plaintiffs, the Company commenced an action against the Kind sellers alleging breach of contract with respect to the MOU and the management agreement, unjust enrichment, promissory estoppel/detrimental reliance, and fraud in the inducement. The Company seeks a declaratory judgement that the MOU is an enforceable contract, specific performance of such contact, and the establishment of a constructive trust for the Company's benefit.

Both parties brought motions for a temporary restraining order and a preliminary injunction. On November 21, 2019, the Court denied both parties' motion for a temporary restraining order. In its opinion, the Court specifically noted that, contrary to Kind's allegations, the management agreement and lease "appear to be independent, valid and enforceable contracts." Currently, each party's preliminary injunction motion is pending before the Court. The Company believes that its claims for breach of contract with respect to the MOU and the management agreement, unjust enrichment, promissory estoppel/detrimental reliance, and fraud in the inducement are meritorious and that Kind's claims against the Company are without merit. The Company intends to aggressively prosecute and defend the action.

NOTE 21 – SUBSEQUENT EVENTS

GenCanna Bankruptcy Filing

In February 2020, GenCanna filed for voluntary reorganization under Chapter 11 of the Bankruptcy Code with the U.S. Bankruptcy Court for the Eastern District of Kentucky. The filing is intended to permit GenCanna to operate its business while working through a reorganization plan that could include refinancing of its existing indebtedness, or an alternative restructuring transaction such as a sale.

Consequently, as of December 31, 2019, the Company wrote off the outstanding receivable balance from GenCanna of approximately $29.0 million and the related balance of unearned revenue of approximately $4.2 million as previously discussed in Note 1 – *Organization and Description of Business.*

Additionally, the Company recorded a charge to net income of approximately $30.2 million, classified under *Loss on Equity Investments* on the statement of operations for the year ended December 31, 2019, which reduced to zero the carrying value of the Company's previous investment in GenCanna as previously discussed in Note 4 – *Investments*.

Exchange Agreement

In February 2020, the Company entered into an exchange agreement with two institutional shareholders (the "TIS") whereby the TIS loaned the Company an aggregate of $4,417,500. In return for the loans, and the Company (i) issued promissory notes to the TIS for the aggregate amount, bearing interest at 16.5% per annum and maturing in August 2021, with a right to extend the maturity date through February 2022 upon payment of an extension fee. and (ii) exchanged 4,903,333 shares of the Company's common stock previously acquired by the TIS, for an equal number of shares of newly designated Series B convertible preferred stock.

In connection with the exchange agreement, the Company filed (i) a certificate of designation to designate the rights and preferences of the Series B convertible preferred stock, and (ii) a certificate of elimination to return all shares of the Series A convertible preferred stock, of which no shares were issued or outstanding at the time of filing, to the status of authorized and unissued shares of undesignated preferred stock.

Issuance of Additional Debenture

In February 2020, the Company sold to the Holder of the $20M Debentures an additional convertible debenture in the principal amount of $1,000,000 bearing interest at a rate of 6.5% per annum that matures one year from issuance, with a 6.5% issuance discount, resulting in net proceeds to the Company of $935,000 (the "$1M Debenture").

The terms of the $1M Debenture are consistent with the terms of the $20M Debentures. The SPA, registration rights agreement, and addendum to the SPA were all amended and restated to incorporate the $1M Debenture. As part of issuance of the $1M Debenture, the Company issued three-year warrants to the Holder to purchase 180,000 shares of common stock at an exercise prices of $0.75 per share.

Promissory Note Extensions

As previously discussed in Note 11 –*Debt*, the Company and MariMed Hemp issued the $11.5M Note in February 2020 which amended and restated the previously issued $10M Note. The $11.5M Note bears interest at a rate of 15% per annum and matures on June 15, 2020, with monthly interest payments and minimum amortization payments of $3,000,000 in the aggregate due on or before April 30, 2020, of which the Company has already paid $2.3 million. The $11.5M Note is secured by a first priority security interest in the assets of certain of the Company's subsidiaries and brands, and a pledge of the Company's ownership interest in certain of its subsidiaries. The $11.5M Note imposes certain covenants on the borrowers effective on the date of the amendment agreement.

The Company also extended the maturity dates of another $9.4 million of promissory notes, and is in the process of finalizing the paperwork to extend another $3.0 million of promissory notes, as a result of which the Company will not be in default on any of its debt servicing payments.

Loan Commitment

In February, the Company received a commitment from an accredited investor for a $12.0 million loan, secured by the Company's real estate, at a rate of 10% per annum with a one-year term, and an option to extend for an additional year. The loan contains an origination fee of four points and a prepayment penalty of two months interest. This transactions is expected to close upon the lender's completion of its due diligence, which is in its final stages, although there is no assurance that it will close in the foreseeable future or at all.

Conversion of Debentures Payable

In January 2020, the holder of the $20M Debentures converted $1,000,000 of principal and approximately $205,000 of accrued interest into 3,555,859 shares of common stock at a conversion price of $0.34 per share.

Promissory Note Paydown

In February, the Company paid cash to retire a promissory note in the principal amount of $100,000 which matured during that month.

Equity Transactions

In the first quarter of 2020, the Company issued 3,236,857 shares of common stock associated with the subscriptions on common stock outstanding at December 31, 2019 and previously disclosed in Note 13 – *Equity*. These subscriptions were comprised of (i) 32,726 shares in connection with common stock granted in 2019; (ii) 3,004,131 shares with respect to the December 2019 conversion of a portion of the $20M Debentures, and (iii) 200,000 shares associated with exercise of stock options by the Company's CEO.

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, Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2019. The term "disclosure controls and procedures," as defined in 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 us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, and in light of the weaknesses in our internal control over financial reporting described below, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2019.

Management's Annual 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) and 15d-15(f) under the Exchange Act). Our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, our Chief Executive Officer and Chief Financial Officer used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in *Internal Control—Integrated Framework*. Based on that assessment and using the COSO criteria, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2019, our internal control over financial reporting was not effective because of the material weaknesses described below.

A material weakness is defined as "a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis."

The ineffectiveness of our internal control over financial reporting at December 31, 2019, was due to the lack of a formalized and complete set of policy and procedure documentation evidencing our system of internal controls over financial reporting. This lead to certain adjustments which have been reflected in our audited financial statements. These weaknesses are not uncommon in a company of our size due to personnel and financial limitations.

During the year ended December 31, 2019, we implemented significant measures to remediate previously disclosed factors that lead to the ineffectiveness of our internal control over financial reporting. This included engagement of accounting consultants as needed to provide expertise on specific areas of the accounting guidance, the continued hiring of individuals with appropriate experience in internal controls over financial reporting, and the modification to our accounting processes and enhancement to our financial controls including the ongoing testing of such controls. Further, during the year ended December 31, 2019, we expanded our board of directors to include a majority of independent disinterested directors; established an audit, compensation, and corporate governance committee of the board of directors; and adopted a formal policy with respect to related party transactions.

During 2020, we intend to work to remediate the material weaknesses identified above, which is expected to include (i) the modification to our accounting processes and enhancement to our financial controls, and/or (11) the hiring of an independent consulting or accounting firm to review and document our internal control system to ensure compliance with COSO. However, our current financial position could make it difficult for us to add the necessary resources.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm due to a transition period established by the Jumpstart Our Business Startups Act, or JOBS Act, for emerging growth companies.

Changes in Internal Control over Financial Reporting

Other than as described above, there was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) identified in connection with the evaluation required by Rules 13a-15(d) or 15d-15(d) that occurred during the year ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this annual report on Form 10-K.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information called for by this item may be found in the Company's definitive Proxy Statement in connection with its 2020 Annual Meeting of Stockholders to be filed with the SEC on or before April 29, 2020 and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

Information called for by this item may be found in the Company's definitive Proxy Statement in connection with its 2020 Annual Meeting of Stockholders to be filed with the SEC on or before April 29, 2020 and is incorporated herein by reference.

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

Information called for by this item may be found in the Company's definitive Proxy Statement in connection with its 2020 Annual Meeting of Stockholders to be filed with the SEC on or before April 29, 2020 and is incorporated herein by reference.

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

Information called for by this item may be found in the Company's definitive Proxy Statement in connection with its 2020 Annual Meeting of Stockholders to be filed with the SEC on or before April 29, 2020 and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Information called for by this item may be found in the Company's definitive Proxy Statement in connection with its 2020 Annual Meeting of Stockholders to be filed with the SEC on or before April 29, 2020 and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

The Company has filed the following documents as part of this Form 10-K:

1. Consolidated Financial Statements

See Index to Consolidated Financial Statement on page 28.

2. Financial Statement Schedules

No financial statement schedules are included because the information is either provided in the consolidated financial statements or is not required under the related instructions or is inapplicable, and therefore such schedules have been omitted.

3. Exhibits

Exhibit No.	Description
3.1	Certificate of Incorporation of the Company (a)
3.1.1	Amended Certificate of Incorporation of the Company (b)
3.1.2	Series B Convertible Preferred Stock Certificate of Designation as filed with the Secretary of State of Delaware on February 27, 2020. (i)
3.1.3	Certificate Eliminating the Series A Preferred Stock as filed with the Secretary of State of Delaware on February 27, 2020. (i)
3.2	By-Laws - Restated as Amended (a)
4.1	Amended and Restated Promissory Note, dated February 10, 2020, in the principal amount of $11,500,000, issued by MariMed Hemp Inc. and MariMed Inc. (f)
4.1.1	Promissory Note, dated February 27, 2020, in the principal amount of $3,742,500, issued by MariMed Inc. to Navy Capital Green Fund, LP. (i)
4.1.2	Promissory Note, dated February 27, 2020, in the principal amount of $675,000, issued by MariMed Inc. to Navy Capital Green Co-Invest Fund, LLC. (i)
10.1	Employment Agreement dated as of August 30, 2012 between Worlds Online Inc. and Thomas Kidrin (a)
10.2	2011 Stock Option and Restricted Stock Award Plan (a)
10.3	Form of Convertible Debenture issued by the Company (c)
10.4	Form of Secured Convertible Debenture of GenCanna Global, Inc. (c)
10.5	Form of Securities Purchase Agreement between the Company and YA II PN, LTD. (c)
10.6	Amended and Restated Registration Rights Agreement dated as of November 5, 2018 between the Company and YA II PN, LTD. (c)
10.7	Amended and Restated 2018 Stock Award and Incentive Plan. (d)
10.8	Form of Stock Option Agreement, dated September 27, 2019, with each of David R. Allen, Eva Selhub, M.D. and Edward J. Gildea. (e)
10.9	Amendment Agreement, dated as of February 10, 2020, between SYYM LLC, as noteholder and collateral agent, and MariMed, Inc. and MariMed Hemp, Inc., as co-borrowers. (g)
10.10	Exchange Agreement, dated as of February 27, 2020, among MariMed Inc., Navy Capital Green Management, LLC, a Delaware limited liability company, as discretionary investment manager of Navy Capital Green Fund, LP, and Navy Capital Green Co-Invest Fund, LLC. (i)
14.1	Code of Ethics (h)
21	List of Subsidiaries *
31.1.	Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer *
31.2.	Rule 13a-14(a)/15d-14(a) Certifications of Chief Financial Officer *
32.1.	Section 1350 Certifications of Chief Executive Officer **
32.2.	Section 1350 Certifications of Chief Financial Officer **
101.INS XBRL	Instance Document *
101.SCH XBRL	Taxonomy Extension Schema *
101.CAL XBRL	Taxonomy Extension Calculation Linkbase *
101.DEF XBRL	Taxonomy Extension Definition Linkbase *

101.LAB XBRL Taxonomy Extension Label Linkbase *

101.PRE XBRL Taxonomy Extension Presentation Linkbase *

* Filed herewith
** Furnished herewith in accordance with Item 601 (32)(ii) of Regulation S-K.

(a) Incorporated by reference to the same numbered Exhibit filed with the from Registration Statement on Form 10-12G (File No. 000-54433) filed on June 9, 2011.

(b) Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2016, filed on April 17, 2017.

(c) Incorporated by reference to Current Report on Form 8-K filed on November 9, 2018.

(d) Incorporated herein by reference to Appendix A of the Company's Definitive Proxy Statement on Schedule 14A, filed on August 26, 2019.

(e) Incorporated by reference to Exhibit 10.2 filed with the Quarterly Report on Form 10-Q for the period ended September 30, 2019, filed on November 29, 2019.

(f) Incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed on February 12, 2020.

(g) Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on February 12, 2020.

(h) The Company's Code of Ethics can be found on its website at *https://bit.ly/MRMDethics.*

(i) Incorporated by reference to Current Report on Form 8-K filed on February 27, 2020

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 31, 2020

MARIMED INC.
(Registrant)

By: */s/ Robert Fireman*
Name: Robert Fireman
Title: President and Chief Executive Office

In accordance with 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.

Signature	Title	Date
/s/ Robert Fireman Robert Fireman	President and Chief Executive Officer (Principal Executive Officer)	March 31, 2020
/s/ Jon R. Levine Jon R. Levine	Chief Financial Officer (Principal Financial Officer)	March 31, 2020
/s/ Eva Selhub Eva Selhub	Director	March 31, 2020
/s/ Edward Gildea Edward Gildea	Director	March 31, 2020
/s/ David Allen David Allen	Director	March 31, 2020

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Certificate of Incorporation of the Company (a)
3.1.1	Amended Certificate of Incorporation of the Company (b)
3.1.2	Series B Convertible Preferred Stock Certificate of Designation as filed with the Secretary of State of Delaware on February 27, 2020. (i)
3.1.3	Certificate Eliminating the Series A Preferred Stock as filed with the Secretary of State of Delaware on February 27, 2020. (i)
3.2	By-Laws - Restated as Amended (a)
4.1	Amended and Restated Promissory Note, dated February 10, 2020, in the principal amount of $11,500,000, issued by MariMed Hemp Inc. and MariMed Inc. (f)
4.1.1	Promissory Note, dated February 27, 2020, in the principal amount of $3,742,500, issued by MariMed Inc. to Navy Capital Green Fund, LP. (i)
4.1.2	Promissory Note, dated February 27, 2020, in the principal amount of $675,000, issued by MariMed Inc. to Navy Capital Green Co-Invest Fund, LLC. (i)
10.1	Employment Agreement dated as of August 30, 2012 between Worlds Online Inc. and Thomas Kidrin (a)
10.2	2011 Stock Option and Restricted Stock Award Plan (a)
10.3	Form of Convertible Debenture issued by the Company (c)
10.4	Form of Secured Convertible Debenture of GenCanna Global, Inc. (c)
10.5	Form of Securities Purchase Agreement between the Company and YA II PN, LTD. (c)
10.6	Amended and Restated Registration Rights Agreement dated as of November 5, 2018 between the Company and YA II PN, LTD. (c)
10.7	Amended and Restated 2018 Stock Award and Incentive Plan. (d)
10.8	Form of Stock Option Agreement, dated September 27, 2019, with each of David R. Allen, Eva Selhub, M.D. and Edward J. Gildea. (e)
10.9	Amendment Agreement, dated as of February 10, 2020, between SYYM LLC, as noteholder and collateral agent, and MariMed, Inc. and MariMed Hemp, Inc., as co-borrowers. (g)
10.10	Exchange Agreement, dated as of February 27, 2020, among MariMed Inc., Navy Capital Green Management, LLC, a Delaware limited liability company, as discretionary investment manager of Navy Capital Green Fund, LP, and Navy Capital Green Co-Invest Fund, LLC. (i)
14.1	Code of Ethics (h)
21	List of Subsidiaries *
31.1.	Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer *
31.2.	Rule 13a-14(a)/15d-14(a) Certifications of Chief Financial Officer *
32.1.	Section 1350 Certifications of Chief Executive Officer **
32.2.	Section 1350 Certifications of Chief Financial Officer **
101.INS XBRL	Instance Document *
101.SCH XBRL	Taxonomy Extension Schema *
101.CAL XBRL	Taxonomy Extension Calculation Linkbase *
101.DEF XBRL	Taxonomy Extension Definition Linkbase *
101.LAB XBRL	Taxonomy Extension Label Linkbase *
101.PRE XBRL	Taxonomy Extension Presentation Linkbase *

* Filed herewith
** Furnished herewith in accordance with Item 601 (32)(ii) of Regulation S-K.

(a) Incorporated by reference to the same numbered Exhibit filed with the Registration Statement on Form 10-12G (File No. 000-54433) filed on June 9, 2011.

(b) Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2016, filed on April 17, 2017.

(c) Incorporated by reference to Current Report on Form 8-K filed on November 9, 2018.

(d) Incorporated herein by reference to Appendix A of the Company's Definitive Proxy Statement on Schedule 14A, filed on August 26, 2019.

(e) Incorporated by reference to Exhibit 10.2 filed with the Quarterly Report on Form 10-Q for the period ended September 30, 2019, filed on November 29, 2019.

(f) Incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed on February 12, 2020.

(g) Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on February 12, 2020.

(h) The Company's Code of Ethics can be found on its website at *https://bit.ly/MRMDethics.*

(i) Incorporated by reference to Current Report on Form 8-K filed on February 27, 2020

EXHIBIT 21

List of Subsidiaries:

MariMed Advisors Inc. (formed in Massachusetts)

Mia Development LLC (formed in Massachusetts)

Mari Holdings IL LLC (formed in Massachusetts)

Mari Holdings MD LLC (formed in Massachusetts)

Mari Holdings NV LLC (formed in Massachusetts)

Hartwell Realty Holdings LLC (formed in Massachusetts)

iRollie LLC (formed in Massachusetts)

ARL Healthcare Inc. (formed in Massachusetts)

KPG of Anna LLC (formed in Illinois)

KPG of Harrisburg LLC (formed in Illinois)

MariMed Hemp Inc. (formed in Delaware)

MediTaurus LLC (formed in Delaware)

EXHIBIT 31.1

Certifications

I, Robert Fireman, certify that:

1. I have reviewed this annual report on Form 10-K of MariMed 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 controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and 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 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 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: March 31, 2020

/s/ Robert Fireman

Robert Fireman
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Certifications

I, Jon R. Levine, certify that:

1. I have reviewed this annual report on Form 10-K of MariMed 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 controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and 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 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 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: March 31, 2020

/s/ Jon R. Levine

Jon R. Levine
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of MariMed Inc. (the "Company") on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert Fireman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, our financial condition and result of operations.

MARIMED INC.
(Registrant)

Date: March 31, 2020

By: ***/s/ Robert Fireman***
Robert Fireman
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of MariMed Inc. (the "Company") on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jon R. Levine, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, our financial condition and result of operations.

MARIMED INC.
(Registrant)

Date: March 31, 2020

By: ***/s/ Jon R. Levine***
Jon R. Levine
Chief Financial Officer
(Principal Financial Officer)

MEMBERSHIP INTEREST PURCHASE AGREEMENT

This Membership Interest Purchase Agreement, dated as of August 1, 2019 (this "Agreement"), is entered into by and among (i) MariMed, Inc., a Delaware corporation ("Buyer"), (ii) The Harvest Foundation LLC, a Nevada limited liability company (the "Company") and (iii) Donald Burton, Larry Lemons and Jeffrey Yokiel (each, a "Seller," and collectively, the "Sellers"). The Sellers and the Company are sometimes referred to herein as the "Seller Parties," and the Buyer and the Seller Parties are sometimes referred to herein as the "Parties," and each, a "Party."

Recitals

WHEREAS, the Sellers collectively own 100% of the issued and outstanding membership interests of the Company (the "Membership Interests");

WHEREAS, the Company holds (i) a medical cannabis cultivation license, (ii) an adult use cannabis cultivation license and (iii) a cannabis distribution license, each from the State of Nevada, and operates a cannabis cultivation and distribution facility in Clark County, Nevada (the "Business"); and

WHEREAS, subject to the terms and conditions set forth in this Agreement, the Sellers have determined to sell, and the Buyer desires to purchase from the Sellers, the Membership Interests, all as more specifically provided herein.

NOW, THEREFORE, intending to be legally bound, in consideration of the mutual covenants and agreements contained herein, the Parties hereby agree as follows:

Agreement

1. Definitions. For purposes of this Agreement, the capitalized terms not otherwise defined in the body of this Agreement shall have the meanings ascribed to such terms in Exhibit A attached hereto, which defined terms are incorporated herein by reference.

2. Sale and Purchase of Membership Interests.

2.1. Sale and Purchase. Subject to and upon the terms and conditions contained in this Agreement, the Sellers shall sell, transfer, convey, assign and deliver to the Buyer, and the Buyer shall purchase and acquire from the Sellers, good and marketable title to the Membership Interests at the Closing, free and clear of all Encumbrances.

2.2. Purchase Price. The aggregate consideration to be paid by the Buyer to the Sellers for the Membership Interests (the "Purchase Price") shall be a number of shares of common stock of the Buyer ("Buyer Common Stock") equal to $1,200,000 *divided by* the closing stock price of Buyer Common Stock on the last trading day immediately preceding the Closing Date (the "Shares"). The Purchase Price shall be allocated to the Sellers in accordance with the allocation schedule attached hereto as Exhibit B (the "Allocation Schedule"). On the Closing Date, the Buyer shall issue to each Seller such Seller's pro rata portion of the Shares, as set forth on the Allocation

Schedule; *provided*, however, that no fractional shares of Buyer Common Stock shall be issued, and the Shares issuable to each Seller shall be rounded down to the nearest whole share.

2.3. Closing. The closing of the sale and purchase of the Membership Interests (the "Closing") shall take place via electronic exchange of signature pages, as promptly as practicable, but in no event later than the second (2nd) business day following the satisfaction or waiver of each of the conditions set forth in Section 6 (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions at Closing), or at such other time and place as the Buyer and the Sellers may agree in writing. The date on which the Closing occurs is the "Closing Date".

3. Representations and Warranties of the Seller Parties. The Seller Parties, jointly and severally, hereby represent and warrant to the Buyer as of the date hereof, and at and as of the Closing Date, as follows:

3.1. Organization. The Company is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Nevada. The Company has the requisite power and authority to own, lease and operate the properties now owned, leased and operated by it and to carry on its business as currently conducted. The Company is duly qualified to do business as a foreign entity in each jurisdiction in which the nature of its business or the character of its properties makes such qualification necessary, except where the failure to do so would not have a Material Adverse Effect on the Company. The Company does not have any subsidiaries or hold any equity securities of any other Person.

3.2. Enforceability. This Agreement and each other agreement or instrument executed and delivered by any Seller Party at the Closing (collectively, the "Seller Party Closing Documents") has been duly authorized by all requisite action on the part of such Seller Party. This Agreements constitutes, and the Seller Party Closing Documents will constitute as of the Closing, the legal, valid and binding obligation of the Seller Parties, enforceable against the Seller Parties in accordance with its terms, subject to the effect of any applicable bankruptcy, moratorium, insolvency, fraudulent conveyance, reorganization, or other similar law affecting the enforceability of creditors' rights generally and to the effect of general principles of equity which may limit the availability of remedies (whether in a proceeding at law or in equity) (collectively, the "Enforceability Exceptions").

3.3. No Violation, Consents. The execution and delivery of this Agreement and each Seller Party Closing Document by the Seller Parties, and the performance of their obligations hereunder and thereunder does not and will not (a) violate or conflict with any provision of the organizational documents of the Company, (b) violate, or conflict with, or result in a breach of any provision of, or constitute a default or give rise to any right of termination, cancellation or acceleration (with the passage of time, notice or both) under any Contract to which a Seller Party is a party or by which a Seller Party is bound, (c) violate or conflict with any Legal Requirement to which the Company or any of their properties or assets are subject or (d) result in any Encumbrance on any assets of the Company. Without limiting the foregoing, none of the Seller Parties have granted any right to any third party which would conflict with the conveyance of the Membership Interests to Buyer. Except for the notices and Consents required under Nevada Cannabis Legal Requirements, no Seller Party is required to give any notice to or obtain any

Consent from any Person in connection with the Seller Parties' execution and delivery of this Agreement or any of the Seller Party Closing Documents, or the consummation or performance of the transactions contemplated hereby or thereby.

3.4. Capitalization. The Sellers own 100% of the issued and outstanding membership interests of the Company, in the amounts set forth on the Allocation Schedule, and no other Person has ever held any equity interest in the Company. The Membership Interests were duly authorized, validly issued, and are fully paid and non-assessable. There are no securities outstanding which are convertible into, exchangeable for, or carrying the right to acquire, equity interests (or securities convertible into or exchangeable for equity interests) of the Company, or subscriptions, warrants, options, calls, convertible securities, registration or other rights or other arrangements or commitments obligating the Company to issue, transfer or dispose of any of its equity interests or any ownership interest therein and there are no pre-emptive rights in respect of any securities of the Company. There are no outstanding obligations of the Company to repurchase, redeem or otherwise acquire any equity interests.

3.5. Title. Each Seller is the lawful owner of, and has good and marketable title to, the Membership Interest set forth opposite such Seller's name on the Allocation Schedule, free any clear of all Encumbrances. None of the Sellers have granted a currently effective power of attorney or proxy to any person with respect to all or any part of the Membership Interests. There are no outstanding options, warrants or other similar rights in respect of the Membership Interests and, except as set forth in this Agreement, none of the Seller Parties is a party to or bound by any agreement, undertaking or commitment to, directly or indirectly, sell, exchange or transfer the Membership Interests. Following the Closing, the Buyer will own 100% of the outstanding membership interests of the Company, free and clear of all Encumbrances.

3.6. Legal Proceedings. There is no pending or, to the knowledge of any Seller Party, threatened Proceeding by or against any Seller Party (i) that relates to or may affect the Business or any of the Membership Interests; or (ii) that challenges, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with, the transactions contemplated hereby. There are no Judgments currently outstanding involving or related to the Company (or any of their managers, officers or members in their capacities as such) or affecting the Business or any of the Company's assets.

3.7. Compliance With Legal Requirements; Governmental Authorizations.

(a) Except with respect to federal Legal Requirements regarding the manufacture, cultivation, possession, use, sale or distribution of cannabis or cannabis products, the Company is in material compliance with all Legal Requirement applicable to the Company. The Company has not received any written notice from a Governmental Body that alleges that it is not in compliance with any Legal Requirement, and the Company has not been subject to any adverse inspection, finding, investigation, penalty assessment, audit or other compliance or enforcement action.

(b) The Company has all Governmental Authorizations reasonably necessary for the conduct of the Business (the "Company Permits"). All conditions of or restrictions on the Company Permits that may materially affect the ability of the Company to

perform any cannabis related activity authorized by Nevada law, whether or not embodied in such Company Permit, have been disclosed to the Buyer. All of the Company Permits are valid and in full force and effect, and the Company is not in breach or default in any material respect under any Company Permit. No notices have been received by and no claims have been filed against the Company alleging a material violation of any Company Permit and no event has occurred that, with or without notice or lapse of time or both, would reasonably be expected to result in the revocation, suspension, termination, lapse or limitation of any Company Permit. Each Seller Party hereby covenants that it shall promptly notify the Buyer of any such notice hereafter given and/or of any such action hereafter threatened or contemplated. All fees and charges with respect to the Company Permits due through the date hereof have been paid in full and will be paid in full through the Closing.

(c) Neither of the Sellers nor any of the Company's key employees, officers, directors or managers have been subject to a recommendation or determination by any Governmental Body that such Person is not suitable for licensure in connection with a cannabis business in the State of Nevada.

(d) None of the Seller Parties has, nor, to the knowledge of the Seller Parties have any employees, agents or other representatives of the Company on behalf of the Company, directly or indirectly, made or authorized any payment, contribution or gift of money, property or services, in contravention of applicable Legal Requirement, (1) as a kickback or bribe to any Person or (2) to any political organization, or the holder of or any candidate for any elective or appointive public office, except for personal political contributions not involving the direct or indirect use of funds of the Company.

(e) To the Seller Parties' knowledge (a) the Company is and has been in compliance with all Environmental Laws; (b) there has been no release or, to the Seller Parties' knowledge, threatened release, of any pollutant, contaminant or toxic or hazardous material, substance or waste or petroleum or any fraction thereof (each a "Hazardous Substance"), on, upon, into or from any site currently or heretofore owned, leased or otherwise used by the Company; (c) there have been no Hazardous Substances generated by the Company that have been disposed of or come to rest at any site that has been included in any published U.S. federal, state or local "superfund" site list or any other similar list of hazardous or toxic waste sites published by any governmental authority in the United States; and (d) there are no underground storage tanks located on, no polychlorinated biphenyls ("PCBs") or PCB-containing equipment used or stored on, and no hazardous waste as defined by the Resource Conservation and Recovery Act, as amended, stored on, any site owned or operated by the Company, except for the storage of hazardous waste in compliance with Environmental Laws. The Company has made available to the Buyer true and complete copies of all material environmental records, reports, notifications, certificates of need, permits, pending permit applications, correspondence, engineering studies and environmental studies or assessments. None of the Seller Parties have received any written notice regarding any actual or alleged violation of or material liability under Environmental Laws.

3.8. Brokers or Finders. No Seller Party has incurred any obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payments in connection with the sale of the Membership Interests or the transactions contemplated hereby.

3.9. Books and Records. All the books of account and other Records of the Company (including, without limitation, manager and member resolutions, minutes and written consents) have been made available to Buyer.

3.10. Property.

(a) Owned Property. The property and assets that the Company owns (including, without limitation, the Owned Real Property and the Tangible Personal Property) are (i) free and clear of Encumbrances, and (ii) are in good operating condition and repair (subject to normal wear and tear). The Company has good and insurable fee simple title to all parcels of Owned Real Property. The Company has not granted any lease, license or other agreement granting to any Person any right to use or occupancy of the Owned Real Property or any portion thereof. All Tangible Personal Property used in the Business is in the possession of the Company.

(b) Leased Property. With respect to the property and assets that the Company leases (including, without limitation, real property that the Company leases, subleases, licenses or otherwise uses or occupies (collectively, the "Leased Real Property," and together with the Owned Real Property, the "Company Real Property")), (i) the Company is in compliance with all agreements related to such property and assets, (ii) the Company holds a valid leasehold interest free of any Encumbrances, other than those of the lessors of such property or assets and (iii) such property and assets are in good operating condition and repair (subject to normal wear and tear). No Person other than the Company has any right to use or occupy the Leased Real Property or any portion thereof. The Company has made available to the Buyer true and correct copies of all leases with respect to the Leased Real Property.

(c) The Company Real Property is suitable for the conduct of the Business. The Closing will not affect the continued use and possession of the Company Real Property by the Company. Neither the operation of the Business on the Company Real Property nor such Company Real Property, including the improvements thereon, violate in any material respect any applicable building code, zoning requirement or statute relating to such property or operations thereon, and any such non-violation is not dependent on so-called non-conforming use exceptions. To the knowledge of the Seller Parties, there is no existing, pending or threatened (i) condemnation proceedings affecting the Company Real Property, (ii) zoning, building code or other moratorium proceedings, or similar matters which could reasonably be expected to adversely affect the ability to operate the Business on the Company Real Property, or (iii) special assessments or public improvements that may result in special assessments against or otherwise affect the Company Real Property. Neither the whole nor any material portion of the Company Real Property has been damaged or destroyed by fire or other casualty. To the knowledge of the Seller Parties, there are no structural, latent or hidden, defects in the buildings and other structures that are part of the Company Real Property, and there are no restrictive covenants, easements or other written agreements with respect to the Company Real Property, in either case that would materially affect the ability of the Company to operate the Business on the Company Real Property.

3.11. Title To Assets; Sufficiency. The Company owns good and marketable title to, or a valid lease or license, as applicable, to all of its assets free and clear of all Encumbrances. The furniture, machinery, equipment, vehicles, goods and other items of Tangible Personal Property of the Company are structurally sound, are in satisfactory operating condition and repair,

and are adequate for the uses to which they are currently being put, and none of such furniture, machinery, equipment, vehicles, goods and other items of Tangible Personal Property of the Company is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that are not material in nature or cost. The assets of the Company are sufficient for the continued conduct of the Business after the Closing in substantially the same manner as conducted prior to the Closing and constitute all of the rights, property and assets necessary to conduct the Business.

3.12. Inventory. All inventory of the Company is and will, whether or not reflected in the Balance Sheet, consist of a quality and quantity useable and saleable in the Ordinary Course of Business consistent with past practice, except for obsolete, damaged or defective items that have been written off or written down to fair market value or for which adequate reserves have been established. All such inventory is owned by the Company free and clear of all Encumbrances, and no inventory is held on a consignment basis. The quantities of each item of inventory (whether raw materials, work-in-process or finished goods) at the Closing will be consistent with the quantities historically held by the Company.

3.13. Financial Statements. Complete copies of the financial statements of the Company consisting of (a) the balance sheet (audited if available) of the Company as of December 31, 2018 and the related statements of income, members' equity and cash flow for the year then ended and (b) the unaudited balance sheet of the Company as of June 30, 2019 (the "Balance Sheet") and the related statements of income, members' equity and cash flow for the six (6) months then ended (collectively, the "Financial Statements") have been made available to the Buyer. The Financial Statements are based on the books and records of the Company, and fairly present in all material respects the financial condition of the Company as of the dates they were prepared and the results of the operations of the Company for the periods indicated.

3.14. Undisclosed Liabilities. The Company does not have any indebtedness or other Liabilities except for (a) Liabilities specifically reflected on, and fully reserved against in, the Balance Sheet and (b) Liabilities which have arisen since the date of the Balance Sheet in the ordinary course of business and which are, in nature and amount, consistent with those incurred historically and are not material to the Company, individually or in the aggregate.

3.15. Company Indebtedness. The Company has disclosed to the Buyer all of the Company's obligations for borrowed money or in respect of loans or advances (whether or not evidenced by bonds, debentures, notes or other similar instruments or debt securities) incurred prior to the Closing ("Company Indebtedness"), all of which shall be repaid, discharged or otherwise satisfied at or prior to the Closing. The Company is not a guarantor for any Liability of any other Person.

3.16. Taxes.

(a) The Company has timely filed all Tax Returns that were required to be filed by it, taking into account any valid extensions of time to file such Tax Returns. All such Tax Returns were true, correct and complete in all material respects and have been prepared in compliance with all Legal Requirements. All Taxes owed by the Company (whether or not shown on any Tax Return) have been timely paid. No penalty, interest or other charge is or will become due with respect to the late filing of any such Tax Return or late payment of any such Tax. The

Company is not liable for any Tax of any other Person under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local or foreign law), or as a transferee or successor, by Contract or otherwise.

(b) The Company (i) has withheld from all payments to employees, customers, independent contractors, creditors, members and any other applicable payees proper and accurate amounts for all taxable periods in compliance with all Tax withholding provisions of applicable federal, state, local and foreign laws, (ii) has remitted, or will remit on a timely basis, such amounts to the appropriate taxing authority, and (iii) has furnished or been furnished properly completed exemption certificates for all exempt transactions and has maintained records of such exemption certificates in compliance with all Legal Requirements.

(c) No audit, examination or other proceeding of any nature by a Governmental Body is presently in progress with respect to any Tax or Tax Return of the Company. Neither the Company nor any member, manager, director or officer of the Company has received (i) notice of commencement of an audit, examination or other proceeding of any nature by a Governmental Body with respect to any Tax or Tax Return of the Company, (ii) a request for information related to any Tax matters of the Company or (iii) the assessment (or proposed assessment) of any additional Taxes against the Company for any period, nor does any Seller Party have any reason to expect any such items to be forthcoming. The Seller Parties have delivered to the Buyer correct and complete copies of all examination reports and statements of deficiencies assessed against or agreed to by the Company or that relate to any tax year or other Tax period for which the applicable limitations period has not expired.

(d) There are no liens for Taxes upon the assets of the Company, other than liens for Taxes not yet due and payable.

(e) There are no outstanding agreements or waivers (by operation of law or otherwise) extending the statutory period of limitations applicable to any Tax or Tax Return of the Company for any period.

(f) The Company is not a party to any Tax allocation or Tax sharing agreement (including any Tax indemnity arrangement) pursuant to which it would have any obligation to make payments after the Closing. The Company is not, and it has never been, a member of an affiliated, combined or unitary group for Tax purposes. The Company (i) has not made any payments; (ii) is not obligated to make any payments; and (iii) is not a party to any agreement that could obligate it to make any payments that will not be deductible (in whole or in part) under Sections 162, 280G or 404 of the Code.

(g) None of the assets of the Company is property that any Seller Party is required to treat as being owned by any other Person pursuant to the so-called "safe harbor lease" provisions of former Section 168(f)(8) of the Code. None of the assets of the Company directly or indirectly secures any debt the interest on which is tax-exempt under Section 103(a) of the Code. None of the assets of the Company is "tax-exempt use property" within the meaning of Section 168(h) of the Code. The Company does not own an interest in any controlled foreign corporation (as defined in Section 957 of the Code), passive foreign investment company (as defined in Section

1297 of the Code) or other entity the income of which is or could be required to be included in the income of the Company.

(h) The Company is, and from the date of its formation has been, classified as either a partnership or a disregarded entity for federal income tax purposes and in each state where the Company does business or is required to file Tax Returns. No election has been made (on IRS Form 8832 or any other form, or on any comparable state tax form) to classify the Company as an association taxable as a corporation or any other form of entity other than a partnership or disregarded entity for federal and state income tax purposes. The Company is not, and it has never been, a publicly traded partnership as that term is defined in Section 7704 of the Code.

3.17. Employees; Employee Benefit Plans.

(a) The Company is not delinquent in payments to any of its employees, consultants or independent contractors for any wages, salaries, commissions, bonuses, or other direct compensation for any service performed for it to the date hereof or amounts required to be reimbursed to such employees, consultants and independent contractors. The Company has complied in all material respects with all applicable state and federal equal employment opportunity laws and with other laws related to employment, including those related to wages, hours, worker classification and collective bargaining. The Company has withheld and paid to the appropriate Governmental Body or is holding for payment not yet due to such Governmental Body all amounts required to be withheld from employees of the Company and is not liable for any arrears of wages, taxes, penalties or other sums for failure to comply with any of the foregoing.

(b) The employment of each employee of the Company is terminable at the will of the Company, and upon termination of the employment of any such employees, no severance or other payments will become due. The Company does not have any policy, practice, plan or program of paying severance pay or any form of severance compensation in connection with the termination of employment or services.

(c) The Company has made available to the Buyer each employment, bonus, profit sharing, or other employee benefit plan, agreement, policy or arrangement maintained or contributed to, or required to be contributed to, by the Company for the benefit of any officer, employee, former employee, consultant, independent contractor or other service provider of the Company (collectively referred to herein as the "Employee Plans").

(d) The Company has made all payments and contributions to or with respect to the Employee Plans on a timely basis as required by the terms of each such Employee Plan and any applicable Legal Requirement. The Company has paid and will continue to pay all applicable premiums for any insurance contract which funds an Employee Plan for coverage provided through the Closing.

(e) The Company has maintained all of its Employee Plans in material compliance with their terms and with all applicable provisions of ERISA, the Code and state laws.

(f) None of the Company nor any of its affiliates (hereafter referred to as an "ERISA Affiliate") that together with the Company are deemed a "single employer" within

the meaning of Section 4001(a)(14) of ERISA, currently maintains any Employee Plan that is subject to Title IV of ERISA, and has not previously maintained any such Employee Plan that has resulted in any material liability or potential material liability to the Company or its ERISA Affiliates under said Title IV.

(g) Neither the Company nor an ERISA Affiliate maintains, maintained or contributed to within the past five (5) years, any multiemployer plan, within the meaning of Section 3(37) or 4001(a)(3) of ERISA. Neither the Company nor an ERISA Affiliate currently has any liability to make withdrawal liability payments to any multiemployer plan.

3.18. Contracts; Customers and Suppliers.

(a) All of the Contracts to which the Company is a party or by with the Company is bound (the "Company Contracts") are in full force and effect, and constitute legal, valid, binding and enforceable obligations against the Company and, to the knowledge of the Seller Parties, any other parties thereto. The Company is not in breach in any material respect under any Company Contract, nor, to the knowledge of the Seller Parties, is any other party to any such Company Contract in breach thereunder.

(b) No customer, vendor, supplier or service provider has given the Company notice that it intends to terminate or materially alter its business relationship with the Company (whether as a result of the consummation of the transactions contemplated by this Agreement or otherwise).

3.19. Insurance. True and complete copies of all Insurance Policies currently owned or maintained by the Company have been made available to the Buyer. All premiums due to date under such Insurance Policies have been paid and will be paid through the Closing Date, no breach by the Company exists thereunder and no material term of any such policy is void or voidable. The Company has not received any notice of cancellation with respect to any such current Insurance Policy and the Company has no knowledge of any threatened termination of, or premium increase with respect to, any of the Insurance Policies. There are no claims that are pending under any of the Insurance Policies, and no other Person is a named or additional insured under any such Insurance Policies.

3.20. Intellectual Property. The Company does not own or license any patents, copyrights, trademarks, tradenames or other intellectual property other than its name.

3.21. Related Party Transactions. None of the Company's directors, officers, managers, members (including the Sellers) or employees, or any members of their immediate families, or any Affiliate of the foregoing has, directly or indirectly, (a) borrowed money from or loaned money to the Company which remains unpaid or owed, (b) any interest in any assets owned or used by the Company or (c) engaged in any other material transactions with the Company.

3.22. Securities Laws.

(a) The Buyer intends to issue the Shares pursuant to a "private placement" exemption or exemptions from registration under Section 4(2) of the Securities Act and/or Regulation D promulgated under the Securities Act and an exemption from qualification

under applicable state securities laws. The Parties shall comply with all applicable provisions of and rules under the Securities Act and applicable state securities laws in connection with the offering and issuance of the Shares pursuant to this Agreement. The Sellers understand that the Shares will be "restricted securities" under federal and state securities laws and cannot be offered or resold except pursuant to registration under the Securities Act or an available exemption from registration.

(b) Each Seller (i) is an accredited investor as defined in Rule 501(a) of Regulation D promulgated under the Securities Act, (ii) is acquiring the Shares only for its own account and not for the account of others, and (iii) is not acquiring the Shares with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act.

3.23. Allocation Schedule. The Shares shall be distributed to the Sellers in accordance with the Allocation Schedule. Each of the Sellers irrevocably consents to the allocation of the Shares in accordance with the Allocation Schedule, notwithstanding anything to the contrary contained in the Company's governing documents.

3.24. Disclosure. No representation or warranty by the Seller Parties in this Agreement and no statement contained in any certificate furnished to the Buyer pursuant to the provisions hereof contains any untrue statement of material fact or omits to state any material fact necessary in order to make the statements made herein or therein not misleading.

4. Representations and Warranties of the Buyer. The Buyer represents and warrants to the Sellers as of the date hereof, and at and as of the Closing Date, as follows:

4.1. Organization And Good Standing. The Buyer is a corporation duly organized, validly existing and in good standing under the laws of Delaware, with full power and authority to conduct its business as it is now conducted.

4.2. Enforceability. This Agreement and each other agreement or instrument executed and delivered by the Buyer at the Closing (collectively, the "Buyer Closing Documents") has been or will be by the Closing duly authorized by all requisite action on the part of the Buyer. This Agreements constitutes, and the Buyer Closing Documents will constitute as of the Closing, the legal, valid and binding obligation of the Buyer, enforceable against the Buyer in accordance with its terms, subject to the Enforceability Exceptions.

4.3. Brokers Or Finders. Neither the Buyer nor any of its Representatives have incurred any obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with the transactions contemplated hereby.

4.4. Legal Proceedings. There is no pending or, to the knowledge of the Buyer, threatened Proceeding by or against the Buyer that challenges, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with, the transactions contemplated hereby.

5. Covenants and Other Agreements.

5.1. Conduct of Business by the Seller Parties. From the date hereof through the earlier of consummation of the Closing and any earlier termination of this Agreement, the Company shall, and the Seller Parties shall cause the Company to: (a) conduct its business and operations in the Ordinary Course of Business; (b) preserve intact its existence and business organization; (c) use its commercially reasonable efforts to preserve its assets; (d) pay all applicable Taxes as such Taxes become due and payable; and (e) maintain all licenses and Governmental Authorizations applicable to its operations and business.

5.2. Access to Information. From the date hereof through the earlier of consummation of the Closing and any earlier termination of this Agreement, the Seller Parties shall give the Buyer and its Representatives access on reasonable notice during normal business hours to all properties, facilities and offices, and complete and correct copies of all books, Records and Contracts (including customer and supplier Contracts) and such financial and operating data and other information with respect to the Company as such persons may reasonably request. Such review shall be at the Buyer's sole cost and shall be conducted in a fashion that does not unreasonably interfere with the ability of the Company to conduct its day-to-day operations.

5.3. Notice of Developments. During the Term of this Agreement, the Seller Parties shall promptly notify the Buyer in writing of any events, circumstances, facts and occurrences arising subsequent to the date of this Agreement which would result in a breach of a representation, warranty or covenant of any Seller Party in this Agreement, or which would have the effect of making any representation or warranty of any Seller Party in this Agreement untrue in any material respect, or would be reasonably likely to result in a Material Adverse Effect of the Company. Any disclosure by any Seller Party pursuant to this Section 5.3 shall not be deemed to prevent or cure any misrepresentation, breach of representation or warranty or breach of covenant, or limit the rights of the Buyer under Section 6.3 or Section 7.

5.4. Exclusivity. During the Term of this Agreement, each of the Seller Parties agrees, and shall cause its Representatives, not to, directly or indirectly, (i) solicit, facilitate or initiate, or encourage the submission of, proposals, inquiries or offers relating to; (ii) respond to any submissions, proposals, inquires or offers relating to; (iii) participate or engage in any negotiations or discussions with any Person relating to; (iv) otherwise cooperate in any way with or facilitate in any way (including, without limitation, by providing information) with any Person, other than the Buyer, relating to; or (v) enter into any agreement or agreement in principle in connection with, any acquisition, merger, business combination, recapitalization, consolidation, liquidation, dissolution, disposition or similar transaction involving the Company, or any issuance, acquisition, sale or transfer of any securities or any substantial portion of the assets of the Company.

5.5. Confidentiality. No Seller Party shall, directly or indirectly, disclose or divulge any information relating to the existence of this Agreement and the documents and instruments contemplated hereby, the terms of this Agreement and the documents and instruments contemplated hereby, the transactions contemplated hereby and thereby or the negotiations hereof and thereof without the consent of the Buyer; *provided*, however, that such information may be disclosed to such Party's legal, tax, accounting or related financial advisors that have a need to know and that are subject to an obligation of confidentiality to such Party. From and after the Closing, no Seller shall, directly or indirectly, use, disclose or divulge any confidential or

proprietary information of the Company or the Buyer for any purpose without the consent of the Buyer. Following a termination of this Agreement pursuant to Section 6.3, (a) the Buyer, shall not, directly or indirectly, use, disclose, or divulge any confidential or proprietary information of the Company for any purpose whatsoever without the consent of the Company, and (b) no Seller Party, shall, directly or indirectly, use, disclose, or divulge any confidential or proprietary information of the Buyer for any purpose whatsoever without the consent of the Buyer.

5.6. Further Assurances. Subject to the terms and conditions hereof, each of the Parties hereto shall use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable to the extent permitted under Legal Requirements to consummate and give effect to the transactions contemplated hereby. Without limiting the foregoing, the Parties shall act promptly, and use their commercially reasonable best efforts, and shall cooperate with each other, in making, or causing to be made, any filings, applications and submissions required under Nevada Cannabis Legal Requirements, in order to permit consummation of the Buyer's acquisition of the Membership Interests. The Seller Parties, on the one hand, and the Buyer on the other hand, shall each be responsible for 50% of the fees required to be paid in connection with such filings, applications and submissions.

5.7. Tax Matters.

(a) The Sellers shall be responsible for, and shall pay when due, all sales, use, transfer, stamp or similar Taxes and fees (collectively, "Transfer Charges") imposed with respect to the transactions contemplated hereby. The Sellers shall, at their own expense, timely file any Tax Return or other document with respect to such Transfer Charges, and the Buyer shall cooperate with respect thereto, as necessary.

(b) For federal income tax purposes, the Parties shall treat the sale of the Membership Interests pursuant to this Agreement in accordance with IRS Revenue Ruling 99-6, 1999-1 C.B. 432 (situation 2), (i) with respect to each Seller, as a sale of partnership interests, and (ii) with respect to the Buyer, as a purchase of all of the assets of the Company and assumption by the Buyer of all of the Company's liabilities. No Party shall take any position (whether in a Tax Return, an audit or otherwise) that is inconsistent with the foregoing treatment, unless required to do so by applicable Legal Requirements.

6. Conditions to Closing; Termination.

6.1. Conditions Precedent to Obligations of the Buyer. The obligation of the Buyer to consummate the purchase of the Membership Interests at the Closing shall be subject to the satisfaction, on or before the Closing Date, of each and every one of the following conditions, any or all of which the Buyer may waive in writing, at its sole and absolute discretion:

(a) Representations and Warranties. Each of the representations and warranties made by the Seller Parties in this Agreement shall be true and correct in all material respects as of the Closing Date (except those representations and warranties that address matters only as of a specified date, which shall be true and correct in all material respects as of that specified date).

(b) Covenants. The Seller Parties shall have duly performed in all material respects all of the covenants, acts and undertakings required to be performed by them prior to the Closing under this Agreement.

(c) No MAE. There shall have been no Material Adverse Effect.

(d) No Injunction, Etc. No action, proceeding, investigation, regulation or legislation shall have been instituted before any Governmental Body to enjoin, restrain, prohibit, or obtain damages in respect of, or which is related to, or arises out of, this Agreement or the consummation of the transactions contemplated hereby.

(e) Consents and Notices. All consents, approvals and waivers of any Person necessary or desirable to the consummation of the Closing and the transactions contemplated hereunder shall have been obtained and all notices to any Person necessary or desirable to the consummation of the Closing and the transactions contemplated hereunder shall have been delivered. A copy of each such consent, approval, waiver or notice shall have been provided to the Buyer and all such consents, approvals, waivers and notices shall be in a form reasonably acceptable to the Buyer.

(f) Regulatory Approval. Without limiting the foregoing, all consents, approvals and waivers of any Governmental Body necessary under Nevada Cannabis Legal Requirements in order to permit consummation of the Closing and the transactions contemplated hereunder shall have been obtained, and all notices to any Governmental Body necessary under Nevada Cannabis Legal Requirements in order to permit consummation of the Closing and the transactions contemplated hereunder shall have been delivered. A copy of each such consent, approval, waiver or notice shall have been provided to the Buyer and all such consents, approvals, waivers and notices shall be in a form reasonably acceptable to the Buyer.

(g) Seller Parties Closing Deliveries. The Seller Parties shall have delivered to the Buyer the following:

(i) Officer's Certificate. A certificate from an executive officer of the Company, dated as of the Closing Date, certifying that attached thereto are true and correct copies of the Company's certificate of formation and any amendments thereto to date, as well as the resolutions duly adopted by the members and/or managers of the Company authorizing the Company's execution, delivery and performance of this Agreement;

(ii) Good Standing Certificate. A certificate of good standing for the Company issued by the Secretary of the State of the State of Nevada, dated within ten (10) business days prior to the Closing Date;

(iii) Compliance Certificate. A certificate from an executive officer of the Company, dated as of the Closing Date, certifying compliance with Sections 6.1(a), 6.1(b) and 6.1(c) in a form reasonably acceptable to the Buyer;

(iv) Resignation Letters. Letters of resignation from each manager and officer of the Company, in form and substance reasonably acceptable to the Buyer, effective as of the Closing;

(v) Assignment of Membership Interests. An assignment by the Sellers to the Buyer assigning the Membership Interests to the Buyer on the Closing Date;

(vi) Withholding Certificates. A completed and duly executed IRS Form W-9 from each Seller, and a certificate from each Seller, in a form reasonably acceptable to the Buyer and in accordance with the Code, in each case dated as of the Closing Date and certifying such facts as to establish that the transactions contemplated hereby are exempt from withholding pursuant to Section 1445 of the Code; and

(vii) Company Indebtedness. Evidence, reasonably satisfactory to the Buyer, that all Company Indebtedness has been repaid, discharged or otherwise satisfied at or prior to the Closing.

(viii) Other Agreements. All other agreements, certificates, instruments, or documents reasonably requested by the Buyer in order to fully consummate the transactions contemplated hereby and to carry out the purposes and intent of this Agreement.

6.2. Conditions Precedent to Obligations of the Sellers. The obligation of the Sellers to consummate sale of the Membership Interests at the Closing shall be subject to the satisfaction, on or before the Closing Date, of each and every one of the following conditions, any or all of which the Sellers may waive in writing, at their sole and absolute discretion:

(a) Representations and Warranties. Each of the representations and warranties made by the Buyer in this Agreement as of the Closing Date shall be true and correct in all material respects as of the Closing Date (except those representations and warranties that address matters only as of a specified date, which shall be true and correct in all material respects as of that specified date).

(b) Covenants of Buyer. The Buyer shall have duly performed in all material respects all of the covenants, acts and undertakings required to be performed by it prior to the Closing.

(c) No Injunction, Etc. No action, proceeding, investigation, regulation or legislation shall have been instituted, threatened or proposed before any court, governmental agency or legislative body to enjoin, restrain, prohibit, or obtain substantial damages in respect of, or which is related to or arises out of, this Agreement or the consummation of the transactions contemplated hereby.

6.3. Termination of Agreement. The Parties may terminate this Agreement as provided below:

(a) The Parties may terminate this Agreement by mutual written consent at any time prior to the Closing; and

(b) If the Buyer is not then in material breach under this Agreement, the Buyer may terminate this Agreement by giving written notice to the Seller Parties at any time prior to the Closing in the event any of the Seller Parties has materially breached any of their respective representations, warranties, or covenants contained in this Agreement, provided that Buyer has

notified the Seller Parties of the breach and the breach has continued without cure for a period of ten (10) business days after the notice of breach.

6.4. Effect of Termination. If this Agreement is terminated prior to the Closing for any reason, all rights and obligations of the Parties hereunder shall terminate without any Liability of any Party to any other Party except for provisions set forth in Sections 5.5, this Section 6.4 and Section 8. No termination of this Agreement shall relieve any Party of liability for its intentional breach or violation of this Agreement.

7. Indemnification.

7.1. Sellers' Obligation to Indemnify. Each Seller (the "Seller Indemnifying Parties"), jointly and severally, shall defend, indemnify and hold harmless the Buyer, its Affiliates and their respective Representatives and successors and permitted assigns, from and against any and all actions, suits, proceedings, claims, demands, debts, liabilities, obligations, losses, diminution in value, damages, costs and expenses (collectively "Adverse Consequences"), arising out of, or in connection with, or caused by, directly or indirectly, any or all of the following: (i) any misrepresentation or breach of any representation or warranty made by the Seller Parties in this Agreement or in any certificate or schedule delivered by the Seller Parties pursuant hereto, (ii) any breach by the Seller Parties to satisfy or perform any covenant, restriction or agreement applicable to the Seller Parties contained in this Agreement or in any certificate or schedule delivered pursuant hereto, (iii) any Liability for Taxes of the Company that are attributable to a taxable period (or portion thereof) ending on or prior to the Closing Date and any Transfer Charges, (iv) the termination of any officer or employee of the Company and (v) Company Indebtedness.

7.2. Matters Involving Third Parties.

(a) The party or parties seeking indemnification hereunder (each, an "Indemnified Party") shall give the party or parties from whom indemnification is sought or to be sought (each, an "Indemnifying Party") prompt written notice of any Adverse Consequences suffered by, affecting or otherwise directed at it. If an indemnification claim involves a claim by a third party (a "Third Party Claim"), the Indemnified Party shall promptly notify the Indemnifying Party thereof in writing, which notice shall include in reasonable detail a description of the Third Party Claim and copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practical of such Adverse Consequences, that has been or may be sustained by the Indemnified Party.

(b) The Indemnifying Party will have the right to defend the Indemnified Party against the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party so long as the Indemnifying Party notifies the Indemnified Party in writing within fifteen (15) calendar days of its intention to assume the defense of any Third Party Claim at the Indemnifying Party's expense and by the Indemnifying Party's own counsel, and the Indemnified Party shall cooperate in good faith in such defense. If the Indemnifying Party elects not to compromise or defend such Third Party Claim or fails to promptly notify the Indemnified Party in writing of its election to defend as provided in this Agreement, the Indemnified Party may compromise, defend such Third Party Claim and seek indemnification for any and all Adverse Consequences based upon, arising from or relating to such Third Party Claim. Seller and Buyer

shall cooperate with each other in all reasonable respects in connection with the defense of any Third Party Claim, including making available records relating to such Third Party Claim and furnishing, without expense (other than reimbursement of actual out-of-pocket expenses) to the defending party, management employees of the non-defending party as may be reasonably necessary for the preparation of the defense of such Third Party Claim.

(c) So long as the Indemnifying Party is conducting the defense of the Third Party Claim in accordance with Section 7.2(b) above, (i) the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim, (ii) the Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party (not to be unreasonably withheld) and (iii) the Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party (not to be unreasonably withheld).

7.3. Survival. The representations and warranties made by the Seller Parties and the Buyer herein or in any certificate or schedule delivered pursuant hereto or thereto on the Closing Date, shall survive the Closing and continue in full force and effect for a period of eighteen (18) months from and after the Closing Date; provided, however, the representations and warranties set forth in Sections 3.1, 3.2, 3.4 and 3.5 shall survive indefinitely, and the representations and warranties set forth in Sections 3.7(e) and 3.16 shall survive until sixty (60) days after expiration of all applicable statutory limitation periods. Upon expiration of the representation and warranty limitation periods set forth herein, such representations and warranties shall cease to be of any further force or effect. No such expiration shall affect the rights of a Party hereto in respect of a claim made by such Party in writing received by another Party prior to the expiration of any such period until finally resolved.

8. Miscellaneous.

8.1. Expenses. Each Party shall pay all of the costs and expenses (including, without limitation, legal fees and expenses) incurred by it in negotiating and preparing this Agreement (and all other agreements, certificates, instruments and documents executed in connection herewith) and in consummating the transactions contemplated hereby.

8.2. Notices. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed effectively given upon the earlier of actual receipt, or (a) personal delivery to the Party to be notified, (b) when sent, if sent by electronic mail during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient's next business day, (c) three (3) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt. All communications shall be sent to the Parties at the addresses as set forth on the signature pages hereto, or to such e-mail address or address as subsequently modified by written notice given in accordance with this Section 8.2.

8.3. Entire Understanding; Amendments. This Agreement, together with the exhibits and schedules hereto, and the other documents, certificates, agreements and other

instruments delivered in connection with the transactions contemplated hereby, states the entire understanding among the Parties with respect to the subject matter hereof and supersedes all prior oral and written communications and agreements with respect to the subject matter hereof. This Agreement shall not be amended or modified except in a written document signed by all Parties.

8.4. Parties in Interest; Assignment; No Waivers; No Third Party Rights. This Agreement shall bind, benefit, and be enforceable by the Parties hereto and their respective successors, legal representatives and assigns, heirs, executors, administrators and personal representatives. No Party hereto may assign this Agreement or its obligations hereunder without the prior written consent of all other Parties hereto. No waiver with respect to this Agreement shall be enforceable unless in writing and signed by the Party against whom enforcement of such waiver is sought. No failure to exercise, delay in exercising or single or partial exercise of any right, power or remedy by any Party, and no course of dealing between or among any of the Parties, shall constitute a waiver of, or shall preclude any other or further exercise of, the same or any other right, power or remedy. Except as may be expressly set forth in this Agreement, nothing herein will be construed to give any Person other than the Parties to this Agreement any legal or equitable right, remedy or claim under or with respect to this Agreement or any provision of this Agreement.

8.5. Further Assurances. At any time and from time to time after the Closing Date, at the request of a Party and without further consideration, the other Parties shall promptly execute and deliver all such further agreements, certificates, instruments and documents and perform such further actions as such Party may reasonably request, in order to fully consummate the transactions contemplated hereby and carry out the purposes and intent of this Agreement.

8.6. Severability. If any provision of this Agreement is construed to be invalid, illegal or unenforceable, then the remaining provisions hereof shall not be affected thereby and shall be enforceable without regard thereto, and the Parties agree that this Agreement shall be reformed to replace such unenforceable provisions with a valid and enforceable provision that comes as close as possible to expressing the intent of the unenforceable provision.

