

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2019

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 000-55450

**MEDICINE MAN TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
Incorporation or organization)

**46-5289499**  
(I.R.S. Employer Identification No.)

**4880 Havana Street**  
**Suite 201**  
**Denver, Colorado 80239**  
(Address of principal executive offices)

**(303) 371-0387**  
(Issuer's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Not applicable	Not applicable	Not applicable

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 8, 2019, the Registrant had 39,952,628 shares of Common Stock issued and outstanding.

## TABLE OF CONTENTS

	<b><u>Page</u></b>	
<b><u>Part I – FINANCIAL INFORMATION</u></b>		
Item 1.	<a href="#">Financial Statements</a>	4
Item 2.	<a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	28
Item 3.	<a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	31
Item 4.	<a href="#">Controls and Procedures</a>	31
<b><u>Part II – OTHER INFORMATION</u></b>		
Item 1.	<a href="#">Legal Proceedings</a>	32
Item 1A.	<a href="#">Risk Factors</a>	32
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	32
Item 3.	<a href="#">Defaults upon Senior Securities</a>	32
Item 4.	<a href="#">Mine safety disclosure</a>	32
Item 5.	<a href="#">Other Information</a>	32
Item 6.	<a href="#">Exhibits</a>	33

### **CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION**

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon our current assumptions, expectations and beliefs concerning future developments and their potential effect on our business. In some cases, you can identify forward-looking statements by the following words: “may,” “will,” “could,” “would,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “approximately,” “estimate,” “predict,” “project,” “potential,” “continue,” “ongoing,” or the negative of these terms or other comparable terminology, although the absence of these words does not necessarily mean that a statement is not forward-looking. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by any forward-looking statements.

Factors that may cause or contribute actual results to differ from these forward-looking statements include, but are not limited to, for example:

- regulatory limitations on our products and services;
- our ability to complete and integrate announced acquisitions;
- general industry and economic conditions;
- our ability to access adequate capital upon terms and conditions that are acceptable to us;
- volatility in credit and market conditions;
- other risks and uncertainties related to the cannabis market and our business strategy.

We operate in very competitive and rapidly changing markets. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business 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 we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Stockholders and potential investors should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements in this report are reasonable, we cannot assure stockholders and potential investors that these plans, intentions or expectations will be achieved.

These forward-looking statements represent our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors. Many of those factors are outside of our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. Considering these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. All subsequent written and oral forward-looking statements concerning other matters addressed in this Quarterly Report on Form 10-Q and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Quarterly Report on Form 10-Q.

Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, whether because of new information, future events, a change in events, conditions, circumstances or assumptions underlying such statements, or otherwise.

**Part I. FINANCIAL INFORMATION**  
**Item 1. Financial Statements**

**MEDICINE MAN TECHNOLOGIES, INC.**  
**BALANCE SHEET**  
*Expressed in U.S. Dollars*

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 15,204,587	\$ 321,788
Accounts receivable	1,901,019	1,180,757
Accounts receivable – related party	490,485	125,112
Inventory	407,708	489,239
Other assets	774,856	50,824
Total current assets	<u>18,778,655</u>	<u>2,167,720</u>
Noncurrent assets:		
Fixed assets, net accumulated depreciation of \$189,896 and \$149,015	61,072	94,640
Goodwill	12,304,306	12,304,306
Intangible assets, net accumulated amortization of \$19,058 and \$13,903	76,309	81,197
Investment	741,307	2,199,344
Accounts receivable – litigation	3,063,968	1,281,511
Note receivable – noncurrent, net	237,246	92,888
Note receivable – related party	487,695	–
Operating lease right of use assets	168,344	–
Total noncurrent assets	<u>17,140,247</u>	<u>16,053,886</u>
Total assets	<u>\$ 35,918,902</u>	<u>\$ 18,221,606</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 915,651	\$ 202,515
Accounts payable – related party	20,703	71,312
Accrued expenses	485,292	291,084
Derivative liabilities	5,852,649	–
Income taxes payable	582,931	582,931
Total current liabilities	<u>7,857,226</u>	<u>1,147,842</u>
Noncurrent liabilities:		
Lease liabilities	121,835	–
Total noncurrent liabilities	<u>121,835</u>	<u>–</u>
Total liabilities	<u>7,979,061</u>	<u>1,147,842</u>
Commitments and contingencies, note 13		
	–	–
Shareholders' equity		
Common stock \$0.001 par value. 90,000,000 authorized, 39,369,511 and 27,753,310 were issued and outstanding September 30, 2019 and December 31, 2018, respectively.	39,490	27,875
Additional paid-in capital	44,656,071	20,239,163
Additional paid-in capital – warrants	2,647,461	2,647,461
Retained earnings	(19,403,181)	(5,840,735)
Total shareholders' equity	<u>27,939,841</u>	<u>17,073,764</u>
Total liabilities and stockholders' equity	<u>\$ 35,918,902</u>	<u>\$ 18,221,606</u>

See accompanying notes to the financial statements

**MEDICINE MAN TECHNOLOGIES, INC.**  
**STATEMENT OF COMPREHENSIVE (LOSS) AND INCOME**  
For the Three and Nine Months Ended September 30, 2019 and 2018  
Expressed in U.S. Dollars

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Operating revenues:</b>				
Product sales, net	\$ 2,147,182	\$ 239,085	\$ 4,743,391	\$ 797,381
Product sales – related party, net	613,014	143,761	893,084	425,499
Consulting, licensing and Cultivation Max fees	781,021	3,244,285	1,657,286	4,972,573
Litigation revenue	1,782,457	1,015,154	1,782,457	1,015,154
Other operating revenues	15,195	30,234	23,946	90,636
Total revenue	<u>5,338,869</u>	<u>4,672,519</u>	<u>9,100,164</u>	<u>7,301,243</u>
<b>Cost of goods and services:</b>				
Cost of goods and services	2,786,244	459,280	5,471,369	1,213,194
Total cost of goods and services	<u>2,786,244</u>	<u>459,280</u>	<u>5,471,369</u>	<u>1,213,194</u>
<b>Gross profit</b>	2,552,625	4,213,239	3,628,795	6,088,049
<b>Operating expenses:</b>				
Selling, general and administrative expenses	718,990	259,900	1,092,702	710,647
Professional services	837,940	177,103	3,602,772	657,694
Salaries, benefits and related expenses	980,432	568,451	1,862,990	1,340,724
Stock based compensation	940,870	837,500	3,166,276	837,500
Derivative expense – contingent compensation	–	–	5,400,559	–
Total operating expenses	<u>3,478,232</u>	<u>1,842,954</u>	<u>15,125,299</u>	<u>3,546,565</u>
<b>Income from operations</b>	<u>(925,607)</u>	<u>2,370,285</u>	<u>(11,496,504)</u>	<u>2,541,484</u>
<b>Other income (expense):</b>				
Interest income (expense), net	36,462	(17,794)	(155,815)	22,439
Other income (expense)	–	–	–	(4,316)
Unrealized gain (loss) on derivative liabilities	(197,526)	–	(452,090)	–
Unrealized gain (loss) on investments	(741,307)	2,598,110	(1,458,037)	2,598,110
Total other income (expense)	<u>(902,371)</u>	<u>2,580,316</u>	<u>(2,065,942)</u>	<u>2,616,233</u>
<b>Net income (loss)</b>	<u>\$ (1,827,978)</u>	<u>\$ 4,950,601</u>	<u>\$ (13,562,446)</u>	<u>\$ 5,157,717</u>
<b>Earnings (loss) per share attributable to common shareholders:</b>				
Basic and diluted earnings (loss) per share	<u>\$ (0.05)</u>	<u>\$ 0.18</u>	<u>\$ (0.44)</u>	<u>\$ 0.19</u>
Weighted average number of shares outstanding - basic and diluted	<u>35,115,889</u>	<u>27,578,310</u>	<u>31,136,392</u>	<u>27,578,310</u>
Other comprehensive income (loss), net of tax				
Total other comprehensive income (loss), net of tax	–	–	–	–
<b>Comprehensive income (loss)</b>	<u>\$ (1,827,978)</u>	<u>\$ 4,950,601</u>	<u>\$ (13,562,446)</u>	<u>\$ 5,157,717</u>

See accompanying notes to the financial statements

**MEDICINE MAN TECHNOLOGIES, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
*For the Nine months Ended September 30, 2019 and 2018*  
*Expressed in U.S. Dollars*

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Value</u>			
Balance, December 31, 2017	22,991,137	\$ 23,113	\$ 17,505,697	\$ (6,789,650)	\$ 10,739,160
Net income (loss)	–	–	–	5,157,717	5,157,717
Issuance of common stock in connection with sales made under private or public offerings	937,647	938	992,062	–	1,000,000
Issuance of common stock in connection with the exercise of common stock purchase warrants	1,091,197	1,091	(1,091)	–	–
Issuance of common stock as compensation to employees, officers and/or directors	625,000	625	836,875	–	837,500
Issuance of common stock in connection with the acquisition of a business	1,933,329	1,933	2,998,067	–	3,000,000
Balance, September 30, 2018	<u>27,578,310</u>	<u>\$ 27,700</u>	<u>\$ 22,338,610</u>	<u>\$ (1,691,933)</u>	<u>\$ 20,734,377</u>

