

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

FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2021

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **000-51640**



**ZONED PROPERTIES, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**46-5198242**

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

**8360 E. Raintree Drive, #230, Scottsdale, AZ**

(Address of principal executive offices)

**85260**

(Zip Code)

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
N/A	N/A	N/A

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates, based upon the closing price of \$0.615 per share of common stock as of June 30, 2021 (the last business day of the registrant's most recently completed second fiscal quarter), was \$5,508,789.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 12,201,548 shares of common stock are issued and outstanding as of March 24, 2022.

**Documents Incorporated by Reference**

None

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**ZONED PROPERTIES, INC.**  
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## PART I

### ITEM 1. BUSINESS

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

As used in this annual report on Form 10-K and unless otherwise indicated, the terms the terms “Zoned Properties”, “Company,” “we,” “us,” or “our” refer to Zoned Properties, Inc. and its wholly owned subsidiaries, Gilbert Property Management, LLC, Green Valley Group, LLC, Kingman Property Group, LLC, Chino Valley Properties, LLC, Zoned Oregon Properties, LLC, Zoned Colorado Properties, LLC, Zoned Illinois Properties, LLC, Zoned Arizona Properties, LLC, Zoned Advisory Services, LLC, Zoned Properties Brokerage, LLC, and ZP Data Platform 1, LLC as the context may require.

#### Overview

Zoned Properties, Inc. (“Zoned Properties” or the “Company”), was incorporated in the State of Nevada on August 25, 2003. The Company is a real estate development firm for emerging and highly regulated industries, including regulated cannabis. The Company is redefining the approach to commercial real estate investment through its integrated growth services. Headquartered in Scottsdale, Arizona, Zoned Properties has developed a full spectrum of integrated growth services to support its real estate development and investment model; Advisory Services, Brokerage Services, Franchise Services, and Property Technology (“PropTech”) Data Services each cross-pollinate within the model to drive project value associated with complex real estate projects. With national experience and a team of experts devoted to the emerging cannabis industry, Zoned Properties is addressing the specific needs of a modern market in highly regulated industries. Zoned Properties is an accredited member of the Better Business Bureau, the U.S. Green Building Council, and the Forbes Real Estate Council. The Company does not grow, harvest, sell or distribute cannabis or any substances regulated under United States law such as the Controlled Substance Act of 1970, as amended (the “CSA”).

The Company has the following wholly owned subsidiaries:

- Gilbert Property Management, LLC (“Gilbert”) was organized in the State of Arizona on February 10, 2014.
- Chino Valley Properties, LLC (“Chino Valley”) was organized in the State of Arizona on April 15, 2014.
- Kingman Property Group, LLC (“Kingman”) was organized in the State of Arizona on April 15, 2014.
- Green Valley Group, LLC (“Green Valley”) organized in the State of Arizona on April 15, 2014.
- Zoned Oregon Properties, LLC was organized in the State of Oregon on June 16, 2015 and is currently inactive.
- Zoned Colorado Properties, LLC (“Zoned Colorado”) was organized in the State of Colorado on September 17, 2015 and is currently inactive.
- Zoned Illinois Properties, LLC (“Zoned Illinois”) was organized in the State of Illinois on July 15, 2015 and is currently inactive.
- Zoned Arizona Properties, LLC (“Zoned Arizona”) was organized in the State of Arizona on June 2, 2017.
- Zoned Advisory Services, LLC (“Zoned Advisory”) was organized in the State of Arizona on July 27, 2018.
- Zoned Properties Brokerage, LLC (“Zoned Brokerage”) was organized in the State of Arizona on March 17, 2021.
- ZP Data Platform 1, LLC (“ZP Data”) was organized in the State of Arizona on April 14, 2021.

In March 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The Company is monitoring this closely, and although operations have not been materially affected by the COVID-19 outbreak to date, the ultimate duration and severity of the outbreak and its impact on the economic environment and our business is uncertain. Currently, all of the properties in the Company’s portfolio are open to its Significant Tenants and their customers and will remain open pursuant to state and local government requirements. The Company did not experience in 2020 or 2021 and does not foresee in 2022, any material changes to its operations from COVID-19. The Company’s tenants are continuing to generate revenue at these properties, and they have continued to make rental payments in full and on time and we believe the tenants’ liquidity position is sufficient to cover its expected rental obligations. Accordingly, while the Company does not anticipate an impact on its operations, it cannot estimate the duration of the pandemic and potential impact on its business if the properties must close or if the tenants are otherwise unable or unwilling to make rental payments. In addition, a severe or prolonged economic downturn could result in a variety of risks to the Company’s business, including weakened demand for its properties and a decreased ability to raise additional capital when needed on acceptable terms, if at all.

## Our Business

We are a real estate development firm for emerging and highly regulated industries, including regulated cannabis. We are redefining the approach to commercial real estate investment through our integrated growth services. Headquartered in Scottsdale, Arizona, we have developed a full spectrum of integrated growth services to support our real estate development and investment model; Advisory Services, Brokerage Services, Franchise Services, and PropTech Data Services each cross-pollinate within the model to drive project value associated with complex real estate projects. With national experience and a team of experts devoted to the emerging cannabis industry, we are addressing the specific needs of a modern market in highly regulated industries. We are an accredited member of the Better Business Bureau, the U.S. Green Building Council, and the Forbes Real Estate Council. We do not grow, harvest, sell or distribute cannabis or any substances regulated under United States law such as the Controlled Substance Act of 1970, as amended (the “CSA”).

We are in the process of developing and expanding multiple business divisions; including an advisory services division, a licensed commercial real estate brokerage division, a real estate division focused on franchise services, a real estate division focused on property technology data for real estate, and a nonprofit charitable organization to focus on community prosperity. Each of these operating divisions are important elements of the overall business development strategy for long-term growth. We believe in the value of building relationships with clients and local communities in order to position the Company for long-term portfolio and revenue growth backed by sophisticated, safe, and sustainable assets and clients.

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

The Company currently maintains a portfolio of properties that we own, develop, and lease. We currently lease land and/or building space at all four of the properties in our portfolio. These properties are leased to licensed and regulated cannabis tenants and are located in areas with established zoning and permitting procedures. Two of the leased properties are zoned and permitted as licensed and regulated cannabis dispensaries, and two of the leased properties are zoned and permitted as licensed and regulated cannabis cultivation facilities. Each regulated property may undergo a non-standard development process. Various development requirements in this process may include initial property identification, zoning authorization, and permitting guidance in order to qualify a commercial property for subsequent architectural design, utility installation, construction and development, property management, facilities management systems, and security system installation.

On June 1, 2021, we closed on the sale of our Gilbert, AZ property with a third party (the “Purchaser”) pursuant to which we agreed to sell, and the Purchaser agreed to purchase, the property located in Gilbert, Arizona, for an aggregate purchase price of \$335,000. In connection with the sale, we received net proceeds of \$322,332 and recorded a gain on sale of rental property of \$51,944.

There are significant challenges that take place when zoning, permitting, and developing real estate with facilities that intend to operate within a regulated industry, including the regulated cannabis industry. Each state and local jurisdiction may adopt specific zoning and permitting regulations that may be unique compared to alternative jurisdictions. The Company has gained valuable knowledge and developed best practices in this area by successfully completing project for third party clients across the country in multiple state and our own major projects in the state of Arizona, a highly regulated market for the regulated cannabis industry. The Company intends to replicate this business model across the nation as markets mature and rules and regulations are established.

The process for obtaining zoning authorizations and permitting for a regulated cannabis facility can take months or sometimes years to complete. The process primarily involves working directly with the local government representatives following state-level legalization. Notwithstanding proper zoning and permitted use, we may work with local zoning authorities in order to revise zoning codes and regulations. The Company has been involved with local representatives for each of the properties currently held in our portfolio and on behalf of third-part client properties across the nation. For example, the Company worked directly with local representatives in Tempe, Arizona to update the local zoning code that regulates licensed cannabis facilities. The successful adoption of these code amendments directly impact the continued development of any licensed cannabis facilities that operate within municipal limits.

In the event a property is not currently zoned correctly or does not currently allow permitted use as a regulated cannabis facility, we may work with local authorities to rezone the property or seek changes to existing zoning codes or permitted uses. Our efforts may not be successful. For example, the property we sold in June of 2021 located in Gilbert, Arizona was not successfully zoned and permitted for a prospective regulated cannabis facility and was ultimately divested as a non-core asset.

The Company has established a network of experts in the fields of real estate, design, engineering, construction, operations, security, and corporate social responsibility in order to provide tenants and clients with a full-spectrum of real estate solutions to best meet their needs. We require our prospective tenants and clients to go through due diligence in order to meet the Company’s standards.