8.7. Counterparts; Electronic Signatures. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Counterparts may be delivered via facsimile, electronic mail (including pdf or any electronic signature complying with the U.S. federal ESIGN Act of 2000, *e.g.*, www.docusign.com) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

8.8. Governing Law; Exclusive Jurisdiction. This Agreement and the respective rights and obligations of the Parties under this Agreement shall be governed by, and shall be determined under, the internal laws of the State of Nevada without regard to choice of law principles.

8.9. Specific Enforcement; Remedies. The Parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the Parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and

to enforce specifically the terms and provisions of this Agreement, in addition to any other remedy to which they are entitled at law or in equity. Any and all remedies herein expressly conferred upon a Party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such Party, and the exercise by a Party of any one remedy will not preclude the exercise of any other remedy.

8.10. Interpretation. In this Agreement, unless a clear contrary intention appears: (a) the singular number includes the plural number and vice versa; (b) reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are not prohibited by this Agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually; (c) reference to any gender includes each other gender; (d) reference to any agreement, document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof; (e) reference to any "Legal Requirement" means such Legal Requirement as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder, and reference to any section or other provision of any Legal Requirement means that provision of such Legal Requirement from time to time in effect and constituting the substantive amendment, modification, codification, replacement or reenactment of such section or other provision; (f) "hereunder," "hereof," "hereto," and words of similar import shall be deemed references to this Agreement as a whole and not to any particular Article, Section or other provision hereof; (g) "including" (and with correlative meaning "include") means including without limiting the generality of any description preceding such term; (h) references to documents, instruments or agreements shall be deemed to refer as well to all addenda, exhibits, schedules or amendments thereto; and (i) references to articles, sections, schedules and exhibits means articles and sections of, and schedules and exhibits attached to, this Agreement. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the Party drafting an instrument or causing any instrument to be drafted. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

* * * * *

IN WITNESS WHEREOF, this Agreement has been duly executed as of the date set forth above.

COMPANY:

The Harvest Foundation LLC

By:_____
Name:
Title:

Address: 3395 Pinks Place
Las Vegas, Nevada 89102

E-mail:

SELLERS:

_____
Donald Burton

Address:

E-mail:

_____
Larry Lemons

Address:

E-mail:

_____
Jeffrey Yokiel

Address:

E-mail:

BUYER:

MARIMED, INC.

By: _____
Name: Robert Fireman
Title: CEO

Address: 10 Oceana Way, Floor 2
Norwood, MA 02062

E-mail: rfireman@marimedinc.com

EXHIBIT A

DEFINITIONS

For purposes of the Agreement, the following terms and variations thereof have the meanings specified or referred to in this Exhibit A:

"Adverse Consequences" shall have the meaning set forth in Section 7.1.

"Affiliate" of a specified Person means each other Person who directly or indirectly controls, is controlled by, or is under common control with the specified Person.

"Agreement" shall have the meaning set forth in the preamble to this Agreement.

"Allocation Schedule" shall have the meaning set forth in Section 2.2.

"Buyer" shall have the meaning set forth in the preamble to this Agreement.

"Buyer Closing Documents" shall have the meaning set forth in Section 4.2.

"Closing" shall have the meaning set forth in Section 2.3.

"Closing Date" shall have the meaning set forth in Section 2.3.

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" shall have the meaning set forth in the background to this Agreement.

"Consent" means any approval, consent, ratification, waiver or other authorization.

"Contract" means any agreement, contract, lease, consensual obligation, promise or undertaking (whether written or oral).

"Employee Plans" shall have the meaning set forth in Section 3.17(c).

"Encumbrance" means any charge, claim, community or other marital property interest, condition, equitable interest, lien, option, pledge, security interest, mortgage deed of trust, right of way, easement, encroachment, servitude, right of first option, right of first or last negotiation or refusal or similar restriction, including any restriction on use, voting (in the case of any security or equity interest), transfer, receipt of income or exercise of any other attribute of ownership.

"Enforceability Exceptions" shall have the meaning set forth in Section 3.2.

"Environmental Laws" means any Legal Requirement relating to (a) releases or threatened release of Hazardous Substances; (b) pollution or protection of employee health or safety, public health or the environment; or (c) the manufacture, handling, transport, use, treatment, storage, or disposal of Hazardous Substances.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any United States Department of Labor Regulations thereunder.

"Governmental Authorization" means any Consent, license, registration, approval, exemption, notification, franchise, certificate, authorization, bond or permit issued, granted, given or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement.

"Governmental Body" means any: (a) nation, state, county, city, town, borough, village, district or other jurisdiction; (b) federal, state, local, municipal, foreign or other government; (c) governmental or quasi-governmental authority of any nature (including any agency, branch, department, board, commission, court, tribunal or other entity exercising governmental or quasi-governmental powers); (d) multinational organization or body; (e) body exercising, or entitled or purporting to exercise, any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power; or (f) official of any of the foregoing.

"Indemnified Party" shall have the meaning set forth in Section 7.2(a).

"Indemnifying Party" shall have the meaning set forth in Section 7.2(a).

"Insurance Policy" means any public liability, product liability, general liability, comprehensive, property damage, vehicle, life, hospital, medical, dental, disability, worker's compensation, key man, fidelity bond, theft, forgery, errors and omissions, directors' and officers' liability, or other insurance policy of any nature.

"IRS" means the United States Internal Revenue Service and, to the extent relevant, the United States Department of the Treasury.

"Judgment" means any order, writ, injunction, citation, award, decree, ruling, assessment or other judgment of any Governmental Body or arbitrator.

"Legal Requirement" means any federal, state, local, municipal, foreign, international, multinational or other constitution, law, ordinance, principle of common law, code, regulation, guideline, standard, order, Governmental Authorization, statute or treaty.

"Liability" means with respect to any Person, any liability or obligation of such Person of any kind, character or description, whether known or unknown, absolute or contingent, accrued or unaccrued, disputed or undisputed, liquidated or unliquidated, secured or unsecured, joint or several, due or to become due, vested or unvested, executory, determined, determinable or otherwise, and whether or not the same is required to be accrued on the financial statements of such Person.

"Material Adverse Effect" means any change or effect that is materially adverse to the business, assets, liabilities, financial condition, prospects or results of operations of the Company taken as a whole.

"Membership Interests" shall have the meaning set forth in the Recitals.

"Nevada Cannabis Legal Requirements" means Legal Requirements regarding the cultivation, manufacture, possession, use, sale or distribution of cannabis or cannabis products promulgated by state and local Governmental Bodies in the State of Nevada.

"Ordinary Course of Business" means the ordinary course of business of the Company consistent with the past practices of the Company or taken in the ordinary course of the normal, day-to-day operations of the Company.

"Owned Real Property" means all land, together with all buildings, structures, improvements, and fixtures located thereon, and all easements, servitudes and other interests and rights appurtenant thereto, owned by the Company.

"Person" means any individual, sole proprietorship, joint venture, partnership, corporation, limited liability company, association, cooperative, trust, estate, Governmental Body, administrative agency, regulatory authority, or other entity of any nature whatsoever.

"Proceeding" means any action, arbitration, audit, hearing, investigation, litigation or suit (whether civil, criminal, administrative, judicial or investigative, whether formal or informal, whether public or private) commenced, brought, conducted or heard by or before, or otherwise involving, any Governmental Body or arbitrator.

"Purchase Price" shall have the meaning set forth in Section 2.2.

"Record" means information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form.

"Regulations" means the income tax regulations promulgated under the Code.

"Representative" means with respect to a particular Person, any director, officer, manager, employee, agent, consultant, advisor, accountant, financial advisor, legal counsel or other representative of that Person.

"Securities Act" means the Securities Act of 1933, as amended.

"Seller Indemnifying Parties" shall have the meaning set forth in Section 7.1.

"Seller Party" or "Seller Parties" shall have the meaning set forth in the preamble to this Agreement.

"Seller Party Closing Documents" shall have the meaning set forth in Section 3.2.

"Sellers" shall have the meaning set forth in the preamble to this Agreement.

"Tangible Personal Property" shall mean all furniture, fixtures, leasehold improvements, production equipment, office equipment, accessories, parts, supplies, materials, vehicles, computer hardware, data processing equipment and other equipment owned by the Company and all other tangible personal property of every kind owned or leased by the Company and all related warranties and similar rights.

CERTIFICATE OF SERVICE

I hereby certify pursuant to NRAP 25(c), that on the 9th day of August, 2021, I caused service of a true and correct copy of the foregoing **APPENDIX TO PETITIONERS' WRIT OF MANDAMUS** by the following means:

X BY MAIL: I placed a true copy thereof enclosed in a sealed envelope addressed as follows:

The Honoarable Timothy C. Williams
Eighth Judicial District Court
Civil Dept. XVI
200 Lewis Avenue
Las Vegas, Nevada 89155
Respondent

Michael B. Wixom
Karl L. Nielson
Smith Larsen & Wixom
Hills Center Business Park
1935 Village Center Circle
Las Vegas, Nevada 89134

Lauren Elliott
Christian G. Stahl
Quarles & Brady LLP
Two North Central Avenue
Phoenix, Arizona 85004-5200

Attorneys for Item 9 Labs Corp. et al.

Justin M. Brandt
Makunda Shanbhag
Bianch & Brandt
6710 Scottsdale Road, Ste. 210
Scottsdale, Arizona 85253

Candace C. Herling
Messner Reeves LLP
8945 W. Russel Road, Ste. 300
Las Vegas, Nevada 89148

Attorneys for Snowell Holdings, LLC

/s/ Diana L. Wheelen
An Employee of Fennemore Craig

IN THE SUPREME COURT OF THE STATE OF NEVADA

JDD, LLC; TCS PARTNERS, LLC; JOHN SAUNDERS; and TREVOR SCHMIDT, Petitioners, vs. THE HONORABLE TIMOTHY C. WILLIAMS, EIGHTH JUDICIAL DISTRICT COURT IN AND FOR THE COUNTY OF CLARK, Respondent, -and- ITEM 9 LABS CORP. f/k/a Airware Labs Corp. and Crown Dynamics Corp.; ITEM 9 PROPERTIES, LLC; STRIVE MANAGEMENT, LLC f/k/a Strive Life; VIRIDIS GROUP I9 CAPITAL, LLC; VIRIDIS GROUP HOLDINGS, LLC; SNOWELL HOLDINGS, LLC; ANDREW BOWDEN; DOUGLAS BOWDEN; BRYCE SKALLA; and CHASE HERSCHMAN, Real Parties in Interest.	Case No.: District Court Case No.: A-20-811232-C

APPENDIX TO PETITIONER'S WRIT OF MANDAMUS

Volume 3 (Part 2) of 4 – Pages PA_0618-0882

Therese Shanks, Esq.
Nevada State Bar No. 12890
Fennemore Craig, P.C.
7800 Rancharrah Parkway
Reno, Nevada 89511
(775) 788-2257
tshanks@fennemorelaw.com

Lee Igoldy, Esq.
Nevada State Bar No. 7757
2580 St. Rose Pkwy., Ste. 330
Henderson, Nevada 89074
(702) 425-5366
Lee@Igoldy.com

Counsel for Petitioners

APPENDIX – CHRONOLOGICAL TABLE OF CONTENTS

DOCUMENT	DATE FILED or ADMITTED	VOL. NO.	PAGE NO.
First Amended Complaint	09.09.2020	1	PA_0001-0063
Snowell Holdings, LLC's Motion to Dismiss	12.01.2020	1	PA_0064-0077
Item 9 Labs Corp.'s et al. Motion to Dismiss	12.18.2020	1	PA_0078-0123
Plaintiff's Opposition to Snowell Holdings, LLC's Motion to Dismiss	01.18.2021	1	PA_0124-0127
Snowell Holdings, LLC's Reply In Support of Motion to Dismiss	01.20.2021	1	PA_0128-0133
Plaintiff's Opposition to Item 9 Labs Corp.'s et al. Motion to Dismiss	01.26.2021	1	PA_0134-0151
Item 9 Labs Corp.'s et al. Reply in Support of Motion to Dismiss	02.17.2021	1	PA_0152-0166
Transcript – Motion to Dismiss	02.24.2021	1	PA_0167-0247
Snowell Holdings, LLC Motion for Attorneys' Fees	03.24.2021	2	PA_0248-0264
Order Granting Snowell Holdings, LLC Motion to Dismiss	03.30.2021	2	PA_0265-0278
Notice of Entry of Order Granting Snowell Holdings, LLC Motion to Dismiss	03.30.2021	2	PA_0279-0295
Plaintiff's Opposition to Snowell Holdings, LLC Motion for Fees	04.07.2021	2	PA_0296-0367
Order Granting Item 9 Labs Corp.'s et al. Motion to Dismiss	04.12.2021	2	PA_0368-0383
Notice of Entry of Order Granting Item 9 Labs Corp.'s et al. Motion to Dismiss	04.13.2021	2	PA_0384-0404
Snowell Holdings, LLC Reply in Support of Motion for Attorneys' Fees	04.22.2021	2	PA_0405-0409

DOCUMENT	DATE FILED or ADMITTED	VOL. NO.	PAGE NO.
Item 9 Labs Corp.'s et al. Motion for Attorneys' Fees and Costs	05.04.2021	2	PA_0410-0494
Minute Order Granting Snowell Holdings, LLC's Motion for Attorneys' Fees	05.12.2021	2	PA_0495
Plaintiff's Opposition to Item 9 Labs Corp.'s Motion for Attorneys' Fees and Costs	05.19.2021	3	PA_0496-0882
Minute Order regarding Snowell Holdings, LLC's Motion for Attorneys' Fees (Issue of Work Performed)	05.26.2021	4	PA_0883
Item 9 Lab Corp.'s Reply in Support of Motion for Attorneys' Fees and Costs	06.01.2021	4	PA_0884-0895
Minute Order Granting Item 9 Labs Corp.'s Motion for Attorneys' Fees and Costs	06.08.2021	4	PA_0896
Order Granting Item 9 Labs Corp.'s Motion for Attorneys' Fees and Costs	07.07.2021	4	PA_0897-0911
Notice of Entry of Order Granting Item 9 Labs Corp.'s Motion for Attorneys' Fees and Costs	07.07.2021	4	PA_0912-0930

APPENDIX – ALPHABETICAL TABLE OF CONTENTS

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Snowell Holdings, LLC's Reply In Support of Motion to Dismiss	01.20.2021	1	PA_0128-0133
Transcript – Motion to Dismiss	02.24.2021	1	PA_0167-0247

"Tax" or "Taxes" means (a) mean any and all federal, state, local and foreign (whether imposed by a country or political subdivision or authority thereunder) taxes, assessments and other governmental charges, duties, impositions and liabilities relating to taxes, including, without limitation, any federal, state, local or foreign income, earnings, profits, gross receipts, franchise, capital stock, net worth, sales, use, value added, ad valorem, profits, occupancy, general property, real property, personal property, intangible property, transfer, stamp, premium, custom, duty, escheat, environmental, fuel, excise, license, lease, service, service use, recapture, parking, employment, occupation, severance, payroll, withholding, unemployment compensation, social security, retirement, imputed underpayment or other tax, fiscal levy or charge of any nature; (b) any foreign, federal, state or local organization fee, qualification fee, annual report fee, filing fee, occupation fee, assessment, other fee or charge of any nature imposed by a Governmental Body or other authority; or (c) any deficiency, interest, penalty or addition imposed with respect to any of the foregoing and any obligations under any agreements or arrangements with any other Person with respect to such amounts, and including any liability for taxes of a predecessor entity.

"Tax Return" means (a) all returns and reports, amended returns, information returns, statements, declarations, estimates, schedules, notices, notifications, forms, elections, certificates or other documents filed or required to be filed or submitted to any Governmental Body or any Person with respect to the determination, assessment, collection or payment of any Tax or in connection with the administration, implementation or enforcement of, or compliance with, any Tax, and (b) TD F 90-22.1 (and its successor form, FinCEN Form 114), including any amendment thereto.

"Term" means the period from the date of this Agreement through the consummation of the Closing or earlier termination of this Agreement pursuant to its terms.

"Third Party Claim" shall have the meaning set forth in Section 7.2(a).

"Transfer Charges" shall have the meaning set forth in Section 5.7(a).

"Treasury Regulation" means a final, temporary or proposed regulation issued by the United States Department of the Treasury and/or the IRS under the Code.

EXHIBIT B

ALLOCATION SCHEDULE

Name of Seller	Membership Interest in Company	Pro Rata Portion of Purchase Price
Donald Burton	34.5%	34.5%
Larry Lemon	34.5%	34.5%
Jeffrey Yokiel	31%	31%

Gmail

Brian Roche <br@rochecorp.com>

Item 9

1 message

Brian Roche <br@rochecorp.com> Sat, Jun 20, 2020 at 1:25 PM
To: bryce@item9labs.com

Bryce call me on this below and send the docs we discussed so I can review and we can come up with a plan together. Look man I don't care if you all are guilty I don't give a shit this might work in your favor to retrade on those rats and it might end up saving you long term especially if I allow the licenses to get transferred which I have a freeze on now through my gov't contacts. Call me and let's discuss this:

Corporate history

Item 9 Labs Corp. ("Item 9 Labs" or the "Company"), was incorporated under the laws of the State of Delaware on June 15, 2010 as Crown Dynamics Corp. On October 26, 2012, the Company changed its name to Airware Labs Corp. On April 2, 2018, the Company changed its name to Item 9 Labs Corp. to better reflect its business following the acquisition of BSSD, as discussed below.

On March 20, 2018, the Company closed on an Agreement and Plan of Exchange to acquire all of the membership interests of BSSD Group, LLC ("BSSD"), an Arizona limited liability company formed on May 2, 2017, in exchange for newly issued restricted shares of the Company's common stock (the "Shares"), which represent approximately 75% of the issued and outstanding shares of the Company's common stock on a fully-diluted basis. The 40,355,771 shares were distributed pro-rata to the BSSD members.

Effective October 18, 2018, the Company completed a 1-for-20 reverse split of its issued and outstanding common stock.

On November 26, 2018, the company's wholly owned subsidiary AZ DP Holdings, LLC ("AZ DP") closed on an asset acquisition of the majority of the assets of Arizona DP Consulting, LLC, a consulting firm specializing in obtaining marijuana dispensary permits and developing cannabis related business plans. The purchase price was $1,500,000 in cash and 3,000,000 shares of restricted common stock having an aggregate value of $7,770,000 or $2.59 per share based on current market price of the Company shares at time asset purchase agreement was executed.

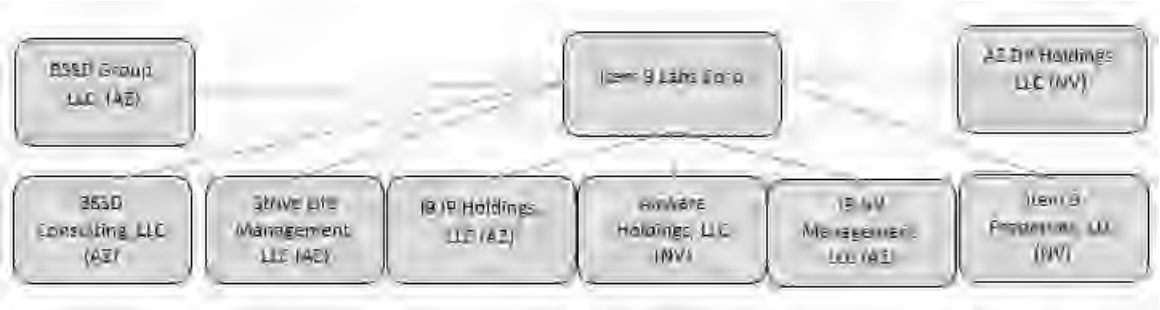
On September 12, 2018, the Company executed a $1,500,000 promissory note (see Note 8) which was used to make a capital contribution into Strive Management, LLC, a Nevada limited liability company ("Strive Management"). In exchange for the contribution, the Company received a 20% membership interest in Strive Management. The remaining interests are held by three individuals, Sara Gullickson, Larry Lemons, and Donnie Burton. Through a management agreement with Strive Wellness of Nevada, LLC, a related party Strive Management will facilitate the cultivation, processing and distribution of marijuana in Nevada. Strive Wellness of Nevada, LLC has been allocated cultivation, processing and distribution licenses from the State of Nevada. Additionally, the Company will acquire an additional 31% ownership of Strive Management upon the approval from the State of Nevada to operate the cultivation and processing facility.

Our principal offices are located at 2727 N 3rd Street, Phoenix AZ 85004 Suite 201. Our registered agent for service of process in Delaware is located at 108 West 13th St., Wilmington, DE 19801, and our registered agent is Business Filings Incorporated. Our fiscal year end is September 30.

All references to "we," "us," "our," "Item 9," "Item 9 Labs," or similar terms used in this Registration Statement refer to Item 9 Labs Corp.

Corporate Structure

The following chart illustrates, as of the date of this Registration Statement, the Company's wholly-owned subsidiaries, including their respective jurisdictions of incorporation and percentage of voting securities of each that are beneficially owned, controlled or directed by the Company.



Additionally, the Company currently owns a 20% ownership in Strive Management, LLC as discussed in Note 1 of our Notes to Financials (see Note 1). The Company has the right to acquire an additional 31% ownership of Strive Management if certain conditions are met. The Company will raise funds as necessary (approximately $5,500,000) to construct the facility in Nevada, which will be wholly owned by a subsidiary of Item 9 Labs Corp and leased to Strive Management, LLC. $3,000,000 has been raised as of the date of this filing. If the funds are not raised, the additional 31% interest due to the Company upon operational approval from the State of Nevada would be subject to reclamation by the other members of Strive Management.

858-254-2000

IMPORTANT MESSAGE: This electronic message (including all attachments) is covered by the Electronic Communications Privacy Act 18 U.S.C. 2510-2521 and is confidential and legally privileged.

On Jun 19, 2020, at 5:06 PM, Brian Roche <br@rochecorp.com> wrote:

Bryce great call way to diffuse the situation. You're a good dude. Attached is the Marimed deal and the recent 10K by them discussing the Harvest deal. Look this over and your Asset Agreement for the distribution license in NV you bought from that whore Gullickson and Harvest and let's chat over the weekend. Pretty sure one of you (Marimed or Item 9) isn't getting what they think they are getting (or what they think they paid for).

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Virus-free. www.avg.com

<10K.pdf>
<8-2019 MEMBERSHIP INTEREST PURCHASE AGREEMENT-3.pdf>

Strive-About_11-18.pdf
2183K

Gmail

Brian Roche <br@rochecorp.com>

Item 9 coordination

1 message

Bryce Skalla <bryce@item9labs.com> Sat, Jun 20, 2020 at 3:45 PM
To: Brian Roche <br@rochecorp.com>
Cc: Bobby Mikkelsen <bobby@item9labs.com>, Jeffery Rassas <jeffrey@item9labs.com>, Andrew Bowden <abowden@item9labs.com>, Lauren Stine <Lauren.Stine@quarles.com>, Paul Valentine <Paul.Valentine@quarles.com>

Brian,

Spoke with team for several hours last night and after our talk. Seems our paths are aligned so I have brought our attorneys in to help with coordination and see what best path forward is. I have CC'ed Lauren Stine and Paul Valentine, our lawyers with the Quarrels & Brady Firm. They be best for contact going forward.

ITEM NINE LABS

Bryce Skalla
President/ Co-Founder
Item 9 Labs Corp. "INLB"

M 480-406-9454
W www.item9labs.com

Gmail

Brian Roche <br@rochecorp.com>

Re: Item 9 coordination

1 message

Brian Roche <br@rochecorp.com> Sat, Jun 20, 2020 at 4:26 PM
To: Bryce Skalla <bryce@item9labs.com>
Cc: Bobby Mikkelsen <bobby@item9labs.com>, Jeffery Rassas <jeffrey@item9labs.com>, Andrew Bowden <abowden@item9labs.com>, Lauren Stine <Lauren.Stine@quarles.com>, Paul Valentine <Paul.Valentine@quarles.com>

1. Thanks all please send me the agreements and relevant docs related to Harvest, purchase of Distribution License and other Docs relevant to uncover what happened here. I can review this weekend so we can have a meaningful discussion and gameplan by Monday.

2. Since I sent you the Marimed Membership Interest Agreement already you can see that they believed in Aug 2019 to be acquiring the shares and all 3 licenses. Not sure how this Rollup with Strive effects any of it or how you bought the Dist license with cash and shares then these guys turned around and sold it also to Marimed seems like a conspiracy to me. Civil and criminal.

3. Candidly to all of you here my guys gave your rat partners Burton and Lemmons $741,250 and they haven't seen jack shit back. The NV lawsuit is just the start as stated Bryce I already amended the complaint and filing Monday.

Based on my investigation so far I believe there was interference and fraud all over the place. Also now that my uncle has put a freeze on all Harvest matters and licenses nothing is going to happen anytime soon unless I say so.

The only path I am aligned on currently is the path to 100% complete success getting my guys their money back. Anyone not helping in that regard will be roadkill in my rear view mirror.

I'm working all weekend and look forward to hearing from you Lauren and/or Paul forthwith.

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Nevada, LLC, a related party Strive Management will facilitate the cultivation, processing and distribution of marijuana in Nevada. Strive Wellness of Nevada, LLC has been allocated cultivation, processing and distribution licenses from the State of Nevada. Additionally, the Company will acquire an additional 31% ownership of Strive Management upon the approval from the State of Nevada to operate the cultivation and processing facility.

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Kind Regards,

Brian Roche
858-254-2000

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On Jun 20, 2020, at 3:45 PM, Bryce Skalla <bryce@item9labs.com> wrote:

Brian,

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Bryce Skalla
President/ Co-Founder
Item 9 Labs Corp. “INLB”

M 480-406-9454
W www.item9labs.com

Strive-About_11-18.pdf
2183K

Gmail

Brian Roche <br@rochecorp.com>

Re: Item 9 coordination

1 message

Brian Roche <br@rochecorp.com> Tue, Jun 23, 2020 at 7:06 PM
To: "Valentine, Paul J." <Paul.Valentine@quarles.com>
Cc: Bryce Skalla <bryce@item9labs.com>, Bobby Mikkelsen <bobby@item9labs.com>, Jeffery Rassas <jeffrey@item9labs.com>, Andrew Bowden <abowden@item9labs.com>, "Stine, Lauren Elliott" <Lauren.Stine@quarles.com>

I don't know what this email means so let me be clear I have amended our complaint and will be filing it tomorrow and promise this is the least of your worries. I reached out to Bryce and crew as a one time courtesy which I always do before launching my nukes. If you want to cooperate and hold off litigation feel free to forward the docs related to Harvest foundation, Burton and Lemmons such as the Asset purchase agreement and other agreements you have with them while interfering with my guys ownership rights. If not no biggie there's not much to talk about I have Item 9 dead to rights and we will get the info through discovery, depos and subpoenas Duces Tecum to some third parties we are serving this week. Right now I am out to recoup the $741,250 that was paid by my guys to Item 9's partners which Item 9 has clearly profited from after my investigation. Bryce don't ever try to fucking bullshit me again I warned you about dishonesty with me.

Kind Regards,

Brian Roche
858-254-2000

IMPORTANT MESSAGE: This electronic message (including all attachments) is covered by the Electronic Communications Privacy Act 18 U.S.C. 2510-2521 and is confidential and legally privileged.

On Jun 22, 2020, at 12:31 PM, Valentine, Paul J. <Paul.Valentine@quarles.com> wrote:

Brian,

We are in receipt of the information you provided and are working through it. We will be in touch once we finalize our review.

Thanks,

<125EvergreenEmailSignature_a6b3add9-9dae-435d-970f-4c0911565efe.jpg>

Paul J. Valentine / Partner
Paul.Valentine@quarles.com / LinkedIn BIO vCard
Quarles & Brady LLP
Renaissance One, Two North Central Avenue / Phoenix, AZ 85004-2391
Office 602-229-5723 / quarles.com
Assistant Pamela McCauley 602-230-5516

VISIT our COVID-19: Guidance for Clients page for the latest updates from Q&B attorneys

From: Brian Roche <br@rochecorp.com>
Sent: Monday, June 22, 2020 11:29 AM
To: Bryce Skalla <bryce@item9labs.com>
Cc: Bobby Mikkelsen <bobby@item9labs.com>; Jeffery Rassas <jeffrey@item9labs.com>; Andrew Bowden <abowden@item9labs.com>; Stine, Lauren Elliott (PHX x3474) <Lauren.Stine@quarles.com>; Valentine, Paul J. (PHX x3723) <Paul.Valentine@quarles.com>
Subject: Re: Item 9 coordination

Waiting to hear from someone on your end please email a time and dial in number to do a call today.

Kind Regards,

Brian Roche
858-254-2000

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On Jun 20, 2020, at 3:45 PM, Bryce Skalla <bryce@item9labs.com> wrote:

Brian,

Spoke with team for several hours last night and after our talk. Seems our paths are aligned so I have brought our attorneys in to help with coordination and see what best path forward is. I have CC'ed Lauren Stine and Paul Valentine, our lawyers with the Quarrels & Brady Firm. They be best for contact going forward.

ITEM NINE LABS

Bryce Skalla
President/ Co-Founder
Item 9 Labs Corp. "INLB"

M 480-406-9454
W www.item9labs.com

[link.wisestamp.com] [link.wisestamp.com] [link.wisestamp.com]

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Gmail

Brian Roche <br@rochecorp.com>

Re: Item 9 coordination

1 message

Brian Roche <br@rochecorp.com> Tue, Jun 30, 2020 at 2:42 AM
To: "Valentine, Paul J." <Paul.Valentine@quarles.com>
Cc: Bryce Skalla <bryce@item9labs.com>, Bobby Mikkelsen <bobby@item9labs.com>, Jeffery Rassas <jeffrey@item9labs.com>, Andrew Bowden <abowden@item9labs.com>, "Stine, Lauren Elliott" <Lauren.Stine@quarles.com>

Paul we are filing the Amended complaint and need to serve it along with the Summons' are you willing to except service for the entities and individuals we named to save me $75 x 10? Note we are adding in Andrew, Doug, and Viridis Group Holdings which owns the entity that was at the heart of the alleged conduct and that paid money to Item 9 to engage in.

It took a while to pour through everything from my investigation but we have it tightened up to include Item 9 at the head of the fraud and for interference and aiding and abetting breach of fiduciary duty which is a cause of action in NV (among others). Included in this is the clear tie in to Strive and Harvest circumventing my guys' rights to equity, voting, and tag along right in NV to all Cannabis activity as represented by Burton, Lemons, Yokiels, and Gullickson to them prior to and after their investment of $741,250 that went to Item 9's efforts in NV. You even reference Harvest in your 10K but had knowledge of my guys ownership and voting based on their investment.

Furthermore, we have Andrew and Daddy Doug dead to rights and naming them. Their entity Viridis Group I9 Capital made a direct investment allowing the conduct to take place, and in fact supported and endorsed the conduct of Item 9 with Skalla and Rassas at the helm as this entity is owned by Andrew, Doug and Viridis Group Holdings, LLC which we know exerts ownership and management control over Viridis Group I9 as the vehicle for the conduct. It provided the capital for Item 9 and the other Deft's to engage in their fraudulent scheme, all while taking 5,000,000 shares of Item 9 in order to allow them the capital to engage in interference with contract, interference with economic advantage, aiding and abetting breach of fiduciary duty, civil conspiracy, and alter ego, among others as pled.

So are you willing to accept service for all of these named Defendants or do I need to have my guy bang on Doug's door at his Whispering Wind home address on 4th of July weekend which he might charge me extra for I don't even know?

On Mon, Jun 22, 2020 at 12:31 PM Valentine, Paul J. <Paul.Valentine@quarles.com> wrote:

> Brian,
>
> We are in receipt of the information you provided and are working through it. We will be in touch once we finalize our review.
>
> Thanks,
>
> **Paul J. Valentine** / Partner
> Paul.Valentine@quarles.com / LinkedIn BIO vCard
> **Quarles & Brady LLP**
> Renaissance One, Two North Central Avenue / Phoenix, AZ 85004-2391
> Office 602-229-5723 / quarles.com
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> VISIT our COVID-19: Guidance for Clients page for the latest updates from Q&B attorneys

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Subject: Re: Item 9 coordination

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Brian Roche
858-254-2000

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Brian,

Spoke with team for several hours last night and after our talk. Seems our paths are aligned so I have brought our attorneys in to help with coordination and see what best path forward is. I have CC'ed Lauren Stine and Paul Valentine, our lawyers with the Quarrels & Brady Firm. They be best for contact going forward.

Bryce Skalla
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--

Kind Regards,

Brian Roche
(858) 254-2000

Think Green before printing this email.
This electronic message (including all attachments) is covered by the Electronic Communications Privacy Act 18 U.S.C. 2510-2521, and is confidential and legally privileged.

EXHIBIT 3

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

FORM 10-Q

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

For the Quarterly Period ended September 30, 2020

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File number 0-54433

MARIMED INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**27-4672745**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

10 Oceana Way
Norwood, MA 02062
(Address of Principal Executive Offices)

617-795-5140
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: None.

Title of each class	Ticker symbol(s)	Name of each exchange on which registered
Not Applicable.	Not Applicable.	Not Applicable.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter

period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☒
	Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of November 9, 2020, 300,416,773 shares of the registrant's common stock were outstanding.

MariMed Inc.
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2

MariMed Inc.
Condensed Consolidated Balance Sheets

	September 30, 2020	December 31, 2019
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 2,261,327	$ 738,688
Accounts receivable, net	4,077,902	1,669,139
Deferred rents receivable	1,968,500	1,796,825
Due from third parties, net	9,937	-
Notes receivable, current portion	540,319	311,149
Inventory	6,802,291	1,219,429
Investments	1,002,659	1,449,144
Other current assets	250,045	192,368
Total current assets	16,912,980	7,376,742
Property and equipment, net	45,507,577	42,792,369
Intangibles, net	2,311,181	2,364,042
Investments	1,085,528	1,324,661
Notes receivable, less current portion	1,084,671	1,639,496
Right-of-use assets under operating leases	5,381,761	5,787,423
Right-of-use assets under finance leases	86,591	111,103
Other assets	80,493	175,905
Total assets	$ 72,450,782	$ 61,571,741
Liabilities, mezzanine equity, and stockholders' equity		
Current liabilities:		
Accounts payable	$ 6,292,958	$ 4,719,069
Accrued expenses	3,111,373	5,395,996
Notes payable, current portion	8,512,590	23,112,742
Mortgages payable, current portion	1,379,541	223,888
Debentures payable, current portion	2,928,047	-
Operating lease liabilities, current portion	1,002,171	917,444
Finance lease liabilities, current portion	38,412	38,412
Due to related parties	1,233,008	1,454,713
Other current liabilities	1,505,008	858,176
Total current liabilities	26,003,108	36,720,440
Notes payable, less current portion	11,653,775	-
Mortgages payable, less current portion	14,864,810	7,112,842
Debentures payable, less current portion	-	5,835,212
Operating lease liabilities, less current portion	4,967,583	5,399,414

Finance lease liabilities, less current portion	52,439	75,413
Other liabilities	100,200	100,200
Total liabilities	57,641,915	55,243,521
Mezzanine equity:		
Series B convertible preferred stock, $0.001 par value; 4,908,333 and zero shares authorized, issued and outstanding at September 30, 2020 and December 31, 2019, respectively	14,725,000	-
Stockholders' equity:		
Series A convertible preferred stock, $0.001 par value; zero and 50,000,000 shares authorized at September 30, 2020 and December 31, 2019, respectively; zero shares issued and outstanding at September 30, 2020 and December 31, 2019	-	-
No designation preferred stock, $0.001 par value; 45,091,667 and zero shares authorized at September 30, 2020 and December 31, 2019, respectively; zero shares issued and outstanding at September 30, 2020 and December 31, 2019	-	-
Common stock, $0.001 par value; 500,000,000 shares authorized at September 30, 2020 and December 31, 2019; 289,729,854 and 228,408,024 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	289,730	228,408
Common stock subscribed but not issued; 33,319 and 3,236,857 shares at September 30, 2020 and December 31, 2019, respectively	5,365	1,168,074
Additional paid-in capital	109,115,215	112,245,730
Accumulated deficit	(108,737,141)	(106,760,527)
Noncontrolling interests	(589,302)	(553,465)
Total stockholders' equity	83,867	6,328,220
Total liabilities, mezzanine equity, and stockholders' equity	$ 72,450,782	$ 61,571,741

See accompanying notes to condensed consolidated financial statements.

MariMed Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues	$ 13,461,504	$ 4,209,328	$ 30,537,829	$ 11,382,942
Revenues from related party	-	7,014,371	-	29,029,249
Total revenues	13,461,504	11,223,699	30,537,829	40,412,191
Cost of revenues	4,781,677	6,523,283	10,831,763	24,523,626
Gross profit	8,679,827	4,700,416	19,706,066	15,888,565
Operating expenses:				
Personnel	1,354,644	1,241,535	4,075,168	2,740,039
Marketing and promotion	103,327	91,562	281,329	286,521
General and administrative	2,931,684	2,394,692	7,515,721	6,752,168
Bad debts	892,029	-	1,342,029	-
Total operating expenses	5,281,684	3,727,789	13,214,247	9,778,728
Operating income	3,398,143	972,627	6,491,819	6,109,837
Non-operating income (expenses):				
Interest expense	(1,921,312)	(4,516,576)	(7,581,648)	(9,076,583)
Interest income	34,818	79,016	121,712	425,770
Loss on obligations settled with equity	-	-	(44,678)	-
Equity in earnings of investments	51,511	(2,933,252)	18,553	(1,020,310)
Change in fair value of investments	217,374	-	(704,172)	-
Other	(84,708)	-	(84,708)	2,948,917
Total non-operating income (expenses), net	(1,702,317)	(7,370,812)	(8,274,941)	(6,722,206)
Income (loss) before income taxes	1,695,826	(6,398,185)	(1,783,122)	(612,369)
Provision for income taxes		901,477	-	1,886,072
Net income (loss)	$ 1,695,826	$ (7,299,662)	$ (1,783,122)	$ (2,498,441)

Net income (loss) attributable to noncontrolling interests	$ 36,959	$ 99,021	$ 193,492	$ 246,367
Net income (loss) attributable to MariMed Inc.	$ 1,658,867	$ (7,398,683)	$ (1,976,614)	$ (2,744,808)
Net income (loss) per share				
Basic	$ 0.006	$ (0.034)	$ (0.008)	$ (0.013)
Diluted	$ 0.005	$ (0.034)	$ (0.008)	$ (0.013)
Weighted average common shares outstanding				
Basic	281,535,212	217,417,326	254,387,761	214,274,342
Diluted	346,091,840	217,417,326	254,387,761	214,274,342

See accompanying notes to condensed consolidated financial statements.

MariMed Inc.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

	Common Stock		Common Stock Subscribed But Not Issued		Additional Paid-In Capital	Accumulated Deficit	Non-Controlling Interests	Total Stockholders' Equity
	Shares	Par Value	Shares	Amount				
Balances at December 31, 2018	211,013,043	$ 211,013	97,136	$ 169,123	$ 87,180,165	$(25,575,808)	$ (220,032)	$ 61,764,461
Sales of common stock	799,995	800	-	-	2,599,200	-	-	2,600,000
Issuance of subscribed shares	97,136	97	(97,136)	(169,123)	169,026	-	-	-
MediTaurus acquisition	-	-	752,260	2,080,000	-	-	1,200,000	3,280,000
Terrace investment	500,000	500	-	-	1,589,500	-	-	1,590,000
Harvest payment	1,000,000	1,000	-	-	(1,000)	-	-	-
Exercise of options	417,352	417	2,644,456	413,894	11,189	-	-	425,500
Exercise of warrants	686,104	686	-	-	611,756	-	-	612,442
Amortization of stock grants	108,820	109	-	-	193,601	-	-	193,710
Amortization of option grants	-	-	-	-	1,219,958	-	-	1,219,958
Amortization of stand-alone warrant issuances	-	-	-	-	139,015	-	-	139,015
Warrant discount on promissory notes	-	-	-	-	600,621	-	-	600,621
Warrant discount on debentures payable	-	-	-	-	1,148,056	-	-	1,148,056
Beneficial conversion feature on debentures	-	-	-	-	4,235,469	-	-	4,235,469
Conversion of debentures payable	3,591,523	3,592	3,206,816	2,464,438	5,391,253	-	-	7,859,283
Distributions	-	-	-	-	-	-	(376,993)	(376,993)
Net income (loss)	-	-	-	-	-	(2,744,808)	246,367	(2,498,441)
Balances at September 30, 2019	218,213,973	$ 218,214	6,603,532	$4,958,332	$105,087,809	$(28,320,616)	$ 849,342	$ 82,793,081

	Common Stock		Common Stock Subscribed But Not Issued		Additional Paid-In Capital	Accumulated Deficit	Non-Controlling Interests	Total Stockholders' Equity
	Shares	Par Value	Shares	Amount				

Balances at December 31, 2019	228,408,024	$ 228,408	3,236,857	$ 1,168,074	$ 112,245,730	$ (106,760,527)	$ (553,465)	6,328,220
Issuance of subscribed shares	3,236,857	3,237	(3,236,857)	(1,168,074)	1,164,837	-	-	-
Stock grants	64,478	64	33,319	5,365	10,665	-	-	16,094
Stock forfeiture	(40,000)	(40)	-	-	40	-	-	-
Amortization of option grants	-	-	-	-	707,003	-	-	707,003
Issuance of stand-alone warrants	-	-			2,179	-	-	2,179
Issuance of warrants attached to debt	-	-	-	-	638,927	-	-	638,927
Discount on debentures payable	-	-	-	-	28,021	-	-	28,021
Beneficial conversion feature on debentures payable	-	-	-	-	379,183	-	-	379,183
Conversion of debentures payable	54,143,232	54,144	-	-	7,111,897	-	-	7,166,041
Conversion of common stock to preferred stock	(4,908,333)	(4,908)	-	-	(14,720,092)	-	-	(14,725,000)
Conversion of promissory note	2,525,596	2,525	-	-	457,525	-	-	460,050
Extinguishment of promissory note	1,900,000	1,900	-	-	350,100	-	-	352,000
Common stock issued to settle obligations	4,400,000	4,400	-	-	739,200	-	-	743,600
Distributions	-	-	-	-	-	-	(229,329)	(229,329)
Net income (loss)	-	-	-	-	-	(1,976,614)	193,492	(1,783,122)
Balances at September 30, 2020	289,729,854	$ 289,730	33,319	$ 5,365	$ 109,115,215	$ (108,737,141)	$ (589,302)	$ $ 83,867)

The above statements do not show columns for Series A convertible preferred stock and no designation preferred stock as the balances were zero and there was no activity in the periods presented.
See accompanying notes to condensed consolidated financial statements.

MariMed Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income (loss) attributable to MariMed Inc.	$ (1,976,614)	$ (2,744,808)
Net income (loss) attributable to noncontrolling interests	193,492	246,367
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,340,649	697,946
Asset write-off	84,708	-
Amortization of intangibles	307,861	154,167
Amortization of stock grants	16,094	193,710
Amortization of option grants	707,003	1,219,958
Amortization of stand-alone warrant issuances	2,179	139,016
Amortization of warrants attached to debt	631,895	1,836,892
Amortization of beneficial conversion feature	2,552,933	4,646,070
Amortization of original issue discount	286,353	107,256
Bad debt expense	1,342,029	-
Loss on obligations settled with equity	44,678	-
Equity in (earnings) losses of investments	(18,553)	1,020,310
Change in fair value of investments	704,172	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,750,792)	(4,788,303)
Accounts receivable from related party, net		(33,200,000)
Deferred rents receivable	(171,675)	53,461
Due from third parties	-	(174,516)
Inventory	(5,582,862)	(942,399)
Other current assets	(57,677)	7,154
Other assets	95,412	(262,981)
Accounts payable	2,272,810	(178,223)
Accrued expenses	1,872,692	3,339,325
Deferred rents payable	-	(105,901)
Operating lease payments	58,559	424,129
Finance lease interest payments	4,033	(1,824)
Unearned revenue from related party	-	4,170,750
Other current liabilities	646,832	197,943
Other liabilities	-	(238,000)
Net cash provided by (used in) operating activities	1,606,211	(24,182,501)

Cash flows from investing activities:

Purchase of property and equipment	(4,116,053)	(6,741,632)
Purchase of cannabis licenses	(255,000)	(150,000)
Investment in notes receivable	-	(2,030,000)
Interest on notes receivable	443,150	175,509
Acquisition	-	(655,804)
Due from related parties	-	119,781
Net cash used in investing activities	(3,927,903)	(9,282,146)
Cash flows from financing activities:		
Issuance of common stock	-	2,600,000
Issuance of promissory notes	5,249,763	17,000,000
Repayments of promissory notes	(10,770,011)	-
Proceeds from issuance of debentures	935,000	9,600,000
Proceeds from mortgages	13,897,282	-
Payments on mortgages	(4,989,661)	(142,170)
Exercise of stock options	-	75,500
Exercise of warrants	-	612,442
Due to related parties	(221,705)	139,402
Finance lease principal payments	(27,008)	(11,167)
Distributions	(229,329)	(376,993)
Net cash provided by financing activities	3,844,331	29,497,014
Net change to cash and cash equivalents	1,522,639	(3,967,633)
Cash and cash equivalents at beginning of period	738,688	4,104,315
Cash and cash equivalents at end of period	$ 2,261,327	$ 136,682
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,236,464	$ 699,582
Cash paid for income taxes	$ 488,772	$ 88,150
Non-cash activities:		
Conversions of debentures payable	$ 7,166,041	$ 7,859,283
Beneficial conversion feature on debentures payable	$ 379,183	$ 4,235,469
Discount on debentures payable	$ 28,021	$ 1,148,056
Issuance of common stock associated with subscriptions	$ 1,168,074	$ 169,123
Discount on promissory notes	$ 638,927	$ 600,621
Conversion of promissory notes	$ 460,050	$ -
Extinguishment of promissory note	$ 352,000	$ -
Common stock issued to settle obligations	$ 698,922	$ -
Exchange of common stock to preferred stock	$ 14,725,000	$ -
Conversion of accrued interest to promissory note	$ 3,908,654	$ -
Conversion of debentures receivable to investment	$ -	$ 30,000,000
Operating lease right-of-use assets and liabilities	$ -	$ 7,142,150

Finance lease right-of-use assets and liabilities	$ -	$ 134,193
Conversion of notes receivable to investment	$ -	$ 257,687
Conversion of advances to notes receivable	$ -	$ 855,913
MediTaurus acquisition	$ -	$ 2,500,000
Terrace investment	$ -	$ 1,590,000
Harvest payment	$ -	$ 1,000
Exercise of stock options via the reduction of an obligation	$ -	$ 350,000
Cashless exercise of stock options	$ -	$ 1,762
Reclass of accrued interest from notes payable	$ -	$ 127,450
Reclass of accrued interest from debentures payable	$ -	$ 62,748

See accompanying notes to condensed consolidated financial statements.

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

MariMed Inc. (the "Company") is a multi-state operator in the cannabis industry. The Company develops, operates, manages, and optimizes over 300,000 square feet of state-of-the-art, regulatory-compliant facilities for the cultivation, production and dispensing of medicinal and recreational cannabis. The Company also licenses its proprietary brands of cannabis and hemp-infused products, along with other top brands, in several domestic markets and overseas.

Upon its entry into the cannabis industry, the Company was an advisory firm that procured state-issued cannabis licenses on behalf of its clients, leased its cannabis facilities to these newly-licensed companies, and provided industry-leading expertise and oversight in all aspects of their cannabis operations. The Company also provided its clients with ongoing regulatory, accounting, real estate, human resources, and administrative services.

In 2018, the Company commenced a strategic plan to transition from a consulting business to a direct owner of cannabis licenses and operator of seed-to-sale operations. The Company's strategic plan consists of the acquisition of its cannabis-licensed clients located in five states—Delaware, Illinois, Maryland, Massachusetts, and Nevada—and the consolidation of these entities under the MariMed banner.

A goal in completing this transition is to present a simpler, more transparent financial picture of the full breadth of the Company's efforts, with a clearer representation of the revenues, earnings, and other financial metrics the Company has generated for its clients. The Company has played a key role in the successes of these entities, from the securing of their cannabis licenses, to the development of facilities that are models of excellence, to providing industry best practices and corporate guidance. Accordingly, the Company believes it is well suited to own these facilities and manage the continuing growth of their operations.

To date, acquisitions of the licensed businesses in Massachusetts and Illinois have been state-approved and completed, and establishes the Company as a fully integrated seed-to-sale multi-state operator. The acquisitions of the remaining entities located in Maryland, Nevada, and Delaware are at various stages of completion and subject to each state's laws governing the ownership and transfer of cannabis licenses, which in the case of Delaware requires a modification of current cannabis ownership laws to permit for-profit ownership. Meanwhile, the Company continues to develop additional revenue and business in these states and plans to leverage its success to expand into other markets where cannabis is and becomes legal.

The Company has also created its own brands of cannabis flower, concentrates, and precision-dosed products utilizing proprietary strains and formulations. These products are developed by the Company in cooperation with state-licensed operators who meet the Company's strict standards, including all natural—not artificial or synthetic—ingredients. The Company licenses its product formulations only to

certified manufacturing professionals who adhere to the Company's precise scientific formulations and trademarked product recipes.

The Company's branded cannabis products are licensed under brand names including Kalm Fusion™, Nature's Heritage™, and Betty's Eddies™, and are distributed in the form of dissolvable strips, tablets, powders, microwaveable popcorn, fruit chews, and other varieties in development. The Company also has exclusive sublicensing rights in certain states to distribute the Binske® line of cannabis products crafted from premium artisan ingredients, the Healer™ line of medical full-spectrum tinctures, and the clinically-tested medicinal cannabis strains developed in Israel by global medical cannabis research pioneer Tikun Olam™. The Company's hemp division distributes hemp-derived CBD products, including its Florance™ brand, in the US and abroad. The Company intends to continue licensing and distributing its brands, as well as other top brands, in the Company's current markets and in additional legal markets worldwide.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The spread of the virus in the United States and the measures implemented to contain it—including business shutdowns, indoor capacity restrictions, social distancing, and diminished travel—have negatively impacted the economy and have created significant volatility and disruption in financial markets. Consequently, the Company's expansion efforts and implementation of its strategic plan have been delayed. Additionally, while the cannabis industry has been deemed an essential business and is not expected to suffer severe declines in revenue, the Company's business, operations, financial condition, and liquidity have been adversely affected, as further discussed in Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations* and the notes to the financial statements included in this report.

Continued disruption to the global economy may materially and adversely affect the future carrying values of certain of the Company's assets, including inventories, accounts receivables, and intangibles, as well as negatively impact the Company's ability to raise working capital to support its operations. The full extent to which COVID-19 and the measures to contain it will impact the Company's business, operations financial condition, and liquidity will depend on the continued severity and duration of the COVID-19 outbreak and other future developments in response to the virus, all of which are highly uncertain at this time. As a result, the Company cannot predict the ultimate impact of COVID-19 on its operational and financial performance.

The Company's stock is quoted on the OTCQX market under the ticker symbol MRMD.

The Company was incorporated in Delaware in January 2011 under the name Worlds Online Inc. Initially, the Company developed and managed online virtual worlds. By early 2014, this line of business effectively ceased operating and the Company pivoted into the legal cannabis industry.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

In accordance with GAAP, interim financial statements are not required to contain all of the disclosures normally required in annual financial statements. In addition, the results of operations of interim periods may not necessarily be indicative of the results of operations to be expected for the full year. Accordingly, these interim financial statements should be read in conjunction with the Company's most recent audited annual financial statements and accompanying notes for the year ended December 31, 2019.

Certain reclassifications have been made to prior periods' data to conform to the current period presentation. These reclassifications had no effect on reported income (losses) or cash flows.

Going Concern

In connection with the preparation of its financial statements for the nine months ended September 30, 2020, the Company's management evaluated the Company's ability to continue as a going concern in accordance with ASU 2014-15, *Presentation of Financial Statements–Going Concern (Subtopic 205-40)*, which requires an assessment of relevant conditions or events, considered in the aggregate, that are known or reasonably knowable by management on the issuance dates of the financial statements which indicate the probable likelihood that the Company will be unable to meet its obligations as they become due within one year after the issuance date of the financial statements.

As part of its evaluation, management assessed known events, trends, commitments, and uncertainties, which at the time included the status of the Company's consolidation plan, the continuing impact of the COVID-19 pandemic on its operations, developments concerning GenCanna's bankruptcy proceedings, recent cannabis industry investment activity, price movements of public cannabis stock, actions and/or results of certain bellwether cannabis companies, the level of cannabis investor confidence, and changes to state laws governing recreational (adult-use) and medical cannabis.

Management also reviewed certain key liquidity metrics of the Company, as further described below, as well as other factors in its evaluation, and determined that there currently exists a substantial doubt that the Company will be able to continue as a going concern within one year after the issuance date of these financial statements without additional funding or the continued profitability growth of its cannabis operations in Illinois and Massachusetts.

The Company produced the following improvements to key liquidity metrics during the reported period:

- During the nine months ended September 30, 2020, the Company's operating activities provided positive cash flow of approximately $1.6 million, compared to approximately $24.2

million of negative cash flow used by such activities during the same period of 2019, a positive swing of approximately $25.8 million.

- At September 30, 2020, the Company's negative working capital was approximately $9.1 million, a continued improvement from approximately $21.5 million at June 30, 2020 and approximately $29.3 million at December 31, 2019.

- The Company successfully restructured the terms of its short-term promissory notes payable to approximately $8.5 million at September 30, 2020 from approximately $17.2 million at June 30, 2020 and $23.1 million at December 31, 2019.

For further discussion of the Company's liquidity and capital resources, please refer to Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations* of this Form 10-Q for the period ended September 30, 2020.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of MariMed Inc. and the following majority-owned subsidiaries:

Subsidiary:	Percentage Owned
MariMed Advisors Inc.	100.0%
Mia Development LLC	89.5%
Mari Holdings IL LLC	100.0%
Mari Holdings MD LLC	97.4%
Mari Holdings NV LLC	100.0%
Hartwell Realty Holdings LLC	100.0%
iRollie LLC	100.0%
ARL Healthcare Inc.	100.0%
KPG of Anna LLC	100.0%
KPG of Harrisburg LLC	100.0%
MariMed Hemp Inc.	100.0%
MediTaurus LLC	70.0%

Intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts within the financial statements and disclosures thereof. Actual results could differ from these estimates or assumptions.

Cash Equivalents

The Company considers all highly liquid investments with a maturity date of three months or less to be cash equivalents. The fair values of these investments approximate their carrying values.

The Company's cash and cash equivalents are maintained with recognized financial institutions located in the United States. In the normal course of business, the Company may carry balances with certain financial institutions that exceed federally insured limits. The Company has not experienced losses on balances in excess of such limits and management believes the Company is not exposed to significant risks in that regard.

Accounts Receivable

Accounts receivable consist of trade receivables and are carried at their estimated collectible amounts.

The Company provides credit to its clients in the form of payment terms. The Company limits its credit risk by performing credit evaluations of its clients and maintaining a reserve, if deemed necessary, for potential credit losses. Such evaluations include the review of a client's outstanding balances with consideration towards such client's historical collection experience, as well as prevailing economic and market conditions and other factors. Based on such evaluations, the Company maintained an allowance for doubtful accounts of approximately $40.5 million and $39.7 million at September 30, 2020 and December 31, 2019, respectively. Please refer to Note 16 – *Bad Debts* for further discussion on receivable reserves.

Inventory

Inventory is carried at the lower of cost or net realizable value, with the cost being determined on a first-in, first-out (FIFO) basis. The Company allocates a certain percentage of overhead cost to its manufactured inventory; such allocation is based on square footage and other industry-standard criteria. The Company reviews physical inventory for obsolescence and/or excess and will record a reserve if necessary. As of the date of this report, no reserve was deemed necessary.

Investments

Investments are comprised of equity holding of private companies. These investments are recorded at fair value on the Company's consolidated balance sheet, with changes to fair value included in income. Investments are evaluated for permanent impairment and are written down if such impairments are deemed to have occurred.

Revenue Recognition

The Company recognizes revenue in accordance with the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 606, *Revenue from Contract with Customers,* as amended by subsequently issued Accounting Standards Updates. This revenue standard requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. The recognition of revenue is determined by performing the following consecutive steps:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract(s);
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract(s); and
- Recognize revenue as the performance obligation is satisfied.

Additionally, when another party is involved in providing goods or services to the Company's clients, a determination is made as to who—the Company or the other party—is acting in the capacity as the principal in the sale transaction, and who is merely the agent arranging for goods or services to be provided by the other party.

The Company is typically considered the principal if it controls the specified good or service before such good or service is transferred to its client. The Company may also be deemed to be the principal even if it engages another party (an agent) to satisfy some of the performance obligations on its behalf, provided the Company (i) takes on certain responsibilities, obligations and risks, (ii) possesses certain abilities and discretion, or (iii) other relevant indicators of the sale. If deemed an agent, the Company would not recognize revenue for the performance obligations it does not satisfy.

The Company's main sources of revenue are comprised of the following:

- Product Sales – direct sales of cannabis and cannabis-infused products by the Company's dispensary and wholesale operations in Massachusetts and Illinois, and direct sales of hemp and hemp-infused products by the Company's hemp division. In 2019, this division participated in one-time sales of acquired hemp seed inventory, as further explained in Note 17 – *Related Party Transactions*. Future product sales are expected to include the Company's planned cannabis-licensee acquisitions in Maryland, Nevada, and Delaware (upon this state's amendment to permit for-profit ownership of cannabis entities). This revenue is recognized when products are delivered or at retail point-of-sale.

- Real Estate – rental income and additional rental fees generated from leasing of the Company's state-of-the-art, regulatory-compliant cannabis facilities to its cannabis-licensed clients. Rental income is generally a fixed amount per month that escalates over the respective lease term, while additional rental fees are based on a percentage of tenant revenues that exceed specified amounts.

- Management – fees for providing the Company's cannabis clients with comprehensive oversight of their cannabis cultivation, production, and dispensary operations. Along with this oversight, the Company provides human resources, regulatory, marketing, and other corporate services. These fees are based on a percentage of such clients' revenue, and are recognized after services have been performed.

- Supply Procurement – the Company maintains volume discounts with top national vendors of cultivation and production resources, supplies, and equipment, which the Company acquires and resells to its clients or third parties within the cannabis industry. The Company recognizes this revenue after the delivery and acceptance of goods by the purchaser.

- Licensing – revenue from the sale of precision-dosed, cannabis-infused products—such as Kalm Fusion™, Nature's Heritage™, and Betty's Eddies™—to regulated dispensaries throughout the United States and Puerto Rico. The recognition of this revenue occurs when the products are delivered.

Research and Development Costs

Research and development costs are charged to operations as incurred.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation, with depreciation recognized on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term, if applicable. When assets are retired or disposed, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income. Repairs and maintenance are charged to expense in the period incurred.

The estimated useful lives of property and equipment are generally as follows: buildings and building improvements, seven to thirty-nine years; tenant improvements, the remaining duration of the related lease; furniture and fixtures, seven years; machinery and equipment, five to ten years. Land is not depreciated.

The Company's property and equipment are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from the undiscounted future cash flows of such asset over the anticipated holding period. An impairment loss is measured by the excess of the asset's carrying amount over its estimated fair value.

Impairment analyses are based on management's current plans, asset holding periods, and currently available market information. If these criteria change, the Company's evaluation of impairment losses may be different and could have a material impact to the consolidated financial statements. For the nine months ended September 30, 2020 and 2019, based on the results of management's analyses, there were no impairment losses.

Leases

The consolidated financial statements reflect the Company's adoption of ASC 842, *Leases*, as amended by subsequent accounting standards updates, utilizing the modified retrospective transition approach which calls for applying the new standard to all of the Company's leases effective January 1, 2019, which is the effective date of adoption.