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Value</u>			
Balance, December 31, 2018	27,753,310	\$ 27,875	\$ 22,886,624	\$ (5,840,735)	\$ 17,073,764
Net income (loss)	–	–	–	(13,562,446)	(13,562,446)
Issuance of common stock in connection with sales made under private or public offerings	9,800,000	9,800	19,590,200	–	19,600,000
Issuance of common stock in connection with the exercise of common stock purchase warrants	452,426	452	601,274	–	601,726
Issuance of common stock as compensation to employees, officers and/or directors	1,190,000	1,190	2,723,710	–	2,724,900
Issuance of common stock in exchange for consulting, professional and other services	173,775	173	305,348	–	305,521
Stock based compensation expense related to common stock options	–	–	1,196,376	–	1,196,376
Balance, September 30, 2019	<u>39,369,511</u>	<u>\$ 39,490</u>	<u>\$ 47,303,532</u>	<u>\$ (19,403,181)</u>	<u>\$ 27,939,841</u>

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

**MEDICINE MAN TECHNOLOGIES, INC.**  
**STATEMENT OF CASH FLOWS**  
For the Nine months Ended September 30, 2019 and 2018  
Expressed in U.S. Dollars

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>		
Net income for the period	\$ (13,562,446)	\$ 5,157,717
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	45,768	54,253
Common stock issued in exchange for fees and services	210,521	-
Derivative expense	5,400,559	-
Loss on change in derivative liabilities	452,091	-
Loss on investment, net	1,458,037	-
Stock based compensation	3,921,276	837,500
Changes in operating assets and liabilities		
Note receivable	-	2,561
Accounts receivable	(2,868,093)	(1,566,811)
Inventory	81,530	(335,869)
Prepaid expenses and other current assets	(629,032)	(3,580)
Operating lease right of use assets and liabilities	(67,839)	-
Accounts payable and other liabilities	878,066	(61,879)
<b>Net cash used from operating activities</b>	<u>(4,679,562)</u>	<u>4,083,892</u>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	(7,312)	-
Sale of assets	-	16,187
Short term debt	-	(58,280)
Issuance of notes receivable	(632,053)	-
Investment proceeds	-	(5,260,840)
<b>Net cash used in investing activities</b>	<u>(639,365)</u>	<u>(5,302,933)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock, net of issuance costs	19,600,000	1,000,000
Proceeds from exercise of common stock purchase warrants, net of issuance costs	601,726	-
<b>Net cash earned for financing activities</b>	<u>20,201,726</u>	<u>1,000,000</u>
Net decrease in cash and cash equivalents	14,882,799	(219,041)
Cash and cash equivalents - beginning of period	321,788	748,715
<b>Cash and cash equivalents - end of period</b>	<u>\$ 15,204,587</u>	<u>\$ 529,674</u>

See accompanying notes to the financial statements

**MEDICINE MAN TECHNOLOGIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Organization and Nature of Operations**

Business Description – Business Activity

Medicine Man Technologies Inc. (the "Company") incorporated on March 20, 2014, in the State of Nevada. On May 1, 2014, the Company entered into an exclusive Technology License Agreement with Medicine Man Denver, Inc., f/k/a Medicine Man Production Corporation, a Colorado corporation ("Medicine Man Denver") whereby Medicine Man Denver granted it a license to use all of their proprietary processes they have developed, implemented and practiced at its cannabis facilities relating to the commercial growth, cultivation, marketing and distribution of medical marijuana and recreational marijuana pursuant to relevant state laws and the right to use and to license such information, including trade secrets, skills and experience (present and future) (the "Medicine Man Denver License Agreement").

The Company commenced its business on May 1, 2014 and currently generate revenues derived from licensing agreements with cannabis related entities, as well as sponsoring seminars offered to the cannabis industry and other business endeavors related to our core competencies.

**1. Liquidity and Capital Resources**

During the quarters ending September 30, 2019 and 2018, the Company primarily used revenues from its operation supplemented by cash to fund its operations.

Cash and cash equivalents are carried at cost and represent cash on hand, 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. The Company had \$15,204,587 and \$321,788 classified as cash and cash equivalents as of September 30, 2019, and December 31, 2018, respectively.

The Company maintains its cash balances with a high-credit-quality financial institution. At times, such cash may be more than the insured limit of \$250,000. The Company has not experienced any losses in such accounts, and management believes the Company is not exposed to any significant credit risk on its cash and cash equivalents.

In an effort to mitigate credit risk, the Company may purchase highly liquid investments with an original maturity of three months or less. At September 30, 2019, the Company had two United States Treasury Bills with a maturity date of October 15, 2019 and bearing interest at a rate of approximately 1.69%.

The following table depicts the composition of the Company's cash and cash equivalents as of September 30, 2019, and December 31, 2018:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Deposits placed with banks	\$ 2,974,122	\$ 321,788
United States Treasury Bills	12,230,465	—
Total cash and cash equivalents	<u>\$ 15,204,587</u>	<u>\$ 321,788</u>

The Company has recently elected to accelerate its organic growth path through additional marketing, team development, synergistic acquisitions, and other corporate activities wherein it expects to generate negative cash flow and an additional demand for capital to fuel such growth.

The Company has commenced legal action against a client for breach of contract, adding a significant value to its receivables for fees that had been booked due to forbearance grants by the Company that were subsequently violated, causing the Company to increase its receivables accordingly (see Part II, Item 1, Legal Proceedings for more information).

## 2. Critical Accounting Policies and Estimates

### Basis of Presentation

These accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission for financial statements.

### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be based upon amounts that differ from these estimates.

### Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no impact on the Company’s net earnings and financial position.

### Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities.

The Company's financial instruments include cash, accounts receivable, note receivable, accounts payables and tenant deposits. The carrying values of these financial instruments approximate their fair value due to their short maturities. The carrying amount of the Company's debt approximates fair value because the interest rates on these instruments approximate the interest rate on debt with similar terms available to us. The Company's derivative liability was adjusted to fair market value at the end of each reporting period, using Level 3 inputs.

The following is the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis at September 30, 2019 and December 31, 2018, using quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Level 3 – Non-marketable securities – non-recurring	\$ 741,307	\$ 2,199,344

Non-Marketable Securities at Fair Value on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. The level 3 position consist of investments accounted for under the cost method. The Level 3 position consists of investments in equity securities held in private companies.

Fair Value of Financial Instruments

The carrying amounts of cash and current assets and liabilities approximate fair value because of the short-term maturity of these items. These fair value estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates. Available for sale securities are recorded at current market value as of the date of this report.

Accounts Receivable

The Company extends unsecured credit to its customers in the ordinary course of business. Accounts receivable related to licensing and consulting revenues are recorded at the time the milestone results in the funds being due being achieved, services are delivered, and payment is reasonably assured. Licensing and consulting revenues are generally collected from 30 to 60 days after the invoice is sent.

The following table depicts the composition of our accounts receivable as of September 30, 2019, and December 31, 2018:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Accounts receivable – trade	\$ 1,901,019	\$ 1,180,757
Accounts receivable – related party	490,485	125,112
Accounts receivable – litigation, non-current	3,063,968	1,281,511
Total accounts receivable	<u>\$ 5,455,472</u>	<u>\$ 2,587,380</u>

The Company commenced legal action against a customer for breach of contract, adding a significant value to its receivables for fees that had been booked, due to forbearance grants by the Company that were subsequently violated, causing the Company to increase its receivables accordingly. At September 30, 2019 and December 31, 2018, the accounts receivable for this matter totaled \$2,773,321 and \$990,864, and the related revenue recorded totaled \$1,782,457 and \$1,015,154 for the nine months ended September 30, 2019 and 2018, respectively.

On June 7, 2019 the company filed a complaint against a second customer in Clark County, Nevada, for, amongst other causes of action, breach of contract. On July 17, 2019, the parties stipulated to stay the case in favor of arbitration. Since that time, the parties have been in the process of mutually agreeing upon an arbitrator, which has now completed. The parties are now in the process of scheduling the arbitration. As of September 30, 2019, and December 31, 2018 the accounts receivable for this matter totaled \$290,647.

The Company provided services to this customer for a period of thirteen months, agreeing conditionally to three modifications in December of 2017, March of 2018, and May of 2018 to forego certain revenue sharing payments in accordance with the agreement with the customer, which were subsequently breached by the customer. In July 2018, the Company engaged legal counsel and filed a complaint in Clark County, Nevada, which alleged breach of contract and sought general, special, and punitive damages in the amount of \$3,876,850. On August 2, 2019, a jury in the District Court of Clark County, Nevada found in favor of the Company and awarded the Company damages totaling \$2,773,321 (See Part II, Item 1, Legal Proceedings for more information). The Company has classified the awarded amount receivable as a non-current asset since the customer has subsequently filed an appeal.

