

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

FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2019

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: **000-51640**



ZONED PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

14269 N. 87th Street, #205, Scottsdale, AZ

(Address of principal executive offices)

46-5198242

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

85260

(Zip Code)

Registrant's telephone number, including area code: **(877) 360-8839**

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

Title of each class

Trading Symbol

Name of each exchange on which registered

N/A

N/A

N/A

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates based upon the closing price of \$0.21 per share of common stock as of June 28, 2019 (the last business day of the registrant's most recently completed second fiscal quarter), was \$1,868,450.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 12,011,548 shares of common stock are issued and outstanding as of March 26, 2020.

Documents Incorporated by Reference

None

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PART I

ITEM 1. BUSINESS

The following discussion should be read in conjunction with our consolidated financial statements and the related notes to the consolidated financial statements that appear elsewhere in this annual report on Form 10-K.

As used in this annual report on Form 10-K and unless otherwise indicated, the terms the terms “Zoned Properties”, “Company,” “we,” “us,” or “our” refer to Zoned Properties, Inc. and its wholly owned subsidiaries, Gilbert Property Management, LLC, Green Valley Group, LLC, Kingman Property Group, LLC, Chino Valley Properties, LLC, Zoned Oregon Properties, LLC, Zoned Colorado Properties, LLC, Zoned Illinois Properties, LLC, Zoned Arizona Properties, LLC and Zoned Advisory Services, LLC, as the context may require.

Overview

Zoned Properties, Inc. (“Zoned Properties” or the “Company”), was incorporated in the State of Nevada on August 25, 2003. The Company is a strategic real estate development & services firm whose primary mission is to provide specialized real estate and sustainability services for clients in the regulated cannabis industry, positioning the company for real estate acquisitions and revenue growth. We intend to pioneer sustainable development for emerging industries, including the regulated cannabis industry. We are an accredited member of the Better Business Bureau, the U.S. Green Building Council, and the Forbes Real Estate Council. We focus on investing capital to acquire and develop commercial properties to be leased on a triple-net basis, and engaging clients that face zoning, permitting, development, and operational challenges. We provide development strategies and advisory services that could potentially have a major impact on cash flow and property value. We do not grow, harvest, sell or distribute cannabis or any substances regulated under United States law such as the Controlled Substance Act of 1970, as amended (the “CSA”).

The Company has the following wholly owned subsidiaries:

- Gilbert Property Management, LLC (“Gilbert”) was organized in the State of Arizona on February 10, 2014.
- Chino Valley Properties, LLC (“Chino Valley”) was organized in the State of Arizona on April 15, 2014.
- Kingman Property Group, LLC (“Kingman”) was organized in the State of Arizona on April 15, 2014.
- Green Valley Group, LLC (“Green Valley”) organized in the State of Arizona on April 15, 2014.
- Zoned Oregon Properties, LLC was organized in the State of Oregon on June 16, 2015.
- Zoned Colorado Properties, LLC (“Zoned Colorado”) was organized in the State of Colorado on September 17, 2015.
- Zoned Illinois Properties, LLC was organized in the State of Illinois on July 15, 2015.
- Zoned Arizona Properties, LLC (“Zoned Arizona”) was organized in the State of Arizona on June 2, 2017.
- Zoned Advisory Services, LLC (“Zoned Advisory”) was organized in the State of Arizona on July 27, 2018.

In May 2018, we transitioned to a new and strategically important business model designed to better align our interests with those of our tenants and clients, positioning us to benefit from the growth of the medical marijuana industry.

Under the new model, we and our primary tenants in Arizona, Broken Arrow Herbal Center, Inc. (“Broken Arrow”) and CJK, Inc. (“CJK”), have agreed to the following:

- We leased the entirety of our licensed medical marijuana facilities located in Arizona at Chino Valley, Green Valley, Tempe and Kingman to CJK and Broken Arrow, with plans to further expand the developments as operational needs increase over time.
- Lease terms for the New Chino Valley Lease, New Tempe Lease, New Kingman Lease and New Green Valley Lease have been extended through the year 2040.
- Base rent rates have been modified to be in line with industry averages beginning May 1, 2018.
- We, Broken Arrow, and CJK have entered into a long-term strategic advisory relationship, under which we will assist Broken Arrow and CJK in all aspects of building and facility performance, aiming to increase efficiency, sustainability and profitability.
- We were to receive an advisory fee equal to 10% of gross revenues, paid monthly beginning in January 2019.

Effective January 1, 2019, the Company, Christopher Carra, Alan Abrams, Clayton Abrams Revocable Trust (the “Clayton Abrams Trust”), and Kyle Abrams Revocable Trust (the “Kyle Abrams Trust” and together with the Clayton Abrams Trust, the “Trusts”) entered into a Stock Redemption Agreement (the “Stock Redemption Agreement”). Prior to entry into the Stock Redemption Agreement, (i) Mr. Carra was the owner 2,028,335 shares of the Company’s common stock, representing approximately 11.6% of the Company’s outstanding shares as of January 1, 2019, and (ii) Mr. Abrams, together with the Trusts (collectively, the “Abrams Affiliates”), owned 3,611,669 shares of the Company’s common stock, representing approximately 20.7% of the Company’s outstanding common stock as of January 1, 2019. Pursuant to Securities and Exchange Commission (the “SEC”) rules, each of Messrs. Carra and Abrams was deemed to be a “related person” due solely to their status as significant stockholders of the Company. Pursuant to the terms of the Stock Redemption Agreement, the parties agreed that the Company would redeem an aggregate of 5,640,004 owned by Mr. Carra and the Abrams Affiliates (the “Stock Redemption”) such that Messrs. Carra and Abrams would no longer be significant and stockholders of the Company and would no longer be deemed to be “related persons” under SEC rules. In exchange for the Stock Redemption, the parties agreed that:

- The Company and Broken Arrow, which was owned at the time of the transaction, in whole or in part, directly or indirectly, by Messrs. Abrams and Carra, amended the Broken Arrow CASA to reduce the gross revenue fee payable by Broken Arrow from 10% of gross revenue to 0% of gross revenue,
- The Company and CJK, which was owned at the time of the transaction, in whole or in part, directly or indirectly, by Messrs. Abrams and Carra, amended the CJK CASA to reduce the gross revenue fee payable by CJK from 10% of gross revenue to 0% of gross revenue,
- The Company and Mr. Abrams amended the convertible debenture dated January 9, 2017 (the “Abrams Debenture”) to extend the maturity date of the Abrams Debenture from January 9, 2022 until January 9, 2030, and
- Chino Valley and Broken Arrow amended the Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 (the “Chino Valley Lease”) to increase the monthly base rent payable by Broken Arrow from \$35,000 to \$40,000.

2019 was focused on the growth of a diversified revenue stream. We intend to accomplish this by prospecting new advisory services across the country for private and municipal clients. We believe that strategic real estate advisory services are likely to emerge as the growth engine for Zoned Properties and are moving to take advantage of new opportunities.

Our Business

Zoned Properties is a strategic real estate development and services firm whose primary mission is to provide specialized real estate and sustainability services for clients in the regulated cannabis industry, positioning the company for real estate acquisition and revenue growth. We intend to pioneer sustainable development for emerging industries, including the regulated cannabis industry. We are an accredited member of the Better Business Bureau, the U.S. Green Building Council, and the Forbes Real Estate Council. We focus on investing capital to acquire and develop commercial properties to be leased on a triple-net basis, and engaging clients that face zoning, permitting, development, and operational challenges. We provide development strategies and advisory services that could potentially have a major impact on cash flow and property value. We do not grow, harvest, sell or distribute cannabis or any substances regulated under United States law such as the Controlled Substance Act of 1970, as amended (the “CSA”).

We intend to develop and expand multiple business divisions, including a commercial real estate brokerage team, an advisory services division, and a nonprofit charitable organization to focus on community prosperity. Each of these operating divisions are important elements of the overall business development strategy for long-term growth. We believe in the value of building relationships with clients and local communities in order to position the company for long-term portfolio and revenue growth backed by sophisticated, safe, and sustainable assets and clients.

The core of our business involves identifying and developing properties that intend to operate within highly regulated zoning and permitting regions, including the regulated cannabis industry. Within highly regulated industries, local municipalities typically develop strict planning and zoning regulations that dictate the specific locations at which regulated properties can operate. These regulations often complex permitting processes and can include non-standard setbacks for each location; for example, restricting a regulated property or facility from operating within a certain distance of any parks, schools, churches, or residential districts. When an organization can collaborate with local representatives, a proactive set of rules and regulations can be established and followed to meet the needs of both the regulated operators and the local community.

The Company currently maintains a portfolio of properties that we own, develop, and lease. We currently lease land and building space at all five of the properties in our portfolio. Four of the properties are leased to licensed medical marijuana tenants and are located in areas with established zoning and permitting procedures. Two of the leased properties are zoned and permitted as licensed medical marijuana dispensaries, and two of the leased properties are zoned and permitted as licensed medical marijuana cultivation facilities. In addition, we provide on-going advisory services at each property that is leased to operating tenants. Each property undergoes a development life cycle. Areas of development that may require advisory services can range from initial property identification and zoning authorization to complete architectural design, utility installation, property management protocol, facilities management systems, and security system installation.

There are significant challenges that take place when zoning, permitting, and developing facilities specifically associated with the regulated cannabis industry. Each state and jurisdiction may adopt specific zoning and permitting regulations. The Company has gained valuable knowledge and best practices in this area by successfully completing four major projects in the state of Arizona, a highly regulated market for licensed cannabis operators. The Company intends to replicate this business model in other states as markets mature and rules and regulations are established.

The process of establishing zoning and permitting can directly impact our ability to place a licensed tenant in a long-term lease agreement. In locations where the zoning and permitting process has not been comprehensively defined, the Company may attempt to work with local representatives to collaboratively establish regulatory language to guide future developments. In locations where the zoning and permitting process may not allow for a currently feasible development, but could allow for the development to be successful in the future, the Company may hold the undeveloped property and/or lease the property out in the interim. We approach these situations on a case-by-case basis.

We generally confirm baseline zoning during the due diligence period and as a contingency of a prospective acquisition. Ideally, properties we consider for acquisition and subsequent development would already be zoned and permitted for use as a licensed cannabis operation; however, we do have the expertise to address these requirements if zoning and permitting are not in place at the time of acquisition.

The process for obtaining zoning authorizations and permitting for a regulated cannabis facility can take several months to complete. The process primarily involves working directly with the local Planning and Zoning Commission or Development Department. Notwithstanding proper zoning and permitted use, we may work with local zoning authorities in order to revise zoning laws. The Company has been involved with local representatives for each of the properties currently held in our portfolio. For example, the Company worked directly with local representatives in Tempe, Arizona to update the local zoning code that regulates licensed medical marijuana facilities. The successful adoption of these code amendments directly impact the continued development of any licensed medical marijuana facilities that operate within municipal limits.

In the event a property is not currently zoned or does not currently allow permitted use as a regulated cannabis or marijuana facility, we may work with local authorities to seek changes to existing zoning or permitted use. Our efforts may not be successful. For example, our property located in Gilbert, Arizona has not been successfully zoned and permitted for a prospective licensed medical marijuana dispensary nor has it been leased to a medical marijuana operator. We plan to lease this property to a non-cannabis tenant in the interim.

The Company has established a network of experts in the fields of real estate, design, construction, operations, and corporate social responsibility in order to provide tenants and clients with comprehensive solutions to best meet their needs. We require our prospective tenants and clients to go through extensive due diligence in order to meet the Company's standards as sophisticated and experienced operators.

Our vision is to be recognized for setting the standard in sustainable development for emerging industries, while increasing community prosperity and shareholder value. We believe that a focus on real estate and the sustainable development of properties will bring value to the local communities in which we operate and to local stakeholders. While we intend to expand into a variety of emerging industries, our current focus is on developing projects within the regulated cannabis industry.

We are the sole member of nine limited liability companies: Zoned Advisory Services, LLC ("Zoned Advisory Services"), Zoned Arizona Properties, LLC ("Zoned Arizona"), Gilbert Property Management LLC ("Gilbert Management"), Green Valley Group LLC ("Green Valley Group"), Kingman Property Group LLC ("Kingman Property"), Chino Valley Properties LLC ("Chino Valley Properties"), Zoned Colorado Properties LLC ("Zoned Colorado"), Zoned Illinois Properties LLC ("Zoned Illinois"), and Zoned Oregon Properties LLC ("Zoned Oregon"). Five of these entities own our properties: Zoned Arizona, Gilbert Management, Green Valley Group, Kingman Property, and Chino Valley Properties have all acquired land and real property.

On May 1, 2018, Zoned Arizona, Green Valley Group, Kingman Property, and Chino Valley Properties executed related party lease agreements at the properties within their respective regions and generate rental revenue. The lease agreements have a 22-year term, expiring on April 30, 2040. Additionally, we own land located in Gilbert, Arizona that is leased to a third party.

The leases dated May 1, 2018, with Zoned Arizona, Green Valley Group, Kingman Property, and Chino Valley Properties each include a Guarantee of Payment and Performance by Mr. Abrams and the tenant organizations.

Also on May 1, 2018, the Company entered into that certain Confidential Advisory Services Agreement by and between the Company and Broken Arrow (the "Broken Arrow CASA"), with a term expiring on April 30, 2040, unless earlier terminated as provided in the Broken Arrow CASA. Additionally, on May 1, 2018, the Company entered into that certain Confidential Advisory Services Agreement by and between the Company and CJK (the "CJK CASA"), with a term expiring on April 30, 2040, unless earlier terminated as provided in the CJK CASA. Each of the Broken Arrow CASA and the CJK CASA may be terminated prior to the expiration of the respective term upon the occurrence of any of the following: (a) by the Company for any reason at any time upon 30 calendar days' written notice to the other party; (b) by either party immediately upon the mutual agreement of the parties, evidenced by a writing signed by the parties; or (c) immediately by either party in the event of an actual finding, by a court of competent jurisdiction, of fraud, gross negligence or willful misconduct of the other party in connection with these agreements. Pursuant to the terms of the Broken Arrow CASA and CJK CASA, Broken Arrow and CJK engaged the Company to perform certain advisory services in exchange for a fee equal to 10% of Broken Arrow's and CJK's gross revenues (the "Revenue Fee"), commencing January 2019. The Revenue Fee was to be paid on a monthly basis, no later than 30 calendar days following the end of the immediately preceding calendar month, and the amount of such monthly payment of the Revenue Fee is equal to the product of (a) 10%, multiplied by (b) the gross revenues of Broken Arrow or CJK, as the case may be, for such immediately preceding calendar month. Notwithstanding the foregoing, upon the filing of the federal or state tax returns of Broken Arrow or CJK, as the case may be, (i) the advisory client shall calculate the Revenue Fee based on the amount of the advisory client's gross revenue reported on such federal or state tax returns, and (ii), if the amount of such calculation is greater than the sum of all monthly Revenue Fees payable to the Company under the Broken Arrow CASA or the CJK CASA, as the case may be, the applicable advisory client is required to pay to the Company the amount of such difference, which amount is in addition to all monthly Revenue Fees due to the Company under the Broken Arrow CASA or the CJK CASA.

Through December 31, 2018, each of Messrs. Abrams and Carra was a significant stockholder of the Company.

Effective January 1, 2019, the Company, Christopher Carra, Alan Abrams, Clayton Abrams Revocable Trust (the "Clayton Abrams Trust"), and Kyle Abrams Revocable Trust (the "Kyle Abrams Trust" and together with the Clayton Abrams Trust, the "Trusts") entered into a Stock Redemption Agreement (the "Stock Redemption Agreement"). Prior to entry into the Stock Redemption Agreement, (i) Mr. Carra was the owner 2,028,335 shares of the Company's common stock, representing approximately 11.6% of the Company's outstanding shares as of January 1, 2019, and (ii) Mr. Abrams, together with the Trusts (collectively, the "Abrams Affiliates"), owned 3,611,669 shares of the Company's common stock, representing approximately 20.7% of the Company's outstanding common stock as of January 1, 2019. Pursuant to SEC rules, each of Messrs. Carra and Abrams was deemed to be a "related person" due solely to their status as significant stockholders of the Company. Pursuant to the terms of the Stock Redemption Agreement, the parties agreed that the Company would redeem an aggregate of 5,640,004 owned by Mr. Carra and the Abrams Affiliates (the "Stock Redemption") such that Messrs. Carra and Abrams would no longer be significant and stockholders of the Company and would no longer be deemed to be "related persons" under SEC rules. In exchange for the Stock Redemption, the parties agreed that:

- The Company and Broken Arrow, which was owned at the time of the transaction, in whole or in part, directly or indirectly, by Messrs. Abrams and Carra, amended the Broken Arrow CASA to reduce the gross revenue fee payable by Broken Arrow from 10% of gross revenue to 0% of gross revenue,
- The Company and CJK, which was owned at the time of the transaction, in whole or in part, directly or indirectly, by Messrs. Abrams and Carra, amended the CJK CASA to reduce the gross revenue fee payable by CJK from 10% of gross revenue to 0% of gross revenue,
- The Company and Mr. Abrams amended the convertible debenture dated January 9, 2017 (the "Abrams Debenture") to extend the maturity date of the Abrams Debenture from January 9, 2022 until January 9, 2030, and
- Chino Valley and Broken Arrow amended the Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 (the "Chino Valley Lease") to increase the monthly base rent payable by Broken Arrow from \$35,000 to \$40,000.

Following effectiveness of the Stock Redemption and the transactions set forth above:

- Messrs. Carra and Abrams no longer beneficially own any shares of the Company's common stock. Accordingly, they are no longer be significant stockholders of the Company or "related persons" under the SEC rules.
- The Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Chino Valley and Broken Arrow continues in full force and effect, except as amended by the Chino Valley Lease Amendment to increase the monthly base rent payable by Broken Arrow from \$35,000 to \$40,000.
- The Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Green Valley and Broken Arrow continues in full force and effect.
- The Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement (concerning the Company's Tempe, Arizona property) dated May 1, 2018 between Zoned Arizona and CJK continues in full force and effect.
- The Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Kingman and CJK continues in full force and effect.

Multiple state-licensed operators from across the United States have approached Zoned Properties for strategic partnership and/or advisory services for development and prospective sale-lease back arrangements. We are continuously evaluating these projects as we seek development partnerships, prospective sale-lease back arrangements, and explore financing terms with capital funding sources.

We believe that we are well positioned to benefit from ancillary development opportunities that the regulated cannabis industry presents without having to deal with the risk of directly cultivating, distributing, or dispensing the product, which is still illegal under federal law.

Our initial holdings and acquisition targets have been in the State of Arizona. Unlike many other states that have legalized and regulated cannabis, Arizona's program has some of the strictest regulations in the country and limits the number of dispensaries that will be allowed to be open and operate within the state. While there are hundreds of dispensaries in Denver, Colorado, the entire state of Arizona can have a maximum of 130 operating dispensaries under current legislation. Two of our properties in Arizona (Kingman and Green Valley) are leased to licensed operators that have been awarded dispensary licenses. This limitation on the number of dispensaries permitted to operate in Arizona under current legislation will limit our ability to purchase additional property in Arizona for lease to dispensary operators.

Recent Corporate History and Transactions

On April 22, 2016, Zoned Colorado Properties, LLC (“Zoned Colorado”), a wholly owned subsidiary of the Company, entered into a Contract to Buy and Sell Real Estate (the “Parachute Agreement”) with Parachute Development Corporation (“Seller”) pursuant to which Zoned Colorado agreed to purchase, and Seller agreed to sell, property in Parachute, Colorado (the “Property”) for a purchase price of \$499,857. Of the total purchase price, \$274,857, or 55%, will be paid in cash at closing and \$225,000, or 45%, will be financed by Seller at an interest rate of 6.5%, amortized over a five-year period, with a balloon payment at the end of the fifth year. Payments will be made monthly and there will be no pre-payment penalty. Pursuant to the terms of the Parachute Agreement, the parties will cooperate in good faith to complete due diligence during a period of 45 days following execution of the Parachute Agreement. The closing is subject to certain contingencies, including that Zoned Colorado must obtain acceptable financing for the purchase and development of the Property, the grant of a special use permit by the Town of Parachute, approval of a protected development deal or equivalent agreement by the Town of Parachute, execution of a lease agreement by a prospective tenant and the prospective tenant’s obtaining a license to cultivate on the Property. Pursuant to the terms of the Parachute Agreement, Zoned Colorado will have a right of first refusal on eleven additional lots owned by Seller in Parachute, Colorado. In April 2016, the Company paid a refundable deposit of \$45,000 into escrow in connection with the Parachute Agreement. As of December 31, 2019, the Company and Seller have yet to complete the purchase.

As discussed above, effective January 1, 2019, the Company, Christopher Carra, Alan Abrams, Clayton Abrams Trust, and Kyle Abrams Trust and together with the Clayton Abrams Trust, the “Trusts”) entered into a Stock Redemption Agreement. Prior to entry into the Stock Redemption Agreement, (i) Mr. Carra was the owner 2,028,335 shares of the Company’s common stock, representing approximately 11.6% of the Company’s outstanding shares as of January 1, 2019, and (ii) Mr. Abrams, together with the Trusts (collectively, the “Abrams Affiliates”), owned 3,611,669 shares of the Company’s common stock, representing approximately 20.7% of the Company’s outstanding common stock as of January 1, 2019. Pursuant to SEC rules, each of Messrs. Carra and Abrams was deemed to be a “related person” due solely to their status as significant stockholders of the Company. Pursuant to the terms of the Stock Redemption Agreement, the parties agreed that the Company would redeem an aggregate of 5,640,004 owned by Mr. Carra and the Abrams Affiliates such that Messrs. Carra and Abrams would no longer be significant and stockholders of the Company and would no longer be deemed to be “related persons” under SEC rules.

For the years ended December 31, 2019 and 2018, substantially all of the Company’s real estate properties are leased under triple-net leases to tenants that are controlled by one entity (each, a “Significant Tenant” and collectively, the “Significant Tenants”). For the years ended December 31, 2019 and 2018, rental and advisory revenue associated with the Significant Tenants amounted to \$1,146,654 and \$1,186,775, which represents 91.0% and 96.0% of the Company’s total revenues, respectively. For the year ended December 31, 2018, rental revenue from significant tenants was classified as rental revenues – related parties.

Clients

We target clients who require assistance with the identification and development of regulated cannabis projects. Our ideal prospective clients will have a commitment to sophisticated, safe, and sustainable project development. The most significant barrier to success for many industry operators and prospective clients includes distractions from primary business operations. These distractions often include services related to the identification, zoning, permitting, and development of real estate.

We complete significant due diligence on prospective tenants and prospective clients regardless of industry focus. Credit-worthiness, character, and cash flows are all important traits that contribute to a sophisticated client for the Company.

Marketing

Currently, the Company does not actively market its services using any direct marketing campaigns. Industry reputation, word-of-mouth, and networking are the primary tools used to complete the marketing of our services. We maintain an updated website, shareholder presentation, and profile outlining the Company’s services. These tools are created for transparency of operations and activities. Our executive management believes the reputation of having integrity is an essential tool for marketing and business development.

Competition

The commercial real estate market is highly competitive. We believe finding properties that are zoned for the specific use of allowing regulated cannabis operations may be limited as more competitors enter the market. Several competitors have recently entered the marketplace. We face significant competition from a diverse mix of market participants, including but not limited to, other public companies with similar business models, independent investors, hedge funds and other real estate investors, hard money lenders, as well as would be clients, marijuana operators themselves, all of whom, who may compete against us in our efforts to acquire real estate zoned for cannabis grow and retail operations. In some instances, we will be competing to acquire real estate with persons who have no interest in the regulated cannabis business, but have identified value in a piece of real estate that we may be interested in acquiring.

Government Regulation

We are subject to applicable provisions of federal and state securities laws and to regulations specifically governing the real estate industry, including those governing fair housing and federally backed mortgage programs. Our operations will also be subject to regulations normally incident to business operations, such as occupational safety and health acts, workmen's compensation statutes, unemployment insurance legislation and income tax and social security related regulations. Although we will use our best efforts to comply with applicable regulations, we can provide no assurance of our ability to do so, nor can we fully predict the effect of these regulations on our proposed activities.

In addition, zoning commercial properties for specific purposes, such as regulated cannabis dispensaries or cultivation facilities, is subject to specific regulations to the zoning requirements for the city, county and state related to any regulated cannabis facility. We expect regulations to get tighter as time goes on.

In November 2010, Arizona voters passed the Arizona Medical Marijuana Act ("AMMA"). The AMMA designates the Arizona Department of Health Services ("ADHS") as the licensing authority for the program. ADHS is tasked with issuing Registry Identification Cards ("RIC") to qualifying patients, designated caregivers, and dispensary agents, as well as selecting, registering, and providing oversight for nonprofit medical marijuana dispensaries. With permission from ADHS, qualifying patients or their caregivers may cultivate marijuana if the patient lives more than 25 miles from a dispensary.

Qualifying patients can legally possess and purchase medical marijuana under Arizona law as long as they hold a RIC. They acquire their medicine from non-profit medical marijuana dispensaries. These dispensaries acquire, possess, cultivate, manufacture, deliver, transfer, transport, supply, sell, and dispense medical marijuana. Arizona is divided into 126 Community Health Assessment Areas (each, a "CHAA") and each CHAA may only have one dispensary located within it. Dispensaries are the only place patients are legally allowed to purchase medical marijuana in Arizona. Arizona law permits the number of CHAAs to change based on the number of registered pharmacies in Arizona. In order to operate, a dispensary must have a Dispensary Registration Certificate and Approval to Operate Certificate from ADHS. The first dispensaries began operation in 2012, and it is anticipated that at maturity, there will be about 112 dispensaries statewide - one in each CHAA not part of one of Arizona's Native American Indian Reservations.

The U.S. Government classifies marijuana as a schedule-I controlled substance under the CSA. The CSA makes it illegal under federal law to manufacture, distribute, or dispense marijuana. The Company maintains its operations so as to remain in compliance with the CSA. Even in those jurisdictions in which the manufacture and use of medical marijuana has been legalized at the state level, the possession, use and cultivation all remain violations of federal law that are punishable by imprisonment and substantial fines, and the prescription of marijuana is a violation of federal law. Moreover, individuals and entities may violate federal law if they intentionally aid and abet another in violating these federal controlled substance laws, or conspire with another to violate them. The U.S. Supreme Court has ruled in *United States v. Oakland Cannabis Buyers' Coop.* and *Gonzales v. Raich* that it is the federal government that has the right to regulate and criminalize cannabis, even for medical purposes. Therefore, federal law criminalizing the use of marijuana pre-empts state laws that legalize its use for medicinal purposes.

On January 4, 2018, then-U.S. Attorney General Jeff Sessions issued the Sessions Memo, rescinding the Cole Memo and related internal guidance issued by the DOJ regarding federal law enforcement priorities involving marijuana. The Sessions Memo instructs federal prosecutors that when determining which marijuana-related activities to prosecute under federal law with the DOJ's finite resources, prosecutors should follow the well-established principles set forth in the U.S. Attorneys' Manual governing all federal prosecutions. The Sessions Memo states that "these principles 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." The Sessions Memo went on to state that given the DOJ's well-established general principles, "previous nationwide guidance specific to marijuana is unnecessary and is rescinded, effective immediately."

It is unclear at this time what impact the Sessions Memo will have on the medical-use marijuana industry. In addition, pursuant to the current omnibus spending bill previously approved by Congress, the DOJ was prohibited from using funds appropriated by Congress to prevent states from implementing their medical-use cannabis laws. This provision, however, will expire on September 30, 2020. There is no assurance that Congress will approve inclusion of a similar prohibition on DOJ spending in the appropriations bill for future years. Although we are not engaged in the purchase, sale, growth, cultivation, harvesting, or processing of medical-use marijuana products, we lease our properties to tenants who engage in such activities, and therefore strict enforcement of federal prohibitions regarding marijuana could irreparably harm our business, subject us to criminal prosecution and/or adversely affect the trading price of our securities.

Additionally, financial transactions involving proceeds generated by marijuana-related conduct can form the basis for prosecution under the federal money laundering statutes, unlicensed money transmitter statutes and the Bank Secrecy Act. Prior to the DOJ's rescission of the "Cole Memo", supplemental guidance from the DOJ issued under the Obama Administration directed federal prosecutors to consider the federal enforcement priorities enumerated in the "Cole Memo" when determining whether to charge institutions or individuals with any of the financial crimes described above based upon marijuana-related activity. It is unclear what impact the recent rescission of the "Cole Memo" will have, but federal prosecutors may increase enforcement activities against institutions or individuals that are conducting financial transactions related to marijuana activities.

Federal prosecutors have significant discretion and no assurance can be given that the federal prosecutor in each judicial district where we own a property will not choose to strictly enforce the federal laws governing marijuana production or distribution. Any change in the federal government's enforcement posture with respect to state-licensed cultivation of medical-use cannabis, including the enforcement postures of individual federal prosecutors in judicial districts where we own or may purchase properties, would result in our inability to execute our business plan, and we would likely suffer significant losses with respect to our investment in marijuana facilities in the United States, which would adversely affect the trading price of our securities. Furthermore, following any such change in the federal government's enforcement position, we could be subject to criminal prosecution, which could lead to imprisonment and/or the imposition of penalties, fines, or forfeiture.

Financial transactions involving proceeds generated by marijuana-related conduct can form the basis for prosecution under the federal money laundering statutes, unlicensed money transmitter statute and the Bank Secrecy Act. Previous guidance issued by the Financial Crimes Enforcement Network, a division of the U.S. Department of the Treasury (“FinCEN”), clarifies how financial institutions can provide services to marijuana-related businesses consistent with their obligations under the Bank Secrecy Act. Prior to the DOJ’s announcement in January 2018 of the rescission of the “Cole Memo” and related memoranda, supplemental guidance from the DOJ directed federal prosecutors to consider the federal enforcement priorities enumerated in the “Cole Memo” when determining whether to charge institutions or individuals with any of the financial crimes described above based upon marijuana-related activity.

Consequently, those businesses involved in the marijuana industry continue to encounter difficulty establishing banking relationships, which may increase over time. Our inability to maintain our current bank accounts would make it difficult for us to operate our business, increase our operating costs, and pose additional operational, logistical and security challenges and could result in our inability to implement our business plan.

The inability of our current and potential tenants to open accounts and continue using the services of banks will limit their ability to enter into triple-net lease arrangements with us or may result in their default under our lease agreements, either of which could materially harm our business and the trading price of our securities.

Local, state and federal marijuana laws and regulations are broad in scope and subject to evolving interpretations, which could require us to incur substantial costs associated with compliance or alter our business plan. In addition, violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on its operations. In addition, it is possible that regulations may be enacted in the future that will be directly applicable to our proposed business. We cannot predict the nature of any future laws, regulations, interpretations or applications, nor can we determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our business.