ASC 842 is intended to improve financial reporting of leasing transactions. The most prominent change from previous accounting guidance is the requirement to recognize right-of-use assets and lease liabilities on the consolidated balance sheet representing the rights and obligations created by operating leases that extend more than twelve months in which the Company is the lessee. The Company elected the package of practical expedients permitted under ASC 842. Accordingly, the Company accounted for its existing operating leases that commenced before the effective date as operating leases under the new guidance without reassessing (i) whether the contracts contain a lease, (ii) the classification of the leases, or (iii) the accounting for indirect costs as defined in ASC 842.

The Company determines if an arrangement is a lease at inception. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Non-lease components within lease agreements are accounted for separately. Right-of-use assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term, utilizing the Company's incremental borrowing rate. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Impairment of Long-Lived Assets

The Company evaluates the recoverability of its fixed assets and other assets in accordance with ASC 360-10-15, *Impairment or Disposal of Long-Lived Assets*. Impairment of long-lived assets is recognized when the net book value of such assets exceeds their expected cash flows, in which case the assets are written down to fair value, which is determined based on discounted future cash flows or appraised values.

Fair Value of Financial Instruments

The Company follows the provisions of ASC 820, *Fair Value Measurement*, to measure the fair value of its financial instruments, and ASC 825, *Financial Instruments,* for disclosures on the fair value of its financial instruments. To increase consistency and comparability in fair value measurements and related disclosures, ASC 820 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of fair value hierarchy defined by ASC 820 are:

Level 1 Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2 Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3 Pricing inputs that are generally observable inputs and not corroborated by market data.

The carrying amounts of the Company's financial assets and liabilities, such as cash and accounts payable approximate their fair values due to the short maturity of these instruments.

The fair value of option and warrant issuances are determined using the Black-Scholes pricing model and employing several inputs such as the expected life of instrument, the exercise price, the expected risk-free interest rate, the expected dividend yield, the value of the Company's common stock on issuance date, and the expected volatility of such common stock. The following table summarizes the range of inputs used by the Company during the nine months ended September 30, 2020 and 2019.

	Nine Months Ended September 30,	
	2020	2019
Life of instrument	2.7 to 4.3 years	2.3 to 3.0 years
Volatility factors	1.059 to 1.180	1.059 to 1.106
Risk-free interest rates	0.26% to 1.30%	1.42% to 2.28%
Dividend yield	0%	0%

The expected life of an instrument is calculated using the simplified method pursuant to Staff Accounting Bulletin Topic 14, *Share-Based Payment*, which allows for using the mid-point between the vesting date and expiration date. The volatility factors are based on the historical two-year movement of the Company's common stock prior to an instrument's issuance date. The risk-free interest rate is based on U.S. Treasury rates with maturity periods similar to the expected instruments life on the issuance date.

The Company amortizes the fair value of option and warrant issuances on a straight-line basis over the requisite service period of each instrument.

Extinguishment of Liabilities

The Company accounts for extinguishment of liabilities in accordance with ASC 405-20, *Extinguishments of Liabilities.* When the conditions for extinguishment are met, the liabilities are written down to zero and a gain or loss is recognized.

Stock-Based Compensation

The Company accounts for stock-based compensation using the fair value method as set forth in ASC 718, *Compensation—Stock Compensation,* which requires a public entity to measure the cost of employee services received in exchange for an equity award based on the fair value of the award on the grant date, with limited exceptions. Such value will be incurred as compensation expense over the period an employee is required to provide service in exchange for the award, usually the vesting period. No compensation cost is recognized for equity awards for which employees do not render the requisite service.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent management concludes it is more likely than not that the assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. The Company did not take any uncertain tax positions and had no adjustments to unrecognized income tax liabilities or benefits for the nine months ended September 30, 2020 and 2019.

Related Party Transactions

The Company follows ASC 850, *Related Party Disclosures*, for the identification of related parties and disclosure of related party transactions.

In accordance with ASC 850, the Company's financial statements include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business, as well as transactions that are eliminated in the preparation of financial statements.

Comprehensive Income

The Company reports comprehensive income and its components following guidance set forth by ASC 220, *Comprehensive Income*, which establishes standards for the reporting and display of comprehensive income and its components in the consolidated financial statements. There were no items of comprehensive income applicable to the Company during the period covered in the financial statements.

Earnings Per Share

Earnings per common share is computed pursuant to ASC 260, *Earnings Per Share*. Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is computed by dividing net income by the sum of the weighted average number of shares of common stock outstanding plus the weighted average number of potentially dilutive securities during the period.

At September 30, 2020 and 2019, there were 24,860,857 and 16,815,107, respectively, of potentially dilutive securities in the form of outstanding options and warrants. Also as of such dates, there were (i) $4.2 million and $11.1 million, respectively, of outstanding convertible debentures payable, (ii) 4,908,333 and zero shares, respectively, of Series B convertible preferred stock outstanding, and (iii)

approximately $5.2 million and $350,000, respectively, of outstanding convertible promissory notes. All of these potentially dilutive securities are convertible into common stock based on either (i) a predetermined price, subject to adjustment, or (ii) the market value of common stock on or about the future conversion date.

For the three months ended September 30, 2020, all such potentially dilutive securities were convertible into approximately 64.6 million net shares of common stock, which were included in the number of weighted average common shares outstanding on a diluted basis, and in the calculation of diluted net income per share for this period as shown in the statement of operations. For the nine months ended September 30, 2020, and for the three and nine months ended Septembers 30, 2019, the potentially dilutive securities had an anti-dilutive effect on earnings per share, and in accordance with ASC 260, were excluded from the diluted net income per share calculations, resulting in identical basic and fully diluted net income per share for these periods.

Commitments and Contingencies

The Company follows ASC 450, *Contingencies*, which requires the Company to assess the likelihood that a loss will be incurred from the occurrence or non-occurrence of one or more future events. Such assessment inherently involves an exercise of judgment. In assessing possible loss contingencies from legal proceedings or unasserted claims, the Company evaluates the perceived merits of such proceedings or claims, and of the relief sought or expected to be sought.

If the assessment of a contingency indicates that it is probable that a material loss will be incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

While not assured, management does not believe, based upon information available at this time, that a loss contingency will have material adverse effect on the Company's financial position, results of operations or cash flows.

Beneficial Conversion Features on Convertible Debt

Convertible instruments that are not bifurcated as a derivative pursuant to ASC 815, *Derivatives and Hedging*, and not accounted for as a separate equity component under the cash conversion guidance are evaluated to determine whether their conversion prices create an embedded beneficial conversion feature at inception, or may become beneficial in the future due to potential adjustments.

A beneficial conversion feature is a nondetachable conversion feature that is "in-the-money" at the commitment date. The in-the-money portion, also known as the intrinsic value of the option, is recorded in equity, with an offsetting discount to the carrying amount of convertible debt to which it is attached. The discount is amortized to interest expense over the life of the debt with adjustments to amortization upon full or partial conversions of the debt.

Risk and Uncertainties

The Company is subject to risks common to companies operating within the legal and medical marijuana industries, including, but not limited to, federal laws, government regulations and jurisdictional laws.

Noncontrolling Interests

Noncontrolling interests represent third-party minority ownership of the Company's consolidated subsidiaries. Net income attributable to noncontrolling interests is shown in the consolidated statements of operations; and the value of net assets owned by noncontrolling interests are presented as a component of equity within the balance sheets.

Off Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements, and does not believe the future adoption of any such pronouncements will have a material impact on its financial condition or the results of its operations.

NOTE 3 – ACQUISITIONS

KPG of Anna LLC and KPG of Harrisburg LLC

Effective October 1, 2019, the Illinois Department of Financial and Professional Regulation approved the Company's acquisition of (i)100% of the ownership interests of KPG of Anna LLC and KPG of Harrisburg LLC, the Company's two cannabis-licensed clients that operate medical marijuana dispensaries in the state of Illinois (both entities collectively, the "KPGs"), and (ii) the 40% ownership interests not already owned by the Company of Mari Holdings IL LLC, the Company's subsidiary

which owns the real estate in which the KPGs' dispensaries are located ("Mari-IL"). On such date, 1,000,000 shares of the Company's common stock, representing the entire purchase price, were issued to the sellers of the KPGs and Mari-IL, and these entities became wholly-owned subsidiaries of the Company.

The acquisition was accounted for in accordance with ASC 805. The following table summarizes the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed on the acquisition date:

Cash and cash equivalents	$	443,980
Inventory		113,825
Intangibles		2,067,727
Minority interests		138,356
Accounts payable		(642,033)
Accrued expenses		(186,005)
Due to third parties		(1,020,850)
Total fair value of consideration	$	915,000

Based on an impairment analysis performed shortly before the filing date of this report, the Company determined the intangibles of approximately $2.1 million arising from this transaction were not impaired.

The Harvest Foundation LLC

In August 2019, the Company entered into a purchase agreement to acquire 100% of the ownership interests of The Harvest Foundation LLC ("Harvest"), the Company's cannabis-licensed client in the state of Nevada. The acquisition is conditioned upon legislative approval of the transaction. At this time, the state has paused the processing of cannabis license transfers, without indicating when it will resume. Upon the resumption of these activities and the ensuing approval by the state, this agreement will be consummated and the operations of Harvest will be consolidated into the Company's financial statements.

The purchase price is comprised of the issuance of (i) 1,000,000 shares of the Company's common stock, in the aggregate, to two owners of Harvest, which as a good faith deposit, were issued upon execution of the purchase agreement, (ii) $1.2 million of the Company's common stock at closing, based on the closing price of the common stock on the day prior to legislative approval of the transaction, and (iii) warrants to purchase 400,000 shares of the Company's common stock at an exercise price equal to the closing price of the Company's common stock on the day prior to legislative approval of the transaction. These shares are restricted and will be returned to the Company in the event the transaction does not close by a date certain. As the transaction has not been consummated, the issued shares were recorded at par value.

Kind Therapeutics USA Inc.

In December 2018, the Company entered into a memorandum of understanding (the "MOU") to acquire Kind Therapeutics USA Inc. ("Kind"), its client in Maryland that holds licenses for the cultivation, production, and dispensing of medical cannabis. The MOU provides for a total purchase price of $6.3 million in cash, 2,500,000 shares of the Company's common stock, and other consideration. The

acquisition is subject to the approval by the Maryland Medical Cannabis Commission, which approval can be applied for starting in March 2021.

Also in December 2018, MariMed Advisors Inc, the Company's wholly owned subsidiary, and Kind entered into a management agreement pursuant to which the Company provides comprehensive management services in connection with the business and operations of Kind, and Mari Holdings MD LLC, the Company's majority-owned subsidiary, entered into a 20-year lease with Kind for its utilization of the Company's 180,000 square foot cultivation and production facility in Hagerstown, MD. Additionally, in October 2019, Mari Holdings MD LLC purchased a 9,000 square foot building in Anne Arundel County, MD for the development of a dispensary which would be leased to Kind.

The sellers of Kind have attempted to renegotiate the terms of the MOU. Even though the MOU contains all the definitive material terms with respect to the acquisition transaction and confirms the management and lease agreements, the selling parties now allege that the MOU is not an enforceable agreement. The Company engaged with the sellers in good faith in an attempt to reach updated terms acceptable to both parties, however the sellers failed to reciprocate in good faith, resulting in an impasse, and both parties commencing legal proceedings which are pending in the Circuit Court for Washington County, Maryland. For further information, see Note 18 – *Commitments and Contingencies* and Part II, Item 1. *Legal Proceedings* in this report.

MediTaurus LLC

In May 2019, the Company entered into a purchase agreement to acquire MediTaurus LLC ("MediTaurus"), a company formed and owned by Jokubas Ziburkas PhD, a neuroscientist and leading authority on CBD and its interactions with the brain and endocannabinoid system. MediTaurus currently operates in the United States and Europe and has developed proprietary CBD formulations sold under its Florance™ brand.

Pursuant to the purchase agreement, the Company acquired 70% of MediTaurus on June 1, 2019. The purchase price was $2.8 million, comprised of cash payments totaling $720,000 and 520,000 shares of the Company's common stock valued at $2,080,000. The parties are currently in negotiations regarding the Company's acquisition of the remaining 30% of MediTaurus.

The acquisition was accounted for in accordance with ASC 10. The following table summarizes the allocation, adjusted in September 2019, of the purchase price to the fair value of the assets acquired and liabilities assumed on the acquisition date:

Cash and cash equivalents	$ 64,196
Accounts receivable	5,362
Inventory	519,750
Goodwill	2,662,669
Accounts payable	(777)
Total value of MediTaurus	3,251,200
Noncontrolling interests in MediTaurus	(975,360)
Total fair value of consideration	$ 2,275,840

Based on a valuation of MediTaurus in late 2019, the goodwill on the transaction was adjusted to approximately $2.7 million, which was written off due to the impact of the COVID-19 pandemic on MediTaurus' business.

AgriMed Industries of PA LLC

In July 2018, the Company entered into a purchase agreement to acquire 100% of the ownership interests of AgriMed Industries of PA LLC ("AgriMed"), an entity that holds a license from the state of Pennsylvania for the cultivation of cannabis. The purchase price was comprised of $8.0 million, payable in stock and cash, and the assumption of certain liabilities of AgriMed. In February 2019, the Company commenced legal proceedings against AgriMed seeking specific performance of the purchase agreement.

In May 2019, the dispute between the parties was resolved through the cash payment to the Company of $3.1 million and other good and valuable consideration, in exchange for the Company relinquishing its rights under the purchase agreement and releasing its claims against AgriMed. The net amount of approximately $2,949,000, representing the cash payment less legal fees and write-offs of assets and

supplies, was recorded in *Other Non-Operating Income* in the Company's consolidated statement of operations for the year ended December 31, 2019.

NOTE 4 – INVESTMENTS

At September 30, 2020 and December 31, 2019, the Company's investments were comprised of the following:

	September 30, 2020	December 31, 2019
Current investments:		
Terrace Inc.	$ 1,002,659	$ 1,449,144
Total current investments	1,002,659	1,449,144
Non-current investments:		
MembersRSVP LLC	1,085,528	1,066,975
Chooze Corp.	-	257,686
GenCanna Global Inc.	-	-
Iconic Ventures Inc.	-	-
Total non-current investments	1,085,528	1,324,661
Total investments	$ 2,088,187	$ 2,773,805

Terrace Inc.

In May 2019, the Company issued 500,000 shares of its common stock, valued at $1.59 million on the date of issuance, to purchase an 8.95% interest in Terrace Inc. ("Terrace"), a Canadian entity that develops and acquires international cannabis assets. The Company has no board representation, nor does it have the ability to exert operational or financial control over the entity.

In November 2019, the common stock of Terrace commenced public trading on the Toronto Stock Venture Exchange. In accordance with ASC 321, *Investments – Equity Securities*, this investment is carried at fair value, with changes to fair value recognized in net income. Prior to Terrace becoming publicly traded, the Company had elected the measurement alternative to value this equity investment without a readily determinable fair value.

At September 30, 2020, the carrying amount of this investment approximated $1,003,000, based on its publicly traded stock price on such date, which required the Company to record a charge to net income of approximately $447,000 for the nine months then ended that is reflected under *Change In Fair Value Of Investments* on the statement of operations.

MembersRSVP LLC

In August 2018, the Company invested $300,000, of a total contracted cash investment of $500,000, and issued 378,259 shares of its common stock, valued at approximately $915,000, in exchange for a 23% ownership in MembersRSVP LLC ("MRSVP"), an entity that has developed a customer relationship

management and marketing platform, branded under the name Sprout, that is designed for and licensed to companies in the cannabis industry.

The investment is accounted under the equity method. During the nine months ended September 30, 2020 and 2019, the Company recorded earnings of approximately $19,000 and a charge of approximately $105,000, respectively, based on the Company's equity in MRSVP's net income and losses during such periods. Since the inception of the investment, the Company has recorded cumulative equity in net losses of approximately $130,000, reducing the carrying value of the investment to approximately $1,086,000 at September 30, 2020.

Chooze Corp.

In January 2019, the entire principal and accrued interest balance of a note receivable from Chooze Corp. of approximately $258,000 was converted into a 2.7% equity interest in Chooze. In accordance with ASC 321, the Company elected the measurement alternative to value this equity investment without a readily determinable fair value. Accordingly, the investment was carried at its cost until June 2020 when the investment was fully reserved due to the Company's determination that the investment was impaired. This reserve of approximately $258,000 is reflected under *Change In Fair Value Of Investments* on the statement of operations.

GenCanna Global Inc.

During 2018, in a series of transactions, the Company purchased $30 million of subordinated secured convertible debentures (the "GC Debentures") of GenCanna. In February 2019, the Company converted the GC Debentures, plus unpaid accrued interest through the conversion date of approximately $229,000, into common stock of GenCanna equal to a 33.5% ownership interest in GenCanna on a fully diluted basis. Concurrent with the conversion, the Company's CEO was appointed to GenCanna's board and the Company was granted certain rights, including the rights of inspection, financial information, and participation in future security offerings of GenCanna. At conversion, the Company commenced accounting for this investment under the equity method.

In late January 2020, an involuntary bankruptcy proceeding under Chapter 11 was filed against GenCanna USA, GenCanna's wholly-owned operating subsidiary, with the U.S. Bankruptcy Court in the Eastern District of Kentucky (the "Bankruptcy Court"). In the months leading up to the filing, GenCanna had faced several challenges including defaults under its senior credit facility with MGG Investment Group LP ("MGG"), a fire at its main processing and lab facility, the domestic decline of CBD selling prices, and the contraction of the cannabis capital markets. On February 6, 2020, GenCanna USA, under pressure from certain of its creditors and MGG, agreed to convert the involuntary bankruptcy proceeding into a voluntary Chapter 11 proceeding. In addition, GenCanna and GenCanna USA's subsidiary, Hemp Kentucky LLC (collectively with GenCanna and GenCanna USA, the "GenCanna Debtors"), filed voluntary petitions under Chapter 11 in the Bankruptcy Court. As a result, the Company recorded a charge to net income of approximately $30.2 million in December 2019, which reduced the carrying value of this investment to zero.

On February 18, 2020, the GenCanna Debtors sought permission from the Bankruptcy Court to sell all or substantially all of their assets. After the entry of various orders to establish the bidding procedures and criteria for such sale, the GenCanna Debtors received only four proposals (including a credit bid

from MGG) for the purchase of the GenCanna Debtors' assets and a single proposal for a plan of reorganization which was submitted by the Company.

On May 19, 2020, after an abbreviated solicitation/bid/sale process, the Bankruptcy Court, over numerous objections by creditors and shareholders of the GenCanna Debtors which included the Company, entered an order authorizing the sale of all or substantially all of the assets of the GenCanna Debtors to MGG for its credit bid in the amount of $73.5 million and cash in the amount of $3.5 million.

Based on recent filings with the Bankruptcy Court, the GenCanna Debtors are proposing to file a liquidating plan of reorganization to collect various prepetition payments and commercial claims against third parties, liquidate the remaining assets of the GenCanna Debtors, and make payments to creditors. The Company and the unsecured creditors committee are exploring options, including litigation against MGG for lender liability, equitable subordination, and return of preference. In connection with this liquidation process, the Company has filed its proofs of claim for the $33.2 million of hemp seeds sold to GenCanna, which transaction is further discussed in Note 17 – *Related Party Transactions*.

Iconic Ventures Inc.

In December 2018, the Company purchased 2,500,000 shares of common stock of Iconic Ventures Inc. ("Iconic"), which equated to an ownership interest in Iconic of approximately 10%, for an aggregate cash payment of $500,000. Iconic has developed DabTabs™, a unique solution for cannabinoid vaporization. The Company has no board representation, nor does it have the ability to exert operational or financial control over the entity. In 2019, the Company wrote off the investment after an impairment review that considered the viability of the entity in light of the current economic climate.

Binske®

In July 2019, the Company entered into a licensing agreement for the exclusive manufacturing and distribution in several eastern U.S. states of the Binske® portfolio of products, a brand known for utilizing best-in-class proprietary strains and craft ingredients in its edibles, concentrates, vaporizers, and topicals. In consideration for the license and other rights, the Company agreed to pay a royalty of 10.0% to 12.5% of gross revenue, as defined, derived from the sale of Binske® products, subject to an annual minimum royalty. No gross revenue was generated as of September 30, 2020.

NOTE 5 – DEFERRED RENTS RECEIVABLE

The Company is the lessor under several operating leases which contain rent holidays, escalating rents over time, options to renew, requirements to pay property taxes, insurance and/or maintenance costs, and contingent rental payments based on a percentage of monthly tenant revenues. The Company is not the lessor under any finance leases.

The Company recognizes fixed rental receipts from such lease agreements on a straight-line basis over the expected lease term. Differences between amounts received and amounts recognized are recorded under *Deferred Rents Receivable* on the balance sheet. Contingent rentals are recognized only after tenants' revenues are finalized and if such revenues exceed certain minimum levels.

During the reporting periods, the Company leased to third parties the following owned properties:

- Delaware – a 45,000 square foot facility purchased in September 2016 and developed into a cannabis cultivation, processing, and dispensary facility which is leased to a cannabis-licensed client occupying 100% of the space under a triple net lease that commenced in 2017 and expires in 2035.

- Maryland – a 180,000 square foot former manufacturing facility purchased in January 2017 and developed by the Company into a cultivation and processing facility which is leased to a licensed cannabis client under a triple net lease that commenced in 2018 and expires in 2037.

- Massachusetts – a 138,000 square foot industrial property of which approximately half of the available square footage is leased to a non-cannabis manufacturing company under a lease that commenced in 2017 and expires in 2022.

- Illinois – two 3,400 square foot free-standing retail dispensaries in the cities of Anna and Harrisburg and leased to the KPGs, each under a 20-year lease that commenced in 2018. With the acquisition of the KPGs as disclosed in Note 3 – *Acquisitions*, this lease was eliminated upon the consolidation of the KPGs in October 2019. Accordingly, the rental receipts on such leases have been removed from the table of future minimum rental receipts below.

During the reporting periods, the Company subleased to a third party the following property:

- Delaware – 4,000 square feet of retail space in a multi-use building which the Company developed into a cannabis dispensary and is subleased to its cannabis-licensed client under a under a triple net lease expiring in 2021 with a five-year option to extend.

As of September 30, 2020 and December 31, 2019, cumulative fixed rental receipts under such leases approximated $12.8 million and $9.5 million, respectively, compared to revenue recognized on a straight-line basis of approximately $14.8 million and $11.3 million. Accordingly, the deferred rents receivable balances at September 30, 2020 and December 31, 2019 approximated $2.0 million and $1.8 million, respectively.

Future minimum rental receipts for non-cancelable leases and subleases as of September 30, 2020 were:

2020	$ 1,130,989
2021	4,667,497
2022	4,590,656
2023	4,292,769
2024	4,348,027
Thereafter	43,995,612
Total	$ 63,025,550

NOTE 6 – NOTES RECEIVABLE

At September 30, 2020 and December 31, 2019, notes receivable were comprised of the following:

	September 30, 2020	December 31, 2019
First State Compassion Center	$ 484,240	$ 527,261
Healer LLC	885,871	846,985
High Fidelity Inc.	254,879	252,873
Maryland Health & Wellness Center Inc.	-	323,526
Atalo Holdings Inc.	-	-
Total notes receivable	1,624,990	1,950,645
Notes receivable, current portion	540,319	311,149
Notes receivable, less current portion	$ 1,084,671	$ 1,639,496

The Company loaned approximately $700,000 to First State Compassion Center, its Delaware cannabis-licensee client, during the period from October 2015 to April 2016. In May 2016, this client issued a 10-year promissory note, as subsequently amended, to the Company bearing interest at a rate of 12.5% per annum. The monthly payments of approximately $10,100 will continue through April 2026, at which time the note will become due. At September 30, 2020 and December 31, 2019, the current portion of this note was approximately $64,000 and $58,000, respectively, and is included in *Notes Receivable, Current Portion* on the respective balance sheets.

From August 2018 to June 2019, the Company loaned an aggregate of $800,000 to Healer LLC ("Healer"), an entity that provides cannabis education, dosage programs, and products developed by Dr. Dustin Sulak, an integrative medicine physician and nationally renowned cannabis practitioner. The loans bear interest at 6% per annum, with principal and interest payable on the maturity dates which are three years from the respective loan dates. At September 30, 2020, the current portion of this note approximated $221,000. No portion was current at December 31, 2019.

In August 2019, the Company loaned $250,000 to High Fidelity Inc., a company that owns and operates two seed-to sale medical marijuana facilities in the state of Vermont and produces its own line of CBD products. Prior to the note's maturity in August 2020, the parties agreed to continue the note on a month-to-month basis, with interest-only monthly payments ongoing at the rate of 10% per annum.

In January 2019, the Company provided Maryland Health & Wellness Center Inc. ("MHWC"), an entity that has been pre-approved by the state of Maryland for a cannabis dispensing license, with a $300,000 construction loan bearing interest at a rate of 8% per annum. In June 2020, MHWC repaid the principal and accrued interest thereon, at which time the parties agreed to terminate their business relationship and release each other from all other previously executed agreements.

From May 2019 to July 2019, the Company extended loans aggregating $980,000 to Atalo Holdings Inc. ("Atalo"), an agriculture and biotechnology firm specializing in research, development, and

production of industrial hemp and hemp-derived CBD products. The loans initially bore interest at 6% per annum and matured in April 2020. The Company wrote off the entire carrying value of the Atalo note receivable balance as of December 2019, based upon the expectation that Atalo would be critically impacted by the COVID-19 pandemic. In 2020, Atalo filed for bankruptcy.

NOTE 7 – INVENTORY

At September 30, 2020 and December 31, 2019, inventory was comprised of approximately (i) $3.1 million and $395,000, respectively, of plants and other raw materials, (ii) $188,000 and $226,000, respectively, of CBD isolate and hemp extract, and (iii) $3.5 million and $599,000 of work-in-process and finished cannabis and CBD products.

NOTE 8 – PROPERTY AND EQUIPMENT

At September 30, 2020 and December 31, 2019, property and equipment consisted of the following:

	September 30, 2020	December 31, 2019
Land	$ 3,988,810	$ 3,887,710
Buildings and building improvements	27,334,283	27,063,235
Tenant improvements	8,607,282	7,762,991
Furniture and fixtures	555,766	299,645
Machinery and equipment	4,490,186	4,086,691
Construction in progress	4,977,181	2,827,940
	49,953,508	45,928,212
Less: accumulated depreciation	(4,445,931)	(3,135,843)
Property and equipment, net	$ 45,507,577	$ 42,792,369

During the nine months ended September 30, 2020 and 2019, additions to property and equipment were approximately $4.1 million and $6.7 million, respectively.

Additions during the nine months ended September 30, 2020 consisted primarily of (i) the commencement of construction in Mt. Vernon, IL, and (ii) machinery and equipment purchases for facilities in Massachusetts, Maryland, Illinois, and Delaware. Additions during the nine months ended September 30, 2019 consisted primarily of (i) the commencement of construction in Milford, DE, (ii) the continued buildout of properties in Maryland and Massachusetts, and (iii) improvements to the Wilmington, DE and Las Vegas, NV properties.

During the nine months ended September 30, 2020, the Company disposed of an asset with a cost of approximately $91,000 and accumulated depreciation through the disposal date of approximately $6,000. The loss on disposal of approximately $85,000 is reflected in *Other Non-Operating Expenses* in the statement of operations at September 30, 2020. There were no disposals in 2019.

Depreciation expense for the nine months ended September 30, 2020 and 2019 approximated $1,341,000 and $698,000, respectively.

NOTE 9 – DEBT

Mortgages Payable

At September 30, 2020 and December 31, 2019, mortgage balances, including accrued but unpaid interest, were comprised of the following:

	September 30, 2020	December 31, 2019
Bank of New England – Massachusetts properties	$ 12,912,723	$ 4,825,226
Bank of New England – Delaware property	1,602,730	1,682,275
DuQuoin State Bank – Illinois properties	822,245	829,229
South Porte Bank – Illinois property	906,653	-
Total mortgages payable	16,244,351	7,336,730
Mortgages payable, current portion	(1,379,541)	(223,888)
Mortgages payable, less current portion	$ 14,864,810	$ 7,112,842

In November 2017, the Company entered into a 10-year mortgage agreement with Bank of New England in the amount of $4,895,000 (the "Initial Mortgage") for the purchase of a 138,000 square foot industrial property in New Bedford, Massachusetts, within which the Company has built a 70,000 square foot cannabis cultivation and processing facility. Pursuant to the Initial Mortgage, the Company made monthly payments of (i) interest-only from the mortgage date through May 2019 at a rate equal to the prime rate plus 2%, with a floor of 6.25% per annum, and (ii) principal and interest payments from May 2019 to July 2020 at a rate equal to the prime rate on May 2, 2019 plus 2%, with a floor of 6.25% per annum. In July 2020, at which time the Initial Mortgage had a remaining principal balance of approximately $4.8 million, the parties consummated an amended and restated mortgage agreement, secured by the Company's properties in New Bedford and Middleboro in the amount of $13.0 million bearing interest at a rate of 6.5% per annum that matures in August 2025 (the "Refinanced Mortgage"). Proceeds from the Refinanced Mortgage were used to pay down the Initial Mortgage and approximately $7.2 million of promissory notes as further described below. The outstanding principal balance of the Refinanced Mortgage approximated $12.9 million on September 30, 2020, of which approximately $330,000 was current. The outstanding principal balance of the Initial Mortgage approximated $4.8 million on December 31, 2019, of which approximately $94,000 was current.

The Company maintains another mortgage with Bank of New England for the 2016 purchase of a 45,070 square foot building in Wilmington, Delaware which was developed into a cannabis seed-to-sale facility and is currently leased to the Company's cannabis-licensed client in that state. The mortgage matures in 2031 with monthly principal and interest payments at a rate of 5.25% per annum through September 2021, and thereafter the rate adjusting every five years to the then prime rate plus 1.5% with a floor of 5.25% per annum. At September 30, 2020 and December 31, 2019, the outstanding principal balance on this mortgage was approximately $1,603,000 and $1,682,000, respectively, of which approximately $112,000 and $105,000, respectively, was current.

In May 2016, the Company entered into a mortgage agreement with DuQuoin State Bank ("DSB") for the purchase of two properties which the Company developed into two 3,400 square foot free-standing retail dispensaries in Illinois. On May 5th of each year, this mortgage is due to be repaid unless it is renewed for another year at a rate determined by DSB's executive committee. The mortgage was renewed in May 2020 at a rate of 6.75% per annum. At September 30, 2020 and December 31, 2019, the outstanding principal balance on this mortgage was approximately $822,000 and $829,000 respectively, of which approximately $31,000 and $24,000, respectively, was current.

In February 2020, the Company entered into a mortgage agreement with South Porte Bank for the purchase and development of a property in Mt. Vernon, IL. Pursuant to the mortgage agreement, the Company made interest-only monthly payments at a rate of 5.5% per annum through its initial maturity date in August 2020. At that time, the parties amended the mortgage agreement to extend the maturity date through November 2020, and requiring continuing monthly interest-only payments at 5.5% per annum.

Notes Payable

In February 2020, pursuant to an exchange agreement as further described in Note 11 – *Mezzanine Equity*, the Company issued two promissory notes in the aggregate principal amount of approximately $4.4 million, bearing interest at 16.5% per annum and maturing in August 2021 (the "$4.4M Notes"), in exchange for a loan in the same amount. The Company has the right to extend the maturity date through February 2022 upon payment of an extension fee equal to 2.5% of the principal amount of the loan. As of September 30, 2020, no principal payments were made on the $4.4M Notes and accrued interest through such date of approximately $439,000 was paid.

In June 2019, the Company and MariMed Hemp, its wholly-owned subsidiary, issued a secured promissory note in the principal amount of $10.0 million (the "$10M Note") to an unaffiliated party (the "Noteholder"). The proceeds from the $10M Note were used to finance a portion of the purchases of hemp seed inventory that was sold to GenCanna (the "Seed Transactions") as further discussed in Note 17 – *Related Party Transactions*. The $10M Note provided for the repayment of principal plus a payment of $1.5 million (the "$1.5M Payment") on the maturity date of January 31, 2020. Such payment was charged to interest expense over the life of the $10M Note.

As part of the $10M Note transaction, the Company issued three-year warrants to purchase 375,000 shares of common stock at an exercise price of $4.50 per share to the Noteholder. The fair value of these warrants on the issuance date of approximately $601,000 was recorded as a discount to the $10M Note. Approximately $523,000 of the warrant discount was amortized to interest expense in 2019, with the remainder in January 2020. Accordingly, the carrying value of the $10M Note approximated $9.9 million at December 31, 2019.

The Company entered into an amendment agreement with the Noteholder in February 2020, whereby the Company and MariMed Hemp issued an amended and restated promissory note maturing in June 2020 in the principal amount of $11,500,000 (the "$11.5M Note"), comprised of the principal amount of the $10M Note and the $1.5M Payment (which the Company had accrued). The $11.5M Note bore interest at a rate of 15% per annum, requiring periodic interest payments and minimum amortization payments of $3,000,000 in the aggregate, which the Company made.

The Company entered into a second amendment agreement with the Noteholder in June 2020, whereby (i) $352,000 of outstanding principal of the $11.5M Note was converted into 1,900,000 shares of the Company's common stock (which did not result in an extinguishment loss as the conversion price was higher than the price of the Company's common stock on the conversion date), and (ii) the Company and MariMed Hemp issued a second amended and restated promissory note in the principal amount of approximately $8.8 million (the "$8.8M Note"), comprised of the outstanding principal and unpaid interest balances of the $11.5M Note, plus an extension fee of approximately $330,000. In addition, the Company issued three-year warrants to the Noteholder to purchase 750,000 shares of common stock at an exercise price of $0.50 per share. The fair value of these warrants on the issuance date of approximately $66,000 was recorded as a discount to the $8.8M Note, to be amortized to interest expense over the life of the $8.8M Note.

The $8.8M Note bears interest at a rate of 15% per annum, matures in June 2022, and required a minimum amortization payment of $4,000,000 in July 2020, which the Company paid with a portion of proceeds of the Refinanced Mortgage. The Company can prepay all, or a portion, of the outstanding principal and unpaid interest of the $8.8M Note, however if any prepayment is made prior to December 25, 2021, the Company shall be required to pay a prepayment premium equal to 10% of the principal amount being prepaid. The Noteholder has the right to require the redemption of up to $250,000 of principal and unpaid interest thereon per calendar month. Such monthly redemptions shall be paid in common stock if certain defined conditions of the $8.8M Note and of the Company's common stock are met, or else in cash. The Noteholder has the option to convert the $8.8M Note, in whole or in part, into shares of the Company's common stock at a conversion price of $0.30, subject to certain conversion limitations.

The $8.8M Note is secured by a first priority security interest in the assets of certain of the Company's subsidiaries and brands, and a pledge of the Company's ownership interest in certain of its subsidiaries. The $8.8M Note imposes certain covenants on the borrowers, all of which were complied with as of September 30, 2020. On such date, the carrying value of the $8.8M note approximated $4.8 million.

In April 2019, MariMed Hemp issued a secured promissory note in the principal amount of $1,000,000 (the "$1M Note") to an unaffiliated party. The proceeds of the $1M Note were used to finance a portion of the Seed Transactions as further discussed in Note 17 – *Related Party Transactions*. The $1M Note is secured by the collateral assignment of certain receivables from GenCanna and certain obligations of GenCanna to MariMed Hemp. The principal balance plus a payment of $180,000, initially due in December 2019, was extended to March 2020 in accordance with the terms of the $1M Note, requiring an additional payment of $30,000 (the "$30,000 Fee"). Prior to the extended due date, the parties agreed that the $1M Note would continue on a month-to-month basis bearing interest at a rate of 15% per annum. In September 2020, the Company paid down $500,000 of principal on the $1M Note. At September 30, 2020, the outstanding balance consisted of $500,000 of principal and approximately $403,000 of accrued interest which included the $30,000 Fee.

In March 2019, the Company raised $6.0 million through the issuance of a secured promissory note (the "$6M Note") to an unaffiliated party (the "Holding Party") bearing interest at a rate of 13% per annum and a service fee of $900,000 (the "Service Fee"). The proceeds of the note were used to finance a portion of the Seed Transactions as further discussed in Note 17 – *Related Party Transactions*. The $6M Note is secured by the collateral assignment of certain receivables from and obligations of GenCanna to MariMed Hemp. The $6M Note's initial maturity date of December 31, 2019 was extended to April 30, 2020 in accordance with its terms, with the Company paying a $300,000 extension fee in December 2019 which was charged to interest expense.

The Company and the Holding Party entered into a note extension agreement in April 2020 (the "Initial Extension Agreement") pursuant to which (i) the $6M Note's due date was extended to September 2020, and the $6M Note was modified to include unpaid accrued interest of $845,000 through the modification date and interest at a rate of 10% per annum (the "$6.8M Note"), and (iii) a new convertible note in the amount of $900,000 (the "$900k Note") was issued evidencing the Service Fee, bearing interest at a rate of 12% per annum. The Company satisfied the $900k Note and accrued interest of $20,100 in full as of the June 2020 maturity date by the payment in July 2020 of $460,050 in cash, representing one-half of the principal and accrued interest, and the issuance in June 2020 of 2,525,596 shares of the Company's common stock, representing the other half of the principal and accrued interest.

In September 2018, the Company raised $3.0 million from the issuance of a secured promissory note to the Holding Party, bearing interest at a rate of 10% per annum (the "$3M Note"). The maturity date of the $3M Note, initially in March 2020, was extended for an additional six months in accordance with its terms, with the interest rate increasing to 12% per annum during the extension period. Pursuant to the Initial Extension Agreement, the maturity date of the $3M Note was extended to December 2020. The Company may elect to prepay the $3M Note in whole or part without premium or penalty provided the Holding Party is given proper notice and the Company is not in default of the note agreement.

In consideration of the Initial Extension Agreement, the Company (i) paid the Holding Party a fee of $50,000, (ii) extended the security interest in the Company's properties in Maryland to secure each note held by the Holding Party, and (iii) granted the Holding Party certain security interests in equity interests held by the Company. Each of the notes held by the Holding Party provides for cross-default and imposes certain covenants on the Company, all of which were complied with as of September 30, 2020.

As part of the $3M Note transaction, the Company issued three-year warrants to the Holding Party's designees to purchase 750,000 shares of the Company's common stock at an exercise price of $1.80 per share. The Company recorded a discount on the $3M Note of approximately $1,511,000 from the allocation of note proceeds to the warrants based on the fair value of such warrants on the issuance date. Approximately $882,000 of the warrant discount was amortized to interest expense during 2018, and the remaining $629,000 was amortized during 2019.

In October 2020, the Company and the Holding Party entered into a second note extension agreement effective September 30, 2020 (the "Second Extension Agreement"), whereby the Company (i) paid, in October 2020, $1 million of principal and all outstanding accrued interest of approximately $333,000 on the $6.8M Note; (ii) issued an amended and restated senior secured promissory note in the principal

amount of $5,845,000 (the "$5.8M Note") to replace the $6.8M Note; and (iii) amended and restated the $3M Note (the "New $3M Note", and together with the $5.8M Note, the "Amended Notes"). At September 30, 2020, the $1 million of principal and approximately $333,000 of accrued interest on the $6.8M Note, both of which were paid in October 2020, were reflected in the current portion of outstanding notes payable and in accrued interest, respectively.

The Amended Notes bear interest at a rate of 12% per annum and mature in September 2022. If all principal and accrued interest on either or both of the Amended Notes are not paid on or prior to their respective maturity dates, the Holding Party shall have the right, exercisable in its sole discretion at any time from September 2022 through March 2023, to convert all or a portion of the principal and interest owed into shares of the Company's common stock at a conversion price equal to the average closing price for the 20 consecutive trading days prior to the date of conversion. The $5.8M Note requires mandatory principal payments of $400,000 in February 2021, and $500,000 per quarter during the period from May 2021 to August 2022 (such quarterly payments amounting to $3.0 million in the aggregate). The $5.8M Note can be prepaid in whole or in part at any time without penalty. The New $3M Note can be prepaid in whole or in part without penalty only after the $5.8M Note has been fully repaid.

In consideration of the Second Extension Agreement, the Company (i) issued four-year warrants to the Holding Party's designees to purchase up to 5,000,000 shares of the Company's common stock at an exercise price of $0.25 per share; (ii) paid the Holding Party a fee of $100,000; and (iii) extended the security interest in certain Company properties and the pledge of certain equity interests to secure the Amended Notes. The Company recorded a discount on the Amended Notes of approximately $573,000 based on the fair value of such warrants on the issuance date, of which approximately $1,000 was amortized as of the end of the quarter, and the remainder to be amortized over the life of the Amended Notes. Accordingly, the carrying value of the Amended Notes approximated $8.3 million at September 30, 2020, of which $1.4 million was current.

In addition to the above transactions, the Company raised $800,000 and $2,760,000 during the nine months ended September 30, 2020 and December 31, 2019, respectively, from the issuance of promissory notes to accredited investors bearing interest at rates ranging from 6.5% to 18% per annum, and maturing in 2020 and 2021 (the "Third Party Notes"). $2,800,000 of the Third Party Notes was repaid in 2020, and accordingly, $760,000 remained outstanding at September 30, 2020 with related accrued interest of approximately $48,000.

Debt Maturities

As of September 30, 2020, the aggregate scheduled maturities of the Company's total debt outstanding, inclusive of the promissory notes and mortgages described within this Note 9 – *Debt*, and the convertible debentures described in the following Note 10 – *Debentures Payable,* were:

2020	$ 2,808,883
2021	11,024,306
2022	12,268,122
2023	544,571
2024	577,281

Thereafter	13,110,191
Total	40,333,354
Less discounts	(994,591)
	$ 39,338,763

NOTE 10 – DEBENTURES PAYABLE

In a series of transactions from the period October 2018 through February 2020, the Company sold an aggregate of $21.0 million of convertible debentures (the "$21M Debentures") to an accredited investor pursuant to an amended securities purchase agreement (the "SPA"). The following table summarizes the purchase dates and selected terms of each debenture transaction that comprises the $21M Debentures:

Issue Date	Maturity Date	Initial Principal	Interest Rate	Issue Discount	Warrant Discount	Ben. Conv. Feature	Converted To Common Stk.	Outstanding Principal
10/17/18	10/16/20	$5,000,000	6.0%	1.0%	$ 457,966	$ 1,554,389	$ 5,000,000	$ -
11/07/18	11/06/20	5,000,000	6.0%	1.0%	599,867	4,015,515	5,000,000	-
05/08/19	05/07/21	5,000,000	6.0%	1.0%	783,701	2,537,235	3,250,000	1,750,000
06/28/19	06/27/21	2,500,000	0.0%	7.0%	145,022	847,745	1,050,000	1,450,000
08/20/19	08/19/21	2,500,000	0.0%	7.0%	219,333	850,489	2,500,000	-
02/21/20	02/20/21	1,000,000	6.5%	6.5%	28,021	379,183	-	1,000,000

The holder of the $21M Debentures (the "Holder") has the right at any time to convert all or a portion of the $21M Debentures, along with accrued and unpaid interest, into the Company's common stock at conversion prices equal to 80% of a calculated average, as determined in accordance with the terms of the $21M Debentures, of the daily volume-weighted price during the ten consecutive trading days preceding the date of conversion, subject to a cap in certain conversions. Notwithstanding this conversion right, the Holder shall limit conversions in any given month to certain agreed-upon amounts based on the conversion price, and the Holder shall also be limited from beneficially owning more than 4.99% of the Company's outstanding common stock (potentially further limiting the Holder's conversion right).

The Company has the right to redeem all or a portion of the $21M Debentures, along with accrued and unpaid interest, at a 10% premium, provided that the Company first delivers advance written notice to the Holder of its intention to make a redemption, with the Holder allowed to effect certain conversions of the $21M Debentures during such notice period.

Upon a change in control transaction, as defined, the Holder may require the Company to redeem all or a portion of the $21M Debentures at a price equal to 110% of the outstanding principal amount of the $21M Debentures, plus all accrued and unpaid interest thereon. So long as the $21M Debentures are outstanding, in the event the Company enters into a Variable Rate Transaction ("VRT"), as defined in the SPA, the Holder may cause the Company to revise the terms of the $21M Debentures to match the terms of the convertible security issued in such VRT.

In conjunction with the issuance of the $21M Debentures, the Company issued the Holder three-year warrants to purchase an aggregate of 1,354,675 shares of the Company's common stock at exercise prices ranging from $0.75 to $5.50 per share, of which warrants to purchase 180,000 shares of common stock at an exercise price of $0.75 were issued in the nine months ended September 30, 2020. The fair value of the warrants of approximately $2.2 million was recorded as a discount to the carrying amount of the $21M Debentures and are amortized to interest expense over the respective term of the individual debentures comprising the $21M Debentures.

Based on the conversion prices of the $21M Debentures in relation to the market value of the Company's common stock, the $21M Debentures provided the Holder with a beneficial conversion feature, as the embedded conversion option was in-the-money on the commitment date. The aggregate intrinsic value of the beneficial conversion feature of approximately $10.2 million was recorded as a discount to the carrying amount of the $21M Debentures, with an offset to additional paid-in-capital. The beneficial conversion feature is amortized to interest expense over the respective term of the individual debentures comprising the $21M Debentures.

Pursuant to the terms of a registration rights agreement with the Holder, entered into concurrently with the SPA, the Company agreed to provide the Holder with certain registration rights with respect to any potential shares issued pursuant to the terms of the SPA and the $21M Debentures. An addendum to the SPA stipulates that the Holder has agreed not to undertake a conversion of all or a portion of the $21M Debentures that would require the Company to issue more shares than the amount of available authorized shares at the time of conversion, which amount of authorized shares shall not be less than the current authorized number of 500 million shares of common stock, thereby eliminating the requirement to bifurcate and account for the conversion feature of the $21M Debentures as a derivative.

The Holder converted, in several transactions from November 2018 through September 2020, an aggregate of $16.8 million of principal and approximately $768,000 of accrued interest into 64,470,063 shares of common stock at conversion prices ranging from $0.11 to $3.06 per share. Of these conversions, an aggregate of $6.8 million of principal and approximately $356,000 of accrued interest was converted into 54,143,232 shares of common stock at exercise prices of $0.11 and $0.34 per share during the nine months ended September 30, 2020.

All of the aforementioned conversions were performed in accordance with the terms of their respective convertible debenture agreements, and therefore the Company was not required to record a gain or loss on such conversions.

During the nine months ended September 30, 2020 and 2019, amortization of the beneficial conversion features, after adjustment for the aforementioned conversions, approximated $2,553,000 and $4,646,000, respectively; amortization of the warrant discounts approximated $545,000 and $913,000 respectively; and the amortization of original issue discounts approximated $267,000 and $107,000, respectively. Additionally, accrued interest expense for such periods approximated $234,000 and $421,000, respectively.

At September 30, 2020, the aggregate outstanding principal balance of the $21M Debentures was $4,200,000. Also on such date, the unamortized balances of the beneficial conversion features, the warrant discounts, and original issue discounts were approximately $867,000, $300,000, and $105,000, respectively. Accordingly, at September 30, 2020, the carrying value of the $21M Debentures was approximately $2,928,000, all of which was current.

At December 31, 2019, the aggregate outstanding principal balance on the $21M Debentures was $10,000,000. Also on such date, the unamortized balances of the beneficial conversion features, the warrant discounts, and original issue discounts were approximately $3,041,000, $817,000, and $307,000, respectively. Accordingly, at December 31, 2019, the carrying value of the $21M Debentures was approximately $5,835,000, all of which was long term.

NOTE 11 – MEZZANINE EQUITY

Preferred Stock

In February 2020, the Company entered into an exchange agreement with two institutional shareholders (the "TIS Exchange Agreement") whereby the Company (i) exchanged 4,908,333 shares of the Company's common stock previously acquired by the two institutional shareholders for an equal number of shares of newly designated Series B convertible preferred stock, and (ii) issued the $4.4M Notes previously discussed in Note 9 – *Debt*.

In connection with the TIS Exchange Agreement, the Company filed (i) a certificate of designation with respect to the rights and preferences of the Series B convertible preferred stock, and (ii) a certificate of elimination to return all shares of the Series A convertible preferred stock, of which no shares were issued or outstanding at the time of filing, to the status of authorized and unissued shares of undesignated preferred stock.

The holders of Series B convertible preferred stock (the "Series B Holders") are entitled to cast the number of votes equal to the number of shares of common stock into which the shares of Series B convertible preferred stock are convertible, together with the holders of common stock as a single class, on most matters. However, the affirmative vote or consent of the Series B Holders voting separately as a class is required for certain acts taken by the Company, including the amendment or repeal of certain charter provisions, liquidation or winding up of the Company, creation of stock senior to the Series B convertible preferred stock, and/or other acts defined in the certificate of designation.

The Series B convertible preferred stock shall, with respect to dividend rights and rights on liquidation, winding up and dissolution, rank senior to the Company's common stock. The Company shall not declare, pay, or set aside any dividends on shares of any other class or series of capital stock of the Company unless the Series B Holders then outstanding shall first receive, or simultaneously receive, a dividend on each outstanding share of Series B convertible preferred stock in an amount calculated pursuant to the certificate of designation.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the Series B Holders then outstanding shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders before any payment shall be made to the holders of common stock by reason of their ownership thereof, an amount per share equal to $3.00, plus any dividends declared but unpaid thereon, with any remaining assets distributed pro-rata among the holders of the shares of Series B convertible preferred stock and common stock, based on the number of shares held by each such holder, treating for this purpose all such securities as if they had been converted to common stock.

At any time on or prior to the six-year anniversary of the issuance date of the Series B convertible preferred stock, (i) the Series B Holders have the option to convert their shares of Series B convertible preferred stock into common stock at a conversion price of $3.00 per share, without the payment of additional consideration, and (ii) the Company has the option to convert all, but not less than all, shares of Series B convertible preferred stock into common stock at a conversion price of $3.00 if the daily volume weighted average price of common stock (the "VWAP") exceeds $4.00 per share for at least twenty consecutive trading days prior to the date on which the Company gives notice of such conversion to the Series B Holders.

On the day following the six-year anniversary of the issuance of the Series B convertible preferred stock, all outstanding shares of Series B convertible preferred stock shall automatically convert into common stock as follows:

If the sixty-day VWAP is less than or equal to $0.50 per share, the Company shall have the option to (i) convert all shares of Series B convertible preferred stock into common stock at a conversion price of $1.00 per share, and pay cash to the Series B Holders equal to the difference between the 60-day VWAP and $3.00 per share, or (ii) pay cash to the Series B Holders equal to $3.00 per share.

If the sixty-day VWAP is greater than $0.50 per share, the Company shall have the option to (i) convert all shares of Series B convertible preferred stock into common stock at a conversion price per share equal to the quotient of $3.00 per share divided by the sixty-day VWAP, or (ii) pay cash to the Series B Holders equal to $3.00 per share, or (iii) convert all shares of Series B convertible preferred stock into common stock at a conversion price per share equal to the sixty-day VWAP per share and pay cash to the Series B Holders at the difference between $3.00 per share and the sixty-day VWAP per share.

The Company shall at all times when the Series B convertible preferred stock is outstanding, reserve and keep available out of its authorized but unissued capital stock, for the purpose of effecting the conversion of the Series B convertible preferred stock, such number of its duly authorized shares of common stock as shall from time to time be sufficient to effect the conversion of all outstanding Series B convertible preferred stock.

NOTE 12 – STOCKHOLDERS' EQUITY

Common Stock

In February 2020, pursuant to the TIS Exchange Agreement, the 4,908,333 shares of common stock exchanged for shares of Series B convertible preferred stock were treated as an increase to treasury stock of $14,725,000 ($3.00 per share), and then immediately cancelled, thereby reducing treasury stock to zero, with corresponding reductions to common stock of approximately $5,000 (the par value of the exchanged common shares) and additional paid-in capital of approximately $14,720,000.

During the nine months ended September 30, 2020, the Company issued 4,400,000 shares of common stock to settle approximately $699,000 of obligations. Based on the price of the Company's common stock on the settlement date, the Company incurred a loss of approximately $45,000 which is reflected under *Loss On Obligations Settled With Equity* on the statement of operations. No such settlements occurred during the nine months ended September 30, 2019.

During the nine months ended September 30, 2020, the Company granted 97,797 shares of common stock to a current employee. The fair value of the shares of approximately $16,000 was charged to employee compensation during the period. At September 30, 2020, 33,319 of these shares were yet to be issued. During the nine months ended September 30, 2019, the Company granted 108,820 shares of common stock to current employees. The fair value of the shares of approximately $194,000 was charged to employee compensation during the period.

During the nine months ended September 30, 2020, 40,000 shares of common stock granted to an employee in 2019 were forfeited. The Company recorded these returned shares at par value. No common stock forfeitures occurred in 2019.

During the nine months ended September 30, 2020 and 2019, the Company issued 3,236,857 and 97,136 shares of common stock, respectively, associated with previously issued subscriptions on common stock with a value of approximately $1,168,000 and $169,000, respectively.

During the nine months ended September 30, 2019, the Company sold 799,995 shares of common stock at a price of $3.25 per share, resulting in total proceeds of $2,600,000. No common stock was sold during the nine months ended September 30, 2020.

As previously disclosed in Note 3 – *Acquisitions*, the Company issued in 2019 (i) 1,000,000 shares of common stock in connection with the acquisition of the KPGs and Mari-IL, (ii) 1,000,000 shares of common stock as a good faith deposit on the Harvest acquisition, and (iii) 520,000 shares of common stock in connection with the acquisition of MediTaurus.

As previously disclosed in Note 4 – *Investments*, the Company issued 500,000 shares of common stock in 2019 to purchase a minority interest in Terrace, and 378,259 shares of common stock in 2018 to purchase a minority interest in MRSVP.

As previously disclosed in Note 9 – *Debt*, the Company issued 4,425,596 shares of common stock during the nine months ended September 30, 2020 to retire approximately $812,000 of promissory notes (principal and accrued interest).

As previously disclosed in Note 10 – *Debentures Payable*, during the nine months ended September 30, 2020, the holder of the $21M Debentures converted approximately $7.2 million of principal and interest into 54,143,232 shares of common stock. During the nine months ended September 30, 2019, the holder of the $21M debentures converted approximately $7.9 million of principal and interest into 6,798,339 shares of common stock.

As further disclosed in Note 13 – *Stock Options*, during the nine months ended September 30, 2019, 417,352 shares of common stock were issued in connection with the exercise of stock options. No stock options were exercised during the nine months ended September 30, 2020.

As further disclosed in Note 14 – *Warrants*, during the nine months ended September 30, 2019, warrants to purchase 686,104 shares of common stock were exercised. No warrants were exercised during the nine months ended September 30, 2020.

Common Stock Issuance Obligations

At September 30, 2020, the Company was obligated to issue 33,319 shares of common stock, valued at approximately $5,000, in connection with a stock grant to a current employee. Such shares were subsequently issued in October 2020. At September 30, 2019, the Company was obligated to issue 6,603,532 shares of common stock, valued at approximately $5.0 million, in connection with the MediTaurus acquisition, stock option exercises, and debenture conversions. Such shares were subsequently issued in the fourth quarter of 2019.

Amended and Restated 2018 Stock Award and Incentive Plan

In August 2019, the Company's board of directors approved the Amended and Restated 2018 Stock Award and Incentive Plan (the "Incentive Plan"), based on the board's belief that awards authorized under the Incentive Plan provide incentives for the achievement of important performance objectives and promote the long-term success of the Company. In September 2019, the Incentive Plan was approved by the stockholders at the Company's annual stock-holders meeting.

The Incentive Plan is an omnibus plan, authorizing a variety of equity award types as well as cash and long-term incentive awards. The Incentive Plan amends and restates the Company's 2018 Stock Award and Incentive Plan (the "Previous Plan"), which was approved by the board of directors in July 2018 but never presented to stockholders for approval. Any grants made under the Previous Plan prior to the approval date of the Incentive Plan shall continue to be governed by the terms of the Previous Plan.

The Incentive Plan authorizes a broad range of awards, including stock options, stock appreciation rights, restricted stock, deferred stock, dividend equivalents, performance shares, cash-based performance awards, and other stock-based awards. Such awards can be granted to employees, non-employee directors and other persons who provide substantial services to the Company and its affiliates. Nothing in the Incentive Plan precludes the payment of other compensation to officers and employees, including bonuses based upon performance, outside of the Incentive Plan.

An aggregate of 40,000,000 shares are reserved for delivery to participants and may be used for any type of award under the Incentive Plan. Shares actually delivered in connection with an award will be counted against such number of reserved shares. Shares will remain available for new awards if an award under the Incentive Plan expires, is forfeited, canceled, or otherwise terminated without delivery of shares or is settled in cash. Each award under the Incentive Plan is subject to the Company's claw back policy in effect at the time of grant of the award.

The board of directors may amend, suspend, discontinue, or terminate the Incentive Plan or the authority to grant awards thereunder without stockholder approval, except as required by law or regulation or under rules of the stock exchange, if any, on which the Company's stock may then be listed. Unless earlier terminated, grants under the Incentive Plan will terminate ten years after stockholder approval of the Incentive Plan, and the Incentive Plan will terminate when no shares remain available and the Company has no further obligation with respect to any outstanding award.

NOTE 13 – STOCK OPTIONS

During the nine months ended September 30, 2020, the Company granted five-year options to purchase up to 1,064,500 shares of common stock at exercise prices of $0.15 and $0.30 per share. During the same period in 2019, the Company granted options to purchase up to 900,000 shares of common stock, expiring four and five years from their grant dates, at exercise prices ranging from $0.99 to $1.95 per share.

The fair values of the aforementioned options granted in 2020 and 2019 of approximately $117,000 and $876,000, respectively, are being amortized to compensation expense over their vesting periods, of which approximately $100,000 and $101,000 was amortized during the nine months ended September 30, 2020 and 2019, respectively.

During the nine months ended September 30, 2019, options to purchase 3,585,000 shares of common stock were exercised at prices ranging from $0.08 to $0.77 per share. Of these exercised options, 2,285,000 were exercised on a cashless basis with the exercise prices paid via the surrender of 523,192 shares of common stock. No options were exercised during the nine months ended September 30, 2020.

During the nine months ended September 30, 2020 and 2019, options to purchase 210,000 and 80,000 shares of common stock, respectively, were forfeited, resulting in an aggregate reduction of amortized compensation expense of approximately $208,000 and $170,000, respectively.

Stock options outstanding and exercisable as of September 30, 2020 were:

Exercise Price per Share	Shares Under Option		Remaining Life in Years
	Outstanding	Exercisable	
$ 0.130	200,000	200,000	0.01
$ 0.140	550,000	550,000	0.25
$ 0.149	500,000	500,000	5.25
$ 0.300	554,500	-	4.50
$ 0.330	50,000	50,000	0.44
$ 0.417	900,000	400,000	4.24
$ 0.450	125,000	125,000	1.01
$ 0.590	15,000	15,000	4.19
$ 0.630	300,000	300,000	1.25
$ 0.770	200,000	200,000	2.25
$ 0.900	50,000	50,000	2.62
$ 0.910	50,000	50,000	2.06
$ 0.950	50,000	30,000	2.25
$ 0.992	300,000	300,000	3.99
$ 1.000	125,000	75,000	4.09
$ 1.350	100,000	50,000	2.83
$ 1.950	375,000	250,000	2.75
$ 2.320	100,000	100,000	2.95

$	2.450	2,000,000	2,000,000	2.23
$	2.500	100,000	100,000	2.91
$	2.650	200,000	200,000	2.98
$	2.850	56,250	43,750	2.20
$	2.850	100,000	75,000	3.20
$	3.000	25,000	25,000	3.21
$	3.725	100,000	100,000	3.19
		7,125,750	5,788,750	

NOTE 14 – WARRANTS

During the nine months ended September 30, 2020, in conjunction with the $21M Debentures previously disclosed in Note 10 – *Debentures Payable*, the Company issued three-year warrants to purchase up to 180,000 shares of common stock at an exercise price of $0.75 per share. The fair value of these warrants on the issuance date approximated $28,000, with approximately $17,000 of this amount amortized to interest expense during the period and the remainder to be amortized over the term of the respective debentures.