On March 22, 2019, the Company entered into an Agreement of Sale of Future Receipts (“Factoring Agreement”) with Libertas Funding, LLC (“Purchaser”). Under the terms of the Factoring Agreement, the Purchaser acquired \$810,000 of certain future receivables from the Company for \$582,000 in net proceeds. The Company is required to repay Purchaser \$24,107 weekly for an estimated term of eight months. On July 2, 2019, the Company repaid \$436,607 which represented all remaining amounts owed under the Factoring Agreement. The Company recorded \$192,277 in interest expense related to the Factoring Agreement during the nine months ended September 30, 2019.

Due to the low volume of write offs, the Company uses the direct write off method versus having an allowance for uncollectible debts. The Company recorded wrote off \$6,423 of its accounts receivable during the three and nine months ended September 30, 2019. The Company did not write off any of its accounts receivable in either of the nine-month periods ending September 30, 2018.

The Company analyzed the contract, associated revenue and litigation process under ASC 606, *Revenue from Contracts with Customers*. As detailed above, the Company had a contract with the customer that identified distinct performance obligations to be satisfied over time. Additionally, it determined that the litigation process, and subsequent award, represented a contract modification.

Paragraph 606-10-25 states that an entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs.
- The entity’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- The entity’s performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date.

Paragraph 606-10-25 further states that the process for determining the proper treatment for a contract modification includes three steps:

- Determine whether a change to a contract qualifies as a contract modification.
- Determine whether the modification should be treated as a separate, standalone contract or as a modification of the original contract. If the contract is a separate contract, the entity follows the five-step model to determine how to recognize revenue. If the modification is not treated as a separate contract, the entity continues to Step 3.
- Determine appropriate accounting treatment for contract modification not accounted for as a separate contract.

ASC 606 defines a contract modification as a change in scope and/or price to an original contract, or any change to the enforceable rights and obligations of the parties to the original contract. Enforceable rights and obligations are those that are approved by both parties and legally required. A contract modification does not need to be written; enforceable changes can be the result of oral agreements or implied through customary business practices.

The effect that the modification has on the transaction price, and on the entity's measure of progress towards satisfaction of the performance obligation, is recognized as an adjustment to revenue either as an increase in or a reduction of revenue at the date of the modification. The adjustment to revenue is made on a cumulative catch-up basis.

As management determined that the litigation process constituted a contract modification, and that the contract was upheld judicially, the Company recognized and recorded \$1,782,457 on a cumulative catch-up basis as of August 2, 2019.

#### Notes Receivable

On July 17, 2018, the Company entered into an intellectual property license agreement with Abba Medix Corp. (AMC), a wholly owned subsidiary of publicly traded Canada House Wellness Group, Inc. (CHV). The Company agreed to provide a lending facility to AMC in CAD\$125,000 increments of up to CAD\$500,000. The lending facility is for a term of 24 months and bears interest rate at 5.50% (representing United States Prime). As of September 30, 2019, and December 31, 2018, the Company loaned to AMC a total of \$237,246 and \$92,888, respectively. The Company classified these loans as long-term notes receivable on its consolidated balance sheets as of September 30, 2019, and December 31, 2018, respectively.

#### Other Assets (Current and Non-Current)

Other assets at September 30, 2019, and December 31, 2018 were \$774,856 and \$50,824, respectively and as of September 30, 2019 this balance included \$573,191 in prepaid expenses, \$7,150 in interest receivable and \$19,450 in two security deposits. Prepaid expenses were primarily comprised of insurance premiums, membership dues, conferences and seminars, and other general and administrative costs.

#### Goodwill and Intangible Assets

Goodwill represents the future economic benefit arising from other assets acquired that could not be individually identified and separately recognized. The goodwill arising from the Company's acquisitions is attributable to the value of the potential expanded market opportunity with new customers. Intangible assets have either an identifiable or indefinite useful life. Intangible assets with identifiable useful lives are amortized on a straight-line basis over their economic or legal life, whichever is shorter. The Company's amortizable intangible assets consist of licensing agreements, product licenses and registrations, and intellectual property or trade secrets. Their estimated useful lives range from 10 to 15 years.

Goodwill and indefinite-lived assets are not amortized but are subject to annual impairment testing unless circumstances dictate more frequent assessments. The Company performs an annual impairment assessment for goodwill during the fourth quarter of each year and more frequently whenever events or changes in circumstances indicate that the fair value of the asset may be less than the carrying amount. Goodwill impairment testing is a two-step process performed at the reporting unit level. Step one compares the fair value of the reporting unit to its carrying amount. The fair value of the reporting unit is determined by considering both the income approach and market approaches. The fair values calculated under the income approach and market approaches are weighted based on circumstances surrounding the reporting unit. Under the income approach, the Company determines fair value based on estimated future cash flows of the reporting unit, which are discounted to the present value using discount factors that consider the timing and risk of cash flows. For the discount rate, the Company relies on the capital asset pricing model approach, which includes an assessment of the risk-free interest rate, the rate of return from publicly traded stocks, the Company's risk relative to the overall market, the Company's size and industry and other Company-specific risks. Other significant assumptions used in the income approach include the terminal value, growth rates, future capital expenditures and changes in future working capital requirements. The market approaches use key multiples from guideline businesses that are comparable and are traded on a public market. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount exceeds its fair value, then the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit as calculated in step one. In this step, the fair value of the reporting unit is allocated to all of the reporting unit's assets and liabilities in a hypothetical purchase price allocation as if the reporting unit had been acquired on that date. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess.

Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates, strategic plans, and future market conditions, among others. There can be no assurance that the Company's estimates and assumptions made for purposes of the goodwill impairment testing will prove to be accurate predictions of the future. Changes in assumptions and estimates could cause the Company to perform an impairment test prior to scheduled annual impairment tests.

The Company performed its annual fair value assessment at December 31, 2018, on its subsidiaries with material goodwill and intangible asset amounts on their respective balance sheets and determined that no impairment exists.

#### Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets whenever events or changes in circumstances have indicated that an asset may not be recoverable. The long-lived asset is grouped with other assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows is less than the carrying value of the assets, the assets are written down to the estimated fair value.

The Company evaluated the recoverability of its long-lived assets on December 31, 2018 on its subsidiaries with material amounts on their respective balance sheets and determined that no impairment exists.

#### Accounts Payable

Accounts payable at September 30, 2019, and December 31, 2018 were \$915,651 and \$202,515, respectively and were comprised of trade payables for various purchases and services rendered during the ordinary course of business.

#### Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities at September 30, 2019, and December 31, 2018 were \$485,292 and \$291,084, respectively. At September 30, 2019, this was comprised of customer deposits of \$188,568, accrued payroll of \$203,788, and operating expenses of \$92,936.

At December 31, 2018, this was comprised of \$163,568 in customer deposits, \$21,330 in deferred rent expense and \$106,185 in accrued payroll.

#### Revenue Recognition and Related Allowances

Our revenue recognition policy is significant because the amount and timing of revenue is a key component of our results of operations. Certain criteria are required to be met in order to recognize revenue. If these criteria are not met, then the associated revenue is deferred until the criteria are met. When consideration is received in advance of the delivery of goods or services, a contract liability is recorded. Our revenue contracts are identified when accepted from customers and represent a single performance obligation to sell our products to a customer.

The Company has three main revenue streams: product sales; licensing and consulting, cultivation max; and other operating revenues from seminars, reimbursements and other miscellaneous sources.

Revenue from cultivation max, licensing and consulting services is recognized when the obligations to the client are fulfilled which is determined when milestones in the contract are achieved.

Product sales are recorded at the time that control of the products is transferred to customers. In evaluating the timing of the transfer of control of products to customers, we consider several indicators, including significant risks and rewards of products, our right to payment, and the legal title of the products. Based on the assessment of control indicators, sales are generally recognized when products are delivered to customers.

Revenue from seminar fees is related to one-day seminars and is recognized as earned upon the completion of the seminar. The Company also recognizes expense reimbursement from clients as revenue for expenses incurred during certain jobs.

#### Costs of Goods and Services Sold

Costs of goods and services sold are comprised of related expenses incurred while supporting the implementation and sales of the Company's products and services.

#### General and Administrative Expenses

General and administrative expense are comprised of all expenses not linked to the production or advertising of the Company's services.

#### Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred and totaled \$212,506 and \$340,995 for the three and nine months ended September 30, 2019, respectively, as compared to \$32,110 and \$109,650, respectively, for the three and nine months ended September 30, 2018.

### Stock Based Compensation

The Company accounts for share-based payments pursuant to ASC 718, “Stock Compensation” and, accordingly, the Company records compensation expense for share-based awards based upon an assessment of the grant date fair value for stock and restricted stock awards using the Black-Scholes option pricing model.