Employees

As of December 31, 2019, we had three full-time employees, our chief executive officer, a Director of Sustainability Services and an administrative staff member. We have established an extensive network of external partners, contractors, and consultants to outsource to in an effort to minimize administrative overhead and maximize efficiency.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should not invest in our stock unless you are able to bear the complete loss of your investment. You should carefully consider the risks described below, as well as other information provided to you in this annual report on Form 10-K, including information in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Cautionary Note Regarding Forward-Looking Information and Factors That May Affect Future Results” before making an investment decision. The risks and uncertainties described below are not the only ones facing Zoned Properties. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected, the value of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business and Our Industry

Because we have limited operating history in the real estate industry, we may not succeed.

We have limited operating history or experience in procuring, building out or leasing real estate for agricultural purposes, specifically medical marijuana grow facilities, or with respect to any other activity in the cannabis industry. Moreover, we are subject to all risks inherent in a developing a new business enterprise. Our likelihood of success must be considered in light of the problems, expenses, difficulties, complications, and delays frequently encountered in connection with establishing a new business and the competitive and regulatory environment in which we operate. For example, the regulated cannabis industry is new and may not succeed, particularly should the federal government change course and decide to prosecute those dealing in medical marijuana. If that happens there may not be an adequate market for our properties or other activities we propose to engage in.

You should further consider, among other factors, our prospects for success in light of the risks and uncertainties encountered by companies that, like us, are in their early stages. For example, unanticipated expenses, delays and or complications with build outs, zoning issues, legal disputes with neighbors, local governments, communities and or tenants. We may not successfully address these risks and uncertainties or successfully implement our operating strategies. If we fail to do so, it could materially harm our business to the point of having to cease operations and could impair the value of our common stock to the point investors may lose their entire investment.

We may be unable to continue as a going concern if we do not successfully raise additional capital.

We may need to raise additional funds through public or private debt or equity financings, as well as obtain credit from vendors to be able to fully execute our business plan. If we cannot raise additional capital, we may be otherwise unable to achieve our goals or continue our property development. While we believe that we will be able to raise the capital we need to continue our operations, there can be no assurances that we will be successful in these efforts or will be able to resolve our liquidity issues or eliminate our operating losses. In addition, any additional capital raised through the sale of equity may dilute your ownership interest. We may not be able to raise additional funds on favorable terms, or at all. If we are unable to obtain additional funds or credit from our vendors, we will be unable to execute our business plan and you could lose your investment.

Because we may be unable to identify and or successfully acquire properties which are suitable for our business, our financial condition may be negatively affected.

Our business plan involves the identification and the successful acquisition of properties, which are zoned for medical marijuana businesses, including cultivation and retail. The properties we acquire will be leased to regulated cannabis operators. Local governments must approve and adopt zoning ordinances for medical marijuana facilities and retail dispensaries. A lack of properly zoned real estate may reduce our prospects and limit our opportunity for growth and or increase the cost at which suitable properties are available to us. Conversely a surplus of real estate zoned for medical marijuana establishments may reduce demand and prices we are able to charge for properties we may have previously acquired.

In addition, some jurisdictions, such as Arizona, impose limits on the number of medical marijuana dispensaries that will be permitted to operate within designated geographic areas. Such limitations inherently place constraints on the number of properties we acquire for lease to operators in the marijuana industry.

If we fail to diversify our property portfolio, downturns relating to certain industries or business sectors or the financial stability of our related party tenants may have a significant adverse impact on our assets and our ability to pay our operating expenses or pay dividends than if we had a diversified property portfolio.

While we intend to diversify our portfolio of properties, we are not required to observe specific diversification criteria. Therefore, our total assets are concentrated into a limited number of tenants who were considered related parties through December 31, 2018 and are considered Significant Tenets thereafter. To the extent that our total assets are concentrated in a limited number of tenants that are in the regulated cannabis industry, downturns relating generally to such industry or business sector, or a decline in the financial stability of our Significant Tenants may result in defaults on all of our leases within a short time period, which may reduce our net income and the value of our common stock and accordingly, limit our ability to pay or operating expenses or pay dividends to our stockholders. As of December 31, 2019 and 2018, we had an asset concentration related to our Significant Tenant leases at our Tempe, Chino Valley, Green Valley and Kingman, Arizona properties. As of December 31, 2019 and 2018, these Significant tenants represented approximately 87.1% and 90.7% of total assets, respectively. If our tenants are prohibited from operating or cannot pay their rent, we may not have enough working capital to support our operations and we would have to seek out new tenants at rental rates per square foot that may be less than our current rate per square foot.

Any adverse economic or real estate developments in the medical cannabis industry could adversely affect our operating results and our ability to collect rent from our tenants, pay our operating expenses or pay dividends to our stockholders.

As included in exhibit 99.1 and 99.2 to this report, we have included audited financial statements of our Significant Tenants since they represent material information and are necessary for the protection of investors.

Because our business is dependent upon continued market acceptance by our tenants' consumers, any negative trends will adversely affect our business operations.

Our tenants are substantially dependent on continued market acceptance and proliferation of consumers of regulated cannabis. We believe that as cannabis becomes more accepted, the stigma associated with cannabis use will diminish and as a result, consumer demand will continue to grow. And while we believe that the market and opportunity in the cannabis space continues to grow, we cannot predict the future growth rate and size of the market. Any negative outlook on the cannabis industry will adversely affect our tenants' business operations and their ability to pay rent to us.

In addition, it is believed by many that large well-funded businesses may have a strong economic opposition to the cannabis industry. We believe that the pharmaceutical industry clearly does not want to cede control of any product that could generate significant revenue. For example, medical marijuana will likely adversely impact the existing market for the current "marijuana pill" sold by the mainstream pharmaceutical industry, should marijuana displace other drugs or encroach upon the pharmaceutical industry's products. The pharmaceutical industry is well funded with a strong and experienced lobby that eclipses the funding of the medical marijuana movement. Any inroads the pharmaceutical could make in halting the impending cannabis industry could have a detrimental impact on our proposed business.

Because we buy and lease property, we will be subject to general real estate risks.

We will be subject to risks generally incident to the ownership of real estate, including: (a) changes in general economic or local conditions; (b) changes in supply of, or demand for, similar or competing properties in the area; (c) bankruptcies, financial difficulties or defaults by tenants or other parties; (d) increases in operating costs, such as taxes and insurance; (e) the inability to achieve full stabilized occupancy at rental rates adequate to produce targeted returns; (f) periods of high interest rates and tight money supply; (g) excess supply of rental properties in the market area; (h) liability for uninsured losses resulting from natural disasters or other perils; (i) liability for environmental hazards; and (j) changes in tax, real estate, environmental, zoning or other laws or regulations. For these and other reasons, no assurance can be given that we will be profitable.

Our growth depends on external sources of capital, which may not be available on favorable terms or at all. In addition, banks and other financial institutions may be reluctant to enter into lending transactions with us, including secured lending, because our properties are used in the cannabis industry. If this source of funding is unavailable to us, our growth may be limited and our business may be materially adversely affected.

Our ability to acquire, operate and sell properties, engage in the business activities that we have planned and achieve positive financial performance depends, in large measure, on our ability to obtain financing in amounts and on terms that are favorable. The capital markets in the United States in general, and in the cannabis sector in particular, have undergone a turbulent period in which lending was severely restricted. Although there appear to be signs that financial institutions are resuming lending, the market has not yet returned to its pre-2008 state. The cannabis sector experienced significant volatility in 2019 and such volatility has continued in 2020. Obtaining favorable financing in the current environment remains challenging.

In order to grow our business, we may seek financing through newly issued equity or debt. We may not be in a position to take advantage of attractive investment opportunities for growth if we are unable, due to global or regional economic uncertainty, changes in the state or federal regulatory environment relating to the medical-use cannabis industry, changes in market conditions for the regulated cannabis industry, our own operating or financial performance or otherwise, to access capital markets on a timely basis and on favorable terms, or at all.

Our access to capital will depend upon a number of factors over which we have little or no control, including general market conditions and the market's perception of our current and potential future earnings. If general economic instability or downturn, or volatility within the cannabis sector, leads to an inability to borrow at attractive rates or at all, our ability to obtain capital could be negatively impacted. In addition, banks and other financial institutions may be reluctant to enter into lending transactions with us, particularly secured lending, because our properties are used in the cultivation, production or dispensing of medical-use cannabis. If this source of funding is unavailable to us, our growth may be limited and our business may be materially adversely affected.

If we are unable to obtain capital on terms and conditions that we find acceptable, we likely will have to curtail operations and reduce the number of properties we purchase in the future. In addition, our ability to refinance all or any debt we may incur in the future, on acceptable terms or at all, is subject to all of the above factors, and will also be affected by our future financial position, results of operations and cash flows, which additional factors are also subject to significant uncertainties, and therefore we may be unable to refinance any debt we may incur in the future, as it matures, on acceptable terms or at all. All of these events would have a material adverse effect on our business, financial condition, liquidity and results of operations.

In addition, securities clearing firms may refuse to accept deposits of our securities, which may negatively impact the trading of our securities and have a material adverse impact on our ability to obtain capital.

Because we will compete with others for suitable properties, competition will result in higher costs that could materially affect our financial condition.

We will experience competition for real estate investments from individuals, corporations and other entities engaged in real estate investment activities, many of whom have greater financial resources than us. Competition for investments may have the effect of increasing costs and reducing returns to our investors.

Because we are liable for hazardous substances on our properties, environmental liabilities are possible and can be costly.

Federal, state and local laws impose liability on a landowner for releases or the otherwise improper presence on the premises of hazardous substances. This liability is without regard to fault for, or knowledge of, the presence of such substances. A landowner may be held liable for hazardous materials brought onto a property before it acquired title and for hazardous materials that are not discovered until after it sells the property. Similar liability may occur under applicable state law. Sellers of properties may make only limited representations as to the absence of hazardous substances. If any hazardous materials are found within our properties in violation of law at any time, we may be liable for all cleanup costs, fines, penalties and other costs. This potential liability will continue after we sell the properties and may apply to hazardous materials present within the properties before we acquire the properties. If losses arise from hazardous substance contamination, which cannot be recovered from a responsible party, the financial viability of the properties may be adversely affected. It is possible that we will purchase properties with known or unknown environmental problems, which may require material expenditures for remediation.

Because we may not be adequately insured, we could experience significant liability for uninsured events.

While our tenants currently carry comprehensive insurance on our properties, including fire, liability and extended coverage insurance; however, there are certain risks that may be uninsurable or not insurable on terms that management believes to be economical. For example, management may not obtain insurance against floods, terrorism, mold-related claims, or earthquake insurance. If such an event occurs to, or causes the damage or destruction of, a property, we could suffer financial losses.

If we are found non-compliance with the Americans with Disabilities Act, we will be subject to significant liabilities.

If any of our properties are not in compliance with the Americans with Disabilities Act of 1990, as amended (the "ADA"), we may be required to pay for any required improvements. Under the ADA, public accommodations must meet certain federal requirements related to access and use by disabled persons. The ADA requirements could require significant expenditures and could result in the imposition of fines or an award of damages to private litigants. We cannot assure that ADA violations do not or will not exist at any of our properties.

Our inability to effectively manage our growth could harm our business and materially and adversely affect our operating results and financial condition.

Our strategy envisions growing our business. Any growth in or expansion of our business is likely to continue to place a strain on our management and administrative resources, infrastructure and systems. As with other growing businesses, we expect that we will need to further refine and expand our business development capabilities, our systems and processes and our access to financing sources. We also will need to hire, train, supervise and manage new employees. These processes are time consuming and expensive, will increase management responsibilities and will divert management attention. We cannot assure you that we will be able to:

- expand our business effectively or efficiently or in a timely manner;
- allocate our human resources optimally;
- meet our capital needs;
- identify and hire qualified employees or retain valued employees; or
- effectively incorporate the components of any business or product line that we may acquire in our effort to achieve growth.

Our inability or failure to manage our growth and expansion effectively could harm our business and materially and adversely affect our operating results and financial condition.

Unfavorable global economic, business or political conditions could adversely affect our business, financial condition or results of operations.

Our results of operations could be adversely affected by general conditions in the global economy and in the global financial markets, including conditions that are outside of our control, including the U.S. presidential election and the impact of health and safety concerns, such as those relating to the current COVID-19 outbreak. The most recent global financial crisis caused extreme volatility and disruptions in the capital and credit markets. A severe or prolonged economic downturn could result in a variety of risks to our business, including weakened demand for our properties and our ability to raise additional capital when needed on acceptable terms, if at all. A weak or declining economy could strain our tenants, possibly resulting in delays in tenant payments. Any of the foregoing could harm our business and we cannot anticipate all the ways in which the current economic climate and financial market conditions could adversely impact our business.

We will be required to attract and retain top quality talent to compete in the marketplace.

We believe our future growth and success will depend in part on our ability to attract and retain highly skilled managerial, sales and marketing, and finance personnel. There can be no assurance of success in attracting and retaining such personnel. Shortages in qualified personnel could limit our ability to compete in the marketplace.

We are dependent on Bryan McLaren, our Chief Executive Officer, President, Chief Financial Officer and Chairman of the Board, and the loss of this officer could harm our business and prevent us from implementing our business plan in a timely manner.

In view of his direct relationships with industry partners that directly contribute to our business development strategy, our success depends substantially upon the continued services of Mr. McLaren. In January 2019, we purchased a one-year key person life insurance policy on Mr. McLaren with a base coverage amount of \$8,000,000 renewable annually at a 10-year fixed guaranteed premium. The policy was renewed in January 2020. The loss of Mr. McLaren's services could have a material adverse effect on our business and operations.

Risks Related to Government Regulation

Marijuana remains illegal under federal law, and therefore, strict enforcement of federal laws regarding marijuana would likely result in our inability and the inability of our tenants to execute our respective business plans.

Marijuana is a Schedule I controlled substance under the CSA. Even in those jurisdictions in which the manufacture and use of medical marijuana has been legalized at the state level, the possession, use and cultivation all remain violations of federal law that are punishable by imprisonment and substantial fines, and the prescription of marijuana is a violation of federal law. Moreover, individuals and entities may violate federal law if they intentionally aid and abet another in violating these federal controlled substance laws, or conspire with another to violate them. The U.S. Supreme Court has ruled in *United States v. Oakland Cannabis Buyers' Coop.* and *Gonzales v. Raich* that it is the federal government that has the right to regulate and criminalize marijuana, even for medical purposes. We would likely be unable to execute our business plan if the federal government were to strictly enforce federal law regarding marijuana.

On January 4, 2018, then-U.S. Attorney General Jeff Sessions issued the Sessions Memo, rescinding the Cole Memo and related internal guidance issued by the DOJ regarding federal law enforcement priorities involving marijuana. The Sessions Memo instructs federal prosecutors that when determining which marijuana-related activities to prosecute under federal law with the DOJ's finite resources, prosecutors should follow the well-established principles set forth in the U.S. Attorneys' Manual governing all federal prosecutions. The Sessions Memo states that "these principles 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." The Sessions Memo went on to state that given the DOJ's well-established general principles, "previous nationwide guidance specific to marijuana is unnecessary and is rescinded, effective immediately."

It is unclear at this time what impact the Sessions Memo will have on the medical-use marijuana industry. In addition, pursuant to the current omnibus spending bill previously approved by Congress, the DOJ was prohibited from using funds appropriated by Congress to prevent states from implementing their medical-use cannabis laws. This provision, however, will expire on September 30, 2020. There is no assurance that Congress will approve inclusion of a similar prohibition on DOJ spending in the appropriations bill for future years. Although we are not engaged in the purchase, sale, growth, cultivation, harvesting, or processing of medical-use marijuana products, we lease our properties to tenants who engage in such activities, and therefore strict enforcement of federal prohibitions regarding marijuana could irreparably harm our business, subject us to criminal prosecution and/or adversely affect the trading price of our securities.

Federal prosecutors have significant discretion and no assurance can be given that the federal prosecutor in each judicial district where we own a property will not choose to strictly enforce the federal laws governing marijuana production or distribution. Any change in the federal government's enforcement posture with respect to state-licensed cultivation of medical-use cannabis, including the enforcement postures of individual federal prosecutors in judicial districts where we own or may purchase properties, would result in our inability to execute our business plan, and we would likely suffer significant losses with respect to our investment in marijuana facilities in the United States, which would adversely affect the trading price of our securities. Furthermore, following any such change in the federal government's enforcement position, we could be subject to criminal prosecution, which could lead to imprisonment and/or the imposition of penalties, fines, or forfeiture.

Owners of properties located in close proximity to our properties may assert claims against us regarding the use of the property as a marijuana dispensary or marijuana cultivation and processing facility, which if successful, could materially and adversely affect our business.

Owners of properties located in close proximity to our properties may assert claims against us regarding the use of our properties as marijuana dispensaries or for marijuana cultivation and processing, including assertions that the use of the property constitutes a nuisance that diminishes the market value of such owner's nearby property. Such property owners may also attempt to assert such a claim in federal court as a civil matter under the Racketeer Influenced and Corrupt Organizations Act. If a property owner were to assert such a claim against us, we may be required to devote significant resources and costs to defending ourselves against such a claim, and if a property owner were to be successful on such a claim, our tenants may be unable to continue to operate their business in its current form at the property, which could materially adversely impact the tenant's business and the value of our property, our business and financial results and the trading price of our securities.

We and our tenants may have difficulty accessing the services of banks, which may make it difficult to contract for real estate needs.

Financial transactions involving proceeds generated by cannabis and marijuana-related conduct can form the basis for prosecution under the federal money laundering statutes, unlicensed money transmitter statute and the Bank Secrecy Act. Previous guidance issued by FinCEN clarifies how financial institutions can provide services to marijuana-related businesses consistent with their obligations under the Bank Secrecy Act. Prior to the DOJ's announcement in January 2018 of the rescission of the "Cole Memo" and related memoranda, supplemental guidance from the DOJ directed federal prosecutors to consider the federal enforcement priorities enumerated in the "Cole Memo" when determining whether to charge institutions or individuals with any of the financial crimes described above based upon marijuana-related activity. It is unclear what impact the recent rescission of the "Cole Memo" will have, but federal prosecutors may increase enforcement activities against institutions or individuals that are conducting financial transactions related to marijuana activities. The increased uncertainty surrounding financial transactions related to marijuana activities may also result in financial institutions discontinuing services to the marijuana industry.

Consequently, those businesses involved in the marijuana industry continue to encounter difficulty establishing banking relationships, which may increase over time. Our inability to maintain our current bank accounts would make it difficult for us to operate our business, increase our operating costs, and pose additional operational, logistical and security challenges and could result in our inability to implement our business plan.

The inability of our current and potential tenants to open accounts and continue using the services of banks will limit their ability to enter into triple-net lease arrangements with us or may result in their default under our lease agreements, either of which could materially harm our business and the trading price of our securities.

Laws and regulations affecting the regulated cannabis and marijuana industry are constantly changing, which could materially adversely affect our operations, and we cannot predict the impact that future regulations may have on us.

Local, state and federal marijuana laws and regulations are broad in scope and subject to evolving interpretations, which could require us to incur substantial costs associated with compliance or alter our business plan. In addition, violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on its operations. In addition, it is possible that regulations may be enacted in the future that will be directly applicable to our proposed business. We cannot predict the nature of any future laws, regulations, interpretations or applications, nor can we determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our business.

FDA regulation of marijuana and the possible registration of facilities where medical marijuana is grown could negatively affect the marijuana industry, which would directly affect our financial condition.

Should the federal government legalize marijuana for medical use, it is possible that the U.S. Food and Drug Administration (the “FDA”) would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including cGMPs (certified good manufacturing practices) related to the growth, cultivation, harvesting and processing of medical marijuana. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical marijuana is grown be registered with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, we do not know what the impact would be on the medical marijuana industry, what costs, requirements and possible prohibitions may be enforced. If we or our tenants are unable to comply with the regulations and or registration as prescribed by the FDA, we and or our tenants may be unable to continue to operate their and our business in its current form or at all.

Risks Related to Our Common Stock

Our common stock is quoted on the OTCQB, which may limit the liquidity and price of our common stock more than if our common stock were listed on The NASDAQ Stock Market or another national exchange.

Our securities are currently quoted on the OTCQB, an inter-dealer automated quotation system for equity securities. Quotation of our securities on the OTCQB may limit the liquidity and price of our securities more than if our securities were listed on The NASDAQ Stock Market (“NASDAQ”) or another national exchange. As an OTCQB company, we do not attract the extensive analyst coverage that accompanies companies listed on national securities exchanges. Further, institutional and other investors may have investment guidelines that restrict or prohibit investing in securities traded on the OTCQB. These factors may have an adverse impact on the trading and price of our common stock.

The trading price of our common stock may decrease due to factors beyond our control.

The stock market from time to time has experienced extreme price and volume fluctuations, which have particularly affected the market prices for smaller reporting companies and which often have been unrelated to the operating performance of the companies. These broad market fluctuations may adversely affect the market price of our common stock. If our shareholders sell substantial amounts of their common stock in the public market, the price of our common stock could fall. These sales also might make it more difficult for us to sell equity, or equity-related securities, in the future at a price we deem appropriate.

The market price of our common stock may also fluctuate significantly in response to the following factors, most of which are beyond our control:

- variations in our quarterly operating results,
- changes in general economic conditions and in the real estate industry,
- changes in market valuations of similar companies,
- announcements by us or our competitors of significant new contracts, acquisitions, strategic partnerships or joint ventures, or capital commitments,
- loss of a major customer, partner or joint venture participant and
- the addition or loss of key managerial and collaborative personnel.

Any such fluctuations may adversely affect the market price of our common stock, regardless of our actual operating performance. As a result, stockholders may be unable to sell their shares, or may be forced to sell them at a loss.

The market price for our common shares is particularly volatile given our status as a relatively unknown company with a small and thinly traded public float, limited operating history and lack of profits which could lead to wide fluctuations in our share price. You may be unable to sell your common shares at or above your purchase price, which may result in substantial losses to you.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically and thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or “risky” investment due to our limited operating history and lack of profits to date. As a consequence of this enhanced risk, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

Our preferred stockholders together have voting control, which will limit your ability to influence the outcome of important transactions, including a change in control.

Each of our preferred stockholders beneficially owns 1,000,000 shares of our preferred stock. Each share of preferred stock entitles the holder to 50 votes per share. In contrast, each share of our common stock has one vote per share. Each of our two preferred stockholders holds approximately 46.1% and 45.8% of the voting power of our outstanding capital stock, respectively. Because of the 50-to-1 voting ratio between our preferred stock and our common stock, our preferred stockholders together control a majority of the combined voting power of our capital stock and therefore are able to control all matters submitted to our stockholders for approval. The preferred stockholders may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentrated control may have the effect of delaying, preventing or deterring a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their capital stock as part of a sale of our company and might ultimately affect the market price of our common stock.

We may face continuing challenges in complying with the Sarbanes-Oxley Act, and any failure to comply or any adverse result from management's evaluation of our internal control over financial reporting may have an adverse effect on our stock price.

As a smaller reporting company as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"). Section 404 requires us to include an internal control report with our Annual Report on Form 10-K. The report must include management's assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year. This report must also include disclosure of any material weaknesses in internal control over financial reporting that we have identified.

Failure to comply, or any adverse results from such evaluation, could result in a loss of investor confidence in our financial reports and have an adverse effect on the trading price of our equity securities. Management concluded that our internal controls and procedures as of December 31, 2019 were not effective. Management realizes there are deficiencies in the design or operation of our internal control that adversely affect our internal controls, and management considers such deficiencies to be material weaknesses. As of the end of our fiscal year, management had identified the following material weaknesses:

- we had not implemented comprehensive entity-level internal controls;
- we had not implemented adequate system and manual controls; and
- we did not have sufficient segregation of duties.

Achieving continued compliance with Section 404 may require us to incur significant costs and expend significant time and management resources. We cannot assure you that we will be able to fully comply with Section 404 or that we will be able to conclude that our internal control over financial reporting is effective at fiscal year-end. As a result, investors could lose confidence in our reported financial information, which could have an adverse effect on the trading price of our securities.

We have never paid dividends on our common stock, and cannot guarantee that we will pay dividends to our stockholders in the future.

We have never paid dividends on our common stock. For the foreseeable future, we intend to retain our future earnings, if any, in order to reinvest in the development and growth of our business and, therefore, do not intend to pay dividends on our common stock. However, in the future, our board of directors may declare dividends on our common stock. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, and such other factors as our board of directors deems relevant. Accordingly, investors may need to sell their shares of our common stock to realize a return on their investment, and they may not be able to sell such shares at or above the price paid for them. We cannot guarantee that we will pay dividends to our stockholders in the future.

Our common stock is a "penny stock" under SEC rules. It may be more difficult to resell securities classified as "penny stock."

Our common stock is considered a "penny stock" under applicable SEC rules (generally defined as non-exchange traded stock with a per-share price below \$5.00). Unless we maintain a per-share price above \$5.00, these rules impose additional sales practice requirements on broker-dealers that recommend the purchase or sale of penny stocks to persons other than those who qualify as "established customers" or "accredited investors." For example, broker-dealers must determine the appropriateness for non-qualifying persons of investments in penny stocks. Broker-dealers must also provide, prior to a transaction in a penny stock not otherwise exempt from the rules, a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, disclose the compensation of the broker-dealer and its salesperson in the transaction, furnish monthly account statements showing the market value of each penny stock held in the customer's account, provide a special written determination that the penny stock is a suitable investment for the purchaser, and receive the purchaser's written agreement to the transaction.

Legal remedies available to an investor in "penny stocks" may include the following:

- If a "penny stock" is sold to the investor in violation of the requirements listed above, or other federal or states securities laws, the investor may be able to cancel the purchase and receive a refund of the investment.
- If a "penny stock" is sold to the investor in a fraudulent manner, the investor may be able to sue the persons and firms that committed the fraud for damages.

However, investors who have signed arbitration agreements may have to pursue their claims through arbitration.

These requirements may have the effect of reducing the level of trading activity, if any, in the secondary market for a security that is or becomes subject to the penny stock rules. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from effecting transactions in our securities, which could severely limit the market price and liquidity of our securities. These requirements may restrict the ability of broker-dealers to sell our common stock and may affect your ability to resell our common stock.

Many brokerage firms will discourage or refrain from recommending investments in penny stocks. Most institutional investors will not invest in penny stocks. In addition, many individual investors will not invest in penny stocks due, among other reasons, to the increased financial risk generally associated with these investments.

For these reasons, penny stocks may have a limited market and, consequently, limited liquidity. We can give no assurance that our common stock will not be classified as a “penny stock” in the future.

Rule 144 Related Risks

Pursuant to Rule 144, a person who has beneficially owned restricted shares of our common stock for at least six months is entitled to sell his or her securities provided that: (i) such person is not deemed to have been one of our affiliates at the time of, or at any time during the three months preceding, a sale, (ii) we are subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale and (iii) if the sale occurs prior to satisfaction of a one-year holding period, we provide current information at the time of sale.

Persons who have beneficially owned restricted shares of our common stock for at least six months but who are our affiliates at the time of, or at any time during the three months preceding a sale, would be subject to additional restrictions, by which such person would be entitled to sell within any three-month period only a number of securities that does not exceed the greater of either of the following:

- 1% of the total number of securities of the same class then outstanding; or
- the average weekly trading volume of such securities during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale;

provided, in each case that we are subject to the Exchange Act periodic reporting requirements for at least three months before the sale. Such sales by affiliates must also comply with the manner of sale, current public information and notice provisions of Rule 144.

In addition, as a former shell company, we are subject to additional restrictions. Historically, the SEC staff has taken the position that Rule 144 is not available for the resale of securities initially issued by companies that are, or previously were, shell companies, such as Zoned Properties. Rule 144 is not available for resale of securities issued by any shell companies (other than business combination related shell companies) or any issuer that has been at any time previously a shell company. The SEC has provided an exception to this prohibition, however, if the following conditions are met:

- The issuer of the securities that was formerly a shell company has ceased to be a shell company,
- The issuer of the securities is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act,
- The issuer of the securities has filed all Exchange Act reports and material required to be filed, as applicable, during the preceding 12 months (or such shorter period that the issuer was required to file such reports and materials), other than current reports on Form 8-K, and
- At least one year has elapsed from the time that the issuer filed current comprehensive disclosure with the SEC reflecting its status as an entity that is not a shell company.

ITEM 1B. UNRESOLVED STAFF COMMENTS

This Item 1B is not applicable to smaller reporting companies.

ITEM 2. PROPERTIES

Our principal executive office is currently located at 14269 N. 87th Street, #205, Scottsdale, AZ 85260.

Effective April 1, 2019, we extended our one-year operating lease for our office space in Scottsdale, Arizona to end on March 31, 2020. The annual base rent increased from \$7,800 to \$9,107. On July 16, 2019, we added additional office space and our monthly base rent increased to \$1,325 per month. On March 6, 2020, we extended our lease for twelve months to end on March 31, 2021 at an annual base rent of \$16,695.

We are in the business of property acquisition, development, and commercial leasing and intend to primarily structure lease agreements with prospective tenants using a triple-net lease model. The property portfolio currently includes (i) land and real property constructed in Green Valley, Arizona, (ii) land and real property in Kingman, Arizona, (iii) vacant land in Gilbert, Arizona, (iv) land and real property in Tempe Arizona, and (v) land and real property of approximately 47 acres in Chino Valley, Arizona. The properties in Tempe, Green Valley, Kingman, and Chino Valley, Arizona are currently leasing space to tenants that operate licensed medical marijuana facilities. We lease our vacant land in Gilbert, Arizona to a third party. Each of these leased properties is generating revenue to date.

ITEM 3. LEGAL PROCEEDINGS

There are no pending or threatened legal or administrative actions pending or threatened against us that we believe would have a material effect on our business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock is quoted on the OTCQB, operated by the OTC Markets Group, under the symbol "ZDPY." Trading in OTCQB stocks can be volatile, sporadic and risky, as thinly traded stocks tend to move more rapidly in price than more liquid securities. Such trading may also depress the market price of our common stock and make it difficult for our stockholders to resell their common stock.

The following table reflects the high and low closing price for our common stock for the period indicated. The bid information was obtained from the OTC Markets Group, Inc. and reflects inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions.

Quarter Ended	High	Low
December 31, 2019	\$ 0.33	\$ 0.21
September 30, 2019	\$ 0.46	\$ 0.20
June 30, 2019	\$ 0.42	\$ 0.21
March 31, 2019	\$ 0.53	\$ 0.27
December 31, 2018	\$ 0.65	\$ 0.23
September 30, 2018	\$ 0.60	\$ 0.57
June 30, 2018	\$ 0.78	\$ 0.72
March 31, 2018	\$ 0.65	\$ 0.63

On March 23, 2020, the closing price of our common stock on the OTCQB was \$0.13 per share.

