IN THE SUPREME COURT OF THE STATE OF NEVADA

JDD, LLC; TCS PARTNERS, LLC; JOHN SAUNDERS; and TREVOR SCHMIDT, Petitioners, Vs. THE EIGHTH JUDICIAL DISTRICT COURT of the State of Nevada, in and for the County of Clark, and the HONORABLE JUDGE TIMOTHY C. WILLIAMS, District Court Judge, Respondents, 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 19 CAPITAL, LLC; VIRIDIS GROUP HOLDINGS, LLC; SNOWELL HOLDINGS, LLC; ANDREW BOWDEN; DOUGLAS BOWDEN; BRYCE SKALLA; and CHASE HERSCHMAN, Real Parties in Interest.	Electronically Filed Nov 01 2021 08:23 p.m. Elizabeth A. Brown Clerk of Supreme Court Supreme Court Case No.: 83344 Dist. Ct. Case No.: A-20-811232-C

APPENDIX TO REAL PARTIES IN INTEREST'S ANSWER TO PETITION FOR WRIT OF MANDAMUS

VOLUME 4 OF 5; RAPP 0633 - 0882

Docket 83344 Document 2021-31401

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CHRONOLOGICAL APPENDIX

DOCUMENT	*VOL. NO.*	*Bates No.*
First Amended Complaint	1A	RAPP_0001-0063
Snowell Holdings, LLC's Motion to Dismiss	1A	RAPP_0064-0077
Item 9 Labs Corp. et al.'s Motion to Dismiss	1A	RAPP_0078-0123
Plaintiff's Opposition to Snowell Holdings, LLC's Motion to Dismiss	1A	RAPP_0124-0127
Snowell Holdings, LLC's Reply in Support of Motion to Dismiss	1B	RAPP_0128-0133
Plaintiff's Opposition to Item 9 Labs Corp. et al.'s Motion to Dismiss	1B	RAPP_0134-0151
Item 9 Labs Corp. et al.'s Reply in Support of Motion to Dismiss	1B	RAPP_0152-0166
Reporter's Transcript of Motion to Dismiss	1B	RAPP_0167-0247
Snowell Holdings, LLC Motion for Attorneys' Fees	2	RAPP_0248-0264
Order Granting Snowell Holdings, LLC's Motion to Dismiss	2	RAPP_0265-0278
Notice of Entry of Order Granting Snowell Holdings, LLC's Motion to Dismiss	2	RAPP_0279-0295
Plaintiff's Opposition to Defendants Snowell Holdings, LLC's Motion for Fees	2	RAPP_0296-0367
Order Granting Item 9 Labs Corp. et al.'s Motion to Dismiss	2	RAPP_0368-0383
Notice of Entry of Order Granting Item 9 Labs Corp. et al.'s Motion to Dismiss	2	RAPP_0384-0404
Snowell Holdings, LLC's Reply in Support of Motion for Attorneys' Fees	2	RAPP_0405-0409
Item 9 Labs Corp. et al.'s Motion for Attorneys' Fees and Costs	3A	RAPP_0410-0494

Minute Order Granting Snowell Holdings, LLC's Motion for Attorneys' Fees	3A	RAPP_0495
Plaintiff's Opposition to Item 9 Labs Corp. et al.'s Motion for Attorneys' Fees and Costs	3A	RAPP_0496-0530
	3B	RAPP_0531-0632
	4	RAPP_0633-0882
Minute Order regarding Snowell Holdings, LLC's Motion for Attorneys' Fees (Issue of Work Performed)	5	RAPP_0883
Item 9 Labs Corp. et al.'s Reply in Support of Motion for Attorneys' Fees and Costs	5	RAPP_0884-0895
Reporter's Transcript of Proceedings – Item 9 Labs Corp. et al.'s Motion for Attorneys' Fees	5	RAPP_0896-0915
Minute Order Granting Item 9 Labs Corp. et al.'s Motion for Attorneys' Fees and Costs	5	RAPP_0916
Order Granting Item 9 Labs Corp. et al.'s Motion for Attorneys' Fees and Costs	5	RAPP_0917-0931
Notice of Entry of Order Granting Item 9 Labs Corp. et al.'s Motion for Attorneys' Fees and Costs	5	RAPP_0932-0950

ALPHABETICAL APPENDIX

DOCUMENT	VOL. NO.	Bates No.
First Amended Complaint	1A	RAPP_0001-0063
Item 9 Labs Corp. et al.'s Motion for Attorneys' Fees and Costs	3	RAPP_0410-0494
Item 9 Labs Corp. et al.'s Motion to Dismiss	1A	RAPP_0078-0123
Item 9 Labs Corp. et al.'s Reply in Support of Motion for Attorneys' Fees and Costs	5	RAPP_0884-0895
Item 9 Labs Corp. et al.'s Reply in Support of Motion to Dismiss	1B	RAPP_0152-0166
Minute Order Granting Item 9 Labs Corp. et al.'s Motion for Attorneys' Fees and Costs	5	RAPP_0916
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Notice of Entry of Order Granting Snowell Holdings, LLC Motion to Dismiss	2	RAPP_0279-0295
Order Granting Item 9 Labs Corp. et al.'s Motion to Dismiss	2	RAPP_0368-0383
Order Granting Item 9 Labs Corp. et al.'s Motion for Attorneys' Fees and Costs	5	RAPP_0917-0931
Order Granting Snowell Holdings, LLC Motion to Dismiss	2	RAPP_0265-0278
Plaintiff's Opposition to Item 9 Labs Corp. et al.'s Motion to Dismiss	1B	RAPP_0134-0151