Stock compensation expense for stock options is recognized over the vesting period of the award or expensed immediately under ASC 718 and EITF 96-18 when stock or options are awarded for previous or current service without further recourse.

Share based expense paid through direct stock grants is expensed as occurred. Since the Company’s common stock is publicly traded, the value is determined based on the number of shares issued and the trading value of the stock on the date of the transaction. Prior to the Company’s common stock being traded the Company used the most recent valuation. The Company recognized \$940,870 and \$3,166,276 in expenses for stock-based compensation to employees and consultants for the three and nine months ended September 30, 2019, respectively, as compared to \$837,500 for both the three and nine months ended September 30, 2018.

### Income Taxes

The Company has adopted SFAS No. 109 – “Accounting for Income Taxes”. ASC Topic 740 requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method of ASC Topic 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

### **3. Recent Accounting Pronouncements**

*FASB ASU 2016-02 “Leases (Topic 842)”* – In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 increases transparency and comparability among organizations by requiring lessees to record right-to-use assets and corresponding lease liabilities on the balance sheet and disclosing key information about lease arrangements. The new guidance will classify leases as either finance or operating (similar to current standard’s “capital” or “operating” classification), with classification affecting the pattern of income recognition in the statement of income. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company has adopted this pronouncement and has reflected the value of all leases within the Balance Sheet of the Company.

*FASB ASU 2016-15 “Statement of Cash Flows (Topic 230)”* – In August 2016, the FASB issued 2016-15. Stakeholders indicated that there is a diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This ASU is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. Adoption of this ASU did not have a significant impact on our statement of cash flows.

*FASB ASU 2017-01 "Clarifying the Definition of a Business (Topic 805)"* – In January 2017, the FASB issued 2017-1. The new guidance that changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in ASC 606. The ASU is effective for annual reporting periods beginning after December 15, 2017, and for interim periods within those years. Adoption of this ASU did not have a significant impact on our consolidated results of operations, cash flows and financial position.

#### 4. Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation and are comprised of the following:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Furniture and fixtures	\$ 103,747	\$ 98,395
Marketing display	36,900	36,900
Vehicles	34,000	34,000
Office equipment	76,321	74,361
Subtotal	\$ 250,968	\$ 243,655
Less: accumulated depreciation	(189,896)	(149,015)
Total property and equipment, net of depreciation	<u>\$ 61,072</u>	<u>\$ 94,640</u>

Depreciation on equipment is provided on a straight-line basis over its expected useful lives at the following annual rates.

Furniture and fixtures	3 years
Marketing display	3 years
Vehicles	3 years
Office equipment	3 years

Depreciation expense for the three and nine months ended September 30, 2019 was \$15,265 and \$40,881, respectively, compared to \$17,991 and \$56,275, respectively, for the three and nine months ended September 30, 2018.

## 5. Intangible Asset

Intangible assets at September 30, 2019 and December 31, 2018 were comprised of the following:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
License agreement	\$ 5,300	\$ 5,300
Product license and registration	57,300	57,300
Trade secret – intellectual property	32,500	32,500
Subtotal	\$ 95,100	\$ 95,100
Less: accumulated amortization	(18,791)	(13,903)
Total intangible assets, net of amortization	<u>\$ 76,309</u>	<u>\$ 81,197</u>

Amortization expense for the three and nine months ended September 30, 2019 was \$1,463 and \$4,888, respectively, compared to \$1,629 and \$4,886, respectively, for the three and nine months ended September 30, 2018.

## 6. Derivative Liability

During the nine months ended September 30, 2019, the Company entered into employment agreements with certain key officers that contained contingent consideration provisions based upon the achievement of certain market condition milestones. The Company determined that each of these vesting conditions represented derivative instruments.

On January 8, 2019, the Company granted the right to receive 500,000 shares of restricted common stock to an officer, which will vest at such time that that the Company's stock price appreciates to \$8.00 per share with defined minimum average daily trading volume thresholds.

On April 23, 2019, the Company granted the right to receive 1,000,000 shares of restricted common stock to an officer, which will vest at such time that that the Company's stock price appreciates to \$8.00 per share with defined minimum average daily trading volume thresholds. Similarly, on June 11, 2019, the Company granted the right to receive 1,000,000 shares of restricted common stock to an officer, which will vest at such time that that the Company's stock price appreciates to \$8.00 per share with defined minimum average daily trading volume thresholds.

The Company accounts for derivative instruments in accordance with the US GAAP accounting guidance under ASC 815 "Derivatives and Hedging Activities". The Company estimated the fair value of these derivatives at the respective balance sheet dates using the Black-Scholes option pricing model based upon the following inputs: (i) stock price on the date of grant ranging between \$1.32 - \$3.75, (ii) the contractual term of the derivative instrument ranging between 2.25 - 3 years, (iii) a risk-free interest rate ranging between 1.56% - 2.57% and (iv) an expected volatility of the price of the underlying common stock ranging between 136% - 158%.

As of September 30, 2019, the fair value of these derivative liabilities is \$5,852,649. The change in the fair value of derivative liabilities for the three and nine months ended September 30, 2019 was \$197,526 and \$452,090, respectively, resulting in an aggregate unrealized loss on derivative liabilities.

## 7. Related Party Transactions

During the nine months ended September 30, 2019, the Company had sales from Super Farm LLC totaling \$450,310 and \$143,830 sales from De Best Inc. The Company gives a larger discount on nutrient sales to related parties than non-related parties. During the nine months ended September 30, 2019, the Company had sales discounts associated with Super Farm LLC totaling \$227,650 and \$71,915 from De Best Inc. As of September 30, 2019, the Company had an accounts receivable balance from Super Farm totaling \$52,173 and an accounts receivable balance from De Best totaling \$11,910.

The Company Chief Cultivation Officer, Joshua Haupt, currently owns 20% of both De Best and Super Farm.

During the nine months ended September 30, 2019, the Company recorded sales from Future Vision dba Medicine Man Denver totaling \$293,075 and sales discounts totaling \$108,793. As of September 30, 2019, the Company had an accounts receivable balance with Future Vision totaling \$34,094.

During the nine months ended September 30, 2019, the Company incurred expenses from Future Vision dba Medicine Man Denver totaling \$92,874 for contract labor and other related administrative costs.

The Company's Chief Executive Officer, Andy Williams, currently owns 38% of Future Vision dba Medicine Man Denver.

During the nine months ended September 30, 2019, the Company recorded sales from MedPharm Holdings totaling \$48,710 and sales discounts totaling \$7,498. As of September 30, 2019, the Company had an accounts receivable balance with MedPharm Holdings totaling \$5,557.

During the nine months ended September 30, 2019, the Company issued various notes receivable to MedPharm Holdings totaling \$487,695 with original maturity dates ranging from September 21, 2019 through January 19, 2020 and all bearing interest at 8% per annum. The notes may be extended or renewed at maturity by mutual agreement between the Company and noteholder, and with no evidence of default.

The Company's Chief Executive Officer, Andy Williams, currently owns 29% of MedPharm Holdings.

During the nine months ended September 30, 2019, the Company recorded sales from Baseball 18 LLC totaling \$3,836. As of September 30, 2019, the Company had an accounts receivable balance with Baseball 18 LLC totaling \$3,985.

During the nine months ended September 30, 2019, the Company recorded sales from Farm Boy LLC totaling \$369,178. As of September 30, 2019, the Company had an accounts receivable balance with Farm Boy LLC totaling \$382,766.

One of the Company's Directors, Robert DeGabrielle also owns two Colorado retail marijuana cultivation licenses, Farm Boy LLC and Baseball 18 LLC, both doing business as Los Sueños Farms.

8. **Goodwill and Acquisition Accounting**

On September 17, 2018, we closed the acquisition of Two JS LLC, dba The Big Tomato, a Colorado limited liability company. (“Big T” or “Big Tomato”). The Company issued an aggregate of 1,933,329 shares of its common stock for 100% ownership of Big Tomato. The Company accounted for the transaction utilizing purchase price accounting stating that net book value approximates fair market value of the assets acquired. The purchase price accounting resulted in the Company valuing the investment as \$3,000,000 of Goodwill. At September 17, 2018, the Company’s per share value of common stock was \$1.55. There is no requirement for Big Tomato to have independent audited financial statement for the prior two fiscal years and any interim periods because the aggregate value of the acquisition is less than 20% of the Company’s current assets.