Holders of Common Stock

As of March 26, 2020, there were approximately 103 record holders of our common stock. The number of record holders does not include beneficial owners of common stock whose shares are held in the names of banks, brokers, nominees or other fiduciaries.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Securities Authorized for Issuance under Equity Compensation Plans

On August 9, 2016, our Board of Directors authorized the 2016 Equity Incentive Plan (the "2016 Plan") and reserved 10,000,000 shares of common stock for issuance thereunder. The 2016 Plan's purpose is to encourage ownership in the Company by employees, officers, directors and consultants whose long-term service the Company considers essential to its continued progress and, thereby, encourage recipients to act in the stockholders' interest and share in the Company's success. The 2016 Plan authorizes the grant of awards in the form of options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code (the "Code"), options that do not qualify (non-statutory stock options) and grants of restricted shares of common stock. Restricted shares granted pursuant to the 2016 Plan are amortized to expense over the three-year vesting period. Options vest and expire over a period not to exceed seven years. If any share of common stock underlying a stock option that has been granted ceases to be subject to a stock option, or if any shares of common stock that are subject to any other stock-based award granted are forfeited or terminate, such shares shall again be available for distribution in connection with future grants and awards under the 2016 Plan. As of December 31, 2019, 40,000 stock option awards have been granted under the 2016 Plan. At December 31, 2019, 9,960,000 shares are available for future issuance.

The Company also continues to maintain its 2014 Equity Compensation Plan (the "2014 Plan"), pursuant to which 1,250,000 previously awarded stock options are outstanding. The 2014 Plan has been superseded by the 2016 Plan. Accordingly, no additional shares subject to the existing 2014 Plan will be issued and the 1,250,000 shares issuable upon exercise of stock options will be issued pursuant to the 2014 Plan, if exercised. As of December 31, 2019, options to purchase 1,250,000 shares of common stock are outstanding pursuant to the 2014 Plan.

DESCRIPTION OF SECURITIES

General

Outstanding Shares and Holders

As of March 26, 2020, our authorized capital stock consists of 100,000,000 shares of common stock, \$0.001 par value per share, 12,011,548 of which were issued and outstanding, and 5,000,000 shares of preferred stock, \$0.001 par value per share, 2,000,000 of which were issued and outstanding.

Common Stock

Holder of the Company's common stock are entitled to one vote for each share on all matters submitted to a stockholder vote. Holders of common stock do not have cumulative voting rights. Holders of the Company's common stock are entitled to share in all dividends that our board of directors, in its discretion, declares from legally available funds. In the event of a liquidation, dissolution or winding up, each outstanding share entitles its holder to participate pro rata in all assets that remain after payment of liabilities and after providing for each class of stock, if any, having preference over the common stock. The Company's common stock has no pre-emptive rights, no conversion rights and there are no redemption provisions applicable to the Company's common stock.

Preferred Stock

Our articles of incorporation, as amended, authorize our board of directors, subject to any limitations prescribed by law, without further stockholder approval, to establish and to issue from time to time one or more classes or series of preferred stock. Each class or series of preferred stock will cover the number of shares and will have the powers, preferences, rights, qualifications, limitations and restrictions determined by the board of directors, which may include, among others, dividend rights, liquidation preferences, voting rights, conversion rights, preemptive rights and redemption rights. Except as provided by law or in a preferred stock designation, the holders of preferred stock will not be entitled to vote at or receive notice of any meeting of stockholders.

The certificate of designation for the preferred stock provides that the shares are not convertible into any other class or series of stock. Holders of preferred shares are entitled to 50 votes for each share held. Voting rights are not subject to adjustment for splits that increase or decrease the common shares outstanding. Upon liquidation, holders of preferred stock will be entitled to receive \$1.00 per share plus redemption provision before assets are distributed to other stockholders. Holders of preferred shares are entitled to dividends equal to common share dividends. Once any shares of preferred stock are outstanding, at least 51% of the total number of shares of preferred stock outstanding must approve the following transactions:

- alteration of the rights, preferences or privileges of the preferred stock,
- creation of any new class of stock having preferences over the preferred stock,
- repurchase of any of our common stock,
- merger of consolidation with any other company, other than one of our wholly owned subsidiaries,
- sale, conveyance or other disposal of, or creation or incurrence of any mortgage, lien, or charge or encumbrance or security interest in or pledge of, or sale and leaseback of, all or substantially all of our property or business, or
- incurrence, assumption or guarantee of any indebtedness maturing more than 18 months after the date on which it is incurred, assumed or guaranteed by us, except for operating leases and obligations assumed as part of the purchase price of property.

Holder of a majority of the voting power of our capital stock issued, outstanding and entitled to vote, represented in person or by proxy, are necessary to constitute a quorum at any meeting of stockholders. A vote by the holders of a majority of our outstanding voting shares is required to effectuate certain fundamental corporate changes such as liquidation, merger or an amendment to our articles of incorporation.

Holder of preferred shares vote along with common stockholders on each matter submitted to a vote of security holders. As a result of the multiple votes accorded to holders of the preferred stock, Greg Johnston and Alex McLaren have the ability to control the outcome of all matters submitted to a vote of stockholders, including the election of directors. On those matters that require the approval of at least 51% of the preferred stock, both Mr. Johnston and Mr. McLaren must provide their approval inasmuch as each of them owns 50% of the outstanding preferred stock.

Dividends

Historically, we have not paid any cash dividends on our common stock. 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. However, in the future, our board of directors may declare dividends on our common stock. Payment of future dividends on our common stock, if any, will be at the discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements and surplus, financial condition, contractual restrictions and other factors that our board of directors may deem relevant. In addition, the agreements into which we may enter in the future, including indebtedness, may impose limitations on our ability to pay dividends or make other distributions on our capital stock. We cannot guarantee that we will pay dividends to our stockholders in the future. Holders of preferred shares are entitled to dividends equal to common share dividends.

Anti-Takeover Effects of Certain Provisions of Our Articles of Incorporation, as Amended, and Our Bylaws

These provisions, summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with us. We believe that the benefits of increased protection and our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging these proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

Preferred Stock. Our articles of incorporation, as amended, authorize our board of directors to issue from time to time any series of preferred stock and fix the voting powers, designation, powers, preferences and rights of the shares of such series of preferred stock.

Calling of Special Meetings of Stockholders. Our bylaws provide that special meetings of the stockholders may be called only by the chairman of the board or the chief executive officer, and shall be called by the chairman of the board or the secretary (i) when so directed by the board, or (ii) at the written request of stockholders owning shares representing at least 25% of voting power in the election of directors.

Advance Notice Requirements for Stockholder Proposals and Director Nominations. Our bylaws establish an advance notice procedure for stockholder proposals to be brought before a meeting of our stockholders, including proposed nominations of persons for election to the board of directors.

Removal of Directors; Vacancies. Our bylaws provide that a director may be removed from office by stockholders for cause, or without cause by a majority vote of the stockholders. A vacancy on the board of directors may be filled only by a majority of the directors then in office.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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

Cautionary Note Regarding Forward-Looking Information and Factors That May Affect Future Results

This annual report on Form 10-K contains forward-looking statements regarding our business, financial condition, results of operations and prospects. The Securities and Exchange Commission (the "SEC") encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This annual report on Form 10-K and other written and oral statements that we make from time to time contain such forward-looking statements that set out anticipated results based on management's plans and assumptions regarding future events or performance. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will" and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance or results of current and anticipated sales efforts, expenses, the outcome of contingencies, such as legal proceedings, and financial results. Factors that could cause our actual results of operations and financial condition to differ materially are set forth in the "Risk Factors" section of this annual report on Form 10-K.

We caution that these factors could cause our actual results of operations and financial condition to differ materially from those expressed in any forward-looking statements we make and that investors should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of anticipated or unanticipated events or circumstances. New factors emerge from time to time, and it is not possible for us to predict all of such factors. Further, we cannot assess the impact of each such factor on our results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

The following discussion should be read in conjunction with our audited financial statements and the related notes that appear elsewhere in this annual report on Form 10-K.

Overview

Zoned Properties is a strategic real estate development firm whose primary mission is to provide real estate and sustainability services for clients in the regulated cannabis industry, positioning the company for real estate acquisitions and revenue growth. The Company intends to pioneer sustainable development for emerging industries, including the regulated cannabis industry. The Company is an accredited member of the Better Business Bureau, the U.S. Green Building Council, and the Forbes Real Estate Council. The Company focuses on investing capital to acquire and develop commercial properties to be leased on a triple-net basis, and engaging clients that face zoning, permitting, development, and operational challenges. The Company provides development strategies and advisory services that could potentially have a major impact on cash flow and property value. The Company does not grow, harvest, sell or distribute cannabis or any substances regulated under United States law such as the Controlled Substance Act of 1970, as amended (the "CSA").

The Company intends to develop and expand multiple business divisions, including a commercial real estate brokerage team, an advisory services division, and a nonprofit charitable organization to focus on community prosperity. Each of these operating divisions are important elements of the overall business development strategy for long-term growth. The Company believes in the value of building relationships with clients and local communities in order to position the company for long-term portfolio and revenue growth backed by sophisticated, safe, and sustainable assets and clients.

The core of our business involves identifying and developing properties that intend to operate within highly regulated zoning and permitting regions, including the regulated cannabis industry. Within highly regulated industries, local municipalities typically develop strict planning and zoning regulations that dictate the specific locations at which regulated properties can operate. These regulations often create complex permitting processes and can include non-standard setbacks for each location; for example, restricting a regulated property or facility from operating within a certain distance of any parks, schools, churches, or residential districts. When an organization can collaborate with local representatives, a proactive set of rules and regulations can be established and followed to meet the needs of both the regulated operators and the local community.

For the year ended December 31, 2019 and 2018, substantially all of our revenues were generated from our Significant Tenant which is located in the State of Arizona.

The Company currently maintains a portfolio of properties that we own, develop, and lease. In addition, we may provide on-going advisory services at each property that is leased to operating tenants. Each property undergoes a development life cycle. Areas of development that may require advisory services can range from initial property identification and zoning authorization to complete architectural design, utility installation, property management protocol, facilities management systems, and security system installation. During the year ended December 31, 2018, improvements made to rental properties amounted to \$829,357. No improvements were made during the year ended December 31, 2019. As of December 31, 2019, a summary of rental properties owned by us consisted of the following:

<u>Location</u>	<u>Tempe, AZ</u>	<u>Chino Valley, AZ</u>	<u>Gilbert, AZ</u>	<u>Green Valley, AZ</u>	<u>Kingman, AZ</u>	
<u>Description</u>	<u>Mixed-use warehouse/office</u>	<u>Greenhouse / Nursery</u>	<u>Land</u>	<u>Retail (special-use)</u>	<u>Retail (special-use)</u>	
<u>Current Use</u>	<u>Medical Marijuana Business Park</u>	<u>Medical Marijuana Cultivation Facility</u>	<u>Future Development</u>	<u>Medical Marijuana Dispensary</u>	<u>Medical Marijuana Dispensary</u>	
Date Acquired	Mar-14	Aug-15	Jan-14	Oct-14	May-14	
Lease Start Date	May-18	May-18	Jul-18	May-18	May-18	
Lease End Date	Apr-40	Apr-40	Month to month	Apr-40	Apr-40	
Total No. of Tenants	1	1	1	1	1	
						Total Properties
Land Area (Acres)	3.65	47.6	0.8	1.33	0.32	53.70
Land Area (Sq. Feet)	158,772	2,072,149	34,717	57,769	13,939	2,337,346
Undeveloped Land Area (Sq. Feet)	-	1,812,563	34,717	-	6,878	1,854,158
Developed Land Area (Sq. Feet)	158,772	259,586	-	57,769	7,061	483,188
Total Rentable Building Sq. Ft.	60,000	40,000	-	1,440	1,497	102,937
Vacant Rentable Sq. Ft.	-	-	-	-	-	-
Sq. Ft. rented as of December 31, 2019	60,000	40,000	-	1,440	1,497	102,937
Annual Base Rent: *						
2020	\$ 402,000	\$ 480,000	\$ -	\$ 42,000	\$ 48,000	\$ 972,000
2021	402,000	480,000	-	42,000	48,000	972,000
2022	402,000	480,000	-	42,000	48,000	972,000
2023	402,000	480,000	-	42,000	48,000	972,000
2024	402,000	480,000	-	42,000	48,000	972,000
Thereafter	6,164,000	7,360,000	-	644,000	736,000	14,904,000
Total	\$ 8,174,000	\$ 9,760,000	\$ -	\$ 854,000	\$ 976,000	\$ 19,764,000

* Annual base rent represents amount of cash payments due from tenants.

Annualized \$ per Rented Sq. Ft. (Base Rent)

Year	Tempe, AZ	Chino Valley, AZ	Gilbert, AZ (a)	Green Valley, AZ	Kingman, AZ
2020	\$ 6.7	\$ 12.0	-	\$ 29.2	\$ 32.1
2021	\$ 6.7	\$ 12.0	-	\$ 29.2	\$ 32.1
2022	\$ 6.7	\$ 12.0	-	\$ 29.2	\$ 32.1
2023	\$ 6.7	\$ 12.0	-	\$ 29.2	\$ 32.1
2024	\$ 6.7	\$ 12.0	-	\$ 29.2	\$ 32.1

(a) Base rent is for land only and annualized \$ per rented square foot is not presented.

Currently, 33 U.S. states plus the District of Columbia have passed laws permitting their citizens to use medical cannabis. Marijuana remains classified as a Schedule I controlled substance by the U.S. Drug Enforcement Agency (the “DEA”), and the U.S. Department of Justice (the “DOJ”), and therefore it is illegal to grow, possess and consume cannabis under federal law. On September 27, 2018, however, the DEA announced that drugs, including “finished dosage formulations” of cannabidiol (“CBD”) and tetrahydrocannabinol (“THC”) below 0.1%, will be considered Schedule 5 drugs as long as the medications have been approved by the U.S. Food and Drug Administration. THC and CBD are two natural compounds found in cannabis plants. THC is the main psychoactive compound in marijuana, while CBD is an antagonist to, and inhibits the physiological action to, THC. The CSA bans cannabis-related businesses; the possession, cultivation and production of cannabis-infused products; and the distribution of cannabis and products derived from it. Furthermore, the U.S. 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.

Under the Obama Administration, the DOJ previously issued memoranda, including the so-called “Cole Memo” on August 29, 2013, providing internal guidance to federal prosecutors concerning enforcement of federal cannabis prohibitions under the CSA. This guidance essentially characterized use of federal law enforcement resources to prosecute those complying with state laws allowing the use, manufacture and distribution of cannabis as an inefficient use of such federal resources when state laws and enforcement efforts are effective with respect to specific federal enforcement priorities under the CSA.

On January 4, 2018, then-U.S. Attorney General Jeff Sessions issued a written memorandum rescinding the Cole Memo and related internal guidance issued by the DOJ regarding federal law enforcement priorities involving marijuana (the “Sessions Memo”). The Sessions Memo instructs federal prosecutors that when determining which marijuana-related activities to prosecute under federal law with the DOJ’s finite resources, prosecutors should follow the well-established principles set forth in the U.S. Attorneys’ Manual governing all federal prosecutions. The Sessions Memo states that “these principles 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.” The Sessions Memo went on to state that given the DOJ’s well-established general principles, “previous nationwide guidance specific to marijuana is unnecessary and is rescinded, effective immediately.”

It is unclear at this time what impact the Sessions Memo will have on the regulated cannabis and marijuana industry. In addition, pursuant to the current omnibus spending bill previously approved by Congress, the DOJ was prohibited from using funds appropriated by Congress to prevent states from implementing their medical-use cannabis laws. This provision, however, will expire on September 30, 2020. There is no assurance that Congress will approve inclusion of a similar prohibition on DOJ spending in the appropriations bill for future years. Although we are not engaged in the purchase, sale, growth, cultivation, harvesting, or processing of medical-use marijuana products, we lease our properties to tenants who engage in such activities, and therefore strict enforcement of federal prohibitions regarding marijuana could irreparably harm our business, subject us to criminal prosecution and/or adversely affect the trading price of our securities.

The Company will focus heavily on the growth of a diversified revenue stream in 2020. We intend to accomplish this by prospecting new advisory services across the country for private, public, and municipal clients. We believe that strategic real estate and sustainability services are likely to emerge as the growth engine for Zoned Properties. We are moving to take advantage of new opportunities.

Results of Operations

The following comparative analysis on results of operations was based primarily on the comparative consolidated financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the audited consolidated financial statements and the notes to those statements for the years ended December 31, 2019 and 2018, which are included elsewhere in this annual report on Form 10-K. The results discussed below are for the years ended December 31, 2019 and 2018.

Comparison of Results of Operations for the Years ended December 31, 2019 and 2018

Revenues

For the years ended December 31, 2019 and 2018, revenues consisted of the following:

	Years Ended December 31,	
	2019	2018
Rent revenues	\$ 1,115,861	\$ 50,155
Rent revenues – related parties	-	1,186,775
Advisory revenues	144,560	-
Total revenues	<u>\$ 1,260,421</u>	<u>\$ 1,236,930</u>

During the year ended December 31, 2019, we generated revenues from advisory services of \$144,560, including advisory services performed for our Significant Tenants (as hereinafter defined) of \$85,872. Substantially all of the Company's real estate properties are leased under triple-net leases to tenants that are controlled by one entity (each, a "Significant Tenant" and collectively, the "Significant Tenants").

For the year ended December 31, 2019, total revenues amounted to \$1,260,421, including Significant Tenants revenues of \$855,659, as compared to \$1,236,930, including Significant Tenant revenues that were considered related parties of \$1,186,775, for the year ended December 31, 2018, an increase of \$23,491, or 1.9%. This increase in revenues was primarily attributable to a decrease in rent revenues from the Significant Tenant of \$125,993, or 10.6%, offset by an increase in advisory revenues from our Significant Tenant of \$85,872, and an increase in third party advisory revenues of \$58,688.

On May 1, 2018, we cancelled our existing lease agreements and entered into new lease agreements relating to the same properties. Additionally, in connection with the May 1, 2018 amended leases, the April 2018 rent was abated. This Significant Tenant lease restructuring caused an overall reduction in our rental revenue in 2018 and beyond. In the 2018 period, Significant Tenant revenues were considered revenues – related parties.

Operating expenses

For the year ended December 31, 2019, operating expenses amounted to \$1,259,706 as compared to \$3,198,413 for the year ended December 31, 2018, a decrease of \$1,938,707, or 60.6%. For the years ended December 31, 2019 and 2018, operating expenses consisted of the following:

	Years Ended December 31,	
	2019	2018
Compensation and benefits	\$ 383,648	\$ 411,682
Professional fees	233,940	340,134
General and administrative expenses	193,059	187,361
Depreciation and amortization	361,940	276,665
Property operating expenses	3,240	37,919
Real estate taxes	83,879	91,113
Impairment loss related to write-off of related party receivable	-	1,853,539
Total	<u>\$ 1,259,706</u>	<u>\$ 3,198,413</u>

- For the year ended December 31, 2019, compensation and benefit expense decreased by \$28,034, or 6.8%, as compared to the year ended December 31, 2018. This decrease was attributable to a decrease in stock-based compensation of \$51,563 offset by an increase in compensation and benefits of \$23,529.
- For the year ended December 31, 2019, professional fees decreased by \$106,194, or 31.2%, as compared to the year ended December 31, 2018. This decrease was primarily attributable to a decrease in public relations fees of \$58,936, a decrease in in proxy service fees incurred of \$21,195, and a decrease in legal fees of \$25,955.

- General and administrative expenses consist of expenses such as rent expense, directors' and officers' liability insurance, travel expenses, office expenses, telephone and internet expenses and other general operating expenses. For the year ended December 31, 2019, general and administrative expenses increased by \$5,698, or 3.0%, as compared to the year ended December 31, 2018.
- For the year ended December 31, 2019, depreciation and amortization expense increased by \$85,275, or 30.8%, as compared to the year ended December 31, 2018 and was attributable to an increase in depreciable assets.
- Property operating expenses consist of property management fees, property insurance, repairs and maintenance fees, utilities and other expenses related to our rental properties. For the year ended December 31, 2019, property operating expenses decreased by \$34,679, or 91.5%, as compared to the year ended December 31, 2018. The decrease was primarily related to the restructuring of our leases in May 2018. Beginning in May 2018, substantially all of the property operating expenses are paid by the Significant Tenants.
- For the year ended December 31, 2019, real estate taxes decreased by \$7,234, or 7.9%, as compared to the year ended December 31, 2018.
- During the year ended December 31, 2018, we recorded an impairment loss from the write-off of deferred rent receivable – related parties of \$1,853,539 in operating expenses on the accompanying consolidation statements of operations. We did not record any write-off of receivables during the year ended December 31, 2019. On May 1, 2018, we and the related party tenants cancelled their existing lease agreements. Additionally, on May 1, 2018, we entered into new lease agreements relating to the same properties. The new leases provide for payments of fixed monthly base rents over the term of the leases with no base rent increases. Accordingly, we reviewed our deferred rent receivable and determined that the deferred rent receivable of \$1,853,539 should be written off since, pursuant to the new lease terms, the deferred rent receivable was not collectible. Accordingly, on May 1, 2018, we recorded an impairment loss from the write-off of deferred rent receivable – related parties of \$1,853,539.

Income (loss) from operations

As a result of the factors described above, for the year ended December 31, 2019, income from operations amounted to \$715 as compared to loss from operations of \$(1,961,483) for the year ended December 31, 2018, a positive change of \$1,962,198, or 100.0%. This change is primarily due to the 2018 write-off of deferred rent receivable – related parties of \$1,853,539, as discussed above.

Other (expenses) income

Other (expenses) income primarily includes interest expense incurred on debt with third parties and related parties and also includes other income (expenses). For the year ended December 31, 2019, total other expenses, net amounted to \$12,996 as compared to total other expenses, net of \$65,795, respectively, representing a decrease of \$52,799, or 80.3%. During the year ended December 31, 2019, we recognized other income of \$108,204 related to a cash rebate received from the utility company as compared to other income of \$50,000 during the year ended December 31, 2018.

Net loss

As a result of the foregoing, for the years ended December 31, 2019 and 2018, net loss amounted to \$12,281, or \$(0.00) per common share (basic and diluted), and \$2,027,278, or \$(0.12) per common share (basic and diluted), respectively.

Liquidity and Capital Resources

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. We had cash of \$639,781 and \$354,867 of cash as of December 31, 2019 and 2018, respectively.

Our primary uses of cash have been for salaries, fees paid to third parties for professional services, property operating expenses, general and administrative expenses, and the development of rental properties. All funds received have been expended in the furtherance of growing the business. We have received funds from the collection of rental income, and from various financing activities such as from the sale of our common stock and from debt financings. The following trends are reasonably likely to result in changes in our liquidity over the near to long term:

- An increase in working capital requirements to finance our current business,
- Addition of administrative and sales personnel as the business grows, and
- The cost of being a public company.

We may need to raise additional funds, particularly if we are unable to generate positive cash flow as a result of our operations. We estimate that based on current plans and assumptions, that our available cash will be sufficient to satisfy our cash requirements under our present operating expectations for the next 12 months from the date of this report. Other than revenue received from the lease of our rental properties, funds received from the sale of our common stock and funds received from debt, we presently have no other significant alternative source of working capital.

We have used these funds to fund our operating expenses, pay our obligations, acquire and develop rental properties, and grow our company. We need to raise significant additional capital or debt financing to acquire new properties, to develop existing properties, and to assure we have sufficient working capital for our ongoing operations and debt obligations.

As discussed, on May 1, 2018, we cancelled our existing related party lease agreements and entered into new related party lease agreements relating to the same properties. Pursuant to the terms of the new leases, our cash flows have decreased. Additionally, effective January 1, 2019, the May 1, 2018 new leases were amended to reduce the gross revenue fee payable by related party tenants from 10% of gross revenue to 0% of gross revenue. Any additional reduction in revenue from or loss of such leases would have a material adverse effect on our consolidated results of operations and financial condition.

Our future operations are dependent on our ability to manage our current cash balance, on the collection of rental and advisory revenues and the attainment of new advisory clients. Our real estate properties are leased to Significant Tenants who were related parties through December 31, 2018 under triple-net leases for which terms vary. We monitor the credit of these tenants to stay abreast of any material changes in credit quality. We monitor tenant credit by (1) reviewing financial statements and related metrics and information that are publicly available or that are provided to us upon request, and (2) monitoring the timeliness of rent collections. As of December 31, 2019 and 2018, we had an asset concentration related to our Significant Tenant leases. As of December 31, 2019 and 2018, these Significant Tenants represented approximately 87.1% and 90.7% of total assets, respectively. If our Significant Tenants are prohibited from operating or cannot pay their rent, we may not have enough working capital to support our operations and we would have to seek out new tenants at rental rates per square less than our current rate per square foot.

As included in exhibit 99.1 and 99.2 to this report, we have included audited financial statements of our Significant Tenants since they represent material information and are necessary for the protection of investors.

We intend to secure additional financing to acquire and develop additional and existing properties. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses or experience unexpected cash requirements that would force us to seek alternative financing. Furthermore, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. The inability to obtain additional capital may restrict our ability to grow our business operations.

Cash Flow

For the Years Ended December 31, 2019 and 2018

Net cash flow provided by operating activities was \$284,914 for the year ended December 31, 2019 as compared net cash flow provided by operating activities of \$359,984 for the year ended December 31, 2018, a decrease of \$75,070.

- Net cash flow provided by operating activities for the year ended December 31, 2019 primarily reflected net loss of \$12,281 adjusted for the add-back of non-cash items consisting of depreciation and amortization of \$361,940, stock-based compensation expense of \$31,100 and accretion of stock-based stock option expense of \$23,612, offset by changes in operating assets and liabilities primarily consisting of a decrease in accounts payable of \$(117,984), and net changes in other operating assets and liabilities of \$(1,473).
- Net cash flow provided by operating activities for the year ended December 31, 2018 primarily reflected net loss of \$2,027,278 adjusted for the add-back of non-cash items consisting of depreciation and amortization of \$276,665, stock-based compensation expense of \$84,132, accretion of stock-based stock option expense of \$31,516 and impairment of related party deferred rent receivable in the amount of \$1,853,539, offset by changed in operating assets and liabilities consisting of an increase in deferred rent receivables of \$144,805, a decrease in notes receivable of \$182,365 from the collection of rent and applicable taxes due for March, April and May 2017 in the form of a note receivable to C3C3 at an 8% interest rate payable over 12 months commencing January 1, 2018, an increase in accounts payable of \$109,089, and net changes in other operating assets and liabilities of \$(5,239).

For the year ended December 31, 2018, net cash flow used in investing activities amounted to \$829,357 used in the development of rental properties including the expansion of rentable space by remodeling hoop houses and upgrading ventilation, plumbing and electrical systems. We did not have any investing activities for the year ended December 31, 2019.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

We have certain fixed contractual obligations and commitments that include future estimated payments. Changes in our business needs, cancellation provisions, changing interest rates, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in our determination of amounts presented in the tables, in order to assist in the review of this information within the context of our consolidated financial position, results of operations, and cash flows.

The following tables summarize our contractual obligations as of December 31, 2019 (dollars in thousands), and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

Contractual obligations:	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	5 + years
Convertible notes	\$ 2,020	\$ -	\$ -	\$ 20	\$ 2,000
Interest on convertible notes	1,245	154	241	240	610
Total	\$ 3,265	\$ 154	\$ 241	\$ 260	\$ 2,610

Off-balance Sheet Arrangements

We have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our audited and unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our estimates, including those related to income taxes, and the valuation of equity transactions. We base our estimates on historical experience and on various other assumptions that we believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Any future changes to these estimates and assumptions could cause a material change to our reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the unaudited consolidated financial statements.

Rental Properties

Rental properties are carried at cost less accumulated depreciation and amortization. Betterments, major renovations and certain costs directly related to the improvement of rental properties are capitalized. Maintenance and repair expenses are charged to expense as incurred. Depreciation is recognized on a straight-line basis over estimated useful lives of the assets, which range from 5 to 39 years. Tenant improvements are amortized on a straight-line basis over the lives of the related leases, which approximate the useful lives of the assets.

Upon the acquisition of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, identified intangibles, such as acquired above-market leases and acquired in-place leases) and acquired liabilities (such as acquired below-market leases) and allocate the purchase price based on these assessments. The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known trends, and market/economic conditions.

Our properties are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the aggregate projected future cash flows over the anticipated holding period on an undiscounted basis. An impairment loss is measured based on the excess of the property's carrying amount over its estimated fair value. Impairment analyses are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. If our estimates of the projected future cash flows, anticipated holding periods, or market conditions change, our evaluation of impairment losses may be different and such differences could be material to our consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results.

We have capitalized land, which is not subject to depreciation.

Revenue recognition

Effective on January 1, 2018, we adopted Accounting Standards Update ("ASU") 2014-09 and Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). ASU 2014-09, as amended by subsequent ASUs on the topic, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. We adopted this standard using the modified retrospective approach, which requires applying the new standard to all existing contracts not yet completed as of the effective date and recording a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The adoption of ASU 2014-09 did not have any impact on the process for, timing of, and presentation and disclosure of revenue recognition from contracts with tenants.

Rental income includes base rents that each tenant pays in accordance with the terms of its respective lease and is reported on a straight-line basis over the non-cancellable term of the lease, which includes the effects of rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space or controls the physical use of the leased space and the leased space is substantially ready for its intended use.

Revenues from advisory services is recognized when the Company performs services pursuant to its agreements with customers and collectability is reasonably assured.

Stock-based compensation

Stock-based compensation is accounted for based on the requirements of ASC 718 – "*Compensation – Stock Compensation*", which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award. Additionally, effective January 1, 2017, we adopted ASU No. 2016-09 ("ASU 2016-09"), *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 permits the election of an accounting policy for forfeitures of share-based payment awards, either to recognize forfeitures as they occur or estimate forfeitures over the vesting period of the award. We elected to recognize forfeitures as they occur and the cumulative impact of this change did not have any effect on the Company's consolidated financial statements and related disclosures.

Through March 31, 2018, pursuant to ASC 505-50 – “*Equity-Based Payments to Non-Employees*”, all share-based payments to non-employees, including grants of stock options, were recognized in the consolidated financial statements as compensation expense over the service period of the consulting arrangement or until performance conditions are expected to be met. Using a Black-Scholes valuation model, we periodically reassessed the fair value of non-employee options until service conditions are met, which generally aligns with the vesting period of the options, and we adjusted the expense recognized in the consolidated financial statements accordingly. In June 2018, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for nonemployee share-based payment transactions by expanding the scope of the stock-based compensation guidance in ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. ASU No. 2018-07 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted, but entities may not adopt prior to adopting the new revenue recognition guidance in ASC 606. We early adopted ASU No. 2018-07 in the second quarter of 2018, and the adoption did not have any impact on our consolidated financial statements.

Recent Accounting Pronouncements

Effective January 1, 2019, we adopted ASU 2016-02, “*Leases (Topic 842)*” using a modified retrospective method. On adoption we also applied the package of practical expedients to leases, where we are the lessee or lessor, that commenced before the effective date whereby we elected to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

ASU 2016-02, “*Leases (Topic 842)*” sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to recognize a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases.