Plaintiff's Opposition to Item 9 Labs Corp. et al.'s Motion for Attorneys' Fees and Costs	3A	RAPP_0496-0530
	3B	RAPP_0531-0632
	4	RAPP_0633-0882
Plaintiff's Opposition to Snowell Holdings, LLC Motion for Fees	2	RAPP_0296-0367
Plaintiff's Opposition to Snowell Holdings, LLC's Motion to Dismiss	1A	RAPP_0124-0127
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Reporter's Transcript of Proceedings – Item 9 Labs Corp. et al.'s Motion for Attorneys' Fees	5	RAPP_0896-0915
Snowell Holdings, LLC Motion for Attorneys' Fees	2	RAPP_0248-0264
Snowell Holdings, LLC Reply in Support of Motion for Attorneys' Fees	2	RAPP_0405-0409
Snowell Holdings, LLC's Motion to Dismiss	1A	RAPP_0064-0077
Snowell Holdings, LLC's Reply In Support of Motion to Dismiss	1B	RAPP_0128-0133

CERTIFICATE OF COMPLIANCE

I hereby certify that on this appendix consists of true and correct copies of papers in the Clark County District Court file as required by NRAP 30(g).

Dated this 1st of November 2021.

MESSNER REEVES LLP

/s/ Candace Herling

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Attorneys for Real Parties in Interest, Donald Burton, Larry Lemons, and Snowell Holdings, LLC

CERTIFICATE OF SERVICE

I hereby certify that on this 1st day of November, 2021, I served the foregoing **APPENDIX TO REAL PARTIES IN INTEREST'S ANSWER TO PETITION FOR WRIT OF MANDAMUS (VOL. 4 of 5)** upon the following parties by:

__X___VIA ELECTRONIC SERVICE: by electronically filing with the Clerk of the Nevada Supreme Court;

______ VIA U.S. MAIL: By placing a true copy thereof enclosed in a sealed envelope with postage thereon fully prepaid, addressed as indicated on the service list below in the United States mail at Las Vegas, Nevada.

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Michael B. Wixom
Karl L. Nielson
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An Employee of
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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.
Table of Contents

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 Outstanding	Shares Under Option Exercisable	Remaining Life in Years
$ 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.

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(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: *<u>/s/ Robert Fireman</u>*

Robert Fireman
President and Chief Executive Officer
(Principal Executive Officer)

By: *<u>/s/ Jon R. Levine</u>*

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

INDEX

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	Nine Months Ended June 30, 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						Non Controlling Interest	Total
	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated (Deficit)		
	Shares	Amount		Shares	Amount			
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.

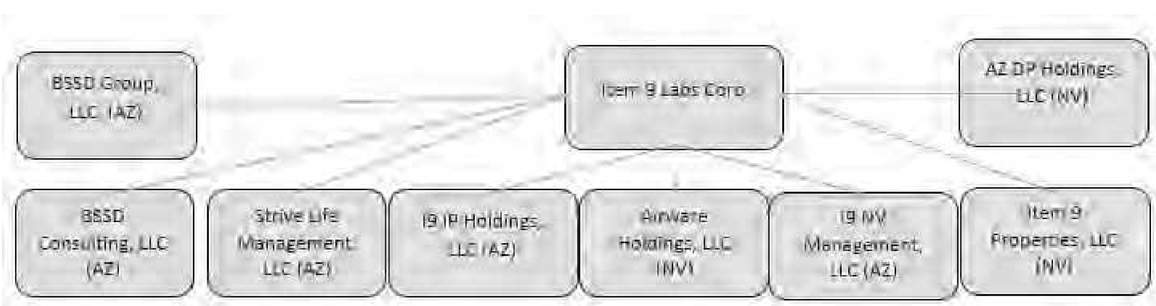
On September 12, 2018, the Company executed a $1,500,000 promissory note (see Note 8) which was used to make a capital contribution into Strive Management, LLC, a Nevada limited liability company ("Strive Management"). In exchange for the contribution, the Company received a 20% membership interest in 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.

<u>*Mission and Vision*</u>

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.

<u>*Cannabis Verticals*</u>

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.

<u>***Company Assets***</u>

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.

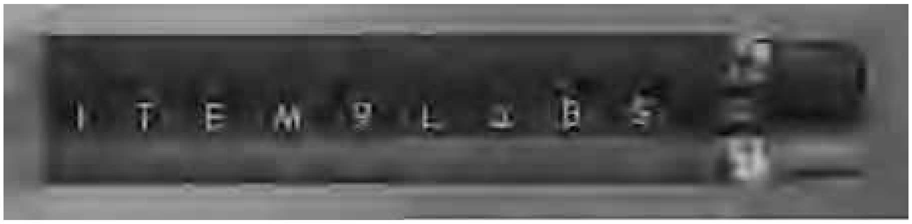
Apollo 710:
The Apollo 710 revolutionizes the cannabis vape market with its clean, modern design and hard-hitting delivery. It has a sleek, compact look that makes it well suited to discreet use, and this streamlined design makes it easy to fit in the palm of your hand unnoticed. With three distinct 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

<u>*Item 9 Labs Concepts*</u>

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.

<u>*Strive Concepts*</u>

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.

<u>*Combined brands*</u>

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 (a)	Title	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Option Awards ($) (f)(9)	Non-Equity Incentive Plan Compensation ($) (g)	Nonqualified Deferred Compensation Earnings ($) (h)	All other compensation ($) (i)	Total ($) (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

SEMPLE, MARCHAL & COOPER, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
2700 NORTH CENTRAL AVENUE, NINTH FLOOR PHOENIX, ARIZONA 85004-1147

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		Non Controlling	
	Shares	Amount	Capital	Accumulated (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