**Big Tomato Balance Sheet**

	<u>Book/Fair Value</u>		<u>Book/Fair Value</u>
<i>Assets</i>		<i>Liabilities</i>	
<b>Inventory</b>	\$ 291,000	<b>Accounts payable</b>	\$ 272,266
<b>Other assets</b>	4,950	<b>Customer Deposits</b>	23,684
	<u>\$ 295,950</u>		<u>\$ 295,950</u>
<b>Purchase Price (1,933,329*1.5517)</b>			\$ 3,000,000
<b>Less: BV of Assets</b>			(295,950)
<b>Add: BV of Liabilities</b>			295,950
<b>Goodwill</b>			<u>\$ 3,000,000</u>

The following table sets forth the changes in the carrying amount of the Company’s goodwill at September 30, 2019, and December 31, 2018:

Balance, December 31, 2017	\$ 9,304,306
Acquisition of Big Tomato	3,000,000
Balance, December 31, 2018	12,304,306
Activity for the period ended September 30, 2019	—
Balance September 30, 2019	<u>\$ 12,304,306</u>

9. **Net Income (Loss) per Share**

In accordance with ASC Topic 280 – “Earnings per Share”, the basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per common share is computed similar to basic loss per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The Company’s earnings (loss) per share on a basic and diluted basis were \$(0.05) and \$0.18 for the three months ended September 30, 2019 and 2018, respectively, and \$(0.44) and \$0.19 for the nine months ended September 30, 2019 and 2018, respectively.

10. **Inventory**

As of September 30, 2019, and December 31, 2018, respectively, the Company had \$407,708 and \$489,239 of finished goods inventory. The Company only has finished goods within inventory because it does not produce any of its products. All inventory is produced by a third party. The Company uses the FIFO inventory valuation method. As of September 30, 2019, and December 31, 2018, the Company did not have any obsolescence within its inventory.

11. **Note Payable**

The Company had a note payable to the Company's Chief Cultivation Officer, Joshua Haupt. The balance of the note as of December 31, 2017 totaled \$58,280 and was repaid in full during the quarter ended March 31, 2018.

12. **Leases**

Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. Leases with a term greater than one year are recognized on the balance sheet at the time of lease commencement or modification of a right of use ("RoU") operating lease asset and a lease liability, initially measured at the present value of the lease payments. Lease costs are recognized in the income statement over the lease term on a straight-line basis. RoU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease.

The Company's leases consist of real estate leases for office spaces. The Company elected to combine the lease and related non-lease components for its operating leases.

The Company's operating leases include options to extend or terminate the lease, which are not included in the determination of the RoU asset or lease liability unless reasonably certain to be exercised. The Company's operating leases have remaining lease terms of less than two years. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As the Company's leases do not provide an implicit rate, we used an incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. The discount rate used in the computations was 6%.

**Balance Sheet Classification of Operating Lease Assets and Liabilities**

	<u>Balance Sheet Line</u>	<u>September 30, 2019</u>
<b>Asset</b>		
Operating lease asset	Non-Current Assets	\$ 168,344
<b>Liabilities</b>		
Operating lease liability	Non-Current Liabilities	\$ 121,835

### Lease Costs

The table below summarizes the components of lease costs for the nine months ended September 30, 2019.

	<b>Nine Months Ended September 30, 2019</b>
Operating lease costs	\$ 118,767

### Maturities of Lease Liabilities

Maturities of lease liabilities as of September 30, 2019 are as follows:

2019 fiscal year	\$ 62,952
2020 fiscal year	67,904
Total lease payments	130,856
Less: Interest	(9,021)
Present value of lease liabilities	<u>\$ 121,835</u>

The following table presents the Company's future minimum lease obligation under ASC 840 as of December 31, 2018:

2019 fiscal year	\$ 248,808
2020 fiscal year	\$ 67,904

### 13. Commitments and Contingencies

Over the past three years, the Company has supported legislation in Colorado to allow licensed cannabis companies in Colorado to trade their securities, provided they are reporting companies under the Securities Exchange Act of 1934, as amended. HB19-1090 titled, "Publicly Licensed Marijuana Companies" was signed into Colorado legislature on May 29, 2019, and will go into effect on November 1, 2019. The bill repeals the provision that prohibits publicly traded corporations from holding a marijuana license in Colorado.

Effective January 10, 2019, the Company entered into binding term sheets to acquire three cannabis and cannabis related companies, including the following:

- FutureVision 2020, LLC and Futurevision Ltd., Inc. dba Medicine Man (in the aggregate, "Medicine Man"), owners of several licensed dispensaries and a cultivation facility in the Denver, CO metro area. It is also a leading cultivator, retailer and one of the best-known brands in the cannabis sector, winning over a dozen industry awards. Medicine Man operates out of a 40,000-square foot cultivation operation and has four popular retail locations across the Denver metropolitan area;
- MedPharm Holdings, LLC, a company that develops and manages intellectual property related to the manufacture and formulation of products containing cannabinoid extracts. Management of MDCL believes that this acquisition will bring world-class processing and pharmaceutical-grade products to the company; and
- MX LLC, the holder of the license that allow it to be a manufacturer of marijuana infused products in the Denver metro area. It also has a research license that has been issued by the state of Colorado and the local jurisdiction approval is in process.

The term sheets provide for the issuance of shares of common stock to the targets at an initial price per share of \$1.32, with the final price to be determined based on the fair market valuation, which is subject to an independent valuation assessment. Our Chief Executive Officer, Andrew Williams, serves as an officer/manager and has an ownership interest in each of the targets above.

On May 24, 2019, the Company entered into a binding term sheet with Farm Boy, LLC (“Farm Boy”) and Baseball 18, LLC (“Baseball”) setting forth the terms of the acquisition by the Company of 100% of the capital stock and assets of Farm Boy and Baseball, respectively. As consideration, the Company shall pay a total purchase price of \$5,937,500, subject to adjustment, consisting of \$1,187,500 cash and 1,578,073 shares of its common stock, par value \$0.001 per share. The 1,578,073 shares were determined by averaging the closing price of Company’s common stock for the five (5) days prior to the execution date, which equated to \$3.01 per share.

On May 24, 2019, the Company entered into a binding term sheet with Los Suenos, LLC (“Los Suenos”) and Emerald Fields Grow, LLC (“Emerald”) setting forth the terms of the acquisition by the Company of 100% of the capital stock and assets of Los Suenos and Emerald, respectively. As consideration, the Company shall pay a total purchase price of \$5,937,500, subject to adjustment, consisting of \$1,187,500 cash and 1,578,073 shares of its common stock, par value \$0.001 per share. The 1,578,073 shares were determined by averaging the closing price of Company’s common stock for the five (5) days prior to the execution date, which equated to \$3.01 per share.

On May 31, 2019, the Company entered into a binding term sheet with Mesa Organics Ltd., Mesa Organics II Ltd. and Mesa Organics III Ltd. (collectively referred to herein as “MesaPur”) setting forth the terms of the acquisition by the Company of 100% of the capital stock and assets of MesaPur. As consideration, the Company shall pay a total purchase price of \$12,012,758, subject to adjustment, consisting of \$2,402,552 cash and 2,801,809 shares of its common stock, par value \$0.001 per share. The 2,801,809 shares were determined by averaging the closing price of Company’s common stock for the ten (10) days prior to the execution date, which equated to \$3.43 per share.

On June 6, 2019, the Company entered into a binding term sheet with the stockholders of Green Equity S.A.S. (“Green Equity”), a Republic of Colombia simplified stock corporation, setting forth the terms of the acquisition by the Company of 100% of the capital stock and assets of Green Equity. Green Equity, a company based in Bogota, Colombia, holds all four licenses in Colombia allowing it to grow, process, retail and export. As consideration, the Company shall pay a total purchase price of \$5,400,000 consisting of \$450,000 cash and 1,292,428 shares of its common stock, par value \$0.001 per share. The 1,292,428 shares were determined by using the closing price of Company’s common stock on the day prior to the execution date, which equated to \$3.83 per share.

On August 6, 2019, the Company entered into a binding term sheet with Cold Baked, LLC and Golden Works, LLC (d/b/a “Dabble”) setting forth the terms of the acquisition by the Company of 100% of the capital stock and assets of Dabble. As consideration, the Company shall pay a total purchase price of \$3,750,000 consisting of \$750,000 cash and 996,678 shares of its common stock, par value \$0.001 per share. The 996,678 shares were determined by averaging the closing price of Company’s common stock for the five (5) days prior to the execution date, which equated to \$3.01 per share.

On August 15, 2019, the Company entered into a binding term sheet with Medically Correct, LLC (“Medically Correct”), an edible and extract company, setting forth the terms of the acquisition by the Company of 100% of the capital stock and assets of Medically Correct. As consideration, the Company shall pay a total purchase price of \$17,250,000 consisting of \$3,450,000 cash and 4,677,967 shares of its common stock, par value \$0.001 per share. The 4,677,967 shares were determined by averaging the closing price of Company’s common stock for the five (5) days prior to August 8, 2019, which equated to \$2.95 per share.