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

We are the sole member of eleven limited liability companies: Zoned Advisory, Zoned Arizona, Gilbert, Green Valley, Kingman, Chino Valley, Zoned Colorado, Zoned Illinois, Zoned Oregon, Zoned Brokerage, and ZP Data. Four of these entities own our properties: Zoned Arizona, Green Valley, Kingman, and Chino Valley have all acquired land and/or real property.

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

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

Our initial holdings and acquisition targets have been in the State of Arizona. Unlike many other states that have legalized and regulated cannabis, Arizona's program has some of the most robust regulations in the country and limits the number of dispensaries that will be allowed to be open and operate within the state. While there are hundreds of dispensaries in Denver, Colorado, the entire state of Arizona will have a maximum of 169 operating dispensaries under current legislation. This limitation on the number of dispensaries permitted to operate in Arizona under current legislation may limit our ability to purchase additional property in Arizona for lease to dispensary operators.

### **Recent Corporate History and Transactions**

On May 1, 2018, Zoned Arizona, Green Valley Group, Kingman Property, and Chino Valley Properties executed lease agreements with our Significant Tenant at each of the respective properties. These locations generate rental revenue. The lease agreements have a 22-year term, expiring on April 30, 2040.

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

#### *Chino Valley*

On May 29, 2020, Chino Valley and Broken Arrow entered into a second amendment to the 2018 Chino Valley Lease, as amended (the "2020 Chino Valley Amendment"), effective May 31, 2020 ("Effective Date"). Pursuant to the terms of the 2020 Chino Valley Amendment, among other things, the base rent was adjusted to \$32,800 per month, and the base rent was abated from June 1, 2020 to July 31, 2020. Any increase in the rentable area of the leased premises will result in an increase in all amounts calculated based on the same, including, without limitation, base rent. Pursuant to the terms of the 2020 Chino Valley Amendment, the parties agreed that if there is any change in laws such that the dispensing, sale or cultivation of marijuana upon the premises is prohibited or materially and adversely affected as mutually and reasonably determined by Chino Valley and Broken Arrow, Broken Arrow may terminate the 2018 Chino Valley Lease, as amended, by delivering written notice to Chino Valley, together with a termination payment which shall be the sum of (i) any unpaid rent and interest, plus (ii) 5% of the base rent which would have been earned after termination for the balance of the term.

In addition, the parties agreed that from the period from the Effective Date to June 30, 2022 (the "Improvement Period"), Broken Arrow will and/or Broken Arrow will cause its affiliate, CJK, Inc. ("CJK"), to invest a combined total of at least \$8,000,000 of improvements ("Investment by Tenants") in and to the property that is the subject of the Chino Valley Lease and the property that is the subject of the Tempe Lease (discussed below, and collectively referred to as the "Facilities"). As of December 31, 2021, the Company's Significant Tenants have completed improvements to the Facilities totaling in excess of \$8,000,000 and have satisfied the contractual obligations related to the same.

On August 23, 2021, Chino Valley and Broken Arrow entered into the Third Amendment (the "Third Chino Valley Amendment") to the Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018, between Chino Valley and CJK, as amended (the "Chino Valley Lease"), effective September 1, 2021.

Pursuant to the terms of the Chino Valley Lease, the parties previously agreed that between May 31, 2020 and May 31, 2022 (the "Improvement Period"), Broken Arrow would and/or Broken Arrow would cause its affiliate, CJK, to invest a combined total of at least \$8,000,000 of improvements in and to the property that is the subject of the Chino Valley Lease. The parties also previously agreed that the base rental payments under the Chino Valley Lease would increase commensurate to any and all expanded and operational square footage on the premises by calculating the fixed rate of \$0.82 per square foot per month by the new operational square footage. Broken Arrow has now satisfied its contractual obligation regarding these capital improvements.

Accordingly, in the Third Chino Valley Amendment, the parties agreed that, as of September 1, 2021, the rental payment is increased to \$55,195 per month base rental payment, plus additional rental payments, as a result of the increase in the square footage of the operational space. This lease modification qualifies as a separate contract as the modification grants the tenant additional right of use not included in the original lease, as amended, and the increase in monthly rent payments is commensurate with the standalone price for the additional square footage being leased.

Effective January 24, 2022, Chino Valley and Broken Arrow entered into the Fourth Amendment (the "Fourth Chino Valley Amendment") to the Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018, between Chino Valley and CJK, as amended. Pursuant to the terms of the Fourth Chino Valley Amendment, the parties acknowledge that an additional 30,000 square feet have become operational, increasing the premises to a total of 97,312 square feet of operational space. In connection with the Fourth Chino Valley Amendment, the Company paid \$500,000 to CJK as a tenant improvement allowance for investment into the premises, which shall be capitalized as a lease incentive receivable and recognized on a straight-line basis over the remaining lease term as a reduction to the lease income.

Pursuant to the terms of the Fourth Chino Valley Amendment, effective March 1, 2022, the monthly base rent was increased to \$87,581, representing an increase from \$0.82 per square foot to \$0.90 per square foot, for all current and future operational square footage that may be developed as the premises continues to expand. In addition, Broken Arrow agreed that it would provide audited financial statements to Chino Valley on an annual basis no later than March 20<sup>th</sup> of each calendar year.

#### *Green Valley*

On May 29, 2020, Green Valley and Broken Arrow entered into the First Amendment (the "Green Valley Amendment") to the Green Valley Lease, effective May 31, 2020. Pursuant to the terms of the Green Valley Amendment, among other things, the parties agreed to abate the fixed base rent of \$3,500 from June 1, 2020 to July 31, 2020. In addition, the Green Valley Amendment provides that any increase in the rentable area of the leases premises will result in an increase in all amounts calculated based on the same, including, without limitation, base rent. The parties also agreed that if there is any change in laws such that the dispensing, sale or cultivation of cannabis upon the premises is prohibited or materially and adversely affected as mutually and reasonably determined by Green Valley and Broken Arrow, Broken Arrow may terminate the Green Valley Lease by delivering written notice to Green Valley, together with a termination payment which shall be the sum of (i) any unpaid rent and interest, plus (ii) 5% of the base rent which would have been earned after termination for the balance of the term.

#### *Tempe*

On May 29, 2020, Zoned Arizona and CJK entered into the First Amendment (the "Tempe Amendment") to the Tempe Lease, effective May 31, 2020. Pursuant to the terms of the Tempe Amendment, among other things, the base rent was increased to \$49,200 per month, and the base rent was abated from June 1, 2020 to July 31, 2020. Any increase in the rentable area of the leased premises will result in an increase in all amounts calculated based on the same, including, without limitation, base rent. Pursuant to the terms of the Tempe Amendment, the parties agreed that if there is any change in laws such that the dispensing, sale or cultivation of marijuana upon the premises is prohibited or materially and adversely affected as mutually and reasonably determined by Zoned Arizona and CJK, CJK may terminate the Tempe Lease by delivering written notice to Zoned Arizona, together with a termination payment which shall be the sum of (i) any unpaid rent and interest, plus (ii) 5% of the base rent which would have been earned after termination for the balance of the term. In addition, under the Tempe Amendment the parties agreed to an Investment by Tenant (as defined above in the subheading *Chino Valley*) to the property that is the subject of the Chino Valley Lease and the property that is the subject of the Tempe Lease. If Broken Arrow and/or CJK fails to deliver to the Company receipted bills for hard and soft costs of improvements to the Facilities totaling at least \$8,000,000 on or before June 30, 2022, Broken Arrow and CJK will be in default under the Chino Valley Lease and Tempe Lease, as amended. As of December 31, 2021, the Company's Significant Tenants have completed improvements to the Facilities totaling in excess of \$8,000,000 and have satisfied the contractual obligations related to the same. As soon as the improved, rentable areas have received all required approvals for occupancy and commencement of operations, the Company and Broken Arrow expect to complete any appropriate amendments to the Lease Agreement.

#### *Kingman*

On May 29, 2020, Kingman and CJK entered into the First Amendment (the "Kingman Amendment") to the Kingman Lease, effective May 31, 2020. Pursuant to the terms of the Kingman Amendment, among other things, the parties agreed to abate the \$4,000 base rent from June 1, 2020 to July 31, 2020. In addition, the Kingman Amendment provides that any increase in the rentable area of the leases premises will result in an increase in all amounts calculated based on the same, including, without limitation, base rent. The parties also agreed that if there is any change in laws such that the dispensing, sale or cultivation of cannabis upon the premises is prohibited or materially and adversely affected as mutually and reasonably determined by Kingman and CJK, CJK may terminate the Kingman Lease by delivering written notice to Kingman, together with a termination payment which shall be the sum of (i) any unpaid rent and interest, plus (ii) 5% of the base rent which would have been earned after termination for the balance of the term.