For contracts entered into on or after the effective date, where we are the lessee, at the inception of a contract the Company assess whether the contract is, or contains, a lease. Our assessment is based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether we obtain the right to substantially all the economic benefit from the use of the asset throughout the period, and (3) whether we have the right to direct the use of the asset. We allocate the consideration in the contract to each lease component based on its relative stand-alone price to determine the lease payments. Leases entered into prior to January 1, 2019, are accounted for under ASC 840 and were not reassessed.

For leases entered into on or after the effective date, where we are the lessor, at the inception of the contract we assess whether the contract is a sales-type, direct financing or operating lease by reviewing the terms of the lease and determining if the lessee obtains control of the underlying asset implicitly or explicitly.

If a change to a pre-existing lease occurs, we evaluate if the modification results in a separate new lease or a modified lease. A new lease results when a modification provides additional right of use. The new lease or modified lease is then reassessed to determine its classification based on the modified terms.

The adoption of ASU 2016-02 did not have a material impact on the operating leases where we are the lessor. We will continue to record revenues from rental properties for our operating leases on a straight-line basis. For leases where we are a lessee, primarily for our administrative office lease, we analyzed if it would be required to record a lease liability and a right of use asset on our consolidated balance sheets at fair value upon adoption of ASU 2016-02. Since the terms of the Company’s operating lease for its office space is 12 months or less, pursuant to ASC 842, we determined that the lease meets the definition of a short-term lease and we did not recognize the right-of use asset and lease liability arising from this lease.

Recent Accounting Pronouncements

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements and Consolidated Financial Statement Schedules appearing on pages F-1 to F-23 of this annual report on Form 10-K.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure controls and procedures

We maintain “disclosure controls and procedures,” as that term is defined in Rule 13a-15(e), promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our company’s reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive officer and principal financial officer, evaluated our company’s disclosure controls and procedures as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of December 31, 2019, our disclosure controls and procedures were not effective. The ineffectiveness of our disclosure controls and procedures was due to material weaknesses, which we identified in our report on internal control over financial reporting.

Internal control over financial reporting

Management’s annual report on internal control over financial reporting

Our management, including our principal executive officer and principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2019. Our management’s evaluation of our internal control over financial reporting was based on the 2013 framework in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that as of December 31, 2019, our internal control over financial reporting was not effective.

The ineffectiveness of our disclosure controls and procedures was due to the following material weaknesses which we identified in our internal control over financial reporting: (1) the lack of multiples levels of management review on complex accounting and financial reporting issues, (2) we had not implemented adequate system and manual controls, and (3) a lack of adequate segregation of duties and necessary corporate accounting resources in our financial reporting process and accounting function as a result of our limited financial resources to support hiring of personnel and implementation of accounting systems. Until such time as we expand our staff to include additional accounting personnel and hire a full time chief financial officer, it is likely we will continue to report material weaknesses in our internal control over financial reporting.

A material weakness is a deficiency or a combination of control deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Limitations on Effectiveness of Controls

Our principal executive officer and principal financial officer does not expect that our disclosure controls or our internal control over financial reporting will prevent all errors 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 the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additional controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting during the fourth quarter of our fiscal year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth the names, positions and ages of our directors and executive officers as of the date of this annual report on Form 10-K. Our Board of Directors currently has five members. All of the current directors' terms expire as of the Annual Meeting and will serve until the 2020 Annual Meeting of Stockholders or until their successors are duly elected and qualified.

Set forth below is certain information regarding our executive officers and directors.

Name	Age	Position
Bryan McLaren	32	Chief Executive Officer, Chief Financial Officer, President, Treasurer, Secretary and Chairman
Art Friedman	58	Director
Alex McLaren, MD	67	Director
David G. Honaman	69	Director
Derek Overstreet, PhD.	33	Director

Bryan McLaren is the son of Dr. Alex McLaren.

Background Information about our Officers and Directors

Biographical information concerning the directors and executive officers listed above is set forth below. The information presented includes information each individual has given us about all positions they hold and their principal occupation and business experience for the past five years. In addition to the information presented below regarding each director's specific experience, qualifications, attributes and skills that led our board to conclude that he should serve as a director, we also believe that each of our directors has a reputation for integrity, honesty and adherence to high ethical standards. Each has demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to our company and our board of directors.

Bryan McLaren. Mr. McLaren has a dedicated history of work in the sustainability industry and in business development. Prior to his appointment as President, CEO and a director of our company in 2014, Mr. McLaren was recruited as our Chief Sustainability Officer and VP of Operations. Before joining the Company, from 2013 to 2014, Mr. McLaren worked as a sustainability consultant for Waste Management, Inc., where he served as a Project Manager for the Arizona State University account. Prior to 2013, Mr. McLaren worked as a Sustainability Manager for Northern Arizona University and as a Sustainability Commissioner for the City of Flagstaff, Arizona. Mr. McLaren has a Master's Degree in Sustainable Community Development, and Executive Master's Degree in Sustainability Leadership, and a Masters of Business Administration Degree with an emphasis on Sustainable Development. Mr. McLaren has served as the Chairman of our board of directors since 2014. As Chief Executive Officer and President, Mr. McLaren is able to provide our Board with valuable insight regarding the Company's operations, its management team and associates as a result of his day-to-day involvement with the Company. Mr. McLaren's business development experience, academic achievements, and knowledge of our business, has led our board of directors to conclude that he should continue to serve as a director and in his current roles.

Art Friedman. Mr. Friedman, who was appointed as a director in 2014, has served as Owner/Principal of Triple J Management Services, which specializes in consulting and professional services for the alcoholic beverage industry. Art was most recently President and CEO of Gold Coast Beverage Distributors, a position he held for the last 10 years of his 23 years with the company. During his tenure as President/CEO, Gold Coast more than tripled sales revenue and increased EBITDA by more than five-fold. Over the same period, Mr. Friedman led significant market share gains through organic growth as well as consolidating wholesaler acquisitions. Mr. Friedman began his career with General Foods Corporation, now part of Kraft Foods. He has served on the distributor advisory councils of Diageo-Guinness, Heineken USA, InBev and Miller-Coors. Mr. Friedman graduated Cum Laude with a Bachelor of Science in Business Management from the University of Florida, Warrington School of Business. We believe that Mr. Friedman's background as an advisor in the area of business management and his experience in operating, growing and advising companies provides us with the requisite skills and qualifications to serve on our board. Mr. Friedman's service as a director at the Company since 2014 together with his business background, provides business, governance, organizational and strategic planning expertise to our Board and makes him a valued member of the Audit Committee, the Compensation Committee, which he chairs, and the Strategic Committee.

Alex McLaren, MD. Dr. McLaren, who has served as a director since 2014, is an accomplished and well-known orthopedic surgeon, professor and researcher. He joined SharedClarity, LLC as Vice President of Clinical Outcomes in 2016. From 2006 until 2016, Dr. McLaren served as program director of the Banner University Medical Center-Phoenix (Ariz.) Residency Program in Orthopaedic Surgery. He is the former director of Orthopaedic Education for Banner Good Samaritan Medical Center in Phoenix. He was also the program director of the Phoenix Orthopedic Residency Program at Maricopa County Medical Center between 1998 and 2000. He has been in private orthopedic surgery practice twice during his career in Phoenix. After graduating from Queen's University School of Medicine, Kingston, Ontario, Canada in 1977, Dr. McLaren completed an orthopedic residency at the University of Western Ontario in 1982 and a fellowship at the University of Southern California in 1983. Dr. McLaren is first and foremost an orthopedic educator and researcher whose career has included teaching, research and administration of educational programs. His clinical interest includes orthopedic infections, revision arthroplasty and complex musculoskeletal trauma. With hundreds of publications, numerous grand-funded projects, and medical association postings, Dr. McLaren has established a prized reputation in his field. We believe that Dr. McLaren's services provided to numerous organizations provides us with the requisite skills and qualifications to serve on our board and as a member of the Compensation Committee and the Strategic Committee.

David G. Honaman. Mr. Honaman, who has served as a director since 2016, has served as Principal and CFO of Advanced Benefit Solutions, Inc. (d/b/a 44 North), an insurance agent and consultant, since 2010. From 2008 to 2009, Mr. Honaman served as an independent financial consultant. Prior to that time, Mr. Honaman spent seven years at Wilcox Associates, Inc., a civil engineering firm, most recently as CFO and Treasurer. Mr. Honaman also served in several capacities at Wolohan Lumber Co. for over 20 years, including as Vice President of Merchandising, Senior Vice President of Finance and CFO. Mr. Honaman began his career as a CPA on the audit staff at Ernst & Young LLP. Mr. Honaman brings to the Board extensive experience dealing with and overseeing the implementation of accounting principles and financial reporting rules and regulations. With his substantial business and management experience for five years as a certified public accountant and an auditor at Ernst & Young LLP serving numerous public companies in various business sectors, including insurance agencies, Mr. Honaman provides relevant expertise on accounting, investment and financial matters. His service as a chief financial officer at Advanced Benefit Solutions, Inc. (d/b/a 44 North), Wilcox Associates, Inc. and Wolohan Lumber Co., together with his accounting and management experience, make him a valued member of our Board, Compensation Committee and Strategic Committee, and an effective Non-Executive Chair of the Audit Committee. Mr. Honaman meets the definition of an “audit committee financial expert” as established by the SEC.

Derek Overstreet, PhD. Dr. Overstreet has served as a director since April 2017. In 2012, Dr. Overstreet co-founded Sonoran Biosciences, Inc. and has served as its CEO since that time. Sonoran Biosciences, Inc. develops new sustained-release pharmaceutical formulations for applications including orthopedic infection and postoperative pain management. Dr. Overstreet holds a Bachelor’s degree in Biomedical Engineering from Case Western Reserve University and a Doctoral degree in Biomedical Engineering from Arizona State University. His expertise is in the development of novel polymer-based materials for medical applications including drug delivery. He has authored 11 peer-reviewed scientific publications and two patent applications. We believe that Dr. Overstreet’s experience navigating the scientific field of pharmaceuticals and drug delivery can be instrumental in assisting the strategic development and implementation of the Zoned Properties’ business model. Prior to 2012, Dr. Overstreet was a post-doctoral fellow at the Laboratory for Nanomedicine at the Barrow Neurological Institute.

Involvement in Certain Legal Proceedings

Our directors and executive officers have not been involved in any of the following events during the past 10 years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities;
4. being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;
5. being 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
6. being 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), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than 10% of our common stock to file reports regarding ownership of, and transactions in, our securities with the SEC and to provide us with copies of those filings. Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons we believe that during year ended December 31, 2019, all filing requirements applicable to our executive officers and directors, and persons who own more than 10% of our common stock were complied with, except as follows: Each of Messrs. Friedman and Honaman, Dr. McLaren and Dr. Overstreet failed to file timely one Form 4 with respect to one transaction.

Code of Ethics

We have adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including those employees responsible for financial reporting.

Director Independence

Three of our five board members are independent. The Board has determined that each of Messrs. Friedman and Honaman and Dr. Overstreet is an independent director pursuant to the NASDAQ listing standards. Under the NASDAQ rules, no director qualifies as independent unless the Board affirmatively determines that the director has no material relationship with us (directly, or as a partner, stockholder or officer of an organization that has a relationship with us).

In assessing the independence of our directors, the Board considers all of the business relationships between the Company and our directors and their respective affiliated companies. This review is based primarily on the Company's review of its own records and on responses of the directors to questions in a questionnaire regarding employment, business, familial, compensation and other relationships with the Company and our management. Where relationships exist, the Board determines whether the relationship between the Company and the directors or the directors' affiliated companies impairs the directors' independence. After consideration of the directors' relationships with the Company, the Board has affirmatively determined that none of the individuals serving as non-employee directors during the fiscal year ended December 31, 2019 had a material relationship with us and that each of such non-employee directors is independent.

Bryan McLaren was not considered an independent director during his service on the Board during the fiscal year ended December 31, 2019 because of his employment as our CEO, President, Treasurer, Secretary and Chairman of the Board. Alex McLaren, MD was not considered an independent director during his service on the Board during the fiscal year ended December 31, 2019 because Bryan McLaren is the son of Dr. McLaren.

Board of Directors and Board Committees

All of our directors and director nominees are encouraged to attend the annual meetings of our stockholders.

The Board of Directors held one meeting during the fiscal year ended December 31, 2019. Each of our current directors attended 100% of the aggregate number of the meetings of the Board and meetings of the committees on which he or she served.

Our Board currently has three committees: the Audit Committee, the Strategic Committee, and the Compensation Committee. As of March 26, 2020, the members and Chairs of our standing Board committees were:

	<u>Audit</u>	<u>Compensation</u>	<u>Strategic</u>
Independent Directors			
Art Friedman	X	Chair	X
David G. Honaman	Chair	X	X
Derek Overstreet	X	X	X
Non-Independent Director			
Alex McLaren, MD		X	Chair

Audit Committee

All Audit Committee members are "independent" under the NASDAQ listing standards and SEC rules and regulations. Our Board of Directors has determined that one of the members of the Audit Committee, Mr. Honaman, meets the definition of an "audit committee financial expert" as established by the SEC, and that Mr. Friedman and Dr. Overstreet, the two other members of the Audit Committee, meet the definition of "financially literate" as established by the SEC. The Audit Committee provides assistance to the Board in fulfilling its oversight responsibilities relating to the quality and integrity of the financial reports of the Company. The Audit Committee has the sole authority to appoint, review and discharge our independent accountants, and has established procedures for the receipt, retention, response to and treatment of complaints regarding accounting, internal controls and audit matters. In addition, the Audit Committee is responsible for:

- reviewing the scope, results, timing and costs of the audit with our independent accountants and reviewing the results of the annual audit examination and any accompanying management letters;
- assessing the independence of the outside accountants on an annual basis, including receipt and review of a written report from the independent accountants regarding their independence consistent with the independence standards of the board;
- reviewing and approving the services provided by the independent accountants;
- overseeing the internal audit function; and
- reviewing our significant accounting policies, financial results and earnings releases, and the adequacy of our internal controls and procedures.

The responsibilities of the Audit Committee are more fully described in the Audit Committee's charter.

The Audit Committee held four meetings during 2019.

Compensation Committee

All Compensation Committee members (except for Dr. McLaren) are “independent” under applicable NASDAQ listing standards. The Compensation Committee assists the Board in fulfilling its oversight responsibilities relating to executive compensation, employee compensation and benefit programs and plans, and leadership development and succession planning. In addition, the Compensation Committee is responsible for:

- reviewing the performance of our Chief Executive Officer;
- determining the compensation and benefits for our Chief Executive Officer and other executive officers;
- establishing our compensation policies and practices;
- administering our incentive compensation and stock plans (except for the issuance of securities to non-employee directors for services which is administered by the Board); and
- approving the adoption of material changes to or the termination of our benefit plans.

The Compensation Committee reviews and discusses with management the disclosures regarding executive compensation to be included in our annual proxy statement. The responsibilities of the Compensation Committee are more fully described in the Compensation Committee’s charter.

The Compensation Committee held one meeting during the fiscal year ended December 31, 2019.

Strategic Committee

All Strategic Committee members (except for Dr. McLaren) are “independent” under the applicable NASDAQ listing standards. The Strategic Committee assists the Board in developing and maintaining the Company’s business strategies and any related matters required by federal securities laws. In addition, the Strategic Committee is responsible for:

- Review the Company’s current business strategies.
- Explore new business strategies for the Company.
- Report business strategy analyses to the Board.

During the fourth quarter of the fiscal year ended December 31, 2019, there were no material changes to the procedures by which stockholders may recommend nominees to the Board.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation

The following table summarizes all compensation recorded by us for the years ended December 31, 2019 and 2018 for our “named executive officers” as such term is defined in Item 402(m)(2) of Regulation S-K.

2019 Summary Compensation Table

Name and principal position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
		\$	\$	\$	\$	\$	\$	\$	\$
Bryan McLaren, Chief Executive Officer, President and Chief Financial Officer (1)	2019	214,500	-	-	-	-	-	-	214,500
	2018	210,750	-	-	-	-	-	-	210,750

- (1) On December 30, 2015, we granted Mr. McLaren an option pursuant to our 2014 Equity Compensation Plan to purchase 250,000 of the Company’s common stock at an exercise price of \$1.00 per share. The Option expires on December 30, 2026. The option vests as to 25,000 of such shares on December 30th of each year beginning in 2015 and through 2026. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 120%; risk-free interest rate of 2.31%; and, an estimated holding period of 10 years. The Company valued this option at a fair value of \$237,150 and records stock-based compensation expense over the vesting period. For the years ended December 31, 2019 and 2018, we recorded stock-based compensation expense of \$23,612 and \$31,516, respectively.

Narrative Disclosure to Summary Compensation Table

Except as otherwise described below, there are no compensatory plans or arrangements, including payments to be received from the Company with respect to any executive officer, that would result in payments to such person because of his or her resignation, retirement or other termination of employment with the Company, or our subsidiaries, any change in control, or a change in the person's responsibilities following a change in control of the Company.

On July 31, 2014, we entered into an employment agreement with Mr. McLaren pursuant to which we agreed to pay Mr. McLaren an annual salary of \$120,000, with increases based on relative experience, qualifications, and growth with the Company. Mr. McLaren's current salary is \$214,500 per year.

On May 23, 2018, the Company and Mr. McLaren agreed to replace Mr. McLaren's 2014 employment agreement with a new employment agreement dated May 23, 2018 (the "2018 Employment Agreement"). Pursuant to the terms of the 2018 Employment Agreement, the Company agreed to continue to pay Mr. McLaren his current base annual salary of \$214,500, and to award Mr. McLaren with an annual and/or quarterly bonus payable in either cash and/or equity of no less than 2% of the Company's net income for the associated period.

The 2018 Employment Agreement has a term of 10 years. The term and Mr. McLaren's employment will terminate (a "Termination") in any of the following circumstances:

- (i) immediately, if Mr. McLaren dies;
- (ii) immediately, if Mr. McLaren receives benefits under the long-term disability insurance coverage then
- (iii) provided by the Company or, if no such insurance is in effect, upon Mr. McLaren's disability;
- (iv) on the expiration date, as the same may be extended by the parties by written amendment to the 2018 Employment Agreement prior to the occasion thereof;
- (v) at the option of the Company for Cause (as hereinafter defined) upon the Company's provision of written notice to Mr. McLaren of the basis for such Termination;
- (vi) at the option of the Company, without Cause;
- (vii) by Mr. McLaren at any time with Good Reason (as hereinafter defined), upon 30 days' prior written notice to the Company delivered not later than within 90 days of the existence of the condition therefor; or
- (viii) by Mr. McLaren at any time without Good Reason, upon not less than three months' prior written notice to the Company.

In the event of a Termination for any reason or for no reason whatsoever, or upon the expiration date of the 2018 Employment Agreement, whichever comes first, all rights and obligations under the 2018 Employment Agreement shall cease (i) as to the Company, except for the Company's obligations for the payment of applicable severance benefits thereunder, and for indemnification thereunder, and (ii) as to Mr. McLaren, except for his obligation under the restrictive covenants in the 2018 Employment Agreement.

The Company and Mr. McLaren also entered into a Golden Parachute Agreement (the "Golden Parachute Agreement") on May 23, 2018. No benefits shall be payable under the Golden Parachute Agreement unless there shall have been a change in control of the Company, as set forth below. For purposes of the Golden Parachute Agreement, a "change in control of the Company" shall mean a change of control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not the Company is in fact required to comply with that regulation, provided that, without limitation, such a change in control shall be deemed to have occurred if (A) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities; or (B) during any period of two consecutive years (not including any period prior to the execution of the Golden Parachute Agreement), individuals who at the beginning of such period constitute the Board and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clauses (A) or (D) of this paragraph) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority; (C) the Company enters into an agreement, the consummation of which would result in the occurrence of a change in control of the Company; or (D) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to it continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) of more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

For purposes of the Golden Parachute Agreement, "Cause" means termination upon (a) the willful and continued failure to substantially perform duties with the Company after a written demand for substantial performance is delivered by the Board, which demand specifically identifies the manner in which the Board believes that duties have not substantially been performed, or (b) the willful engaging in conduct which is demonstrably and materially injurious to the Company, monetarily or otherwise.

For purposes of the Golden Parachute Agreement, "Good Reason" means, without express written consent, the occurrence after a change in control of the Company of any of the following circumstances unless, such circumstances are fully corrected prior to the date of Termination specified in the notice of Termination:

- (a) a material diminution in Mr. McLaren's authority, duties or responsibility from those in effect immediately prior to the change in control of the Company;
- (b) a material diminution in Mr. McLaren's base compensation;
- (c) a material change in the geographic location at which Mr. McLaren performs his duties;
- (d) a material diminution in the authority, duties, or responsibilities of the supervisor to whom Mr. McLaren is required to report, including a requirement that McLaren report to a corporate officer or employee instead of reporting directly to the Board;
- (e) a material diminution in the budget over which Mr. McLaren retains authority;
- (f) a material breach under any agreement with the Company to continue in effect any bonus to which Mr. McLaren was entitled, or any compensation plan in which Mr. McLaren participates immediately prior to the change in control of the Company which is material to Mr. McLaren's total compensation;
- (g) a material breach under any agreement with the Company to provide Mr. McLaren benefits substantially similar to those enjoyed by Mr. McLaren under any of the Company's life insurance, medical, health and accident, or disability plans in which he was participating at the time of the change in control of the Company, the failure to continue to provide Mr. McLaren with a Company automobile or allowance in lieu of it, if Mr. McLaren was provided with such an automobile or allowance in lieu of it at the time of the change of control of the Company, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive Mr. McLaren of any material fringe benefit enjoyed by Mr. McLaren at the time of the change in control of the Company, or the failure by the Company to provide him with the number of paid vacation days to which he is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of the change in control of the Company;

Following a change in control of the Company, upon termination of Mr. McLaren's employment or during a period of disability, Mr. McLaren will be entitled to the following benefits:

- (i) During any period that Mr. McLaren fails to perform his full-time duties with the Company as a result of incapacity due to physical or mental illness, Mr. McLaren will continue to receive his base salary at the rate in effect at the commencement of any such period, together with all amounts payable to Mr. McLaren under any compensation plan of the Company during such period, until the Golden Parachute Agreement is terminated.
- (ii) If Mr. McLaren's employment is terminated by the Company for Cause or by Mr. McLaren other than for Good Reason, disability, death or retirement, the Company will pay Mr. McLaren his full base salary through the date of Termination at the rate in effect at the time notice of Termination is given, plus all other amounts and benefits to which Mr. McLaren is entitled under any compensation plan of the Company at the time such payments are due.
- (iii) If employment by the Company shall be terminated (a) by the Company other than for Cause, death or disability or (b) by Mr. McLaren for Good Reason, Mr. McLaren will be entitled to benefits provided below:
 - a. The Company will pay Mr. McLaren his full base salary through the date of Termination at the rate in effect at the time notice of Termination is given, plus all other amounts and benefits to which Mr. McLaren is entitled under any compensation plan of the Company.
 - b. In lieu of any further salary payments to Mr. McLaren for periods subsequent to the date of Termination, the Company will pay as severance pay to Mr. McLaren a lump sum severance payment (together with the payments provided in clauses (c) and (d) below) equal to five times the sum of Mr. McLaren's annual base salary in effect immediately prior to the occurrence of the circumstance giving rise to the notice of Termination given in respect of them.
 - c. The Company will pay to Mr. McLaren any deferred compensation allocated or credited to Mr. McLaren or his account as of the date of Termination.

d. In lieu of shares of common stock of the Company issuable upon exercise of outstanding options, if any, granted to Mr. McLaren under the Company's stock option plans (which options shall be cancelled upon the making of the payment referred to below), Mr. McLaren will receive an amount in cash equal to the product of (i) the excess of the closing price of the Company's common stock as reported on or nearest the date of Termination (or, if not so reported, on the basis of the average of the lowest asked and highest bid prices on or nearest the date of Termination), over the per share exercise price of each option held by Mr. McLaren (whether or not then fully exercisable) plus the amount of any applicable cash appreciation rights, times (ii) the number of the Company's common stock covered by each such option.

e. The Company will also pay to Mr. McLaren all legal fees and expenses incurred by Mr. McLaren as a result of such Termination.

(iv) In the event that Mr. McLaren is a "disqualified individual" within the meaning of Section 280G of the Code, the parties expressly agree that the payments described herein and all other payments to Mr. McLaren under any other agreements or arrangements with any persons which constitute "parachute payments" within the meaning of Section 280G of the Code are collectively subject to an overall maximum limit. Such maximum limit shall be \$1 less than the aggregate amount which would otherwise cause any such payments to be considered a "parachute payment" within the meaning of Section 280G of the Code, as determined by the Company.

Outstanding Equity Awards at 2019 Fiscal Year-End

The following table sets forth information as options outstanding on December 31, 2019.

OUTSTANDING EQUITY AWARDS AT 2019 FISCAL YEAR-END									
OPTION AWARDS						STOCK AWARDS			
Name	Number of Securities Underlying Unexercised options (#) Exercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that Have not Vested (\$)	Equity Incentive Plan Awards: Number of Other Rights that have not Vested (#)	Equity Incentive Plan Awards: Market Value of Unearned Shares, Units or other Rights that have not Vested (\$)
Bryan McLaren	125,000	125,000 ^(a)	—	1.00	12/26/2026	—	—	—	—

(a) Vest annually at 25,000 options per year through December 2024.

Securities Authorized for Issuance under Equity Compensation Plans

On August 9, 2016, our Board of Directors authorized the 2016 Plan and reserved 10,000,000 shares of common stock for issuance thereunder. The 2016 Plan was approved by shareholders on November 21, 2016. The 2016 Plan's purpose is to encourage ownership in the Company by employees, officers, directors and consultants whose long-term service the Company considers essential to its continued progress and, thereby, encourage recipients to act in the stockholders' interest and share in the Company's success. The 2016 Plan authorizes the grant of awards in the form of options intended to qualify as incentive stock options under Section 422 of the Code, options that do not qualify (non-statutory stock options) and grants of restricted shares of common stock. Restricted shares granted pursuant to the 2016 Plan are amortized to expense over the three-year vesting period. Options vest and expire over a period not to exceed seven years. If any share of common stock underlying a stock option that has been granted ceases to be subject to a stock option, or if any shares of common stock that are subject to any other stock-based award granted are forfeited or terminate, such shares shall again be available for distribution in connection with future grants and awards under the 2016 Plan. As of December 31, 2019, 40,000 stock option awards have been granted under the 2016 Plan. At December 31, 2019, 9,960,000 shares are available for future issuance.

The Company also continues to maintain its 2014 Plan, pursuant to which 1,250,000 previously awarded stock options are outstanding. The 2014 Plan has been superseded by the 2016 Plan. Accordingly, no additional shares subject to the existing 2014 Plan will be issued and the 1,250,000 shares issuable upon exercise of stock options will be issued pursuant to the 2014 Plan, if exercised. As of December 31, 2019, options to purchase 1,250,000 shares of common stock are outstanding pursuant to the 2014 Plan.

The table below sets forth information as of December 31, 2019.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	40,000	\$ 0.74	9,960,000
Equity compensation plans not approved by security holders	1,250,000	\$ 1.00	0
Total	<u>1,290,000</u>	<u>\$ 0.99</u>	<u>9,960,000</u>

Director Compensation

The following table sets forth compensation paid, earned or awarded during 2019 to each of our directors, other than Bryan McLaren, whose compensation is described above in the “2019 Summary Compensation Table”.

2019 Director Compensation

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$ (1))	All Other Compensation (\$)	Total (\$)
Art Friedman	4,650	6,220	-	10,870
David G. Honaman	-	7,775	-	7,775
Alex McLaren, MD	-	10,885	-	10,885
Derek Overstreet	-	6,220	-	6,220

(1) As required by SEC rules, the amounts in this column reflect the grant date or modification date fair value as required by FASB ASC Topic 718. A discussion of the assumptions and methodologies used to calculate these amounts is contained in the notes to our financial statements under “Shareholders’ Deficit”. In January 2019, each of Mr. Friedman and Dr. Overstreet received 20,000 shares of restricted stock, Dr. McLaren received 35,000 shares of restricted stock and Mr. Honaman received 25,000 shares of restricted stock.

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

The following table sets forth certain information regarding beneficial ownership of our common stock and preferred stock as of March 26, 2019, by:

- Each director and each of our Named Executive Officers,
- All executive officers and directors as a group, and
- Each person known by us to be the beneficial owner of more than 5% of our outstanding common stock.

As of March 26, 2020, there were 12,011,548 shares of our common stock outstanding and 2,000,000 shares of Preferred Stock outstanding.

The number of shares of common stock beneficially owned by each person is determined under the rules of the SEC and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which such person has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days after the date hereof, through the exercise of any stock option, warrant or other right. Unless otherwise indicated, each person has sole investment and voting power (or shares such power with his or her spouse) with respect to the shares set forth in the following table. The inclusion herein of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of those shares.

Common Stock

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Named Executive Officers and Directors:		
Bryan McLaren	125,000(1)	1.0%
Art Friedman	110,000	*
Alex McLaren, MD	1,641,667(2)	13.6%
David G. Honaman	80,000(3)	*
Derek Overstreet, PhD	60,000(4)	*
All executive officers and directors as a group (five persons)	2,016,667(5)	16.6%

Other 5% Stockholders:

Greg Johnston 16912 61 st Dr. NW Stanwood, WA 98292	1,262,500	10.5%
Melinda Jay Johnston 915 Stitch Rd. Lake Stevens, WA 98258	1,250,000	10.4%
Joseph Bartonek 949 Durham Rd. Edison, NJ 08817	756,250	6.3%

* Less than 1%.

(1) Consists of 125,000 vested stock options.

(2) Includes 1,501,667 shares held by McLaren Family LLLP. Dr. McLaren is the general partner of McLaren Family LLLP and has voting and dispositive power over such shares and includes 15,000 vested stock options.

(3) Includes 15,000 vested stock options.

(4) Includes 10,000 vested stock options.

(5) Includes 165,000 vested stock options.

Preferred Stock

Name and Address of Beneficial Owner	Shares of Preferred Stock Beneficially Owned	Percent of Class Beneficially Owned	Percent of Voting Power (1)
Greg Johnston c/o Zoned Properties, Inc. 14269 N. 87 th Street, #205 Scottsdale, AZ 85260	1,000,000	50.0%	44.6%(2)
Alex McLaren c/o Zoned Properties, Inc. 14269 N. 87 th Street, #205 Scottsdale, AZ 85260	1,000,000(3)	50.0%	44.6%(4)

(1) As a result of the multiple votes accorded to holders of the preferred stock (50 votes per share), Mr. Johnston and Dr. McLaren have the ability to control the outcome of all matters submitted to a vote of stockholders, including the election of directors. The percent of voting power in the table gives effect to the holder's beneficial ownership of common stock and preferred stock.

(2) Combined with Mr. Johnston's common stockholdings, Mr. Johnston holds 45.8% of the voting power of the Company.