On August 28, 2019, the Company entered into a binding term sheet with Starbuds Pueblo LLC, Starbuds Louisville LLC, Starbuds Niwot LLC, Starbuds Longmont LLC and Starbuds Commerce City, LLC (“Starbuds”) pursuant to which the Company will purchase the membership interests of Starbuds. As consideration, the Company shall pay a total purchase price of \$31,005,089 consisting of \$23,253,816 in cash and 2,601,098 shares of its common stock, par value \$0.001 per share. The 2,601,098 shares were determined by averaging the closing price of Company’s common stock for the five (5) days prior to August 28, 2019, which equated to \$2.98 per share.

On August 29, 2019, the Company entered into a binding term sheet with High Country Supply d/b/a Colorado Harvest Company (“CHC”) pursuant to which the Company will purchase 100% of the capital stock or assets of CHC. As consideration, the Company shall pay a total purchase price of \$12,500,000 consisting of \$4,000,000 in cash and 2,881,356 shares of its common stock, par value \$0.001 per share. The 2,881,356 shares were determined by averaging the closing price of Company’s common stock for the five (5) days prior to July 8, 2019, which equated to \$2.95 per share.

On August 30, 2019, the Company entered into a binding term sheet with Colorado Health Consultants, LLC, CitiMed, LLC, Lucky Ticket LLC and KEW LLC (collectively, the “Targets”) pursuant to which the Company will purchase the membership interests of the Targets. As consideration, the Company shall pay a total purchase price of \$36,898,499 consisting of \$27,673,874.25 in cash and 3,095,512 shares of its common stock, par value \$0.001 per share. The 3,095,512 shares were determined by averaging the closing price of Company’s common stock for the five (5) days prior to August 30, 2019, which equated to \$2.98 per share.

On August 31, 2019, the Company entered into a binding term sheet with SB Aurora LLC, SB Arapahoe LLC, SB Alameda LLC, and SB 44th LLC (“SB”) pursuant to which the Company will purchase the membership interests of SB. As consideration, the Company shall pay a total purchase price of \$50,096,413 consisting of \$37,590,310 in cash and 4,202,720 shares of its common stock, par value \$0.001 per share. The 4,202,720 shares were determined by averaging the closing price of Company’s common stock for the five (5) days prior to August 31, 2019, which equated to \$2.98 per share.

On September 5, 2019, the Company entered into a binding term sheet dated September 2, 2019 with RSFCG, LLC, RFSCA LLC, RFSCB, LLC, RFSCEV, LLC, RFSCED LLC, RFSCLV, LLC, RFSCG-1 LLC, and RFSCLVG LLC, which entities operate under the name RootsRX (“RootsRX”) pursuant to which the Company will purchase the membership interests of RootsRX. As consideration, the Company shall pay a total purchase price of \$15,000,000 consisting of \$9,750,000 in cash and 1,779,661 shares of its common stock, par value \$0.001 per share. The 1,779,661 shares were determined by averaging the closing price of Company’s common stock for the five (5) days prior to August 29, 2019, which equated to \$2.95 per share.

On September 6, 2019, the Company entered into a binding term sheet with Ahab, LLC, Garden Greens, LLC, Syls LLC, Heartland Industries, LLC and Tri City Partners LLC, which entities operate under the name “Strawberry Fields” (“Strawberry Fields”) pursuant to which the Company will purchase 100% of the capital stock or assets of Strawberry Fields, except for certain assets as outlined in the term sheet. As consideration, the Company shall pay a total purchase price of \$31,000,000 consisting of \$14,000,000 in cash and 5,704,698 shares of its common stock, par value \$0.001 per share. The 5,704,698 shares were determined by averaging the closing price of Company’s common stock for the five (5) days prior to August 22, 2019, which equated to \$2.98 per share.

On September 9, 2019, the Company entered into a binding term sheet with Canyon, LLC (“Canyon”) and It Brand Enterprises (“It Brand”) pursuant to which the Company will purchase 100% of the capital stock or assets of Canyon and certain assets of It Brand. As consideration, the Company shall pay a total purchase price of \$5,130,000 consisting of (i) a cash component which in no case will be greater than \$2,565,000, and (ii) an equity component, which will consist of shares of the Company’s common stock, par value \$0.001 per share, for the balance of the purchase price. The number of shares that make up the equity component will be determined by dividing the balance of the Purchase Price by the average closing price of Company’s common stock for the five (5) days prior to September 7, 2019, which equated to \$3.07 per share.

The contemplated acquisitions detailed above are conditioned upon the satisfaction or mutual waiver of certain closing conditions, including, but not limited to:

- regulatory approval relating to all applicable filings and expiration or early termination of any applicable waiting periods;
- regulatory approval of the Marijuana Enforcement Division and applicable local licensing authority approval;
- receipt of all material necessary, third party, consents and approvals;
- each party's compliance in all material respects with the respective obligations under the term sheet;
- a tax structure that is satisfactory to both the Company and the targets;
- the execution of leases and employment agreements that are mutually acceptable to each party; and
- the execution of definitive agreements between the respective parties.

There can be no assurance that we will be able to consummate any of the proposed acquisitions.

#### 14. **Stockholders' Equity**

##### Common Stock

The Company is authorized to issue 90,000,000 shares of common stock at a par value of \$0.001 and had 39,369,511 and 27,753,310 shares of common stock issued and outstanding as of September 30, 2019, and December 31, 2018, respectively.

##### Common Stock Issued in Private Placements

During the nine months ended September 30, 2018, the Company sold 937,647 shares of common stock to an accredited investor in a private placement.

On June 5, 2019, the Company entered into a securities purchase agreement (the "Purchase Agreement") with an accredited investor (the "Investor"). Pursuant to the Purchase Agreement, the Company agreed to sell to the Investor and the Investor agreed to purchase, in a private placement, up to 7,000,000 shares of the Company's common stock, at a price of \$2.00 per share and warrants to purchase 100% of the number of shares of common stock sold. The warrants are for a term of three years and are exercisable at a price of \$3.50.

At the initial closing on June 5, 2019, the Company issued and sold 1,500,000 shares of common stock and warrants to purchase 1,500,000 shares of common stock, for gross proceeds of \$3,000,000.

The Purchase Agreement contemplates the sale of additional shares of common stock, subject to certain closing conditions set forth in the Purchase Agreement, as follows: (i) 3,500,000 shares of common stock and warrants to purchase 3,500,000 shares of common stock at a second closing to be held on or before July 15, 2019; (ii) 1,000,000 shares of common stock and warrants to purchase 1,000,000 shares of common stock at a third closing; and (iii) 1,000,000 shares of common stock and warrants to purchase 1,000,000 shares of common stock at a fourth closing.

On July 15, 2019, the Company entered into an amendment (the "Amendment") to the Purchase Agreement. Pursuant to the Amendment, among other things, the Purchase Agreement was amended to provide for the sale, at the third closing, of a minimum of 3,000,000 shares of the Company's common stock, with the Investor having the option to acquire up to an additional 2,500,000 shares of common stock for an aggregate of up to 5,500,000 shares of common stock and warrants to purchase 100% of the number of shares of common stock sold at the third closing.

The Amendment also removed as a closing condition to the second closing, the requirement that the Company shall have entered into definitive agreements for the acquisitions of each of (a) MedPharm LLC, (b) Futurevision 2020, LLC, Futurevision Ltd, and Medicine Man Longmont, LLC, collectively, (c) MX, LLC, (d) Los Sueños Farms, LLC, and Emerald Fields Grow, LLC, (e) Farm Boy LLC and Baseball 18, LLC.

In addition, the Amendment removed all references to a fourth closing and the conditions for such closing, which were outlined in the Purchase Agreement.

On July 16, 2019, the Company issued and sold 3,500,000 shares of common stock and warrants to purchase 3,500,000 shares of common stock pursuant to the terms of the Purchase Agreement, as amended, for gross proceeds of \$7,000,000.

On September 17, 2019, the Company issued and sold 3,000,000 shares of common stock and warrants to purchase 3,000,000 shares of common stock pursuant to the terms of the Purchase Agreement, as amended, for gross proceeds of \$6,000,000.

On September 30, 2019, the Company issued and sold 1,100,000 shares of common stock and warrants to purchase 1,100,000 shares of common stock pursuant to the terms of the Purchase Agreement, as amended, for gross proceeds of \$2,200,000.

During the nine months ended September 30, 2019, the Company issued an additional 700,000 shares of common stock and warrants to purchase 700,000 shares of common stock, for gross proceeds of \$1,400,000.

*Common Stock Issued in Connection with the Exercise of Warrants*

During the nine months ended September 30, 2019, the Company issued 452,426 shares of common stock for proceeds of \$601,726 under a series of stock warrant exercises with an exercise price of \$1.33 per share.

*Common Stock Issued as Compensation to Employees, Officers and Directors*

On January 8, 2019, the Company granted to an officer of the Company, Paul Dickman, 500,000 shares of common stock, valued at \$660,000.

On March 14, 2019, the Company granted 50,000 shares of common stock to James Toreson upon his resignation as a member of its board of directors for his service. These shares were valued at \$95,000.