CJK and Broken Arrow, together, operate under the company brand, “Hana Meds”, and are referred to as the Company’s Significant Tenants.

During the years ended December 31, 2021 and 2020, substantially all of the Company’s real estate properties are leased under triple-net leases to tenants that are controlled by one entity (each, a “Significant Tenant” and collectively, the “Significant Tenants”). For the years ended December 31, 2021 and 2020, rental and advisory revenue associated with the Significant Tenants amounted to \$1,255,130 and \$1,176,666, which represents 68.9% and 96.8% of the Company’s total revenues, respectively. As of December 31, 2021 and 2020, the Company had an asset concentration related to the Significant Tenants. As of December 31, 2021 and 2020, the Significant Tenants represented approximately 79.2% and 83.2% of the Company’s total assets, respectively.

Future minimum lease payments primarily consist of minimum base rent payments from Significant Tenants. Future minimum lease payments to be received, on all leased properties, for each of the five succeeding calendar years and thereafter as of December 31, 2021 consists of the following:

**Future annual base rent \*:**

2022	\$ 1,362,403
2023	1,362,403
2024	1,362,403
2025	1,362,403
2026	1,350,939
Thereafter	17,903,334
Total	<u>\$24,703,885</u>

\* Future annual base rent does not include the Fourth Chino Valley Amendment, effective March 1, 2022 which increased the monthly base rent to \$87,581, or an annual base rent to \$1,050,972 (See Chino Valley above).

*KCB Jade Holdings, LLC Investment*

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

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

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

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

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



On February 19, 2021 (the “Amendment Date”), the Company made an additional investment of \$100,000 into KCB (the “Additional Investment”). In exchange, KCB issued to the Company an amended and restated convertible debenture (the “A&R Debenture”) on the Amendment Date. The A&R Debenture amends and restates in its entirety the KCB Debenture. Pursuant to the A&R Debenture, the Company and KCB agreed to certain new terms that did not exist in the KCB Debenture, which are described below.

- *Interest Accrual Commencement:* Pursuant to the A&R Debenture, interest on the Initial Investment begins accruing as of March 19, 2020, while interest on the Additional Investment begins accruing on February 19, 2021.
- *Franchise Fees.* In the A&R Debenture, the parties acknowledge that each time that KCB sells one of its franchise locations, KCB earns a fee (an “Initial Fee”), and that KCB also earns a fee when one of its franchise locations renews its franchise with KCB (a “Renewal Fee”). Pursuant to the A&R Debenture, the Company and KCB agreed that, as additional consideration for the Additional Investment, KCB will pay to the Company, in perpetuity, 5% of any Initial Fee received by KCB after the Amendment Date, as well as 5% of any Renewal Fee received by KCB related to any franchise locations sold after the Amendment Date, in each case to be paid within five (5) days of receipt of KCB thereof.

In addition, following the Amendment Date, KCB agreed not to decrease the amount it charges its franchise locations for an Initial Fee or any Renewal Fee as in effect on the Amendment Date without the prior written consent of the Company, or to take any other actions that would reduce the value of KCB’s obligation to the Company with respect to these franchise fee payments. KCB’s obligation to pay the Company the franchise fees listed above will survive any termination, repayment or conversion of the A&R Debenture. Failure by KCB to pay the Company the franchise fees in the manner described above will result in an event of default, and, among other things, any due and unpaid franchise fees will accrue interest at 12% per year from the date the obligation was due.

Apart from the terms described above, the terms of the A&R Debenture are substantially identical to the terms of the KCB Debenture.

On August 2, 2021, KCB issued to the Company a second amended and restated convertible debenture (the “Second A&R Debenture”). The Second A&R Debenture amends and restates in its entirety the A&R Debenture. Pursuant to the Second A&R Debenture, the Company and KCB agreed to revise certain terms in the A&R Debenture, as follows.

*Right of Prepayment.* KCB may prepay the Second A&R Debenture at any point after 18 months following the Issue Date, in whole or in part. However, if KCB elects to prepay the Second A&R Debenture prior to March 19, 2025 (the “Maturity Date”) or prior to any conversion in whole or in part, the Company will be entitled to receive a number of KCB Class B units (“Class B Units”), in addition to such prepayment amount, constituting 10% of the total outstanding KCB Units (as defined in KCB’s Limited Liability Company Operating Agreement (the “Operating Agreement”)), for the avoidance of doubt, being 10% of the total of KCB’s Class A units (“Class A Units”) and the Class B Units together, and 10% of the total Percentage Interest (as defined in the Operating Agreement) following such issuance and at the time of such issuance.

*Voluntary Conversion.* On or after six months from the Issue Date, the Company is entitled to convert all or a portion of the principal balance and all accrued and unpaid interest due under the Second A&R Debenture (the “Outstanding Amount”) into a number of Class B Units equal to the proportion of the Outstanding Amount being converted multiplied by the Conversion Percentage, as defined below). Should KCB default on payment hereof, the Company may, at its option, extend all conversion rights, through and including the date KCB tenders or attempts to tender payment in full of all amounts due under the Second A&R Debenture. Conversion rights will terminate upon acceptance by the Company of payment in full of principal, accrued interest and any other amounts due under the Second A&R Debenture.

*Conversion Percentage.* The Conversion Percentage will be 33% of the total number of Units (for the avoidance of doubt, being 33% of the total of the Class A Units and the Class B Units together), issued and outstanding at the time of conversion, constituting 33% of the total Percentage Interest (the “Conversion Percentage”).

*Right of Maturity Units.* If (i) KCB does not elect to exercise its prepayment rights prior to the Maturity Date, and (ii) the Company does not elect to exercise its conversion rights, and (iii) KCB pays to the Company all outstanding principal and interest accrued and due under the terms of the Second A&R Debenture on the Maturity Date, then the Company will still be entitled to receive a number of Class B Units, in addition to such payment amount, constituting 8% of the total outstanding Units (for the avoidance of doubt, being 8% of the total of the Class A Units and the Class B Units together) and 8% of the total Percentage Interest (as such term is defined in the Second A&R Debenture) following such issuance and at the time of such issuance.

Apart from the terms described above, the terms of the Second A&R Debenture are substantially identical to the terms of the A&R Debenture.

#### *Gilbert Property*

On March 3, 2021, Gilbert entered into that certain Commercial Lease Agreement (the “Lease”), dated as of February 26, 2021, between Gilbert and AZ2CAL Enterprises, LLC (the “Tenant”). Pursuant to the terms of the Lease, Gilbert agreed to rent the property located at 988 S. 182<sup>nd</sup> Place, Gilbert, AZ (the “Property”) to the Tenant for a term of 24 months, from April 1, 2021 to March 31, 2023, for monthly rent of \$2,750; provided, however, that no rent is due for the month of April 2021.

In addition, pursuant to the terms of the Lease, the Tenant has an option to purchase the Property (the “Option”) that can be exercised any time after the fourth month of the lease term, but no later than the end of the 12<sup>th</sup> month of the lease term. On June 1, 2021, the Company closed on the sale of its Gilbert, AZ property with the Tenant pursuant to which the Company agreed to sell, and the Tenant agreed to purchase the property located in Gilbert, Arizona, for an aggregate purchase price of \$335,000. In connection with the sale, the Company received net proceeds of \$322,332 and recorded a gain on sale of rental property of \$51,944.

#### *Investment in Joint Ventures*

On December 31, 2021 and 2020, the Company held investments with aggregate carrying values of \$74,554 and \$0, respectively. The entities listed below are partially owned by the Company. The Company accounts for these investments under the equity method of accounting as the Company exercises significant influence but does not exercise financial and operating control over these entities. Investments are reviewed for changes in circumstance or the occurrence of events that suggest an other than temporary event where the Company’s investment may not be recoverable.