Also during this period, as previously disclosed in Note 9 – *Debt,* (i) as part of the $8.8M Note transaction, the Company issued three-year warrants to purchase up to 750,000 shares of common stock at an exercise price of $0.50 per share, and (ii) in consideration of the Second Extension Agreement, the Company issued four-year warrants to purchase up to 5,000,000 shares of the Company's common stock at an exercise price of $0.25 per share. The fair value of these warrants on their issuance dates approximated $639,000, with approximately $10,000 of this amount amortized to interest expense during the period and the remainder to be amortized by the maturity dates of the respective promissory notes.

During the nine months ended September 30, 2019, in conjunction with the $21M Debentures previously disclosed in Note 10 – *Debentures Payable*, the Company issued three-year warrants to purchase 850,000 shares of common stock at exercise prices of $3.00 and $5.00 per share. The fair value of these warrants at issuance approximated $1,148,000, with approximately $517,000 of this amount amortized to interest expense during the period and the remainder to be amortized over the remaining term of the respective debentures.

Also during this period, as part of the $10M Note transaction previously disclosed in Note 9 – *Debt,* the Company issued three-year warrants to purchase 375,000 shares of common stock at an exercise price of $4.50 per share. The fair value of these warrants at issuance approximated $601,000, with approximately $294,000 of this amount amortized to interest expense during the period and the remainder amortized by the maturity date of the $10M Note.

The Company also issued stand-alone warrants to purchase up to 25,000 and 125,000 shares of common stock during the nine months ended September 30, 2020 and 2019, respectively. The fair value of these warrants at issuance approximated $2,000 in 2020 and $139,000 in 2019, and were charged to compensation expense during the periods.

During the nine months ended September 30, 2019, warrants to purchase up to 686,104 shares of common stock were exercised at exercise prices ranging from $0.12 to $1.75 per share, resulting in aggregate proceeds to the Company of approximately $612,000. No warrants were exercised during the nine months ended September 30, 2020.

At September 30, 2020 and 2019, warrants to purchase up to 17,735,107 and 11,270,107 shares of common stock, respectively, were outstanding with exercise prices ranging from $0.15 to $5.50 per share in both periods.

NOTE 15 – REVENUES

The Company's revenues were comprised of the following major categories:

	Nine Months Ended September 30,	
	2020	2019
Product sales	21,992,298	60,839
Product sales from related party	-	29,029,249
Real estate	$ 5,065,538	$ 5,250,084
Management	1,081,562	1,963,205
Supply procurement	1,218,334	2,830,555
Licensing	1,179,113	1,230,366
Other	984	47,893
Total revenues	$ 30,537,829	$ 40,412,191

The amount under *Product Sales From Related Party* shown in the table above represents the total revenues from the seed transactions with GenCanna, which is further disclosed in Note 17 – *Related Party Transactions*. Excluding these revenues, for the nine months ended September 30, 2020 and 2019, revenue from two clients represented 24% and 82%, respectively, of total revenues.

NOTE 16 – BAD DEBTS

At September 30, 2020 and 2019, the Company maintained reserves against bad debts of approximately $44.3 million and $250,000, respectively.

The September 30, 2020 reserves were primarily comprised of (i) an allowance against the accounts receivable balance due from GenCanna of approximately $29.0 million, following the commencement of GenCanna's Chapter 11 proceedings as previously discussed in Note 4 – *Investments*, (ii) an allowance against the accounts receivable balance of approximately $11.1 million, and reserve against the working capital balance of approximately $1.5 million, due from Kind, in light of the current litigation between the Company and Kind as further discussed in Note 18 – *Commitments and Contingencies*, and (iii) an allowance against the accounts receivable balance of approximately $314,000, and a reserve against the working capital balance of approximately $2.3 million due from Harvest, based on the Company's expectation of the negative impact of the COVID-19 pandemic on Harvest's local economy.

NOTE 17 – RELATED PARTY TRANSACTIONS

During 2019, the Company, through its MariMed Hemp subsidiary, entered into several hemp seed sale transactions with GenCanna whereby the Company acquired large quantities of top-grade feminized hemp seeds with proven genetics at volume discounts that it sold to GenCanna at market rates. The seeds met the U.S. government's definition of federally legal industrial hemp, which was descheduled as a controlled substance and classified as an agricultural commodity upon the signing of the 2018 U.S. Farm Bill.

The Company purchased $20.75 million of hemp seed inventory which it sold and delivered to GenCanna for $33.2 million. The Company provided GenCanna with extended payment terms through December 2019, to coincide with the completion of the seeds' harvest, although the payment by GenCanna was not contingent upon the success of such harvest or its yield. To partially fund the seed purchases, the Company raised $17.0 million in debt financings which is reflected in *Notes Payable* on the balance sheet and previously discussed in Note 9 – *Debt*.

By the end of 2019, GenCanna had not paid the amount it owed the Company for its seed purchases due to several challenges it faced late in the year, including defaults under its senior credit facility, a fire at its main processing and lab facility, the domestic decline of CBD selling prices, and the contraction of the cannabis capital markets. In February 2020, as previously discussed in Note 4 – *Investments*, under pressure from certain of its creditors, the GenCanna Debtors agreed to convert a previously-filed involuntary bankruptcy proceeding into a voluntary Chapter 11 proceeding, and filed voluntary petitions under Chapter 11 in the Bankruptcy Court.

As required by the relevant accounting guidance, the Company initially recorded the $33.2 million due from GenCanna as a related party receivable, with approximately $29.0 million recognized as related party revenue, and approximately $4.2 million classified as unearned revenue (such amount representing the Company's 33.5% ownership portion of the profit on these transactions, which was to have been recognized as revenue upon payment by GenCanna). As a result of GenCanna's Chapter 11

proceedings, the Company fully reserved the receivable balance of approximately $29.0 million and wrote off the entire unearned revenue balance of approximately $4.2 million.

In 2019, the Company granted five-year options to purchase up to 100,000 shares of common stock to each of the Company's three independent board members at an exercise price of $0.99 per share. The aggregate fair value of these options of approximately $191,000 was fully amortized at March 31, 2020. No options were granted to related parties during the nine months ended September 30, 2020.

In 2019, options to purchase 200,000 and 132,499 shares of common stock were exercised by the Company's CEO and an independent board member, respectively, at weighted average exercise prices of $0.11 and $0.08 per share, respectively. The independent board member's options were exercised on a cashless basis with the exercise prices paid via the surrender of 3,108 shares of common stock. No options were exercised by related parties during the nine months ended September 30, 2020.

In 2019, options to purchase 117,501 shares of common stock were forfeited by board members. No options were forfeited by related parties during the nine months ended September 30, 2020.

The Company's current corporate offices are leased from a company owned by a related party under a 10-year lease that commenced August 2018 and contains a five-year extension option. During the nine months ended September 30, 2020 and 2019, expenses incurred under this lease approximated $117,000 in both periods.

The balance of *Due To Related Parties* at September 30, 2020 and December 31, 2019 of approximately $1,233,000 and $1,455,000, respectively, were comprised of amounts owed of approximately (i) $515,000 and $420,000, respectively, to the Company's CEO and CFO, (ii) $673,000 and $990,000, respectively, to companies partially owned by these officers, and (iii) $45,000 in both periods to a stockholder of the Company. Such amounts owed are not subject to repayment schedules.

Both of the Company's mortgages with Bank of New England discussed in Note 9 – *Debt,* as well as the mortgage with Commonwealth Real Estate Ventures LLC disclosed in Note 19 – *Subsequent Events,* are personally guaranteed by the Company's CEO and CFO.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company is the lessee under five operating leases and four finance leases. These leases contain rent holidays and customary escalations of lease payments for the type of facilities being leased. The Company recognizes rent expense on a straight-line basis over the expected lease term, including cancelable option periods which the Company fully expects to exercise. Certain leases require the payment of property taxes, insurance, and/or maintenance costs in addition to the rent payments.

The details of the Company's operating lease agreements are as follows:

- Delaware – 4,000 square feet of retail space in a multi-use building under a five-year lease that commenced in October 2016 and contains a five-year option to extend the term. The Company developed the space into a cannabis dispensary which is subleased to its cannabis-licensed client.

- Delaware – a 100,000 square foot warehouse leased in March 2019 that the Company is developing into a cultivation and processing facility to be subleased to the same Delaware client. The lease term is 10 years, with an option to extend the term for three additional five-year periods.

- Nevada – 10,000 square feet of an industrial building that the Company has built-out into a cannabis cultivation facility and plans to rent to its cannabis-licensed client under a sub-lease which will be coterminous with this lease expiring in 2024.

- Massachusetts – 10,000 square feet of office space which the Company utilizes as its corporate offices under a 10-year lease with a related party expiring in 2028, with an option to extend the term for an additional five-year period.

- Maryland – a 2,700 square foot 2-unit apartment under a lease that expires in July 2022 with an option to renew for a two-year term.

The Company leases machinery and office equipment under finance leases that expire in February 2022 through June 2024 with such terms being a major part of the economic useful life of the leased property.

The components of lease expense for the nine months ended September 30, 2020 were as follows:

Operating lease cost	$	737,993
Finance lease cost:		
Amortization of right-of-use assets	$	24,512
Interest on lease liabilities		5,834
Total finance lease cost	$	30,346

The weighted average remaining lease term for operating leases is 8.7 years, and for the finance lease is 3.0 years. The weighted average discount rate used to determine the right-of-use assets and lease liabilities was 7.5% for all leases.

Future minimum lease payments as of September 30, 2020 under all non-cancelable leases having an initial or remaining term of more than one year were:

	Operating Leases	Finance Lease
2020	$ 246,937	$ 9,603
2021	1,008,227	38,412
2022	949,535	27,123
2023	910,166	23,201
2024	835,411	3,229
Thereafter	4,267,635	-
Total lease payments	8,217,911	101,568
Less: imputed interest	(2,248,157)	(10,718)
	$ 5,969,754	$ 90,850

Terminated Employment Agreement

An employment agreement which commenced in 2012 with Thomas Kidrin, the former CEO of the Company, that provided Mr. Kidrin with salary, car allowances, stock options, life insurance, and other employee benefits, was terminated by the Company in 2017. At September 30, 2020 and December 31, 2019, the Company maintained an accrual of approximately $1,043,000 for any amounts that may be owed under this agreement, although the Company contends that such agreement is not valid and that no amount is due.

In July 2019, Mr. Kidrin, also a former director of the Company, filed a complaint in the Massachusetts Superior Court, that alleges the Company failed to pay all wages owed to him and breached the employment agreement, and requests multiple damages, attorney fees, costs, and interest. The Company has moved to dismiss certain counts of the complaint and has asserted counterclaims against Mr. Kidrin alleging breach of contract, breach of fiduciary duty, money had and received, and unjust enrichment. The Company believes that the allegations in the complaint are without merit and intends to vigorously defend this matter and prosecute its counterclaims.

Maryland Acquisition

As previously disclosed in Note 3 – *Acquisitions*, the sellers of Kind have attempted to renegotiate the terms of the MOU, alleging that the MOU is not an enforceable agreement, despite the MOU containing all the definitive material terms with respect to the acquisition transaction and confirming the management and lease agreements. The Company engaged with the sellers in a good faith attempt to reach updated terms acceptable to both parties, but the non-reciprocation of the sellers resulted in an impasse and both parties commencing legal proceedings.

On November 13, 2019, Kind Therapeutics USA Inc. ("Kind") commenced an action in the Circuit Court for Washington County, MD captioned Kind Therapeutics USA, Inc. vs. MariMed, Inc., et al. (Case No. C-21-CV-19-000670) asserting claims against the Company, including breach of contract, breach of fiduciary duty, accounting, and unjust enrichment, and seeking declaratory judgment and damages in excess of $75,000. On November 15, 2019, the Company filed counterclaims against Kind and a third-party complaint against the Members of Kind (Jennifer DiPietro, Susan Zimmerman, and Sophia Leonard-Burns) and William Tham (the "Counterclaim"). The Counterclaim alleged breach of contract with respect to each of the MOU and the Management Agreement (the "MSA"), unjust enrichment, promissory estoppel/detrimental reliance, and fraud in the inducement, and seeking a declaratory judgement that the MOU is an enforceable contract, specific performance of such contact, and the establishment of a constructive trust for the Company's benefit. The Counterclaim also seeks damages.

Both parties, MariMed (including MariMed Holdings MD, LLC and MariMed Advisors Inc.) and Kind, brought motions for a temporary restraining order and a preliminary injunction. By Opinion and Order entered on November 21, 2019, the Court denied both parties motions for a temporary restraining order. In its opinion, the Court specifically noted that, contrary to Kind's allegations, the MSA and the 20-year lease agreement for Kind's utilization of the Company's cultivation and production facility (the "Lease") "appear to be independent, valid and enforceable contracts."

On or about April 3, 2020, the Company filed its First Amended Counterclaim and Third Party Complaint in which additional claims were added and clarified, including breach of Lease and breach of the Licensing and Manufacturing Agreement (the "LMA") against Kind, along with other alternative claims and seeking damages. On August 11, 2020, the Company filed its Second Amended Counterclaim and Third Party Complaint in which additional clarifications were made and claims added for breach of fiduciary duty and breach of partnership. The Company believes that its claims for breach of contract with respect to the MOU, the MSA, the Lease, and the LMA, as well as all other claims are meritorious. Further, the Company believes that Kind's claims against the Company are without merit. The Company intends to aggressively prosecute and defend the action. In light of this litigation, the Company has not recorded management fees charged to Kind of approximately $1.1 million for the nine months ended September 30, 2020. A hearing on the parties' cross-motions for preliminary injunction was held on September 14 to 17, 2020 and November 2 and 4, 2020, and the Court's ruling on the motions is pending. The trial is currently scheduled to start on June 7, 2021.

NOTE 19 – SUBSEQUENT EVENTS

Debentures Payable

In October 2020, the holder of the $21M Debentures converted an aggregate of approximately $1,259,000 of principal and accrued interest into 10,653,600 shares of common stock at conversion prices of $0.11 and $0.12 per share.

Notes Payable

In October 2020, as previously discussed in Note 9 – *Debt*, the Company and the Holding Party entered into the Second Extension Agreement whereby the Company (i) paid, in October 2020, $1 million of principal and all outstanding accrued interest of approximately $333,000 on the $6.8M Note, (ii) issued the $5.8M Note, which replaced the $6.8M Note, and the New $3M Note, both with maturity dates in September 2022.

Mortgage Agreement

In October 2020, the Company entered into a $1.3 million mortgage agreement with Commonwealth Real Estate Ventures LLC. The mortgage is secured by the Company's properties in Illinois, and requires interest-only monthly payments at a rate of 15% per annum through its maturity date in October 2021. The mortgage contained an origination charge of 1% of the principal balance. Repayment of the mortgage is personally guaranteed by the Company's CEO and CFO.

Common Stock Issuance Obligations

In October 2020, the Company issued 33,319 shares of common stock in connection with the stock grant to a current employee previously disclosed in Note 12 – *Stockholders' Equity.*

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

Forward Looking Statements

When used in this form 10-Q and in future filings by the Company with the Commission, the words or phrases such as "anticipate," "believe," "could," "should," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward looking statements, each of which speak only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company has no obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different. These factors include, but are not limited to, changes that may occur to general economic and business conditions; changes in current pricing levels that we can charge for our services or which we pay to our suppliers and business partners; changes in political, social and economic conditions in the jurisdictions in which we operate; changes to laws and regulations that pertain to our products and operations; and increased competition.

The following discussion should be read in conjunction with the unaudited financial statements and related notes which are included under Item 1 of this report.

We do not undertake to update our forward-looking statements or risk factors to reflect future events or circumstances.

Overview

General

MariMed Inc. (the "Company") is a multi-state operator in the cannabis industry. The Company develops, operates, manages, and optimizes over 300,000 square feet of state-of-the-art, regulatory-compliant facilities for the cultivation, production and dispensing of medicinal and recreational cannabis. The Company also licenses its proprietary brands of cannabis and hemp-infused products, along with other top brands, in several domestic markets and overseas.

Upon its entry into the cannabis industry, the Company was an advisory firm that procured state-issued cannabis licenses on behalf of its clients, leased its cannabis facilities to these newly-licensed companies, and provided industry-leading expertise and oversight in all aspects of their cannabis operations. The Company also provided its clients with as ongoing regulatory, accounting, real estate, human resources, and administrative services.

In 2018, the Company commenced a strategic plan to transition from a consulting business to a direct owner of cannabis licenses and operator of seed-to-sale operations. The Company's strategic plan consists of the acquisition of its cannabis-licensed clients located in five states—Delaware, Illinois, Maryland, Massachusetts, and Nevada—and the consolidation of these entities under the MariMed banner.

A goal in completing this transition is to present a simpler, more transparent financial picture of the full breadth of the Company's efforts, with a clearer representation of the revenues, earnings, and other financial metrics the Company has generated for its clients. The Company has played a key role in the successes of these entities, from the securing of their cannabis licenses, to the development of facilities that are models of excellence, to providing operational and corporate guidance. Accordingly, the Company believes it is well suited to own these facilities and manage the continuing growth of their operations.

To date, acquisitions of the licensed businesses in Massachusetts and Illinois have been state-approved and completed and establishes the Company as a fully integrated seed-to-sale multi-state operator, The acquisitions of the remaining entities located in Maryland, Nevada, and Delaware are at various stages of completion and subject to each state's laws governing the ownership and transfer of cannabis licenses, which in the case of Delaware requires a modification of current cannabis ownership laws to permit for-profit ownership. Meanwhile, the Company continues to develop additional revenue and business in these states and plans to leverage its success to expand into other markets where cannabis is and becomes legal.

The Company has also created its own brands of cannabis flower, concentrates, and precision-dosed products utilizing proprietary strains and formulations. These products are developed by the Company in cooperation with state-licensed operators who meet the Company's strict standards, including all natural—not artificial or synthetic—ingredients. The Company licenses its product formulations only to certified manufacturing professionals who adhere to the Company's precise scientific formulations and trademarked product recipes.

The Company's branded cannabis products are licensed under brand names including Kalm Fusion™, Nature's Heritage™, and Betty's Eddies™, and are distributed in the form of dissolvable strips, tablets, powders, microwaveable popcorn, fruit chews, and other varieties in development. The Company also has exclusive sublicensing rights in certain states to distribute the Binske® line of cannabis products crafted from premium artisan ingredients, the Healer™ line of medical full-spectrum tinctures, and the clinically tested medicinal cannabis strains developed in Israel by global medical cannabis research pioneer Tikun Olam™. The Company's hemp division distributes hemp-derived CBD products, including its Florance™ brand, in the US and abroad. The Company intends to continue licensing and distributing its brands as well as other top brands in the Company's current markets and in additional legal markets worldwide.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The spread of the virus in the United States and the measures implemented to contain it—including business shutdowns, indoor capacity restrictions, social distancing, and diminished travel—have negatively impacted the economy and have created significant volatility and disruption in financial markets. Consequently, the Company's expansion efforts and implementation of its strategic plan have been delayed. Additionally, while the cannabis industry has been deemed an essential business, and is not expected to suffer severe declines in revenue, the Company's business, operations, financial condition, and liquidity have been adversely affected, as further discussed in the notes accompanying the financial statements and within this *Management's Discussions and Analysis of Financial Condition and Results of Operations*.

Continued disruption to the global economy may materially and adversely affect the future carrying values of certain of the Company's assets, including inventories, accounts receivables, and intangibles, as well as negatively impact the Company's ability to raise working capital to support its operations. The full extent to which COVID-19 and the measures to contain it will impact the Company's business, operations financial condition, and liquidity will depend on the continued severity and duration of the COVID-19 outbreak and other future developments in response to the virus, all of which are highly uncertain at this time. As a result, the Company cannot predict the ultimate impact of COVID-19 on its operational and financial performance.

Revenues

The Company's revenues are currently comprised of the following primary categories:

- Product Sales – direct sales of cannabis and cannabis-infused products by the Company's dispensary and wholesale operations in Massachusetts and Illinois, and direct sales of hemp and hemp-infused products by the Company's hemp division. In 2019, this division participated in one-time sales of acquired hemp seed inventory, as further explained below in the section entitled *Liquidity and Capital Resources*. Future product sales are expected to include the Company's planned cannabis-licensee acquisitions in Maryland, Nevada, and Delaware (upon this state's amendment to permit for-profit ownership of cannabis entities).

- Real Estate – rental income and additional rental fees generated from leasing of the Company's state-of-the-art, regulatory-compliant cannabis facilities to its cannabis-licensed clients.

- Management – fees for providing the Company's cannabis clients with comprehensive oversight of their cannabis cultivation, production, and dispensary operations. Along with this oversight, the Company provides human resources, regulatory, marketing, and other corporate services.

- Supply Procurement – the Company maintains volume discounts with top national vendors of cultivation and production resources, supplies, and equipment, which the Company acquires and resells to its clients or third parties within the cannabis industry.

- Licensing – revenue from the sale of precision-dosed, cannabis-infused products—such as Kalm Fusion™, Nature's Heritage™, and Betty's Eddies™—to regulated dispensaries throughout the United States and Puerto Rico.

Expenses

The Company classifies its expenses into three broad categories:

- cost of revenues, which includes the direct costs associated with the generation of the Company's revenues;

- operating expenses, which include the sub-categories of personnel, marketing and promotion, general and administrative, and bad debts; and

- non-operating income and expenses, which include the sub-categories of interest expense, interest income, equity in earnings of equity method investments, loss on obligations settled with equity, and changes in the fair value of non-consolidated investments.

Liquidity and Capital Resources

At September 30, 2020, the Company had cash and cash equivalents of approximately $2.3 million and negative working capital of approximately $9.1 million, compared to cash and cash equivalents of approximately $739,000 and negative working capital of approximately $29.3 million at December 31, 2019.

The Company produced the following improvements to key liquidity metrics during the reported period:

- During the nine months ended September 30, 2020, the Company's operating activities provided positive cash flow of approximately $1.6 million, compared to approximately $24.2 million of negative cash flow used by such activities during the same period of 2019, a positive swing of approximately $25.8 million.

- At September 30, 2020, the Company's negative working capital was approximately $9.1 million, a continued improvement from approximately $21.5 million at June 30, 2020 and approximately $29.3 million at December 31, 2019.

- The Company successfully restructured the terms of its short term promissory notes payable to approximately $8.5 million at September 30, 2020 from approximately $17.2 million at June 30, 2020 and $23.1 million at December 31, 2019.

The large negative working capital balance at December 31, 2019 was primarily caused by GenCanna's bankruptcy proceeding under Chapter 11 initiated in early 2020, the details of which are disclosed in the footnotes accompanying the Company financial statements included in this report. Prior to the commencement of these bankruptcy proceedings, during the period March 2019 to June 2019, the Company raised $17.0 million via the issuance of promissory notes to three unaffiliated third parties (the "Seed Funding Notes"). The proceeds from the Seed Funding Notes were used to fund the purchase of large quantities of top-grade hemp seeds at volume discounts which were then sold to GenCanna at market rates (the "Seed Transactions"). The Seed Funding Notes were committed to be repaid by the end of calendar 2019 utilizing a portion of the approximate $29.0 million of revenue to be generated from the Seed Transactions. Upon the commencement of the GenCanna bankruptcy proceedings, the Company recorded a bad debt reserve at December 31, 2019 against the entire $29.0 million receivable balance from GenCanna.

Also contributing to the large negative working capital balance at December 31, 2019 were the additional bad debt reserves recorded by the Company on such date of $11.2 million against the working capital and receivable balances due from Kind, in light of the pending litigation between the Company and Kind, and $2.2 million against the working capital and receivable balances due from Harvest, based on the impact of the COVID-19 pandemic on Harvest's operations.

During 2020, the Company (i) successfully extended the maturity dates of all of the Seed Funding Notes, (i) converted $802,000 of accrued interest on the Seed Funding Notes into shares of the Company's common stock, and (iii) paid down $4,450,000 of principal and accrued interest of the Seed Funding Notes with proceeds from newly-issued long-term debt and cash generated from operations.

These actions, coupled with the continuing growth and profitability of the Company's cannabis operations in Illinois and Maryland, and offset by the continued reserves on amounts due from GenCanna, Kind, and Harvest, resulted in a negative working capital balance of $9.1 million at September 30, 2020, an improvement from December 31, 2019 of approximately $20.2 million.

The approximate $1.5 million increase in cash and cash equivalents from December 31, 2019 to September 30, 2020 was primarily attributable to the proceeds from the Refinanced Mortgage, the $4.4M Notes, the Third Party Notes, and the $1M Note as discussed in Note 9 – *Debt* of the Company's financial statements, coupled with the continuing growth in profitability of the Company's cannabis operations in Illinois and Massachusetts as explained below, offset primarily by the buildup of inventory balances and the purchase of property and equipment.

With respect to the Company's consolidation plan, the operations of the acquired entities in Illinois and Massachusetts have started to generate considerable liquidity and working capital for the Company. Since their acquisition in October 2019, the KPGs in Illinois have generated in excess of $4.6 million of pretax income for the Company, which continues to exceed forecasts, in part due to the legalization of adult-use cannabis in this state in January 2020. Additionally, the KPGs added a third dispensary in Mt. Vernon which commenced operations in September 2020. In Massachusetts, the cultivation and production facility acquired by the Company in December 2018 has ramped up its grow capabilities to full capacity. Additionally, the Company received final approval for adult-use cannabis production and sales from the Massachusetts Cannabis Control Commission, and commenced business in this state's robust adult-use market in September 2020.

In connection with the preparation of its financial statements for the nine months ended September 30, 2020, the Company's management evaluated the Company's ability to continue as a going concern in accordance with ASU 2014-15, *Presentation of Financial Statements–Going Concern (Subtopic 205-40)*, which requires an assessment of relevant conditions or events, considered in the aggregate, that are known or reasonably knowable by management on the issuance dates of the financial statements which indicate the probable likelihood that the Company will be unable to meet its obligations as they become due within one year after the issuance date of the financial statements.

As part of its evaluation, management assessed known events, trends, commitments, and uncertainties, which at the time included the status of the Company's consolidation plan, the continuing impact of the COVID-19 pandemic on its operations, developments concerning GenCanna's bankruptcy proceedings, recent cannabis industry investment activity, price movements of public cannabis stock, actions and/or results of certain bellwether cannabis companies, the level of cannabis investor confidence, and changes to state laws governing recreational (adult-use) and medical cannabis.

Management also reviewed certain key liquidity metrics of the Company, as further described below, as well as other factors in its evaluation, and determined that there currently exists a substantial doubt that the Company will be able to continue as a going concern within one year after the issuance date of these financial statements without additional funding or the continued profitability growth of its cannabis operations in Illinois and Massachusetts.

Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2020 approximated $1.6 million, compared to net cash used in operating activities of approximately $24.2 million for the same period in 2019. The year-over-year improvement was primarily attributable to (i) the increase in cannabis-derived profits in 2020 generated by the acquisition of the KPGs in Illinois and ARL in Massachusetts, (ii) the intentional slowing of payments of trade accounts payable and other liabilities in 2020, and (iii) the large purchase of hemp seeds in 2019 as part of the Seed Transactions, offset by higher cannabis inventory in 2020.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2020 approximated $3.9 million, compared to approximately $9.3 million for the same period in 2019. The year-over-year decrease in the use of cash was due to the investments in Atalo, Healer, MHWC, and MediTaurus made in 2019. No similar investments were made in 2020. The year-over-year decrease is also due to reduced property and equipment purchases in 2020.

Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2020 approximated $3.8 million, compared to approximately $29.5 million for the same period in 2019. In 2020, the Company raised approximately $20.1 million from debt financings, offset by approximately $15.9 million of promissory note and mortgage repayments, compared to debt and equity financings in 2019 of $29.2 million in the aggregate with no repayments of debt.

The proceeds from the aforementioned financings were used to execute on the Company's strategy to become a fully integrated multistate operator of seed-to-sale cannabis operations, to continue the development of its regulated facilities, to grow its hemp operations, to expand its branded licensing business, and for working capital purposes.

Results of Operations

Three months ended September 30, 2020 compared to three months ended September 30, 2019

Total revenues for the three months ended September 30, 2020 approximated $13.5 million compared to approximately $11.2 million for the same period in 2019, an increase of approximately $2.2 million or 19.9%. Excluding the Seed Transactions, core revenues for the three months ended September 30, 2020 grew to approximately $13.5 million from approximately $4.2 million for the same period in 2019, an increase of approximately $9.3 million or 219.8%. The year-over-year increase was due to aggregate cannabis sales during the quarter ended September 30, 2020 of approximately $10.8 million generated by the KPGs in Illinois, acquired by the Company in October 2019, and ARL in Massachusetts, acquired by the Company in late 2018 and whose selling operations commenced in December 2019. The cannabis sales were offset by decreases in procurement revenue and management fees charged to

Kind, the Company's cannabis-licensed client in Maryland, and with whom the Company is currently engaged in litigation.

Cost of revenues for the three months ended September 30, 2020 approximated $4.8 million compared to approximately $6.5 million for the same period in 2019, a decrease of approximately $1.7 million or 26.7%. The year-over-year variance was primarily attributable to the cost of seeds incurred by the Company during the quarter ended September 30, 2019 of approximately $5.0 million as part of the Seed Transactions. Excluding the Seed Transactions, cost of revenues for the three months ended September 30, 2020 increased to approximately $4.0 million from approximately $1.5 million for the same period in 2019. As a percentage of revenue, these costs remained relatively steady at 35.9% in 2020 and 35.9% in 2019, demonstrating the Company's leveraging of its infrastructure to produce higher levels of revenue with minimal increases on cost of revenues.

As a result of the foregoing, gross profit approximated $8.7 million, or 64.5% of total revenues for the three months ended September 30, 2020, from approximately $4.7 million, or 41.9% of total revenues, for the same period a year ago. Excluding the Seed Transactions, gross profit increased to approximately $8.7 million for the three months ended September 30, 2020 from approximately $2.7 million for the same period a year ago, an increase of approximately $6.0 million or 221.5%.

Personnel expenses increased to approximately $1.4 million for the three months ended September 30, 2020 from approximately $1.2 million for the same period a year ago. The increase was primarily due to the hiring of additional staff to support (i) higher levels of revenue, and (ii) the Company's expansion into a direct owner and operator of seed-to-sale cannabis businesses. As a percentage of revenues excluding the Seed Transactions, personnel expenses dropped significantly to 10.1% in 2020 from to 29.5% in 2019.

Marketing and promotion costs increased slightly to approximately $103,000 for the three months ended September 30, 2020 from approximately $92,000 for the same period a year ago. As a percentage of revenues excluding the Seed Transactions, these costs fell to 0.8% in 2020 from 2.2% in 2019.

General and administrative costs increased to approximately $2.9 million for the three months ended September 30, 2020 from approximately $2.4 million for the same period a year ago. This increase is primarily due to taxes paid on the Company's cannabis operation, and increases in corporate insurance. As a percentage of revenues excluding the Seed Transactions, these costs fell significantly to 21.8% in 2020 from 56.9% in 2019

During the three months ended September 30, 2020, the Company recorded additional bad debt reserves of approximately $892,000 to cover potential losses that would be incurred by the Company from the impact of COVID-19 and the measures enacted by local governments to reduce its spread.

As a result of the foregoing, the Company generated operating income of approximately $3.4 million for the three months ended September 30, 2020 compared to approximately $973,000 for the same period a year ago. Excluding the Seed Transactions, the Company generated operating income of approximately $3.4 million for the three months ended September 30, 2020 compared to an operating loss of approximately $1.0 million for the same period in 2019, a positive swing of approximately $4.4 million.

Net non-operating expenses decreased to $1.7 million for the three months ended September 30, 2020 from approximately $7.4 million for the same period in 2019. The decrease is primarily due to (i) a charge in the third quarter of 2019 of approximately $2.9 million from the Company's equity in GenCanna's net loss (GenCanna was accounted for as an equity investment at such time), and (ii) a decrease in interest expense of approximately $2.6 million attributable to a lower amount of remaining beneficial conversion feature on the $21M Debentures that was amortized in 2020 compared to 2019.

As a result of the foregoing, the Company generated net income of approximately $1.7 million for the three months ended September 30, 2020. For the same period a year ago, after a tax provision of approximately $901,000, the Company incurred a net loss of approximately $7.3 million, and excluding the Seed Transactions, incurred a net loss of approximately $8.4 million.

Nine months ended September 30, 2020 compared to nine months ended September 30, 2019

Total revenues for the nine months ended September 30, 2020 approximated $30.5 million compared to $40.4 million for the same period in 2019. The year-over-year variance was primarily attributable to revenues of approximately $22.0 million generated from the Seed Transactions. Excluding the Seed Transactions, core revenues for the nine months ended September 30, 2020 grew to approximately $30.5 million from approximately $11.4 million for the same period in 2019, an increase of approximately $19.2 million or 168.3%. The year-over-year increase was due to aggregate cannabis sales in 2020 of approximately $22.0 million generated by the KPGs in Illinois, acquired by the Company in October 2019, and ARL in Massachusetts, acquired by the Company in late 2018 and whose selling operations commenced in December 2019. The cannabis sales were offset by decreases in procurement revenue and management fees charged to Kind, the Company's cannabis-licensed client in Maryland, and with whom the Company is currently engaged in litigation.

Cost of revenues for the nine months ended September 30, 2020 approximated $10.8 million compared to approximately $24.5 million for the same period in 2019. The year-over-year variance was primarily attributable to the cost of seeds incurred by the Company of approximately $20.8 million as part of the Seed Transactions. Excluding the Seed Transactions, cost of revenues for the nine months ended September 30, 2020 increased to approximately $10.8 million from approximately $3.8 million for the same period in 2019. As a percentage of total revenues, these costs increased to 35.5% in 2020 from 33.2% in 2019, which is the result of Company's transition from a cannabis advisory company to a multi-state operator of cannabis businesses, whereby the Company will generate less revenues from a rental income and management fees, which have minimal associated costs, to a vastly higher level of revenue from product sales, which have a relatively higher level of associated costs.

As a result of the foregoing, gross profit approximated $19.7 million, or 64.5% of total revenues, for the nine months ended September 30, 2020 from approximately $15.9 million, or 39.3% of total revenues, for the same period a year ago. Excluding the Seed Transactions, gross profit increased to approximately $19.7 million for the nine months ended September 30, 2020 from approximately $7.6 million for the same period a year ago, an increase of approximately $12.1 million or 159.0%.

Personnel expenses increased to approximately $4.1 million for the nine months ended September 30, 2020 from approximately $2.7 million for the same period a year ago. The increase was primarily due to the hiring of additional staff to support (i) higher levels of revenue, and (ii) the Company's expansion into a direct owner and operator of seed-to-sale cannabis businesses. As a percentage of revenues excluding the Seed Transactions, personnel expenses dropped to 13.3% in 2020 from 24.1% in 2019.

Marketing and promotion costs decreased slightly to approximately $281,000 for the nine months ended September 30, 2020 from approximately $287,000 for the same period a year ago. As a percentage of revenues excluding the Seed Transactions, these costs fell to 0.9% in 2020 from 2.5% in 2019.

General and administrative costs increased to approximately $7.5 million for the nine months ended September 30, 2020 from approximately $6.8 million for the same period a year ago. The increase is primarily due to higher facility costs on additional properties owned and in service in 2020, higher depreciation expense on such properties, taxes paid on the Company's cannabis operation, and increases

in corporate insurance. As a percentage of revenue excluding the Seed Sales, general and administrative costs decreased significantly to 24.6% in 2020 from 59.3% in 2019, reflecting a more efficient use of the Company's fixed overhead costs.

During the nine months ended September 30, 2020, the Company recorded an additional bad debt reserve of approximately $1.3 million to cover potential losses that would be incurred by the Company from the impact of COVID-19 and the measures enacted by local governments to reduce its spread.

As a result of the foregoing, the Company generated operating income of approximately $6.5 million for the nine months ended September 30, 2020 compared to approximately $6.1 million for the same period in 2019. Excluding the Seed Transactions, the Company generated operating income of approximately $6.5 million for the nine months ended September 30, 2020 compared to an operating loss of approximately $2.2 million for the same period in 2019, a positive swing of approximately $8.7 million.

Net non-operating expenses were approximately $8.3 million for the nine months ended September 30, 2020 compared to approximately $6.7 million for the same period in 2019. The increase is primarily due to the approximate $2.9 million received by the Company in 2019 from the settlement of the AgriMed matter discussed in Note 3 – *Acquisitions* of the Company's financial statements, and declines in value of the Company's investments in Terrace, Chooze and MRSVP in 2020, offset by a decrease interest expense.

As a result of the foregoing, the Company incurred a net loss of approximately $1.8 million for the nine months ended September 30, 2020. For the same period a year ago, after a tax provision of approximately $1.9 million, the Company incurred a net loss of approximately $2.5 million, and excluding the Seed Transactions, incurred a net loss of approximately $8.9 million.

2020 Plans

For the balance of 2020, the Company's focus will continue to be on the following key areas:

1) In Massachusetts, increase production and wholesale revenue at its cultivation and production facility in New Bedford, and drive revenues at the recently approved for adult-use dispensary in Middleboro.

2) In Illinois, increase sales and profits of the dispensaries in Anna, Harrisburg and recently-opened Mt. Vernon.

3) Continue to expand the Company's Nature's Heritage™ branded flower and popular infused-product brands, such as Betty's Eddies™ and Kalm Fusion™, into the robust Massachusetts medical and adult-use marketplace.

4) Continue to execute its aforementioned strategic plan.

No assurances can be given that any of these plans will come to fruition or that if implemented will necessarily yield positive results.

2021 Plan

For 2021, the Company's focus will to be on the following key areas:

1) Subject to the applicable state approvals, continue the execution of its aforementioned strategic plan.

2) Identify and open two new dispensary locations in Massachusetts that can service both the medical and adult-use marketplaces.

3) Identify and open a fourth dispensary location in Illinois.

4) Increase sales and profits in Delaware by expanding cultivation and processing facilities, and

opening a third dispensary.

5) Complete the acquisition of Maryland and proceed with a plan to expand the cultivation and processing facilities as well as adding a dispensary location.

6) Drive licensing fees through the expansion of the Company's Nature's Heritage™ branded flower and popular infused-product brands, such as Betty's Eddies™ Kalm Fusion™, into the Company's owned and managed facilities and with strategic partners into additional markets. Expand the exclusively licensed Tropizen® and Binske® brands.

No assurances can be given that any of these plans will come to fruition or that if implemented will necessarily yield positive results

Subsequent Events

Please refer to Note 19 – *Subsequent Events* of the Company's financial statements included in this report for a discussion of material events that occurred after the balance sheet date.

The issuance of the shares of common stock described in Note 19 – *Subsequent Events* of the Company's financial statements were deemed to be exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon Sections 4(a)(2) and/or 4(a)(5) of the Securities Act. A legend restricting the sale, transfer, or other disposition of these securities other than in compliance with the Securities Act was placed on the securities issued in the foregoing transactions.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Inflation

In the opinion of management, inflation has not had a material effect on the Company's financial condition or results of its operations.

Seasonality

In the opinion of management, the Company's financial condition and results of its operations are not materially impacted by seasonal sales.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company is a "smaller reporting company" as defined by Regulation S-K and, as such, is not required to provide the information contained in this item pursuant to Regulation S-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our CEO and CFO, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2020 (the "Evaluation Date"). Based upon that evaluation, the chief executive officer and the chief financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) are accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the nine months ended September 30, 2020 and past fiscal year, we implemented significant measures to remediate the previously disclosed ineffectiveness of our internal control over financial reporting, which included an insufficient degree of segregation of duties amongst our accounting and financial reporting personnel, and the lack of a formalized and complete set of policy and procedure documentation evidencing our system of internal controls over financial reporting. The remediation measures consisted of the engagement of accounting consultants as needed to provide expertise on specific areas of the accounting guidance, the continued hiring of individuals with appropriate experience in internal controls over financial reporting, and the modification of our accounting processes and enhancement to our financial controls, including the testing of such controls.

Other than as described above, there was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) identified in connection with the evaluation required by Rules 13a-15(d) or 15d-15(d) that occurred during the nine months ended September 30, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

In July 2019, Thomas Kidrin, the former chief executive officer and a former director of the Company, filed a complaint in the Massachusetts Superior Court, Suffolk County, captioned Thomas Kidrin v. MariMed Inc., et. al., Civil Action No. 19-2173D. In the complaint, Mr. Kidrin alleges that the Company failed to pay all wages owed to him and breached his employment agreement, dated August 30, 2012, and requests multiple damages, attorney fees, costs, and interest. The Company has moved to dismiss certain counts of the complaint and has asserted counterclaims against Mr. Kidrin alleging breach of contract, breach of fiduciary duty, money had and received, and unjust enrichment. The Company believes that the allegations in the complaint are without merit and intends to vigorously defend this matter and prosecute its counterclaims.

On November 13, 2019, Kind Therapeutics USA Inc. ("Kind") commenced an action in the Circuit Court for Washington County, MD captioned Kind Therapeutics USA, Inc. vs. MariMed, Inc., et al. (Case No. C-21-CV-19-000670) asserting claims against the Company, including breach of contract, breach of fiduciary duty, accounting, and unjust enrichment, and seeking declaratory judgment and damages in excess of $75,000. On November 15, 2019, the Company filed counterclaims against Kind and a third-party complaint against the Members of Kind (Jennifer DiPietro, Susan Zimmerman, and Sophia Leonard-Burns) and William Tham (the "Counterclaim"). The Counterclaim alleges breach of contract with respect to each of the Memorandum of Understanding (the "MOU") and the Management Services Agreement (the "MSA"), unjust enrichment, promissory estoppel/detrimental reliance, and fraud in the inducement, and seeking a declaratory judgement that the MOU is an enforceable contract, specific performance of such contact, and the establishment of a constructive trust for the Company's benefit. The Counterclaim also seeks damages. Both parties, MariMed (including MariMed Holdings MD, LLC and MariMed Advisors Inc.) and Kind, brought motions for a temporary restraining order and a preliminary injunction. By Opinion and Order entered on November 21, 2019, the Court denied both parties motions for a temporary restraining order. In its opinion, the Court specifically noted that, contrary to Kind's allegations, the MSA and the 20-year lease agreement for Kind's utilization of the Company's cultivation and production facility (the "Lease") "appear to be independent, valid and enforceable contracts." On or about April 3, 2020, the Company filed its First Amended Counterclaim and Third Party Complaint in which additional claims were added and clarified, including breach of Lease and breach of the Licensing and Manufacturing Agreement (the "LMA") against Kind, along with other alternative claims and seeking damages. On August 11, 2020, the Company filed its Second Amended Counterclaim and Third Party Complaint in which additional clarifications were made and claims added for breach of fiduciary duty and breach of partnership. The Company believes that its claims for breach of contract with respect to the MOU, the MSA, the Lease, and the LMA, as well as all other claims are meritorious. Further, the Company believes that Kind's claims against the Company are without merit. The Company intends to aggressively prosecute and defend the action. A hearing on the parties' cross-motions for preliminary injunction was held on September 14 to 17, 2020 and November 2 and 4, 2020, and the Court's ruling on the motions is pending. The trial is currently scheduled to start on June 7, 2021.

Item 1A. Risk Factors

As a smaller reporting company, the Company is not required to provide the information contained in this item pursuant to Regulation S-K. However, information regarding the Company's risk factors appears in Part I, Item 1A. of its Annual Report on Form 10-K for the year ended December 31, 2019. These risk factors describe some of the assumptions, risks, uncertainties, and other factors that could adversely affect the Company's business or that could otherwise result in changes that differ materially from management's expectations. There have been no material changes to the risk factors contained in the Annual Report except for the following additional risk related to COVID-19:

Our business, operations, financial condition, and liquidity have been and may continue to be materially and adversely affected by the outbreak of COVID-19.

In March 2020, the World Health Organization declared COVID-19 a global pandemic, and governmental authorities around the world implemented measures to reduce the spread of the virus. The spread of COVID-19 in the United States and the measures to contain it have negatively impacted the economy and created significant volatility and disruption in financial markets. Business shutdowns in certain states in response to stay-at-home orders and related measures have temporarily eliminated certain customers', principally non-medical use customers', access to our managed dispensaries, adversely impacting sales during this restricted period. In addition, these restrictions and other disruptions caused by the pandemic have impacted our expansion, consolidation, and administrative functions. Further, the volatility in the financial markets and investor uncertainty has delayed and adversely impacted our ability to consummate debt and equity financings to raise working capital to support our operations and expansion plans. As a result, our business, operations, financial condition, and liquidity have been and may continue to be materially and adversely affected. Further, the disruption to the global economy and to our business, along with the decline in our stock price, may also negatively impact the future carrying values of certain assets, including inventories, accounts receivables, intangibles, and goodwill. The full extent to which COVID-19 and the measures to contain it will impact our business, operations financial condition, and liquidity will depend on the severity and duration of the COVID-19 outbreak and other future developments related to the response to the virus, all of which are highly uncertain. As a result, we cannot predict the ultimate impact of COVID-19 on the Company and its operational and financial performance.

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

During the quarter ended September 30, 2020, the Company issued 18,256,436 shares of common stock from the conversion of debentures, and 34,171 shares of common stock related to an employee stock grant.

The issuance of the shares of common stock described above were deemed to be exempt from registration under the Securities Act in reliance upon Sections 4(a)(2) and/or 4(a)(5) of the Securities Act. A legend restricting the sale, transfer, or other disposition of these securities other than in compliance with the Securities Act was placed on the securities issued in the foregoing transactions.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
3.1	Certificate of Incorporation of the Company (a)
3.1.1	Amended Certificate of Incorporation of the Company (b)
3.1.2	Series B Convertible Preferred Stock Certificate of Designation as filed with the Secretary of State of Delaware on February 27, 2020. (h)
3.1.3	Certificate Eliminating the Series A Preferred Stock as filed with the Secretary of State of Delaware on February 27, 2020. (h)
3.2	By-Laws - Restated as Amended (a)
4.1	Amended and Restated Promissory Note, dated February 10, 2020, in the principal amount of $11,500,000, issued by MariMed Hemp Inc. and MariMed Inc. (f)
4.1.1	Promissory Note, dated February 27, 2020, in the principal amount of $3,742,500, issued by MariMed Inc. to Navy Capital Green Fund, LP. (h)
4.1.2	Promissory Note, dated February 27, 2020, in the principal amount of $675,000, issued by MariMed Inc. to Navy Capital Green Co-Invest Fund, LLC. (h)
4.1.3	12% Convertible Promissory Note, dated April 23, 2020, in the principal amount of $900,000, issued by MariMed Inc. to Best Buds Funding LLC. (i)
4.2	Second Amended and Restated Promissory Note, dated June 24, 2020, in the principal amount of $8,811,653.84, issued by MariMed Hemp Inc. and MariMed Inc. to SYYM LLC. (j)
4.3	Common Stock Purchase Warrant, dated June 24, 2020, issued by MariMed Inc.to SYYM LLC. (k)
4.4	Amended and Restated Senior Secured Commercial Promissory Note, dated October 19, 2020, in the principal amount of $5,845,000, issued by MariMed Advisors, Inc. to Best Buds Funding LLC. (m)
4.5	Amended and Restated Senior Secured Commercial Promissory Note, dated October 19, 2020, in the principal amount of $3,000,000, issued by MariMed Advisors, Inc. to Best Buds Funding LLC. (m)
4.6	Common Stock Purchase Warrant, dated September 30, 2020, issued by MariMed

	Inc.to Best Buds Funding, LLC, and/or its designees. (m)
10.1	Employment Agreement dated as of August 30, 2012 between Worlds Online Inc. and Thomas Kidrin (o)
10.2	2011 Stock Option and Restricted Stock Award Plan (a)
10.3	Form of Convertible Debenture issued by the Company (c)
10.4	Form of Secured Convertible Debenture of GenCanna Global, Inc. (c)
10.5	Form of Securities Purchase Agreement between the Company and YA II PN, LTD. (c)
10.6	Amended and Restated Registration Rights Agreement dated as of November 5, 2018 between the Company and YA II PN, LTD. (c)
10.7	Amended and Restated 2018 Stock Award and Incentive Plan. (d)
10.8	Form of Stock Option Agreement, dated September 27, 2019, with each of David R. Allen, Eva Selhub, M.D., and Edward J. Gildea. (e)
10.9	Amendment Agreement, dated as of February 10, 2020, between SYYM LLC, as noteholder and collateral agent, and MariMed Inc. and MariMed Hemp Inc., as co-borrowers. (g)
10.10	Exchange Agreement, dated as of February 27, 2020, among MariMed Inc., Navy Capital Green Management, LLC, a Delaware limited liability company, as discretionary investment manager of Navy Capital Green Fund, LP, and Navy Capital Green Co-Invest Fund, LLC. (h)

10.11	Amendment Agreement dated June 24, 2020, between SYYM LLC, as noteholder and collateral agent, and MariMed Inc. and MariMed Hemp Inc., as co-borrowers. (l)
10.12	Note Extension Agreement, effective as of September 30, 2020, among Best Buds Funding LLC, as lender, and each of MariMed Inc., Mari Holdings MD LLC, and MariMed Advisors Inc., as the borrower parties. (n)
31.1.	Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer. *
31.2.	Rule 13a-14(a)/15d-14(a) Certifications of Chief Financial Officer. *
32.1.	Section 1350 Certifications of Chief Executive Officer. **
32.2.	Section 1350 Certifications of Chief Financial Officer. **
101.INS XBRL	Instance Document *
101.SCH XBRL	Taxonomy Extension Schema *
101.CAL XBRL	Taxonomy Extension Calculation Linkbase *
101.DEF XBRL	Taxonomy Extension Definition Linkbase *
101.LAB XBRL	Taxonomy Extension Label Linkbase *
101.PRE XBRL	Taxonomy Extension Presentation Linkbase *
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) *

* Filed herewith.
** Furnished herewith in accordance with Item 601 (32)(ii) of Regulation S-K.

(a) Incorporated by reference to the same numbered Exhibit filed with the Registration Statement on Form 10-12G (File No. 000-54433) filed on June 9, 2011.

(b) Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2016, filed on April 17, 2017.

(c) Incorporated by reference to Current Report on Form 8-K filed on November 9, 2018.

(d) Incorporated herein by reference to Appendix A of the Company's Definitive Proxy Statement on Schedule 14A, filed on August 26, 2019.

(e) Incorporated by reference to Exhibit 10.2 filed with the Quarterly Report on Form 10-Q for the period ended September 30, 2019, filed on November 29, 2019.

(f) Incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed on February 12, 2020.

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(h) Incorporated by reference to Current Report on Form 8-K filed on February 27, 2020.

(i) Incorporated by reference to the Quarterly Report on Form 10-Q for the period ended March 31, 2020, filed on May 28, 2020.

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(l) Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on June 30, 2020.

(m) Incorporated by reference to the same numbered exhibit of the Current Report on Form 8-K filed on October 26, 2020.

(n) Incorporated by reference to Exhibit 10.13 of the Current Report on Form 8-K filed on October 26, 2020.

(o) Incorporated by reference to the same numbered Exhibit filed with the Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 29, 2013.

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 thereto duly authorized.

Date: November 9, 2020

MARIMED INC.

By: */s/ Robert Fireman*
Robert Fireman
President and Chief Executive Officer
(Principal Executive Officer)

By: */s/ Jon R. Levine*
Jon R. Levine
Chief Financial Officer
(Principal Financial Officer)

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EXHIBIT 4

10-Q 1 inlb0813form10q.htm FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2020
OR

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

For the transition period from _____ to _____

Commission file number 000-54730

ITEM 9 LABS CORP.

(Exact name of registrant as specified in its charter)

Delaware	**96-0665018**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2727 North 3rd Street, Suite 201 Phoenix, Arizona 85004

(Address of principal executive offices and zip code)

1-833-867-6337
(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 to Rule 405 of Regulation S-T 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer (Do not check if a smaller reporting company)	☐	Smaller reporting company	☑
Emerging growth company	☐		

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 by Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of August 12, 2020, there were 51,553,964 shares of the issuer's common stock, $0.0001 par value per share, outstanding.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included in this Quarterly Report on Form 10-Q and other filings of the Registrant under the Securities Act of 1933, as amended (the "Securities Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as information communicated orally or in writing between the dates of such filings, contains or may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements in this Quarterly Report on Form 10-Q, including without limitation, statements related to our plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from expected results. Among these risks, trends and uncertainties are the availability of working capital to fund our operations, the competitive market in which we operate, the efficient and uninterrupted operation of our computer and communications systems, our ability to generate a profit and execute our business plan, the retention of key personnel, our ability to protect and defend our intellectual property, the effects of governmental regulation, and other risks identified in the Registrant's filings with the Securities and Exchange Commission from time to time.

In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "could," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. Although the Registrant believes that the expectations reflected in the forward-looking statements contained herein are reasonable, the Registrant cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the Registrant, nor any other person, assumes responsibility for the accuracy and completeness of such statements. The Registrant is under no duty to update any of the forward-looking statements contained herein after the date of this Quarterly Report on Form 10-Q.

ITEM 9 LABS CORP.
FORM 10-Q
JUNE 30, 2020

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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ITEM 9 LABS CORP. AND SUBSIDIARIES
(FORMERLY AIRWARE LABS CORP.)
CONDENSED CONSOLIDATED BALANCE SHEETS

	(unaudited) June 30, 2020	September 30, 2019
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 564,715	$ 21,092
Restricted cash and cash equivalents	—	553,851
Accounts receivable, net of reserves of $22,460 and $0 at June 30, 2020 and September 30, 2019, respectively	606,222	437,026
Deferred costs	2,989,755	1,936,534
Prepaid expenses and other current assets	334,336	14,409
Total current assets	4,495,028	2,962,912
Property and equipment, net	7,156,592	7,170,422
Right of use asset	207,802	—
Investment in Health Defense, LLC	100,000	100,000
Deposit on land purchase from related party	600,000	600,000
Receivable for sale of Airware assets, net of reserves of $307,430	454,715	504,715
Notes and interest receivable, net of reserves of $69,000	160,000	180,000
Other intangible assets, net	8,018,934	1,839,875
Goodwill	1,116,396	1,116,396
Total Assets	$ 22,309,467	$ 14,474,320
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 2,254,980	$ 1,076,546
Accrued payroll	211,919	77,560
Accrued compensated absences	71,617	69,424
Accrued interest	1,462,939	675,182
Accrued expenses	1,403,905	379,972
Accrued income tax	87,476	87,476
Short term notes payable, net of discount	2,835,478	2,051,714
Long term debt, in default	—	2,700,000
Operating lease liability - short term portion	67,952	—
Convertible notes payable	70,000	20,000
Total current liabilities	8,466,266	7,137,874
Long term debt, net of discount	2,725,418	—
Operating lease liability	157,864	—
Total liabilities	11,349,548	7,137,874

Commitments and Contingencies		
Stockholders' Equity:		
Common stock, par value $.0001 per share, 2,000,000,000 shares authorized; 63,724,905 issued, 3,250,000 to be issued, 61,424,905 outstanding at June 30, 2020 and 63,643,005 shares issued and outstanding at September 30, 2019	6,699	6,365
Additional paid-in capital	30,232,252	18,148,962
Treasury stock	(3,450,000)	—
Accumulated deficit	(15,829,032)	(10,694,939)
Total Item 9 Labs Corp. stockholders' equity	10,959,919	7,460,388
Noncontrolling Interest	—	(123,942)
Total Stockholders' Equity	10,959,919	7,336,446
Total Liabilities and Stockholders' Equity	$ 22,309,467	$ 14,474,320

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

ITEM 9 LABS CORP. AND SUBSIDIARIES
(FORMERLY AIRWARE LABS CORP.)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Revenues, net	$ 2,207,453	$ 1,542,067	$ 5,602,321	$ 3,627,951
Cost of revenues	1,188,831	697,672	3,508,350	1,702,828
Gross profit	1,018,622	844,395	2,093,971	1,925,123
Operating expenses				
Professional fees and outside services	182,610	366,397	654,447	920,194
Payroll and employee related expenses	698,477	590,965	2,229,493	1,631,343
Sales and marketing	37,997	268,940	199,215	407,288
Other operating expenses	138,252	238,496	521,024	616,403
Depreciation and amortization	205,250	193,455	806,070	275,955
Provision for bad debt	—	—	22,460	—
Total operating expenses	1,262,586	1,658,253	4,432,709	3,851,183
Loss from operations	(243,964)	(813,858)	(2,338,738)	(1,926,060)
Other income (expense)				
Interest income	—	26,553	—	74,386
Interest expense	(1,362,347)	(21,314)	(2,820,137)	(22,925)
Other income (expense)	(1,492)	107,896	(1,492)	107,896
Total other income (expense), net	(1,363,839)	113,135	(2,821,629)	159,357
Loss from operations, before income tax provision	(1,607,803)	(700,723)	(5,160,367)	(1,766,703)
Income tax provision	—	156,647	—	364,046
Net loss	(1,607,803)	(857,370)	(5,160,367)	(2,130,749)
Less: Net loss attributable to noncontrolling interest	—	(6,806)	(26,274)	(67,591)
Net loss attributable to Item 9 Labs Corp.	$ (1,607,803)	$ (850,564)	$ (5,134,093)	$ (2,063,158)
Basic and diluted weighted average common shares outstanding	61,424,905	63,159,814	61,834,030	60,774,873
Basic and diluted net loss per common share	$ (0.03)	$ (0.01)	$ (0.08)	$ (0.03)

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

ITEM 9 LABS CORP. AND SUBSIDIARIES
(FORMERLY AIRWARE LABS CORP.)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30,	
	2020	**2019**
Operating Activities:		
Net loss	$ (5,160,367)	$ (2,130,749)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	96,330	39,122
Amortization	709,740	237,311
Amortization of right of use asset	60,557	—
Amortization of debt discount	1,273,739	—
Interest accrued on notes receivable	—	(33,638)
Common stock issued for services	132,106	270,000
Stock compensation expense	75,000	150,000
Provision for bad debt	22,460	—
Interest accretion from receivable	—	(39,057)
Changes in operating assets and liabilities:		
Accounts receivable	(191,656)	(298,562)
Deferred costs	(1,053,221)	(988,914)
Prepaid expenses	(319,927)	(61,308)
Accounts payable	1,178,434	98,247
Accrued payroll	134,359	(1,733)
Accrued compensated absences	2,193	16,998
Accrued interest	1,088,462	21,489
Operating lease liability	(42,543)	—
Accrued expenses	1,023,933	1,192,966
Accrued income tax	—	362,746
Net Cash Used in Operating Activities	(970,401)	(1,165,082)
Investing Activities:		
Deposit on land purchase from related party	—	(400,000)
Purchases of property and equipment	(82,500)	(4,797,374)
Cash paid for acquisitions	(500,000)	(1,500,000)
Cash received from sale of Airware assets	50,000	115,000
Cash received from short-term note receivable	20,000	—
Capitalized license fees	(426,663)	—
Net Cash Used in Investing Activities	(939,163)	(6,582,374)
Financing Activities:		
Proceeds from the sale of common stock, net of issuance costs	—	5,660,003
Proceeds from the issuance of debt	4,092,000	1,200,000
Debt payments	(2,192,664)	—
Net Cash Provided by Financing Activities	1,899,336	6,860,003

Net Decrease in Cash and cash equivalents	(10,228)	(887,453)
Cash and cash equivalents- Beginning of Period	574,943	1,674,266
Cash and cash equivalents - End of Period	$ 564,715	$ 786,813
Supplemental disclosure of cash flow information:		
Interest paid in cash	$ 116,000	$ —
Income taxes paid in cash	$ —	$ —
Supplemental disclosure of non-cash investing and financing activities:		
Stock issued/to be issued for acquisitions	$ 3,507,000	$ 7,770,000
Interest in Health Defense, LLC received for sale of Airware assets	$ —	$ 100,000
Receivable for sale of Airware assets, net of discount of $70,070	$ —	$ 929,930
Right of use asset	$ 268,359	$ —
Lease liability	$ 268,359	$ —
Warrants issued for debt and for acquisition	$ 5,069,734	$ —
Debt issued for acquisition	$ 1,000,000	$ —
Non-cash treasury stock	$ 150,216	$ —
Accrued interest added to debt	$ 300,705	$ —
Net assets acquired in acquisition of Arizona DP Consulting, LLC		
Intangible assets	$ —	$ 3,350,000
Goodwill	—	5,920,000
Total purchase consideration	$ —	$ 9,270,000

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

ITEM 9 LABS CORP. AND SUBSIDIARIES
(FORMERLY AIRWARE LABS CORP.)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED JUNE 30, 2020 AND 2019

	Item 9 Labs Corp Equity							
	Common Stock		Additional Paid-in	Treasury Stock		Accumulated	Non Controlling	
	Shares	Amount	Capital	Shares	Amount	(Deficit)	Interest	Total
Balance at September 30, 2018	54,766,642	$5,477	$ 3,427,230	—	$ —	$ (870,243)	$ —	$ 2,562,464
Stock issued for acquisition	3,000,000	300	7,769,700	—	—	—	—	7,770,000
Issuance of stock for cash	3,100,000	310	3,149,690	—	—	—	—	3,150,000
Exchange of shares for services	30,000	3	123,497	—	—	—	—	123,500
Net loss	—	—	—	—	—	(328,819)	(48,478)	(377,297)
Balance at December 31, 2018	60,896,642	6,090	14,470,117	—	—	(1,199,062)	(48,478)	13,228,667
Issuance of stock for cash	2,166,669	217	2,249,786	—	—	—	—	2,250,003
Exchange of shares for services	35,000	4	228,196	—	—	—	—	228,200
Net loss	—	—	—	—	—	(883,775)	(12,307)	(896,082)
Balance at March 31, 2019	63,098,311	6,311	16,948,099	—	—	(2,082,837)	(60,785)	14,810,788
Issuance of stock for cash	173,333	17	259,983	—	—	—	—	260,000
Exchange of shares for services	70,000	7	104,993	—	—	—	—	105,000
Stock compensation	9,615	1	24,999	—	—	—	—	25,000
Net loss	—	—	—	—	—	(850,564)	(6,806)	(857,370)
Balance at June 30, 2019	63,351,259	$6,336	$17,338,074	—	$ —	$ (2,933,401)	$ (67,591)	$14,343,418
Balance at September 30, 2019	63,643,005	$6,365	$18,148,962	—	$ —	$(10,694,939)	$ (123,942)	$ 7,336,446

Treasury stock acquired in settlement agreement	—	—	3,450,000	(2,300,000)	(3,450,000)	—	—	—
Exchange of shares for services	55,618	6	132,100	—	—	—	—	132,106
Stock compensation	26,282	3	74,997	—	—	—	—	75,000
Net loss	—	—	—	—	—	(1,950,190)	(25,138)	(1,975,328)
Balance at December 31, 2019	63,724,905	6,374	21,806,059	(2,300,000)	(3,450,000)	(12,645,129)	(149,080)	5,568,224
Stock to be issued for acquisition	3,250,000	325	3,506,675	—	—	—	—	3,507,000
Noncontrolling interest dissolution from acquisition	—	—	(150,216)	—	—	—	150,216	—
Warrants issued	—	—	257,094	—	—	—	—	257,094
Warrants to be issued	—	—	3,336,198	—	—	—	—	3,336,198
Net loss	—	—	—	—	—	(1,576,100)	(1,136)	(1,577,236)
Balance at March 31, 2020	66,974,905	6,699	28,755,810	(2,300,000)	(3,450,000)	(14,221,229)	—	11,091,280
Warrants issued	—	—	1,476,442	—	—	—	—	1,476,442
Net loss	—	—	—	—	—	(1,607,803)	—	(1,607,803)
Balance at June 30, 2020	66,974,905	$6,699	$30,232,252	(2,300,000)	$(3,450,000)	$(15,829,032)	$ —	$10,959,919

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

ITEM 9 LABS CORP.
(FORMERLY AIRWARE LABS CORP)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Description of Business and Summary of Significant Accounting Policies

Description of Business

Item 9 Labs Corp. ("Item 9 Labs" or the "Company"), formerly Airware Labs Corp., is a Delaware corporation. The Company was incorporated under the laws of the State of Delaware on June 15, 2010 as Crown Dynamics Corp. On October 26, 2012, the Articles of Incorporation were amended to reflect a name change to Airware Labs Corp, and on April 2, 2018, they were amended again to reflect the name change to Item 9 Labs Corp.