During the nine months ended September 30, 2019, the Company issued an additional 640,000 shares of common stock valued at \$1,969,900 to employees, officers and directors as compensation.

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

Concurrent with his resignation as described above, the Company issued 50,000 shares of its common stock to Mr. Toreson in connection with a consulting agreement having a service period extending through May 31, 2020. These shares were valued at \$95,000.

During the nine months ended September 30, 2019, the Company issued an additional 123,775 shares of common stock valued at \$210,521 to contractors and professionals in exchange for services provided.

*Warrants*

The Company accounts for common stock purchase warrants in accordance with FASB ASC 480, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, Distinguishing Liabilities from Equity. The Company estimates the fair value of warrants at date of grant using the Black-Scholes option pricing model. There is a moderate degree of subjectivity involved when using option pricing models to estimate the warrants, and the assumptions used in the Black Scholes option-pricing model are moderately judgmental.

During the year ended December 31, 2017, the Company issued 1,500,566 common stock purchase warrants with an exercise price of \$1.33 per share, expiring on March 17, 2019. During the nine months ended September 30, 2019, an aggregate of 452,426 of these warrants were exercised while the remaining warrants were forfeited.

During the period ended December 31, 2017, the Company issued 2,000,000 common stock purchase warrants to three employees of the Company with an exercise price of \$1.445 per share, expiring on December 31, 2019. As of September 30, 2018, all of these warrants were exercised.

During the year ended December 31, 2018, the Company issued 250,000 common stock purchase warrants to one employee of the Company with an exercise price of \$1.49 per share for a period of time expiring on December 31, 2021. The Company estimated the fair value of these warrants at date of grant using the Black-Scholes option pricing model using the following inputs: (i) stock price on the date of grant of \$1.49, (ii) the contractual term of the warrant of 3 years, (iii) a risk-free interest rate of 2.48% and (iv) an expected volatility of the price of the underlying common stock of 126%.

During the nine months ended September 30, 2019, the Company issued 9,800,000 common stock purchase warrants to various accredited investors with an exercise price of \$3.50 per share with an expiration date of three years from the date of issuance. The Company estimated the fair value of these warrants at date of grant using the Black-Scholes option pricing model using the following inputs: (i) stock price on the date of grant of \$3.50, (ii) the contractual term of the warrant of 3 years, (iii) a risk-free interest rate ranging between 1.56% - 1.84% and (iv) an expected volatility of the price of the underlying common stock ranging between 158% - 162%.

	<u>Number of shares</u>
Balance as of January 1, 2019	2,647,461
Warrants exercised	(452,426)
Warrants forfeited	(1,945,035)
Warrants issued	9,800,000
Balance as of September 30, 2019	<u>10,050,000</u>

## 15. Segment Information

The Company has two identifiable segments as of September 30, 2019; (i) licensing and consulting, and (ii) products. The products segment sells merchandise directly to customers via e-commerce portals, through our proprietary websites and retail location. The licensing and consulting segment sales derives its revenue from licensing and consulting agreements with cannabis related entities.

The following information represents segment activity for the nine-month periods ended September 30, 2019 and 2018:

	For the Nine Months Ended September 30,					
	2019			2018		
	Products	Licensing and Consulting	Total	Products	Licensing and Consulting	Total
Revenues	\$ 7,441,031	\$ 1,659,132	\$ 9,100,163	\$ 1,222,880	\$ 6,078,363	\$ 7,301,243
Intangible assets amortization	\$ 4,757	\$ 398	\$ 5,154	\$ 4,490	\$ 396	\$ 4,886
Depreciation	\$ 5,100	\$ 35,781	\$ 40,881	\$ 4,148	\$ 52,127	\$ 56,275
Income (loss) from operations	\$ 2,074,799	\$ (13,571,303)	\$ (11,496,504)	\$ 1,179,028	\$ 1,362,456	\$ 2,541,484
Segment assets	\$ 8,803,431	\$ 27,115,471	\$ 35,918,902	\$ 4,577,175	\$ 16,430,245	\$ 21,007,420

## 16. Tax Provision

The company utilizes FASB ASC 740, "Income Taxes" which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the tax basis of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established if it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company generated a deferred tax credit through net operating loss carry forwards. The Company had no tax provisions as of September 30, 2019 and December 31, 2018. The company had a net loss during the quarter ended September 30, 2019, increased the net loss carryforward.

## 17. Subsequent events

In accordance with FASB ASC 855-10 Subsequent Events, the Company has analyzed its operations subsequent to September 30, 2019 to the date these consolidated financial statements were issued, and has determined that it does not have any material subsequent events to disclose in these consolidated financial statements, except as follows:

On October 11, 2019, the binding term sheet between the stockholders of Green Equity S.A.S. and the Company expired. The Company declined to exercise its option to extend the agreement. See Note 13 – Commitments and Contingencies for more information.

On October 11, 2019, the Company issued a promissory note for \$90,000 to MedPharm Holdings, LLC, a related party. The promissory note bears interest at 8.0% and has a maturity date of May 31, 2020. The note may be extended or renewed at maturity by mutual agreement between the Company and noteholder, and with no evidence of default.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*Certain statements in Management's Discussion and Analysis or MD&A, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements generally are identified by the words "may," "will," "could," "would," "should," "expect," "intend," "plan," "anticipate," "believe," "approximately," "estimate," "predict," "project," "potential," "continue," "ongoing," or the negative of these terms or other comparable terminology, although the absence of these words does not necessarily mean that a statement is not forward-looking. Historical results may not indicate future performance. Our forward-looking statements reflect our current views about future events, are based on assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those contemplated by these statements. Factors that may cause differences between actual results and those contemplated by forward-looking statements include, but are not limited to, those discussed in our filings with the SEC. Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, whether because of new information, future events, a change in events, conditions, circumstances or assumptions underlying such statements, or otherwise.*

### **Overview**

We were incorporated on March 20, 2014, in the State of Nevada. On May 1, 2014, we entered into an exclusive Technology License Agreement with Medicine Man Denver, Inc., f/k/a Medicine Man Production Corporation, a Colorado corporation ("Medicine Man Denver") whereby Medicine Man Denver granted us a license to use all of its proprietary processes it had developed, implemented and practiced at its cannabis facilities relating to the commercial growth, cultivation, marketing and distribution of medical marijuana and recreational marijuana pursuant to relevant state laws and the right to use and to license such information, including trade secrets, skills and experience (present and future) (the "Medicine Man Denver License Agreement").

We commenced our business on May 1, 2014 and currently generate revenues derived from licensing agreements with cannabis related entities, as well as sponsoring seminars offered to the cannabis industry and other business endeavors related to our core competencies. As of the date of this report we have or have had 45 fee generating clients in 14 different states. In addition, we operate a division that sells grower supplies and a plant nutrient product line.

### **Recent Developments**

During the nine months ended September 30, 2019, we started our transition from being primarily a cannabis consulting and products company to becoming a company that operates plant touching production, processing, research and retail operations. This transition into operations was facilitated with the passage of Colorado House Bill 1090 signed by Governor Jared Polis on May 30, 2019. Over the first two quarters of 2019, we invested a significant amount of time, effort and resources into preparing for this transition.

Through the date of this filing, we have entered into binding terms sheets to acquire the cannabis research, production, processing and distributions of various entities that we believe, once consummated, will generate material future revenues for the Company.

The target entities combined have the capacity to grow product over 1,275,680 square feet of cultivation including, 42,000 square feet of indoor cultivation; 14,000 square feet of greenhouse cultivation; and 1,219,680 square feet of outdoor cultivation. The target entities own retail branded products that are currently distributed in over 400 retail locations throughout the state of Colorado, including Alivar; Become; Batch; Purplebees; and Dabble.

The acquisitions are subject to certain closing conditions including, but not limited to, compliance with all required regulatory requirements necessary to complete our acquisition of the target entities. We will continue to evaluate and negotiate additional acquisition opportunities in line with our growth strategy. There can be no assurance that we will be able to consummate the announced proposed acquisitions or any future acquisitions that we target.

## Results of Operations

### *Comparison of Results of Operations for the three months ended September 30, 2019 and 2018*

During the three months ended September 30, 2019, we generated revenues of \$5,338,869 including (i) product sales of \$2,760,195, (ii) consulting, licensing and Cultivation Max fees of \$2,563,478, of which includes \$1,782,457 in revenue awarded in litigation, and (iii) other operating revenues of \$15,195 as compared with the three months ended September 30, 2018, where we generated revenues of \$4,672,519 including (i) product sales of \$382,846, (ii) consulting, licensing and Cultivation Max fees of \$4,259,439, of which includes \$1,015,154 in revenue subsequently awarded in litigation, and (iii) other operating revenues of \$30,234. Revenue for the three months ended September 30, 2019 increased by \$666,349, or approximately 14.3%, over the three months ended September 30, 2018.