On April 22, 2021, ZP Data entered into a Limited Liability Company Operating Agreement (the “Beakon Operating Agreement”) with a non-affiliated joint venture partner in connection with the formation of Beakon, LLC (“Beakon”), a Delaware limited liability company formed on April 16, 2021. Beakon signed a licensing agreement for the licensing of a consumer data/marketing software platform that Beakon will white-label for the cannabis industry. Beakon’s goal is to develop and leverage the platform to help drive foot traffic to brick and mortar retail (i.e. dispensaries), and thus enhance the value of the real estate and mitigate risk. Pursuant to the Beakon Operating Agreement, ZP Data purchased 50 units of Beakon for \$50, which represent 50% of the membership interests of Beakon. Each unit represents, with respect to any member, such member’s: (i) interest in Beakon’s capital, (ii) share of Beakon’s net profits and net losses (and specially allocated items of income, gain, and deduction), and the right to receive distributions of net cash flow from Beakon, (iii) right to inspect Beakon’s books and records, and (iv) right to participate in the management of and vote on matters coming before the members as provided in the Beakon Operating Agreement. The transactions discussed above resulted in a joint venture, in accordance with ASC 323-10 – *Investments- Equity and Joint Ventures*, between ZP Data and the non-affiliated party. Each of the entities has 50% equity ownership and voting rights, and joint control in Beakon. ZP Data will account for its investment in Beakon under the equity method of accounting in accordance with ASC 323. During the year ended December 31, 2021, the Company contributed \$86,000 to Beakon. On December 31, 2021, the Company recorded an other-than-temporary impairment loss of \$73,970 because it was determined that the fair value of its equity method investment in Beakon was less than its carrying value. Based on management’s evaluation, it was determined that due to market conditions and lack of committed funding, the Company’s ability to recover the carrying amount of the investment in Beakon was impaired. For the year ended December 31, 2021, the \$73,970 impairment loss is included within loss from unconsolidated joint ventures on the consolidated statement of operations.

On May 1, 2021, the Company entered into a Limited Liability Company Operating Agreement (the “Zoneomics Green Operating Agreement”) with a non-affiliated joint venture partner in connection with the formation of Zoneomics Green, LLC (“Zoneomics Green”), a Delaware limited liability company formed on May 1, 2021. Zoneomics Green’s goal is to utilize advanced property technology to provide solutions for property identification in regulated industries such as regulated cannabis. Pursuant to the Zoneomics Green Operating Agreement, the Company purchased 50 units of Zoneomics Green for a capital contribution of \$90,000, which represent 50% of the membership interests of Zoneomics Green. Each unit represents, with respect to any member, such member’s: (i) interest in Zoneomics Green’s capital, (ii) share of Zoneomics Green’s net profits and net losses (and specially allocated items of income, gain, and deduction), and the right to receive distributions of net cash flow from Zoneomics Green, (iii) right to inspect Zoneomics Green’s books and records, and (iv) right to participate in the management of and vote on matters coming before the members as provided in the Zoneomics Green Operating Agreement. The transactions discussed above resulted in a joint venture, in accordance with ASC 323-10 – *Investments- Equity and Joint Ventures*, between the Company and the non-affiliated party. Each of the entities has 50% equity ownership and voting rights, and joint control in Zoneomics Green. In June 2021, the Company contributed \$90,000 to Zoneomics Green.

#### **Clients**

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

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

#### **Marketing**

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

## Competition

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

## Government Regulation

### *Real Estate & General Business Regulations*

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

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

### *Federal and State Regulation of Cannabis*

The U.S. Supreme Court has ruled that it is the federal government that has the right to regulate and criminalize cannabis, even for medical purposes. Therefore, federal law criminalizing the use of marijuana preempts state laws that legalize its use for medicinal purposes.

The U.S. federal government regulates drugs through the CSA, which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I controlled substance. A Schedule I controlled substance is defined as a substance that has no currently accepted medical use in the United States, a lack of safety for use under medical supervision and a high potential for abuse. The U.S. Department of Justice (the "DOJ") defines Schedule I drugs, substances or chemicals as "drugs with no currently accepted medical use and a high potential for abuse." However, the U.S. Food and Drug Administration (the "FDA") has approved Epidiolex, which contains a purified form of the drug cannabidiol ("CBD"), a non-psychoactive ingredient in the cannabis plant, for the treatment of seizures associated with two epilepsy conditions. The FDA has not approved cannabis or cannabis compounds as a safe and effective drug for any other condition. Moreover, pursuant to the Agriculture Improvement Act of 2018 (the "Farm Bill"), CBD remains a Schedule I controlled substance under the CSA, with a narrow exception for CBD derived from hemp with a tetrahydrocannabinol ("THC") concentration of less than 0.3%.

The Company maintains its operations so as to remain in compliance with the CSA. Even in those jurisdictions in which the manufacture and use of medical marijuana has been legalized at the state level, the possession, use and cultivation all remain violations of federal law that are punishable by imprisonment and substantial fines, and the prescription of marijuana is a violation of federal law. Moreover, individuals and entities may violate federal law if they intentionally aid and abet another in violating these federal controlled substance laws or conspire with another to violate them.

The inconsistencies between federal and state regulation of cannabis were addressed in a memorandum (the "Cole Memo") which then-Deputy Attorney General James Cole sent to all U.S. District Attorneys in 2013 outlining certain priorities for the DOJ relating to the prosecution of cannabis offenses. The Cole Memo acknowledged that, notwithstanding the designation of cannabis as a Schedule I controlled substance at the federal level, several states had enacted laws authorizing the use of cannabis for medical purposes. The Cole Memo noted that jurisdictions that have enacted laws legalizing cannabis in some form have also implemented strong and effective regulatory and enforcement systems to control the cultivation, processing, distribution, sale, and possession of cannabis. As such, conduct in compliance with those laws and regulations is less likely to implicate the Cole Memo's enforcement priorities. The DOJ did not provide (and has not provided since) specific guidelines for what regulatory and enforcement systems would be deemed sufficient under the Cole Memo. In light of limited investigative and prosecutorial resources, the Cole Memo concluded that the DOJ should be focused on addressing only the most significant threats related to cannabis, such as distribution of cannabis from states where cannabis is legal to those where cannabis is illegal, the diversion of cannabis revenues to illicit drug cartels and sales of cannabis to minors.

On January 4, 2018, former U.S. Attorney General Jeff Sessions issued a new memorandum (the “Sessions Memo”) which rescinded the Cole Memo. The Sessions Memo stated, in part, that current law reflects “Congress’ determination that cannabis is a dangerous drug and cannabis activity is a serious crime,” and Mr. Sessions directed all U.S. Attorneys to enforce the laws enacted by Congress by following well-established principles when pursuing prosecutions related to cannabis activities. The Company believes it is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memo or any replacement thereof and when or if the Sessions Memo will be rescinded. President Joseph R. Biden, who assumed office in January 2021, has not yet indicated whether and when he will decriminalize or legalize cannabis and has previously stated that he is opposed to legalization. The sheer size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale federal enforcement operation would more than likely create unwanted political backlash for the DOJ and the current administration. Regardless, at this time, cannabis remains a Schedule I controlled substance at the federal level. The U.S. federal government has always reserved the right to enforce federal law regarding the sale and disbursement of medical or adult use cannabis, even if state law authorizes such sale and disbursement. It is unclear whether the risk of enforcement has been altered.

Federal prosecutors appear to continue to use the Cole Memo’s priorities as an enforcement guide. Merrick Garland, who became Attorney General on March 10, 2021, has indicated that he would deprioritize enforcement of low-level cannabis crimes such as possession, and has shared his view that the government should focus on large-scale criminal enterprises that circumvent state legalization laws instead of going after people who abide by local cannabis policies. The Company believes it is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memo or any replacement thereof and when or if the Sessions Memo will be rescinded. President Joseph R. Biden, who assumed office in January 2021, has not yet indicated whether and when he will decriminalize or legalize cannabis and has previously stated that he is opposed to legalization. The sheer size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale federal enforcement operation would more than likely create unwanted political backlash for the DOJ and the current administration. Regardless, at this time, cannabis remains a Schedule I controlled substance at the federal level. The U.S. federal government has always reserved the right to enforce federal law regarding the sale and disbursement of medical or adult use cannabis, even if state law authorizes such sale and disbursement. It is unclear whether the risk of enforcement has been altered.

One legislative safeguard for the medical cannabis industry, appended to the federal budget bill, remains in place following the rescission of the Cole Memo. For several years, Congress has adopted a so-called “rider” provision to the Consolidated Appropriations Act (formerly referred to as the Rohrabacher-Farr Amendment and currently referred to as the Rohrabacher-Blumenauer Amendment) to prevent the federal government from using congressionally appropriated funds to enforce federal cannabis laws against regulated medical cannabis actors operating in compliance with state and local law. Despite the rescission of the Cole Memo, the DOJ appears to continue to adhere to the enforcement priorities set forth in the Cole Memo.

The Cole Memo and the Rohrabacher-Blumenauer Amendment gave licensed cannabis operators (particularly medical cannabis operators) and investors in states with legal regimes greater certainty regarding the DOJ’s enforcement priorities and the risk of operating cannabis businesses. While the Sessions Memo has introduced some uncertainty regarding federal enforcement, the cannabis industry continues to experience growth in legal medical and adult use markets across the United States. When she was a U.S. Senator, Vice President Kamala Harris was the lead sponsor of the Marijuana Opportunity, Reinvestment, and Expungement (MORE) Act, which seeks to end the federal prohibition of marijuana, among other things, but in March 2020, it was reported that Vice President Harris has adopted the same position as President Biden, who opposes legalization. Currently, there is no guarantee that state laws legalizing and regulating the sale and use of cannabis will remain in place or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the U.S. Congress amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law criminalizing cannabis.