(3) Shares are held by McLaren Family LLLP. Dr. McLaren is the general partner of McLaren Family LLLP and has voting and dispositive power over such shares.

(4) Combined with Dr. McLaren's common stockholdings, Dr. McLaren holds 46.1% of the voting power of the Company.

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

We do not have a written policy for the review, approval or ratification of transactions with related parties or conflicted transactions. When such transactions arise, they are referred to the audit committee for consideration for referral to our board of directors for its consideration.

Convertible Notes Payable

On January 9, 2017, the Company issued a convertible debenture (the “Abrams Debenture”) in the aggregate principal amount of \$2,000,000 in favor of Alan Abrams, a significant stockholder of the Company, in exchange for cash from Mr. Abrams of \$2,000,000. Also on January 9, 2017, the Company issued a convertible debenture (the “McLaren Debenture” and together with the Abrams Debenture, the “Debentures”) in the aggregate principal amount of \$20,000 in favor of Bryan McLaren, the Company’s then Chief Executive Officer and President and a member of the Company’s Board of Directors (effective May 23, 2018, Mr. McLaren also assumed the title of Chief Financial Officer), in exchange for cash from Mr. McLaren of \$20,000. Each of Mr. Abrams and Mr. McLaren is referred to herein as a “Holder.” Each of the Debentures accrues interest at the rate of 6% per annum payable quarterly by the first of each quarter and matures on January 9, 2022. The Company may prepay the Debentures at any point after nine months, in whole or in part. Pursuant to the terms of each of the Debentures, the Holder is entitled to convert all or a portion of the principal balance and all accrued and unpaid interest due under the respective Debenture into shares of the Company’s common stock at a conversion price of \$5.00 per share. If the Company defaults on payment, the Holder may at his option, extend all conversion rights, through and including the date the Company tenders or attempts to tender payment in full of all amounts due under the Debenture. Any amount of principal or interest, which is not paid when due shall bear interest at the rate of 12% per annum. Upon an Event of Default (as defined in each Debenture), the Holder may (i) declare the entire principal amount and all accrued and unpaid interest under the Debenture immediately due and payable, and (ii) exercise any and all rights, powers and remedies available to the Holder at law or in equity or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in the Debenture and proceed to enforce the payment thereof or any other legal or equitable right of the Holder.

Pursuant to a Stock Redemption Agreement, effective January 1, 2019, the Company and Mr. Abrams amended the Abrams Debenture to extend the maturity date of the Abrams Debenture from January 9, 2022 until January 9, 2030.

Terminated Related Party Lease Agreements

During 2014, the Company entered into lease agreements with non-profit companies, CJK and Broken Arrow for its properties located in Kingman, AZ and Green Valley, AZ, respectively. CJK and Broken Arrow, which was owned at the time of the transaction, in whole or in part, directly or indirectly, by Messrs. Abrams and Carra, each of whom was a significant stockholder of the Company. The Kingman, AZ lease commenced on October 1, 2014 and was to expire on September 30, 2024 with a base monthly rent of \$10,000, subject to a 5% annual increases during the lease term (the “Prior Kingman Lease”). The Green Valley, AZ lease commenced on October 1, 2014 and was to expire on September 30, 2024 with a base monthly rent of \$7,500, subject to a 5% annual increases during the lease term (the “Prior Green Valley Lease”). These leases were cancelled and new leases were executed on May 1, 2018.

In August 2015, the Company entered into a lease agreement with C3C3 to lease space in Tempe, Arizona. The Tempe lease commenced on September 1, 2015, was amended on September 1, 2016 and October 1, 2017, and was to expire on July 31, 2035 with base monthly rent of \$13,500, subject to a 5% annual increase through July 31, 2023 and base rent of \$67,460 per month from August 1, 2023 to the end of the lease term, and increases in rental area up to 30,000 square feet (together, the “Prior Tempe Leases”). This lease was cancelled and a new lease was executed on May 1, 2018.

In August 2015, the Company entered into a lease agreement with C3C3 to lease space in Chino Valley, Arizona (the “Prior Chino Valley Lease”). The Prior Chino Valley Lease commenced on August 1, 2015, was amended on October 10, 2016 and on March 31, 2017, and was to expire on July 31, 2035 with an initial base monthly rent of \$30,000, subject to an annual increase and other base rent increases due to the expansion of leased space through July 2024 and base rent of \$91,462 per month from August 2024 to the end of the lease term, and increases in rental area to 35,000 square feet. Additionally, pursuant to the March 30, 2017 amendment, the Company agreed to defer rent and applicable taxes due for March, April and May 2017 in the form of a note receivable to C3C3 at an 8% interest rate commencing March 1, 2017 and payable over 12 months commencing January 1, 2018. This lease was cancelled and a new lease was executed on May 1, 2018.

On June 15, 2017 and effective July 1, 2017, the Company entered into a lease agreement with AC Management Group, LLC (also known as Hana Meds and who has an exclusive management agreement with Broken Arrow and CJK) to lease office space in Tempe, Arizona (the “Hana Meds Lease”). The Hana Meds Lease commenced on July 1, 2017 and was to expire on June 30, 2022 with a base monthly rent of \$1,800 starting on October 1, 2017. This lease was cancelled on May 1, 2018.

On March 1, 2018, the Company and Alan Abrams entered into a Reaffirmation Agreement related to the personal guarantee.

New Related Party & Significant Tenant Lease Agreements

On May 1, 2018, the Company and C3C3, Hana Meds, CJK and Broken Arrow cancelled their existing lease agreements. Also on May 1, 2018, the Company entered into new lease agreements relating to the same properties and confidential advisory services agreements with CJK and Broken Arrow. Each of the new lease agreements include a Guarantee of Payment and Performance by Alan Abrams and the respective tenant entities.

On May 1, 2018, Chino Valley, a wholly owned subsidiary of the Company, and Broken Arrow agreed to terminate the Prior Chino Valley Lease dated April 6, 2015, as amended, in consideration of (i) entry into that certain Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Chino Valley and Broken Arrow (the “New Chino Valley Lease”), with a term of 22 years, expiring April 30, 2040, and (ii) abatement of rent that would otherwise have been due for the month of April under the Prior Chino Valley Lease. The New Chino Valley Lease provides for payment by Broken Arrow of a fixed monthly base rent of \$35,000, as well as real property taxes, personal property taxes, privilege, sales, rental, excise, use and/or other taxes (excluding income or estate taxes) levied upon or assessed against Chino Valley. In addition, pursuant to the terms of the New Chino Valley Lease, Broken Arrow agreed to maintain insurance in full force during the term of the New Chino Valley Lease and any other period of occupancy of the premises by Broken Arrow. Broken Arrow, which was owned at the time of the transaction, in whole or in part, directly or indirectly, by Messrs. Abrams and Carra, each of whom was a significant stockholder of the Company through December 31, 2018.

On May 1, 2018, Green Valley, a wholly owned subsidiary of the Company, and Broken Arrow agreed to terminate the Prior Green Valley Lease dated October 1, 2014, in consideration of (i) entry into that certain Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Green Valley and Broken Arrow (the “New Green Valley Lease”), with a term of 22 years, expiring April 30, 2040, and (ii) abatement of rent that would otherwise have been due for the month of April under the Prior Green Valley Lease. The New Green Valley Lease provides for payment by Broken Arrow of a fixed monthly base rent of \$3,500, as well as real property taxes, personal property taxes, privilege, sales, rental, excise, use and/or other taxes (excluding income or estate taxes) levied upon or assessed against Chino Valley. In addition, pursuant to the terms of the New Green Valley Lease, Broken Arrow agreed to maintain insurance in full force during the term of the New Green Valley Lease and any other period of occupancy of the premises by Broken Arrow.

On May 1, 2018, Zoned Arizona, a wholly owned subsidiary of the Company, Hana Meds and CJK agreed to terminate the Prior Tempe Leases dated August 15, 2015, as amended, and June 15, 2017, in consideration of (i) entry into that certain Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Zoned Arizona and CJK (the “New Tempe Lease”), with a term of 22 years, expiring April 30, 2040, and (ii) abatement of rent that would otherwise have been due for the month of April under the Prior Tempe Leases. The New Tempe Lease provides for payment by CJK of a fixed monthly base rent of \$33,500, as well as real property taxes, personal property taxes, privilege, sales, rental, excise, use and/or other taxes (excluding income or estate taxes) levied upon or assessed against Zoned Arizona. In addition, pursuant to the terms of the New Tempe Lease, CJK agreed to maintain insurance in full force during the term of the New Tempe Lease and any other period of occupancy of the premises by CJK. CJK, which was owned at the time of the transaction, in whole or in part, directly or indirectly, by Messrs. Abrams and Carra, each of whom was a significant stockholder of the Company through December 31, 2018.

On May 1, 2018, Kingman, a wholly owned subsidiary of the Company, and CJK agreed to terminate the Prior Kingman Lease dated October 1, 2014, in consideration of (i) entry into that certain Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Kingman and CJK (the “New Kingman Lease”), with a term of 22 years, expiring April 30, 2040, and (ii) abatement of rent that would otherwise have been due for the month of April under the Prior Kingman Lease. The New Kingman Lease provides for payment by CJK of a fixed monthly base rent of \$4,000, as well as real property taxes, personal property taxes, privilege, sales, rental, excise, use and/or other taxes (excluding income or estate taxes) levied upon or assessed against Kingman. In addition, pursuant to the terms of the New Kingman Lease, CJK agreed to maintain insurance in full force during the term of the New Kingman Lease and any other period of occupancy of the premises by CJK.

The New Tempe Lease, New Kingman Lease, New Chino Valley Lease and New Green Valley includes a Guarantee of Payment and Performance by Mr. Abrams and the respective tenant entities.

Through December 31, 2018, each of Messrs. Abrams and Carra was a significant stockholder of the Company.

The Company’s Prior Leases contained rental increases at specified intervals. Accordingly, through April 30, 2018, rental income includes base rents that each tenant pays in accordance with the terms of its respective lease and was reported on a straight-line basis over the term of the Old Lease, which included the effects of rent abatements under the leases. Through April 30, 2018, the Company recorded as an asset, and included in revenue, rents receivable that will be received if the tenant makes all rent payments required through the expiration of the initial term of the lease. At December 31, 2017, deferred rents receivable in the accompanying consolidated balance sheets include the cumulative difference between rental revenue recorded on a straight-line basis and rents received from the tenants in accordance with the lease terms. Based on the terms in the New Lease agreements discussed above, the New Leases do not contain rental increases at specified intervals and base rent revenue will be constant over the New Lease terms. Accordingly, on May 1, 2018, the Company wrote off its deferred rent receivable in the amounts of \$1,853,539 and recorded a write-off of deferred rent receivable – related parties of \$1,853,539.

For the years ended December 31, 2018, rental income associated with all related party leases amounted to \$1,186,775.

Effective January 1, 2019, the Company, Christopher Carra, Alan Abrams, Clayton Abrams Revocable Trust (the "Clayton Abrams Trust"), and Kyle Abrams Revocable Trust (the "Kyle Abrams Trust" and together with the Clayton Abrams Trust, the "Trusts") entered into a Stock Redemption Agreement (the "Stock Redemption Agreement"). Prior to entry into the Stock Redemption Agreement, (i) Mr. Carra was the owner 2,028,335 shares of the Company's common stock, representing approximately 11.6% of the Company's outstanding shares as of January 1, 2019, and (ii) Mr. Abrams, together with the Trusts (collectively, the "Abrams Affiliates"), owned 3,611,669 shares of the Company's common stock, representing approximately 20.7% of the Company's outstanding common stock as of January 1, 2019. Pursuant to Securities and Exchange Commission (the "SEC") rules, each of Messrs. Carra and Abrams was deemed to be a "related person" due solely to their status as significant stockholders of the Company. Pursuant to the terms of the Stock Redemption Agreement, the parties agreed that the Company would redeem an aggregate of 5,640,004 owned by Mr. Carra and the Abrams Affiliates (the "Stock Redemption") such that Messrs. Carra and Abrams would no longer be significant and stockholders of the Company and would no longer be deemed to be "related persons" under SEC rules. In exchange for the Stock Redemption, the parties agreed that:

- The Company and Broken Arrow, which was owned at the time of the transaction, in whole or in part, directly or indirectly, by Messrs. Abrams and Carra, amended the Broken Arrow CASA to reduce the gross revenue fee payable by Broken Arrow from 10% of gross revenue to 0% of gross revenue,
- The Company and CJK, which was owned at the time of the transaction, in whole or in part, directly or indirectly, by Messrs. Abrams and Carra, amended the CJK CASA to reduce the gross revenue fee payable by CJK from 10% of gross revenue to 0% of gross revenue,
- The Company and Mr. Abrams amended the convertible debenture dated January 9, 2017 (the "Abrams Debenture") to extend the maturity date of the Abrams Debenture from January 9, 2022 until January 9, 2030, and
- Chino Valley and Broken Arrow amended the Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 (the "Chino Valley Lease") to increase the monthly base rent payable by Broken Arrow from \$35,000 to \$40,000.

Following effectiveness of the Stock Redemption and the transactions set forth above:

- Messrs. Carra and Abrams will no longer beneficially own any shares of the Company's common stock. Accordingly, they will no longer be significant stockholders of the Company or "related persons" under the SEC rules.
- The Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Chino Valley and Broken Arrow will continue in full force and effect, except as amended by the Chino Valley Lease Amendment to increase the monthly base rent payable by Broken Arrow from \$35,000 to \$40,000.
- The Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Green Valley and Broken Arrow will continue in full force and effect.
- The Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement (concerning the Company's Tempe, Arizona property) dated May 1, 2018 between Zoned Arizona and CJK will continue in full force and effect.
- The Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Kingman and CJK will continue in full force and effect.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the fees that were billed or that will be billed to our company for the years ended December 31, 2019 and 2018 for professional services rendered by D. Brooks and Associates CPA's, P.A.:

Fees	2019	2018
Audit Fees	\$ 45,000	\$ 30,000
Audit-Related Fees	0	0
Tax Fees	0	0
Other Fees	0	0
Total Fees	\$ 45,000	\$ 30,000

Audit Fees

Audit fees were for professional services rendered for the audits of our financial statements and for review of our quarterly financial statements.

Audit-Related Fees

During 2019 and 2018, our independent registered public accountants did not provide any assurance and related services that are reasonably related to the performance of the audit or review of our financial statements that are not reported under the caption "Audit Fees" above.

Tax Fees

As our independent registered public accountants did not provide any services to us for tax compliance, tax advice and tax planning during 2019 and 2018, no tax fees were billed or paid during those fiscal years.

All Other Fees

Our independent registered public accountants did not provide any products and services not disclosed in the table above during 2019 and 2018. As a result, there were no other fees billed or paid during 2019 and 2018.

Pre-Approval Policies and Procedures

Our Audit Committee pre-approves all services provided by our independent auditors. All of the above services and fees were reviewed and approved by our Audit Committee before the respective services were rendered.

Our board of directors has considered the nature and amount of fees billed by our independent registered public accounting firm and believe that the provision of services for activities unrelated to the audit is compatible with maintaining their respective independence.

PART IV

ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES

Exhibits required by Item 601 of Regulation S-K:

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation, as amended, of Zoned Properties, Inc. (1)
3.2	Bylaws of Zoned Properties, Inc. (1)
10.1+	Employment Agreement dated as of July 31, 2014 by and between the registrant and Bryan McLaren. (1)
10.2+	Board Member Agreement dated as of October 1, 2014 by and between the registrant and Alex McLaren. (1)
10.3+	Board Member Agreement dated as of October 1, 2014 by and between the registrant and Art Friedman. (1)
10.4+	Board Member Agreement dated as of September 26, 2016 by and between the registrant and David G. Honaman. (8)
10.5+	Board Member Agreement effective April 1, 2017 by and between Zoned Properties, Inc. and Derek Overstreet. (9)
10.6	Lease dated as of August 6, 2015 by and between Chino Valley Properties, LLC and CCC Holdings, LLC. (1)
10.7	First Amendment to Commercial Lease Agreement dated September 25, 2015 by and among Chino Valley Properties, LLC, CCC Holdings, LLC and Alan Abrams. (1)
10.8	Lease dated as of August 15, 2015 by and between the registrant and CCC Holdings, LLC. (1)
10.9	First Amendment to Commercial Lease Agreement dated September 25, 2015 by and among the registrant, CCC Holdings, LLC and Alan Abrams. (1)
10.10	Lease Agreement dated as of October 1, 2014 by and between Green Valley Group, LLC and Broken Arrow Herbal Center, Inc. (1)
10.11	Lease dated as of October 1, 2014 by and between Kingman Property Group, LLC and CJK, Inc. (1)
10.12+	Agreement dated as of October 1, 2015 by and between the registrant and CFO Oncall, Inc. (1)
10.13	Stock Option Grant Notice and Agreement between registrant and Newbridge Financial, Inc. (1)
10.14	Deed of Trust dated March 7, 2015 in favor of Investment Property Exchange Services, Inc. covering Tempe, AZ property. (1)
10.15+	Stock Option Grant Notice and Agreement dated December 20, 2015 between Zoned Properties, Inc. and Bryan McLaren. (2)
10.16	Contract to Buy and Sell Real Estate (Commercial) entered into on April 21, 2016 between Zoned Colorado Properties, LLC and Parachute Development Corporation. (3)
10.17	Second Amendment to Commercial Lease by and between Zoned Properties, Inc., C3C3 Group, LLC and Alan Abrams. (4)
10.18	Third Amendment to Commercial Lease by and between Chino Valley Properties, LLC, C3C3 Group, LLC and Alan Abrams. (5)
10.19	Commercial Real Estate Purchase Contract dated December 22, 2016 by and between Zoned Properties, Inc. and Big Lake Estates, LLC. (6)

Exhibit Number	Description of Exhibit
10.20	<u>Convertible Debenture dated January 9, 2017 Issued by Zoned Properties, Inc. in Favor of Alan Abrams. (7)</u>
10.21	<u>Convertible Debenture dated January 9, 2017 Issued by Zoned Properties, Inc. in Favor of Bryan McLaren. (7)</u>
10.22	<u>Fourth Amendment to Commercial Lease by and between Chino Valley Properties, LLC, C3C3 Group, LLC and Alan Abrams. (9)</u>
10.23	<u>Third Amendment to Commercial Lease by and between Zoned Properties, Inc., C3C3 Group, LLC and Alan Abrams, and Zoned Arizona Properties, LLC, dated as of October 1, 2017. (10)</u>
10.24	<u>Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 by and between Chino Valley Properties, LLC and Broken Arrow Herbal Center, Inc. (11)</u>
10.25	<u>Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 by and between Green Valley Group, LLC and Broken Arrow Herbal Center, Inc. (11)</u>
10.26	<u>Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 by and between Zoned Arizona Properties, LLC and CJK, Inc. (11)</u>
10.27	<u>Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 by and between Kingman Property Group, LLC and CJK, Inc. (11)</u>
10.28	<u>Confidential Advisory Services Agreement dated May 1, 2018 by and between Zoned Properties, Inc. and Broken Arrow Herbal Center, Inc. (11)</u>
10.29	<u>Confidential Advisory Services Agreement dated May 1, 2018 by and between Zoned Properties, Inc. and CJK, Inc. (11)</u>
10.30+	<u>Employment Agreement by and between the registrant and Bryan McLaren dated May 23, 2018. (12)</u>
10.31+	<u>Golden Parachute Agreement by and between the registrant and Bryan McLaren dated May 23, 2018. (12)</u>
10.32	<u>Stock Redemption Agreement effective January 1, 2019 by and among Zoned Properties, Inc., Christopher Carra, Alan B. Abrams, Clayton Abrams Revocable Trust and Kyle Abrams Revocable Trust. (13)</u>
10.33	<u>First Amendment to Confidential Advisory Services Agreement dated January 1, 2019 by and between Zoned Properties, Inc., on behalf of Chino Valley Properties, LLC and Broken Arrow Herbal Center, Inc. (13)</u>
10.34	<u>First Amendment to Confidential Advisory Services Agreement dated January 1, 2019 by and between Zoned Properties, Inc., on behalf of Zoned Arizona Properties, LLC and CJK, Inc. (13)</u>
10.35	<u>Amendment to Convertible Debenture entered into as of January 2, 2019 by and between Zoned Properties, Inc. and Alan Abrams. (13)</u>
10.36	<u>First Amendment to Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated January 1, 2019 by and between Chino Valley Properties, LLC and Broken Arrow Herbal Center, Inc. (13)</u>
21.1*	<u>List of Subsidiaries.</u>
23.1*	<u>Consent of Independent Registered Public Accounting Firm – D, Brooks and Associates CPA's P.A. *</u>

Exhibit Number	Description of Exhibit
31.1*	Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Audited financial statements of CJK, Inc. dba Hana Meds for the year ended December 31, 2019.
99.2*	Audited financial statements of Broken Arrow Herbal Center, Inc. dba Hana Meds for the year ended December 31, 2019.
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

+ Management contract or compensatory plan or arrangement.

* Filed herewith

- (1) Incorporated by reference to exhibit to Registration Statement on Form S-1 filed by the Company on November 25, 2015.
- (2) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on January 7, 2016.
- (3) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on April 22, 2016.
- (4) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on August 25, 2016.
- (5) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on October 13, 2016.
- (6) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on December 29, 2016.
- (7) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on January 12, 2017.
- (8) Incorporated by reference to exhibit to Annual Report on Form 10-K filed with the SEC by the Company on March 27, 2017.
- (9) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on April 4, 2017.
- (10) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on October 3, 2017.
- (11) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on May 3, 2018.
- (12) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on May 24, 2018.
- (13) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on January 3, 2019.

ITEM 16. 10-K SUMMARY

As permitted, the registrant has elected not to supply a summary of information required by Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Zoned Properties, Inc.

Date: March 26, 2020

By: /s/ Bryan McLaren
Bryan McLaren
Chief Executive Officer, President and
Chief Financial Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby appoints Bryan McLaren as attorney-in-fact with full power of substitution to execute in the name and on behalf of the registrant and each such person, individually and in each capacity stated below, one or more amendments to the annual report on Form 10-K, which amendments may make such changes in the report as the attorney-in-fact acting deems appropriate and to file any such amendment to the annual report on Form 10-K with the Securities and Exchange Commission. Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Bryan McLaren</u> Bryan McLaren	Chief Executive Officer, Chief Financial Officer, President, Treasurer, Secretary and Director (principal executive officer, principal financial officer and principal accounting officer)	March 26, 2020
<u>/s/ Derek Overstreet</u> Derek Overstreet	Director	March 26, 2020
<u>/s/ Art Friedman</u> Art Friedman	Director	March 26, 2020
<u>/s/ Alex McLaren</u> Alex McLaren	Director	March 26, 2020
<u>/s/ David G. Honaman</u> David G. Honaman	Director	March 26, 2020

**ZONED PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

ZONED PROPERTIES, INC. AND SUBSIDIARIES
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DECEMBER 31, 2019 AND 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Zoned Properties, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Zoned Properties, Inc. (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2019 and 2018, and 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 as of December 31, 2019 and 2018 the results of its operations and its cash flows for the years ended December 31, 2019 and 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.

A handwritten signature in blue ink that reads 'D. Brooks and Associates CPAs, P.A.' The signature is written in a cursive style.

We have served as the Company's auditor since 2018.
Palm Beach Gardens, Florida
March 26, 2020

4440 PGA Blvd, Suite 104 ■ Palm Beach Gardens, Florida 33410 ■ Main Office: 561.429.6225 ■ Fax: 561.282.3444

dbrookscpa.com

ZONED PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> 2019	<u>December 31,</u> 2018
ASSETS		
Cash	\$ 639,781	\$ 354,867
Accounts receivable	8,188	-
Rental properties, net	7,374,807	7,730,087
Prepaid expenses and other assets	113,592	116,967
Property and equipment, net	22,035	28,695
Security deposits	<u>1,100</u>	<u>600</u>
Total Assets	<u>\$ 8,159,503</u>	<u>\$ 8,231,216</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Convertible note payable	\$ 2,000,000	\$ -
Convertible note payable - related party	20,000	2,020,000
Accounts payable	-	117,985
Accrued expenses	94,641	54,636
Accrued expenses - related parties	3,000	34,800
Deferred revenues	1,750	2,750
Security deposits payable - related parties	-	71,800
Security deposits payable	<u>74,468</u>	<u>6,032</u>
Total Liabilities	<u>2,193,859</u>	<u>2,308,003</u>
Commitments and Contingencies		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized; 2,000,000 shares issued and outstanding at December 31, 2019 and 2018 (\$1.00 per share liquidation preference)	2,000	2,000
Common stock: \$0.001 par value, 100,000,000 shares authorized; 11,901,548 and 17,441,552 issued and outstanding at December 31, 2019 and 2018, respectively	11,902	17,442
Additional paid-in capital	20,806,452	20,746,200
Accumulated deficit	<u>(14,854,710)</u>	<u>(14,842,429)</u>
Total Stockholders' Equity	<u>5,965,644</u>	<u>5,923,213</u>
Total Liabilities and Stockholders' Equity	<u>\$ 8,159,503</u>	<u>\$ 8,231,216</u>

See accompanying notes to consolidated financial statements.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,	
	2019	2018
REVENUES:		
Rental revenues	\$ 1,115,861	\$ 50,155
Rental revenues - related parties	-	1,186,775
Advisory revenues	144,560	-
	<u>1,260,421</u>	<u>1,236,930</u>
OPERATING EXPENSES:		
Compensation and benefits	383,648	411,682
Professional fees	233,940	340,134
General and administrative expenses	193,059	187,361
Depreciation and amortization	361,940	276,665
Property operating expenses	3,240	37,919
Real estate taxes	83,879	91,113
Impairment loss	-	1,853,539
	<u>1,259,706</u>	<u>3,198,413</u>
INCOME (LOSS) FROM OPERATIONS	<u>715</u>	<u>(1,961,483)</u>
OTHER (EXPENSES) INCOME:		
Interest expenses	(120,000)	-
Interest expenses - related parties	(1,200)	(121,200)
Other income	108,204	50,000
Interest income	-	5,405
	<u>(12,996)</u>	<u>(65,795)</u>
LOSS BEFORE INCOME TAXES	<u>(12,281)</u>	<u>(2,027,278)</u>
PROVISION FOR INCOME TAXES	-	-
NET LOSS	<u>\$ (12,281)</u>	<u>\$ (2,027,278)</u>
NET LOSS PER COMMON SHARE:		
Basic	<u>\$ (0.00)</u>	<u>\$ (0.12)</u>
Diluted	<u>\$ (0.00)</u>	<u>\$ (0.12)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	<u>11,913,164</u>	<u>17,427,038</u>
Diluted	<u>11,913,164</u>	<u>17,427,038</u>

See accompanying notes to consolidated financial statements.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	# of Shares	Amount	# of Shares	Amount			
Balance, December 31, 2017	2,000,000	\$ 2,000	17,345,497	\$ 17,345	\$20,630,649	\$(12,815,151)	\$ 7,834,843
Common stock issued for services and future services	-	-	96,055	97	84,035	-	84,132
Accretion of stock based compensation related to stock options issued	-	-	-	-	31,516	-	31,516
Net loss	-	-	-	-	-	(2,027,278)	(2,027,278)
Balance, December 31, 2018	2,000,000	2,000	17,441,552	17,442	20,746,200	(14,842,429)	5,923,213
Stock redemption and cancellation	-	-	(5,640,004)	(5,640)	5,640	-	-
Common stock issued for services	-	-	100,000	100	31,000	-	31,100
Accretion of stock based compensation related to stock options issued	-	-	-	-	23,612	-	23,612
Net loss	-	-	-	-	-	(12,281)	(12,281)
Balance, December 31, 2019	<u>2,000,000</u>	<u>\$ 2,000</u>	<u>11,901,548</u>	<u>\$ 11,902</u>	<u>\$20,806,452</u>	<u>\$(14,854,710)</u>	<u>\$ 5,965,644</u>

See accompanying notes to consolidated financial statements.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (12,281)	\$ (2,027,278)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization expense	361,940	276,665
Stock-based compensation	31,100	84,132
Stock option expense	23,612	31,516
Write-off of deferred rent receivable - related parties	-	1,853,539
Change in operating assets and liabilities:		
Deferred rent receivable - related parties	-	(144,805)
Accounts receivable	(8,188)	-
Note receivable	-	182,365
Prepaid expenses and other assets	3,375	10,935
Security deposits	(500)	2,290
Accounts payable	(117,984)	109,089
Accrued expenses	7,005	6,168
Accrued expenses - related parties	1,200	1,200
Deferred revenues	(1,000)	(26,000)
Security deposits payable	(3,365)	168
NET CASH PROVIDED BY OPERATING ACTIVITIES	284,914	359,984
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of buildings and improvements	-	(829,357)
NET CASH USED IN INVESTING ACTIVITIES	-	(829,357)
NET INCREASE (DECREASE) IN CASH	284,914	(469,373)
CASH, beginning of year	354,867	824,240
CASH, end of year	\$ 639,781	\$ 354,867
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 120,000	\$ 120,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Reclassification of convertible note payable - related party to convertible note payable	\$ 2,000,000	\$ -
Reclassification of security deposits - related party to security deposits	\$ 71,800	\$ -
Reclassification of accrued expenses - related party to accrued expenses	\$ 33,000	\$ -

See accompanying notes to consolidated financial statements.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS

Organization

Zoned Properties, Inc. (“Zoned Properties” or the “Company”), was incorporated in the State of Nevada on August 25, 2003. The Company is a strategic real estate development firm whose primary mission is to provide real estate and sustainability services for clients in the regulated cannabis industry, positioning the company for real estate acquisitions and revenue growth. The Company intends to pioneer sustainable development for emerging industries, including the regulated cannabis industry. The Company is an accredited member of the Better Business Bureau, the U.S. Green Building Council, and the Forbes Real Estate Council. The Company focuses on investing capital to acquire and develop commercial properties to be leased on a triple-net basis, and engaging clients that face zoning, permitting, development, and operational challenges. The Company provides development strategies and advisory services that could potentially have a major impact on cash flow and property value. The Company does not grow, harvest, sell or distribute cannabis or any substances regulated under United States law such as the Controlled Substance Act of 1970, as amended (the “CSA”).

The Company has the following wholly owned subsidiaries:

- Gilbert Property Management, LLC (“Gilbert”) was organized in the State of Arizona on February 10, 2014.
- Chino Valley Properties, LLC (“Chino Valley”) was organized in the State of Arizona on April 15, 2014.
- Kingman Property Group, LLC (“Kingman”) was organized in the State of Arizona on April 15, 2014.
- Green Valley Group, LLC (“Green Valley”) organized in the State of Arizona on April 15, 2014.
- Zoned Oregon Properties, LLC was organized in the State of Oregon on June 16, 2015.
- Zoned Colorado Properties, LLC (“Zoned Colorado”) was organized in the State of Colorado on September 17, 2015.
- Zoned Illinois Properties, LLC was organized in the State of Illinois on July 15, 2015.
- Zoned Arizona Properties, LLC (“Zoned Arizona”) was organized in the State of Arizona on June 2, 2017.
- Zoned Advisory Services, LLC (“Zoned Advisory”) was organized in the State of Arizona on July 27, 2018.