On October 18, 2018 the Company effected a 1 for 20 reverse stock split of the Company's common stock. The par value and number of authorized shares were not adjusted as a result of the reverse stock split. The total number of shares outstanding at the time of the split was adjusted from 1,095,332,835 to 54,766,642. All share information in these financial statements has been retroactively adjusted to reflect the effect of the reverse split.

On March 20, 2018, the Company closed on an Agreement and Plan of Exchange (the "Agreement") to acquire all of the membership interests of BSSD Group, LLC ("BSSD"), an Arizona limited liability company formed on May 2, 2017, in exchange for newly issued restricted shares of the Company's common stock (the "Shares"), which represented approximately 75% of the issued and outstanding shares of the Company's common stock on a fully-diluted basis. The 40,355,771 Shares were distributed pro-rata to the BSSD members. As part of the Agreement, the Company agreed to increase its authorized shares of common stock to two billion.

For accounting purposes the transaction was recorded as a reverse recapitalization, with BSSD as the accounting acquirer. Consequently, the historical pre-merger financial statements of BSSD are now those of the Company. In its determination that BSSD was the accounting acquirer, the Company considered pertinent facts and circumstances, including the following: (i) the BSSD owners received the largest portion of the voting rights of the combined entity; (ii) the management team of the combined entity is primarily comprised of owners or management of BSSD; (iii) the continuing business of the combined entity will be the business of BSSD.

Through a licensing agreement, the Company grows medical marijuana and produces cannabis related products at their facility in Pinal County, Arizona on behalf of licensed medical marijuana dispensaries in the state of Arizona. Certain assets of the Company, consisting of five acres of land and a cultivation facility, were contributed by the members of BSSD in May 2017 and were recorded at the historical carrying value (original cost less any related accumulated depreciation) of the members as of the contribution date.

On September 12, 2018, the Company executed a $1,500,000 promissory note (see Note 8) which was used to make a capital contribution into Strive Management, LLC, a Nevada limited liability company ("Strive Management"). In exchange for the contribution, the Company received a 20% membership interest in Strive Management. The remaining interests are held by three individuals one of which is the Company's former Chief Executive Officer. Through a management agreement with Strive Wellness of Nevada, LLC, a related party (the Company's former CEO is a member of this LLC), Strive Management will facilitate the cultivation, processing and distribution of marijuana in Nevada. Strive Wellness of Nevada, LLC has been allocated cultivation, processing and distribution licenses from the state of Nevada. The Company acquired the remaining membership interests in Strive Management in February 2020 as well as the licenses owned by Strive Wellness of Nevada, LLC. As of June 30, 2020, the licenses have not been transferred to the Company, as the transfer is awaiting regulatory approval. See Note 2.

In March 2020, the World Health Organization categorized Coronavirus Disease 2019 ("COVID-19") as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The services we provide are currently designated an essential critical infrastructure business under the President's COVID-19 guidance, the continued operation of which is vital for national public health, safety and national economic security. The extent of the impact of the COVID-19 outbreak on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, its impact on our customers and vendors, and the range of governmental and community reactions to the pandemic, which are uncertain and cannot be fully predicted at this time.

Principles of Consolidation

Item 9 Labs consolidates all variable interest entities ("VIEs") in which the Company is deemed to be the primary beneficiary and all other entities in which it has a controlling voting interest. An entity is generally a VIE if it meets any of the following criteria: (i) the entity has insufficient equity to finance its activities without additional subordinated financial support from other parties, (ii) the equity investors cannot make significant decisions about the entity's operations or (iii) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity or receive the expected returns of the entity and substantially all of the entity's activities involve or are conducted on behalf of the investor with disproportionately few voting rights. The Company periodically makes judgments in determining whether its investees are VIEs and, for each reporting period, the Company assesses whether it is the primary beneficiary of any of its VIEs. As of September 30, 2019, the Company is deemed the primary beneficiary of Strive Management because the entity has insufficient equity to finance its activities without additional subordinated support. The interests in Strive Management held by non-controlling members has been presented on the statement of operations and statement of stockholders' equity as non-controlling interest. See Note 2 and Note 9.

The condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and variable interest entities in which the Company is the primary beneficiary. Intercompany balances and transactions have been eliminated.

The accompanying unaudited condensed consolidated financial statements of the Company as of June 30, 2020 have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and do not include all the information and notes necessary for a presentation of financial position and results of operations in accordance with GAAP and should be read in conjunction with our September 30, 2019 audited financial statements filed with the SEC on our Form 10-K on January 14, 2020. It is management's opinion that all material adjustments (consisting of normal recurring adjustments) have been made, which are necessary for a fair financial statement presentation. We derived the September 30, 2019 condensed balance sheet data from audited financial statements, however, we did not include all disclosures required by GAAP. The results for the interim period are not necessarily indicative of the results to be expected for the year ending September 30, 2020.

Accounting Estimates

The preparation of financial statements in conformity with Accounting Principles Generally Accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could materially differ from those estimates. Significant estimates of the Company include but are not limited to accounting for depreciation and amortization, current and deferred income taxes, deferred costs, accruals and contingencies, carrying value of goodwill and intangible assets, collectability of notes receivable, the fair value of common stock and the estimated fair value of stock options and warrants. Due to the uncertainties in the formation of accounting estimates, and the significance of these items, it is reasonably possible that these estimates could be materially changed in the near term.

Cash and Cash Equivalents and Restricted Cash

Cash represents cash on hand, demand deposits placed with banks and other financial institutions and all highly liquid instruments purchased with a remaining maturity of three months or less as of the purchase date of such investments. The Company maintains cash on deposit, which, can exceed federally insured limits. The Company has not experienced any losses on such accounts nor believes it is exposed to any significant credit risk on cash. Restricted cash represents funds held by a bank pending resolution of a dispute with a former officer of the Company. The dispute was resolved during the nine months ended June 30, 2020 and the cash is no longer restricted.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect from outstanding balances. Differences between the amount due and the amount management expects to collect are expensed in the results of operations in the period in which those differences are determined, with an offsetting entry to a valuation allowance for accounts receivable.

Deferred Costs

Deferred costs consist of the costs directly related to the production and cultivation of marijuana crops, cannabis oils, and cannabis concentrate products. Deferred costs are relieved to cost of services as products are delivered to dispensaries.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided for on the straight-line method, over the estimated useful lives of the assets. Maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Betterments or renewals are capitalized when incurred. Gains and losses on the disposition of property and equipment are recorded in the period incurred.

The estimated useful lives of property and equipment are:

- Cultivation and manufacturing equipment 2-7 years
- Buildings 30 years

Notes and Other Receivables, net

Notes and other receivables are reported at the amount management expects to collect from outstanding balances. Differences between the amount due and the amount management expects to collect are reported in the results of operations in the period in which those differences are determined, with an offsetting entry to a valuation allowance for receivables. Management assesses all receivables individually and in total, considering historical credit losses as well as existing economic conditions to determine the likelihood of future credit losses. The Company stops accruing interest on interest bearing receivables when the receivable is in default. There was a total valuation allowance as of June 30, 2020 and September 30, 2019 of $376,430.

Impairment of Long-Lived Assets

We analyze long-lived assets, including property and equipment and definite-lived intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. We review the amortization method and estimated period of useful life at least at each balance sheet date. We record the effects of any revision to operations when the change arises. We recognize impairment when the estimated undiscounted cash flow generated by those assets is less than the carrying amount of such assets. The amount of impairment is the excess of the carrying amount over the fair value of such assets, which is generally calculated using discounted cash flows.

Intangible Assets Subject to Amortization

Intangible assets include trade name, customer relationships, website, a noncompete agreement and intellectual property obtained through a business acquisition (see Note 2). Intangible assets acquired in a business combination are recognized at fair value using generally accepted valuation methods deemed appropriate for the type of intangible asset acquired. Intangible assets with finite lives are amortized over their estimated useful life and reported net of accumulated amortization, separately from goodwill. Amortization is calculated on the straight-line basis using the following estimated useful lives:

- Trade names 10 years
- Customer relationships 2 years
- Noncompete agreement 4 months (settlement agreement)
- Websites and other intellectual property 5 years

Generally, the Company utilizes the relief from royalty method to value trade name, the with or without method for valuing the customer relationships, and the discounted cash flow method for valuing website and intellectual property.

Goodwill and Intangible Assets Not Subject to Amortization

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Indefinite life intangible assets represent licenses purchased for cultivation, processing and distribution of cannabis. Goodwill and indefinite life intangibles are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The goodwill included in these consolidated condensed financial statements represents the amount of consideration paid above the amount of the individually identifiable assets acquired. In assessing potential impairment, management first considers qualitative factors to determine if an impairment of goodwill or indefinite life intangibles existed. Upon the determination of a likely impairment, management assesses the recorded goodwill or indefinite life intangibles balance with the fair value of the business or assets acquired.

In addition to the annual impairment test, we are required to regularly assess whether a triggering event has occurred which would require interim testing. We considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic and its impact on our operations. Currently, we have determined that a triggering event has not occurred that would require an interim impairment test to be performed. However, we refer you to our comment in the first section of this Note 1 as it relates to the impact of COVID-19 and certain economic uncertainties.

Income Taxes

The Company accounts for income taxes under FASB ASC 740, *Income Taxes*. Deferred income tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized.

The Company files income tax returns in the U.S. federal jurisdiction, and the State of Arizona. The Company is subject to U.S. federal, state, and local income tax examinations by tax authorities. Generally all periods beginning on or after January 1, 2015 are open to examination by taxing authorities. The Company believes it has no tax positions for which the ultimate deductibility is highly uncertain.

Revenue Recognition

On October 1, 2017, the Company adopted ASC Topic 606, “Revenue from Contracts with Customers” (“ASC 606”) and all the related amendments.

The core principle of ASC 606 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASC 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than previously required under GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

All of the Company's revenue is associated with a customer contract that represents an obligation to perform services that are delivered at a single point in time. Any costs incurred prior to the period in which the services are performed to completion are deferred and recognized as cost of revenues in the period in which the performance obligations are completed. For the three and nine months ended June 30, 2020 and 2019, substantially all of the Company's revenue was generated from performance obligations completed in the state of Arizona.

The Company recognizes revenue as services are rendered. Services are considered complete upon successful delivery of the product to the dispensary as the Company has no further performance obligations at this point in time and collection is reasonably assured. Under the performance contract, the Company acts as an agent for the dispensary, does not own the marijuana products, cannot exchange the marijuana products, prepares invoices for the dispensary and all employees that are in contact with marijuana products are dispensary agents of the dispensary with which we have our contract. Given these facts and circumstances, it is the Company's policy to record the revenue related to the contract net of the amount retained by the dispensary. Per the dispensary contract, the Company was paid 85% of the wholesale market price of the marijuana products for the services rendered for the three and nine months ended June 30, 2019. The contract was amended in December 2019 and beginning in January 2020, the Company was paid 100% of the wholesale market price of the marijuana for the services rendered. The contract called for monthly payments in the amount of $80,000 for the three months ending March 31, 2020. Beginning April 1, 2020, the Company entered into a three year agreement with another dispensary, which calls for monthly payments of $40,000. Prior to January 1, 2020, the Company recorded these revenues at the amount it expected to collect, 85% of the total wholesale sales. Since January 1, 2020, the Company records revenue at the amount it expects to collect, 100% of the wholesale sales. The fees paid for operating under the contract are expensed to cost of revenues.

The Company's revenues accounted for under ASC 606 do not require significant estimates or judgments based on the nature of the Company's revenue stream. The sales price is generally fixed at the point of sale and all consideration from the contract is included in the transaction price. The Company's contracts do not include multiple performance obligations or variable consideration.

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, consisting of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value due to their short term to maturity (level 3 inputs). The Company's receivable resulting from the sale of Airware, notes receivable and notes payable approximate fair value based on borrowing rates currently available on notes with similar terms and maturities (level 3 inputs).

ASC Topic 820, Fair Value Measurements, defines fair value as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy that 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 as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimate of assumptions that market participants would use in pricing the asset or liability.

Net Loss Per Share

Basic loss per share does not include dilution and is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of an entity. Dilutive securities are not included in the weighted average number of shares when inclusion would be anti-dilutive. At June 30, 2020 and September 30, 2019 there were 17,082,991 and 656,112 shares underlying convertible notes payable, warrants and options, that were anti-dilutive, respectively.

Stock-Based Compensation

The Company accounts for its stock-based awards in accordance with ASC Subtopic 718-10, *"Compensation – Stock Compensation",* which requires fair value measurement on the grant date and recognition of compensation expense for all stock-based payment awards made to employees and directors. For stock options, the Company estimates the fair value using a closed option valuation (Black-Scholes) model. The estimated fair value is then expensed over the requisite service period of the award which is generally the vesting period and the related amount is recognized in the consolidated condensed statements of operations. The Company recognizes forfeitures at the time they occur.

The Black-Scholes option-pricing model requires the input of certain assumptions that require the Company's judgment, including the expected term and the expected stock price volatility of the underlying stock. The assumptions used in calculating the fair value of stock-based compensation represent

management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change resulting in the use of different assumptions, stock-based compensation expense could be materially different in the future.

Warrants and Debt Discounts

The Company bifurcates the value of warrants issued with debt. This bifurcation results in the establishment of a debt discount, based on the relative fair values of the warrants and the debt, with a corresponding charge to equity unless the terms of the warrant require it to be classified as a liability. The warrants and corresponding note discounts are valued using the Black-Scholes valuation model. This model uses estimates of volatility, risk free interest rate and the expected term of the warrants, along with the current market price of the Company's stock, to estimate the value of the outstanding warrants. The Company estimates the expected term using an average of the contractual term and vesting period of the award. The expected volatility is measured using the average historical daily changes in the market price of the Company's common stock over the expected term of the award and the risk-free interest rate is equivalent to the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards.

The following assumptions were used to estimate the warrants issued during the quarter ended June 30, 2020:

Expected stock price volatility	186.00%
Expected dividend yield	0.00%
Risk-free interest rate	2.97%
Option life	2.5 years

Recently Issued Accounting Pronouncements

Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The update improves financial reporting about leasing transactions by requiring a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by lease terms of more than 12 months. We adopted ASU 2016-02 effective October 1, 2019.The most significant change was related to the recognition of a right-of-use asset and lease liability on our consolidated condensed balance sheet for our real estate operating lease. The impact on our results of operations and cash flows is not material. See Note 10.

In January 2017, the FASB issued ASU 2017-01, Business Combination (Topic 805). The update clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions of assets of businesses. The Company adopted ASU 2017-01 on January 1, 2020 which impacted how the acquisition from February 2020 (Note 2) has been reported.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260). The update changes the classification analysis of certain equity-linked financial instruments (or embedded features) which contain down round features. The Company adopted ASU 2017-11 on January 1, 2020 which impacted how warrants relating to debt was recorded.

Pending Adoption

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), which provides guidance on measuring credit losses on financial instruments. The amended guidance replaces current incurred loss impairment methodology of recognizing credit losses when a loss is probable with a methodology that reflects expected credit losses and requires a broader range of reasonable and supportable information to assess credit loss estimates. ASU 2016-13 is effective for us on October 1, 2023, with early adoption permitted on October 1, 2019. We are assessing the provisions of this amended guidance; however, the adoption of the standard is not expected to have a material effect on our consolidated condensed financial statements.

There have been no other recent accounting pronouncements or changes in accounting pronouncements that have been issued but not yet adopted that are of significance, or potential significance, to us.

Note 2 –Business Combination/Acquisitions

On November 26, 2018, the Company's wholly owned subsidiary AZ DP Holdings, LLC ("AZDP") performed an acquisition of the majority of the assets of Arizona DP Consulting, LLC ("AZDPC"), a consulting firm specializing in obtaining marijuana dispensary permits and developing cannabis related business plans. The purchase price was $9,270,000, $1,500,000 in cash and 3,000,000 shares of restricted common stock having an aggregate value of $7,770,000 or $2.59 per share based on the market price of the Company's shares at the time the asset purchase agreement was executed. There were no significant costs relating to the acquisition. Pursuant to the agreement, Sara Gullickson transitioned from President to CEO under a 3 year employment agreement and became a member of the board of directors of the Company. Additionally, AZDP agreed to hire the employees of AZDPC and lease its existing office space which required $3,200 of monthly rent through May 2019, which was subsequently extended through August 2019. The primary reason for the acquisition was to utilize the assets held by AZDPC to assist in the expansion of the Company.

In accordance with ASC 805, *Business Combinations*, the Company accounted for the acquisition of AZDPC using the acquisition method of accounting. The purchase price was allocated to specific identifiable intangible assets at their respective fair values at the date of acquisition. There were no tangible assets or liabilities acquired.

Identifiable intangible assets and goodwill consist of the following as of June 30, 2020:

	Balance at October 1, 2019	Additions	Amortization	Balance at June 30, 2020
Trade names	$ 161,848	$ 144,120	$ (12,930)	$ 293,038
Customer relationships	181,250	—	(130,500)	50,750
Licenses	—	6,744,679	—	6,744,679
Websites and other intellectual property	1,144,277	—	(213,810)	930,467
Non-compete agreement	352,500	—	(352,500)	—
Total other intangible assets	1,839,875	6,888,799	(709,740)	8,018,934
Goodwill	1,116,396	—	—	1,116,396
Total	$ 2,956,271	$ 6,888,799	$ (709,740)	$ 9,135,330

On November 15, 2019, Ms. Sara Gullickson voluntarily resigned as Chief Executive Officer and member of the Board of Directors of Item 9 Labs Corp. The resignation was not the result of any disagreement with the Company on any matter relating to the Company's operations, policies, or practices. Ms. Gullickson and the Company have mutually agreed to amend the terms of the employment agreement and non-competition agreement between Ms. Gullickson and the Company dated November 26, 2018 pursuant to which (i) the non-competition period shall be reduced from three (3) years to four (4) months; (ii) Ms. Gullickson shall receive her full salary and health benefits for four (4) months from the resignation date (a significantly reduced period of time); and (iii) Ms. Gullickson shall cancel and return to treasury an aggregate amount 2,300,000 restricted shares of Company Common Stock which were acquired by Gullickson pursuant to that certain Asset Purchase Agreement dated November 26, 2018 by and between

Arizona DP Consulting LLC, an Arizona limited liability company, as seller, and Gullickson as the sole member of the seller on the one hand, and the Company and AZ DP Holdings, LLC, a Nevada limited liability company as buyer, on the other hand. The returning of the stock was accounted for as a capital contribution and treasury stock transaction. As such, there was no impact on total equity.

In exchange for the aforementioned terms, the Company and Gullickson agreed to a release of claims against each other, among other things. The agreement contains representations and warranties customary for agreements of this type.

In February 2020, the Company executed an agreement with the other members of Strive Management, LLC to purchase the remaining 80% of Strive Management, LLC ("Strive"), as well as the Nevada licenses its members held in another entity. The Company agreed to pay $500,000 in cash, $1,000,000 in an unsecured note payable, 3,250,000 shares of the Company's restricted common stock and issue 2,000,000 warrants exercisable into the Company's common stock. The warrants are to be issued upon the earlier of September 30, 2020 or three months following the date on which each provisional certificate becomes a final certificate, which has not yet occurred. The warrants have a three year term, exercise price of $1.13 and include down round provisions. In order to close the transaction, the Company borrowed $500,000 from Stockbridge Enterprises, a related party. The Company was to repay the loan by April 15, 2020. Subsequent to June 30, 2020, this loan has not been repaid and is in default. Though the Company acquired the remaining portion of Strive, Strive was not considered a business under ASC 805, Business Combinations, as it did not have a substantive process. As such, the Company is reporting the transaction as an asset acquisition. As of June 30, 2020 $6,744,679 has been recorded to licenses relating to the transaction.

Note 3 - Property and Equipment, Net

The following represents a summary of our property and equipment as of June 30, 2020 and September 30, 2019:

	June 30, 2020	September 30, 2019
Cultivation and manufacturing equipment	$ 169,540	$ 154,059
Construction in progress	4,124,740	4,060,297
Land and building	3,095,646	3,093,549
	7,389,926	7,307,905
Accumulated Depreciation	(233,334)	(137,483)
	$ 7,156,592	$ 7,170,422

Depreciation expense for the nine months ended June 30, 2020 and 2019 was $96,330 and $39,122, respectively.

Note 4 – Sale of Airware Assets and Investment in Health Defense LLC

On May 3, 2018, the Company entered into an intellectual property sales agreement with Health Defense LLC. Pursuant to the terms of the agreement, the Company sold all of the assets related to the former business of the Company, nasal dilator sales.

In consideration for entering into the agreement, the Company was to receive: (i) $300,000 in cash at execution, (ii) $700,000 in cash within one year of execution and (iii) an additional $300,000 by December 31, 2019.

As additional consideration, the Company was given a 10% ownership interest in Health Defense LLC. This ownership is valued at $100,000 and is reflected on the consolidated condensed balance sheets as Investment in Health Defense at June 30, 2020 and September 30, 2019.

As of June 30, 2020, management determined that the receivable described above should be classified as long-term on the consolidated condensed balance sheets as the payments have not been made as scheduled. Additionally, management has recorded an allowance on the receivable of $307,430 at June 30, 2020 and September 30, 2019.

Note 5 – Notes Receivable

On May 11, 2018, the Company entered into a Promissory Note Agreement with a borrower in the principal amount of $150,000. This was a one year note with 20% non-compounded annual interest payable at maturity. It is convertible at the discretion of the Company into a unit offering of the borrower at a 15% discount. The note is personally guaranteed by the borrower. This note is in default and is on non-accrual status. The Company is currently negotiating an amendment to the note.

On May 15, 2018, the Company entered into a Promissory Note Agreement with a borrower in the principal amount of $60,000. This is a one year note with 15% non-compounded annual interest payable at maturity. It is convertible at the discretion of the Company into an interest in a strategic partnership of ownership and operations of a certain dispensary license. The note is personally guaranteed by the borrower. This note is in default and is on non-accrual status. At June 30, 2020 and September 30, 2019, the principal and interest has been fully reserved in the amount of $69,000.

At June 30, 2020 and September 30, 2019, the Company has accrued $39,000 of interest receivable related to these notes which is included in notes and interest receivables on the accompanying consolidated condensed balance sheets.

Note 6 – Short Term Notes Payable

Aeneas Venture Partners 3, LLC Note

On August 28, 2019, Item 9 Properties, LLC, a Nevada limited liability company, and BSSD Group, LLC, an Arizona limited liability company, each wholly owned subsidiaries of Item 9 Labs Corp. collectively, entered into a Loan Agreement of up to $2.5 million (the "Loan Agreement") with Aeneas Venture Partners 3, LLC, an Arizona limited liability company (the "Lender").

Pursuant to the Loan Agreement, the Company may make multiple borrowings under the Loan Agreement in the total aggregate principal amount of up to $2.5 million (the "Loan") for the purpose of completing development and construction on certain real property located in Pahrump, Nevada owned by the Company. The Loan is a multiple advance credit facility. The Company drew $2,000,000 on August 28, 2019 and an additional $200,000 on November 26, 2019. Interest in the amount of 15% of the total amount borrowed (based on total draws) under the Loan will be paid in addition to principal at the maturity date. The Loan has a term of sixty days from funding of the Loan and may be extended for additional sixty days subject to the satisfaction of certain conditions including ten days' notice and an extension loan fee of 15% of the aggregate total of advances under the Loan. The Loan is secured by a first priority interest in the Company's real property located in Coolidge, Arizona, including improvements and personal property thereon (the "Property") and includes an unconditional guarantee by Item 9 Labs Corp. The 5-acre property has 20,000 square feet of buildings, housing the cultivation and processing operations. On March 23, 2020, the Company paid $2,000,000 on the note and reached a settlement to bring the note current. The settlement calls for monthly interest payments of $22,000 and the principal balance of the note is due within one year. There is a prepayment penalty equal to all interest payments due through October 1, 2020 if the note is paid in full prior to that date.

Stockbridge/Viridis Note

In connection with the $2,000,000 payment on the note described above, on March 23, 2020 the Company borrowed debt proceeds from two related parties, Stockbridge Enterprises and Viridis I9 Capital LLC. The $2,200,000 borrowing is unsecured, has a term of six months, and accrues interest at a rate of 10% per year. All principal and interest are due on the maturity date. The debt includes a provision for the issuance of 10,000,000 warrants exercisable into the Company's common stock. The exercise price on the warrants is $.75 and the warrants have a term of 5 years. The debt and warrants were recorded at their relative fair values. The resulting discount is being amortized to interest expense over the term of the debt. The balance of the debt, discount, amortized discount and accrued interest are as follows at June 30, 2020.

Principal balance	$ 2,200,000
Discount	796,572
Amortization	928,716
Accrued interest	59,671

Stockbridge Note

The Company entered into an additional note with Stockbridge Enterprises, a related party in February 2020. The $500,000 borrowing had a term of 60 days and bears interest at 6% per year. All principal and

interest are due on the maturity date. The note includes a provision for the issuance of 500,000 warrants exercisable into the Company's common stock. The warrants have an exercise price of $.75 and a term of 5 years. The note contains provisions to reduce the exercise price each month if the note is in default. The note went into default in April 2020. The warrant value was determined using a $.05 exercise price as it is management's estimate that the note will be repaid after July 1, 2020, the date the exercise price on the warrants reduces to $.05. The resulting discount will be amortized to interest expense over the term of the note. The balance of the note, discount, amortized discount and accrued interest is as follows at June 30, 2020.

Principal balance	$ 400,000
Discount	—
Amortization	257,094
Accrued interest	14,466

In June 2020, the Company executed on a short-term financing arrangement. The proceeds of $873,000 are being utilized to further expand the production capabilities of the Arizona Operations. 30 payments of $40,500 are due weekly and the arrangement matures in January 2021.

Note 7 – Unsecured Convertible Notes Payable

In the reverse recapitalization disclosed in Note 1, the Company assumed one unsecured convertible note payable with principal balance totaling $20,000 which was due in August 2012, carries an interest rate of 8% and is convertible including accrued interest to common stock at $.50 per share, which would be approximately 63,000 shares as of June 30, 2020 and September 30, 2019. As of June 30, 2020 and September 30, 2019, this unsecured convertible note payable is considered in default and has been presented as a current liability on the consolidated condensed balance sheets.

In June 2020, the Company issued an unsecured convertible note payable with a principal balance totaling $50,000, which will be due in March 2021. Interest payments of $1,000 (24% per annum) are due monthly. The note entitles the holder to convert any portion of the debt into shares of common stock of the Company at any time during the note term at $1.00 per share which would be approximately 50,000 shares as of June 30, 2020. There is no prepayment penalty.

Note 8 – Long Term Debt

On September 13, 2018, the Company entered into a Loan and Revenue Participation Agreement with Viridis Group I9 Capital LLC ("Viridis") in which Viridis has agreed to loan the Company up to $2.7 million for the expansion of the Company's Arizona and Nevada properties (see Note 12). As of September 30, 2018, the Company received $1,500,000 of proceeds from Viridis in the form of a promissory note. The $1,500,000 proceeds were utilized to acquire a 20% ownership in Strive Management, LLC as described in Notes 1 and 9, and is collateralized with a Deed of Trust on the Company's approximately 5 acre property and construction in progress. In exchange for the loan, Viridis was to be repaid in the form of waterfall revenue participation schedules. Viridis was to receive 5% of the Company's gross revenues from the Nevada operations until the loan is repaid, 2% until repaid 200% of the amount loaned, and 1% of gross revenues in perpetuity or until a change in control. Payments on the loan will commence 90 days after the Nevada operation begins earning revenue. Parties acknowledge that the Company was expected to own only 51% of the Nevada operations and therefore Viridis' revenue participation is limited to the Company's interest. On February 14, 2020, the Company acquired the remaining 80% membership interest in Strive Management, LLC. Therefore, the revenue participation payments will be based on 100% of the revenues of the Company's Nevada operations. The operations in Nevada have not yet begun as of the date of this filing. On August 26, 2019, the loan was amended to include 6% annualized interest in exchange for Viridis subordinating its debt to another lender.

On May 1, 2020, under a troubled debt restructuring, the Company renegotiated the $1,500,000 note payable. As part of the restructuring, the Company issued 1,944,444 warrants exercisable into the Company's common stock. The exercise price on the warrants is $1.00 and they have a term of 5 years. Accrued interest in the amount of $64,849 was added to the principal balance of the note, making the total principal $1,564,849. Interest only payments of $13,040 shall be paid monthly until 3 months following the commencement date of the Nevada Operations at which time monthly principal and interest payments of $33,962 will be required for 36 months, with a balloon payment of $761,007 due upon the note's maturity. The note also entitles Viridis to a gross revenue participation of the Nevada Operations equal to 1% of the gross sales (up to $20,000 monthly) upon the maturity of the note and for the subsequent 5 year period. The debt and warrants were recorded at their relative fair values. The resulting discount will be

amortized to interest expense over the term of the debt. The balance of the debt, discount, amortized discount and accrued interest is as follows at June 30, 2020.

Principal balance	$ 1,564,849
Discount	696,408
Amortization	34,820
Accrued interest	37,276

The additional $1,200,000 of proceeds drawn during the year ended September 30, 2019 were utilized to construct an additional 10,000 square foot cultivation and processing facility in Arizona that became operational in June 2019. The loan was originally collateralized with a Deed of Trust on the Company's 5 acre parcel in Coolidge, AZ and its two 10,000 square foot buildings. In August 2019, Viridis agreed to subordinate its first priority Deed of Trust and move into a 2nd position. The proceeds were received as construction draws between November 2018 and January 2019. In exchange for the loan, Viridis will be repaid in the form of waterfall revenue participation schedules. Viridis shall receive 5% of the Company's gross revenues from the Arizona operations until the loan is repaid, 2% until repaid 200% of the amount loaned, and 1% of gross revenues in perpetuity or until a change in control. Payments on the loan will commence 90 days after the Arizona operation begins earning revenue. Interest on the notes accrue monthly at a 2.9% annual rate. On August 26, 2019, the loan was amended to include 6% annualized interest in exchange for Viridis subordinating its debt to another lender. Interest of $317,816 has been accrued as of March 31, 2020.

On May 1, 2020, under a troubled debt restructuring, the Company renegotiated the $1,200,000 note payable. As part of the restructuring, the Company issued 1,555,556 warrants exercisable into the Company's common stock. The exercise price on the warrants is $1.00 and they have a term of 5 years. Accrued interest in the amount of $186,370 was added to the principal balance of the note, making the total principal $1,386,370. Interest only payments of $11,553 shall be paid monthly until November 1, 2020 at which time monthly principal and interest payments of $28,144 will be required for 36 months, with a balloon payment of $678,596 due upon the note's maturity. The note also entitles Viridis to a gross revenue participation of the Arizona Operations equal to 1% of the gross sales (up to $20,000 monthly) upon the maturity of the note and for the subsequent 5 year period. The debt and warrants were recorded at their relative fair values. The resulting discount will be amortized to interest expense over the term of the debt. The balance of the debt, discount, amortized discount and accrued interest is as follows at June 30, 2020.

Principal balance	$ 1,386,370
Discount	583,581
Amortization	29,179
Accrued interest	36,588

The Company's subsidiary, BSSD Group, LLC borrowed $269,000 from Viridis Group in December 2019. This note bore annualized interest at 15%. On May 1, 2020, under a troubled debt restructuring, the Company renegotiated the $269,000 note payable. As part of the restructuring, the Company issued 400,000 warrants exercisable into the Company's common stock. The warrants have an exercise price of $.75 and a term of 5 years. The agreement contains provisions to reduce the exercise price each month the note is not paid in full. The warrant value was determined using a $.05 exercise price as it is management's estimate that the note will be repaid after September 30, 2020, the date the exercise price on the warrants reduces to $.05. The resulting discount is being amortized to interest expense over the term of the note. Accrued interest in the amount of $14,666 was added to the principal balance of the note, making the total principal $283,666. Payments of principal and interest in the amount of $9,833 are due monthly until the note's maturity on May 1, 2023. The debt and warrants were recorded at their relative fair values. The resulting discount will be amortized to interest expense over the term of the debt. The balance of the debt, discount, amortized discount and accrued interest is as follows at June 30, 2020.

Principal balance	$ 283,666
Discount	142,812
Amortization	8,401
Accrued interest	7,013

Strive Note

In connection with the license acquisition described in Note 2, the Company entered into a note payable with the sellers in February 2020. The $1,000,000 note has a term of two years starting September 30, 2020 and bears interest at 2% per year. A principal payment in the amount of $500,000 is due on the earlier of October 10, 2020 or three months following the date on which each provisional certificate becomes a final certificate. Due to the low stated interest rate on the note, management imputed additional interest on the note. The balance of the note, discount, amortized discount and accrued interest is as follows at June 30, 2020:

Principal balance	$ 1,000,000
Discount	124,053
Amortization	27,508
Accrued interest	—

Note 9 – Variable Interest Entity

As of September 30, 2019, the Company determined that it held a variable interest in Strive Management due to the Company being its sole source of capital. Further, the Company had agreed to raise $4,000,000 on Strive Management's behalf through promissory note agreements that the Company will guarantee. No funds have been raised as of the date of these consolidated condensed financial statements. If the funds are not raised, the additional 31% interest due to the Company upon operational approval from the State of Nevada as discussed in Note 1 would have been subject to reclamation by the other members of Strive Management. The Company has been determined to be the primary beneficiary of Strive Management as the Company has the power to direct the activities that significantly impact Strive Management's economic performance and the obligation to absorb losses. Strive Management's financial statements as of June 30, 2020 and for the nine months ending June 30, 2020 and 2019 have been consolidated with the Company.

As discussed in Note 2, the Company completed the purchase of the remaining ownership interests of Strive Management LLC in February 2020.

Note 10 – Leases

The Company leases its corporate office from an entity controlled by the CEO of the Company, under an operating lease. The lease is for a term of 5 years beginning September 1, 2019. The following is a schedule by fiscal year of future minimum payments required under the lease together with their present value as of June 30, 2020:

	Future Minimum Payments
2020	$ 41,267
2021	80,013
2022	82,114
2023	84,215
2024	78,963
	366,572
less imputed interest	(140,756)
	$ 225,816

As of the inception of the lease, the lease liability and right of use asset was recorded at $268,359, the amount of the present value of all lease payments. To calculate the lease liability and right of use asset, the Company used a 20% discount rate, the approximate interest rate the Company believes it could borrow at.

Amortization in the amount of $60,557 has been recorded against the right of use asset, leaving a balance of $207,802 as of June 30, 2020. Payments in the amount of $42,543 have been recorded against the lease liability, leaving a balance of $225,816 as of June 30, 2020.

Note 11 - Concentrations

For the three and nine months ended June 30, 2020 and 2019, substantially all of the Company's revenue were generated from a single customer.

Note 12 - Commitments and Contingencies

The production and possession of marijuana is prohibited by the United States of America, though the state of Arizona allows these activities to be performed at licensed facilities such as BSSD. If the federal government decides to enforce the Controlled Substances Act, it could have a material adverse effect on our business. However, the Company does not currently believe the federal prohibition of these activities will negatively impact the business. As such, the Company has not elected to record a related accrual contingency.

On April 20, 2018, the Company entered into an agreement for the purchase of approximately 44 acres of land from an affiliate of a founding member of BSSD. The purchase price of the property is $3,000,000, payable as follows; (i) $200,000 deposited with escrow agent as an initial earnest money deposit, (ii) on or before February 1, 2019, the Company will deposit an additional $800,000 into escrow as additional earnest money deposit and (iii) the balance of the purchase price shall be paid via a promissory note. The earnest money amounts are non-refundable. The Company has negotiated an amendment to this agreement that will spread the $800,000 payment over the course of 4 months. As of the date of these financial statements, $600,000 has been deposited in escrow which has been classified as a long-term asset on the consolidated condensed balance sheet as of June 30, 2020 and September 30, 2019.

On June 26, 2018, the Company entered into a contractor agreement with Chase Herschman pursuant to which he will provide services in exchange for $120,000 annually, payable each month; up to $420,000 in common stock options which shall vest upon the occurrence of certain benchmarks as described in the contractor agreement and a commission of 1% of the gross profits of the Nevada Operations of the Company. The term of the agreement is a period of three years. This agreement was terminated in May 2020. The Company had an outstanding balance owed on the contract totaling $45,000 as of June 30, 2020.

On September 13, 2018, the Company entered into a Loan and Revenue Participation Agreement with Viridis Group I9 Capital LLC ("Viridis"). Viridis agreed to make secured loans of up to $2.7 million to the Company which is represented by two separate notes, one for the construction and enhancement of the Company's Arizona property and one for the Company's proposed ventures in Nevada. In exchange for the loans, Viridis will be repaid in the form of waterfall revenue participation schedules. Viridis shall receive 5% of the Company's gross revenues from each of the Company's Arizona and Nevada operations, respectively, until the loan is repaid, 2% until repaid 200% of the amount loaned, and 1% of gross revenues in perpetuity or until a change in control.

Under the terms of the Loan and Revenue Participation Agreement, upon a change in control of the Company, Viridis will be entitled to receive 200% of the principal amount of the loans to the Company computed after considering previous revenue participation payments through the date of change of control and 1% of the aggregate sales price or consideration received in the change in control transaction.

As of June 30, 2020, the Company received the $1,500,000 and invested the funds in Strive Management (see Notes 2, 8 and 9). The remaining $1,200,000 has been provided by Viridis directly to contractors of the Arizona property from an account owned and controlled by Viridis. The notes were amended on May 1, 2020, altering the revenue participation. See Note 8 for updated terms.

On July 1, 2019, the Company entered into a three year agreement with a concert venue to be the name sponsor for the venue. In exchange, the Company issued 45,457 shares of restricted common stock valued at $200,000 ($4.40/share) and is to pay $5,000 monthly for the first 12 months and $60,000 in July 2020 and 2021. Due to COVID-19, the concert venue has not been open since March 2020. In June 2020, the Company and the venue cancelled the agreement with an effective date of March 11, 2020.

The Company entered into a 60 month lease with VGI Citadel LLC to rent office space for its corporate headquarters which began on September 1, 2019. The lease payments total $6,478 monthly for the first twelve months, include all utilities and an estimated amount for common area maintenance and real estate taxes. The monthly lease rate increases to $6,653, $6,828, $7,003, and $7,178 for years two through five, respectively.

Note 13– Related Party Transactions

As discussed in Note 1, on March 20, 2018, the Company issued 40,355,771 shares of common stock to the members of BSSD for their membership interests.

As discussed in Note 12, the Company has entered into an agreement as of April 20, 2018 for the purchase of land. The land owner is one of the original members of BSSD and a current employee of the Company.

As discussed in Note 14, on May 8, 2018, the Company issued 22,500 options for the purchase of common stock to three board members.

As discussed in Notes 8 and 12, the Company has entered into Loan and Revenue Participation Agreement and Promissory Notes with Viridis. The two members of Viridis were elected to the Company's board of directors in December 2018 and January 2020 and one is currently the Company's CEO.

As discussed in Note 8, BSSD Group, LLC, a wholly owned subsidiary of the Company entered into a loan agreement with Viridis.

As discussed in Note 2, the Company issued 3,000,000 of restricted common stock as part of the asset purchase agreement dated November 26, 2018. As part of November 15, 2019 settlement agreement, Gullickson returned 2,300,000 share of stock to the Company.

During the three months ended December 31, 2018, the Company issued 3,000,000 shares of restricted common stock to Viridis I9 Capital LLC, an LLC in which, Andrew Bowden, director and CEO of the Company is a member. The sales price was $1.00 per share with net proceeds of $3,000,000.

The Company has a construction management agreement with the Viridis Group to oversee the Nevada construction project totaling $20,000 monthly. The Company owes Viridis $60,000 for these services as of June 30, 2020 and September 30, 2019.

As discussed in Note 6, the Company has notes payable to Viridis I9 Capital LLC and Stockbridge Enterprises in the amount of $2,200,000.

As discussed in Note 6, the Company has a note payable to Stockbridge Enterprises in the amount of $400,000.

As discussed in Note 12, the Company has a lease agreement with VGI Capital LLC. A member of VGI Capital was elected to the Company's board of directors on December 21, 2018 and is currently the Company's CEO.

Included in our accounts payable at June 30, 2020 and September 30, 2019 is approximately $90,000 and $160,000, respectively in amounts due to related parties.

Note 14 - Stockholders' Equity

Common Stock

During the nine months ended June 30, 2019, the Company raised $5,400,003 via private placements. The selling price for 5,000,000 shares was $1 per share and the selling price for 266,669 was $1.50 per share for a total of 5,266,669 shares of common stock issued.

As discussed in Note 2, during the nine months ended June 30, 2019, the Company issued 3,000,000 shares of restricted common stock, valued at $7,770,000 as consideration for the acquisition of the majority of the assets in AZ DP Consulting, LLC.

In the nine months ended June 30, 2019, in the normal course of business, the Company issued 135,000 shares of restricted common stock, valued at $456,700 as consideration for various consulting contracts.

In the nine months ended June 30, 2019, the Company issued 9,615 shares of restricted common stock to employees, valued at $25,000.

In the nine months ended June 30, 2020, in the normal course of business, the Company issued 55,618 shares of restricted common stock, valued at $132,106 as consideration for various contracts, including venue sponsorships, marketing, and investor relations.

As discussed in Note 2, during the nine months ended June 30, 2020, the Company agreed to issue 3,250,000 shares of restricted common stock, valued at $3,507,000 as part of an asset acquisition. The stock has been reserved, though certain criteria must be met for the issuance to occur.

In the nine months ended June 30, 2020, the Company issued 26,282 shares of restricted common stock to employees, valued at $75,000.

Warrants

As of June 30, 2020, there are 16,675,000 warrants for purchase of the Company's common stock outstanding. 14,400,000 warrants were issued during the nine months ended June 30, 2020. Warrants outstanding as of June 30, 2020 are as follows:

	Common Shares Issuable Upon Exercise of Warrants	Exercise Price of Warrants	Date Issued	Expiration Date
Warrants issued by predecessor	175,000	$ 2.00	3/31/2015	8/31/2020
Warrants issued by predecessor	100,000	$ 1.00	7/28/2016	7/28/2021
Warrants issued related to asset acquisition	2,000,000	$ 1.13	9/30/2020*	9/30/2023
Warrants issued related to debt financing	500,000	$ 0.05	2/14/2020	2/14/2025
Warrants issued related to debt financing	5,000,000	$ 0.75	3/23/2020	3/23/2025
Warrants issued related to debt financing	5,000,000	$ 0.75	3/23/2020	3/23/2025

Warrants issued related to debt financing	400,000	$	0.05	5/1/2020	4/30/2025
Warrants issued related to debt financing	1,944,444	$	1.00	5/1/2020	4/30/2025
Warrants issued related to debt financing	1,555,556	$	1.00	5/1/2020	4/30/2025
Balance of Warrants at June 30, 2020	16,675,000				
Vested	14,675,000				

* - date is in the future as the Company is obligated to issue the warrants on September 30, 2020. These warrants are reflected in the warrants to be issued in the Unaudited Consolidated Condensed Statements of Stockholders' Equity.

Stock Options

On May 8, 2018, the Company granted 22,500 stock options to board members. The options are exercisable at $2.40 per share with a ten year term. The options will vest equally over three years unless there is a change of control of the Company at which time any unvested options vest immediately. As of June 30, 2020 and September 30, 2019, there are 294,991 stock options outstanding.

The Company determines the fair value of stock options issued on the date of grant using the Black-Scholes option-pricing model.

There was no options activity during the nine months ended June 30, 2020 and 2019.

Note 15 – Merger

On February 27, 2020, Item 9 Labs Corp., a Delaware corporation ("Company"), and an unnamed wholly owned subsidiary ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Agreement") with OCG Inc., a Colorado corporation ("Target"), pursuant to which the Merger Sub will be merged with and into the Target in a reverse triangular merger with the Target continuing as the surviving entity as a wholly-owned direct subsidiary of the Company ("Merger"). Effective upon the completion of the Merger, the Target shareholders shall become stockholders of the Company through the receipt of the Merger Consideration as defined below. Each of the parties referred to above may be referred to herein as a "Party" and collectively as the "Parties".

Merger Consideration

On the terms and subject to the conditions set forth in the Agreement, upon the completion of the Merger, the Target Shareholders shall become stockholders of the Company through the receipt of an aggregate 30,000,000 restricted shares of the Common Stock of the Company ("Merger Consideration").

Upon closing of the Merger, and subject to the terms and conditions of the Agreement, the Merger Sub shall be merged with and into the Target (the Target following the Merger is sometimes referred to in this Agreement as the "Surviving Corporation"), the separate existence of the Merger Sub shall cease, and the Target shall survive the Merger. The Surviving Corporation will possess all properties, rights, privileges, powers, and franchises of the Target and Merger Sub, and all of the claims, obligations, liabilities, debts and duties of the Target and Merger Sub will become the claims, obligations, liabilities, debts and duties of the Surviving Corporation.

Governance of the Combined Company

Upon closing of the Merger, Target may nominate, and the Company agrees to appoint, two persons designated by Target to the Company's Board of Directors.

Conditions to the Merger

The parties' obligation to consummate the Merger is subject to the satisfaction or waiver of customary closing conditions for both parties, including (i) the adoption of the Agreement by the requisite vote of the stockholders of Target, (ii) the adoption of the Agreement by the requisite vote of the stockholders of the Company, (iii) the approval of the issuance of shares of the Company's Common Stock as Merger Consideration; (iv) and an appropriate level of Director and Officers Liability Insurance shall be in place, and (v) certain other customary conditions relating to the parties' representations and warranties in the Agreement and the performance of their respective obligations. The consummation of the Merger is subject to a financing contingency that the Company must raise approximately $2,000,000.

The Company has made customary representations and warranties in the Agreement. The Agreement also contains customary covenants and agreements, including covenants and agreements relating to the conduct of the Company's business between the date of the signing of the Agreement and the closing of the transactions contemplated under the Agreement.

The Merger is conditioned on the accuracy and correctness of the representations and warranties made by the other party on the date of the Agreement and on the Closing Date (as defined in the Agreement) or, if applicable, an earlier date (subject to certain "materiality" and "material adverse effect" qualifications set forth in the Agreement with respect to such representations and warranties) and the performance by the other party in all material respects of its obligations under the Merger Agreement.

Under the Agreement, each of the Company and Target have agreed to use commercially reasonable efforts to consummate the Merger, including using best efforts to obtain all required regulatory approvals.

Note 16 - Subsequent Events

In July 2020, the Company issued 107,683 incentive stock options to employees. The options vest over two years and have an exercise price of $0.87.

On July 31, 2020, Michael Paul Keskey joined the board of directors. In conjunction with Mr. Keskey joining the board, Ronald Miller resigned as chairman of the board, and Mr. Keskey and Doug Bowden accepted appointments to serve as co-chairmen.

In July 2020, the five founding members of Item 9 Labs each returned 2,000,000 shares of common stock to treasury. The total number of shares returned was 10,000,000. As part of the debt financing in March 2020 the Company issued 10,000,000 warrants to purchase shares of the Company. The founders decided to return the shares to treasury as to prevent the remaining shareholders from dilution.

In July 2020, the Company issued 129,059 shares of common stock in exchange for services valued at approximately $125,000.

Note 17 – Going Concern

The accompanying consolidated condensed financial statements have been prepared in conformity with GAAP, which contemplate continuation of the Company as a going concern. The Company has not yet established an ongoing source of revenue sufficient to cover its operating costs and has incurred net losses since its inception. These losses, with the associated substantial accumulated deficit, are a direct result of the Company's planned ramp up period as it is pursuing market acceptance and geographic expansion. In view of these matters, realization of a major portion of the assets in the accompanying consolidated condensed balance sheets is dependent upon continued operations of the Company which in turn is dependent upon the Company's ability to meet its financing requirements, and the success of its future operations. The Company operates in a new, developing industry with a variety of competitors. These factors raise substantial doubt about the Company's ability to continue as a going concern. As a result, the Company's independent registered public accounting firm included an emphasis-of-matter paragraph with respect to the consolidated financial statements for the year ended September 30, 2019, expressing uncertainty regarding the Company's assumption that it will continue as a going concern.

In order to continue as a going concern, the Company will need to generate additional revenue and obtain additional capital to fund its operating losses and service its debt. Management's plans in regard to these matters are described as follows:

Sales and Marketing. Historically, the Company has generated the majority of its revenues by providing its products to dispensaries throughout the state of Arizona. The Company's revenues have increased significantly since its inception in May 2017. Management will continue its plans to increase revenues in the Arizona market by providing superior products. Additionally, as capital resources become available, the Company plans to expand into additional markets outside of Arizona, with construction of a cultivation and processing facility underway in Nevada.

Financing. To date, the Company has financed its operations primarily with loans from shareholders, private placement financings and sales revenue. Management believes that with continued production efficiencies, production growth, and continued marketing efforts, sales revenue will grow significantly, thus enabling the Company to reverse its negative cash flow from operations and raise additional capital as needed. However, there is no assurance that the Company's overall efforts will be successful.

If the Company is unable to generate significant sales growth in the near term and raise additional capital, there is a risk that the Company could default on additional obligations, and could be required to discontinue or significantly reduce the scope of its operations if no other means of financing operations are available. The consolidated condensed financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustment that might be necessary should the Company be unable to continue as a going concern.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended September 30, 2019 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in the Company's Annual Report on Form 10-K for the year ended September 30, 2019, filed with the Securities and Exchange Commission (the "SEC") on January 14, 2020.

Forward-Looking Statements

The information in this discussion contains forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the securities Exchange Act of 1934, as amended, (the "Exchange Act"), which are subject to the "safe harbor" created by those sections. The words "anticipated," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "should," "could," "predicts," potential," continue," "would," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements that we make. The forward-looking statements are applicable only as of the date on which they are made, and we do not assume any obligation to update any forward-looking statements. All forward-looking statements in this Form 10-Q are made based on our current expectations, forecasts, estimates and assumptions, and involve risks, uncertainties and other factors that could cause results or events to differ materially from those expressed in the forward-looking statements. In evaluating these statements, you should specifically consider various factors, uncertainties and risks that could affect our future results or operations. These factors, uncertainties and risks may cause our actual results to differ materially from any forward-looking statement set forth in this quarterly report on Form 10-Q. You should carefully consider these risks and uncertainties described and other information contained in the reports we file with or furnish to the SEC before making any investment decision with respect to our securities. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Overview

Item 9 Labs produces premium cannabis and cannabis related products in a rapidly growing market. We currently offer more than 300 products that we group in the following categories: flower; concentrates; distillates; and hardware. Our product offerings will continue to grow as we develop new products to meet the needs of the end-users. We make our products available to consumers through licensed dispensaries in Arizona. In less than three years from our first product delivery, Item 9 Labs' products are now carried in more than 60 dispensaries throughout the state of Arizona.

We believe our past and future success is dependent upon our ongoing ability to understand the needs and desires of the consumers; and as we develop and offer products that meet their needs.

The objective of Item 9 Labs is to leverage our assets (tangible and intangible) to fuel the growth of our share of the Arizona cannabis market, as well as expand the geographical reach of our products into markets outside of Arizona, with the ultimate goal of providing comfortable cannabis health solutions to a larger population in a manner that will create value for our shareholders.

Our Arizona facility expanded during the year ended September 30, 2019, and we have continued our production increase in the nine months ended June 30, 2020. As demand for our products continues to grow, we plan to continually increase production to meet the demand.

We plan to expand into other markets through various methods, and plan to utilize strategic partnerships as necessary to provide the synergies to assist in our growth. As part of this expansion plan, we acquired land in Pahrump, Nevada during the year ended September 30, 2018 to build our second production facility. As described in Notes 1 and 2 of the condensed consolidated financial statements, the Company acquired cultivation and processing licenses in Nevada on February 14, 2020, keeping the Company on track to continue its expansion into Nevada. As of June 30, 2020, the licenses have not been transferred to the Company as the transfer is awaiting Nevada regulatory approval.

In March 2020, the World Health Organization categorized Coronavirus Disease 2019 ("COVID-19") as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The services we provide are currently designated an essential critical infrastructure business under the President's COVID-19 guidance, the continued operation of which is vital for national public health, safety and national economic security. The extent of the impact of the COVID-19 outbreak on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, its impact on our customers and vendors, and the range of governmental and community reactions to the pandemic, which are uncertain and cannot be fully predicted at this time.

Results of Operations

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
	2020	**2019**	**2020**	**2019**
Revenues, net	$ 2,207,453	$ 1,542,067	$ 5,602,321	$ 3,627,951
Cost of services	1,188,831	697,672	3,508,350	1,702,828
Gross profit	1,018,622	844,395	2,093,971	1,925,123
Operating expenses	1,262,586	1,658,253	4,432,709	3,851,183
Loss from operations	(243,964)	(813,858)	(2,338,738)	(1,926,060)
Other income (expense), net	(1,363,839)	113,135	(2,821,629)	159,357
Net loss, before income tax	$ (1,607,803)	$ (700,723)	$ (5,160,367)	$ (1,766,703)

Revenues

Total revenues for the three months ended June 30, 2020 were $2,207,453 compared to the revenue for the period ended June 30, 2019 of $1,542,067, an increase of $665,386 or 43%. Total Revenues for the nine months ended June 30, 2020 were $5,602,321 compared to the revenue for the period ended June 30, 2019 of $3,627,951, an increase of $1,974,370 or 54%. This increase was primarily due to an overall increase in monthly sales as production and demand for our products grew. Management anticipates revenues to continue to grow as the revenue trends are positive month over month.

Costs of Services

Costs of services consist primarily of labor, materials, supplies and utilities. Costs of services as a percentage of revenues was 54% and 63% for the three and nine months ended June 30, 2020 compared to 45% and 47% for the three and nine months periods ended June 30, 2019. The increases were primarily due to certain costs, predominantly labor and materials, that increased at a higher rate to ramp up production. Management believes these costs will increase at a lower rate than revenues, and production in future periods, which will lead to higher profit margins than these historical figures illustrate. Given the sixteen to seventeen week grow cycle, efficiencies are not immediately realized in costs.

Gross Profit

Gross profit for the three and nine months ended June 30, 2020 was $1,018,622 (46%) and $2,093,971 (37%) respectively compared to $844,395 (55%) and $1,925,123 (53%) for the three and nine months ended June 30, 2019. The decrease in profit margin was due to a number of factors. First, the Company experienced an increase in costs necessary to ramp up production to meet demand, as well as the Company has pivoted its sales strategy for certain product lines, reducing margins in the short term. The Company has been able to lower costs since March 2020 and expects to see gross profit margins increase over the next several months.

Operating Expenses

Total operating expenses for the three and nine months ended June 30, 2020 were $1,262,586 and $4,432,709, respectively compared to $1,658,253 and $3,851,183 for the three and nine months ended June 30, 2019, a decrease of $395,667 and increase of $581,526, respectively. Operating expenses as a percentage of revenue decreased from 108% to 57% and 106% to 79% for the three and nine months ending June 30, 2020 and 2019, respectively. Management believes this ratio will continue to decrease going forward as the expectation is that revenues will continue to grow at a higher rate than operating expenses. The decrease in operating expenses as a percentage of revenues for the three and nine months ended June 30, 2020 was due to the Company's focus on increasing revenue, reducing expenses and performing more efficiently. $2,369,932 of the Company's operating expenses for the nine months ended June 30, 2020 related to non-cash transactions including depreciation, amortization, bad debt expense, stock compensation and stock issued for services rendered.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

Our primary need for liquidity is to fund working capital requirements of our business, capital expenditures, acquisitions, debt service, and for general corporate purposes. Our primary source of liquidity is funds generated by financing activities and from private placements. Our ability to fund our operations, to make planned capital expenditures, to make planned acquisitions, to make scheduled debt payments, and to repay or refinance indebtedness depends on our future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond our control.