Although the U.S. Supreme Court has ruled that it is the federal government that has the right to regulate and criminalize cannabis, and federal law criminalizing the use of marijuana preempts state laws that legalize its use, cannabis is largely regulated at the state level.

State laws that permit and regulate the production, distribution and use of cannabis for adult use or medical purposes are in direct conflict with the CSA, which makes cannabis use and possession federally illegal. Although certain states and territories of the U.S. authorize medical and/or adult use cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts under federal law under any and all circumstances under the CSA. Although the Company’s activities are believed to be compliant with applicable state and local laws, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under U.S. federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company.

As of December 31, 2021, 37 states, plus the District of Columbia (and the territories of Guam, Puerto Rico, the U.S. Virgin Islands and the Northern Mariana Islands), have legalized the medical use of cannabis. In 18 of those states, the sale and possession of cannabis is legal for both medical and adult use, and the District of Columbia has legalized adult use but not commercial sale. Eleven other states have laws that limit THC content, for the purpose of allowing access to CBD products.

We will continue to monitor compliance on an ongoing basis in accordance with our compliance program and standard operating procedures. While our operations are in full compliance with all applicable state laws, regulations and licensing requirements, such activities remain illegal under federal law. For the reasons described above and the risks further described in our Annual Report for the year ended December 31, 2020, as filed with the SEC, there are significant risks associated with our business.

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

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

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

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

## **Employees**

As of December 31, 2021, we had four full-time employees, including our chief executive officer and chief operating officer, and multiple part-time employees who operate as independent contractors of the Company. We have established an extensive network of external partners, contractors, and consultants to which we outsource various operational tasks in an effort to minimize administrative overhead and maximize efficiency.

## ITEM 1A. RISK FACTORS

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

### **Risks Related to Our Business and Our Industry**

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

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

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

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

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

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

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

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

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

While we intend to diversify our portfolio of properties, we are not required to observe specific diversification criteria. Therefore, our total assets are concentrated into a limited number of tenants who were considered significant tenants. To the extent that our total assets are concentrated in a limited number of tenants that are in the regulated cannabis industry, downturns relating generally to such industry or business sector, or a decline in the financial stability of our Significant Tenants may result in defaults on all of our leases within a short time period, which may reduce our net income and the value of our common stock and accordingly, limit our ability to pay or operating expenses or pay dividends to our stockholders. As of December 31, 2021 and 2020, we had an asset concentration related to our Significant Tenant leases at our Tempe, Chino Valley, Green Valley and Kingman, Arizona properties. As of December 31, 2021 and 2020, these Significant tenants represented approximately 79.2% and 83.2% of total assets, respectively. If our tenants are prohibited from operating or cannot pay their rent, we may not have enough working capital to support our operations and we would have to seek out new tenants at rental rates per square foot that may be less than our current rate per square foot.

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

As included in exhibit 99.1 to this Annual Report on Form 10-K, we have included audited financial statements of our Significant Tenants since they represent material information and are necessary for the protection of investors.

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

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

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

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

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

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

Our ability to acquire, operate and sell properties, engage in the business activities that we have planned and achieve positive financial performance depends, in large measure, on our ability to obtain financing in amounts and on terms that are favorable. The capital markets in the United States in general, and in the cannabis sector in particular, have undergone a turbulent period in which lending was severely restricted. Although there appear to be signs that financial institutions are resuming lending, the market has not yet returned to its pre-2008 state. The cannabis sector experienced significant volatility in 2019 and 2020 and such volatility is expected to continue in 2021. Obtaining favorable financing in the current environment remains challenging.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- expand our business effectively or efficiently or in a timely manner;



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

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

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

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

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

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

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

In view of his direct relationships with industry partners that directly contribute to our business development strategy, our success depends substantially upon the continued services of Mr. McLaren. We previously purchased a one-year key person life insurance policy on Mr. McLaren with a base coverage amount of \$8,000,000 renewable annually at a 10-year fixed guaranteed premium. The policy was renewed in January 2022. The loss of Mr. McLaren's services could have a material adverse effect on our business and operations.

**Risks Related to Government Regulation**

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

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

On January 4, 2018, former U.S. Attorney General Jeff Sessions issued a new memorandum (the "Sessions Memo") which rescinded the Cole Memo. The Sessions Memo stated, in part, that current law reflects "Congress' determination that cannabis is a dangerous drug and cannabis activity is a serious crime," and Mr. Sessions directed all U.S. Attorneys to enforce the laws enacted by Congress by following well-established principles when pursuing prosecutions related to cannabis activities. The Company is not aware of any prosecutions of investment companies doing routine business with licensed marijuana related businesses in light of the DOJ position following issuance of the Sessions Memo. However, there can be no assurance that the federal government will not enforce federal laws relating to cannabis in the future. As a result of the Sessions Memo, federal prosecutors are now free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities, despite the existence of state-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memo as to the priority they should ascribe to such cannabis activities, and thus it is uncertain how active U.S. federal prosecutors will be in relation to such activities.

Federal prosecutors appear to continue to use the Cole Memo's priorities as an enforcement guide. Merrick Garland, who became Attorney General on March 10, 2021, has indicated that he would deprioritize enforcement of low-level cannabis crimes such as possession, and has shared his view that the government should focus on large-scale criminal enterprises that circumvent state legalization laws instead of going after people who abide by local cannabis policies. The Company believes it is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memo or any replacement thereof and when or if the Sessions Memo will be rescinded. President Joseph R. Biden, who assumed office in January 2021, has not yet indicated whether and when he will decriminalize or legalize cannabis and has previously stated that he is opposed to legalization. The sheer size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale federal enforcement operation would more than likely create unwanted political backlash for the DOJ and the current administration. The U.S. federal government has always reserved the right to enforce federal law regarding the sale and disbursement of medical or adult use cannabis, even if state law authorizes such sale and disbursement. It is unclear whether the risk of enforcement has been altered.

One legislative safeguard for the medical cannabis industry, appended to the federal budget bill, remains in place following the rescission of the Cole Memo. For several years, Congress has adopted a so-called "rider" provision to the Consolidated Appropriations Act (formerly referred to as the Rohrabacher-Farr Amendment and currently referred to as the Rohrabacher-Blumenauer Amendment) to prevent the federal government from using congressionally appropriated funds to enforce federal cannabis laws against regulated medical cannabis actors operating in compliance with state and local law. Despite the rescission of the Cole Memo, the DOJ appears to continue to adhere to the enforcement priorities set forth in the Cole Memo.

The Cole Memo and the Rohrabacher-Blumenauer Amendment gave licensed cannabis operators (particularly medical cannabis operators) and investors in states with legal regimes greater certainty regarding the DOJ's enforcement priorities and the risk of operating cannabis businesses. While the Sessions Memo has introduced some uncertainty regarding federal enforcement, the cannabis industry continues to experience growth in legal medical and adult use markets across the United States. When she was a U.S. Senator, Vice President Kamala Harris was the lead sponsor of the Marijuana Opportunity, Reinvestment, and Expungement (MORE) Act, which seeks to end the federal prohibition of marijuana, among other things, but in March 2020, it was reported that Vice President Harris has adopted the same position as President Biden, who opposes legalization. Currently, there is no guarantee that state laws legalizing and regulating the sale and use of cannabis will remain in place or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the U.S. Congress amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law criminalizing cannabis.

Although the U.S. Supreme Court has ruled that it is the federal government that has the right to regulate and criminalize cannabis, and federal law criminalizing the use of marijuana preempts state laws that legalize its use, cannabis is largely regulated at the state level.

State laws that permit and regulate the production, distribution and use of cannabis for adult use or medical purposes are in direct conflict with the CSA, which makes cannabis use and possession federally illegal. Although certain states and territories of the U.S. authorize medical and/or adult use cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts under federal law under any and all circumstances under the CSA. Although the Company's activities are believed to be compliant with applicable state and local laws, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under U.S. federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company.

As of December 31, 2021, 39 states, plus the District of Columbia (and the territories of Guam, Puerto Rico, the U.S. Virgin Islands and the Northern Mariana Islands), have legalized the cultivation and sale of cannabis for medical purposes. In 18 of those states, the sale and possession of cannabis is legal for both medical and adult use, and the District of Columbia has legalized adult use but not commercial sale. In November 2020, voters in Arizona, Montana, New Jersey, and South Dakota voted by referendum to legalize cannabis for adult use, and voters in Mississippi and South Dakota voted to legalize cannabis for medical use. In July 2021, Virginia became the first southern state to legalize cannabis for adult use. Also in February 2021, New Jersey Governor Phil Murphy signed three bills into law that legalize cannabis for adult use.