Effective January 1, 2019, the Company and certain beneficial shareholders of the Company entered into a Stock Redemption Agreement (the “Stock Redemption Agreement”). Pursuant to the terms of the Stock Redemption Agreement, the parties agreed that the Company would redeem an aggregate of 5,640,004 shares of common stock owned by such beneficial shareholders (See Note 8). In exchange for the Stock Redemption, in addition to other terms, the parties amended the May 1, 2018 leases to reduce the gross revenue fee payable by related party tenants from 10% of gross revenue to 0% of gross revenue (See Note 3).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

Effective January 1, 2019, the Company and certain beneficial shareholders entered into a Stock Redemption Agreement (See Note 8). Pursuant to Securities and Exchange Commission (“SEC”) rules, each of these beneficial shareholders was deemed to be a “related person” due solely to their status as significant stockholders of the Company. Pursuant to the terms of the Stock Redemption Agreement, these beneficial shareholders would no longer be significant stockholders of the Company and would no longer be deemed to be “related persons” under SEC rules. Accordingly, as of January 1, 2019, the Company will no longer reflect transactions and balances related to these beneficial shareholders as related party transactions. Prior to January 1, 2019, transactions with these beneficial shareholders have been reflected as related party transactions on the accompanying consolidated financial statements.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates for the years ended December 31, 2019 and 2018 include the collectability of rent, the useful life of rental properties and property and equipment, assumptions used in assessing impairment of long-term assets, valuation allowances for deferred tax assets, and the fair value of non-cash equity transactions, including options and stock-based compensation.

Risks and uncertainties

The Company's operations are subject to risk and uncertainties including financial, operational, regulatory and other risks including the potential risk of business failure. The Company conducts a significant portion of its business in Arizona. Additionally, the Company's tenants operate in the medical marijuana industry. Consequently, any significant economic downturn in the Arizona market or any changes in the federal government's enforcement of current federal laws or changes in state laws could potentially have a negative effect on the Company's business, results of operations and financial condition. Additionally, substantially all of the Company's real estate properties are leased under triple-net leases to tenants that are controlled by one entity, majority owned by former beneficial owners of the Company (each, a "Significant Tenant" and collectively, the "Significant Tenants"). For the years ended December 31, 2019 and 2018, rental and advisory revenue associated with the Significant Tenants amounted to \$1,146,654 and \$1,186,775, which represents 91.0% and 96.0% of the Company's total revenues, respectively. For the year ended December 31, 2018, rental revenues from Significant Tenants was classified as rental revenues – related parties (see Note 3).

Fair value of financial instruments

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses, and other payables approximate their fair market value based on the short-term maturity of these instruments.

The Company analyzes all financial instruments with features of both liabilities and equity under the Financial Accounting Standard Board's (the "FASB") accounting standard for such instruments. Under this standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company did not identify any assets or liabilities that are required to be presented on the balance sheet at fair value in accordance with Accounting Standards Codification ("ASC") Topic 820.

Cash

Cash is carried at cost and represents cash on hand, demand deposits placed with banks or other financial institutions and all highly liquid investments with an original maturity of three months or less as of the purchase date of such investments. The Company had no cash equivalents at December 31, 2019 and 2018. The majority of the Company's cash is held at major commercial banks, which may at times exceed the Federal Deposit Insurance Corporation ("FDIC") limit. To date, the Company has not experienced any losses on its invested cash. At December 31, 2019 and 2018, the Company had approximately \$390,000 and \$105,000, respectively, of cash in excess of FDIC limits of \$250,000.

Accounts receivable

The Company recognizes an allowance for losses on accounts receivable in an amount equal to the estimated probable losses net of recoveries. The allowance is based on an analysis of historical bad debt experience, current receivables aging and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The expense associated with the allowance for doubtful accounts is recognized in general and administrative expense. For the years ended December 31, 2019 and 2018, the Company did not record any allowances for doubtful accounts.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Rental properties

Rental properties are carried at cost, less accumulated depreciation and amortization. Betterments, major renovations and certain costs directly related to the improvement of rental properties are capitalized. Maintenance and repair expenses are charged to expense as incurred. Depreciation is recognized on a straight-line basis over estimated useful lives of the assets, which range from 5 to 39 years. Tenant improvements are amortized on a straight-line basis over the lives of the related leases, which approximate the useful lives of the assets.

Upon the acquisition of real estate, the Company assesses the fair value of acquired assets (including land, buildings and improvements, identified intangibles, such as acquired above-market leases and acquired in-place leases) and acquired liabilities (such as acquired below-market leases) and allocate the purchase price based on these assessments. The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known trends, and market/economic conditions.

The Company's rental properties are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the aggregate projected future cash flows over the anticipated holding period on an undiscounted basis. An impairment loss is measured based on the excess of the property's carrying amount over its estimated fair value. Impairment analyses are based on our current plans, intended holding periods and available market information at the time the analyses are prepared.

If the Company's estimates of the projected future cash flows, anticipated holding periods, or market conditions change, the Company's evaluation of impairment losses may be different and such differences could be material to its consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. For the year ended December 31, 2019, the Company did not record any impairment losses. As discussed below under "revenue recognition", for the year ended December 31, 2018, the Company recorded an impairment loss related to the write-off of deferred rent – related parties of \$1,853,539.

The Company has capitalized land, which is not subject to depreciation.

Property and equipment

Property and equipment is stated at cost, less accumulated depreciation. Depreciation of property and equipment is provided utilizing the straight-line method over the estimated useful lives. The Company uses a five-year life for office equipment, seven years for furniture and fixtures, and five to ten years for vehicles. Expenditures for maintenance and repairs are charged to expense as incurred. Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in statements of operations.

The Company examines the possibility of decreases in the value of these assets when events or changes in circumstances reflect the fact that their recorded value may not be recoverable.

Revenue recognition

Effective on January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09 and ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). ASU 2014-09, as amended by subsequent ASUs on the topic, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. The Company adopted this standard using the modified retrospective approach, which requires applying the new standard to all existing contracts not yet completed as of the effective date and recording a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The adoption of ASU 2014-09 did not have any impact on the process for, timing of, and presentation and disclosure of revenue recognition from contracts with tenants.

Rental income includes base rents that each tenant pays in accordance with the terms of its respective lease and is reported on a straight-line basis over the non-cancellable term of the lease, which includes the effects of rent abatements under the leases. The Company commences rental revenue recognition when the tenant takes possession of the leased space or controls the physical use of the leased space and the leased space is substantially ready for its intended use.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Through April 30, 2018, certain of the Company’s leases contained rental increases at specified intervals. The Company recorded as an asset, and included in revenue, deferred rents receivable that were to be received if the tenant made all rent payments required through the expiration of the initial term of the lease.

On May 1, 2018, the Company and the related party tenants cancelled their existing lease agreements. Also on May 1, 2018, the Company entered into new lease agreements relating to the same properties (See Note 3). These leases provide for payments with fixed monthly base rents over the term of the leases. The leases also require the tenant to remit estimated monthly payments to the Company for property taxes. These payments are recorded as rental income and the related property tax expense reflected separately on the statements of operations. During 2018, the Company reviewed its deferred rent receivable and determined that the deferred rent receivable of \$1,853,539 should be written off since, pursuant to the new lease terms, the deferred rent receivable was not collectible. Accordingly, on May 1, 2018, the Company recorded an impairment loss related to the write-off of deferred rent receivable – related parties of \$1,853,539 in operating expenses on the accompanying consolidated statements of operations.

See below for the adoption of ASU 2016-02, “Leases (Topic 842)” and its impact on our consolidated financial statements upon adoption.

Revenues from advisory services is recognized when the Company performs services pursuant to its agreements with clients and collectability is reasonably assured.

Basic and diluted income (loss) per share

Basic income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during the period using the treasury stock method and as-if converted method. Potentially dilutive common shares and participating securities are excluded from the computation of diluted shares outstanding if they would have an anti-dilutive impact on the Company’s net losses. The Company’s preferred stock is considered a participating security since the preferred shares are entitled to dividends equal to common share dividends and accordingly, are included in the computation of earnings per share pursuant to the two-class method. The two-class method of computing earnings (loss) per share is an earnings allocation formula that determines earnings (loss) per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings.

The following potentially dilutive shares have been excluded from the calculation of diluted net loss per share as their effect would be anti-dilutive for the years ended December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Convertible debt	404,000	404,000
Stock options	1,290,000	1,290,000

Segment reporting

The Company’s business is comprised of one reportable segment. The Company has determined that its properties have similar economic characteristics to be aggregated into one reportable segment (operating, leasing and managing commercial properties). The Company’s determination was based primarily on its method of internal reporting.

Income tax

Deferred income tax assets and liabilities arise from temporary differences between the financial statements and tax basis of assets and liabilities, as measured by the enacted tax rates, which are expected to be in effect when these differences reverse. Deferred tax assets and liabilities are classified as current or non-current, depending upon the classification of the asset or liabilities to which they relate. Deferred tax assets and liabilities not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

The Company follows the provisions of FASB ASC 740-10, "Uncertainty in Income Taxes". Certain recognition thresholds must be met before a tax position is recognized in the financial statements. An entity may only recognize or continue to recognize tax positions that meet a "more-likely-than-not" threshold. The Company does not believe it has any uncertain tax positions as of December 31, 2019 and 2018 that would require either recognition or disclosure in the accompanying consolidated financial statements.

Stock-based compensation

Stock-based compensation is accounted for based on the requirements of ASC 718 – "*Compensation – Stock Compensation*", which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award. Additionally, effective January 1, 2017, the Company adopted the ASU No. 2016-09 ("ASU 2016-09"), *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 permits the election of an accounting policy for forfeitures of share-based payment awards, either to recognize forfeitures as they occur or estimate forfeitures over the vesting period of the award. The Company has elected to recognize forfeitures as they occur and the cumulative impact of this change did not have any effect on the Company's consolidated financial statements and related disclosures.

Through March 31, 2018, pursuant to ASC 505-50 – "*Equity-Based Payments to Non-Employees*", all share-based payments to non-employees, including grants of stock options, were recognized in the consolidated financial statements as compensation expense over the service period of the consulting arrangement or until performance conditions were expected to be met. Using a Black-Scholes valuation model, the Company periodically reassessed the fair value of non-employee options until service conditions were met, which generally aligns with the vesting period of the options, and the Company adjusted the expense recognized in the consolidated financial statements accordingly. In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for nonemployee share-based payment transactions by expanding the scope of the stock-based compensation guidance in ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. ASU No. 2018-07 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted, but entities may not adopt prior to adopting the new revenue recognition guidance in ASC 606. The Company early adopted ASU No. 2018-07 in the second quarter of 2018, and the adoption did not have any impact on its consolidated financial statements.

Recently adopted accounting pronouncements

Effective January 1, 2019, the Company adopted ASU 2016-02, "*Leases (Topic 842)*" using a modified retrospective method. On adoption the Company also applied the package of practical expedients to leases, where the Company is the lessee or lessor, that commenced before the effective date whereby the Company elected to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

ASU 2016-02, "*Leases (Topic 842)*" sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to recognize a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases.

For contracts entered into on or after the effective date, where we are the lessee, at the inception of a contract the Company assess whether the contract is, or contains, a lease. Our assessment is based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether we obtain the right to substantially all the economic benefit from the use of the asset throughout the period, and (3) whether we have the right to direct the use of the asset. We allocate the consideration in the contract to each lease component based on its relative stand-alone price to determine the lease payments. Leases entered into prior to January 1, 2019, are accounted for under ASC 840 and were not reassessed.

For leases entered into on or after the effective date, where we are the lessor, at the inception of the contract the Company assess whether the contract is a sales-type, direct financing or operating lease by reviewing the terms of the lease and determining if the lessee obtains control of the underlying asset implicitly or explicitly.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

If a change to a pre-existing lease occurs, we evaluate if the modification results in a separate new lease or a modified lease. A new lease results when a modification provides additional right of use. The new lease or modified lease is then reassessed to determine its classification based on the modified terms. As disclosed in Note 3, the Chino Valley lease was modified on January 1, 2019 increasing the monthly base rent from \$35,000 to \$40,000. At the commencement of the modified terms, the Company reassessed its lease classification and concluded it remained properly classified as an operating lease.

The adoption of ASU 2016-02 did not have a material impact on the operating leases where the Company is a lessor. The Company will continue to record revenues from rental properties for its operating leases on a straight-line basis. For leases where the Company is a lessee, primarily for the Company's administrative office lease, the Company analyzed if it would be required to record a lease liability and a right of use asset on its consolidated balance sheets at fair value upon adoption of ASU 2016-02. Since the terms of the Company's operating lease for its office space is 12 months or less, pursuant to ASC 842, the Company determined that the lease meets the definition of a short-term lease and the Company did not recognize the right-of use asset and lease liability arising from this lease.

Recently issued accounting pronouncements

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying consolidated financial statements.

NOTE 3 – CONCENTRATIONS AND RISKS

Restructuring of Lease Agreements with Significant Tenants

During 2014, the Company entered into lease agreements with non-profit companies, CJK, Inc. ("CJK") and Broken Arrow Herbal Center, Inc. ("Broken Arrow"), for its properties located in Kingman, AZ and Green Valley, AZ, respectively. At the time of the transaction, CJK and Broken Arrow were owned, in whole or in part, directly or indirectly, by Alan Abrams and Chris Carra, each of whom was a significant stockholder of the Company through December 31, 2018. The Kingman, AZ lease commenced on October 1, 2014 and was to expire on September 30, 2024 (the "Prior Kingman Lease"). The Green Valley, AZ lease commenced on October 1, 2014 and was to expire on September 30, 2024 with base monthly rent subject to a 5% annual increases during the lease term (the "Prior Green Valley Lease"). These leases were cancelled and new leases were executed on May 1, 2018.

In August 2015, the Company entered into a lease agreement with C3C3 Group, LLC ("C3C3"), a wholly owned subsidiary of a company that, at the time of the transaction, was owned by Messrs. Abrams and Carra, each of whom was a significant stockholder of the Company through December 31, 2018, to lease space in Tempe, Arizona. The Tempe lease commenced on September 1, 2015, was amended on September 1, 2016 and October 1, 2017, and was to expire on July 31, 2035 (the "Prior Tempe Leases"). This lease was cancelled and a new lease was executed on May 1, 2018.

In August 2015, the Company entered into a lease agreement with C3C3 to lease space in Chino Valley, Arizona (the "Prior Chino Valley Lease"). The Prior Chino Valley Lease commenced on August 1, 2015, was amended on October 10, 2016 and on March 30, 2017, and was to expire on July 31, 2035. Additionally, pursuant to the March 30, 2017 amendment, the Company agreed to defer rent and applicable taxes due for March, April and May 2017 in the form of a note receivable to C3C3 at an 8% interest rate commencing March 1, 2017 and was paid in full over 12 months commencing January 1, 2018. This lease was cancelled and a new lease was executed on May 1, 2018.

On June 15, 2017 and effective July 1, 2017, the Company entered into a lease agreement with AC Management Group, LLC (also known as Hana Meds and who was the sole member and manager of C3C3), whose directors/owners, at the time of the transaction, were significant stockholders of the Company through December 31, 2018, to lease office space in Tempe, Arizona (the "Hana Meds Lease"). The Hana Meds Lease commenced on July 1, 2017 and was to expire on June 30, 2022 with base monthly rent of \$1,800 starting on October 1, 2017. This lease was cancelled on May 1, 2018.

On March 1, 2018, the Company and Alan Abrams entered into a Reaffirmation Agreement related to the personal guarantee.

New Lease Agreements with Significant Tenants

On May 1, 2018, the Company and C3C3, CJK, and Broken Arrow cancelled their existing lease agreements and entered into new lease agreements relating to the same properties. Additionally, the Company entered into confidential advisory services agreements with CJK and Broken Arrow.

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On May 1, 2018, Chino Valley, a wholly owned subsidiary of the Company, and Broken Arrow agreed to terminate the Prior Chino Valley Lease dated April 6, 2015, as amended, in consideration of (i) entry into that certain Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Chino Valley and Broken Arrow (the “New Chino Valley Lease”), with a term of 22 years, expiring April 30, 2040, and (ii) abatement of rent that would otherwise have been due for the month of April 2018 under the Prior Chino Valley Lease. The New Chino Valley Lease provides for payment by Broken Arrow of a fixed monthly base rent of \$35,000, as well as real property taxes, personal property taxes, privilege, sales, rental, excise, use and/or other taxes (excluding income or estate taxes) levied upon or assessed against Chino Valley. In addition, pursuant to the terms of the New Chino Valley Lease, Broken Arrow agreed to maintain insurance in full force during the term of the New Chino Valley Lease and any other period of occupancy of the premises by Broken Arrow. Broken Arrow was owned at the time of the transaction, in whole or in part, directly or indirectly, by Messrs. Abrams and Carra, each of whom was a significant stockholder of the Company through December 31, 2018. On January 1, 2019, Chino Valley and Broken Arrow entered into that the First Amendment to the Chino Valley Lease (the “Chino Valley Lease Amendment”), pursuant to which the monthly base rent was increased from \$35,000 to \$40,000. Except for the increase in base rent, the terms of the New Chino Valley Lease remain in full force and effect.

On May 1, 2018, Green Valley, a wholly owned subsidiary of the Company, and Broken Arrow agreed to terminate the Prior Green Valley Lease dated October 1, 2014, in consideration of (i) entry into that certain Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Green Valley and Broken Arrow (the “New Green Valley Lease”), with a term of 22 years, expiring April 30, 2040, and (ii) abatement of rent that would otherwise have been due for the month of April 2018 under the Prior Green Valley Lease. The New Green Valley Lease provides for payment by Broken Arrow of a fixed monthly base rent of \$3,500, as well as real property taxes, personal property taxes, privilege, sales, rental, excise, use and/or other taxes (excluding income or estate taxes) levied upon or assessed against Chino Valley. In addition, pursuant to the terms of the New Green Valley Lease, Broken Arrow agreed to maintain insurance in full force during the term of the New Green Valley Lease and any other period of occupancy of the premises by Broken Arrow.

On May 1, 2018, Zoned Arizona, a wholly owned subsidiary of the Company, and CJK agreed to terminate the Prior Tempe Leases dated August 15, 2015, as amended, and June 15, 2017, in consideration of (i) entry into that certain Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Zoned Arizona and CJK (the “New Tempe Lease”), with a term of 22 years, expiring April 30, 2040, and (ii) abatement of rent that would otherwise have been due for the month of April 2018 under the Prior Tempe Leases. The New Tempe Lease provides for payment by CJK of a fixed monthly base rent of \$33,500, as well as real property taxes, personal property taxes, privilege, sales, rental, excise, use and/or other taxes (excluding income or estate taxes) levied upon or assessed against Zoned Arizona. In addition, pursuant to the terms of the New Tempe Lease, CJK agreed to maintain insurance in full force during the term of the New Tempe Lease and any other period of occupancy of the premises by CJK.

On May 1, 2018, Kingman, a wholly owned subsidiary of the Company, and CJK agreed to terminate the Prior Kingman Lease dated October 1, 2014, in consideration of (i) entry into that certain Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Kingman and CJK (the “New Kingman Lease”), with a term of 22 years, expiring April 30, 2040, and (ii) abatement of rent that would otherwise have been due for the month of April 2018 under the Prior Kingman Lease. The New Kingman Lease provides for payment by CJK of a fixed monthly base rent of \$4,000, as well as real property taxes, personal property taxes, privilege, sales, rental, excise, use and/or other taxes (excluding income or estate taxes) levied upon or assessed against Kingman. In addition, pursuant to the terms of the New Kingman Lease, CJK agreed to maintain insurance in full force during the term of the New Kingman Lease and any other period of occupancy of the premises by CJK.

CJK and Broken Arrow were owned, in whole or in part, directly or indirectly, by Messrs. Abrams and Carra, each of whom was a significant stockholder of the Company through December 31, 2018 (see Note 3). CJK and Broken Arrow, together, are referred to as the Company’s Significant Tenants.

The New Tempe Lease, New Kingman Lease, New Chino Valley Lease and New Green Valley Lease (together referred to as the “New Leases”) includes a Guarantee of Payment and Performance by Mr. Abrams and the Company’s Significant Tenants.

Prior to May 1, 2018, the Company’s leases contained rental increases at specified intervals. Accordingly, during the year ended December 31, 2018, rental income included base rents that each tenant paid in accordance with the terms of its respective lease and was reported on a straight-line basis over the term of the respective lease, which included the effects of rent abatements under the leases. During the year ended December 31, 2018, the Company recorded as an asset, and included in revenue, rents receivable that would be received if the tenant made all rent payments required through the expiration of the initial term of the lease. Based on the terms in the New Lease agreements discussed above, the New Leases do not contain rental increases at specified intervals and base rent revenue will be constant over the New Lease terms. For the year ended December 31, 2018, the Company recorded an impairment loss related to the write-off of deferred rent – related parties of \$1,853,539 due to the fixed rental rates in the New Lease terms.

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As of December 31, 2019 and 2018, security deposits payable to the Significant Tenants amounted to \$71,800. No additional deposits were required on the New Leases.

Future minimum lease payments primarily consist of minimum base rent payments from Significant Tenants. Future minimum lease payments to be received for each of the five succeeding calendar years and thereafter as of December 31, 2019 consists of the following:

Future annual base rent:

2020	\$ 990,680
2021	980,005
2022	972,000
2023	972,000
2024	972,000
Thereafter	14,904,000
Total	\$ 19,790,685

Rental and advisory revenue and rent receivable – Significant Tenants

On May 1, 2018, the Company and C3C3, CJK, and Broken Arrow cancelled their existing lease agreements. Also on May 1, 2018, the Company entered into new lease agreements relating to the same properties. This lease restructuring caused a reduction in the Company’s revenue in 2018 and beyond. Additionally, effective January 1, 2019, the Company entered into the Stock Redemption Agreement with certain beneficial shareholders of the Company (see Note 8) and as such, the Company’s May 1, 2018 advisory agreements were amended to reduce the gross revenue fee payable by the Significant Tenants from 10% of gross revenue to 0% of gross revenue. Any additional reduction in revenue from or loss of such Significant Tenants leases would have a material adverse effect on the Company’s consolidated results of operations and financial condition.

For the years ended December 31, 2019 and 2018, rental and advisory revenue associated with the Significant Tenant leases described above amounted to \$1,146,654 and \$1,186,775, which represents 91.0% and 96.0% of the Company’s total revenues, respectively. For the year ended December 31, 2018, rental revenues from Significant Tenants was classified as rental revenues – related parties (see Note 3).

Asset concentration

The majority of the Company’s real estate properties are leased to the Significant Tenant under triple-net leases that terminate in April 2040. The Company monitors the credit of all tenants to stay abreast of any material changes in credit quality. The Company monitors tenant credit by (1) reviewing financial statements and related metrics and information that are publicly available or that are provided to us upon request, and (2) monitoring the timeliness of rent collections. As of December 31, 2019 and 2018, the Company had an asset concentration related to the Significant Tenants. As of December 31, 2019 and 2018, the Significant Tenants represented approximately 87.1% and 90.7% of the Company’s total assets, respectively. Through December 31, 2019, all rental payments have been made on a timely basis. As of December 31, 2019, the lease agreements with the Significant Tenants were personally guaranteed by Alan Abrams. On March 1, 2018, the Company and Alan Abrams entered into a Reaffirmation Agreement (See Note 6).

Confidential advisory services agreements

On May 1, 2018, the Company entered into that certain Confidential Advisory Services Agreement by and between the Company and Broken Arrow (the “Broken Arrow CASA”), with a term expiring on April 30, 2040, unless earlier terminated as provided in the Broken Arrow CASA. Additionally, on May 1, 2018, the Company entered into that certain Confidential Advisory Services Agreement by and between the Company and CJK (the “CJK CASA”), with a term expiring on April 30, 2040, unless earlier terminated as provided in the CJK CASA. These Agreements may be terminated prior to the expiration of the Term upon the occurrence of any of the following: (a) by the Company for any reason at any time upon thirty calendar days’ written notice to the other party; (b) by either party immediately upon the mutual agreement of the parties, evidenced by a writing signed by the parties; or (c) immediately by either party in the event of an actual finding, by a court of competent jurisdiction, of fraud, gross negligence or willful misconduct of the other party in connection with these Agreements. Pursuant to the terms of the Broken Arrow CASA and CJK CASA, Broken Arrow and CJK engaged the Company to perform certain advisory services in exchange for a fee equal to 10% of Broken Arrow’s and CJK’s gross revenues (the “Revenue Fee”), commencing January 2019.

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On January 1, 2019, as part of the Stock Redemption Agreement, the Company, on behalf of Chino Valley, and Broken Arrow entered into the First Amendment to Confidential Advisory Services Agreement (the “Broken Arrow CASA Amendment”). The Broken Arrow CASA Amendment amended the Broken Arrow CASA to (i) reduce the gross revenue fee payable by Broken Arrow from 10% to 0%, and (ii) add a \$250 hourly advisory fee payable by Broken Arrow. Except as set forth herein, the terms of the Broken Arrow CASA remain in full force and effect.

On January 1, 2019, as part of the Stock Redemption Agreement, the Company, on behalf of Zoned Arizona, and CJK entered into the First Amendment to Confidential Advisory Services Agreement (the “CJK CASA Amendment”). The CJK CASA Amendment amended the CJK CASA to (i) reduce the gross revenue fee payable by CJK from 10% to 0%, and (ii) add a \$250 hourly advisory fee payable by CJK. Except as set forth herein, the terms of the CJK CASA remain in full force and effect.

NOTE 4 – RENTAL PROPERTIES

At December 31, 2019 and 2018, rental properties, net consisted of the following:

Description	Useful Life (Years)	December 31, 2019	December 31, 2018
Building and building improvements	5-39	\$ 6,250,959	\$ 6,250,959
Construction in progress	-	-	-
Land	-	2,283,214	2,283,214
Rental properties, at cost		8,534,173	8,534,173
Less: accumulated depreciation		(1,159,366)	(804,086)
Rental properties, net		<u>\$ 7,374,807</u>	<u>\$ 7,730,087</u>

For the years ended December 31, 2019 and 2018, depreciation and amortization of rental properties amounted to \$355,280 and \$269,592, respectively.

NOTE 5 – PROPERTY AND EQUIPMENT

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

Description	Useful Life (Years)	December 31, 2019	December 31, 2018
Vehicle and site trailers	5 – 10	\$ 38,855	\$ 38,855
Office furniture and equipment	5 - 7	17,345	17,345
		56,200	56,200
Less: accumulated depreciation		(34,165)	(27,505)
Property and equipment, net		<u>\$ 22,035</u>	<u>\$ 28,695</u>

For the years ended December 31, 2019 and 2018, depreciation expense amounted to \$6,660 and \$7,073, respectively.

NOTE 6 – CONVERTIBLE NOTE PAYABLE

On January 9, 2017, the Company issued a convertible debenture (the “Abrams Debenture”) in the aggregate principal amount of \$2,000,000 in favor of Alan Abrams, who was a significant stockholder of the Company through December 31, 2018 (see Note 3), in exchange for cash from Mr. Abrams of \$2,000,000. The Abrams Debenture accrues interest at the rate of 6% per annum payable quarterly by the 1st of each quarter and was originally due on January 9, 2022. On January 2, 2019, as part of the Stock Redemption Agreement, the Company and Mr. Abrams entered into an amendment of the Abrams Debenture (the “Debenture Amendment”), pursuant to which the parties agreed to extend the maturity date of the Abrams Debenture from January 9, 2022 to January 9, 2030. Except as set forth herein, the terms of the Abrams Debenture remain in full force and effect.

The Company may prepay this Debenture at any point after nine months, in whole or in part. Pursuant to the terms of each of the Debentures, the Holder is entitled to convert all or a portion of the principal balance and all accrued and unpaid interest due under the Abrams Debenture into shares of the Company’s common stock at a conversion price of \$5.00 per share.

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If the Company defaults on payment, the Holder may at his option, extend all conversion rights, through and including the date the Company tenders or attempts to tender payment in full of all amounts due under the Debenture. Any amount of principal or interest, which is not paid when due shall bear interest at the rate of 12% per annum. Upon an Event of Default (as defined in each Debenture), the Holder may (i) declare the entire principal amount and all accrued and unpaid interest under the Debenture immediately due and payable, and (ii) exercise any and all rights, powers and remedies available to the Holder at law or in equity or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in the Debenture and proceed to enforce the payment thereof or any other legal or equitable right of the Holder.

On March 1, 2018, the Company and Alan Abrams entered into a Reaffirmation Agreement whereby Mr. Abrams reaffirmed his personal guarantee of his obligations under certain of the Company's commercial leases. Additionally, Mr. Abrams affirmed that the principal of the Abrams Debenture in the principal amount of \$2,000,000 was acknowledged as collateral within the scope of the guaranty included in the commercial lease agreements.

As of December 31, 2019 and 2018, the principal balance due under the Abrams Debenture is \$2,000,000.

As of December 31, 2019 and 2018, accrued interest payable due under these Debentures was \$30,000 and \$30,000, respectively. As disclosed in Note 7, effective January 1, 2019, Mr. Abrams is no longer a significant stockholder of the Company nor considered to be a related party. As such the convertible principal balance of \$2,000,000 and related accrued interest of \$30,000 has been reclassified to convertible note payable and accrued expenses as of December 31, 2019, respectively, from Convertible debt – related parties and Accrued expenses – related parties on the consolidated balance sheets.

For the years ended December 31, 2019 and 2018, interest expense related to this debenture amounted to \$120,000. For the years ended December 31, 2019 and 2018, interest expense of \$120,000 related to this debenture was reflected as interest expense and interest expense – related parties, respectively, on the accompanying consolidated statements of operations.

NOTE 7 – RELATED PARTY TRANSACTIONS

Convertible notes payable – related parties

On January 9, 2017, the Company issued a convertible debenture (the "McLaren Debenture") in the principal amount of \$20,000 in favor of Bryan McLaren, the Company's Chief Executive Officer, President, Chief Financial Officer, and a member of the Company's Board of Directors, in exchange for cash from Mr. McLaren of \$20,000. The McLaren Debenture accrues interest at the rate of 6% per annum payable quarterly by the 1st of each quarter and matures on January 9, 2022. The Company may prepay the Debenture at any point after nine months, in whole or in part. Pursuant to the terms of the McLaren Debenture, the Holder is entitled to convert all or a portion of the principal balance and all accrued and unpaid interest due under this Debenture into shares of the Company's common stock at a conversion price of \$5.00 per share.