The accompanying consolidated condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which contemplate continuation of the Company as a going concern. The Company has not yet established an ongoing source of revenue sufficient to cover its operating costs and has incurred net losses since its inception. These losses, with the associated substantial accumulated deficit, are a direct result of the Company's planned ramp up period as it is pursuing market acceptance and geographic expansion. In view of these matters, realization of a major portion of the assets in the accompanying consolidated condensed balance sheets is dependent upon continued operations of the Company which in turn is dependent upon the Company's ability to meet its financing requirements, and the success of its future operations. The Company operates in a new, developing industry with a variety of competitors. These factors raise substantial doubt about the Company's ability to continue as a going concern. As a result, the Company's independent registered public accounting firm included an emphasis-of-matter paragraph with respect to the consolidated financial statements for the year ended September 30, 2019, expressing uncertainty regarding the Company's assumption that it will continue as a going concern.

In order to continue as a going concern, the Company will need to generate additional revenue and obtain additional capital to fund its operating losses and service its debt. Management's plans in regard to these matters are described as follows:

Sales and Marketing. Historically, the Company has generated the majority of its revenues by providing its products to dispensaries throughout the state of Arizona. The Company's revenues have increased significantly since its inception in May 2017, and continue to grow as of the date of these consolidated condensed financial statements. Management will continue its plans to increase revenues in the Arizona market by providing superior products. Additionally, as capital resources become available, the Company will expand into additional markets outside of Arizona, with construction of a cultivation and processing facility underway in Nevada.

Financing. To date, the Company has financed its operations primarily with loans from shareholders, private placement financings and sales revenue. Management believes that with continued production efficiencies, production growth, and continued marketing efforts, sales revenue will grow significantly, thus enabling the Company to reverse its negative cash flow from operations and raise additional capital as needed. However, there is no assurance that the Company's overall efforts will be successful.

If the Company is unable to generate significant sales growth in the near term and raise additional capital, there is a risk that the Company could default on additional obligations, and could be required to discontinue or significantly reduce the scope of its operations if no other means of financing operations are available. The consolidated condensed financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustment that might be necessary should the Company be unable to continue as a going concern.

As of June 30, 2020, the Company had $564,715 of cash and cash equivalents and working capital deficit of $(3,971,238) (current assets minus current liabilities), compared with $574,943 of cash and restricted cash and $(4,174,962) of working capital as of September 30, 2019. The increase of $203,724 in our working capital deficit was primarily due to restructuring the Company's debt during the nine months ended June 30, 2020. The Company is an early stage growth company. It is generating cash from sales and is investing its capital reserves in current operations and new acquisitions that we believe will generate additional earnings in the long term. The Company expects that its cash on hand and cash flows from operations, along with private and/or public financing, will be adequate to meet its capital requirements and operational needs for the next 12 months.

Cash Flows

The following table summarizes the sources and uses of cash for each of the periods presented:

	Nine Months Ended March 31,	
	2020	**2019**
Net cash used in operating activities	$ (970,401)	$ (1,165,082)
Net cash used in investing activities	(939,163)	(6,582,374)
Net cash provided by financing activities	1,899,336	6,860,003
Net increase (decrease) in cash and cash equivalents	$ (10,228)	$ (887,453)

Operating Activities

During the nine months ended June 30, 2020, operating activities used $970,401 of cash, primarily resulting from a net loss of $5,160,367 which was offset by net cash provided by operating assets and liabilities of $1,820,034. There was significant non-cash activity that contributed to the net loss totaling $2,369,932 including depreciation and amortization of $2,140,366, provision for bad debt of $22,460, and compensation paid in the form of stock of $207,106.

During the nine months ended June 30, 2019, operating activities used $1,165,082 of cash, primarily resulting from a net loss of $2,130,749 and net cash provided by operating assets and liabilities of $341,929. Cash provided by changes in operating assets and liabilities was primarily due to an increase in accrued expenses of $1,192,966, offset by increases in accounts receivable of $298,562, and deferred costs of $988,914.

Investing Activities

During the nine months ended June 30, 2020, investing activities used $939,163 of cash, consisting primarily of $500,000 in purchases of cannabis licenses and $426,663 of capitalized legal fees related to trademarks and licenses.

During the nine months ended June 30, 2019, investing activities used $6,582,374 of cash, consisting primarily of payments totaling $1,500,000 paid to acquire substantially all the assets of AZ DP Consulting LLC, $4,797,374 paid for property plant and equipment and $400,000 paid as a deposit on land.

Financing Activities

During the nine months ended June 30, 2020, financing activities provided $1,899,336, consisting of $4,092,000 in proceeds from the issuance of debt offset by $2,192,664, in debt payments made.

During the nine months ended June 30, 2019, financing activities provided $6,860,003, $5,660,003 of which was cash proceeds from the sale of common stock and $1,200,000 was proceeds from the issuance of debt.

Given that our cash needs are strongly driven by our growth requirements, we also intend to maintain a cash reserve for other risk contingencies that may arise.

We intend to meet our cash requirements for the next 12 months through the use of the cash we have on hand and through business operations, future equity financing, debt financing, or other sources, which may result in further dilution in the equity ownership of our shares. We currently do not have any other arrangements in place to complete any private placement financings of debt and equity and there is no assurance that we will be successful in completing any such financings on terms that will be acceptable to us.

Off-Balance Sheet Arrangements

We are not currently a party to, or otherwise involved with, any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our consolidated condensed financial statements, which have been prepared in accordance with GAAP. The preparation of our consolidated condensed financial statements requires us to make estimates and judgements that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to areas that require a significant level of judgment or are otherwise subject to an inherent degree of uncertainty. Significant accounting estimates in these financial statements include but are not limited to accounting for depreciation and amortization, current and deferred income taxes, deferred costs, accruals and contingencies, carrying value of goodwill and intangible assets, collectability of notes receivable, the fair value of common stock and the estimated fair value of stock options and warrants. We base our estimates on historical experience, our observance of trends in particular areas, and information or valuations and various other assumptions that we believe to be reasonable under the circumstances and which form the basis for making judgments about the carrying value of assets and liabilities that may not be readily apparent from other sources. Actual amounts could differ significantly from amounts previously estimated. For a discussion of our critical accounting policies, refer to Part I, item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the year ended September 30, 2019. Management believes that there have been no changes in our critical accounting policies during the nine months ended June 30, 2020.

Recently Issued Accounting Pronouncements

See Note 1 to our consolidated condensed financial statements, included in Part I, Item 1, Financial Information for this quarterly report on Form 10-Q.

Seasonality

We do not expect our sales to be impacted by seasonal demands for our products and services. Also, due to the fact we use indoor grow space, seasonality should not have any impact on our cultivation operations.

Contractual Obligations

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed 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 our company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management carried out an evaluation under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act"). Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures were not effective as of June 30, 2020.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting subsequent to the fiscal year ended September 30, 2019, which were identified in connection with our management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations of the Effectiveness of Disclosure Controls and Internal Controls

Our management, including our Principal Executive Officer and Principal Financial Officer, does not expect that our disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company may become subject to various legal proceedings that are incidental to the ordinary conduct of its business. Although the Company cannot accurately predict the amount of any liability that may ultimately arise with respect to any of these matters, it makes provision for potential liabilities when it deems them probable and reasonably estimable. These provisions are based on current information and legal advice and may be adjusted from time to time according to developments.

We know of no material, existing or pending legal proceedings against our Company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any director, officer or any affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

ITEM 1A. RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item though given the potential impact of the novel coronavirus, management felt it prudent to include the following:

The novel coronavirus (COVID-19) global pandemic could adversely impact our business.

The emergence of COVID-19 around the world presents significant risks to our Company, not all of which we are able to fully evaluate or even foresee at the current time. While the COVID-19 pandemic did not materially adversely affect our Company's financial results and business operations in the third fiscal quarter ended June 30, 2020, economic and health conditions in the United States and across most of the globe have changed since the end of the quarter.

The COVID-19 pandemic may affect our operations in future quarters. These factors may have far reaching impacts on our business, operations, and financial results and conditions, directly and indirectly, including without limitation impacts on the health of our Company's management and employees, marketing and sales operations, customer and consumer behaviors, and on the overall economy. The scope and nature of these impacts, most of which are beyond our Company's control, continue to evolve and the outcomes are uncertain. Management cannot predict the full impact of the COVID-19 pandemic on our Company's sales or on economic conditions generally. The ultimate extent of the effects of the COVID-19 pandemic on our Company is highly uncertain and will depend on future developments, and such effects could exist for an extended period of time even after the pandemic.

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

Unless otherwise indicated, all of the following sales or issuances of Company securities were conducted under the exemption from registration as provided under Section 4(2) of the Securities Act of 1933 (and

also qualified for exemption under 4(5), formerly 4(6) of the Securities Act of 1933, except as noted below). All of the shares issued were issued in transactions not involving a public offering, are considered to be restricted stock as defined in Rule 144 promulgated under the Securities Act of 1933 and stock certificates issued with respect thereto bear legends to that effect.

1. Quarterly Issuances:

The Company issued no shares during the three months ended June 30, 2020.

2. Subsequent Issuances:

Subsequent to June 30, 2020, the Company issued 129,059 shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There have been no events which are required to be reported under this item.

ITEM 4. MINE SAFETY DISCLOSURES

N/A.

ITEM 5. OTHER INFORMATION

N/A

ITEM 6. EXHIBITS

The exhibits required to be filed herewith by Item 601 of Regulation S-K, as described in the following index of exhibits, are attached hereto unless otherwise indicated as being incorporated by reference, as follows:

Exhibit Number	Description of Exhibit	
3.01a	Articles of Incorporation dated June 15, 2010	Filed with the SEC on May 12, 2011 as part of our Registration Statement on Form S-1/A.
3.01b	Certificate of Amendment to Articles of Incorporation dated October 22, 2012	Filed with the SEC on November 13, 2012 as part of our Current Report on Form 8-K
3.01c	Certificate of Amendment to Articles of Incorporation dated March 15, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
3.01d	Certificate of Amendment to Articles of Incorporation dated March 19, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
3.01e	Certificate of Amendment to Articles of Incorporation dated April 3, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
3.01f	Certificate of Amendment to Articles of Incorporation dated October 9, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
3.02	Bylaws	Filed with the SEC on May 12, 2011 as part of our Registration Statement on Form S-1/A.
4.1	2019 Equity Incentive Plan	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
10.03	Share Exchange Agreement between Crown Dynamics Corp. and Airware Dated March 20, 2012	Filed with the SEC on March 26, 2012 as part of our current report on Form 8-K.
10.04	Agreement and Plan of Exchange between Item 9 Labs Corp. fka Airware and BSSD Group, LLC dated March 20, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
10.05	Purchase Agreement between Sidewinder Dairy, Inc. and the Company dated April 20, 2018	Filed with the SEC on August 16, 2019 as an exhibit to our Form 10-Q
10.6	Asset Purchase Agreement between Item 9 Labs Corp. and AZ DP Consulting, LLC dated November 26, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
10.7	Loan and Revenue Participation Agreement between Item 9 Labs Corp. and Viridis	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G

	Group I9 Capital LLC dated September 13, 2018	
10.8	Severance Agreement between Airware Labs Corp and Jeffrey Rassas, effective July 16, 2013	Filed with the SEC on July 19, 2013 as part of our Current Report on Form 8-K.
10.9	Employment Agreement with Sara Gullickson dated November 26, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
14.1	Code of Ethics	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
31.01	Certification of Principal Executive Officer Pursuant to Rule 13a-14	Filed herewith.
31.02	Certification of Principal Financial Officer Pursuant to Rule 13a-14	Filed herewith.
32.01	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act	Filed herewith.
32.02	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act	Filed herewith.
99.1	Audit Committee Charter	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
99.2	Compensation Committee Charter	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
99.3	Nominations and Governance Committee Charter	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
101.INS*	XBRL Instance Document	Filed herewith.
101.SCH*	XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document	Filed herewith.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.

*Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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.

Item 9 Labs Corp.

Date: August 14, 2020

By: */s/* Andrew Bowden
Name: Andrew Bowden
Title: Chief Executive Officer
(Principal Executive Officer)

Date: August 14, 2020

By: */s/ Robert Mikkelsen*
Name: Robert Mikkelsen
Title: Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 5

10-K 1 inlb0112form10k.htm FORM 10-K

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

Form 10-K

☑ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended September 30, 2019

☐ TRANSACTION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transaction period from _____ to _____

ITEM 9 LABS CORP.

(Exact name of registrant as specified in its charter)

Delaware	**000-54730**	**96-0665018**
(State of other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

2727 North 3rd Street, Suite 201 Phoenix, Arizona 85004
(Address of principal executive offices and zip code)

1-833-867-6337
(Registrant's telephone number, including area code)

1709 East Bethany Home Road, Phoenix, AZ 85016
(Former name or former address, if changed since last report)

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

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
N/A	N/A	N/A

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value $0.0001 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 15(d) of the Act: ☐ **Yes** ☑ **No**

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting

company", and "emerging growth company" in Rule 12b-2

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer (Do not check if a smaller reporting company)	☐	Smaller reporting company	☑
Emerging growth company	☐		

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 March 31, 2019 (the last business day of our most recently completed second fiscal quarter), based upon the last reported trade on that date, the aggregate market value of the voting and non-voting common equity held by non-affiliates (for this purpose, all outstanding and issued common stock minus stock held by the officers, directors and known holders of 10% or more of the Company's common stock) was $43,679,785.50.

As of January 13, 2020, there were 63,652,620 shares of the issuer's common stock, $0.0001 par value per share, outstanding.

FORWARD LOOKING STATEMENTS

The following discussion, in addition to the other information contained in this report, should be considered carefully in evaluating us and our prospects. This report (including without limitation the following factors that may affect operating results) contains forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act") regarding us and our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this report. Additionally, statements concerning future matters such as revenue projections, projected profitability, growth strategies, development of new products, enhancements or technologies, possible changes in legislation and other statements regarding matters that are not historical are forward-looking statements.

Forward-looking statements in this report reflect the good faith judgment of our management and the statements are based on facts and factors as we currently know them. Forward-looking statements are subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, but are not limited to, those discussed below and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as those discussed elsewhere in this report. Readers are urged not to place undue reliance on these forward-looking statements which speak only as of the date of this report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

Corporate history

Item 9 Labs Corp. ("Item 9 Labs" or the "Company"), was incorporated under the laws of the State of Delaware on June 15, 2010 as Crown Dynamics Corp. On October 26, 2012, the Company changed its name to Airware Labs Corp. On April 2, 2018, the Company changed its name to Item 9 Labs Corp. to better reflect its business following the acquisition of BSSD, as discussed below.

On March 20, 2018, the Company closed on an Agreement and Plan of Exchange to acquire all of the membership interests of BSSD Group, LLC ("BSSD"), an Arizona limited liability company formed on May 2, 2017, in exchange for newly issued restricted shares of the Company's common stock (the "Shares"), which represent approximately 75% of the issued and outstanding shares of the Company's common stock on a fully-diluted basis. The 40,355,771 shares were distributed pro-rata to the BSSD members.

Effective October 18, 2018, the Company completed a 1-for-20 reverse split of its issued and outstanding common stock.

On November 26, 2018, the company's wholly owned subsidiary AZ DP Holdings, LLC ("AZ DP") closed on an asset acquisition of the majority of the assets of Arizona DP Consulting, LLC, a consulting firm specializing in obtaining marijuana dispensary permits and developing cannabis related business plans. The purchase price was $1,500,000 in cash and 3,000,000 shares of restricted common stock having an aggregate value of $7,770,000 or $2.59 per share based on current market price of the Company shares at time asset purchase agreement was executed.

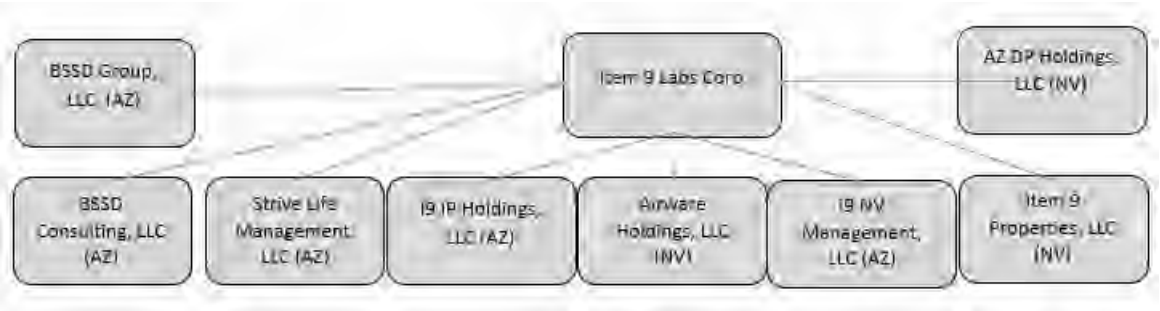
On September 12, 2018, the Company executed a $1,500,000 promissory note (see Note 8) which was used to make a capital contribution into Strive Management, LLC, a Nevada limited liability company ("Strive Management"). In exchange for the contribution, the Company received a 20% membership interest in Strive Management. The remaining interests are held by three individuals, Sara Gullickson, Larry Lemons, and Donnie Burton. Through a management agreement with Strive Wellness of Nevada, LLC, a related party Strive Management will facilitate the cultivation, processing and distribution of marijuana in Nevada. Strive Wellness of Nevada, LLC has been allocated cultivation, processing and distribution licenses from the State of Nevada. Additionally, the Company will acquire an additional 31% ownership of Strive Management upon the approval from the State of Nevada to operate the cultivation and processing facility.

Our principal offices are located at 2727 N 3rd Street, Phoenix AZ 85004 Suite 201. Our registered agent for service of process in Delaware is located at 108 West 13th St., Wilmington, DE 19801, and our registered agent is Business Filings Incorporated. Our fiscal year end is September 30.

All references to "we," "us," "our," "Item 9," "Item 9 Labs," or similar terms used in this Registration Statement refer to Item 9 Labs Corp.

Corporate Structure

The following chart illustrates, as of the date of this Registration Statement, the Company's wholly-owned subsidiaries, including their respective jurisdictions of incorporation and percentage of voting securities of each that are beneficially owned, controlled or directed by the Company.



Additionally, the Company currently owns a 20% ownership in Strive Management, LLC as discussed in Note 1 of our Notes to Financials (see Note 1). The Company has the right to acquire an additional 31% ownership of Strive Management if certain conditions are met. The Company will raise funds as necessary (approximately $5,500,000) to construct the facility in Nevada, which will be

wholly owned by a subsidiary of Item 9 Labs Corp and leased to Strive Management, LLC. $3,000,000 has been raised as of the date of this filing. If the funds are not raised, the additional 31% interest due to the Company upon operational approval from the State of Nevada would be subject to reclamation by the other members of Strive Management.

Overview

Item 9 Labs creates comfortable cannabis health solutions for the modern consumer. The Company is bringing best of industry practices to markets from coast to coast through cultivation and production, distinctive retail environments, licensing services, and diverse product suites catering to different medical and adult use cannabis demographics. Item 9 Labs is headquartered in Phoenix, Arizona, with medical cannabis operations in multiple U.S. markets.

Item 9 Labs' asset portfolio includes Dispensary Permits, Dispensary Templates, and Strive Life. These assets provide services specific to different stakeholder groups. Dispensary Permits is the Company's consulting firm specializing in strategic license application and compliance. Dispensary Templates, a subdivision of the firm, is a technology platform with an extensive digital library of licensing and business planning resources. Strive Life is a turnkey dispensary model for the retail sector, elevating the patient experience with consistent and superior service, high-end design, and precision-tested products. It is currently being implemented in North Dakota.

In addition, Item 9 Labs is advancing the industry with its dynamic product suites. The Company has created complementary brands Item 9 Labs and Strive Wellness to channel consumer diversity. Propriety delivery platforms include the Apollo Vape and Pod system, as well as a pioneering intra-nasal device. The Company has received multiple accolades for its medical-grade flower and concentrates.

Item 9 Labs anticipates it will be managing cultivation, processing, distribution, and dispensary operations in up to seven U.S. markets by the end of 2020. Current facilities include Cultivation, Processing and Distribution for Strive Wellness of Nevada, as well as dispensary Strive Life North Dakota.

Mission and Vision

The Company is leading a new era of wellness by creating comfortable health solutions for modern consumers through the development of innovative products and proprietary delivery platforms.

Item 9 Labs will facilitate national expansion by combining our award-winning manufacturing brand and product offerings with the strategic licensing and consulting brand of Dispensary Permits, in conjunction with the luxury retail and distribution brand of Strive Life.

This powerful combination provides national scalability and produces the highest quality marijuana, product knowledge, and experience of top professionals to consumers and patients.

Cannabis Verticals

To date, Item 9 Labs has proven models for the following cannabis verticals:

- Cultivation: Growing of award winning, high-grade boutique cannabis.
- Production: Producing a wide variety of Marijuana Products. Each facility product line is developed in compliance with the local rules and regulations.
- Dispensary: Medical and Adult use retail dispensary facilities.
- Distribution: Providing Sales, Marketing and Distribution support to other cultivators, processors and potential to integrate patient delivery in the coming months.

Company Assets

A company asset of Item 9 Labs, Dispensary Permits is one of the most established marijuana business consultancies in the United States. Dispensary Permits offers expert advice in obtaining cultivation, dispensing, processing, and transporting permits in the Cannabis industry, with a proven track record in successfully obtaining marijuana business permits for clientele in over 13 different states. Visit www.dispensarypermits.com for more information.

Dispensary Templates, a division of Dispensary Permits, is an extensive template library and resource to help those navigating the application process without a consultant to obtain a marijuana business license or to build upon their existing marijuana business. Think LegalZoom for the Marijuana Industry – Dispensary Templates' online store offers template products that guide customers through the application process to cultivation, processing and dispensary operations. Visit www.dispensarytemplates.com to view all tools and resources.

Strive Life, the company's "franchise style" dispensary model, aims to elevate any marijuana market by offering the documents and systems necessary for launching a successful dispensary. The model includes a Project Plan, Welcome Kit, Brand Guidelines, Interior Concept, and Policy and Procedures for the facility. The Strive vision is to implement best industry practices from across the United States to offer optimal medical services and support through the dispensing and sale of medical marijuana.

Products and Facilities.

The Company is focused on the development of technology and products that administer high-quality medical marijuana through novel and proprietary delivery devices including an intra-nasal delivery system to deliver significant health benefits. The Company is headquartered in Phoenix, Arizona where it owns and operates 50 acres.

Currently, Item 9 is utilizing five acres and intends to implement the remaining 45 acres in accordance with its three-year strategic plan. The property includes a 10,000 square foot, state-of-the-art indoor manufacturing facility with 10,000 square feet of additional cultivation capacity which received approval to operate on June 4, 2019 and is currently producing premium flower. As part of its growth strategy, the Company is in the process of opening additional cultivation and extraction locations with Nevada near completion.

Arizona Facilities Summary

Item 9 Labs

Vertical Type(s): Cultivation, Processing

Size/Location: 50 acres located in Coolidge, Arizona, zoned for commercial cannabis production

~20,000 square feet of cultivation and processing space completed and operational

Nevada Facilities Summary

Item 9 Labs/Harvest Foundation of Nevada, LLC (NV JV)

Vertical Type(s): Cultivation, Processing and Distribution

Size/Location: 20,000 square feet of cultivation, processing and distribution space in Pahrump, Nevada

Item 9 Labs produces premium cannabis and cannabis related products in a rapidly growing market. We currently offer more than 300 products that we group in the following categories: flower; concentrates; distillates; and hardware. Our product offerings will continue to grow as we develop new products to meet the needs of the end-users. We make our products available to consumers through licensed dispensaries in Arizona. Item 9 products can be found in over 70 dispensaries throughout Arizona, covering 75% of the retail medical cannabis market. The following is a summary of the Company's Product Line:

Item 9 Labs Flower:
The Company offers a variety of strains to assist consumers and patients with particular needs or ailments. Some of our most recognized strains are Candyland, Tres Leches, and Jack-Herer.

Item 9 Labs Concentrates:
The Company offers a variety of marijuana concentrates including shatter, crumble, badder, THCA, live resin terpene sauce and broad spectrum distillate cartridges.

Apollo 710:
The Apollo 710 revolutionizes the cannabis vape market with its clean, modern design and hard-hitting delivery. It has a sleek, compact look that makes it well suited to discreet use, and this streamlined design makes it easy to fit in the palm of your hand unnoticed. With three distinct temperature settings and a ceramic heating element, the Apollo 710 provides a longer, smoother and more effortless hit than any other cannabis vape. Its ceramic coil is optimized for Item 9 Labs' oil viscosity, so the burn is never short, stale or charred.

Delta 8:
Our premium extraction of Delta 8 helps treat symptoms with less psychoactive experiences than the most widely used cannabinoid, Delta 9. When consumed, patients experience less psychoactive effects that can come along with cannabis – no couch lock, no social anxiety, no paranoia. Delta 8 assists anxiety, nausea, appetite, memory, sleep, and more.

Strategy of our Brands

Item 9 Labs Concepts

Marijuana Growing & Processing

Product offerings include over 70 medical marijuana strains, shatter, crumble, badder, THCA, Delta 8 THC, broad spectrum distillate and live resin terpene sauce. Item 9 owns 50 acres, one of the largest properties in the U.S. zoned to grow and cultivate the medical marijuana flower. Most recently, on June 4, 2019, the Company passed inspections to operate custom 10,000 square-foot construction and is currently in production . The facility now totals 20,000 square-feet consisting of 8 flower rooms, just over 1,000 square-feet of nursery space and an updated or upgraded extraction laboratory for increased manufacturing capabilities. The Company's products can be found in over 70 dispensaries in Arizona.

Strive Concepts

Strive is a branded medical marijuana "franchise- style" solution with a proven concept operating dispensaries in multiple states including Illinois, Delaware and Pennsylvania. The advance model offers the documents and systems necessary for launching a successful dispensary. The model includes a project plan, welcome kit, brand guidelines, interior concept, & policy and procedures for the facility.

Combined brands

Currently, we have two brands, both brands encompass our corporate vision and uphold our 5 core competencies which include: Care, Compliance, Customers, Community, and Culture. To achieve optimal balance between brands, Item 9 Labs was designed to be minimalistic with defined lines and shapes while Strive Concepts, was designed with the cannabis mother plant in mind, the brand colors are derived from the cannabis plant, the imagery includes other plant such as Aspen leaves and succulents and many interior textures derived from the "Franchise Style" Dispensary Model.

Growth Objectives and National Expansion Plans for 2020-2021

Our mission is to provide good times and good health for cannabis consumers in legal medical and adult use cannabis markets across the United States. We strive to elevate any market we enter through the development of high caliber, precision tested, cannabis products designed with consistency and adaptability in mind. We will accomplish this through the acquisition of numerous medical marijuana business licenses located all throughout the United States, from the East Coast to the West Coast. Our goal is to hold 10 – 12 licenses by the end of 2021, including through the provision of management services over joint ventures for outstanding license applications. Other plans for 2021 include:

- Replicate Nevada expansion in other key states through management services joint ventures
- Purchase Licenses: 30+ existing markets
- Each deal will be vetted individually to ensure it's in line with our mission, vision and capital structure.

Employees and Independent Contractors

As of January 13, 2020, we had sixty seven full time employees, including our executive officers, one full-time consultant, and two part-time employees. We plan to hire additional employees and engage consultants on an as-needed basis. Our employees are not represented by any unions and we consider our relationship with our employees to be great. We also have relationships with several independent contractors who provide services on a regular basis to us.

Research and Development

Going forward, we intend to continue focusing adequate resources on research and development . Allocation of research and development funds may be dependent on the perceived likelihood of legalization or a significant change in the treatment of cannabis in a given geographic market. Funds may also be used for both product and market development in the hemp and cannabis industries. Given the emergent nature of these industries, we recognize the needs of today may not be the needs of the future and some capital investment will be necessary to meet changing demands.

Intellectual Property

We generally rely upon copyright, trademark and trade secret laws to protect and maintain our proprietary rights for our technology, brands, and products. We currently hold several trademarks including various goods and services of "Item 9 Labs" (serial numbers 87940264, 87940227, 87940254 and 87940239), "Delta 8" (serial numbers 88004775, 88004789, 88004799, 88004812) and Strive Life (88/144,717), as well as several domains, including but not limited to, arizonadispensarypermits.com, dispernsarytemplates.com, and wegrowstore.com.

We maintain a policy requiring our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and to control access to software, documentation and other proprietary information.

Notwithstanding the steps we have taken to protect our intellectual property rights, third parties may infringe or misappropriate our proprietary rights. Competitors may also independently develop products and models that are substantially equivalent or superior to our products and services.

Competition

We compete in markets where cannabis has been legalized and regulated, which includes various states within the United States. We expect that the quantity and composition of our competitive environment will continue to evolve as the industry matures. Additionally, increased competition is possible to the extent that new states and geographies enter the marketplace as a result of continued enactment of regulatory and legislative changes that de-criminalize and regulate cannabis products. We believe that by diligently establishing and expanding our brands, product offerings and services in new and existing locations, we will become established in the industry. Additionally, we expect that establishing our product offerings in new and existing locations are factors that mitigate the risk associated with operating in a developing competitive environment. Additionally, the contemporaneous growth of the industry as a whole will result in new customers entering the marketplace, thereby further mitigating the impact of competition on our operations and results.

In our opinion, we are currently competing with cannabis cultivators, manufacturers, and retailers in our local jurisdictions as well as international enterprises as set forth below, among many others. Many of our competitors are substantially larger than us and have significantly greater name recognition, sales and marketing, financial, technical, customer support and other resources. These competitors also may have more established distribution channels and stronger relationships with local, long distance and Internet service providers. These competitors may be able to respond more rapidly to new or emerging technologies and changes in customer requirements or to devote greater resources to the development, promotion and sale of their products.

These competitors may enter our existing or future markets with products that may be less expensive, that may provide higher performance or additional features or that may be introduced more quickly than our products.

With respect to our operations, including consulting services, we may face competition with any one of the following:

- *Harvest Health & Recreation Inc. (CNSX: HARV, OTCQX: HTHHF),* an Arizona based vertically integrated cannabis company with as many as 60 licensees across 12 states, 525 employees, and planned expansion for the future.
- *Curaleaf Hldgs Inc. (OTCQ: CURLF*), a Massachusetts based fully integrated life science company with a presence in 12 states, operating 43 dispensaries, 12 cultivation sites and 11 processing sites.
- *Green Thumb Industries, Inc. (CSE: GTII, OTCQX:GTBIF),*a vertically integrated cannabis operator with presence in twelve state markets and also provides management services and solutions to state licensed cultivators and dispensaries.
- *American Cannabis Company, Inc. (OTCQB:AMMJ),* a Denver based company that provides advisory and consulting services specific to this industry, designs industry specific products and facilities, and manages a strategic group partnership that offers both exclusive and nonexclusive customer products.

We do not expect to face competition with respect to our branded apparel, however, other corporations may sell apparel that incorporates other logos or trademarks associated with the cannabis industry.

We believe that we compete favorably with our competitors on the basis of these factors. However, if we are unable to compete successfully against our current and future competitors, it will be difficult to acquire and retain customers, and we may experience revenue declines, thereby resulting in reduced operating margins, loss of market share and diminished value in our services.

Government Regulation of Cannabis

Cannabis is currently a Schedule I controlled substance under the Controlled Substances Act (21 U.S.C. § 811) ("CSA") and is, therefore, illegal under federal law. Even in those states in which the use of cannabis has been legalized pursuant to state law, its use,

possession or cultivation remains a violation of federal law. A Schedule I controlled substance is defined as one that has no currently accepted medical use in the United States, a lack of safety for use under medical supervision and a high potential for abuse. The U.S. Department of Justice (the "DOJ") defines Schedule I controlled substances as "the most dangerous drugs of all the drug schedules with potentially severe psychological or physical dependence." If the federal government decides to enforce the CSA, persons that are charged with distributing, possessing with intent to distribute or growing cannabis could be subject to fines and/or terms of imprisonment, the maximum being life imprisonment and a $50 million fine, even though these persons are in compliance with state law.

In light of such conflict between federal laws and state laws regarding cannabis, the previous administration under President Obama had effectively stated that it was not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical cannabis. The new administration under President Trump has indicated that he will strongly enforce the federal laws applicable to cannabis. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to us. As we currently directly harvest, distribute and/or sell cannabis, we may be irreparably harmed by a change in enforcement policies of the federal government (*see* Risk Factors).

The Company and our licensed products will also be subject to a number of other federal, state and local laws, rules and regulations. We anticipate that our vendors and us will be required to manufacture our products in accordance with the Good Manufacturing Practices guidelines and will be subject to regulations relating to employee safety, working conditions, protection of the environment, and other items. The current administration has indicated that it will closely scrutinize the cannabis industry, in particular, recreational marijuana. Changes in laws, rules and regulations or the recall of any product by a regulatory authority, could have a material adverse effect on our business and financial condition.

The United States federal government regulates drugs through the Controlled Substances Act (21 U.S.C. § 811), which places controlled substances, including cannabis, in a schedule. Currently, cannabis and CBD (0.3 percent THC or more) are classified as Schedule I drugs, which are viewed as highly addictive and having no medical value and is illegal to distribute and use. The United States Federal Drug Administration has not approved the sale of marijuana or CBD (0.3 percent THC or more) for any medical application. Doctors may not prescribe cannabis or CBD (0.3 percent THC or more) for medical use under federal law, however they can recommend its use under the First Amendment. In 2010, the United States Veterans Affairs Department clarified that veterans using medicinal cannabis or CBD (0.3 percent THC or more) will not be denied services or other medications that are denied to those using illegal drugs.

Currently, fourty seven States and the District of Columbia have laws legalizing marijuana and CBD in some form. In November 2016, California, Massachusetts, Maine and Nevada all passed measures legalizing recreational marijuana. California's Prop. 64 measure allows adults 21 and older to possess up to one ounce of marijuana and grow up to six plants in their homes. Other tax and licensing provisions of the law didn't take effect until January 2018.

These noted state laws, both proposed and enacted, are in direct conflict with the federal Controlled Substances Act, which makes cannabis use and possession illegal on a national level. However, on August 29, 2013, the U.S. Department of Justice issued a memorandum providing that where states and local governments enact laws authorizing cannabis-related use, and implement strong and effective regulatory and enforcement systems, the federal government will rely upon states and local enforcement agencies to address cannabis activity through the enforcement of their own state and local narcotics laws. The memorandum further stated that the U.S Justice Department's limited investigative and prosecutorial resources will be focused on eight priorities to prevent unintended consequences of the state laws, including distribution of cannabis to minors, preventing the distribution of cannabis from states where it is legal to states where it is not, and preventing money laundering, violence and impaired driving.

On December 11, 2014, the U.S. Department of Justice issued another memorandum with regard to its position and enforcement protocol with regard to Indian Country, stating that the eight priorities in the previous federal memo would guide the United States Attorneys' cannabis enforcement efforts in Indian Country. On December 16, 2014, as a component of the federal spending bill, the Obama administration enacted regulations that prohibit the Department of Justice from using funds to prosecute state-based legal medical cannabis programs.

On January 4, 2018, The Department of Justice lead by Jeff Sessions issued a memo on federal marijuana enforcement policy announcing a return to the rule of law and the rescission of previous guidance documents. Since the passage of the Controlled Substances Act (CSA) in 1970, Congress has generally prohibited the cultivation, distribution, and possession of marijuana.

However, on January 18, 2019, the new Attorney General, William Barr, stated in front of the Senate Judiciary Committee that he does not plan on using federal resources to "go after" companies if they are complying with state law. That would be a reversal from the approach taken by his predecessor, former Attorney General Jeff Sessions, who vowed to pursue federal violations more aggressively. According to Erik Altieri, executive director of the National Organization for the Reform of Marijuana Laws (NORML), Barr's stance is a good sign for advocates but it remains to be seen if his actions will follow through on his pledge. Our business could end and investors could lose their total investment in the company if there is no reversal in Sessions' approach.

On June 20, 2019, the United States House of Representatives passed a historic bipartisan amendment to the fiscal year 2020 Commerce-Justice-Science spending bill. By a vote of 267-165, the House approved the Blumenauer-McClintock-Norton Amendment which would protect state-legal cannabis programs from interference by the United States Department of Justice (DOJ). The amendment is named after the three individuals who submitted it for consideration: Representative Earl Bluemenauer, a Democrat from Oregon, Tom McClintock, a Republican from California, and Eleanor Norton, a delegate from Washington D.C.

Currently, the spending bill does provide protection for state-legal medical cannabis programs from DOJ interference – but this amendment would protect both medical and recreational cannabis programs that are legal at the state level. The amendment would prohibit the DOJ from using funds to prevent any American state, territory, and Washington D.C. from approving and implementing laws authorizing marijuana use, distribution, possession, and cultivation. What remains uncertain is whether the current Republican-controlled Senate will support the amendment. Further, if the amendment makes it into the final spending bill approved by Congress, it will only remain in effect for one year. If the amendment does not garner approval from the Senate, then the DOJ will maintain the right to use its funding to prevent the approval and implementation of laws regarding recreational cannabis use at the state level, which could affect our business, and could impact our investors' investment in the Company.

Where You Can Find More Information

We are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). These filings are not deemed to be incorporated by reference into this Form 10-K. You may read and copy any documents filed by us at the Public Reference Room of the SEC, 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our filings with the SEC are also available to the public through the SEC's website at *http://www.sec.report*.

ITEM 1A. RISK FACTORS .

There are certain inherent risks which will have an effect on our development in the future and the most significant risks and uncertainties known and identified by our management are described below.

Risks Related to Our Company and Our Business

We compete for market share with other companies, including other licensed entities in the United States, some of which have longer operating histories and more financial resources and experience than we have.

We face, and we expect to continue to face, intense competition from licensed cannabis operators, both public and private, and other potential competitors, some of which have longer operating histories and more financial resources and experience than we have. In addition, it is possible that the medical cannabis industry will undergo consolidation, creating larger companies with financial resources, capabilities and product offerings that are superior ours by virtue of size alone. As a result of this competition, we may be unable to maintain our operations or develop them as currently proposed, on terms we consider acceptable, or at all.

There are currently hundreds of applications for cannabis licenses being processed across a number of states. The number of licenses granted and the number of ultimately authorized by each state could have an adverse impact on our ability to compete for market share in the medical cannabis and recreational/adult use cannabis industry. We expect to face additional competition from new market entrants that are granted licenses or existing license holders that are not yet active in the industry in the states in which we currently operate or plan to operate. If a significant number of new licenses are granted in any given market which we participate in, we may experience increased competition for market share and may experience downward price pressure on our medical cannabis products as new entrants increase production.

If the number of users of cannabis for medical and/or recreational purposes increases, the demand for products will increase. This could result in the competition in the cannabis industry becoming more intense as current and future competitors begin to offer an increasing number of diversified cannabis products. Conversely, if there is a contraction in the medical market for cannabis, resulting from the legalization of adult-use cannabis or otherwise, competition for market share may increase.

We face intense competition which could prohibit us from developing a customer base and generating revenue.

The industries within which we plan to compete are highly competitive with companies that have greater capital resources, facilities and greater diversity of operations. More established companies with much greater financial resources which do not currently compete with us may be able to easily adapt their existing operations to our lines of business. Due to this competition, there is no assurance that we will not encounter difficulties in obtaining revenues and market share or in the positioning of our products or that competition in the industry will not lead to reduced prices for our products. Our competitors may also introduce new strains, use competitive, organic techniques or novel application that could also increase competition, decrease demand for our business, and render our methods and craft products obsolete.

If we fail to raise additional capital, our ability to implement our business model and strategy could be compromised.

We have limited capital resources. To date, our operations have been funded by and through our operations, private placements of our securities, and financing from our financing partners. We expect to require substantial additional capital in the near future in order to execute our businesses as planned, to develop and expand our operations, expand our brand in the marketplace, and to establish the targeted levels of production. We may not be able to obtain additional financing on terms acceptable to us, or at all. Even if we obtain financing for our near term operations, we expect that we will require additional capital beyond the near term. If we are unable to raise capital when needed, our business, financial condition and results of operations would be materially adversely affected, and we could be forced to reduce or discontinue our operations.

If we need additional capital to fund our growing operations, we may not be able to obtain sufficient capital and may be forced to limit the scope of our operations.

If adequate additional financing is not available on reasonable terms, we may not be able to expand our business operations and we would have to modify our business plans accordingly. There is no assurance that additional financing will be available to us.

In connection with our growth strategies, we may experience increased capital needs and accordingly, we may not have sufficient capital to fund our future operations without additional capital investments. Our capital needs will depend on numerous factors, including: (i) our profitability; (ii) the release of competitive products by our competition; (iii) the level of our investment in marketing

and branding our products; and (iv) the amount of our capital expenditures. We cannot assure you that we will be able to obtain capital in the future to meet our needs.

In recent years, the securities markets in the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations that have not necessarily been related to the operations, performances, underlying asset values or prospects of such companies. For these reasons, our securities can also be expected to be subject to volatility resulting from purely market forces over which we will have no control. If we need additional funding we will, most likely, seek such funding in the United States and the market fluctuations effect on our stock price could limit our ability to obtain equity financing.

If we cannot obtain additional funding, we may be required to: (i) limit our expansion; (ii) limit our marketing efforts; and (iii) decrease or eliminate capital expenditures. Such reductions could materially adversely affect our business and our ability to compete.

Even if we do find a source of additional capital, we may not be able to negotiate terms and conditions for receiving the additional capital that are favorable to us. Any future capital investments could dilute or otherwise materially and adversely affect the holdings or rights of our existing shareholders. In addition, new equity or convertible debt securities issued by us to obtain financing could have rights, preferences and privileges senior to our common stock shares. We cannot give you any assurance that any additional financing will be available to us, or if available, will be on terms favorable to us.

The failure to hire additional employees could harm our business.

Our future success also depends upon our continuing ability to attract and retain highly qualified personnel. Expansion of our business and the management and operation will require additional managers, officers, directors and employees with industry experience, and our success will be highly dependent on our ability to attract and retain skilled management personnel and other employees. There can be no assurance that we will be able to attract or retain highly qualified personnel. Competition for honest, diligent and skilled personnel in our industry is significant. This competition may make it more difficult and expensive to attract, hire and retain qualified managers and employees.

If we are unable to deliver consistent, high quality products at sufficient volumes, our relationship with our customers may suffer and our operating results will be adversely affected.

Our customers will expect us to be able to consistently deliver our products at sufficient volumes, while meeting the established quality standards desired to maintain their loyalty to our brands. If we are unable to consistently deliver, our relationship with these customers could be adversely affected, which could have a negative impact on our operating results.

Failure to effectively manage growth of internal operations and business may strain our financial resources.

We intend to significantly expand the scope of our business operations in the near term. Our growth rate may place a significant strain on our financial resources for a number of reasons, including, but not limited to, the following:

- The need for continued development of our financial reporting and information management systems;
- The need to manage strategic relationships and agreements with manufacturers, suppliers, customers and partners; and
- Difficulties in hiring and retaining skilled management, technical and other personnel necessary to support and manage our business.

Additionally, our strategy envisions a period of rapid growth that may impose a significant burden on our administrative and operational resources. Our ability to effectively manage growth will require us to substantially expand the capabilities of our administrative and operational resources and to attract, train, manage and retain qualified management and other personnel. Our failure to successfully manage growth could result in our sales not increasing commensurately with capital investments. Our inability to successfully manage growth could materially adversely affect our business.

If we are unable to continually innovate and increase efficiencies, our ability to attract new customers may be adversely affected.

In the area of innovation, we must be able to develop new management strategies, strains, techniques, products and creative branding that appeal to our customers. This depends, in part, on the technological and creative skills of our personnel and on our ability to protect our intellectual property rights. We may not be successful in the development, introduction, and marketing and sourcing that satisfy customer needs, achieve market acceptance or generate satisfactory financial returns.

Global economic conditions may adversely affect our industry, business and result of operations.

Disruptions in the global credit and financial markets could result in diminished liquidity and credit availability, a decline in consumer confidence, a decline in economic growth, an increased unemployment rate, and uncertainty about economic stability. These economic uncertainties can affect businesses such as ours in a number of ways, making it difficult to accurately forecast and plan our future business activities. Such conditions can lead consumers to postpone spending, which can cause our vendors, suppliers, distributors and retailers to cancel, decrease or delay orders with us. We are unable to predict the likelihood of the occurrence, duration or severity of such disruptions in the credit and financial markets and adverse global economic conditions and such economic conditions could materially and adversely affect our business and the results of operations.

Our business depends substantially on the continuing efforts of our management team and our business may be severely disrupted if we lose their services.

Our current and future success depends substantially on the continued services of our management team, Andrew Bowden, Bryce Skalla, Chris Wolven, Robert Mikkelsen, Ronald L. Miller, Jr., and Jeffrey Rassas. Each brings a unique blend of skill and experience

that is essential to the success of our business. We do not maintain key man life insurance for our management team at this time. If our management team is unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Therefore, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new management.

Litigation may adversely affect our business, financial condition and results of operations.

From time to time in the normal course of our business operations, we may become subject to litigation that may result in liability material to our financial statements as a whole or may negatively affect our operating results if changes to our business operation are required. The cost to defend such litigation may be significant and may require a diversion of our resources. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition and results of operations.

Confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and other proprietary information.

Our success depends upon the skills, knowledge and experience of our technical personnel, our consultants and advisors as well as our licensors and contractors. Because we operate in a highly competitive field, we will rely significantly on trade secrets to protect our proprietary techniques and processes. However, trade secrets are difficult to protect. We plan to enter into confidentiality and intellectual property assignment agreements with our corporate partners, employees, consultants, outside scientific collaborators, developers and other advisors. These agreements generally require that the receiving party keep confidential and not disclose to third parties confidential information developed by us during the course of the receiving party's relationship with us. These agreements also generally provide that inventions conceived by the receiving party in the course of rendering services to us will be our exclusive property. However, these agreements may be breached and may not effectively assign intellectual property rights to us. Our trade secrets also could be independently discovered by competitors, in which case we would not be able to prevent the use of such trade secrets by our competitors. The enforcement of a claim alleging that a party illegally obtained and was using our trade secrets could be difficult, expensive and time consuming and the outcome would be unpredictable. In addition, courts outside the United States may be less willing to protect trade secrets. The failure to obtain or maintain meaningful trade secret protection could adversely affect our competitive position.

Risks Related to Cannabis Industry

Cannabis remains illegal under federal law, and any change in the enforcement priorities of the federal government could render our current and planned future operations unprofitable or even prohibit such operations.

We operate both directly and indirectly in the cannabis industry, which is dependent on state laws and regulations pertaining to such industry; however, under federal law, cannabis remains illegal.

The United States federal government regulates drugs through the Controlled Substances Act (the "CSA"), which places controlled substances, including cannabis, on one of five schedules. Cannabis is currently classified as a Schedule I controlled substance, which is viewed as having a high potential for abuse and having no currently accepted medical use in treatment in the United States. No prescriptions may be written for Schedule I substances, and such substances are subject to production quotas imposed by the United States Drug Enforcement Administration (the "DEA"). Because of this, doctors may not prescribe cannabis for medical use under federal law, although they can recommend its use under the First Amendment.

Currently, 33 U.S. states, the District of Columbia and the U.S. territories of Guam and Puerto Rico allow the use of medical cannabis and 10 states and the District of Columbia have legalized cannabis for "adult use" or recreational use. State and territorial laws are in conflict with the federal CSA, which makes cannabis use and possession illegal at the federal level. Because cannabis is a Schedule I controlled substance, however, the development of a legal cannabis industry under the laws of these states is in conflict with the CSA, which makes cannabis use and possession illegal on a national level. The United States Supreme Court has confirmed that the federal government has the right to regulate and criminalize cannabis, including for medical purposes, and that federal law criminalizing the use of cannabis preempts state laws that legalize its use.

In light of such conflict between federal laws and state laws regarding cannabis, the previous administration under President Obama had effectively stated that it was not an efficient use of resources to direct law federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical cannabis. For example, the prior DOJ Deputy Attorney General of the Obama administration, James M. Cole, issued a memorandum (the "Cole Memo") to all United States Attorneys providing updated guidance to federal prosecutors concerning cannabis enforcement under the CSA (see "Business—Government and Industry Regulation—The Cole Memo") [see further discussion below]. In addition, the Financial Crimes Enforcement Network ("FinCEN") provided guidelines (the "FinCEN Guidelines") on February 14, 2014, regarding how financial institutions can provide services to cannabis-related businesses consistent with their Bank Secrecy Act ("BSA") obligations (see "Business—Government and Industry Regulation—FinCEN").

In 2014, the United States House of Representatives passed an amendment (the "Rohrabacher-Farr Amendment") to the Commerce, Justice, Science, and Related Agencies Appropriations Bill, which funds the United States Department of Justice (the "DOJ"). The Rohrabacher-Farr Amendment prohibits the DOJ from using funds to prevent states with medical cannabis laws from implementing such laws. In August 2016, a 9th Circuit federal appeals court ruled in *United States v. McIntosh* that the Rohrabacher-Farr Amendment bars the DOJ from spending funds on the prosecution of conduct that is allowed by state medical cannabis laws, provided that such conduct is in strict compliance with applicable state law. In March 2015, bipartisan legislation titled the Compassionate Access, Research Expansion, and Respect States Act (the "CARERS Act") was introduced, proposing to allow states to regulate the medical use of cannabis by changing applicable federal law, including by reclassifying cannabis under the Controlled Substances Act to a Schedule II controlled substance and thereby changing the plant from a federally-criminalized substance to one that has recognized medical uses. More recently, the Respect State Marijuana Laws Act of 2017 has been introduced in the U.S. House of Representatives, which proposes to exclude persons who produce, possess, distribute, dispense, administer or deliver marijuana in compliance with state laws from the regulatory controls and administrative, civil and criminal penalties of the CSA.

Although these developments have been met with a certain amount of optimism in the cannabis industry, neither the CARERS Act nor the Respect State Marijuana Laws Act of 2017 have yet been adopted. In addition, the Rohrabacher-Farr Amendment, being an amendment to an appropriations bill that must be renewed annually, has not been renewed beyond December 7, 2018. Furthermore, the ruling in *United States v. McIntosh* is only applicable in the 9th Circuit, which does include California, Hawaii and Arizona, where we currently primarily operate. The Trump administration could change this policy and decide to strongly enforce the federal laws applicable to cannabis. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to us. Because we grow, harvest, distribute or sell cannabis directly, we may be irreparably harmed by a change in enforcement policies of the federal government.

Approach to the Enforcement of Cannabis Laws is Subject to Change

Given the conflicting opinions between state legislatures and the federal government regarding cannabis, investments in United States cannabis businesses are subject to varying legislation and regulation. The Cole Memorandum (the "Cole Memo"), issued in 2013 by former Deputy Attorney General of the United States James M. Cole, served as the response to these inconsistencies, and recognized that notwithstanding the classification of cannabis as a controlled substance at the United States federal level, several states have enacted laws relating to cannabis for medical purposes.

The Cole Memo outlined certain priorities for the Department of Justice relating to the prosecution of cannabis offenses. Particularly, the Cole Memo noted that in those jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented robust and effective regulatory and enforcement mechanisms to control the cultivation, distribution, sale, and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the Department of Justice did not provide specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memo standard.

Considering the limited investigative and prosecutorial resources at hand, the Cole Memo concluded that the Department of Justice should only be focused on addressing the most serious cannabis related threats. Consequently, states where cannabis had been legalized were not branded as a high priority. In March 2017, newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memo had merit; however, he disagreed that the Cole Memo had been successfully implemented. On January 4, 2018, Attorney General Sessions issued the Sessions Memorandum, which effectively rescinded the Cole Memo. The Sessions Memorandum withdrew previous nationwide guidance specific to the prosecutorial authority of United States Attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well-established principles governing federal prosecution already in place. Those principles are included in Chapter 9.27.000 of the United States Attorneys' Manual and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

With the issuance of the Sessions Memorandum, federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions. The Sessions Memorandum gave no direction to federal prosecutors as to the priority they should ascribe to such cannabis activities. Therefore, it is ultimately uncertain how active federal prosecutors will be with respect to such activities. Furthermore, the Sessions Memorandum did not how federal prosecutors should treat medical cannabis. At present, medical cannabis is protected against enforcement by United States Congressional legislation through the Leahy Amendment to H.R.1625 – a vehicle for the Consolidated Appropriations Act of 2018 which similarly averts federal prosecutors from applying federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress' restoration of such funding. Given the ambiguity of the Sessions Memorandum, there can be no guarantee that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Such potential proceedings could impose significant restrictions upon the Company, thereby diverting the attention of key executives. In addition, such proceedings could materially adversely affect the Company business, revenues, operating results, and financial condition as well as the Company's reputation and prospects, even if such proceedings were concluded successfully in the Resulting Issuer's favor. In the extreme case, such proceedings could ultimately involve the prosecution of key executives of the Company, or the seizure of the corporate assets.

As the possession and use of cannabis is illegal under the CSA, we may be deemed to be engaging in illegal activities through the growth and sales of our products in the future. As a result, we may be subject to enforcement actions by law enforcement authorities, which would materially and adversely affect our business.

Under Federal law, specifically the CSA, the possession, use, cultivation, and transfer of cannabis is illegal. Our business directly involves the possession, use, cultivation, manufacturing and/or transfer of cannabis and derivative therefrom. As a result, law enforcement authorities, in their attempt to regulate the illegal use of cannabis and related products, may seek to bring an action or actions against us and or the businesses who are integral to our supply chain, including, but not limited, to a claim of aiding and abetting another's criminal activities. The Federal aiding and abetting statute provides that anyone who "commits an offense against the United States or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal." 18 U.S.C. §2(a). As a result of such an action, we may be forced to cease operations and our investors could lose their entire investment. Such an action would have a material negative effect on our business and operations.

However, on January 18, 2019, the new Attorney General, William Barr, stated in front of the Senate Judiciary Committee that he doesn't plan on using federal resources to "go after" companies if they are complying with state law. That would be a reversal from the approach taken by his predecessor, former Attorney General Jeff Sessions, who vowed to pursue federal violations more aggressively. According to Erik Altieri, executive director of the National Organization for the Reform of Marijuana Laws (NORML), Barr's stance is a good sign for advocates but it remains to be seen if his actions will follow through on his pledge. Our business could end and investors could lose their total investment in the company if there is no reversal in Sessions' approach.

On June 20, 2019, the United States House of Representatives passed a historic bipartisan amendment to the fiscal year 2020 Commerce-Justice-Science spending bill. By a vote of 267-165, the House approved the Blumenauer-McClintock-Norton Amendment which would protect state-legal cannabis programs from interference by the United States Department of Justice (DOJ). The amendment is named after the the three individuals who submitted it for consideration: Representative Earl Bluemenauer, a Democrat from Oregon, Tom McClintock, a Republican from California, and Eleanor Norton, a delegate from Washington D.C.

Currently, the spending bill does provide protection for state-legal medical cannabis programs from DOJ interference – but this amendment would protect both medical and recreational cannabis programs that are legal at the state level. The amendment would prohibit the DOJ from using funds to prevent any American state, territory, and Washington D.C. from approving and implementing laws authorizing marijuana use, distribution, possession, and cultivation. What remains uncertain is whether the current Republican-controlled Senate will support the amendment. Further, if the amendment makes it into the final spending bill approved by Congress, it will only remain in effect for one year. If the amendment does not garner approval from the Senate, then the DOJ will maintain the right to use its funding to prevent the approval and implementation of laws regarding recreational cannabis use at the state level, which could affect our business, and could impact our investors' investment in our Company.

Our business is primarily dependent on state laws pertaining to the cannabis industry.

Currently, fourty-seven states and the District of Columbia currently have laws legalizing marijuana and CBD in some form. Continued development of the cannabis industry is dependent upon continued legislative authorization of cannabis at the state level. Any number of factors could slow or halt progress in this area. Further, progress in the cannabis industry, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Further legalization attempts at the state level that creates bad public policy could slow or stop further development of the cannabis industry. Any one of these or other factors could slow or halt use of cannabis, which would negatively impact our business model.

The medical and recreational use cannabis industry presents substantial risks and uncertainty.

We plan to be engaged directly in business related to licensed medical cannabis industry in the State of Arizona and medical and recreational in Nevada, among other states. The relatively new development of the medical and recreational use cannabis industry presents numerous and material risks. Many of those risks are not inherent in other developing or mature industries. Many of the risks are unknown and the consequences to our business are speculative. The risks range from the uncertainty as to how the laws and regulations will be applied, to the potential catastrophic collapse of the medical and recreational use cannabis industry nationally or in the states we operate in that might result from changes in laws or the enforcement of existing laws, for example, to the failure of individual businesses that might result from the volatile market conditions that sometimes accompany the development of new markets and industries. Included in the risks is the potential that regulatory authorities could conclude that we provide products and/or engage in other activities that are illegal under the applicable state laws despite the company's intentions and efforts to not engage in any illegal activities. Such numerous and material risks, the diversity of those risks, and the uncertainty associated with those risks, will likely cause an investment in the Company to be highly speculative and significantly more risky than other similar investments.

We may be unable to secure a local and/or State license to conduct our business, which could lead to a loss in your investment.

Businesses that wish to conduct commercial cannabis operations, either for medicinal or adult-use cannabis, are required to obtain the pertinent municipal and State licenses, dependent on the state. License applications for new operations in each state maintain stringent requirements and are highly competitive; as such, there are no guarantees of license issuance for a license. Failure to secure and maintain a license for our operations would prevent us from legally conducting any commercial cannabis operations in the jurisdictions in which we operate, and thus an investment in our Company carries a great amount of risk.

Our business may be negatively impacted by environmental factors, including unfavorable weather patterns and pesticide contamination.

Cannabis cultivation is an extensive, complicated, and delicate process, and a successful harvest is reliant on a myriad factors including, but not limited to,: lighting, fertilization, technique, sunlight, temperature, and proper application of pesticides. Variance in

any one of these factors may result in a tainted or destroyed harvest that will be unfit for distribution. Further, pesticide contamination may prompt recall and public-safety alerts, and any contamination detected may also result in product removal from retail dispensaries.

We may have difficulty accessing the service of banks, which may make it difficult for us to operate.

On February 14, 2014, the U.S. government issued rules allowing banks to legally provide financial services to state-licensed cannabis businesses. A memorandum issued by the Justice Department to federal prosecutors reiterated guidance previously given, this time to the financial industry that banks can do business with legal marijuana businesses and "may not" be prosecuted. The Treasury Department's Financial Crimes Enforcement Network (FinCEN) issued guidelines to banks noting that it is possible to provide financial services to state-licensed cannabis businesses and still be in compliance with federal anti-money laundering laws. The guidance, however, falls short of the explicit legal authorization that banking industry officials had requested the government provide, and, to date, it is not clear if any banks have relied on the guidance to take on legal cannabis companies as clients. The aforementioned policy can be changed, including in connection with the recent change in presidential administration, and any policy reversal and or retraction could result in legal cannabis businesses losing access to the banking industry.

Because the use, sale and distribution of cannabis remains illegal under federal law, most banks will not accept deposits from or provide other bank services to businesses involved with cannabis, and the banks that do provide banking services to companies related to the cannabis industry do not advertise their position and require greater oversight of the depositor relationship. The limited ability to open bank accounts may make it difficult for us to operate.

Although we currently have a bank account, our ability to open additional bank accounts or maintain our current accounts is subject to change. In the future may be difficult or impossible to deposit cannabis related funds and other amounts owed to the Company which may make it difficult for us to do business under the current business plans.

Our insurance coverage may be inadequate to cover all significant risk exposures.

Our business will be exposed to liabilities that are unique to the industry we operate in. While we intend to maintain insurance for certain risks, the amount of our insurance coverage may not be adequate to cover all claims or liabilities, and we may be forced to bear substantial costs resulting from risks and uncertainties of our business. It is also not possible to obtain insurance to protect against all operational risks and liabilities. The failure to obtain adequate insurance coverage on terms favorable to us, or at all, could have a material adverse effect on our business, financial condition and results of operations. Further, we do not have any business interruption insurance. Any business disruption or natural disaster could result in substantial costs and diversion of resources.

Additionally, we may have a more difficult time acquiring insurance that is otherwise readily available, such as property insurance, workers compensation, general liability, and directors and officers insurance, and may become more expensive because we may be deemed to participate either directly or indirectly in the cannabis industry. There are no guarantees that we will be able to find such insurances in the future, or that the cost will be affordable to them. If we are forced to go without such insurances, it may affect our decision business, may inhibit our growth, and may expose us to additional risk and financial liabilities.