We will continue to monitor compliance on an ongoing basis in accordance with our compliance program and standard operating procedures. While our operations are in full compliance with all applicable state laws, regulations and licensing requirements, such activities remain illegal under federal law. There are significant risks associated with our business.

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

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

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

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

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

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

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

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

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

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

#### **Risks Related to Our Common Stock**

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

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

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

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

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

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

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

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

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

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

Each of our preferred stockholders beneficially owns 1,000,000 shares of our preferred stock. Each share of preferred stock entitles the holder to 50 votes per share. In contrast, each share of our common stock has one vote per share. Each of our two preferred stockholders holds approximately 46.1% and 45.7% of the voting power of our outstanding capital stock, respectively. Because of the 50-to-1 voting ratio between our preferred stock and our common stock, our preferred stockholders together control a majority of the combined voting power of our capital stock and therefore are able to control all matters submitted to our stockholders for approval. The preferred stockholders may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentrated control may have the effect of delaying, preventing or deterring a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their capital stock as part of a sale of our company and might ultimately affect the market price of our common stock.

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

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

Failure to comply, or any adverse results from such evaluation, could result in a loss of investor confidence in our financial reports and have an adverse effect on the trading price of our equity securities. Management concluded that our internal control over financial reporting as of December 31, 2021 were not effective. Management realizes there are deficiencies in the design or operation of our internal control that adversely affect our internal controls, and management considers such deficiencies to be material weaknesses. As of the end of our 2021 fiscal year, management identified the following material weaknesses:

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

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

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

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

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

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

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

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

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

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

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

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

#### **Rule 144 Related Risks**

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

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

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

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

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

- The issuer of the securities that was formerly a shell company has ceased to be a shell company,
- The issuer of the securities is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act,

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

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

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

#### **ITEM 2. PROPERTIES**

Our principal executive office is currently located at 8360 E. Raintree Drive, #230, Scottsdale, AZ 85260. On March 15, 2022, we entered to an Assumption of Lease and Consent Agreement with a landlord, whereby the landlord consented to the assignment of an office lease, as amended, from the original tenant to the Company. The lease term shall begin on March 15, 2022 and expire on November 30, 2024, provided the Company has the option to extend the lease for an additional five years. The monthly base rent is \$2,932 per month through November 30, 2022, \$3,005 from December 1, 2022 through November 30, 2023, and \$3,078 from December 1, 2023 through November 30, 2024.

The lease for our prior executive offices expires on March 31, 2021. The lease provided for an annual base rent of \$17,583.

We are in the business of property acquisition, development, and commercial leasing and intend to primarily structure lease agreements with prospective tenants using a triple-net lease model. The property portfolio currently includes (i) land and real property constructed in Green Valley, Arizona, (ii) land and real property in Kingman, Arizona, (iii) land and real property in Tempe Arizona, and (iv) land and real property of approximately 47 acres in Chino Valley, Arizona. The properties in Tempe, Green Valley, Kingman, and Chino Valley, Arizona are currently leasing space to tenants that operate licensed medical cannabis facilities. On June 1, 2021, we closed on the sale of our vacant land located in Gilbert, AZ for an aggregate purchase price of \$335,000. In connection with the sale, we received net proceeds of \$322,332 and recorded a gain on sale of rental property of \$51,944. As of December 31, 2021, each of our leased properties was generating revenue.

#### **ITEM 3. LEGAL PROCEEDINGS**

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

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.



## PART II

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

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

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

<b>Quarter Ended</b>	<b>High</b>	<b>Low</b>
December 31, 2021	\$ 0.94	\$ 0.71
September 30, 2021	\$ 0.95	\$ 0.47
June 30, 2021	\$ 0.70	\$ 0.47
March 31, 2021	\$ 1.00	\$ 0.29
December 31, 2020	\$ 0.53	\$ 0.22
September 30, 2020	\$ 0.48	\$ 0.12
June 30, 2020	\$ 0.19	\$ 0.11
March 31, 2020	\$ 0.27	\$ 0.13

On March 22, 2022 the closing price of our common stock on the OTCQB was \$0.72 per share.

#### Holders of Common Stock

As of March 24, 2022, there were approximately 103 record holders of our common stock. The number of record holders does not include beneficial owners of common stock whose shares are held in the names of banks, brokers, nominees or other fiduciaries.

#### Recent Sales of Unregistered Securities

None.

#### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

#### Securities Authorized for Issuance under Equity Compensation Plans

On August 9, 2016, our Board of Directors authorized the 2016 Equity Incentive Plan (the "2016 Plan") and reserved 10,000,000 shares of common stock for issuance thereunder. The 2016 Plan's purpose is to encourage ownership in the Company by employees, officers, directors and consultants whose long-term service the Company considers essential to its continued progress and, thereby, encourage recipients to act in the stockholders' interest and share in the Company's success. The 2016 Plan authorizes the grant of awards in the form of options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code (the "Code"), options that do not qualify (non-statutory stock options) and grants of restricted shares of common stock. Restricted shares granted pursuant to the 2016 Plan are amortized to expense over the three-year vesting period. Options vest and expire over a period not to exceed seven years. If any share of common stock underlying a stock option that has been granted ceases to be subject to a stock option, or if any shares of common stock that are subject to any other stock-based award granted are forfeited or terminate, such shares shall again be available for distribution in connection with future grants and awards under the 2016 Plan. As of December 31, 2021, 325,000 stock option awards have been granted under the 2016 Plan. On December 31, 2021, 9,675,000 shares are available for future issuance.

The Company also continues to maintain its 2014 Equity Compensation Plan (the "2014 Plan"), pursuant to which 1,250,000 previously awarded stock options are outstanding. The 2014 Plan has been superseded by the 2016 Plan. Accordingly, no additional shares subject to the existing 2014 Plan will be issued and the 1,250,000 shares issuable upon exercise of stock options will be issued pursuant to the 2014 Plan, if exercised. As of December 31, 2021, options to purchase 1,250,000 shares of common stock are outstanding pursuant to the 2014 Plan.

## DESCRIPTION OF SECURITIES

### General

#### Outstanding Shares and Holders

As of March 24, 2022, our authorized capital stock consists of 100,000,000 shares of common stock, \$0.001 par value per share, 12,201,548 of which were issued and outstanding, and 5,000,000 shares of preferred stock, \$0.001 par value per share, 2,000,000 of which were issued and outstanding.

#### Common Stock

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

#### Preferred Stock

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

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

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

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

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

## **Dividends**

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

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

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

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

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

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

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

## **ITEM 6. RESERVED**

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

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

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

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

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

## Overview

Zoned Properties, Inc. (“Zoned Properties” or the “Company”), was incorporated in the State of Nevada on August 25, 2003. The Company is a real estate development firm for emerging and highly regulated industries, including regulated cannabis. The Company is redefining the approach to commercial real estate investment through its integrated growth services. Headquartered in Scottsdale, Arizona, Zoned Properties has developed a full spectrum of integrated growth services to support its real estate development and investment model; Advisory Services, Brokerage Services, Franchise Services, and Property Technology (“PropTech”) Data Services each cross-pollinate within the model to drive project value associated with complex real estate projects. With national experience and a team of experts devoted to the emerging cannabis industry, Zoned Properties is addressing the specific needs of a modern market in highly regulated industries. Zoned Properties is an accredited member of the Better Business Bureau, the U.S. Green Building Council, and the Forbes Real Estate Council. The Company does not grow, harvest, sell or distribute cannabis or any substances regulated under United States law such as the Controlled Substance Act of 1970, as amended (the “CSA”).

We are in the process of developing and expanding multiple business divisions; including an advisory services division, a licensed commercial real estate brokerage division, a real estate division focused on franchise services, a real estate division focused on property technology data for real estate, and a nonprofit charitable organization to focus on community prosperity. Each of these operating divisions are important elements of the overall business development strategy for long-term growth. We believe in the value of building relationships with clients and local communities in order to position the Company for long-term portfolio and revenue growth backed by sophisticated, safe, and sustainable assets and clients.