Cost of goods and services, consisting of expenses related to delivery of services and product procurement, was \$2,786,244 during the three months ended September 30, 2019, compared to \$459,280 during the comparable period in 2018. This increase was due to increased sales of product and increased salaries and related employment costs.

Operating expenses during the three months ended September 30, 2019, were \$3,478,232, compared to operating expenses of \$1,842,954 incurred during the three months ended September 30, 2018, an increase of \$1,635,278. This increase was due to increased general and administrative expenses, professional fees, salaries and related employment costs and non-cash, stock-based compensation.

As a result, we generated a net loss of \$1,827,978 during the three months ended September 30, 2019 (or a loss of approximately \$0.05 per share), compared to net income of \$4,950,601 (or income of approximately \$0.18 per share) during the three months ended September 30, 2018.

### *Comparison of Results of Operations for the nine months ended September 30, 2019 and 2018*

During the nine months ended September 30, 2019, we generated revenues of \$9,100,164 including (i) product sales of \$5,636,475, (ii) consulting, licensing and Cultivation Max fees of \$3,439,743, of which includes \$1,782,457 in revenue awarded in litigation, and (iii) other operating revenues of \$23,946 as compared with the nine months ended September 30, 2018, where we generated revenues of \$7,301,243 including (i) product sales of \$1,222,880, (ii) consulting, licensing and Cultivation Max fees of \$5,987,727, of which includes \$1,015,154 in revenue subsequently awarded in litigation, and (iii) other operating revenues of \$90,636. Revenue for the nine months ended September 30, 2019 increased by \$1,798,921, or approximately 24.6%, over the nine months ended September 30, 2018.

Cost of goods and services, consisting of expenses related to delivery of services and product procurement, was \$5,471,369 during the nine months ended September 30, 2019, compared to \$1,213,194 during the comparable period in 2018. This increase was due to increased sales of product and increased salaries and related employment costs.

Operating expenses during the nine months ended September 30, 2019, were \$15,125,299, compared to operating expenses of \$3,546,565 incurred during the nine months ended September 30, 2018, an increase of \$11,578,734. This increase was due to increased general and administrative expenses, professional fees, salaries and related employment costs and non-cash, stock-based compensation.

As a result, we generated a net loss of \$13,562,446 during the nine months ended September 30, 2019 (or a loss of approximately \$0.44 per share), compared to net income of \$5,157,717 (or income of approximately \$0.19 per share) during the nine months ended September 30, 2018.

## **Liquidity and Capital Resources**

At September 30, 2019, we had \$15,204,587 in cash and cash equivalents on hand.

Net cash used in operating activities was \$4,679,562 during the nine-month period ended September 30, 2019, compared to net cash provided by operating activities of \$4,083,893 for the similar period in 2018, a decrease of \$8,763,454.

Net cash used in investing activities was \$639,365 during the nine-month period ended September 30, 2019, compared to net cash used in investing activities of \$5,302,933 for the similar period in 2018.

Net cash provided by financing activities was \$20,201,726 during the nine-month period ended September 30, 2019, compared to net cash provided by financing activities of \$1,000,000 for the nine-month period ended September 30, 2018. During the nine months ended September 30, 2019, the Company received proceeds of \$19,600,000 from the private sale of our common stock as compared to \$1,000,000 in proceeds from the private sale of our common stock during the nine months ended September 30, 2018. Additionally, the Company received \$601,726 in proceeds in connection with the exercise of common stock purchase warrants during the nine-month period ended September 30, 2019.

We do not expect to be cash flow positive during the fiscal year 2019 and extending into 2020. While no assurances can be provided, we believe we will generate positive cash flow from our operations upon successfully consummating certain acquisitions and merging those operations into our own. If we are successful in achieving this objective, we do not believe we will need to raise any additional capital, as we anticipate that the revenue generated from the fully integrated acquisitions will be sufficient to allow us to implement our current business plan. However, there can be no assurance that we will be able to successfully complete any of the contemplated acquisitions. Also, there can be no assurance that we will have sufficient funds to consummate the acquisitions.

However, if we do not generate positive cash flow, or we do not experience a positive impact on our operations from acquisitions we may consummate, or unforeseen developments occur, we may need to raise additional capital in the form of either debt, equity or both. At this time, we are unable to state how much capital we may need. As of the date of this Report we have no commitment from any investor or investment-banking firm to provide us with any funding. Further, no assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stockholders, in case of equity financing. Failure to obtain this additional financing may have a material negative impact on our ability to generate profits on a regular basis in the future.

### ***Inflation***

Although our operations are influenced by general economic conditions, we do not believe that inflation had a material effect on our results of operations during the three-month period ended September 30, 2019.

### ***Off-Balance Sheet Arrangements***

We had no off-balance sheet arrangements as of September 30, 2019 and December 31, 2018.

### ***Critical Accounting Estimates***

Our financial statements and accompanying notes have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. We continually evaluate the accounting policies and estimates used to prepare the condensed financial statements. The estimates are based on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates made by management. Certain accounting policies that require significant management estimates and are deemed critical to our results of operations or financial position are discussed in our Annual Report on Form 10-K for the year ended December 31, 2018 in the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

Not applicable

**Item 4. *Controls and Procedures***

**Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Interim Chief Financial Officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and interim chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Interim Chief Financial Officer, or person performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the last quarterly period covered by this report that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### **Item 1. Legal Proceedings**

On June 7, 2019, Medicine Man Technologies, Inc. filed a complaint against ACC Industries Inc, and Building Management Company B, L.L.C., in Clark County, Nevada, for, amongst other causes of action, breach of contract. On July 17, 2019, the parties stipulated to stay the case in favor of arbitration. Since that time, the parties have been in the process of mutually agreeing upon an arbitrator, which has now completed. The parties are now in the process of scheduling the arbitration.

On July 6, 2018, we filed a complaint in the Eight Judicial Court, Clark County, Nevada against Vegas Valley Growers ("VVG"). Within the complaint, the Company alleges the breach by VVG of that certain Technologies License Agreement dated April 27, 2017 entered into between the parties and seeks general, special, and punitive damages in the amount of \$3,876,850.

On August 28, 2018, VVG filed an Answer and Counterclaim against the Company.

On August 2, 2019, a jury found in favor of the Company and awarded the Company damages totaling \$2,773,321.

### **Item 1A. Risk Factors**

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

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the three months ended September 30, 2019, we sold 7,600,000 shares of our Common Stock with warrants to purchase 7,600,000 shares of common stock at an exercise price of \$3.50 to accredited investors in a private placement for proceeds of \$15,200,000.

The Company relied upon an exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, and/or Regulation D promulgated under the Securities Act of 1934, as amended, in connection with the foregoing issuances.

### **Item 3. Defaults upon Senior Securities**

None.

### **Item 4. Mine safety disclosure**

Not applicable.

### **Item 5. Other Information**

On October 11, 2019, the binding term sheet between the stockholders of Green Equity S.A.S. and the Company, by its terms, expired. The Company declined to exercise its option to extend the term sheet.

**Item 6. Exhibits**

- 3.1 [Amendment to Bylaws \(Incorporated by reference to current report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2019\)](#)
- 31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Chief Executive Officer](#)
- 31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Chief Financial Officer](#)
- 32 [Chief Executive Officer and Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
  
- 101.INS XBRL Instance Document\*
- 101.SCH XBRL Schema Document\*
- 101.CAL XBRL Calculation Linkbase Document\*
- 101.DEF XBRL Definition Linkbase Document\*
- 101.LAB XBRL Label Linkbase Document\*
- 101.PRE XBRL Presentation Linkbase Document\*

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are not deemed filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act or Section 18 of the Securities Exchange Act and otherwise not subject to liability.

**SIGNATURES**

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

Dated: November 12, 2019

**MEDICINE MAN TECHNOLOGIES, INC.**

By: /s/ Andrew Williams  
Andrew Williams, Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Paul Dickman  
Paul Dickman, Interim Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO  
18 USC, SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002**

I, Andrew Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Medicine Man Technologies, 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 in order 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 controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedure 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 upon 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 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.

Dated: November 12, 2019

/s/ Andrew Williams  
Andrew Williams, Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO  
18 USC, SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002**

I, Paul Dickman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Medicine Man Technologies, 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 in order 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 controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedure 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 upon 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 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.

Dated: November 12, 2019

/s/ Paul Dickman  
Paul Dickman, Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO  
18 USC, SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this quarterly report of Medicine Man Technologies, Inc. (the "Company") on Form 10-Q for the nine months ended September 30, 2019, as filed with the Securities and Exchange Commission on November 12, 2019 (the "Report"), we, the undersigned, in the capacities and on the date indicated below, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

1. The Report fully complies with the requirements of Rule 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.

Dated: November 12, 2019

/s/ Andrew Williams  
Andrew Williams, Chief Executive Officer  
(Principal Executive Officer)

Dated: November 12, 2019

/s/ Paul Dickman  
Paul Dickman, Chief Financial Officer  
(Principal Financial and Accounting Officer)