Risks Associated with Our Capital Stock

Because we became a reporting company under the Exchange Act by means other than a traditional underwritten initial public offering, we may not be able to attract the attention of research analysts at major brokerage firms.

Because we did not become a reporting company by conducting an underwritten initial public offering, or IPO, of our common stock, and because we will not be listed on a national securities exchange, security analysts of brokerage firms may not provide coverage of our company. In addition, investment banks may be less likely to agree to underwrite secondary offerings on our behalf than they might if we were to become a public reporting company by means of an IPO because they may be less familiar with our company as a result of more limited coverage by analysts and the media, and because we became public at an early stage in our development.

Our common stock may become subject to the SEC's penny stock rules, which may make it difficult for broker-dealers to complete customer transactions and could adversely affect trading activity in our securities.

The SEC has adopted regulations which generally define "penny stock" to be an equity security that has a market price of less than $5.00 per share, subject to specific exemptions. The market price of our common stock may be less than $5.00 per share for some period of time and therefore would be a "penny stock" according to SEC rules, unless we are listed on a national securities exchange. Under these rules, broker-dealers who recommend such securities to persons other than institutional accredited investors must:

- make a special written suitability determination for the purchaser;
- receive the purchaser's prior written agreement to the transaction;
- provide the purchaser with risk disclosure documents which identify certain risks associated with investing in "penny stocks" and which describe the market for these "penny stocks" as well as a purchaser's legal remedies; and
- obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before a transaction in a "penny stock" can be completed.

If required to comply with these rules, broker-dealers may find it difficult to effectuate customer transactions and trading activity in our securities may be adversely affected.

The market price of our common stock may be volatile and may fluctuate in a way that is disproportionate to our operating performance.

Our stock price may experience substantial volatility as a result of a number of factors, including:

- sales or potential sales of substantial amounts of our common stock;
- the success of competitive products or technologies;
- announcements about us or about our competitors, including new product introductions and commercial results;
- the recruitment or departure of key personnel;
- developments concerning our licensors or manufacturers;
- litigation and other developments;
- actual or anticipated changes in estimates as to financial results, development timelines or recommendations by securities analysts;
- variations in our financial results or those of companies that are perceived to be similar to us; and
- general economic, industry and market conditions.

Many of these factors are beyond our control. The stock markets in general, and the market for cannabis companies in particular, have historically experienced extreme price and volume fluctuations. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors could reduce the market price of our common stock, regardless of our actual operating performance.

We have never paid and do not intend to pay cash dividends.

We do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest any future earnings in the development and growth of our business.

Our executive officers and directors, and affiliate shareholders, have the ability to control all matters submitted to stockholders for approval.

Our executive officers, directors, and affiliate shareholders hold collectively 28,324,488 shares of our outstanding common stock or 44.51% of the total vote, and as such, they would be able to control all matters submitted to our stockholders for approval, as well as our management and affairs. For example, these persons, if they choose to act collectively, would control the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of voting power could delay or prevent an acquisition of our company on terms that other stockholders may desire.

Provisions under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management.

In addition to our corporate charter and our bylaws, because we are incorporated in Delaware, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any holder of at least 15% of our capital stock for a period of three years following the date on which the stockholder became a 15% stockholder.

We will incur increased costs as a result of operating as a public reporting company, and our management will be required to devote substantial time to new compliance initiatives.

As a public reporting company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002 and rules subsequently implemented by the SEC, have imposed various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time consuming and costly. For example, we expect that these rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance.

We currently have outstanding, and we may, in the future issue instruments which are convertible into shares of common stock, which will result in additional dilution to you.

We currently have an outstanding instrument which is convertible into shares of common stock, and we may need to issue similar instruments in the future. In the event that these convertible instruments are converted into shares of common stock outstanding stock, or that we make additional issuances of other convertible or exchangeable securities, you could experience additional dilution. Furthermore, we cannot assure you that we will be able to issue shares or other securities in any other offering at a price per share that is equal to or greater than the price per share paid by investors or the then current market price.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None

ITEM 2. PROPERTIES.

Currently the Company leases approximately 4,202 square feet of office space in Phoenix, Arizona, at a monthly rent of $6,480. The lease includes all utilities, was effective September 1, 2019, with a 5 year term.

The Company owns approximately 50 acres in Southern Arizona that is zoned to grow and cultivate medical marijuana flower. The Company is currently utilizing 5 acres which was acquired in May 2017 which includes a 10,000 square foot, state-of-the-art indoor manufacturing facility with 10,000 square feet of additional capacity which passed inspections to operate June 4, 2019 and is currently in production. The facility now totals 20,000 square-feet consisting of 8 flower rooms, just over 1,000 square-feet of nursery space, an upgraded extraction laboratory, for increased manufacturing capabilities. On April 20, 2018, the Company entered into an agreement for the purchase of approximately 44 acres of land from an affiliate of a founding member of BSSD, its now wholly owned subsidiary. The purchase price of the property was $3,000,000, payable as follows; (i) $200,000 deposited with escrow agent as an initial earnest money deposit in April 2018, (ii) on or before February 1, 2019, the Company will deposit an additional $800,000 into escrow as additional earnest money deposit and (iii) the balance of the purchase price shall be paid via a promissory note. The earnest money amounts are non-refundable. The Company has negotiated an amendment to this agreement that will spread the $800,000 payment over the course of time. As of September 30, 2019, the Company had paid a total of $600,000 which was deposited in escrow, and classified as a long-term asset on the consolidated balance sheet as of September 30, 2019. As of the date of these financial statements, a total of $600,000 has been deposited in escrow.

ITEM 3. LEGAL PROCEEDINGS.

From time to time, we may become subject to various legal proceedings that are incidental to the ordinary conduct of its business. Although we cannot accurately predict the amount of any liability that may ultimately arise with respect to any of these matters, it makes provision for potential liabilities when it deems them probable and reasonably estimable. These provisions are based on current information and may be adjusted from time to time according to developments. Other than the foregoing we are not aware of any material litigation.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART III

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

Market Information

Our common stock is currently quoted on the OTC Bulletin Board. Our common stock has been quoted on the OTC Bulletin Board since November 3, 2011 under the symbol "CDYY.OB." On November 9, 2012, our symbol was changed to "AIRW.OB" to reflect the Company's name change. On December 21, 2016 we filed a Form 15-12G and down listed to the OTC Pink sheets. On April 27, 2018, the Company's ticker symbol was changed to "INLB". Because we are quoted on the OTC Markets, our common stock may be less liquid, receive less coverage by security analysts and news media, and generate lower prices than might otherwise be obtained if it were listed on a national securities exchange.

The following table sets forth the high and low bid prices for our Common Stock per quarter as reported by the OTC Bulletin Board for the quarterly periods indicated below based on our fiscal year end September 30. Our common stock began trading in 2012. These prices represent quotations between dealers without adjustment for retail mark-up, markdown or commission and may not represent actual transactions.

Fiscal Quarter	High	Low
First Quarter (Oct. 1, 2017 – Dec. 31, 2017)	$ 3.40	$ 0.252
Second Quarter (Jan. 1, 2018 – Mar. 31, 2018)	2.80	1.80
Third Quarter (Apr. 1, 2018 – Jun. 30, 2018)	4.20	2.20
Fourth Quarter (Jul. 1, 2018 – Sept. 30, 2018)	3.00	1.65
First Quarter (Oct. 1, 2018 – Dec. 31, 2018)	$ 7.00	$ 1.50
Second Quarter (Jan. 1, 2019 – Mar. 31, 2019)	$ 6.00	$ 3.50
Third Quarter (Apr. 1, 2019 – Jun. 30, 2019)	7.10	2.02
Fourth Quarter (Jul. 1, 2019 – Sept. 30, 2019)	4.99	2.15

Record Holders

As of September 30, 2019, there were 63,643,005 common shares issued and outstanding, which were held by 303 stockholders of record.

Dividends

We have never declared or paid any cash dividends on our common stock nor do we anticipate paying any in the foreseeable future. Furthermore, we expect to retain any future earnings to finance our operations and expansion. The payment of cash dividends in the future will be at the discretion of our Board of Directors and will depend upon our earnings levels, capital requirements, any restrictive loan covenants and other factors the Board considers relevant.

Securities Authorized for Issuance under Equity Compensation Plans

On June 21, 2019, our shareholders voted to approve the 2019 Equity Incentive Plan (the "2019 Plan"). Pursuant to the 2019 Plan, the maximum aggregate number of Shares available under the Plan through awards is the lesser of: (i) 6,000,000 shares, increased each anniversary date of the adoption of the plan by 2 percent of the then-outstanding shares, or (b) 10,000,000 shares. We have 6,000,000 shares available for issuance under the 2019 Plan.

Common Stock

We are authorized to issue 2,000,000,000 shares of Common Stock, $0.0001 par value per share (the "Common Stock"). As of September 30, 2019, there were 63,643,005 shares of Common Stock issued and outstanding. As of January 13, 2020 there were 63,652,620 shares of common stock issued and outstanding.

The holders of our Common Stock have equal ratable rights to dividends from funds legally available therefore, when, as and if declared by our board of directors. Holders of Common Stock are also entitled to share ratably in all of our assets available for distribution to holders of Common Stock upon liquidation, dissolution or winding up of the affairs.

The holders of shares of our Common Stock do not have cumulative voting rights, which means that the holders of more than 50% of such outstanding shares, voting for the election of directors, can elect all of the directors to be elected, if they so choose and in such event, the holders of the remaining shares will not be able to elect any of our directors. The holders of 50% percent of the outstanding Common Stock constitute a quorum at any meeting of shareholders, and the vote by the holders of a majority of the outstanding shares or a majority of the shareholders at a meeting at which quorum exists are required to effect certain fundamental corporate changes, such as liquidation, merger or amendment of our articles of incorporation.

Holders of our Common Stock may resell their shares of Common Stock, pursuant to Rule 144 under the Securities Act ("Rule 144"), one year following the date of acquisition of such securities from the Company until such time that the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act. Holders of our Common Stock may resell their shares of Common Stock, pursuant to Rule 144 six months following the date of acquisition of such securities from the Company or an affiliate of the Company after the Company has been subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, for a period of at least 90 days immediately before such sale, and has filed all required reports under the Exchange Act (other than reports on Form 8-K) during the preceding 12 months (or such shorter period as the Company was required to file such reports). If the condition set forth above relating to the Company having filed all required reports under the Exchange Act is not satisfied, holders of our Common Stock may resell their shares of Common Stock, pursuant to Rule 144, one year following the acquisition of such securities from the Company or an affiliate of the Company.

Shares of our Common Stock are registered at the office of the Company and are transferable at such office by the registered holder (or duly authorized attorney) upon surrender of the Common Stock certificate, properly endorsed. No transfer shall be registered unless the Company is satisfied that such transfer will not result in a violation of any applicable federal or state securities laws.

Convertible Instruments

The following is a description of the material terms of our convertible instruments which remain outstanding as of September 30, 2019:

On September 13, 2018, the Company entered into a Loan and Revenue Participation Agreement with Viridis Group I9 Capital LLC ("Viridis") in which Viridis has agreed to loan the Company up to $2.7 million for the expansion of the Company's Arizona and Nevada properties (see Note 12). As of September 30, 2018, the Company has received $1,500,000 of proceeds from Viridis in the form of a promissory note. The $1,500,000 proceeds were utilized to acquire a 20% ownership in Strive Management, LLC as described in Notes 1 and 8. In exchange for the loan, Viridis will be repaid in the form of waterfall revenue participation schedules. Viridis shall receive 5% of the Company's gross revenues from Nevada operations, until the loan is repaid, 2% until repaid 200% of the amount loaned, and 1% of gross revenues in perpetuity or until a change in control. Payments on the loan will commence 90 days after the Nevada operation begins earning revenue. Parties acknowledge that the Company is expected to own only 51% of the Nevada operations, and therefore Viridis' revenue participation is limited to the Company's interest. Initially, interest was charged on the Arizona loan of $1.2 million at an annual rate of 2.9% and the Nevada loan of $1.5 million accrued no interest. On August 27, 2019, Viridis agreed to subordinate its security position in the properties if necessary for future financing. In return, interest will be charged at an annual rate of 6% beginning on August 26, 2019 and Viridis will receive One million shares of the Company's common stock in tranches upon subordination.

The Company has one convertible note payable with principal balances totaling $20,000 which was due in August 2012, is unsecured, carry an interest rate of 8% and are convertible to common stock at $.50 per share.

Dividends

We have not paid any cash dividends to our shareholders. The declaration of any future cash dividends is at the discretion of our Board of Directors and depends upon our earnings, if any, our capital requirements and financial position, our general economic conditions, and other pertinent conditions. It is our present intention not to pay any cash dividends in the foreseeable future, but rather to reinvest earnings, if any, in our business operations.

Stock Transfer Agent

Our transfer agent is Nevada Agency and Transfer Company, Inc., 50 West Liberty Street, Suite 880 Reno Nevada 89501.

Item 6. Selected Financial Data.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward Looking Statements

You should read the following discussion of our financial condition and results of operations together with our audited consolidated financial statements and interim unaudited condensed consolidated financial statements and notes to such financial statements included elsewhere in this 10-K. The following discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed under "Item 1A. Risk Factors" and other sections in this 10-K.

Overview

Item 9 Labs produces premium cannabis and cannabis related products in a rapidly growing market. We currently offer more than 300 products that we group in the following categories: flower; concentrates; distillates; and hardware. Our product offerings will continue to grow as we develop new products to meet the needs of the end-users. We make our products available to consumers through licensed dispensaries in Arizona. In just over a year from our first product delivery, Item 9 Labs' products are now carried in more than 40 dispensaries throughout the state of Arizona.

We believe our past and future success is dependent upon our ongoing ability to understand the needs and desires of the consumers; and we develop and offer products that meet their needs.

The objective of Item 9 Labs is to leverage our assets (tangible and intangible) to fuel the growth of our share of the Arizona cannabis market, as well as expand the geographical reach of our products into markets outside of Arizona, with the ultimate goal of providing comfortable cannabis health solutions to a larger population in a manner that will create value for our shareholders.

We expanded our assets in November 2018 with the acquisition of the majority of the assets of AZ DP Consulting LLC. The acquisition was treated as a business combination for financial reporting purposes. The acquisition was valued at $9,270,000, $1,500,000 in cash and $7,770,000 (3 million shares valued at $2.59/share) of the Company's restricted common stock. As part of the acquisition, the owner of AZ DP Consulting LLC, Sara Gullickson came aboard Item 9 Labs Corp. as CEO. We acquired numerous web domains, including dispensarypermits.com and dispensarytemplates.com, amongst many others, marijuana business templates, a workforce, tradenames and customer lists. The consulting side of the business provides dispensary application services to its clients, and through the acquisition, provides Item 9 Labs Corp. with synergistic partnerships for growth into new markets. Through nine months of operating the business, we concluded that the assets, as recorded at the acquisition date were impaired. The impairment is included in the results of operations, totaling $5,758,827. Subsequent to year end, in November 2019, Sara Gullickson resigned as CEO. As part of her resignation, she and the Company mutually agreed on an amendment to her employment agreement in which she would cancel and return 2,300,000 shares of the common stock she obtained in the acquisition in exchange for a reduction in the duration of her non-compete agreement from 3 years to 4 months.

Our Arizona cannabis operations saw significant expansion as well, both in our physical and geographic footprint. Our physical footprint expanded with the addition of a 2nd 10,000 square foot facility, more than doubling our cultivation and processing space for Arizona. Our geographic footprint grew as we increased the number of dispensaries our products are offered in, from around 45 at the beginning of the year, to over 70 by the end of the year.

Item 9 Labs Corp. continued its expansion plans into other states during the year as well as we broke ground in Nevada and spent over $3.5 million on our 20,000 square foot cultivation and processing facility.

We will expand into other markets through various methods, and will utilize strategic partnerships as necessary to provide the synergies to assist in our growth. As part of this expansion plan, we acquired land in Pahrump, Nevada to build our second production facility. Through partnerships, we obtained cultivation, production and distribution licenses in the state of Nevada.

Results of Operations

	Year Ended September 30, 2018	Year Ended September 30, 2019
Revenues, net	$ 1,401,858	$ 4,933,960
Cost of services	1,018,109	2,556,189
Gross profit	389,749	2,377,771
Operating expenses	1,037,567	12,518,810
Loss from operations	(653,818)	(10,141,039)
Other income	32,643	192,401
Income from disc Ops	21,280	0
Income tax expense	(88,826)	0
Net loss	$ (710,001)	$ (9,948,638)

Revenues

Total Revenues for the year ended September 30, 2019 were $4,933,960 compared to the revenue for the period ended September 30, 2018 of $1,401,858, an increase of $3,532,102 or 252%. This increase was primarily due to an overall increase in monthly sales as production and demand for our products grew. Management anticipates revenues to continue to grow as the revenue trends are positive month over month.

Costs of Services

Costs of services consist primarily of labor, materials, supplies and utilities. Costs of services as a percentage of revenues was 52% for the year ended September 30, 2019 compared to 73% for the period ended September 30, 2018, consisting of certain costs, predominantly labor and materials increased at a higher rate to ramp up production. Management believes these costs will increase at a much lower rate than revenues and production in future periods, which will lead to higher profit margins than these historical figures illustrate.

Gross Profit

Gross profit for the year ended September 30, 2019 was $2,377,771 compared to $383,749 for the year ended September 30, 2018. The increase was due to the ramp up in operations and continued improvement in the operating capacity of the Company's cultivation and processing facilities.

Operating Expenses

Total operating expenses for the year ended September 30, 2019 were $12,518,810 compared to $1,037,567 for the year ending September 30, 2018, an increase of $11,481,243. Operating expenses as a percentage of gross profit increased from 270% to 526% for the periods compared. Management believes this ratio will decrease going forward as the expectation is that revenues will continue to grow at a much higher rate than operating expenses. $5,758,827 of the Company's operating expenses for the year ended September 30, 2019 are a loss on impairment of goodwill and other intangible assets, and $376,430 is a provision for bad debt, both items that management does not believe to be indicative of future results. Additionally, $1,067,617 of the Company's operating expenses in 2019 were paid through the issuance of shares of common stock of the Company compared to $103,774 in 2018. The loss on impairment was determined by comparing the fair value of the acquired assets as of September 30, 2019 to the carrying amounts recorded on the consolidated financial statements. The Company utilized the projected future cash flows of the acquired assets and a weighted average cost of capital of 11.4% to calculate the estimated fair value of the assets.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

Our primary need for liquidity is to fund working capital requirements of our business, capital expenditures, acquisitions, debt service, and for general corporate purposes. Our primary source of liquidity is funds generated by financing activities and from private placements. Our ability to fund our operations, to make planned capital expenditures, to make planned acquisitions, to make scheduled debt payments, and to repay or refinance indebtedness depends on our future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond our control.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which contemplate continuation of the Company as a going concern. The Company has not yet established an ongoing source of revenue sufficient to cover its operating costs and has incurred net losses since its inception. These losses, with the associated substantial accumulated deficit, are a direct result of the Company's planned ramp up period as it is pursuing market acceptance and geographic expansion. In view of these matters, realization of a major portion of the assets in the accompanying consolidated balance sheets is dependent upon continued operations of the Company which in turn is dependent upon the Company's ability to meet its financing requirements, and the success of its future operations. The Company operates in a new, developing industry with a variety of competitors. These factors raise substantial doubt about the Company's ability to continue as a going concern. As a result, the Company's independent registered public accounting firm included an emphasis-of-matter paragraph with respect to the accompanying consolidated financial statements, expressing uncertainty regarding the Company's assumption that it will continue as a going concern.

In order to continue as a going concern, the Company will need to generate additional revenue and obtain additional capital to fund its operating losses and service its debt. Management's plans in regard to these matters are described as follows:

Sales and Marketing. Historically, the Company has generated the majority of its revenues by providing its products to dispensaries throughout the state of Arizona. The Company's revenues have increased significantly since its inception in May 2017, and continue to grow as of the date of these consolidated financial statements. Management will continue its plans to increase revenues in the Arizona market by providing superior products. Additionally, as capital resources become available, the Company will expand into additional markets outside of Arizona, with construction of a cultivation and processing facility well underway in Nevada.

Financing. To date, the Company has financed its operations primarily with loans from shareholders, private placement financings and sales revenue. Management believes that with continued production efficiencies, production growth, and continued marketing efforts, sales revenue will grow significantly, thus enabling the Company to reverse its negative cash flow from operations and raise additional capital as needed. However, there is no assurance that the Company's overall efforts will be successful.

If the Company is unable to generate significant sales growth in the near term and raise additional capital, there is a risk that the Company could default on additional obligations, and could be required to discontinue or significantly reduce the scope of its operations if no other means of financing operations are available. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustment that might be necessary should the Company be unable to continue as a going concern.

As of September 30, 2019, the Company had $574,943 of cash and restricted cash and working capital of $(4,174,962) (current assets minus current liabilities), compared with $1,674,266 of cash and $2,054,260 of working capital as of September 30, 2018. The decrease of $6,229,222 in our working capital and $1,099,323 in cash was primarily due to investing in construction projects in Arizona and Nevada totaling $6,006,764, acquisition outlays of $1,500,000 and increase in deferred costs of $1,317,816. This was offset by stock sales totaling $5,885,003 and the issuance of debt of $3,251,714. The Company is an early stage growth company. It is generating cash from sales and is investing its capital reserves in current operations and new acquisitions that will generate additional earnings in the long term. The Company expects that its cash on hand and cash flows from operations, along with private and/or public financing, will be adequate to meet its capital requirements and operational needs for the next 12 months.

Cash Flows

The following table summarizes the sources and uses of cash for each of the periods presented:

	Year Ended September 30, 2018	Year Ended September 30, 2019
Net cash used in operating activities	$ (972,263)	$ (2,393,428)
Net cash used in investing activities	(362,881)	(7,842,612)
Net cash provided by financing activities	2,995,550	9,136,717
Net increase (decrease) in cash and cash equivalents	$ 1,660,406	$ (1,099,323)

Operating Activities

During the year ended September 30, 2019, operating activities used $2,393,428 of cash, primarily resulting from a net loss of $9,948,638 and net cash used in operating assets and liabilities of $260,815. There was significant non-cash activity that contributed to the net loss totaling $7,816,025 including a loss on impairment of $5,578,827, depreciation and amortization of $676,134, provision for bad debt of $376,430 and compensation paid in the form of stock of $1,067,617. Cash used by changes in operating assets and liabilities was primarily due to an increase in deferred costs of $1,317,816, and accounts receivable of $339,644, offset by an increase in accounts payable of $351,036, accrued interest of $663,827 and accrued expenses of $298,609.

During the year ended September 30, 2018, operating activities used $972,263 of cash, primarily resulting from a net loss of $688,721 and net cash used in operating assets and liabilities of $402,870. Cash used by changes in operating assets and liabilities was primarily due to an increase in accounts payable of $57,660, accrued payroll of $36,733, and accrued income tax of $88,826, offset by an increase in deferred costs of $577,681.

Investing Activities

During the year ended September 30, 2019, investing activities used $7,842,612 of cash, consisting primarily of payments totaling $6,006,764 in purchases of property and equipment, $400,000 in deposits made on a land acquisition, and $1,500,000 in acquisition outlays offset by $115,000 in cash received on short-term notes receivable.

During the year ended September 30, 2018, investing activities used $362,881 of cash, consisting primarily of payments totaling $340,244 in purchases of property and equipment, $200,000 in deposits made on a land acquisition, and $210,000 in extending notes receivable offset by $300,000 in cash received on the sale of Airware assets.

Financing Activities

During the year ended September 30, 2019, financing activities provided $9,136,717, which included proceeds from the sale of common stock of $5,885,003 and cash proceeds from notes payable of $3,251,714.

During the year ended September 30, 2018, financing activities provided $2,995,550, which included proceeds from the sale of common stock of $1,495,550 and cash proceeds from a note payable of $1,500,000.

Anticipated Capital Requirements

We estimate that our capital requirements to implement our expansion plan over the next 18 months will be approximately $15,000,000 as described in the table below. These estimates may change significantly depending on the nature of our future business activities, expansion rollout, identification of suitable acquisition targets, and our ability to raise capital necessary to conduct the aforementioned activities. We further anticipate incurring additional costs and expenses for accounting, legal, and other miscellaneous fees relating to compliance with SEC requirements.

Description	Estimated Expenses
Legal, Accounting & Other Registration Expenses	$ 350,000
Costs Associated with Being a Public Company	240,000
Trade Shows and Travel	50,000
Website Development	40,000
Rent	170,000
Advertising and Marketing	600,000
Staffing	2,750,000
General Working Capital	400,000
Cash Reserves	1,500,000
Business Acquisitions and Construction	7,000,000
License Applications	1,900,000
Total	$ 15,000,000

Given that our cash needs are strongly driven by our growth requirements, we also intend to maintain a cash reserve for other risk contingencies that may arise.

We intend to meet our cash requirements for the next 12 months through the use of the cash we have on hand and through business operations, future equity financing, debt financing, or other sources, which may result in further dilution in the equity ownership of our shares. We currently do not have any other arrangements in place to complete any private placement financings and there is no assurance that we will be successful in completing any such financings on terms that will be acceptable to us.

Off-Balance Sheet Arrangements

We are not currently a party to, or otherwise involved with, any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles ("GAAP") and the Company's discussion and analysis of its financial condition and operating results require the Company's management to make judgments, assumptions and estimates that affect the amounts reported in its consolidated financial statements and accompanying notes. Note 1, "Description of Business and Summary of Significant Accounting Policies," of the Notes to Consolidated Financial Statements included in this 10-K, describes the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates, and such differences may be material.

Management believes the Company's critical accounting policies and estimates are those related to revenue recognition. Management considers these policies critical because they are both important to the portrayal of the Company's financial condition and operating results, and they require management to make judgments and estimates about inherently uncertain matters. The Company's management has reviewed these critical accounting policies and related disclosures.

Principles of Consolidation – The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and variable interest entities in which the Company is the primary beneficiary. Intercompany balances and transactions have been eliminated.

Use of Estimates – The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could materially differ from those estimates. Significant estimates of the Company include but are not limited to accounting for depreciation and amortization, current and deferred income taxes, deferred costs, accruals and contingencies, carrying value of goodwill and intangible assets, collectability of notes receivable, the fair value of common stock and the estimated fair value of stock options and warrants. Due to the uncertainties in the formation of accounting estimates, and the significance of these items, it is reasonably possible that these estimates could be materially changed in the near term.

Fair Value of Financial Instruments – The carrying value of the Company's financial instruments, consisting of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value due to their short term to maturity. The Company's long-term receivable resulting from the sale of Airware, notes receivable and notes payable were discounted to its estimated fair value.

Revenue – The majority of the Company's revenue is associated with a customer contract that represents an obligation to perform services that are delivered at a single point in time. Any costs incurred prior to the period in which the services are performed to completion are deferred and recognized as cost of services in the period in which the performance obligations are completed. Since the majority of the Company's revenue is generated from one customer contract, the Company does not have material contract assets or liabilities that fall under ASC 606. For the year ended September 30, 2019, 90% of the Company's revenue was generated for performance obligations completed in the State of Arizona and in 2018, 100% of the Company's revenues was generated for performance obligations completed in the State of Arizona.

Intangible Assets Subject to Amortization – Intangible assets include trade name, customer relationships, website, and intellectual property obtained through a business acquisition. Intangible assets acquired in a business combination are recognized at fair value using generally accepted valuation methods deemed appropriate for the type of intangible assets acquired. Intangible assets with finite lives are amortized over their estimated useful life and are reported net of accumulated amortization, separately from goodwill.

Goodwill – Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable.

Income Taxes – The Company accounts for income taxes under FASB ASC 740, *Income Taxes*. Deferred income tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company has net operating loss carryforwards in excess of $27,000,000, though a portion of those losses will likely be disallowed due to the merger with BSSD Group, LLC and none of the carryforwards can be utilized until the Company is profitable. Due to these facts, the Company has decided to reserve for 100% of any deferred tax asset it may be entitled to.

The Company files income tax returns in the U.S. federal jurisdiction and the State of Arizona. The Company is subject to U.S. federal, state, and local income tax examinations by tax authorities. All periods beginning on or after January 1, 2014 are open to examination by taxing authorities. The Company believes it has no tax positions for which the ultimate deductibility is highly uncertain.

Stock-Based Compensation – The Company follows the guidelines in FASB Codification Topic ASC 718-10 "*Compensation-Stock Compensation*", which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to an Employee Stock Purchase Plan based on the estimated fair values.

Earnings (Loss) Per Share – Basic earnings per share does not include dilution and is computed by dividing loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of an entity. Dilutive securities are not included in the weighted average number of shares when inclusion would be anti-dilutive.

At September 30, 2019, there were 656,112 shares underlying convertible notes payable, warrants and options.

Recently Issued Accounting Pronouncements

Adopted
In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350). The update simplifies the process for assessing goodwill for impairment. The amended guidance removes the second step that was previously required. ASU 2017-04 is effective for us for the fiscal year ending September 30, 2021, with early adoption permitted for periods beginning after January 1, 2017. The Company adopted ASU 2017-04 on October 1, 2018.

Pending Adoption
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The update improves financial reporting about leasing transactions by requiring a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by lease terms of more than 12 months. We will adopt ASU 2016-02 in the first quarter of 2019 and are in the process of aggregating and evaluating lease arrangements and implementing new processes. Although we are still in the process of evaluating the impact of adoption of the ASU on our consolidated financial statements, we currently believe that the most significant change will be related to the recognition of a right-of-use asset and lease liability on our balance sheet for our real estate operating lease. The impact on our results of operations and cash flows is not expected to be material.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), which provides guidance on measuring credit losses on financial instruments. The amended guidance replaces current incurred loss impairment methodology of recognizing credit losses when a loss is probable with a methodology that reflects expected credit losses and requires a broader range of reasonable and supportable information to assess credit loss estimates. ASU 2016-13 is effective for us on January 1, 2020, with early adoption permitted on January 1, 2019. We are assessing the provisions of this amended guidance; however, the adoption of the standard is not expected to have a material effect on our consolidated financial statements.
There have been no other recent accounting pronouncements or changes in accounting pronouncements that have been issued but not yet adopted that are of significance, or potential significance, to us.

Seasonality

We do not expect our sales to be impacted by seasonal demands for our products and services. Also, due to the fact we use indoor grow space, seasonality should not have any impact on our cultivation operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 8. Financial Statements and Supplementary Data.

Reference is made to our consolidated financial statements beginning on page F-1 of this report.

Item 9. Changes In And Disagreements with Accountants on Accounting and Financial Disclosure.

On January 7, 2020, Item 9 Labs Corp., a Delaware corporation (the "Company") dismissed D. Brooks and Associates CPAs, P.A. ("D. Brooks and Associates") as the independent registered public accountant and appointed Semple, Marchal & Cooper, LLP ("Semple") as the Company's independent registered public accounting firm as of January 7, 2020. The decisions to appoint Semple and dismiss D. Brooks and Associates were approved by the Board of Directors of the Company on January 7, 2020.

D. Brooks and Associates report on the consolidated financial statements of the Company for the years ended September 30, 2018 and 2017 did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the Company's two most recent fiscal years and through January 7, 2020, there were no disagreements on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference to the subject matter of the disagreements in connection with its reports on the Company's consolidated financial statements for such periods.

For the year ended September 30, 2018 and through January 7, 2020, there have been no reportable events with the Company as set forth in Item 304(a)(1)(v) of Regulation S-K.

Prior to January 7, 2020, the Company did not consult with Semple regarding (1) the application of accounting principles to specified transactions, (2) the type of audit opinion that might be rendered on the Company's financial statements, (3) written or oral advice was provided that would be an important factor considered by the Company in reaching a decision as to an accounting, auditing or financial reporting issues, or (4) any matter that was the subject of a disagreement between the Company and its predecessor auditor as described in Item 304(a)(1)(iv) or a reportable event as described in Item 304(a)(1)(v) of Regulation S-K.

Item 9A. Controls and Procedures.

a) Evaluation of Disclosure Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended ("Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures also 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 officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive and principal financial officers concluded as of September 30, 2019 that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses in our internal controls over financial reporting discussed immediately below.

Identified Material Weakness

A material weakness in our internal control over financial reporting is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Management identified the following material weakness during its assessment of internal controls over financial reporting:

Personnel: We need to add staff in the accounting department to allow for timely reporting and segregation of duties amongst personnel.

(b) Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (GAAP). Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 *Internal Control-Integrated Framework*. Based on its evaluation, management has concluded that the Company's internal control over financial reporting was not effective as of September 30, 2019.

Pursuant to Regulation S-K Item 308(b), this Annual Report on Form 10-K does not include an attestation report of our company's independent registered public accounting firm regarding internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, 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. A control system, no matter how well designed and operated can provide only reasonable, but not absolute, assurance that the control system's objectives will be met. 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 cost.

c) Changes in Internal Control over Financial Reporting

During the three months ended September 30, 2019, there were no changes in our internal controls over financial reporting during this fiscal quarter that materially affected, or is reasonably likely to have a materially affect, on our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

There were no disclosures of any information required to be filed on Form 8-K during the three months ended September 30, 2019 that were not filed.

PART III

ITEM 10. DIRECTORS, OFFICERS, AND CORPORATE GOVERNANCE.

The following table sets forth certain information regarding our current executive officers and directors as of January __, 2020:

Name	Age	Position
Andrew Bowden	32	Chief Executive Officer and Director
Bobby Mikkelsen	38	Chief Financial Officer, Secretary, Treasurer
Bryce Skalla	38	President and Director
Jeffrey Rassas	57	Chief Strategy Officer, Director
Chris Wolven	37	Chief Operating Officer
Ronald L. Miller, Jr.	55	Executive Chairman

Our directors are appointed for a one-year term to hold office until the next annual general meeting of our shareholders or until removed from office in accordance with our bylaws. Our officers are appointed by our board of directors and hold office until removed by the board. All officers and directors listed above will remain in office until the next annual meeting of our stockholders, and until their successors have been duly elected and qualified. There are no agreements with respect to the election of Directors. Our Board of Directors appoints officers annually and each executive officer serves at the discretion of our Board of Directors.

Except Mr. Miller, as set forth in his biography below, none of the directors held any directorships during the past five years in any company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of such act, or of any company registered as an investment company under the Investment Company Act of 1940.

Director and Officer Biographical Information

Andrew Bowden

Chief Executive Officer of Item 9 Labs Andrew Bowden is bringing extensive experience with multitier Investment strategies in Real Estate, Software and sustainable investments. As CEO and co-founder of Bowden Investment Group for the previous 7 years Andrew brings his business experience and leadership to the forefront of Item 9 Labs. Andrew is also skilled and experienced with fundraising and partnering efforts which will extend our current portfolios with the right strategic partnerships.

Bobby Mikkelsen

Robert E. Mikkelsen is a Certified Public Accountant (CPA) in the State of Arizona and received his Bachelors degree in accounting in 2004 from the Eller College of Business, University of Arizona. After graduating from The Eller College of Business, Mr. Mikkelsen went on to work as an auditor for Henry & Horne, LLP in Arizona. Moving up the ranks quickly to Audit Manager, Mr. Mikkelsen utilized his analytical thinking and problem-solving skills to implement effective and efficient changes to the audit process as well as add value to the clients he served. Mr. Mikkelsen has worked with a client base that is diverse in both size and industry, working with small non-profits, large government agencies, and medium sized business, including those in health care, mental health, and pharmaceutical industries. After 11 years, in January 2016, Mr. Mikkelsen started his own firm, Mikkelsen CPA, LLC which focuses on serving clients in various industries with accounting, tax, and CFO Solutions. Mr. Mikkelsen is a member of the American Institute of Certified Public Accountants.

Bryce Skalla

As President of Item 9 Labs Corp, Bryce Skalla manages the Company's day-to-day business operations. Prior to the Airware merger, Mr. Skalla was the co-founder & CEO of Item 9 Labs. As one of the founders and architects of Item 9's business model, Mr. Skalla was instrumental in establishing Item 9 Labs as one of Arizona's leading cannabis consulting companies and producers of high quality medical marijuana flower and products over the course of three years. During that period, he designed, developed, and capitalized on strategic opportunities, taking Item 9 from a 1,000 square-foot Caregiver Cultivation warehouse into the highly regulated Arizona Medical Marijuana industry with fifty acres zoned for cultivation.

Previously, Mr. Skalla operated a professional consulting firm focused around business solutions, from advertising and marketing services, to business structure and development. Mr. Skalla's decision to enter the industry followed a diagnosis with a serious medical condition where he received Interferon, the most accepted medical treatment at the time. During this long and arduous treatment, he experienced firsthand the benefits of medical marijuana, which enabled him to successfully complete his medical regimen. Since this life changing experience, Mr. Skalla has dedicated himself to the normalizing and furthering of the education and use of medical cannabis.

Mr. Skalla obtained a certification in psychiatric rehabilitation from the Association of Psychiatric Rehabilitation Practitioners in 2008.

Jeffrey Rassás

Mr. Rassás serves as Executive Chairman of Item 9 Labs Corp. where he previously served as Chief Strategy Officer since April, 2018. Mr. Rassás is charged with guiding the Company's strategic growth and advising the CEO and management team. Mr. Rassás is a twenty-year veteran of entrepreneurial ventures and business management. He has extensive experience in funding, leading, developing and performing corporate turnarounds for numerous private and public start-up ventures, across a variety of industries. Mr. Rassás served as CEO, President and Chairman of the Board of Airware Labs Corp since December 2012 Mr. Rassás served as CEO and Chairman of the Board of YouChange Holdings Corp, a publicly traded company on the OTC:QB trading symbol ticker YCNG. Mr. Rassás served as CEO of Global Alerts, a holding company for Earth911.com, Amberalert.com and Pets911.com, later merging with YouChange Holdings Corp and acquiring Quest Recycling to form Quest Resource Holdings Corporation now trading on NASDAQ under the ticker symbol, QRHC

Prior to these executive-level posts, Mr. Rassás was Co-chairman and CEO of ImproveNet, Inc., which he acquired through a merger in 2002, and later sold to IAC/InterActiveCorp (IACI). In addition, Mr. Rassás served as founder, CEO, and Chairman of the Board of EBIZ Enterprises, a publicly traded Linux solutions provider.

Chris Wolven

As Chief Operating Officer (COO) of Item-9 Labs Corp., Mr. Wolven provides the leadership, management and vision necessary to ensure that the company has the proper operational controls, administrative and reporting procedures, people and systems in place to effectively grow the organization and ensure financial strength and operating efficiency. Mr. Wolven is a 24-year restaurant industry expert, his extensive experience as a Regional Brand Chef with Fox Restaurant Concepts earned him world-class skills in analysis, strategy, and management. His time with Fox Restaurant Concepts found him working in a multi-unit, operational role, planning and executing successful, scaled business models. In that time, Mr. Wolven efficiently navigated the heavily regulated restaurant industry by adhering to regulations regarding the Health Department, OSHA, and cash management procedures. He was responsible for operations and food development for seven of the 15 brands under Fox Restaurant Concepts, spanning ten locations with over 1,000 employees. He oversaw creative development, financial planning, operational wellbeing, as well as the building and implementation of systems.

Mr. Wolven participated in over 60 restaurant openings across 13 states, and his region regularly brought in over $50 million in annual revenue. Through data analysis and strategic planning, he has time and time again lead ambitious teams to successfully write and implement some of the best business models in the restaurant industry

Ronald L. Miller, Jr.

Mr. Miller has served as Vice President, Chief Financial Officer, and Secretary of THAT'S EATERTAINMENT CORP., or TEC, since December 2015. Mr. Miller has been a principal of a predecessor and current subsidiary of TEC since February 2014 and has served as its Chief Financial Officer since April 2015. Mr. Miller also has served as a director and Chairman of the Audit Committee of Quest Resource Holding Corporation since October 2012. Quest is publicly traded on Nasdaq under the ticker symbol QRHC. Mr. Miller served as a director of one of Quest's predecessors, Earth911, from July 2010 to October 2012. Mr. Miller served as Chief Executive Officer of Southwest Capital Partners , LLC, an investment banking firm, from September 2009 to March 2015. He served as a

Managing Director of CKS Securities LLC, an investment banking firm, from February 2010 to December 2011. Mr. Miller served as Vice Chairman of Miller Capital Markets, LLC, a Scottsdale, Arizona headquartered boutique investment banking firm from May 2009 to August 2009. He served as Chief Executive Officer of Alare Capital Partners, LLC, a Scottsdale-based investment banking and strategic advisory firm, from September 2005 to May 2009. From 2001 to 2005, Mr. Miller served as a Managing Director of The Seidler Companies Incorporated, an investment banking firm and member of the NYSE. Mr. Miller served from 1998 to 2001 as a Senior Vice President and was instrumental in the opening of the Phoenix, Arizona office of Wells Fargo Van Kasper. From 1994 to 1998, Mr. Miller served as Senior Vice President of Imperial Capital, and from 1993 to 1994, was associated with the Corporate Finance Department of Ernst & Young. Mr. Miller began his career in the M&A department of PaineWebber, Inc.

Identification of Significant Employees

We have no significant employees other than our officers and directors.

Family Relationship

We currently do not have any officers or directors of our Company who are related to each other, with the exception of Mr. Wolven who is the son in law of Mr. Rassas.

Involvement in Certain Legal Proceedings

To the best of our knowledge, none of our directors or executive officers has, during the past ten years:

(1) had a petition under the Federal bankruptcy laws or any state insolvency law filed by or against, or a receiver, fiscal agent or similar officer was appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing;

(2) has been convicted in a criminal proceeding or is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);

(3) has been the subject of 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, the following activities:

(i) Acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity;

(ii) Engaging in any type of business practice; or

(iii) Engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of Federal or State securities laws or Federal commodities laws;

(4) has been the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any Federal or State authority barring, suspending or otherwise limiting for more than 60 days the right of such person to engage in any activity described in (3)(i) above, or to be associated with persons engaged in any such activity;

(5) has been found by a court of competent jurisdiction in a civil action or by the Commission to have violated any Federal or State securities law, and the judgment in such civil action or finding by the Commission has not been subsequently reversed, suspended, or vacated;

(6) has been found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any Federal commodities law, and the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated;

(7) has been the 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:

(i) Any Federal or State securities or commodities law or regulation; or

(ii) Any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or

(iii) Any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

(8) has been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Board Committees

The Board has three standing committees to facilitate and assist the Board in the execution of its responsibilities. The committees are currently the Audit Committee, the Nominating and Corporate Governance Committee, and the Compensation Committee. The Committees were formed in June 2019. The Audit and Compensation Committees are comprised of at least one non-employee, independent director and two additional directors. The Nominating and Corporate Governance Committee has one independent director and one management director. The discussion below describes current membership for each of the standing Board committees.

Audit Committee	Compensation Committee	Nominations and Governance
Ronald Miller (Chairman)	Andrew Bowden	Ronald Miller (Chairman)
Andrew Bowden	Ronald Miller (Chairman)	Andrew Bowden
Jeffrey Rassas	Bryce Skalla	

Audit Committee and Audit Committee Financial Expert

On June 21, 2019, the Company established an audit committee and adopted its audit committee charter. The Company does have an audit committee financial expert (as defined in Item 407 of Regulation S-K) serving on its Board of Directors. All current members of the Board of Directors have sufficient financial expertise for overseeing financial reporting responsibilities.

The Company's audit committee should consist of two independent members of the board of directors. The audit committee's duties include, but are not limited to, recommending to the Company's board of directors the engagement of an independent registered public accounting firm to audit the Company's financial statements and to review the Company's accounting and auditing principles. The audit committee reviews the scope, timing and fees for the annual audit and the results of audit examinations performed by the internal auditors and independent registered public accounting firm, including their recommendations to improve the system of accounting and internal controls. The audit committee will at all times be composed exclusively of directors who are, in the opinion of the Company's board of directors, free from any relationship which would interfere with the exercise of independent judgment as a committee member and who possess an understanding of financial statements and generally accepted accounting principles.

Code of Conduct and Ethics

On June 21, 2019, the Company's Board of Directors established and adopted a Code of Conduct and Ethics (the "Code") that applies to our directors, officers and employees, including our Chief Executive Officer and Chief Financial Officer.

ITEM 11. EXECUTIVE COMPENSATION.

Compensation of Officers Summary Compensation Table

The following tables set forth certain information about compensation paid, earned or accrued for services by our executive officers in the fiscal years ended September 30, 2019, and September 30, 2018.

A summary of cash and other compensation paid in accordance with management consulting contracts for our executives and directors for the most recent two years is as follows:

Name and Principal Position	Title	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All other compensation ($)	Total ($)
(a)		(b)	(c)	(d)	(e)	(f)(9)	(g)	(h)	(i)	(j)
Andrew Bowden (1)	CEO and Director	2018	$ 0	$ 0	$ 0	$ 0	0	0	0	$ 0
		2019	$ 12,000	$ 0	$ 0	$ 0	0	0	0	$ 12,000
Robert Mikkelsen(2)	CFO, Secretary	2018	$ 9,998	$ 0	$ 0	$ 0	0	0	0	$ 9,998
	and Treasurer	2019	$ 119,808	$ 0	$ 0	$ 0	0	0	0	$ 119,080
Bryce Skalla (3)	President and	2018	$ 66,773	$ 0	$ 0	$ 9,054	0	0	0	$ 75,827
	Director	2019	$ 170,758	$ 0	$ 0	$ 0	0	0	0	$ 170,758
Jeffrey Rassas (4)	Director,	2018	$ 149,045	$ 0	$ 0	$ 9,054	0	0	0	$ 158,099
	CSO	2019	$ 206,051	$ 0	$ 0	$ 0	0	0	0	$ 206,051
Chris Wolven(5)	COO	2018	$ 0	$ 0	$ 0	$ 0	0	0	0	$ 0
		2019	$ 109,616	$ 0	$ 0	$ 0	0	0	0	$ 109,616
Ronald L. Miller Jr.(6)	Director (Chairman)	2018	$ 0	$ 0	$ 0	$ 9,054	0	0	0	$ 9,054
		2019	$ 16,000	$ 0	$ 0	$ 0	0	0	0	$ 16,000
Sara Gullickson(7)	Former CEO and Director	2018	$ 31,250	$ 0	$ 0	$ 0	0	0	0	$ 31,250
		2019	$ 161,538	$ 0	$ 0	$ 0	0	0	0	$ 161,538
Jessica Smith (8)	Former CFO	2018	$ 57,500	$ 0	$ 0	$ 0	0	0	0	$ 57,500
		2019	$ 30,000	$ 0	$ 0	$ 0	0	0	0	$ 30,000

Notes to Summary Compensation Table:

(1) Bowden has been a director since September 11, 2018 and CEO since November 18, 2019; Bowden received no cash compensation during fiscal year 2018. In 2019, Bowden received monthly cash of $2,000 for services on the board. Upon appointment as CEO, Bowden receives a salary of $200,000.

(2) On October 15, 2018, Mikkelsen accepted the position of CFO with an annual salary of $130,000. Mikkelsen was compensated in 2018 for services provided to the company under a consulting agreement.

(3) On March 26, 2018, Skalla was accepted the position of CEO then moved to the position of President on November 26, 2018. Mr. Skalla's current annual salary is $187,000. Mr. Skalla was also granted $7,500 in stock options on May 8, 2018.

(4) On July 16, 2013, the Company entered into a Severance Agreement (the "Agreement") with Jeffrey Rassas, the Company's Chief Executive Officer ("Mr. Rassas") pursuant to which Mr. Rassas will be entitled to the following severance benefits: (i) the Company shall pay to Mr. Rassas his base salary for a period of 12 months following termination without cause; (ii) Mr. Rassas shall be paid any earned and unpaid bonus due; and, (iii) and all unvested stock-based compensation held by Mr. Rassas shall vest as of the date of termination. The preceding description of the Agreement is a brief summary of its terms and does not purport to be complete, and is qualified in its entirety by reference to the Severance Agreement, a copy of which was filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the Commission on July 16, 2013 and is incorporated herein by reference. Rassas was also granted $7,500 in stock options on May 8, 2018.

(5) In January 2019, Wolven accepted the position of COO with an annual salary of $150,000. Wolven's compensation includes $25,000 in stock options vesting every 90 days.

(6) On May 8, 2018, Miller was granted stock options totaling $7,500. Miller received no cash compensation during the fiscal year 2018,

though beginning in January 2019 receives $2,000 for service on the board.

(7) On November 26, 2018, the Company entered into an Employment Agreement with Gullickson for a term of 3 years at a base salary of $200,000 per year with incentive and performance bonuses. On November 15, 2019, Gullickson voluntarily resigned as CEO and director of the Company. Gullickson and the Company mutually agreed to amend the terms of the employment agreement and non-competition agreement between Ms. Gullickson and the Company dated November 26, 2018 pursuant to which (i) the non-competition period shall be reduced from three (3) years to four (4) months; (ii) Ms. Gullickson shall receive her full salary and health benefits for four (4) months from the resignation date (a significantly reduced period of time); and (iii) Ms. Gullickson shall cancel and return to treasury an aggregate amount 2,300,000 restricted shares of Company Common Stock.

(8) On September 20, 2012, the Company entered into an agreement with a company owned by its former CFO for her services as CFO on a contract basis in exchange for a fixed monthly fee; Ms. Smith resigned effective October 15, 2018.

(9) On May 8, 2018, the Company granted 22,500 stock options to board members. The options are exercisable at $2.40 per share with a ten year term. The options will vest equally over three years unless there is a change of control of the Company. The Company has calculated the estimated fair market value of the options granted using the Black-Scholes Option Pricing model and the following assumptions: stock price at valuation, $2.40, expected term of 10 years, exercise price of $2.40, a risk free interest rate of 1.41%, a dividend yield of 2.99% and a volatility of 34.72%.

Consulting Agreements, Employment Agreements and Other Arrangements

Other than the foregoing as set forth in the Notes to Summary Compensation Table, the Company has no agreement that provides for payment to executive officers at, following, or in connection with the resignation, retirement or other termination, or a change in control of Company or a change in any executive officer's responsibilities following a change in control.

Outstanding Equity Awards at Fiscal Year-End

The table below summarizes the outstanding equity awards to our executive officers and directors as of September 30, 2019.

	OPTION AWARDS*				
Name	Number of Common Shares Underlying Unexercised Options (#) Exercisable	Number of Common Shares Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date
Andrew Boden	nil	nil	nil	—	—
Total	nil	nil	nil	—	—
Robert Mikkelsen	nil	nil	nil	—	—
Total	nil	nil	nil	—	—
Bryce Skalla	0	7,500	nil	$ 2.40	5/8/2028
Total	nil	7,500	nil	—	—
Jeffrey Rassas	33,334	16,667	nil	$ 6.00	1/25/2023
	5,556	11,112	nil	$ 2.20	10/4/2023
	5,556	11,112	nil	$ 5.00	9/5/2024
	0	7,500	nil	$ 2.40	5/8/2028
Total	44,446	38,889	nil	—	—
Chris Wolven	nil	nil	nil	—	—
Total	nil	nil	nil	—	—
Ronald L. Miller, Jr.	nil	7,500	nil	$ 2.40	5/8/2028
Total	nil	7,500	nil	—	—
Sara Gullickson (1)	nil	nil	nil	—	—
Total	nil	nil	nil	—	—

*There are 294,991 total options outstanding as of September 30, 2019
(1) Gullickson resigned November 15, 2019

Stock Option Plan and other Employee Benefits Plans

On June 21, 2019, our board and shareholders voted to approve the 2019 Equity Incentive Plan (the “2019 Plan”). Pursuant to the 2019 Plan, the maximum aggregate number of Shares available under the Plan through awards is the lesser of: (i) 6,000,000 shares, increased each anniversary date of the adoption of the plan by 2 percent of the then-outstanding shares, or (b) 10,000,000 shares. We have 6,000,000 shares available for issuance under the 2019 Plan as of September 30, 2019.

Compensation of Directors

As of September 30, 2018, there was no cash compensation paid to directors for their service on our board of directors, however, beginning in January 2019 independent board members began to receive $2,000 per month for service on the board.

Compensation Committee

On June 21, 2019, the Company's Board of Directors established a compensation committee of the Board of Directors and adopted a Compensation Committee Charter. The Compensation Committee is made up of three members, two of which are independent members of the Board of Directors, each of whom will serve for a term of one year. The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities related to the Company's compensation structure and compensation, including equity compensation, if any, paid by the Company.

Code of Ethics

Our Board of Directors adopted a Code of Conduct and Ethics (the "Code") on June 21, 2019, which applies to our officers, directors and employees. The purpose of the Code is to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission ("SEC") or NASDAQ, and in other public communications made by the Company;
- compliance with applicable laws and governmental rules and regulations;
- the prompt internal reporting of violations of the Code to an appropriate person or persons identified in the Code; and
- accountability for adherence to the Code.

A copy of the Code has been filed previously as Exhibit 14.1 to our Form 10 and is incorporated herein by reference.

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

The following tables set forth, as of January 13, 2019, certain information concerning the beneficial ownership of our capital stock by:

- each stockholder known by us to own beneficially 5% or more of any class of our outstanding stock;
- each director;
- each named executive officer;
- all of our executive officers and directors as a group; and
- each person, or group of affiliated persons, who is known by us to beneficially own more than 5% of any class of our outstanding stock.

As of September 30, 2019, the Company had authorized 2,000,000,000 shares of common stock, par value $0.0001, of which there were 63,643,005 shares of common stock outstanding. As of January 13, 2020, the authorized stock remained the same and there were 63,652,620 shares of common stock issued and outstanding.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC and includes voting or investment power with respect to our common stock. Shares of our common stock subject to options that are currently exercisable or exercisable within 60 days of January 13, 2020 are considered outstanding and beneficially owned by the person holding the options for the purpose of calculating the percentage ownership of that person but not for the purpose of calculating the percentage ownership of any other person. Except as otherwise noted, we believe the persons and entities in this table have sole voting and investing power with respect to all of the shares of our common stock beneficially owned by them, subject to community property laws, where applicable.

Security Ownership of Certain Beneficial Owners & Management

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Beneficial Ownership (1)
Directors and Officers: (1)		
Andrew Bowden (2)	5,200,000	8.17%
Robert Mikkelsen(3)	0	0.00%
Ronald L. Miller, Jr. (4)	32,501	0.05%
Bryce Skalla (5)(9)	5,217,036	8.67%
Jeffrey Rassas (6)	1,833,349	2.88%
Christopher Wolven (7)	278,845	0.44%
All directors and officers as a group (6 people)	**12,561,731**	**20.21%**
Beneficial Shareholders greater than 5%		
Stockbridge Enterprises LP (8) 7377 E Doubletree Ranch Rd Suite 200 Scottsdale, AZ 85258	4,884,048	7.67%
Sean Dugan (9)	8,144,712	12.80%
Mark Murro III (9)	6,227,044	9.78%
Andrew Poirier (9)	7,618,045	11.97%
Carlos Curiel (9)	4,026,924	6.33%

(1) Applicable percentage of ownership is based on 63,652,620 shares of common stock outstanding on January 13, 2020. Percentage ownership is determined based on shares owned together with securities exercisable or convertible into shares of common stock within 60 days of January 13, 2020, for each stockholder. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within 60 days January 13, 2020, are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Our common stock is our only issued and outstanding class of securities eligible to vote. Unless otherwise stated, all shareholders can be reached at mailing address 2727 North 3rd Street, Suite 201 Phoenix, Arizona 85004

(2) Andrew Bowden has been Chief Executive Officer since November 18, 2019 and a Director of the Company since September 11, 2018. Mr. Bowden's beneficial ownership consists of 200,000 shares purchased via private placement in March 2018 by EBAB, LLC, which is controlled by Mr. Bowden, and 5,000,000 shares purchased by Viridis Group I9 Capital LLC, an entity controlled by Mr. Bowden pursuant to the Purchase Agreement dated October 17, 2018.

(3) Robert Mikkelsen is the Company's CFO, Secretary and Treasurer. His beneficial ownership includes 0 shares of restricted common stock.

(4) Ronald L. Miller, Jr. is a Director of the Company and Chairman of the Board. Mr. Miller's beneficial ownership includes 30,000 shares issuable upon exercise of stock options which have vested as of the day of this report and 2,501 total shares purchased in May 2014, some of which were purchased by Windsor Westfield Management, LLC and some by Chickamauga Enterprises, L.P. Both companies are indirectly controlled by Mr. Miller. The remaining 376 shares are held directly by Mr. Miller.

(5) Bryce Skalla is the Company's President and Director. Mr. Skalla's beneficial ownership consists of 5,003,878 shares of restricted common stock held in his name and 500,000 shares held by a minor.

(6) Jeffrey Rassas is Chief Strategy Officer and Director. The shares are held by Hayjour Family Limited Partnership, an entity controlled by Mr. Rassas, as such Mr. Rassas' beneficial ownership includes: 1,788,903 shares of restricted common stock and 44,446 shares issuable upon the exercise of stock options which have vested as of the date of this report.

(7) Christopher Wolven is Chief Operating Officer and his beneficial ownership consists of 278,845 shares of common stock.

(8) Stockbridge Enterprises LP is an Arizona limited partnership controlled by Mitchell A. Saltz, Chairman and Managing Partner.

(9) Skalla, Dugan, Murro, Poirier and Curiel were members of BSSD. On March 20, 2018, the Company closed on an Agreement and Plan of Exchange to acquire all of the membership interests of BSSD in exchange for newly issued restricted shares of the Company's common which were distributed pro-rata to the BSSD members.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Director Independence

For purposes of determining director independence, we have applied the definitions set out in NASDAQ Rule 5605(a)(2). The OTCBB on which shares of common stock are quoted does not have any director independence requirements. The NASDAQ definition of "Independent Director" means a person other than an Executive Officer or employee of the Company or any other individual having a relationship which, in the opinion of the Company's Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

According to the NASDAQ definition, Andrew Bowden, Bryce Skalla and Jeffrey Rassas are not independent directors because each is also an executive officer of the Company. According to the NASDAQ definition, Ronald L. Miller, Jr. is our sole independent director at this time. All current directors are or may become in the future shareholders of the Company.

Related Party Transactions

As discussed in Note 1, on March 20, 2018, the Company issued 40,355,771 shares of common stock to the members of BSSD for their membership interests.

As discussed in Note 12, the Company has entered into an agreement as of April 20, 2018 for the purchase of land. The land owner is one of the original members of BSSD and a current employee of the Company.

As discussed in Note 14, on May 8, 2018, the Company issued 22,500 options for the purchase of common stock to three board members.

As discussed in Notes 8 and 12, the Company has entered into a Loan and Revenue Participation Agreement and Promissory Note with Viridis. The member of Viridis was elected to the Company's board of directors on December 21, 2018 and is currently the Company's CEO.

On August 7, 2018, the Company issued our Company president 33,356 shares of common stock valued at $100,000 as required under a contractor agreement (see Note 12).

As discussed in Note 2, the Company issued 3,000,000 of restricted common stock as part of the asset purchase agreement dated November 26, 2018.

During the year ending September 30, 2019, the Company issued 5,000,000 shares of restricted common stock to Viridis I9 Capital LLC, an LLC in which board Director and CEO, Andrew Bowden is a member of. The sales price was $1.00 per share with net proceeds of $5,000,000.

The Company has a construction management agreement with the Viridis Group to oversee the Nevada construction project totaling $20,000 monthly. The Company owes Viridis $60,000 for these services as of September 30, 2019.

As discussed in Note 12, the Company has a lease agreement with VGI Capital LLC. A member of VGI Capital was elected to the Company's board of directors on December 21, 2018 and is currently the Company's CEO.

Included in our accounts payable balance is approximately $185,000 in amounts due to related parties.

Other than the foregoing, none of the directors or executive officers of the Company, nor any person who owned of record or was known to own beneficially more than 5% of the Company's outstanding shares of its Common Stock, nor any associate or affiliate of such persons or companies, has any material interest, direct or indirect, in any transaction that has occurred during the past fiscal year, or in any proposed transaction, which has materially affected or will affect the Company.