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

On April 22, 2021, ZP Data Platform 1 LLC, a wholly owned subsidiary of the Company (“ZP Data”), entered into a Limited Liability Company Operating Agreement (the “Beakon Operating Agreement”) with a non-affiliated joint venture partner in connection with the formation of Beakon, LLC (“Beakon”), a Delaware limited liability company formed on April 16, 2021. Beakon signed a licensing agreement for the licensing of a consumer data/marketing software platform that Beakon will white-label for the cannabis industry. Beakon’s goal is to develop and leverage the platform to help drive foot traffic to brick and mortar retail (i.e. dispensaries), and thus enhance the value of the real estate and mitigate risk. Pursuant to the Beakon Operating Agreement, ZP Data purchased 50 units of Beakon for \$50, which represent 50% of the membership interests of Beakon. Each unit represents, with respect to any member, such member’s: (i) interest in Beakon’s capital, (ii) share of Beakon’s net profits and net losses (and specially allocated items of income, gain, and deduction), and the right to receive distributions of net cash flow from Beakon, (iii) right to inspect Beakon’s books and records, and (iv) right to participate in the management of and vote on matters coming before the members as provided in the Beakon Operating Agreement. The transactions discussed above resulted in a joint venture, in accordance with the Financial Accounting Standards Board’s (the “FASB”) Accounting Standards Codification (“ASC”) 323-10 – *Investments- Equity and Joint Ventures*, between ZP Data and the non-affiliated party. Each of the entities has 50% equity ownership and voting rights, and joint control in Beakon. ZP Data will account for its investment in Beakon under the equity method of accounting in accordance with ASC 323. During the year ended December 31, 2021, we contributed \$86,000 to Beakon. On December 31, 2021, the Company recorded an other-than-temporary impairment loss of \$73,970 because it was determined that the fair value of its equity method investment in Beakon was less than its carrying value. Based on management’s evaluation, it was determined that due to market conditions and lack of committed funding, the Company’s ability to recover the carrying amount of the investment in Beakon was impaired. For the year ended December 31, 2021, the \$73,970 impairment loss is included in other expenses on the consolidated statement of operations.

On May 1, 2021, we entered into a Limited Liability Company Operating Agreement (the “Zoneomics Green Operating Agreement”) with a non-affiliated joint venture partner in connection with the formation of Zoneomics Green, LLC (“Zoneomics Green”), a Delaware limited liability company formed on May 1, 2021. Zoneomics Green’s goal is to utilize advanced property technology to provide solutions for property identification in regulated industries such as regulated cannabis. Pursuant to the Zoneomics Green Operating Agreement, the Company purchased 50 units of Zoneomics Green for a capital contribution of \$90,000, which represent 50% of the membership interests of Zoneomics Green. Each unit represents, with respect to any member, such member’s: (i) interest in Zoneomics Green’s capital, (ii) share of Zoneomics Green’s net profits and net losses (and specially allocated items of income, gain, and deduction), and the right to receive distributions of net cash flow from Zoneomics Green, (iii) right to inspect Zoneomics Green’s books and records, and (iv) right to participate in the management of and vote on matters coming before the members as provided in the Zoneomics Green Operating Agreement. The transactions discussed above resulted in a joint venture, in accordance with ASC 323-10 – *Investments- Equity and Joint Ventures*, between the Company and the non-affiliated party. Each of the entities has 50% equity ownership and voting rights, and joint control in Zoneomics Green. In June 2021, we contributed \$90,000 to Zoneomics Green.

For the years ended December 31, 2021 and 2020, substantially all of our revenues were generated from triple-net leases to tenants that are controlled by one entity (each, a “Significant Tenant” and collectively, the “Significant Tenants”), which is located in the State of Arizona.

On June 1, 2021, we closed on the sale of our Gilbert, AZ property with a third party (the “Purchaser”) pursuant to which we agreed to sell, and the Purchaser agreed to purchase, the property located in Gilbert, Arizona, for an aggregate purchase price of \$335,000. In connection with the sale, we received net proceeds of \$322,332 and recorded a gain on sale of rental property of \$51,944.

The Company currently maintains a portfolio of properties that we own, develop, and lease. We currently lease land and/or building space at all five of the properties in our portfolio. Four of the properties are leased to licensed and regulated cannabis tenants and are located in areas with established zoning and permitting procedures. Two of the leased properties are zoned and permitted as licensed and regulated cannabis dispensaries, and two of the leased properties are zoned and permitted as licensed and regulated cannabis cultivation facilities. Each regulated property may undergo a non-standard development process. Various development requirements in this process may include initial property identification, zoning authorization, and permitting guidance in order to qualify a commercial property for subsequent architectural design, utility installation, construction and development, property management, facilities management systems, and security system installation.

As of December 31, 2021, a summary of rental properties owned by us consisted of the following:

<u>Location</u>	<u>Tempe, AZ</u>	<u>Chino Valley, AZ</u>	<u>Green Valley, AZ</u>	<u>Kingman, AZ</u>	
<u>Description</u>	<u>Industrial /Office</u>	<u>Greenhouse/ Nursery</u>	<u>Retail (special use)</u>	<u>Retail (special use)</u>	
<u>Current Use</u>	<u>Cannabis Facility</u>	<u>Cannabis Facility</u>	<u>Cannabis Dispensary</u>	<u>Cannabis Dispensary</u>	
<b>Date Acquired</b>	March 2014	August 2015	October 2014	May 2014	
<b>Lease Start Date</b>	May 2018	May 2018	May 2018	May 2018	
<b>Lease End Date</b>	April 2040	April 2040	April 2040	April 2040	
<b>Total No. of Tenants</b>	1	1	1	1	
					<b>Total Properties</b>
<b>Land Area (Acres)</b>	3.65	47.60	1.33	0.32	52.90
<b>Land Area (Sq. Feet)</b>	158,772	2,072,149	57,769	13,939	2,302,629
<b>Undeveloped Land Area (Sq. Feet)</b>	-	1,812,563	-	6,878	1,819,441
<b>Developed Land Area (Sq. Feet)</b>	158,772	259,586	57,769	7,061	483,188
<b>Total Rentable Building Sq. Ft.</b>	60,000	67,312	1,440	1,497	130,249
<b>Vacant Rentable Sq. Ft.</b>	-	-	-	-	-
<b>Sq. Ft. rented as of December 31, 2021</b>	60,000	67,312	1,440	1,497	130,249
<b>Annual Base Rent (*,**)</b>					
2022	610,053	662,350	42,000	48,000	1,362,403
2023	610,053	662,350	42,000	48,000	1,362,403
2024	610,053	662,350	42,000	48,000	1,362,403
2025	610,053	662,350	42,000	48,000	1,362,403
2026	598,589	662,350	42,000	48,000	1,350,939
Thereafter	7,872,000	8,831,334	560,000	640,000	17,903,334
<b>Total</b>	<b>\$ 10,910,801</b>	<b>\$ 12,143,084</b>	<b>\$ 770,000</b>	<b>\$ 880,000</b>	<b>\$ 24,703,885</b>

\* Annual base rent represents amount of cash payments due from tenants. Future annual base rent does not include the Fourth Chino Valley Amendment, effective March 1, 2022 which increased the monthly base rent to \$87,581, or an annual base rent to \$1,050,972.

\*\* For Tempe, AZ, table includes rental income generated from the lease of parking lot space used by a third party as an antenna location.

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

<b>Year</b>	<b>Tempe, AZ</b>	<b>Chino Valley, AZ</b>	<b>Green Valley, AZ</b>	<b>Kingman, AZ</b>
2022	\$ 9.8	\$ 9.8	\$ 29.2	\$ 32.1
2023	\$ 9.8	\$ 9.8	\$ 29.2	\$ 32.1
2024	\$ 9.8	\$ 9.8	\$ 29.2	\$ 32.1
2025	\$ 9.8	\$ 9.8	\$ 29.2	\$ 32.1
2026	\$ 9.8	\$ 9.8	\$ 29.2	\$ 32.1

**Government Regulation**

The U.S. Supreme Court has ruled that it is the federal government that has the right to regulate and criminalize cannabis, even for medical purposes. Therefore, federal law criminalizing the use of marijuana preempts state laws that legalize its use for medicinal purposes.

The U.S. federal government regulates drugs through the CSA, which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I controlled substance. A Schedule I controlled substance is defined as a substance that has no currently accepted medical use in the United States, a lack of safety for use under medical supervision and a high potential for abuse. The DOJ defines Schedule I drugs, substances or chemicals as “drugs with no currently accepted medical use and a high potential for abuse.” However, the FDA has approved Epidiolex, which contains a purified form of the drug CBD, a non-psychoactive ingredient in the cannabis plant, for the treatment of seizures associated with two epilepsy conditions. The FDA has not approved cannabis or cannabis compounds as a safe and effective drug for any other condition. Moreover, pursuant to the Farm Bill, CBD remains a Schedule I controlled substance under the CSA, with a narrow exception for CBD derived from hemp with a THC concentration of less than 0.3%.