If the Company defaults on payment, the Holder may at his option, extend all conversion rights, through and including the date the Company tenders or attempts to tender payment in full of all amounts due under the Debenture. Any amount of principal or interest, which is not paid when due shall bear interest at the rate of 12% per annum. Upon an Event of Default (as defined in the Debenture), the Holder may (i) declare the entire principal amount and all accrued and unpaid interest under the Debenture immediately due and payable, and (ii) exercise any and all rights, powers and remedies available to the Holder at law or in equity or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in the Debenture and proceed to enforce the payment thereof or any other legal or equitable right of the Holder.

As of December 31, 2019 and 2018, the principal balance due under the McLaren Debenture is \$20,000.

As of December 31, 2019 and 2018, accrued interest payable due under these Debentures is \$3,000 and \$1,800, respectively, which is included in accrued expenses – related parties on the accompanying consolidated balance sheets.

For the years ended December 31, 2019 and 2018, interest expense – related parties amounted to \$1,200 and \$121,200, respectively. For the year ended December 31, 2018, interest expense - related parties included \$120,000 of interest expense related to the Abrams Debenture which is not considered a related party transaction subsequent to December 31, 2018.

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Stock redemption agreement

Effective January 1, 2019, the Company and certain beneficial shareholders entered into a Stock Redemption Agreement (See Note 3 and Note 8). Pursuant to SEC rules, each of these beneficial shareholders was deemed to be a “related person” due solely to their status as significant stockholders of the Company. Pursuant to the terms of the Stock Redemption Agreement, these beneficial shareholders would no longer be significant stockholders of the Company and would no longer be deemed to be “related persons” under SEC rules. Accordingly, as of January 1, 2019, the Company will no longer reflect transactions and balances related to these beneficial shareholders as related party transactions. Prior to January 1, 2019, transactions with these beneficial shareholders have been reflected as related party transactions on the accompanying consolidated financial statements.

NOTE 8 – STOCKHOLDERS’ EQUITY

(A) Preferred Stock

On December 13, 2013, the Board of Directors of the Company authorized and approved the creation of a new class of Preferred Stock consisting of 5,000,000 shares authorized, \$.001 par value. The preferred stock is not convertible into any other class or series of stock. The holders of the preferred stock are entitled to fifty (50) votes for each share held. Voting rights are not subject to adjustment for splits that increase or decrease the common shares outstanding. Upon liquidation, the holders of the shares will be entitled to receive \$1.00 per share plus redemption provision before assets distributed to other shareholders.

The holders of the shares are entitled to dividends equal to common share dividends. Once any shares of Preferred Stock are outstanding, at least 51% of the total number of shares of Preferred Stock outstanding must approve the following transactions:

- a. Alter or change the rights, preferences or privileges of the Preferred Stock.
- b. Create any new class of stock having preferences over the Preferred Stock.
- c. Repurchase any of our common stock.
- d. Merge or consolidate with any other company, except our wholly owned subsidiaries.
- e. Sell, convey or otherwise dispose of, or create or incur any mortgage, lien, or charge or encumbrance or security interest in or pledge of, or sell and leaseback, in all or substantially all of our property or business.
- f. Incur, assume or guarantee any indebtedness maturing more than 18 months after the date on which it is incurred, assumed or guaranteed by us, except for operating leases and obligations assumed as part of the purchase price of property.

(B) Common stock issued for services

2018

On January 12, 2018, pursuant to an engagement letter dated in October 2015, the Company issued 16,055 shares of its common stock to a company majority owned by the Company’s former CFO for services rendered. The shares were valued at their fair value of \$16,858, or \$1.05 per common share, which was the fair value of the common shares on the date of grant by using the quoted share price on the date of grant. In connection with the issuance of these common shares, in January 2018, the Company recorded stock-based compensation expense of \$16,858.

On January 30, 2018, the Company issued an aggregate of 55,000 shares of common stock to members of the Company’s board of directors for services rendered. The shares were valued at their fair value of \$51,700 using the quoted share price on the date of grant of \$0.94 per common share. In connection with these grants, in January 2018, the Company recorded stock-based compensation expense of \$51,700.

On April 2, 2018, the Company issued 10,000 shares of common stock to a member of the Company’s board of directors for services rendered. The shares were valued at their fair value of \$6,200 using the quoted share price on the date of grant of \$0.62 per common share. In connection with these grants, in April 2018, the Company recorded stock-based compensation expense of \$6,200.

In connection with a consulting agreement with an investor relations firm effective September 1, 2016 for investor relations services, on April 2, 2018 and on September 3, 2018, the Company issued 7,500 and 7,500 shares of restricted stock, respectively. On April 2, 2018 the shares were valued at a fair value of \$4,650 using the quoted share price on the date of grant of \$0.62 per common share. Accordingly, the Company recorded consulting fees of \$4,650. On September 3, 2018, the shares were valued at a fair value of \$4,724 using the quoted share price on the date of grant of \$0.63 per common share. Accordingly, the Company recorded consulting fees of \$4,724.

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2019

On January 14, 2019, the Company issued an aggregate of 100,000 shares of common stock to the members of the Company's board of directors for services rendered. The shares were valued at their fair value of \$31,100 using the quoted share price on the date of grant of \$0.311 per common share. In connection with these grants, in January 2019, the Company recorded stock-based compensation expense of \$31,100.

(C) Equity incentive plans

On August 9, 2016, the Company's Board of Directors authorized the 2016 Equity Incentive Plan (the "2016 Plan") and reserved 10,000,000 shares of common stock for issuance thereunder. The 2016 Plan was approved by shareholders on November 21, 2016. The 2016 Plan's purpose is to encourage ownership in the Company by employees, officers, directors and consultants whose long-term service the Company considers essential to its continued progress and, thereby, encourage recipients to act in the stockholders' interest and share in the Company's success. The 2016 Plan authorizes the grant of awards in the form of options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code, options that do not qualify (non-statutory stock options) and grants of restricted shares of common stock. Restricted shares granted pursuant to the 2016 Plan are amortized to expense over the three-year vesting period. Options vest and expire over a period not to exceed seven years. If any share of common stock underlying a stock option that has been granted ceases to be subject to a stock option, or if any shares of common stock that are subject to any other stock-based award granted are forfeited or terminate, such shares shall again be available for distribution in connection with future grants and awards under the 2016 Plan. As of December 31, 2019 and 2018, 40,000 stock option awards have been made under the 2016 Plan. At December 31, 2019 and 2018, 9,960,000 shares are available for future issuance.

The Company also continues to maintain its 2014 Equity Compensation Plan (the "2014 Plan"), pursuant to which 1,250,000 previously awarded stock options are outstanding. The 2014 Plan has been superseded by the 2016 Plan. Accordingly, no additional shares subject to the existing 2014 Plan will be issued and the 1,250,000 shares issuable upon exercise of stock options will be issued pursuant to the 2014 Plan, if exercised. As of December 31, 2019 and 2018, options to purchase 1,250,000 shares of common stock are outstanding and 1,140,000 are exercisable pursuant to the 2014 Plan.

(D) Stock options

For the years ended December 31, 2019 and 2018, in connection with the accretion of stock-based option expense, the Company recorded stock-based compensation expense of \$23,612 and \$31,516, respectively. As of December 31, 2019, there were 1,290,000 options outstanding and 1,165,000 options vested and exercisable. As of December 31, 2019, there was \$47,844 of unvested stock-based compensation expense to be recognized through December 2024. The aggregate intrinsic value at December 31, 2019 was nil and was calculated based on the difference between the quoted share price on December 31, 2019 of \$0.21 and the exercise price of the underlying options.

Stock option activities for the years ended December 31, 2019 and 2018 are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding December 31, 2017	1,290,000	\$ 0.99	7.74	\$ 126,500
Granted	-	-	-	-
Balance Outstanding December 31, 2018	1,290,000	0.99	6.74	-
Granted	-	-	-	-
Balance Outstanding December 31, 2019	1,290,000	\$ 0.99	5.74	\$ -
Exercisable, December 31, 2019	1,165,000	\$ 0.99	5.61	-
Balance Non-vested at December 31, 2018	150,000	\$ 1.00	6.74	\$ -
Vested during the year	(25,000)	1.00	-	-
Balance Non-vested at December 31, 2019	125,000	\$ 1.00	5.74	\$ -

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(E) Stock redemption agreement

Effective January 1, 2019, the Company, Christopher Carra, Alan Abrams, Clayton Abrams Revocable Trust (the “Clayton Abrams Trust”), and Kyle Abrams Revocable Trust (the “Kyle Abrams Trust” and together with the Clayton Abrams Trust, the “Trusts”) entered into the Stock Redemption Agreement. Prior to entry into the Stock Redemption Agreement, (i) Mr. Carra was the owner 2,028,335 shares of the Company’s common stock, representing approximately 11.6% of the Company’s outstanding shares as of January 1, 2019, and (ii) Mr. Abrams, together with the Trusts (collectively, the “Abrams Affiliates”), owned 3,611,669 shares of the Company’s common stock, representing approximately 20.7% of the Company’s outstanding common stock as of January 1, 2019. Pursuant to SEC rules, each of Messrs. Carra and Abrams was deemed to be a “related person” due solely to their status as significant stockholders of the Company. Pursuant to the terms of the Stock Redemption Agreement, the parties agreed that the Company would redeem an aggregate of 5,640,004 owned by Mr. Carra and the Abrams Affiliates (the “Stock Redemption”) such that Messrs. Carra and Abrams would no longer be significant and stockholders of the Company and would no longer be deemed to be “related persons” under SEC rules. In exchange for the Stock Redemption, the parties agreed that:

- The Company and Broken Arrow, which was owned at the time of the transaction, in whole or in part, directly or indirectly, by Messrs. Abrams and Carra, amended the Broken Arrow CASA to reduce the gross revenue fee payable by Broken Arrow from 10% of gross revenue to 0% of gross revenue, and added a \$250 an hour advisory fee.
- The Company and CJK, which is owned at the time of the transaction,, in whole or in part, directly or indirectly, by Messrs. Abrams and Carra, amended the CJK CASA to reduce the gross revenue fee payable by CJK from 10% of gross revenue to 0% of gross revenue, and added a \$250 an hour advisory fee.
- The Company and Mr. Abrams amended the convertible debenture dated January 9, 2017 (the “Abrams Debenture”) to extend the maturity date of the Abrams Debenture from January 9, 2022 until January 9, 2030.
- Chino Valley and Broken Arrow amended the Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 (the “New Chino Valley Lease”) to increase the monthly base rent payable by Broken Arrow from \$35,000 to \$40,000.

Following effectiveness of the Stock Redemption and the transactions set forth above:

- Messrs. Carra and Abrams will no longer beneficially own any shares of the Company’s common stock. Accordingly, they will no longer be significant stockholders of the Company or “related persons” under the SEC rules. Therefore, transactions between the Company and Carra or Abrams or entities related in whole or in part, directly or indirectly, to Carra and Abrams have not been reflected as related party transactions in these consolidated financial statements after the effectiveness of the Stock Redemption.
- The Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Chino Valley and Broken Arrow will continue in full force and effect, except as amended by the Chino Valley Lease Amendment to increase the monthly base rent payable by Broken Arrow from \$35,000 to \$40,000.
- The Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Green Valley and Broken Arrow will continue in full force and effect.
- The Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement (concerning the Company’s Tempe, Arizona property) dated May 1, 2018 between Zoned Arizona and CJK will continue in full force and effect.
- The Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Kingman and CJK will continue in full force and effect.

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NOTE 9 - INCOME TAXES

The Company maintains deferred tax assets and liabilities that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The deferred tax assets at December 31, 2019 and 2018 consist of net operating loss carryforwards. The net deferred tax asset has been fully offset by a valuation allowance because of the uncertainty of the attainment of future taxable income.

The items accounting for the difference between income taxes at the effective statutory rate and the provision for income taxes for the years ended December 31, 2019 and 2018 were as follows:

	Years Ended December 31,	
	2019	2018
Income tax benefit at U.S. statutory rate	\$ (2,579)	\$ (66,894)
Income tax benefit – state	(798)	(20,705)
Non-deductible expenses	6,920	22,877
Effect of change in effective rate	-	-
Change in valuation allowance	(3,543)	64,722
Total provision for income tax	<u>\$ -</u>	<u>\$ -</u>

The Company’s approximate net deferred tax asset as of December 31, 2019 and 2018 was as follows:

	December 31, 2019	December 31, 2018
Deferred Tax Asset:		
Net operating loss carryforward	<u>\$ 470,432</u>	<u>\$ 473,975</u>
Net deferred tax assets before valuation allowance	470,432	473,975
Valuation allowance	(470,432)	(473,975)
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The net operating loss carryforward was approximately \$1,711,000 at December 31, 2019. The Company provided a valuation allowance equal to the net deferred income tax asset as of December 31, 2019 and 2018 because it was not known whether future taxable income will be sufficient to utilize the loss carryforward. Additionally, the future utilization of the net operating loss carryforward to offset future taxable income is subject to an annual limitation as a result of ownership changes that occurred in 2014 and may occur in the future. Based on the Company’s analysis to determine the limitation on the utilization of its net operating loss carryforward amounts, in 2018, the deferred tax asset was reduced by any carryforward that cannot be utilized or expires prior to utilization as a result of such limitations, with a corresponding reduction of the valuation allowance. In 2019, the valuation allowance decreased by \$3,543. The potential tax benefit arising from the loss carryforward will expire in 2039.

The Company does not have any uncertain tax positions or events leading to uncertainty in a tax position. The Company’s 2019, 2018 and 2017 Corporate Income Tax Returns are subject to Internal Revenue Service examination.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Rental property acquisition

On April 22, 2016, Zoned Colorado, a wholly owned subsidiary of the Company, entered into a Contract to Buy and Sell Real Estate (the “Parachute Agreement”) with Parachute Development Corporation (“Seller”) pursuant to which Zoned Colorado agreed to purchase, and Seller agreed to sell, property in Parachute, Colorado (the “Property”) for a purchase price of \$499,857. Of the total purchase price, \$274,857, or 55%, will be paid in cash at closing and \$225,000, or 45%, will be financed by Seller at an interest rate of 6.5%, amortized over a five-year period, with a balloon payment at the end of the fifth year. Payments will be made monthly and there will be no pre-payment penalty. Pursuant to the terms of the Parachute Agreement, the parties will cooperate in good faith to complete due diligence during a period of 45 days following execution of the Parachute Agreement. The closing is subject to certain contingencies, including that Zoned Colorado must obtain acceptable financing for the purchase and development of the Property, the grant of a special use permit by the Town of Parachute, approval of a protected development deal or equivalent agreement by the Town of Parachute, execution of a lease agreement by a prospective tenant and the prospective tenant’s obtaining a license to cultivate on the Property.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Pursuant to the terms of the Parachute Agreement, Zoned Colorado will have a right of first refusal on eleven additional lots owned by Seller in Parachute, Colorado. In April 2016, the Company paid a refundable deposit of \$45,000 into escrow in connection with the Parachute Agreement which is included in prepaid expenses and other assets on the consolidated balance sheets as of December 31, 2019 and 2018. As of December 31, 2019, the Company and Seller have yet to complete the purchase.

Legal matters

From time to time, the Company may be involved in litigation related to claims arising out of its operations in the normal course of business. As of December 31, 2019, the Company is not involved in any pending or threatened legal proceedings that it believes could reasonably be expected to have a material adverse effect on its financial condition, results of operations, or cash flows.

Confidential Advisory Services Agreements

On May 1, 2018, the Company entered into the Broken Arrow CASA, with a term expiring on April 30, 2040, unless earlier terminated as provided in the Broken Arrow CASA. Additionally, on May 1, 2018, the Company entered into the CJK CASA, with a term expiring on April 30, 2040, unless earlier terminated as provided in the CJK CASA. These Agreements may be terminated prior to the expiration of the Term upon the occurrence of any of the following: (a) by the Company for any reason at any time upon thirty calendar days' written notice to the other party; (b) by either party immediately upon the mutual agreement of the parties, evidenced by a writing signed by the parties; or (c) immediately by either party in the event of an actual finding, by a court of competent jurisdiction, of fraud, gross negligence or willful misconduct of the other party in connection with these Agreements. Pursuant to the terms of the Broken Arrow CASA and CJK CASA, Broken Arrow and CJK engaged the Company to perform certain advisory services in exchange for a fee equal to 10% of Broken Arrow's and CJK's gross revenues (the "Revenue Fee"), commencing January 2019.

Effective January 1, 2019, the Company and Messrs. Abrams and Carra or entities controlled by Messrs. Abrams and Carra entered into Stock Redemption Agreements. Prior to entry into the Stock Redemption Agreement, pursuant to the terms of the Stock Redemption Agreement, the parties agreed that the Company would redeem an aggregate of 5,640,004 owned by such related party shareholders' in exchange for the Stock Redemption. In addition to other terms, the parties agreed to amend the May 1, 2018 leases to reduce the gross revenue fee payable by these related party tenants from 10% of gross revenue to 0% of gross revenue (See Note 3).

Employment and Related Golden Parachute Agreement

On May 23, 2018, the Company and Mr. McLaren, the Company's Chief Executive Officer, agreed to replace Mr. McLaren's 2014 employment agreement with a new employment agreement dated May 23, 2018 (the "2018 Employment Agreement"). Pursuant to the terms of the 2018 Employment Agreement, the Company agreed to continue to pay Mr. McLaren his then-current base annual salary of \$215,000, and to award Mr. McLaren with an annual and/or quarterly bonus payable in either cash and/or equity of no less than 2% of the Company's net income for the associated period.

The 2018 Employment Agreement has a term of 10 years. The term and Mr. McLaren's employment will terminate (a "Termination") in any of the following circumstances:

- (i) immediately, if Mr. McLaren dies;
- (ii) immediately, if Mr. McLaren receives benefits under the long-term disability insurance coverage then provided by the Company or, if no such insurance is in effect, upon Mr. McLaren's disability;
- (iii) on the expiration date, as the same may be extended by the parties by written amendment to the 2018 Employment Agreement prior to the occasion thereof;
- (iv) at the option of the Company for Cause (as defined in the 2018 Employment Agreement) upon the Company's provision of written notice to Mr. McLaren of the basis for such Termination;
- (v) at the option of the Company, without Cause;
- (vi) by Mr. McLaren at any time with Good Reason (as defined in the 2018 Employment Agreement), upon 30 days' prior written notice to the Company delivered not later than within 90 days of the existence of the condition therefor; or
- (vii) by Mr. McLaren at any time without Good Reason, upon not less than three months' prior written notice to the Company.

In the event of a Termination for any reason or for no reason whatsoever, or upon the expiration date of the 2018 Employment Agreement, whichever comes first, all rights and obligations under the 2018 Employment Agreement shall cease (i) as to the Company, except for the Company's obligations for the payment of applicable severance benefits thereunder, and for indemnification thereunder, and (ii) as to Mr. McLaren, except for his obligation under the restrictive covenants in the 2018 Employment Agreement.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

The Company and Mr. McLaren also entered into a Golden Parachute Agreement (the "Golden Parachute Agreement") on May 23, 2018. No benefits shall be payable under the Golden Parachute Agreement unless there shall have been a change in control of the Company, as set forth below. For purposes of the Golden Parachute Agreement, amongst other terms in the Golden Parachute Agreement, a "change in control of the Company" shall mean a change of control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended.

For purposes of the Golden Parachute Agreement, "Cause" means termination upon (a) the willful and continued failure to substantially perform duties with the Company after a written demand for substantial performance is delivered by the Board, which demand specifically identifies the manner in which the Board believes that duties have not substantially been performed, or (b) the willful engaging in conduct which is demonstrably and materially injurious to the Company, monetarily or otherwise.

For purposes of the Golden Parachute Agreement, "Good Reason" means, without express written consent, the occurrence after a change in control of the Company of any of the following circumstances unless, such circumstances are fully corrected prior to the date of Termination specified in the notice of Termination:

- (a) a material diminution in Mr. McLaren's authority, duties or responsibility from those in effect immediately prior to the change in control of the Company;
- (b) a material diminution in Mr. McLaren's base compensation;
- (c) a material change in the geographic location at which Mr. McLaren performs his duties;
- (d) a material diminution in the authority, duties, or responsibilities of the supervisor to whom Mr. McLaren is required to report, including a requirement that Mr. McLaren report to a corporate officer or employee instead of reporting directly to the Board;
- (e) a material diminution in the budget over which Mr. McLaren retains authority;
- (f) a material breach under any agreement with the Company to continue in effect any bonus to which Mr. McLaren was entitled, or any compensation plan in which Mr. McLaren participates immediately prior to the change in control of the Company which is material to Mr. McLaren's total compensation;
- (g) a material breach under any agreement with the Company to provide Mr. McLaren benefits substantially similar to those enjoyed by him under any of the Company's life insurance, medical, health and accident, or disability plans in which he was participating at the time of the change in control of the Company, the failure to continue to provide Mr. McLaren with a Company automobile or allowance in lieu of it, if Mr. McLaren was provided with such an automobile or allowance in lieu of it at the time of the change of control of the Company, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive him of any material fringe benefit enjoyed by him at the time of the change in control of the Company, or the failure by the Company to provide him with the number of paid vacation days to which he is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of the change in control of the Company;

Following a change in control of the Company, upon termination of Mr. McLaren's employment or during a period of disability, Mr. McLaren will be entitled to the following benefits:

- (i) During any period that he fails to perform his full-time duties with the Company as a result of incapacity due to physical or mental illness, Mr. McLaren will continue to receive his base salary at the rate in effect at the commencement of any such period, together with all amounts payable to him under any compensation plan of the Company during such period, until the Golden Parachute Agreement is terminated.
- (ii) If Mr. McLaren's employment is terminated by the Company for Cause or by Mr. McLaren other than for Good Reason, disability, death or retirement, the Company will pay Mr. McLaren his full base salary through the date of Termination at the rate in effect at the time notice of Termination is given, plus all other amounts and benefits to which he is entitled under any compensation plan of the Company at the time such payments are due.
- (iii) If employment by the Company shall be terminated (a) by the Company other than for Cause, death or disability or (b) by Mr. McLaren for Good Reason, Mr. McLaren will be entitled to benefits provided below:
 - a. The Company will pay Mr. McLaren his full base salary through the date of Termination at the rate in effect at the time notice of Termination is given, plus all other amounts and benefits to which he is entitled under any compensation plan of the Company.
 - b. In lieu of any further salary payments to Mr. McLaren for periods subsequent to the date of Termination, the Company will pay as severance pay to Mr. McLaren a lump sum severance payment (together with the payments provided in clauses (c) and (d) below) equal to five times the sum of his annual base salary in effect immediately prior to the occurrence of the circumstance giving rise to the notice of Termination given in respect of them.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

- c. The Company will pay to Mr. McLaren any deferred compensation allocated or credited to him or his account as of the date of Termination.
- d. In lieu of shares of common stock of the Company issuable upon exercise of outstanding options, if any, granted to Mr. McLaren under the Company's stock option plans (which options shall be cancelled upon the making of the payment referred to below), Mr. McLaren will receive an amount in cash equal to the product of (i) the excess of the closing price of the Company's common stock as reported on or nearest the date of Termination (or, if not so reported, on the basis of the average of the lowest asked and highest bid prices on or nearest the date of Termination), over the per share exercise price of each option held by Mr. McLaren (whether or not then fully exercisable) plus the amount of any applicable cash appreciation rights, times (ii) the number of the Company's common stock covered by each such option.
- e. The Company will also pay to Mr. McLaren all legal fees and expenses incurred by him as a result of such Termination.

NOTE 11 – SUBSEQUENT EVENTS

On January 6, 2020, the Company issued an aggregate of 110,000 shares of common stock to members of the Company's board of directors for services rendered. The shares were valued at their aggregate fair value of \$24,200 using the quoted per share price on the date of grant of \$0.22. In connection with these grants, in January 2020, the Company recorded stock-based compensation expense of \$24,200.

On January 6, 2020, the Company granted an employee an option, pursuant to the 2016 Plan, to purchase 125,000 of the Company's common stock at an exercise price of \$1.00 per share. The grant date of the option was January 6, 2020 and the option expires on January 6, 2030. The option vests as to (i) 35,000 of such shares on January 6, 2020, and (ii) as to 10,000 of such shares on January 6, 2021 and each year thereafter through January 6, 2029. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 110%; risk-free interest rate of 1.81%; and, an estimated holding period of 10 years. In connection with these options, the Company valued these options at a fair value of \$23,388 and will record stock-based compensation expense over the vesting period.

Convertible note receivable

On March 19, 2020, the Company made an initial investment of \$100,000 into KCB Jade Holdings, LLC ("KCB"). In exchange for the investment, KCB issued to the Company a convertible debenture (the "Debenture") dated March 19, 2020 (the "Issuance Date") in the original principal amount of \$100,000. The Debenture bears interest at the rate of 6.5% per annum and matures on March 19, 2025 (the "Maturity Date"). Interest on the outstanding principal sum of the Debenture commences accruing on the Issuance Date and is computed on the basis of a 365-day year and the actual number of days elapsed, and shall be payable annually due by the first day of each calendar anniversary following the Issuance Date. KCB may prepay the Debenture at any point after 18 months following the Issuance Date, in whole or in part. However, if KCB elects to prepay the Debenture prior to the Maturity Date or prior to any conversion as provided in the Debenture in whole or in part, the Company will be entitled to receive a number of KCB units, in addition to such prepayment amount, constituting 10% of the total outstanding units and 10% of the total percentage interest following such issuance and at the time of such issuance.

On or after six months from the Issuance Date, the Company may convert all or a portion of the principal balance and all accrued and unpaid interest due into a number of units equal to the proportion of the outstanding amount being converted multiplied by 33% of the total number of units issued and outstanding at the time of conversion, constituting 33% of the total percentage interest (the "Conversion Percentage"). If KCB defaults on payment of the Debenture, the Company may, at its option, extend all conversion rights, through and including the date KCB tenders or attempts to tender payment in full of all amounts due under the Debenture. Conversion rights terminate upon acceptance by the Company of payment in full of principal, accrued interest and any other amounts due under the Debenture.

If (i) KCB does not elect to exercise its rights of prepayment prior to the Maturity Date, (ii) the Company does not elect to exercise its rights of conversion, and (iii) KCB pays to the Company all outstanding principal and interest accrued and due under the terms of the Debenture on the Maturity Date, the Company will still be entitled to receive a number of units, in addition to such payment amount, constituting 8% of the total outstanding units and 8% of the total percentage interest following such issuance and at the time of such issuance.

Upon the occurrence of an Event of Default, as defined in the Debenture, the entire principal balance and accrued and unpaid interest outstanding under the Debenture, and all other obligations of KCB under the Debenture, will be immediately due and payable and the Company may exercise any and all rights, power and remedies available to it at law or in equity or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in the Debenture and proceed to enforce the payment thereof or any other legal or equitable right of the Company.

Any amount of principal or interest not paid when due will bear interest at the rate of 12% per annum from the due date thereof until paid.

SUBSIDIARIES

Subsidiary Name	Jurisdiction of Incorporation
Gilbert Property Management, LLC	Arizona
Green Valley Group, LLC	Arizona
Kingman Property Group, LLC	Arizona
Chino Valley Properties, LLC	Arizona
Zoned Arizona Properties, LLC	Arizona
Zoned Advisory Services, LLC	Arizona
Zoned Oregon Properties, LLC	Oregon
Zoned Colorado Properties, LLC	Colorado
Zoned Illinois Properties, LLC	Illinois



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference the Registration Statement on Form S-8 (File No. 333-213150) of Zoned Properties, Inc. of our report dated March 26, 2020, relating to the consolidated financial statements of Zoned Properties, Inc. which appear in this Form 10-K.

D. Brooks and Associates CPAs, P.A.

D. Brooks and Associates CPAs, P.A.
Palm Beach, FL
March 26, 2020

4440 PGA Blvd, Suite 104 ■ Palm Beach Gardens, Florida 33410 ■ Main Office: 561.429.6225 ■ Fax: 561.282.3444

dbrookscpa.com

Certifications

I, Bryan McLaren, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2019 of Zoned Properties, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 26, 2020

/s/ Bryan McLaren

Bryan McLaren

(Chief Executive Officer and President

(principal executive officer)

Certifications

I, Bryan McLaren, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2019 of Zoned Properties, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 26, 2020

/s/ Bryan McLaren

Bryan McLaren
Chief Financial Officer
(principal financial officer)

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

In connection with the annual report of Zoned Properties, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryan McLaren, Chief Executive Officer, President and Chief Financial Officer of the Company, certify to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 26, 2020

/s/ Bryan McLaren

Bryan McLaren
Chief Executive Officer, President and
Chief Financial Officer
(principal executive officer and
principal financial officer)



CJK Inc. dba Hana Meds
Financial Statements
December 31, 2019

5300 N. Central #200 • Phoenix, Arizona 85012
602.776.6300 • 1.888.346.0072 • FAX: 602.279.4537 • WWW.PRICEKONG.COM

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
CJK, Inc. dba Hana Meds
Tempe, Arizona

We have audited the accompanying financial statements of CJK, Inc. dba Hana Meds (an Arizona nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

5300 N. Central #200 • Phoenix, Arizona 85012
602.776.6300 • 1.888.346.0072 • FAX: 602.279.4537 • WWW.PRICEKONG.COM

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CJK, Inc. dba Hana Meds as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Price Kong & Co. C.P.A's P.A.