With regard to any future related party transaction, we plan to fully disclose any and all related party transactions in the following manner:

- Disclosing such transactions in reports where required;
- Disclosing in any and all filings with the SEC, where required;

- Obtaining disinterested directors consent; and
- Obtaining shareholder consent where required.

Review, Approval or Ratification of Transactions with Related Persons

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 14. Principal Accounting Fees and Services.

Audit Committee Pre-Approval Policy

The Audit Committee has established a pre-approval policy and procedures for audit, audit-related and tax services that can be performed by the independent auditors without specific authorization from the Audit Committee subject to certain restrictions. The policy sets out the specific services pre-approved by the Audit Committee and the applicable limitations, while ensuring the independence of the independent auditors to audit the Company's financial statements is not impaired. The pre-approval policy does not include a delegation to management of the Audit Committee's responsibilities under the Exchange Act. During the year ended September 30, 2019, the Audit Committee pre-approved all audit and permissible non-audit services provided by our independent auditors.

Service Fees Paid to the Independent Registered Public Accounting Firm

The Audit Committee engaged Semple, Marchal & Cooper, LLP ("Semple") as the Company's registered independent public accounting firm as of January 7, 2020. The decisions to appoint Semple and dismiss D. Brooks and Associates ("D. Brookes") were approved by the Board of Directors of the Company on January 7, 2020.

Semple was engaged to perform an annual audit of the Company's financial statements for the fiscal year ended September 30, 2019. Previously the Audit Committee engaged D. Brooks to perform an annual audit of the Company's financial statements for the fiscal years ended September 30, 2018. The following is the breakdown of aggregate fees paid to D. Brooks and Semple for the last two fiscal years:

	For Fiscal Year Ended September 30, 2019	For Fiscal Year Ended September 30, 2018
Audit Fees	$ 37,050	$ 36,998
Audit-related fees	$ 2,425	$ 75
Tax Fees (Paid to Semple)	$	$ 4,000
All other Fees	$	$
Total	$ 39,475	$ 41,073

- "Audit Fees" are fees paid for professional services for the audit of our financial statements.

- "Audit-Related fees" are fees paid for professional services not included in the first two categories, specifically, SAS 100 reviews, SEC filings and consents, and accounting consultations on matters addressed during the audit or interim reviews, and review work related to quarterly filings.

- "Tax Fees" are fees primarily for tax compliance in connection with filing US income tax returns.

- "All other fees" for 2017-2019 related to three year SEC review (other than the services reported in Items 9(e)(1) through 9(e)(3) of Schedule 14A)

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) FINANCIAL STATEMENTS:

The company's financial statements, as indicated by the Index to Consolidated Financial Statements set forth below, begin on page F-1 of this Form 10-K, and are hereby incorporated by reference. Financial statement schedules have been omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Title of Document	Page
Report of Semple, Marchal & Cooper, LLP	F-1
Report of D. Brookes and Associates CPA's, P.A.	F-2
Consolidated Balance Sheets as of September 30, 2019 and 2018	F-3
Consolidated Statements of Operations for the years ended September 30, 2019 and 2018	F-4
Consolidated Statements of Changes in Stockholders' Equity for the years ended September 30, 2019 and 2018	F-5
Consolidated Statements of Cash Flows for the years ended September 30, 2019 and 2018	F-6
Notes to the Financial Statements	F-7

SEMPLE, MARCHAL & COOPER, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
2701 NORTH CENTRAL AVENUE, NINTH FLOOR, PHOENIX, ARIZONA 85004-1137

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Item 9 Labs Corp.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Item 9 Labs Corp. (the "Company") and subsidiaries as of September 30, 2019, the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at September 30, 2019, and the results of its operations, changes in stockholders' equity, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Uncertainty

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 16 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 16. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated 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 audit to obtain reasonable assurance about whether the consolidated 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 audit 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 audit included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Certified Public Accountants

We have served as the Company's auditor since 2019.

Phoenix, Arizona
January 14, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Item 9 Labs. Corp.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Item 9 Labs Corp and subsidiary (the "Company") as of September 30, 2018, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended September 30, 2018, and the related financial statement footnotes (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 September 30, 2018 and the results of its operations and its cash flows for the year ended September 30, 2018 in conformity with accounting principles generally accepted in the United States of America.

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 audit 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.

D. Brooks and Associates CPAs, P.A.

We have served as the Company's auditor since 2017.
Palm Beach Gardens, Florida
February 22, 2019

4440 PGA Blvd. Suite 104 • Palm Beach Gardens, Florida 33410 • Main Office: 561.429.6225 • Fax: 561.282.3444

dbrookscpa.com

ITEM 9 LABS CORP. AND SUBSIDIARIES
(FORMERLY AIRWARE LABS CORP.)
CONSOLIDATED BALANCE SHEETS

	September 30, 2019	September 30, 2018
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 21,092	$ 1,674,266
Restricted cash and cash equivalents	553,851	—
Accounts receivable	437,026	97,382
Deferred costs	1,936,534	618,718
Notes and interest receivable	—	225,074
Receivable for sale of Airware assets	—	639,000
Prepaid expenses and other current assets	14,409	6,107
Total current assets	2,962,912	3,260,547
Property and equipment, net	7,170,422	1,234,042
Investment in Health Defense, LLC	100,000	100,000
Deposit on land purchase from related party	600,000	200,000
Receivable for sale of Airware assets, net of reserves and unamortized discount of $307,430 and $50,912	504,715	249,088
Notes and interest receivable, net	180,000	—
Other intangible assets, net	1,839,875	—
Goodwill	1,116,396	—
Total Assets	$ 14,474,320	$ 5,043,677
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,076,546	$ 725,510
Accrued payroll	77,560	36,733
Accrued compensated absences	69,424	17,426
Accrued interest	675,182	11,355
Accrued expenses	379,972	81,363
Accrued income tax	87,476	88,826
Short term notes payable	2,051,714	—
Long term debt, in default	2,700,000	—
Convertible notes payable	20,000	20,000
Total current liabilities	7,137,874	981,213
Long term debt	—	1,500,000
Total liabilities	7,137,874	2,481,213
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, par value $.0001 per share, 2,000,000,000 shares authorized; 63,643,005 and 54,766,642 shares issued and outstanding at September 30, 2019 and 2018, respectively	6,365	5,477
Additional paid-in capital	18,148,962	3,427,230
Accumulated deficit	(10,694,939)	(870,243)
Total Item 9 Labs Corp. stockholders' equity	7,460,388	2,562,464
Noncontrolling Interest	(123,942)	—
Total Stockholders' Equity	7,336,446	2,562,464

Total Liabilities and Stockholders' Equity	$ 14,474,320	$ 5,043,677

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

ITEM 9 LABS CORP. AND SUBSIDIARIES
(FORMERLY AIRWARE LABS CORP.)
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended September 30, 2019	Year Ended September 30, 2018
Revenues, net	$ 4,933,960	$ 1,401,858
Cost of revenues	2,556,189	1,018,109
Gross profit	2,377,771	383,749
Operating expenses		
Professional fees and outside services	1,633,426	360,902
Payroll and employee related expenses	2,483,401	283,287
Sales and marketing	741,866	108,828
Other operating expenses	1,524,860	284,550
Loss on impairment	5,758,827	—
Provision for bad debt	376,430	—
Total expenses	12,518,810	1,037,567
Loss from operations	(10,141,039)	(653,818)
Other income (expense)		
Interest income	71,376	34,232
Interest expense	(342,718)	(1,589)
Other income	463,743	—
Total other income, net	192,401	32,643
Loss from continuing operations, before income tax provision	(9,948,638)	(621,175)
Income tax provision	—	88,826
Net loss from continuing operations	(9,948,638)	(710,001)
Income from discontinued operations	—	21,280
Net loss	(9,948,638)	(688,721)
Less: Net loss attributable to noncontrolling interest	(123,942)	—
Net loss attributable to Item 9 Labs Corp.	$ (9,824,696)	$ (688,721)
Basic and diluted weighted average common shares outstanding	61,531,802	32,327,738
Basic and diluted net loss per common share from continuing operations	$ (0.16)	$ (0.01)
Basic and diluted net income per common share from discontinued operations	$ —	$ 0.00
Total basic and diluted net loss per common share	$ (0.16)	$ (0.01)

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

ITEM 9 LABS CORP. AND SUBSIDIARIES
(FORMERLY AIRWARE LABS CORP.)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	Item 9 Labs Corp Equity					
	Common Stock		Additional Paid-in	Accumulated	Non Controlling	
	Shares	Amount	Capital	(Deficit)	Interest	Total
Balance at September 30, 2017	7,519,182	$ 752	$ 1,149,400	$ (181,522)	$ —	$ 968,630
Issuance of stock by predecessor	5,346,733	535	(535)	—	—	—
Merger stock issued	40,355,771	4,036	(4,036)	—	—	—
Increase in additional paid-in capital from merger	—	—	683,231	—	—	683,231
Issuance of stock for cash (pre merger)	202,400	20	40,460	—	—	40,480
Issuance of stock for cash (post merger), net of $16,050 of issuance costs	1,309,200	131	1,454,939	—	—	1,455,070
Exchange of shares for services	33,356	3	99,997	—	—	100,000
Stock options issued for services	—	—	3,774	—	—	3,774
Net loss	—	—	—	(688,721)	—	(688,721)
Balance at September 30, 2018	54,766,642	5,477	3,427,230	(870,243)	—	2,562,464
Stock issued for acquisition	3,000,000	300	7,769,700	—	—	7,770,000
Issuance of stock for cash	5,590,003	559	5,884,444	—	—	5,885,003
Exchange of shares for services	233,986	24	833,941	—	—	833,965
Stock compensation	52,374	5	233,647	—	—	233,652
Net loss	—	—	—	(9,824,696)	(123,942)	(9,948,638)
Balance at September 30, 2019	63,643,005	$ 6,365	$18,148,962	$(10,694,939)	$(123,942)	$ 7,336,446

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

ITEM 9 LABS CORP. AND SUBSIDIARIES
(FORMERLY AIRWARE LABS CORP.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 30, 2019	Year Ended September 30, 2018
Operating Activities:		
Net loss	$ (9,948,638)	$ (688,721)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	70,384	49,786
Amortization	605,750	—
Interest accrued on notes receivable	(23,926)	(15,074)
Common stock issued for services	833,965	100,000
Stock compensation expense	233,652	3,774
Loss on impairment	5,758,827	—
Provision for bad debt	376,430	—
Interest accretion from receivable	(39,057)	(19,158)
Changes in operating assets and liabilities:		
Accounts receivable	(339,644)	(27,782)
Deferred costs	(1,317,816)	(577,681)
Prepaid expenses	(8,302)	(6,107)
Accounts payable	351,036	57,660
Accrued payroll	40,827	36,733
Accrued compensated absences	51,998	17,426
Accrued interest	663,827	1,200
Accrued expenses	298,609	6,855
Accrued income tax	(1,350)	88,826
Net Cash Used in Operating Activities	(2,393,428)	(972,263)
Investing Activities:		
Issuance of notes receivable	—	(210,000)
Deposit on land purchase from related party	(400,000)	(200,000)
Purchases of property and equipment	(6,006,764)	(340,244)
Cash paid for purchase of AZ DP Counsulting LLC assets	(1,500,000)	—
Cash received from sale of Airware assets	—	300,000
Cash received from short-term note receivable	115,000	61,000
Cash acquired in merger	—	26,363
Capitalized license fees	(50,848)	—
Net Cash Used in Investing Activities	(7,842,612)	(362,881)
Financing Activities:		
Proceeds from the sale of common stock, net of issuance costs	5,885,003	1,495,550
Proceeds from the issuance of debt	3,251,714	1,500,000
Net Cash Provided by Financing Activities	9,136,717	2,995,550
Net (Decrease)/Increase in Cash	(1,099,323)	1,660,406
Cash and cash equivalents- Beginning of Period	1,674,266	13,860
Cash and cash equivalents - End of Period	$ 574,943	$ 1,674,266
Supplemental disclosure of cash flow information:		
Interest paid in cash	$ —	$ —
Income taxes paid in cash	$ —	$ —

Cash and cash equivalents	$ 21,092	$ 1,674,266
Restricted cash and cash equivalents	553,851	—
Total	$ 574,943	$ 1,674,266
Supplemental disclosure of non-cash investing and financing activities:		
Stock issued for asset acquisition of Arizona DP Consulting, LLC	$ 7,770,000	$ —
Interest in Health Defense, LLC received for sale of Airware assets	$ —	$ 100,000
Receivable for sale of Airware assets, net of discount of $70,070	$ —	$ 929,930
Noncontrolling Interest	$ 123,942	$ —
Net assets acquired in reverse merger:		
Issuance of common stock for reverse merger	$ —	$ 683,231
Accounts receivable	—	(44,801)
Property and equipment	—	(6,150)
Goodwill	—	(1,323,780)
Accounts payable and accrued expenses	—	697,863
Convertible notes payable	—	20,000
Cash acquired in merger	$ —	$ 26,363
Net assets acquired in acquisition of Arizona DP Consulting, LLC		
Intangible assets	$ 3,350,000	$ —
Goodwill	5,920,000	—
Total purchase consideration	$ 9,270,000	$ —

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

ITEM 9 LABS CORP. AND SUBSIDIARIES
(FORMERLY AIRWARE LABS CORP)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation and Organization

Item 9 Labs Corp. ("Item 9 Labs" or the "Company"), formerly Airware Labs Corp., is a Delaware corporation. The Company was incorporated under the laws of the State of Delaware on June 15, 2010 as Crown Dynamics Corp. On October 26, 2012, the Articles of Incorporation were amended to reflect a name change to Airware Labs Corp, and on April 2, 2018, they were amended again to reflect the name change to Item 9 Labs Corp.

On October 18, 2018 the Company effected a 1 for 20 reverse stock split of the Company's common stock. The par value and number of authorized shares were not adjusted as a result of the reverse stock split. The total number of shares outstanding at the time of the split was adjusted from 1,095,332,835 to 54,766,642. All share information in these financial statements has been retroactively adjusted to reflect the effect of the reverse split.

On March 20, 2018, the Company closed on an Agreement and Plan of Exchange (the "Agreement") to acquire all of the membership interests of BSSD Group, LLC ("BSSD"), an Arizona limited liability company formed on May 2, 2017, in exchange for newly issued restricted shares of the Company's common stock (the "Shares"), which represent approximately 75% of the issued and outstanding shares of the Company's common stock on a fully-diluted basis. The 40,355,771 Shares were distributed pro-rata to the BSSD members. As part of the Agreement, the Company agreed to increase its authorized shares of common stock to two billion.

For accounting purposes, the transaction was recorded as a reverse recapitalization, with BSSD as the accounting acquirer. Consequently, the historical pre-merger financial statements of BSSD are now those of the Company. The accompanying consolidated financial statements reflect the consolidated operations of the Company from March 20, 2018.

Through a licensing agreement, the Company grows medical marijuana and produces cannabis related products at their facility in Pinal County, Arizona on behalf of licensed medical marijuana dispensaries in the state of Arizona. The major assets of the Company, consisting of five acres of land and a cultivation facility, were contributed by the members of BSSD in May 2017 and were recorded at the historical carrying value (original cost less any related accumulated depreciation) of the member as of the contribution date.

On September 12, 2018, the Company executed a $1,500,000 promissory note (see Note 8) which was used to make a capital contribution into Strive Management, LLC, a Nevada limited liability company ("Strive Management"). In exchange for the contribution, the Company received a 20% membership interest in Strive Management. The remaining interests are held by three individuals one of which is the Company's former Chief Executive Officer (resigned November 15, 2019.) Through a management agreement with Strive Wellness of Nevada, LLC, a related party, Strive Management plans to facilitate the cultivation, processing and distribution of marijuana in Nevada. Strive Wellness of Nevada, LLC has been allocated cultivation, processing and distribution licenses from the State of Nevada. Additionally, the Company will acquire an additional 31% ownership of Strive Management upon the approval from the State of Nevada to operate the cultivation and processing facility.

The contribution from the Company was the only transaction that occurred in Strive Management during the year ended September 30, 2018. Strive Management's activity in 2019 included $150,338 in operating expenses, and $1,926 in interest income.

Principles of Consolidation

Item 9 Labs consolidates all variable interest entities ("VIEs") in which the Company is deemed to be the primary beneficiary and all other entities in which it has a controlling voting interest. An entity is generally a VIE if it meets any of the following criteria: (i) the entity has insufficient equity to finance its activities without additional subordinated financial support from other parties, (ii) the equity investors cannot make significant decisions about the entity's operations or (iii) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity or receive the expected returns of the entity and substantially all of the entity's activities involve or are conducted on behalf of the investor with disproportionately few voting rights. The Company periodically makes judgments in determining whether its investees are VIEs and, each reporting period, the Company assesses whether it is the primary beneficiary of any of its VIEs. As of September 30, 2019 and 2018, the Company is deemed to be the primary beneficiary of Strive Management because the entity has insufficient equity to finance its activities without additional subordinated support.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and variable interest entities in which the Company is the primary beneficiary. Intercompany balances and transactions have been eliminated.

Certain balances have been reclassified in the accompanying consolidated financial statements to conform to the current year presentation. These reclassifications had no effect on the prior year's net loss or accumulated deficit.

Accounting Estimates

The preparation of financial statements in conformity with Accounting Principles Generally Accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could materially differ from those estimates. Significant estimates of the Company include but are not limited to accounting for depreciation and amortization, current and deferred income taxes, deferred costs, accruals and contingencies, carrying value of goodwill and intangible assets, collectability of notes receivable, the fair value of common stock and the estimated fair value of stock options and warrants. Due to the uncertainties in the formation of accounting estimates, and the significance of these items, it is reasonably possible that these estimates could be materially changed in the near term.

Discontinued Operations

The Company sold the former Airware business of nasal dilator sales on May 3, 2018, see Note 4. The operating results related to this business have been classified as discontinued operations in the financial statements in accordance with Accounting Standards Codification 205-20, *Discontinued Operations*.

Discontinued operations on our consolidated statements of operations consist of specifically identified activity as follows:

	Year ended September 30, 2019	Year ended September 30, 2018
Revenues, net	$ —	$ 27,836
Cost of sales	—	6,556
Income from discontinued operations	$ —	$ 21,280

There were no liabilities related to discontinued operations as of September 30, 2019 except for approximately $60,000 in accounts payable, $20,000 convertible note payable and the relating accrued interest of $11,355. There were no liabilities related to discontinued operations as of September 30, 2018 except the $20,000 convertible note payable and related accrued interest of $11,355 and approximately $680,000 of accounts payable and accrued expenses which was retained by the Company in the sale. The amount presented as other income during the year ended September 30, 2019 represents a gain resulting from the repayment of a liability acquired from Airware that was negotiated and repaid in full at an amount less than the carrying amount and a write down of accounts payable stemming from the amount of time lapsed since the obligations were initially due. There were no operating cashflows derived from discontinued operations during the year ended September 30, 2019 and $115,000 in cash flows from investing activities. Total operating cashflows during the year ended September 30, 2018 derived from discontinued operations approximated $75,000 and $300,000 of cash flows from investing activities.

Cash and Cash Equivalents and Restricted Cash

Cash represents cash on hand, demand deposits placed with banks and other financial institutions and all highly liquid instruments purchased with a remaining maturity of three months or less as of the purchase date of such investments. The Company maintains cash on deposit, which, can exceed federally insured limits. The Company has not experienced any losses on such accounts nor believes it is exposed to any significant credit risk on cash. Restricted cash represents funds held by a bank pending resolution of a dispute with a former officer of the Company.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect from outstanding balances. Differences between the amount due and the amount management expects to collect are reported in the results of operations of the year in which those differences are determined, with an offsetting entry to a valuation allowance for accounts receivable. Management believes all accounts receivable outstanding as of the balance sheet dates are fully collectible, and as such no valuation allowance has been recorded for these periods.

Deferred Costs

Deferred costs consist of the costs directly related to the production and cultivation of marijuana crops. Deferred costs are relieved to cost of services as products are delivered to dispensaries.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided for on the straight-line method, over the estimated useful lives of the assets. Maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Betterments or renewals are capitalized when incurred. Gains and losses on the disposition of property and equipment are recorded in the period incurred.

The estimated useful lives of property and equipment are:

- Cultivation and manufacturing equipment 2-7 years
- Buildings 30 years

Notes and Other Receivables, net

Notes and other receivables are reported at the amount management expects to collect from outstanding balances. Differences between the amount due and the amount management expects to collect are reported in the results of operations of the year in which those differences are determined, with an offsetting entry to a valuation allowance for receivables. Management assesses all receivables individually and in total, considering historical credit losses as well as existing economic conditions to determine the likelihood of future credit losses. The Company stops accruing interest on interest bearing receivables when the receivable is in default. There was no valuation allowance as of September 30, 2018 and the valuation allowance as of September 30, 2019 was $376,430.

Impairment of Long-Lived Assets

We analyze long-lived assets, including property and equipment and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. We review the amortization method and estimated period of useful life at least at each balance sheet date. We record the effects of any revision to operations when the change arises. We recognize impairment when the estimated undiscounted cash flow generated by those assets is less than the carrying amount of such assets. The amount of impairment is the excess of the carrying amount over the fair value of such assets, which is generally calculated using discounted cash flows.

Intangible Assets Subject to Amortization

Intangible assets include trade name, customer relationships, website, a noncompete agreement and intellectual property obtained through a business acquisition (see Note 2). Intangible assets acquired in a business combination are recognized at fair value using generally accepted valuation methods deemed appropriate for the type of intangible asset acquired. Intangible assets with finite lives are amortized over their estimated useful life and reported net of accumulated amortization, separately from goodwill. Amortization is calculation on the straight-line basis using the following estimated useful lives:

- Trade names 10 years
- Customer relationships 2 years
- Noncompete agreement 3 years
- Websites and other intellectual property 5 years

Generally, the Company utilizes the relief from royalty method to value trade name, the with or without method for valuing the customer relationships, and the discounted cash flow method for valuing website and intellectual property.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The goodwill included in these consolidated financial statements represents the amount of consideration paid above the amount of the individually identifiable assets acquired. In assessing potential impairment, management first considered qualitative factors to determine if an impairment of goodwill existed. Upon the determination of a likely impairment, management assessed the recorded goodwill balance with the fair value of the business acquired. During the assessment, management discounted the projected cash flows to determine its fair value, then recorded the difference as an impairment. Impairment in the amount of $4,803,604 has been recognized in the September 30, 2019 consolidated financial statements.

Income Taxes

The Company accounts for income taxes under FASB ASC 740, *Income Taxes*. Deferred income tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized.

The Company files income tax returns in the U.S. federal jurisdiction, and the State of Arizona. The Company is subject to U.S. federal, state, and local income tax examinations by tax authorities. Generally all periods beginning on or after January 1, 2015 are open to examination by taxing authorities. The Company believes it has no tax positions for which the ultimate deductibility is highly uncertain.

Revenue Recognition

On October 1, 2017, the Company adopted ASC Topic 606, "Revenue from Contracts with Customers" ("ASC 606") and all the related amendments. The Company elected to adopt this guidance using the modified retrospective method. The adoption of this guidance did not have a material effect on the Company's financial position, results of operations or cash flows.

The core principle of ASC 606 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASC 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than previously required under GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

All of the Company's revenue is associated with a customer contract that represents an obligation to perform services that are delivered at a single point in time. Any costs incurred prior to the period in which the services are performed to completion are deferred and recognized as cost of revenues in the period in which the performance obligations are completed. For the year ended September 30, 2019, approximately 90% of the Company's revenue was generated from performance obligations completed in the state of Arizona and for the year ended September 30, 2018, all revenues were generated for performance obligations completed in the State of Arizona.

The Company recognizes revenue as services are rendered. Services are considered complete upon successful delivery of the product to the dispensary as the Company has no further performance obligations at this point in time and collection is assured. Under the performance contract, the Company acts as an agent for the dispensary, does not own the marijuana, does not set prices (market sets prices), cannot exchange the marijuana, prepares invoices for the dispensary and all employees that are in contact with marijuana are dispensary agents of the dispensary with which we have our contract. Given these facts and circumstances, it is the Company's policy to record the revenue related to the contract net of the amount retained by the dispensary. Per the dispensary contract, the Company is paid 85% of the wholesale market price of the marijuana for the services rendered.

The Company's revenues accounted for under ASC 606, do not require significant estimates or judgments based on the nature of the Company's revenue stream. The sales price is generally fixed at the point of sale and all consideration from the contract is included in the transaction price. The Company's contracts do not include multiple performance obligations or variable consideration.

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, consisting of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value due to their short term to maturity. The Company's long-term receivable resulting from the sale of Airware, notes receivable and notes payable were discounted to its estimated fair value.

ASC Topic 820, Fair Value Measurements, defines fair value as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy that 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 as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimate of assumptions that market participants would use in pricing the asset or liability.

Net Loss Per Share

Basic earnings per share does not include dilution and is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of an entity. Dilutive securities are not included in the weighted average number of shares when inclusion would be anti-dilutive. At September 30, 2019, and 2018 there were 656,112 shares underlying convertible notes payable, warrants and options, that were anti-dilutive.

Stock-Based Compensation

The Company accounts for its stock-based awards in accordance with ASC Subtopic 718-10, *"Compensation – Stock Compensation",* which requires fair value measurement on the grant date and recognition of compensation expense for all stock-based payment awards made to employees and directors. For stock options, the Company estimates the fair value using a closed option valuation (Black-Scholes) model. The estimated fair value is then expensed over the requisite service period of the award which is generally the vesting period and the related amount is recognized in the consolidated statements of operations. The Company recognizes forfeitures at the time they occur.

The Black-Scholes option-pricing model requires the input of certain assumptions that require the Company's judgment, including the expected term and the expected stock price volatility of the underlying stock. The assumptions used in calculating the fair value of stock-based compensation represent management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change resulting in the use of different assumptions, stock-based compensation expense could be materially different in the future.

Recently Issued Accounting Pronouncements

Adopted

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350). The update simplifies the process for assessing goodwill for impairment. The amended guidance removes the second step that was previously required. ASU 2017-04 is effective for us for the fiscal year ending September 30, 2021, with early adoption permitted for periods beginning after January 1, 2017. The Company adopted ASU 2017-04 on October 1, 2018.

Pending Adoption

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The update improves financial reporting about leasing transactions by requiring a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by lease terms of more than 12 months. We will adopt ASU 2016-02 in the first quarter of 2019 and are in the process of aggregating and evaluating lease arrangements and implementing new processes. Although we are still in the process of evaluating the impact of adoption of the ASU on our consolidated financial statements, we currently believe that the most significant change will be related to the recognition of a right-of-use asset and lease liability on our balance sheet for our real estate operating lease. The impact on our results of operations and cash flows is not expected to be material.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), which provides guidance on measuring credit losses on financial instruments. The amended guidance replaces current incurred loss impairment methodology of recognizing credit losses when a loss is probable with a methodology that reflects expected credit losses and requires a broader range of reasonable and supportable information to assess credit loss estimates. ASU 2016-13 is effective for us on January 1, 2020, with early adoption permitted on January 1, 2019. We are assessing the provisions of this amended guidance; however, the adoption of the standard is not expected to have a material effect on our consolidated financial statements.

There have been no other recent accounting pronouncements or changes in accounting pronouncements that have been issued but not yet adopted that are of significance, or potential significance, to us.

Note 2 –Business Combination

On November 26, 2018, the Company's wholly owned subsidiary AZ DP Holdings, LLC ("AZDP") performed an acquisition of the majority of the assets of Arizona DP Consulting, LLC ("AZDPC"), a consulting firm specializing in obtaining marijuana dispensary permits and developing cannabis related business plans. The purchase price was $9,270,000, $1,500,000 in cash and 3,000,000 shares of restricted common stock having an aggregate value of $7,770,000 or $2.59 per share based on the market price of the Company's shares at the time the asset purchase agreement was executed. There were no significant costs relating to the acquisition. Pursuant to the agreement, Sara Gullickson transitioned from President to CEO under a 3 year employment agreement and became a member of the board of directors of the Company. Additionally, AZDP agreed to hire the employees of AZDPC and lease its existing office space which required $3,200 of monthly rent through May 2019, which was subsequently extended through August 2019. This acquisition effectively terminated the contract dated June 26, 2018 described in Note 12. The primary reason for the acquisition was to utilize the assets held by AZDPC to assist in the expansion of the Company. Assets and liabilities of AZDPC were negligible so presentation was not deemed necessary. The following unaudited condensed consolidated pro forma statement of operations data shows the results of our operations for the years ended September 30, 2019 and 2018 as if completed business combinations had occurred at the beginning of the respective period:

	(Unaudited) 2019	(Unaudited) 2018
Revenue	$ 5,830,744	$ 1,700,786
Net Income	$ (9,438,790)	$ (518,772)

In accordance with ASC 805, *Business Combinations*, the Company accounted for the acquisition of AZDPC using the acquisition method of accounting. The purchase price was allocated to specific identifiable intangible assets at their respective fair values at the date of acquisition. There were no tangible assets or liabilities acquired.

The business combination has yielded $540,178 in revenues and $145,970 in earnings since the acquisition through September 30, 2019.

Identifiable intangible assets consist of the following as of September 30, 2019:

	Balance at October 1, 2018	Additions from Business Combination	Other Additions	Amortization	Impairment	Balance at September 30, 2019
Trade names	$ —	$ 120,000	$50,848	$ (9,000)	$ —	$ 161,848
Customer relationships	—	290,000	—	(108,750)	—	181,250
Websites and other intellectual property	—	2,470,000	—	(370,500)	(955,223)	1,144,277
Noncompete agreement	—	470,000	—	(117,500)	—	352,500
Total other intangible assets	—	3,350,000	50,848	(605,750)	(955,223)	1,839,875
Goodwill	—	5,920,000	—	—	(4,803,604)	1,116,396
Total	$ —	$ 9,270,000	$50,848	$ (605,750)	$(5,758,827)	$ 2,956,271

The weighted average remaining amortization period in years is 4.09 years.

Future amortization is as follows for fiscal years ending:

	2020	2021	2022	2023	2024
Trade names	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000
Customer relationships	145,000	36,250	—	—	—
Websites and other intellectual property	269,242	269,242	269,242	269,242	67,309
Noncompete agreement	156,667	156,667	39,166	—	—
Total	$ 582,909	$ 474,159	$ 320,408	$ 281,242	$ 79,309

The goodwill recognized in the transaction is made up of a number of factors, mostly the synergies created that have a direct impact on the Company's expansion, and the expertise of the workforce. Though amortization of goodwill is not allowed for financial statement purposes, The $5.92 Million in acquired goodwill is expected to be deductible for tax purposes on a straight line basis over 15 years.

Impairment

Upon review of the financial information and results of the operations of the acquired business, management determined that there was potential impairment. Management performed an analysis of the identifiable intangible assets, finding that the websites and intellectual property has sustained impairment. After careful consideration, management recorded a loss on impairment of the websites and intellectual property in the amount of $955,223. Additionally, management performed an analysis for goodwill impairment. After its review, management recorded a loss on impairment of goodwill of $4,803,604. Given the nature of the assets being evaluated, management utilized a discounted cash flow model (Level 3 inputs) to assess the fair value of the assets, then compared the calculated fair value to the carrying value. The significant estimates utilized include a weighted average cost of capital of 11.4% and projected revenues.

Note 3 - Property and Equipment, Net

The following represents a summary of our property and equipment as of September 30, 2019 and 2018:

	2019	2018
Cultivation and manufacturing Equipment	$ 154,059	$ 154,059
Construction in progress	4,060,297	233,768
Land and Building	3,093,549	913,314
	7,307,905	1,301,141
Accumulated Depreciation	(137,483)	(67,099)
	$ 7,170,422	$ 1,234,042

Depreciation expense was $70,384 and $49,786 for the years ended September 30, 2019 and 2018, respectively

Note 4 – Sale of Airware Assets and Investment in Health Defense LLC

On May 3, 2018, the Company entered into an intellectual property sales agreement with Health Defense LLC. Pursuant to the terms of the agreement, the Company sold all of the assets related to the former business of the Company, nasal dilator sales.

In consideration for entering into the agreement, the Company is to receive: (i) $300,000 in cash at execution, (ii) $700,000 in cash within one year of execution and (iii) an additional $300,000 by December 31, 2019.

Due to the long-term nature of the final $300,000, the Company recognized a discount of $70,070 using a discount rate of 21.50%. During the year ended September 30, 2018, the Company recognized $19,158 of interest income related to the accretion of this discount which is included in interest income on the accompanying consolidated statements of operations. As of September 30, 2018, the unamortized discount on this long-term receivable was $50,912. As additional consideration, the Company was given a 10% ownership interest in Health Defense LLC. This ownership is valued at $100,000 and is reflected on the consolidated balance sheets as Investment in Health Defense.

During the year ended September 30, 2019, management determined that the receivable described above should be classified as long-term on the consolidated balance sheet as the payments have not been made as scheduled. Additionally, management has recorded an additional discount on the receivable of $307,430.

Note 5 – Notes Receivable

On May 11, 2018, the Company entered into a Promissory Note Agreement with a borrower in the principal amount of $150,000. This is a one year note with 20% non-compounded annual interest payable at maturity. It is convertible at the discretion of the Company into a unit offering of the borrower at a 15% discount. The note is personally guaranteed by the borrower. This note is in default and is on non-accrual status. The Company is currently negotiating an amendment to the note.

On May 15, 2018, the Company entered into a Promissory Note Agreement with a borrower in the principal amount of $60,000. This is a one year note with 15% non-compounded annual interest payable at maturity. It is convertible at the discretion of the Company into an interest in a strategic partnership of ownership and operations of a certain dispensary license. The note is personally guaranteed by the borrower. This note is in default and is on non-accrual status. At September 30, 2019, the principal and interest has been fully reserved.

For the years ended September 30, 2019 and 2018, the Company has accrued $30,000 and $15,074, respectively of interest receivable related to these notes which is included in notes and interest receivables on the accompanying consolidated balance sheets.

Note 6 – Short Term Note Payable

On August 28, 2019, Item 9 Properties, LLC, a Nevada limited liability company, and BSSD Group, LLC, an Arizona limited liability company, each wholly owned subsidiaries of Item 9 Labs Corp. collectively, entered into a Loan Agreement up to $2.5 million (the "Loan Agreement") with Aeneas Venture Partners 3, LLC, an Arizona limited liability company (the "Lender").

Pursuant to the Loan Agreement, the Company may make multiple borrowings under the Loan Agreement in the total aggregate principal amount of up to $2.5 million (the "Loan") for the purpose of completing development and construction on certain real property located in Pahrump, Nevada owned by the Company. The Loan is a multiple advance credit facility. Interest in the amount of 15% of the total amount borrowed (based on total draws) under the Loan will be paid in addition to principal at the maturity date. The Loan has a term of sixty days from funding of the Loan and may be extended for additional sixty days subject to the satisfaction of certain conditions including ten days' notice and an extension loan fee of 15% of the aggregate total of advances under the Loan. The Loan is secured by a first priority interest in the Company's real property located in Coolidge, Arizona, including improvements and personal property thereon (the "Property") and includes an unconditional guarantee by Item 9 Labs Corp. The 5-acre property has 20,000 square feet of buildings, housing the cultivation and processing operations. The total balance of the loan, including accrued interest as of September 30, 2019 was $2,300,000. Subsequent to year end, the Company extended the loan for 2 additional sixty day periods. Given the use of the proceeds, the Company has capitalized the $300,000 of interest.

Note 7 – Unsecured Convertible Note Payable

In the reverse recapitalization disclosed in Note 1, the Company assumed one unsecured convertible note payable with principal balance totaling $20,000 which was due in August 2012, carries an interest rate of 8% and is convertible to common stock at $.50 per share, which would be 62,710 shares as of September 30, 2019. As of September 30, 2019 and 2018, this unsecured convertible note payable is considered in default and has been presented as a current liability on the consolidated balance sheets.

Note 8 – Long Term Debt in Default

On September 13, 2018, the Company entered into a Loan and Revenue Participation Agreement with Viridis Group I9 Capital LLC ("Viridis") in which Viridis has agreed to loan the Company up to $2.7 million for the expansion of the Company's Arizona and Nevada properties (see Note 12). As of September 30, 2018, the Company received $1,500,000 of proceeds from Viridis in the form of a promissory note. The $1,500,000 proceeds were utilized to acquire a 20% ownership in Strive Management, LLC as described in Notes 1 and 9, and is collateralized with a Deed of Trust on the Company's approximately 5 acre property and construction in progress. In exchange for the loan, Viridis will be repaid in the form of waterfall revenue participation schedules. Viridis shall receive 5% of the Company's gross revenues from the Nevada operations until the loan is repaid, 2% until repaid 200% of the amount loaned, and 1% of gross revenues in perpetuity or until a change in control. Payments on the loan will commence 90 days after the Nevada operation begins earning revenue. Parties acknowledge that the Company is expected to own only 51% of the Nevada operations and therefore Viridis' revenue participation is limited to the Company's interest. The operations in Nevada have not yet begun as of the date of this filing. On August 26, 2019, the loan was amended to include 6% annualized interest in exchange for Viridis subordinating its debt to another lender. Interest of $266,484 has been accrued as of September 30, 2019.

The additional $1,200,000 of proceeds drawn during the year ended September 30, 2019 were utilized to construct an additional 10,000 square foot cultivation and processing facility in Arizona that became operational in June 2019. The loan was originally collateralized with a Deed of Trust on the Company's 5 acre parcel in Coolidge, AZ and its two 10,000 square foot buildings, In August 2019, Viridis agreed to subordinate its first priority Deed of Trust and move into a 2nd position. The proceeds were received as construction draws between November 2018 and January 2019. In exchange for the loan, Viridis will be repaid in the form of waterfall revenue participation schedules. Viridis shall receive 5% of the Company's gross revenues from the Arizona operations until the loan is repaid, 2% until repaid 200% of the amount loaned, and 1% of gross revenues in perpetuity or until a change in control. Payments on the loan will commence 90 days after the Arizona operation begins earning revenue. Interest on the notes accrue monthly at a 2.9% annual rate. On August 26, 2019, the loan was amended to include 6% annualized interest in exchange for Viridis subordinating its debt to another lender. Interest of $161,626 has been accrued as of September 30, 2019.

Both notes are in default as of September 30, 2019. As such, the notes are presented as current liabilities on the consolidated balance sheet. The notes are with a related party, Viridis. The CEO of Viridis is a board member of Item 9 Labs Corp., and subsequent to year end, became the CEO of the Company.

Note 9 – Variable Interest Entity

As of September 30, 2019 and 2018, the Company has determined that it holds a variable interest in Strive Management due to the Company being its sole source of capital. Further, the Company has agreed to raise $4,000,000 on Strive Management's behalf through promissory note agreements that the Company will guarantee. No funds have been raised as of the date of these consolidated financial statements. If the funds are not raised, the additional 31% interest due to the Company upon operational approval from the State of Nevada as discussed in Note 1 would be subject to reclamation by the other members of Strive Management. The Company has been determined to be the primary beneficiary of Strive Management as the Company has the power to direct the activities that significantly impact Strive Management's economic performance and the obligation to absorb losses. Strive Management's financial statements as of September 30, 2019 and 2018 have been consolidated with the Company. The only transaction that has occurred in Strive Management during the year ended September 30, 2018 is the Company's $1,500,000 contribution. Upon consolidation, the asset of Strive Management was recorded at its carrying amounts. The effects of consolidating Strive Management resulted in an increase in assets of $553,851 and $1,500,000 as of September 30, 2019 and 2018, respectively Though consolidated, all assets and liabilities of Strive Management LLC are non-recourse in that they can only be used to settle obligations of Strive Management and creditors can only seek recourse against Strive Management, not the Company, even though it has been deemed the primary beneficiary.

Note 10 – Income Taxes

Income tax provision reflected in the consolidated statements of operations has been computed on the taxable income generated by the Company since the reverse merger on March 20, 2018 through September 30, 2019 which consist of the following:

	2019	2018
Federal	$ (720,000)	$ 88,826
State	(480,000)	—
Valuation allowance	1,200,000	—
Income Tax Provision	$ —	$ 88,826

The following table summarizes the effects of the significant differences between the U.S. federal statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended September 30, 2019 and period Inception to September 30, 2018:

	2019	2018
U.S. federal statutory rate	$ (2,020,000)	$ (203,964)
Pre-merger income (loss) allocated to previous members	—	93,034
Non-deductible items	1,300,000	199,756
State statutory rate	(480,000)	—
Valuation allowance	1,200,000	—
Totals	$ —	$ 88,826

The Company has net operating loss carryforwards on its Federal and State filings approximating $19.8 million, and $9.9 million respectively. The deferred tax assets relating to the carryforwards has been fully reserved due to the uncertainty of the Company's ability to utilize the carryforwards.

Pursuant to Internal Revenue Code Section 382, annual utilization of the Company's net operating loss carryforwards may be limited if a cumulative change in ownership of more than 50% is deemed to occur within any three-year period. Because the deferred tax asset is fully reserved, the Company has not fully analyzed whether such limitation has occurred at this time. However, given the equity issuances during the year ended September 30, 2019 and 2018, it is likely that a section 382 limitation has been incurred.

Note 11 - Concentrations

For the years ended September 30, 2019 and 2018, respectively, 90% and 100% of the Company's revenue were generated from a single customer.

Note 12 - Commitments and Contingencies

The production and possession of marijuana is prohibited by the United States of America, though the state of Arizona allows these activities to be performed at licensed facilities such as BSSD. If the federal government decides to enforce the Controlled Substances Act, it could have a material adverse effect on our business.However, the Company does not currently believe the federal prohibition of these activities will negatively impact the business. As such, the Company has not elected to record a related accrual contingency.

The Company is in default on convertible notes payable totaling $20,000 (see Note 7). The Company has attempted to communicate with the note holder to request extension or conversion, but has been unsuccessful in doing so. The full balance on this note is included in current liabilities.

On April 20, 2018, the Company entered into an agreement for the purchase of approximately 44 acres of land from an affiliate of a founding member of BSSD. The purchase price of the property is $3,000,000, payable as follows; (i) $200,000 deposited with escrow agent as an initial earnest money deposit, (ii) on or before February 1, 2019, the Company will deposit an additional $800,000 into escrow as additional earnest money deposit and (iii) the balance of the purchase price shall be paid via a promissory note. The earnest money amounts are non-refundable. The Company has negotiated an amendment to this agreement that will spread the $800,000 payment over the course of 4 months. As of the date of these financial statements, $600,000 has been deposited in escrow which has been classified as a long-term asset on the consolidated balance sheet as of September 30, 2019.

On June 26, 2018, the Company entered into a contractor agreement with Sara Gullickson pursuant to which she would provide services to the Company as its President in exchange for $125,000 annually, payable each month, and $100,000 worth of common stock of the Company. She was also eligible for additional bonus share compensation per the agreement. The term of the agreement was a period of one year. Subsequent to September 30, 2018, this contractor agreement was terminated. See Note 13.

On June 26, 2018, the Company entered into a contractor agreement with Chase Herschman pursuant to which he will provide services in exchange for $120,000 annually, payable each month; up to $420,000 in common stock options which shall vest upon the occurrence of certain benchmarks as described in the contractor agreement and a commission of 1% of the gross profits of the Nevada Operations of the Company. The term of the agreement is a period of three years.

On September 13, 2018, the Company entered into a Loan and Revenue Participation Agreement with Viridis Group I9 Capital LLC ("Viridis"). Viridis agreed to make secured loans of up to $2.7 million to the Company which is represented by two separate notes, one for the construction and enhancement of the Company's Arizona property and one for the Company's proposed ventures in Nevada. In exchange for the loans, Viridis will be repaid in the form of waterfall revenue participation schedules. Viridis shall receive 5% of the Company's gross revenues from each of the Company's Arizona and Nevada operations, respectively, until the loan is repaid, 2% until repaid 200% of the amount loaned, and 1% of gross revenues in perpetuity or until a change in control.

Under the terms of the Loan and Revenue Participation Agreement, upon a change in control of the Company, Viridis will be entitled to receive 200% of the principal amount of the loans to the Company computed after considering previous revenue participation payments through the date of change of control and 1% of the aggregate sales price or consideration received in the change in control transaction.

As of September 30, 2019, the Company received the $1,500,000 and invested the funds in Strive Management (see Notes 8 and 9). The remaining $1,200,000 has been provided by Viridis directly to contractors of the Arizona property from an account owned and controlled by Viridis. The Company recorded the $1,200,000 as a long-term debt upon the completion of the Arizona facility expansion, as agreed upon in the terms of the note.

As part of the agreement to invest in Strive Management, the Company has committed to raise funding of approximately $4,000,000 through promissory notes that the Company will guarantee so that Strive Management can develop the property in Nevada through promissory notes that the Company will guarantee.

On July 1, 2019, the Company entered into a 3 year agreement with a concert venue to be the name sponsor for the venue. In exchange, the Company issued 45,457 shares of restricted common stock valued at $200,000 ($4.40/share) and is to pay $5,000 monthly for the first 12 months and $60,000 in July 2020 and 2021.

The Company entered into a 60 month lease with VGI Citadel LLC to rent office space for its Corporate Headquarters which began on September 1, 2019. The lease payments total $6,478 monthly for the first twelve months, include all utilities and an estimated amount for common area maintenance and real estate taxes. The monthly lease rate increases to $6,653, $6,828, $7,003, and $7,178 for years two through five, respectively.

Note 13– Related Party Transactions

As discussed in Note 1, on March 20, 2018, the Company issued 40,355,771 shares of common stock to the members of BSSD for their membership interests.

As discussed in Note 12, the Company has entered into an agreement as of April 20, 2018 for the purchase of land. The land owner is one of the original members of BSSD and a current employee of the Company.

As discussed in Note 14, on May 8, 2018, the Company issued 22,500 options for the purchase of common stock to three board members.

As discussed in Notes 8 and 12, the Company has entered into a Loan and Revenue Participation Agreement and Promissory Note with Viridis. The member of Viridis was elected to the Company's board of directors on December 21, 2018 and is currently the Company's CEO.

On August 7, 2018, the Company issued our Company president 33,356 shares of common stock valued at $100,000 as required under a contractor agreement (see Note 12).

As discussed in Note 2, the Company issued 3,000,000 of restricted common stock as part of the asset purchase agreement dated November 26, 2018.

During the year ending September 30, 2019, the Company issued 5,000,000 shares of restricted common stock to Viridis I9 Capital LLC, an LLC in which board Director and CEO, Andrew Bowden is a member of. The sales price was $1.00 per share with net proceeds of $5,000,000.

The Company has a construction management agreement with the Viridis Group to oversee the Nevada construction project totaling $20,000 monthly. The Company owes Viridis $60,000 for these services as of September 30, 2019.

As discussed in Note 12, the Company has a lease agreement with VGI Capital LLC. A member of VGI Capital was elected to the Company's board of directors on December 21, 2018 and is currently the Company's CEO.

Included in our accounts payable balance is approximately $185,000 in amounts due to related parties.

Note 14 - Stockholders' Equity

Common Stock

As discussed in Note 1, on March 20, 2018, the Company issued 40,355,771 shares of common stock to the members of BSSD for their membership interests.

During the year ended September 30, 2018, the Company raised $1,495,550, net of issuance costs of $16,050 via private placement. The selling price was $1 per share for a total of 1,511,600 shares of common stock issued.

During the year ended September 30, 2019, the Company raised $5,885,003 via private placement. 5,000,000 shares were issued for $1 per share and 590,003 shares were issued for $1.50 per share.

As discussed in Note 13, the Company entered into a consulting agreement by which we had to issue $100,000 worth of common stock. As of the agreement date, the share price was approximately $3.00, for which the Company was obligated to issue 33,356 shares of common stock.

As discussed in Note 2, the Company issued 3,000,000 shares of restricted common stock, valued at $7,770,000 as consideration for the acquisition of the majority of the assets in AZ DP Consulting, LLC.

In the year ended September 30, 2019, in the normal course of business, the Company issued 233,986 shares of restricted common stock, valued at $833,965 as consideration for various contracts, including venue sponsorships, marketing, and investor relations.

In the year ended September 30, 2019, the Company issued 52,374 shares of restricted common stock to employees, valued at $233,652.

Warrants

As of September 30, 2019, there are 298,411 warrants for purchase of the Company's common stock outstanding. The Company had no warrant activity during the years ended September 30, 2019 and 2018. Warrants outstanding as of September 30, 2019 and 2018 are as follows:

	Common Shares Issuable Upon Exercise of Warrants	Exercise Price of Warrants	Date Issued	Expiration Date
Warrants issued by predecessor	175,000	$ 2.00	3/31/2015	8/31/2020
Warrants issued by predecessor	100,000	$ 1.00	7/28/2016	7/28/2021
Warrants issued by predecessor	23,411	$ 1.30	12/22/2016	12/22/2019
Balance of Warrants at September 30, 2019 and 2018	298,411			

As discussed in Note 1, on March 20, 2018 the Company executed an agreement to acquire all the voting interest in BSSD Group, LLC. As BSSD Group, LLC is the accounting acquirer, all previously outstanding warrants were re-issued under the new company.

Stock Options

On May 8, 2018, the Company granted 22,500 stock options to board members. The options are exercisable at $2.40 per share with a ten year term. The options will vest equally over three years unless there is a change of control of the Company at which time any unvested options vest immediately. As of September 30, 2018, there are 294,991 stock options outstanding.

As discussed in Note 1, on March 20, 2018 the Company executed an agreement to acquire all the voting interest in BSSD Group, LLC. As BSSD Group, LLC is the accounting acquirer, all previously outstanding options were re-issued and vested immediately as this was considered a change in control.

The Company determines the fair value of stock options issued on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used for determining the fair value of the options granted during the year ended September 30, 2018:

Expected stock price volatility	34.72%
Expected dividend yield	0.00%
Risk-free interest rate	2.97%
Option life	10 years

We do not have an extensive history as a public company and our common stock transactions are too infrequent, therefore we could not practicably estimate the expected volatility of our own stock. Accordingly, we have substituted the historical volatility of a relevant comparable company that is publicly traded and does business within the industry we operate.

The options granted during the year ended September 30, 2018 were determined to have a fair value at date of grant of $2.40. The unrecognized compensation expense of $10,678 will be recognized over a weighted average period of 0.84 years.

The following is a summary of stock option activity for the years ended September 30, 2019 and 2018:

	Common Shares Issuable Upon Exercise of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Balance of Options at September 30, 2017	272,491			(1,307,957)
Options granted	22,500	$ 2.40	9.60	—
Exercised	—	—	—	—

Forfeited/Cancelled	—	—	—	—
Balance of Options at September 30, 2018	294,991			(1,307,957)
Options granted	—	—	—	—
Exercised	—	—	—	—
Forfeited/Cancelled	—	—	—	—
Balance of Options at September 30, 2019	294,991			
Exercisable at September 30, 2018	275,616	$ 5.37		
Unvested at September 30, 2018	19,375			
Exercisable at September 30, 2019	284,366	$ 5.37		
Unvested at September 30, 2019	10,625			

All options vested during the year ended September 30, 2018 and remaining unvested at September 30, 2019 had a weighted-average grant-date fair value of $2.40.

Note 15 - Subsequent Events

On November 15, 2019, Ms. Sara Gullickson voluntarily resigned as Chief Executive Officer and member of the Board of Directors of Item 9 Labs Corp. The resignation was not the result of any disagreement with the Company on any matter relating to the Company's operations, policies, or practices. Ms. Gullickson and the Company have mutually agreed to amend the terms of the employment agreement and non-competition agreement between Ms. Gullickson and the Company dated November 26, 2018 pursuant to which (i) the non-competition period shall be reduced from three (3) years to four (4) months; (ii) Ms. Gullickson shall receive her full salary and health benefits for four (4) months from the resignation date (a significantly reduced period of time); and (iii) Ms. Gullickson shall cancel and return to treasury an aggregate amount 2,300,000 restricted shares of Company Common Stock which were acquired by Gullickson pursuant to that certain Asset Purchase Agreement dated November 26, 2018 by and between by and between Arizona DP Consulting LLC, an Arizona limited liability company, as seller, and Gullickson as the sole member of the seller on the one hand, and the Company and AZ DP Holdings, LLC, a Nevada limited liability company as buyer, on the other hand.

In exchange for the aforementioned terms, the Company and Gullickson agreed to a release of claims against each other, among other things. The agreement contains representations and warranties customary for agreements of this type.

On November 18th, 2019, the Board appointed Mr. Andrew Bowden, age 31, as the Company's Chief Executive Officer. Mr. Bowden is a current member of the Company's Board of Directors.

Related Party Transactions

Mr. Bowden is co-founder and CEO of Viridis, dba Bowden Investment Group, a strategic partner of the Company. On September 13, 2018, the Company entered into a Loan and Revenue Participation Agreement and Promissory Note with Viridis.

On November 18th, 2019, Mr. Jeffrey Rassas voluntarily resigned as Chairman of the Board of Directors of the Company, effective immediately. The resignation was not the result of any disagreement with the Company on any matter relating to the Company's operations, policies, or practices. Mr. Rassas will continue to serve as a member of the Company's Board of Directors and Chief Strategy Officer.

On November 18th, 2019, the Board appointed Mr. Ronald L. Miller, age 55, as the Company's Chairman of the Board of Directors. Mr. Miller is a current member of the Board of Directors.

On October 28, 2019 and again on December 28, 2019, the Company extended the terms of its note payable to Aeneas Venture Partners 3 LLC. The Company made two $25,000 payments in December 2019 and accrued an interest fee of $300,000 for each extension. The note balance totals $2,850,000 as of the date of these consolidated financial statements.

In December 2019, BSSD Group LLC, a wholly owned subsidiary of the Company terminated its personal services agreement with Buds & Roses. This agreement allowed the Company to cultivate, process and distribute cannabis in the state of Arizona. The agreement has a run-out period through March 31, 2020, during which time, BSSD Group LLC is negotiating with other Arizona dispensaries to perform under a similar contract. BSSD had to make a payment of approximately $400,000 in December 2019 to settle the outstanding balance on the current contract, and is required to pay $80,000 monthly on the first of January, February and March 2020.

NOTE 16 – GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with GAAP, which contemplate continuation of the Company as a going concern. The Company has not yet established an ongoing source of revenue sufficient to cover its operating costs and has incurred net losses since its inception. These losses, with the associated substantial accumulated deficit, are a direct result of the Company's planned ramp up period as it is pursuing market acceptance and geographic expansion. In view of these matters, realization of a major portion of the assets in the accompanying consolidated balance sheets is dependent upon continued operations of the Company which in turn is dependent upon the Company's ability to meet its financing requirements, and the success of its future operations. The Company operates in a new, developing industry with a variety of competitors. These factors raise substantial doubt about the Company's ability to continue as a going concern. As a result, the Company's independent registered public accounting firm included an emphasis-of-matter paragraph with respect to the accompanying consolidated financial statements, expressing uncertainty regarding the Company's assumption that it will continue as a going concern.

In order to continue as a going concern, the Company will need to generate additional revenue and obtain additional capital to fund its operating losses and service its debt. Management's plans in regard to these matters are described as follows:

Sales and Marketing. Historically, the Company has generated the majority of its revenues by providing its products to dispensaries throughout the state of Arizona. The Company's revenues have increased significantly since its inception in May 2017. Management will continue its plans to increase revenues in the Arizona market by providing superior products. Additionally, as capital resources become available, the Company plans expand into additional markets outside of Arizona, with construction of a cultivation and processing facility well underway in Nevada.

Financing. To date, the Company has financed its operations primarily with loans from shareholders, private placement financings and sales revenue. Management believes that with continued production efficiencies, production growth, and continued marketing efforts, sales revenue will grow significantly, thus enabling the Company to reverse its negative cash flow from operations and raise additional capital as needed. However, there is no assurance that the Company's overall efforts will be successful.

If the Company is unable to generate significant sales growth in the near term and raise additional capital, there is a risk that the Company could default on additional obligations, and could be required to discontinue or significantly reduce the scope of its operations if no other means of financing operations are available. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustment that might be necessary should the Company be unable to continue as a going concern.

(b) EXHIBITS

The exhibits required to be filed herewith by Item 601 of Regulation S-K, as described in the following index of exhibits, are attached hereto unless otherwise indicated as being incorporated by reference, as follows:

Exhibit Number	Description of Exhibit	
3.01a	Articles of Incorporation dated June 15, 2010	Filed with the SEC on May 12, 2011 as part of our Registration Statement on Form S-1/A.
3.01b	Certificate of Amendment to Articles of Incorporation dated October 22, 2012	Filed with the SEC on November 13, 2012 as part of our Current Report on Form 8-K
3.01c	Certificate of Amendment to Articles of Incorporation dated March 15, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
3.01d	Certificate of Amendment to Articles of Incorporation dated March 19, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
3.01e	Certificate of Amendment to Articles of Incorporation dated April 3, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
3.01f	Certificate of Amendment to Articles of Incorporation dated October 9, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
3.02	Bylaws	Filed with the SEC on May 12, 2011 as part of our Registration Statement on Form S-1/A.
4.1	2019 Equity Incentive Plan	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
10.03	Share Exchange Agreement between Crown Dynamics Corp. and Airware Dated March 20, 2012	Filed with the SEC on March 26, 2012 as part of our current report on Form 8-K.
10.04	Agreement and Plan of Exchange between Item 9 Labs Corp. fka Airware and BSSD Group, LLC dated March 20, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
10.05	Purchase Agreement between Sidewinder Dairy, Inc. and the Company dated April 20, 2018	Filed with the SEC on August 16, 2019 as an exhibit to our Form 10-Q
10.6	Asset Purchase Agreement between Item 9 Labs Corp. and AZ DP Consulting, LLC dated November 26, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
10.7	Loan and Revenue Participation Agreement between Item 9 Labs Corp. and Viridis Group I9 Capital LLC dated September 13, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
10.8	Severance Agreement between Airware Labs Corp and Jeffrey Rassas, effective July 16, 2013	Filed with the SEC on July 19, 2013 as part of our Current Report on Form 8-K.
10.9	Employment Agreement with Sara Gullickson dated November 26, 2018	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
10.10	Term Sheet between Company and Strive Management LLC dated June 15, 2018	Filed with the SEC on August 22, 2019 as an exhibit to our Registration Statement on Form 10-12G/A
14.1	Code of Ethics	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
21	Subsidiaries	Filed herewith.

31.01	Certification of Principal Executive Officer Pursuant to Rule 13a-14	Filed herewith.
31.02	Certification of Principal Financial Officer Pursuant to Rule 13a-14	Filed herewith.
32.01	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act	Filed herewith.
32.02	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act	Filed herewith.
99.1	Audit Committee Charter	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
99.2	Compensation Committee Charter	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
99.3	Nominations and Governance Committee Charter	Filed with the SEC on June 27, 2019 as an exhibit to our Registration Statement on Form 10-12G
101.INS*	XBRL Instance Document	Filed herewith.
101.SCH*	XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document	Filed herewith.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.

*Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Know Labs, Inc. (the "Registrant") has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ITEM 9 LABS CORP.
(Registrant)

Date: January 14, 2020 By: /s/ *Andrew Bowden*
Andrew Bowden
Chief Executive Officer, and Director
(Principal Executive Officer)

Date: January 14, 2020 By: /s/ *Robert Mikkelsen*
Robert Mikkelsen
Chief Financial Officer
(Principal Financial and Accounting 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:

/s/ Andrew Bowden Andrew Bowdan	Chief Executive Officer and Director (Principal Executive Officer)	January 14, 2020
/s/ Robert Mikkelsen Robert Mikkelsen	Chief Financial Officer (Principal Financial/Accounting Officer)	January 14, 2020
/s/ Ronald L. Miller Ronald L. Miller	Chairman of the Board	January 14, 2020
/s/ Jeffrey Rassas Jeffrey Rassas	Director	January 14, 2020
/s/ Bryce Skalla Bryce Skalla	Director	January 14, 2020

CERTIFICATE OF SERVICE

I hereby certify pursuant to NRAP 25(c), that on the 9th day of August, 2021, I caused service of a true and correct copy of the foregoing **APPENDIX TO PETITIONERS' WRIT OF MANDAMUS** by the following means:

X BY MAIL: I placed a true copy thereof enclosed in a sealed envelope addressed as follows:

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