Price, Kong & Co., CPA's, P.A.
Phoenix, Arizona
March 21, 2020

CJK Inc. dba Hana Meds
Statement of Financial Position
December 31, 2019

ASSETS

Current Assets	
Cash and cash equivalents	\$ 258,831
Accounts receivable, net	173,474
Due from related party	2,796,718
Inventory	250,662
Prepaid expenses	8,441
Refundable deposit	27,800
Total Current Assets	<u>3,515,926</u>
Property and equipment, net	<u>108,753</u>
Total Assets	<u>\$ 3,624,679</u>

LIABILITIES AND NET DEFICIT

Current Liabilities	
Accounts payable	\$ 35,450
Accrued expenses	89,282
Sales tax payable	24,518
Income tax payable	52,209
Management services payable	2,030,508
Due to related party	3,493,346
Total Current Liabilities	<u>5,725,313</u>
Net Deficit	
Without restrictions	<u>(2,100,634)</u>
Total Liabilities and Net Deficit	<u>\$ 3,624,679</u>

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

CJK Inc. dba Hana Meds
Statement of Activities
For the year ended December 31, 2019

Operating Revenue and Gains:	
Medicinal sales	\$ 4,891,300
Other income	1,811
Total Operating Revenue and Gains	<u>4,893,111</u>
Program and Supporting Services Expenses	
Cost of medicinal sales	4,563,228
General and administrative	793,595
Total Program and Supporting Services Expenses	<u>5,356,823</u>
Change in Net Assets Before Provisions for Income Taxes	(463,712)
Income Tax Expense	<u>52,209</u>
Change in Net Assets	(515,921)
Net Deficit - Beginning of Year	<u>(1,584,713)</u>
Net Deficit - End of Year	<u><u>\$ (2,100,634)</u></u>

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

CJK Inc. dba Hana Meds
Statement of Functional Expenses
For the year ended December 31, 2019

	<u>Cost of Medicinal Sales</u>	<u>General and Administrative</u>	<u>Total</u>
Direct materials	\$ 2,542,198	\$ -	\$ 2,542,198
Labor	1,072,913	200,871	1,273,784
Management fees	401,508	216,197	617,705
Rent	205,061	39,342	244,403
Advertising	-	183,181	183,181
Utilities	132,840	5,291	138,131
Repairs and maintenance	43,183	13,655	56,838
Royalties	-	47,721	47,721
Licensing	34,619	143	34,762
Insurance	22,660	11,118	33,778
Computer and internet	20,224	7,309	27,533
Office expenses	21,404	6,123	27,527
Professional fees	16,935	8,565	25,500
Bad debt expense	-	25,000	25,000
Travel and training	15,008	7,447	22,455
Depreciation	9,195	-	9,195
Other	25,480	21,632	47,112
Total Functional Expenses	<u>\$ 4,563,228</u>	<u>\$ 793,595</u>	<u>\$ 5,356,823</u>

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

CJK Inc. dba Hana Meds
Statement of Cash Flows
For the year ended December 31, 2019

Cash Flows from Operating Activities:	
Change in net assets	\$ (515,921)
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Depreciation expense	9,195
(Increase) decrease in operating assets:	
Accounts receivable	(106,383)
Due from related party	968,149
Inventory	(106,860)
Prepaid expenses	27
Increase (decrease) in operating liabilities:	
Accounts payable	16,033
Sales tax payable	2,243
Income tax payable	52,209
Management service payable	617,705
Due to related party	(633,397)
Net cash used for operating activities	<u>303,000</u>
Cash Flows from Investing Activities:	
Purchase of property and equipment	(99,704)
Net cash used for investing activities	<u>(99,704)</u>
Net Change in Cash	203,296
Cash - Beginning of Year	<u>55,535</u>
Cash - End of Year	<u>\$ 258,831</u>

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

CJK Inc. dba Hana Meds
Notes to Financial Statements
December 31, 2019

NOTE 1 – NATURE OF ACTIVITIES

CJK Inc. dba Hana Meds (the Organization, we us, our) is an Arizona corporation operating on a not-for-profit basis that was incorporated in April 2012. The Organization’s mission is to function as a full service alternative health and wellness facility that provides medicinal cannabis and natural homeopathic remedies in a compassionate, safe and supportive environment for qualified patients and caregivers. To this end, the Organization operates as a medical marijuana dispensary and medical marijuana cultivation facility and health and wellness center, while at all times complying with the Arizona Medical Marijuana Act, Arizona Revised Statutes (A.R.S.) Title 36, Chapter 28 (the “Act”), and the rules and regulations propagated by the Arizona Department of Health Services (“DHS”) (the “Rules” thereunder).

DHS previously divided the State of Arizona into 126 distinct geographical regions known as “Community Health Analysis Areas” (each, a “CHAA”), and pursuant to the Act and the Rules allocated one dispensary registration certificate (“Certificate”) to each CHAA. A Certificate entitles the organization holding it to operate a retail dispensary and medical marijuana cultivation facility, subject to the conditions, restrictions and limitations set forth in the Act and the Rules.

The Organization’s operations are dependent on economic and legal conditions which affect the medicinal cannabis and health care industries, and changes in those conditions may affect the Organization’s continuing operations. While the nature of the Organization’s business is considered legalized and approved by the State of Arizona, it is considered to be an illegal activity under Federal law. Accordingly, certain additional risks and uncertainties are prevalent as discussed in the following notes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The preparation of the financial statements in conformity with generally accepted accounting principles within the United States (“U.S. GAAP”) as promulgated by the Financial Accounting Standards Board (“FASB”) 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 revenues and expenses during the reporting period. Accordingly, actual results may differ from those estimates.

Use of Estimates

The preparation of the financial statements in conformity with U.S. 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 revenues and expenses during the reporting period. Accordingly, actual results may differ from those estimates.

CJK Inc. dba Hana Meds
Notes to Financial Statements
December 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid instruments with an original maturity of three months or less to be cash and cash equivalents.

Accounts Receivable

Accounts receivable are recorded at their net realizable value. The Organization provides for potentially uncollectible accounts receivable by use of the allowance method. The allowance is provided based upon a review of the individual accounts outstanding, prior history of uncollectible accounts, and existing economic conditions. Receivables past due more than 60 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

As of January 1, 2019, the total accounts receivable balance was \$67,091 and as of December 31, 2019, the net accounts receivable balance was \$173,474, which includes an allowance of \$25,000.

Inventories

Inventories are valued at the lower of cost (first in, first out basis) or market, and consist primarily of cannabis in the form of packaged flower, edibles, accessories, and concentrates. Inventory is required to be purchased from licensed growth facilities at normal market prices, donated from a licensed patient or caregiver of medicinal cannabis, or grown in the Organization's licensed cultivation facility. For the year ended December 31, 2019, donated inventory totaled \$0. The Organization employs the full-absorption costing method to account for inventory.

Property and Equipment

Property and equipment are stated at cost and depreciated on the straight-line method over their estimated useful lives, typically two to fifteen years. Donated property and equipment are recorded at their fair value at the date of donation. Such contributions of property are reported as net assets without donor restrictions, unless the donor has restricted the donated asset to a specific purpose. Assets donated with such restrictions are reported as contributions with donor restrictions. There were no donations of property and equipment during December 31, 2019. Property and equipment are reviewed annually for impairment or when events or circumstances indicate their carrying amount may not be recoverable. Repairs that significantly extend the lives of property and equipment are capitalized, while routine repairs and maintenance are expensed when incurred. Upon sale or disposal, the costs and related accumulated depreciation and amortization are removed and any resulting gain or loss is recognized in income.

Advertising

The Organization expenses advertising and marketing activities as they are incurred. Advertising and marketing expense was \$183,181 for the year ended December 31, 2019.

CJK Inc. dba Hana Meds
Notes to Financial Statements
December 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Concentrations of Credit Risk

The Organization maintains its cash accounts in various deposit accounts, the balances of which may periodically be in excess of federal insurable limits during the ordinary course of business.

Compensated Absences

We believe that any liability for accrued compensated absences is not significant to the financial statements and therefore, there has been no accrual for compensated absences.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited.

These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include rent, office expenses, and repairs and maintenance, which are allocated on a square footage basis, as well as professional and legal fees, salaries and wages, and other, which are allocated on the basis of estimates of time and effort.

Net Assets (Deficits)

Net assets (deficits), revenue, gains, and losses are classified based on the existence or absence of donor, grantor, or agency-imposed restrictions. Accordingly, net assets (deficits) and changes therein are classified and reported as follows:

Net Assets (Deficits) without Restrictions – Net assets available for use in general operations and not subject to donor (or grantor/agency) restrictions.

Net Assets with Restrictions – Net assets subject to donor (or certain grantor/agency) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. There were no net assets with restrictions as of and for the year ended December 31, 2019.

Contributions

The Organization accounts for contributions in accordance with U.S. GAAP, wherein, contributions received are recorded as increases in net assets with donor restrictions and without donor restrictions. Contributions of donated non-cash assets are recorded at their fair values in the period received. Arizona law allows for legal caregivers and qualified patients to make non-cash contributions of inventory; however, no such contributions were recorded on these financial statements.

CJK Inc. dba Hana Meds
Notes to Financial Statements
December 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Contributions – continued

The Organization records net assets with donor restrictions, whose restrictions are satisfied in the same reporting period, as net assets without donor restrictions when received. There were no contributions recognized during the year ended December 31, 2019.

Contributions of donated services that create or enhance non-financial assets or that require specialized skills by individuals possessing those skills that would typically need to be purchased if not provided by donation are recorded at their fair values in the period received. No such donated services have been recognized for the year ended December 31, 2019.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification of detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefitted.

These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, which is allocated on a square footage basis, as well as labor costs, management fees, professional services, office expenses, insurance, travel and other, which are allocated on the basis of estimates of time and effort.

Sales Tax and Other Taxes

We collect various taxes from customers and are responsible to remit these amounts to applicable taxing authorities. The Organization's accounting policy is to exclude these taxes from revenue and cost of sales.

Income Taxes

In accordance with the Act, the Organization is a registered non-profit entity under Arizona law, and therefore is not subject to state income tax. Due to the nature of the Organization's activities under Federal law, the Organization is considered unable to qualify as a tax-exempt organization under Section 501 of the Internal Revenue Code of 1986, as amended (the "Code").

Moreover, pursuant to Section 280E of the Code, the Organization may not be permitted to take tax deductions for certain operating expenses. Because the Organization is not a non-profit entity under Federal law, it is therefore subject to Federal income tax. Furthermore, costs of medicinal sales are the only deductible expenses under Federal case law. Management believes that the guidance under Code Section 280E has been appropriately applied.

U.S. GAAP, imposes a threshold for determining when an income tax benefit can be recognized. The threshold imposed for financial statement reporting is generally higher than the threshold imposed for claiming deductions in income tax returns. There is no liability, asset, or provision for income taxes reported by the Organization as a result of applying this threshold.

CJK Inc. dba Hana Meds
Notes to Financial Statements
December 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Income Taxes – continued

The Organization adopted the accounting standard for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position.

The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. As a result of implementation of this guidance, management believes that any uncertainties do not represent a significant liability.

In the normal course of business, the Organization is subject to examination by taxing authorities. Generally, the Organization is no longer subject to examinations for income tax returns filed more than three years ago.

Adoption of New Accounting Standard

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted the new standard effective January 1, 2019, the first day of the Organization’s fiscal year using the modified retrospective approach. The impact of adopting this ASU was not material to the financial statements.

Revenue Recognition

The organization derives its revenues primarily from the sale of medicinal marijuana, CBD, and related products. Revenues are recognized when control of these products is transferred to its customers, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those products.

Sales and other taxes the Organization collects concurrent with revenue-producing activities are excluded from revenue. Any shipping and handling fees charged to customers are reported within revenue.

CJK Inc. dba Hana Meds
Notes to Financial Statements
December 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue Recognition – continued

Incidental items that are immaterial in the context of the contract are recognized as expense. The Organization does not have any significant financing components as payment is received at or shortly after the point of sale. Costs incurred to obtain a contract will be expenses as incurred when the amortization period is less than a year.

Variable Consideration

The nature of the Organization’s business gives rise to variable consideration, including rebates, allowances, and returns that generally decrease the transaction price which reduces revenue. These variable amounts are generally credited to the customer, based on achieving certain levels of sales activity, product returns or price concessions.

Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration are estimated based upon historical experience and known trends.

The Organization determined that no reserve was necessary for variable consideration based on its historical experience.

Recent Accounting Pronouncements - Leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among organizations by requiring recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP with lease terms of more than 12 months.

Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Organization will be required to recognize and measure leases existing at, or entered into after, the beginning of the earliest comparative period presented using a modified retrospective approach, with certain practical expedients available. The standard will be effective for the Organization beginning January 1, 2021, with early adoption permitted. The Organization is continuing to evaluate the new guidance.

Subsequent Events

Subsequent events have been evaluated through March 21, 2020, which is the date the financial statements were available to be issued.

CJK Inc. dba Hana Meds
Notes to Financial Statements
December 31, 2019

NOTE 3 – LIQUIDITY AND AVAILABILITY

The Organization has approximately \$683,000 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure, consisting of cash of \$ 258,831, accounts receivable, net of \$173,474, and inventory of \$250,662. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. Management has a goal to maintain financial assets, which consist of cash, accounts receivable, and inventory, on hand to meet 30 days of normal operating expenses, which are, on average, approximately \$382,000. Management has a policy to structure financial assets to be available as general expenditures, liabilities, and other obligations come due.

NOTE 4 – INVENTORIES

Components of the Organization’s inventories as of December 31, 2019, consist of the following:

Flower	\$ 179,731
Concentrates	45,287
Edibles	21,686
Accessories	2,118
Topicals	1,840
Total inventory	<u>\$ 250,662</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2019 are summarized as follows:

Equipment	\$ 82,961
Less: Accumulated depreciation	(19,189)
Net, depreciable property and equipment	<u>63,772</u>
Construction in process	44,981
Net, property and equipment	<u>\$ 108,753</u>

Depreciation expense for the year ended December 31, 2019, totaled \$9,195.

CJK Inc. dba Hana Meds
Notes to Financial Statements
December 31, 2019

NOTE 6 – RELATED PARTY TRANSACTIONS

AC Management Group, LLC

The Organization entered into a management agreement with a company that is owned by certain members of the Organization’s Board of Directors. The management agreement calls for the Organization to reimburse all costs incurred. The agreement also calls for the payment of management fees of no less than 15% of revenues. Management fees expensed during 2019 totaled \$617,705, a portion of which was allocated to program services. As of December 31, 2019, the amount due to the related party for management fees was \$2,030,508.

During 2019, the Organization entered into transactions with the management company, wherein the management company owes the Organization \$2,796,718 at December 31, 2019.

Broken Arrow Herbal Center, Inc.

The Organization occasionally makes sales to and purchases from a related dispensary with common management, officers, and board members. The medicinal sales to and purchases from the related dispensary totaled \$775,293 and \$1,454,517, for the year ending December 31, 2019. The total due to the related party for the year ended December 31, 2019 is \$3,452,783.

TC AZ Holdings II, Inc.

The Organization entered into an agreement for royalties with a company that is owned by certain members of the Organization’s Board of Directors. The royalty is calculated on an annual basis and shall be payable no later than 90 days after the end of each calendar year. The total due to the related party for the year ended December 31, 2019 is \$40,563.

NOTE 7 – OPERATING LEASES

The Organization has non-cancelable operating leases on buildings in Kingman and Tempe, Arizona that expire in April 2040 with monthly payments of \$4,000 and \$12,730, for the Kingman and Tempe buildings, respectively.

Future minimum rental payments on the non-cancelable leases are as follows as of December 31,

2020	\$ 200,760
2021	200,760
2022	200,760
2023	200,760
2024	200,760
Thereafter	3,078,320
Total	<u>\$ 4,082,120</u>

The total rental expense for the year ending December 31, 2019 was \$244,403, a portion of which has been allocated to cost of medicinal sales.

CJK Inc. dba Hana Meds
Notes to Financial Statements
December 31, 2019

NOTE 8 – CONTINGENCIES

Periodically, the Organization may be contingently liable with respect to claims incidental to the ordinary course of its operations. In the opinion of management, and based on management's consultation with legal counsel, the ultimate outcome of such matters will not have a materially adverse effect on the Organization. Accordingly, no provision has been made in the accompanying financial statements for losses, if any, which might result from the ultimate disposition of these matters should they arise.

Because the Organization is considered to be participating in an illegal activity under Federal law, all of the Organization's assets are at risk of seizure or confiscation by Federal governmental agencies. However, management believes this is unlikely to occur.

* * * * *



Broken Arrow Herbal Center, Inc. dba Hana Meds
Financial Statements
December 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Broken Arrow Herbal Center, Inc. dba Hana Meds
Tempe, Arizona

We have audited the accompanying financial statements Broken Arrow Herbal Center, Inc. dba Hana Meds (an Arizona nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Broken Arrow Herbal Center, Inc. dba Hana Meds as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Price Kong & Co. C.P.A's P.A.

Price, Kong & Co., CPA's, P.A.
Phoenix, Arizona
March 21, 2020

Broken Arrow Herbal Center, Inc. dba Hana Meds
Statement of Financial Position
December 31, 2019

ASSETS

Current Assets	
Cash and cash equivalents	\$ 187,998
Accounts receivable	11,140
Due from related party	3,452,783
Inventory	590,084
Prepaid expenses	8,424
Refundable deposit	47,500
Total Current Assets	<u>4,297,929</u>
Property and equipment, net	<u>184,528</u>
Total Assets	<u>\$ 4,482,457</u>

LIABILITIES AND NET DEFICIT

Current Liabilities	
Accounts payable	\$ 12,671
Accrued expenses	73,420
Sales tax payable	42,757
Due to related party	5,248,074
Total Current Liabilities	<u>5,376,922</u>
Net Deficit	
Without restrictions	<u>(894,465)</u>
Total Liabilities and Net Deficit	<u>\$ 4,482,457</u>

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

Broken Arrow Herbal Center, Inc. dba Hana Meds
Statement of Activities
For the year ended December 31, 2019

Operating Revenue and Gains	
Medicinal sales	\$ 4,644,799
Other income	6,749
Total Revenue	<u>4,651,548</u>
Program and Supporting Service Expenses	
Cost of medicinal sales	3,628,191
General and administrative	<u>511,616</u>
Total Program and Supporting Service Expenses	4,139,807
Change in Net Assets	511,741
Net Deficit - Beginning of Year	<u>(1,406,206)</u>
Net Deficit - End of Year	<u>\$ (894,465)</u>

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

Broken Arrow Herbal Center, Inc. dba Hana Meds
Statement of Functional Expenses
For the year ended December 31, 2019

	<u>Cost of Medicinal Sales</u>	<u>General and Administrative</u>	<u>Total</u>
Direct materials	\$ 1,274,343	\$ -	\$ 1,274,343
Labor	1,054,427	212,034	1,266,461
Rent	566,423	36,184	602,607
Management fees	309,605	166,080	475,685
Utilities	276,944	6,797	283,741
Insurance	21,373	11,121	32,494
Professional fees	16,935	8,565	25,500
Licensing	23,063	-	23,063
Computer and internet	14,607	8,700	23,307
Office expenses	12,143	9,764	21,907
Travel and training	12,968	7,464	20,432
Advertising	-	18,521	18,521
Repairs and maintenance	-	8,852	8,852
Depreciation	6,202	-	6,202
Other	39,158	17,534	56,692
Total Expenses	<u>\$ 3,628,191</u>	<u>\$ 511,616</u>	<u>\$ 4,139,807</u>

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

Broken Arrow Herbal Center, Inc. dba Hana Meds
Statement of Cash Flows
For the year ended December 31, 2019

Cash Flows from Operating Activities:	
Change in net assets	\$ 511,741
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	6,202
(Increase) decrease in operating assets:	
Accounts receivable	(11,140)
Due from related party	(665,666)
Inventory	(520,088)
Prepaid expenses	(828)
Increase (decrease) in operating liabilities:	
Accounts payable	(17,453)
Accrued expenses	47,520
Sales tax payable	11,419
Due to related party	976,733
Net cash provided by operating activities	338,440
Cash Flows from Investing Activities:	
Purchase of property and equipment	(185,708)
Net cash used for investing activities	(185,708)
Net Change in Cash	152,732
Cash - Beginning of Year	35,266
Cash - End of Year	\$ 187,998

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

Broken Arrow Herbal Center, Inc. dba Hana Meds

Notes to Financial Statements

December 31, 2019

NOTE 1 – NATURE OF ACTIVITIES

Broken Arrow Herbal Center, Inc. dba Hana Meds (the Organization, we, us, our) is an Arizona corporation operating on a not-for-profit basis that was incorporated in June 2011. The Organization’s mission is to function as a full service alternative health and wellness facility that provides medicinal cannabis and natural homeopathic remedies in a compassionate, safe and supportive environment for qualified patients and caregivers. To this end, the Organization operates as a medical marijuana dispensary and medical marijuana cultivation facility and health and wellness center, while at all times complying with the Arizona Medical Marijuana Act, Arizona Revised Statutes (A.R.S.) Title 36, Chapter 28 (the “Act”), and the rules and regulations propagated by the Arizona Department of Health Services (“DHS”) (the “Rules” thereunder).

DHS previously divided the State of Arizona into 126 distinct geographical regions known as “Community Health Analysis Areas” (each, a “CHAA”), and pursuant to the Act and the Rules allocated one dispensary registration certificate (“Certificate”) to each CHAA. A Certificate entitles the organization holding it to operate a retail dispensary and medical marijuana cultivation facility, subject to the conditions, restrictions and limitations set forth in the Act and the Rules.

The Organization’s operations are dependent on economic and legal conditions which affect the medicinal cannabis and health care industries, and changes in those conditions may affect the Organization’s continuing operations. While the nature of the Organization’s business is considered legalized and approved by the State of Arizona, it is considered to be an illegal activity under Federal law. Accordingly, certain additional risks and uncertainties are prevalent as discussed in the following notes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred. All revenues and expenses which are applicable to future periods have been presented as deferred or prepaid on the accompanying statement of financial position.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles within the United States (“U.S. GAAP”) as promulgated by the Financial Accounting Standards Board (“FASB”) 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 revenues and expenses during the reporting period. Accordingly, actual results may differ from those estimates.

Broken Arrow Herbal Center, Inc. dba Hana Meds

Notes to Financial Statements

December 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid instruments with an original maturity of three months or less to be cash and cash equivalents.

Accounts Receivable

Accounts receivable are recorded at their net realizable value. The Organization provides for potentially uncollectible accounts receivable by use of the allowance method. The allowance is provided based upon a review of the individual accounts outstanding, prior history of uncollectible accounts, and existing economic conditions. Receivables past due more than 60 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

As of January 1, 2019, the accounts receivable balance was \$0 and as of December 31, 2019, the accounts receivable balance was \$11,140.

Inventories

Inventories are valued at the lower of cost (first in, first out basis) or market, and consist primarily of cannabis in the form of packaged flower, edibles and accessories. Inventory is required to be purchased from licensed growth facilities at normal market prices, donated from a licensed patient or caregiver of medicinal cannabis, or grown in the Organization's licensed cultivation facility. For the year ended December 31, 2019, donated inventory totaled \$0. The Organization employs the full-absorption costing method to account for inventory.

Property and Equipment

Property and equipment are stated at cost and depreciated on the straight-line method over their estimated useful lives, typically two to five years. Donated property and equipment are recorded at fair value at the date of donation. Such contributions of property are reported as net assets without donor restrictions, unless the donor has restricted the donated asset to a specific purpose. Assets donated with such restrictions are reported as contributions with donor restrictions. There were no donations of property and equipment during December 31, 2019. Property and equipment are reviewed annually for impairment or when events or circumstances indicate their carrying amount may not be recoverable. Repairs that significantly extend the lives of property and equipment are capitalized, while routine repairs and maintenance are expensed when incurred. Upon sale or disposal, the costs and related accumulated depreciation and amortization are removed and any resulting gain or loss is recognized in income.

Advertising

The Organization expenses advertising and marketing as incurred. Advertising and marketing expense was for the year ended December 31, 2019.

Broken Arrow Herbal Center, Inc. dba Hana Meds

Notes to Financial Statements

December 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Concentrations of Credit Risk

The Organization maintains its cash accounts in various deposit accounts, the balances of which may periodically be in excess of federal insurable limits during the ordinary course of business.

Compensated Absences

We believe that any liability for accrued compensated absences is not significant to the financial statements and therefore, there has been no accrual for compensated absences.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited.

These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include rent, office expenses, and repairs and maintenance, which are allocated on a square footage basis, as well as professional and legal fees, salaries and wages, and other, which are allocated on the basis of estimates of time and effort.

Net Assets (Deficits)

Net assets (deficits), revenue, gains, and losses are classified based on the existence or absence of donor, grantor, or agency-imposed restrictions. Accordingly, net assets (deficits) and changes therein are classified and reported as follows:

Net Assets (Deficits) without Restrictions – Net assets available for use in general operations and not subject to donor (or grantor/agency) restrictions.

Net Assets with Restrictions – Net assets subject to donor (or certain grantor/agency) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. There were no net assets with restrictions as of and for the year ended December 31, 2019.

Contributions

The Organization accounts for contributions in accordance with U.S. GAAP, wherein, contributions received are recorded as increases in net assets with donor restrictions and without donor restrictions. Contributions of donated non-cash assets are recorded at their fair values in the period received. Arizona law allows for legal caregivers and qualified patients to make non-cash contributions of inventory; however, no such contributions were recorded on these financial statements.

Broken Arrow Herbal Center, Inc. dba Hana Meds
Notes to Financial Statements
December 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Contributions - continued

The Organization records net assets with donor restrictions, whose restrictions are satisfied in the same reporting period, as net assets without donor restrictions when received. There were no contributions recognized during the year ended December 31, 2019.

Contributions of donated services that create or enhance non-financial assets or that require specialized skills by individuals possessing those skills that would typically need to be purchased if not provided by donation are recorded at their fair values in the period received. No such donated services have been recognized for the year ended December 31, 2019.

Sales Tax and Other Taxes

We collect various taxes from customers and are responsible to remit these amounts to applicable taxing authorities. The Organization's accounting policy is to exclude these taxes from revenue and cost of sales.

Income Taxes

In accordance with the Act, the Organization is a registered nonprofit entity under Arizona law, and therefore is not subject to state income tax. Due to the nature of the Organization's activities under Federal law, the Organization is considered unable to qualify as a tax exempt organization under Section 501 of the Internal Revenue Code of 1986, as amended (the "Code").

Moreover, pursuant to Section 280E of the Code, the Organization may not be permitted to take tax deductions for certain operating expenses. Because the Organization is not a nonprofit entity under Federal law, it is therefore subject to Federal income tax. Furthermore, costs of medicinal sales are the only deductible expenses under Federal case law. We believe that the guidance under Code Section 280E has been appropriately applied.

U.S. GAAP, imposes a threshold for determining when an income tax benefit can be recognized. The threshold imposed for financial statement reporting is generally higher than the threshold imposed for claiming deductions in income tax returns. There is no liability, asset, or provision for income taxes reported by the Organization as a result of applying this threshold.

The Organization adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position.

Broken Arrow Herbal Center, Inc. dba Hana Meds

Notes to Financial Statements

December 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Income Taxes - continued

The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de- recognition, classification, interest and penalties on income taxes, and accounting in interim periods. As a result of implementation of this guidance, management believes that any uncertainties do not represent a significant liability.

In the normal course of business, the Organization is subject to examination by taxing authorities. Generally, the Organization is no longer subject to examinations for income tax returns filed more than three years ago.

Deferred Tax Asset

As of December 31, 2019, the Organization has accumulated net operating losses available to offset future taxable income totaling \$245,558. Generally, this would result in the recognition of a deferred tax asset, however due to the uncertainties of future tax laws with respect to the industry, management has elected to allow for any deferred assets and therefore \$0 has been recognized in these financial statements.

Adoption of New Accounting Standard

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted the new standard effective January 1, 2019, the first day of the Organization’s fiscal year using the modified retrospective approach. The impact of adopting this ASU was not material to the financial statements.

Revenue Recognition

The Organization derives its revenues primarily from the sale of medicinal marijuana, CBD, and related products. Revenues are recognized at a point in time when control of these products is transferred to its customers, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those products. Sales and other taxes the Organization collects concurrent with revenue-producing activities are excluded from revenue. Any shipping and handling fees charged to customers are reported within revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The Organization does not have any significant financing components as payment is received at or shortly after the point of sale. Costs incurred to obtain a contract will be expenses as incurred when the amortization period is less than a year.

Broken Arrow Herbal Center, Inc. dba Hana Meds

Notes to Financial Statements

December 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Variable Consideration

The nature of the Organization's business gives rise to variable consideration, including rebates, allowances, and returns that generally decrease the transaction price which reduces revenue. These variable amounts are generally credited to the customer, based on achieving certain levels of sales activity, product returns or price concessions.

Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration are estimated based upon historical experience and known trends.

The Organization determined that no reserve was necessary for variable consideration based on its historical experience.

Recent Accounting Pronouncements - Leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among organizations by requiring recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP with lease terms of more than 12 months.

Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Organization will be required to recognize and measure leases existing at, or entered into after, the beginning of the earliest comparative period presented using a modified retrospective approach, with certain practical expedients available. The standard will be effective for the Organization beginning January 1, 2021, with early adoption permitted. The Organization is continuing to evaluate the new guidance.

Subsequent Events

Subsequent events have been evaluated through March 21, 2020, which is the date the financial statements were available to be issued.

NOTE 3 – LIQUIDITY AND AVAILABILITY

The Organization has approximately \$778,000 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure, consisting of cash of \$187,998, and inventory of \$590,084. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

Broken Arrow Herbal Center, Inc. dba Hana Meds
Notes to Financial Statements
December 31, 2019

NOTE 3 – LIQUIDITY AND AVAILABILITY – continued

Management has a goal to maintain financial assets, which consist of cash and inventory, on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$742,000. Management has a policy to structure financial assets to be available as general expenditures, liabilities, and other obligations come due.

NOTE 4 – INVENTORIES

Components of the Organization’s inventories as of December 31, 2019, consist of the following:

Flower	\$ 522,917
Concentrates	51,610
Edibles	8,442
Accessories	2,988
Tinctures	2,136
Topicals	1,991
Total inventory	<u>\$ 590,084</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2019 are summarized as follows:

Equipment	\$ 82,787
Less: Accumulated depreciation	<u>(22,777)</u>
Net, depreciable property and equipment	60,010
Construction in progress	<u>124,518</u>
Net, property and equipment	<u>\$ 184,528</u>

Depreciation expense for the year ended December 31, 2019, totaled \$6,202.

NOTE 6 – RELATED PARTY TRANSACTIONS

Due to Related Party – AC Management

The Organization entered into a management agreement with a company that is owned by certain members of the Organization’s Board of Directors. The management agreement calls for the Organization to reimburse all costs incurred. The agreement also calls for the payment of management fees of no less than 15% of revenues. Management fees expensed during 2019 totaled \$475,685, a portion of which was allocated to cost of goods sold. As of December 31, 2019, the amount due to the management company was \$5,248,074 and is reported as due to related party.

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Notes to Financial Statements
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NOTE 6 – RELATED PARTY TRANSACTIONS – continued

Due from Related Party – CJK, Inc.

The Organization occasionally makes sales to and purchases from a related dispensary with common management, officers, and board members. The medicinal sales to and purchases from the related dispensary totaled \$1,454,517 and \$775,293, respectively, for the year ended December 31, 2019. As of December 31, 2019, the amount due from the related dispensary totaled \$3,452,783 and is reported as due from related party.

NOTE 7 – OPERATING LEASES

The Organization has non-cancelable operating leases expiring in April 2040 with monthly payments of \$3,500 and \$40,000, for the Green Valley and Chino Valley buildings, respectively.

Future minimum rental payments on the non-cancelable leases are as follows as of December 31,

2019	\$ 522,000
2020	522,000
2021	522,000
2022	522,000
2023	522,000
Thereafter	8,004,000
Total	<u>\$ 10,614,000</u>

The total rental expense for the year ending December 31, 2019 was \$602,607, a portion of which has been allocated to cost of medicinal sales.

NOTE 8 – CONTINGENCIES

Periodically, the Organization may be contingently liable with respect to claims incidental to the ordinary course of its operations. In the opinion of management, and based on management's consultation with legal counsel, the ultimate outcome of such matters will not have a materially adverse effect on the Organization. Accordingly, no provision has been made in the accompanying financial statements for losses, if any, which might result from the ultimate disposition of these matters should they arise.

Because the Organization is considered to be participating in an illegal activity under Federal law, all of the Organization's assets are at risk of seizure or confiscation by Federal governmental agencies. However, management believes this is unlikely to occur.

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