The Company maintains its operations so as to remain in compliance with the CSA. Even in those jurisdictions in which the manufacture and use of medical marijuana has been legalized at the state level, the possession, use and cultivation all remain violations of federal law that are punishable by imprisonment and substantial fines, and the prescription of marijuana is a violation of federal law. Moreover, individuals and entities may violate federal law if they intentionally aid and abet another in violating these federal controlled substance laws, or conspire with another to violate them.

The inconsistencies between federal and state regulation of cannabis were addressed in the Cole Memo, which then-Deputy Attorney General James Cole sent to all U.S. District Attorneys in 2013 outlining certain priorities for the DOJ relating to the prosecution of cannabis offenses. The Cole Memo acknowledged that, notwithstanding the designation of cannabis as a Schedule I controlled substance at the federal level, several states had enacted laws authorizing the use of cannabis for medical purposes. The Cole Memo noted that jurisdictions that have enacted laws legalizing cannabis in some form have also implemented strong and effective regulatory and enforcement systems to control the cultivation, processing, distribution, sale and possession of cannabis. As such, conduct in compliance with those laws and regulations is less likely to implicate the Cole Memo’s enforcement priorities. The DOJ did not provide (and has not provided since) specific guidelines for what regulatory and enforcement systems would be deemed sufficient under the Cole Memo. In light of limited investigative and prosecutorial resources, the Cole Memo concluded that the DOJ should be focused on addressing only the most significant threats related to cannabis, such as distribution of cannabis from states where cannabis is legal to those where cannabis is illegal, the diversion of cannabis revenues to illicit drug cartels and sales of cannabis to minors.

On January 4, 2018, former U.S. Attorney General Jeff Sessions issued the Sessions Memo, which rescinded the Cole Memo. The Sessions Memo stated, in part, that current law reflects “Congress’ determination that cannabis is a dangerous drug and cannabis activity is a serious crime,” and Mr. Sessions directed all U.S. Attorneys to enforce the laws enacted by Congress by following well-established principles when pursuing prosecutions related to cannabis activities. The Company is not aware of any prosecutions of investment companies doing routine business with licensed marijuana related businesses in light of the DOJ position following issuance of the Sessions Memo. However, there can be no assurance that the federal government will not enforce federal laws relating to cannabis in the future. As a result of the Sessions Memo, federal prosecutors are now free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities, despite the existence of state-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memo as to the priority they should ascribe to such cannabis activities, and thus it is uncertain how active U.S. federal prosecutors will be in relation to such activities.

Federal prosecutors appear to continue to use the Cole Memo’s priorities as an enforcement guide. Merrick Garland, who became Attorney General on March 10, 2021 has indicated that he would deprioritize enforcement of low-level cannabis crimes such as possession, and has shared his view that the government should focus on large-scale criminal enterprises that circumvent state legalization laws instead of going after people who abide by local cannabis policies. The Company believes it is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memo or any replacement thereof and when or if the Sessions Memo will be rescinded. President Joseph R. Biden, who assumed office in January 2021, has not yet indicated whether and when he will decriminalize or legalize cannabis and has previously stated that he is opposed to legalization. The sheer size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale federal enforcement operation would more than likely create unwanted political backlash for the DOJ and the current administration. Regardless, at this time, cannabis remains a Schedule I controlled substance at the federal level. The U.S. federal government has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or adult use cannabis, even if state law authorizes such sale and disbursement. It is unclear whether the risk of enforcement has been altered.

One legislative safeguard for the medical cannabis industry, appended to the federal budget bill, remains in place following the rescission of the Cole Memo. For several years, Congress has adopted the Rohrabacher-Blumenauer Amendment to prevent the federal government from using congressionally appropriated funds to enforce federal cannabis laws against regulated medical cannabis actors operating in compliance with state and local law. Despite the rescission of the Cole Memo, the DOJ appears to continue to adhere to the enforcement priorities set forth in the Cole Memo.

The Cole Memo and the Rohrabacher-Blumenauer Amendment gave licensed cannabis operators (particularly medical cannabis operators) and investors in states with legal regimes greater certainty regarding the DOJ's enforcement priorities and the risk of operating cannabis businesses. While the Sessions Memo has introduced some uncertainty regarding federal enforcement, the cannabis industry continues to experience growth in legal medical and adult use markets across the United States. Vice President Kamala Harris is the lead sponsor of the Marijuana Opportunity, Reinvestment, and Expungement (MORE) Act, which seeks to end the federal prohibition of marijuana, among other things, but in March 2020, it was reported that Vice President Harris has adopted the same position as President Biden, who opposes legalization. Currently, there is no guarantee that state laws legalizing and regulating the sale and use of cannabis will remain in place or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the U.S. Congress amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law criminalizing cannabis.

Although the U.S. Supreme Court has ruled that it is the federal government that has the right to regulate and criminalize cannabis, and federal law criminalizing the use of marijuana preempts state laws that legalize its use, cannabis is largely regulated at the state level.

State laws that permit and regulate the production, distribution and use of cannabis for adult use or medical purposes are in direct conflict with the CSA, which makes cannabis use and possession federally illegal. Although certain states and territories of the U.S. authorize medical and/or adult use cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law under any and all circumstances under the CSA. Although the Company's activities are believed to be compliant with applicable state and local laws, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under U.S. federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company.

As of December 31, 2020, 35 states, plus the District of Columbia (and the territories of Guam, Puerto Rico, the U.S. Virgin Islands and the Northern Mariana Islands), have legalized the cultivation and sale of cannabis for medical purposes. In 15 of those states, the sale and possession of cannabis is legal for both medical and adult use, and the District of Columbia has legalized adult use but not commercial sale. In November 2020, voters in Arizona, Montana, New Jersey and South Dakota voted by referendum to legalize cannabis for adult use, and voters in Mississippi and South Dakota voted to legalize cannabis for medical use, and in February 2021, the Virginia legislature approved a bill that would legalize cannabis for adult use beginning in 2024. The Virginia bill is awaiting signature by the governor, and if signed, Virginia will be the first southern state to legalize cannabis for adult use. Also in February 2021, New Jersey Governor Phil Murphy signed three bills into law that legalize cannabis for adult use.

The Company will focus heavily on the growth of a diversified revenue stream in 2021. We intend to accomplish this by prospecting new advisory services across the country for private, public, and municipal clients. We believe that strategic real estate and sustainability services are likely to emerge as the growth engine for Zoned Properties. We are moving to take advantage of new opportunities.

Pursuant to the terms of the several lease amendments our Significant Tenants, among other things, base rent was abated from June 1, 2020 to July 31, 2020 on all of our Significant Tenant leases which decreased our cash flow from operation during the year ended December 31, 2020 by \$179,000. In addition, the parties agreed that from the period from May 31, 2020 to June 30, 2022, our Significant Tenants will invest a combined total of at least \$8,000,000 improvements in and to the properties in Chino Valley and Tempe prior to June 30, 2022. Any increase in the rentable area of the leased premises will result in an increase in all amounts calculated based on the same, including, without limitation, base rent.

## **COVID-19**

In March 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. We are monitoring this closely, and although operations have not been materially affected by the COVID-19 outbreak to date, the ultimate duration and severity of the outbreak and its impact on the economic environment and our business is uncertain. Currently, all of the properties in our portfolio are open to our Significant Tenants and their customers and will remain open pursuant to state and local government requirements. We did not experience in 2020 or 2021, and we do not foresee in 2022, any material changes to our operations from COVID-19. Our tenants are continuing to generate revenue at these properties and they have continued to make rental payments in full and on time and we believe the tenants' liquidity position is sufficient to cover its expected rental obligations. Accordingly, while we do not anticipate an impact on our operations, we cannot estimate the duration of the pandemic and potential impact on our business if the properties must close or if the tenants are otherwise unable or unwilling to make rental payments. In addition, a severe or prolonged economic downturn could result in a variety of risks to our business, including weakened demand for our properties and a decreased ability to raise additional capital when needed on acceptable terms, if at all.

## Results of Operations

The following comparative analysis on results of operations was based primarily on the comparative financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the consolidated financial statements and the notes to those statements for the years ended December 31, 2021 and 2020, which are included elsewhere in this annual report on Form 10-K. The results discussed below are for the years ended December 31, 2021 and 2020.

### Comparison of Results of Operations for the Years Ended December 31, 2021 and 2020

#### Revenues

For the years ended December 31, 2021 and 2020, revenues consisted of the following:

	Years Ended December 31,	
	2021	2020
Rent revenues	\$ 1,261,059	\$ 1,125,346
Advisory revenues	146,031	90,096
Brokerage revenues	413,395	-
Total revenues	<u>\$ 1,820,485</u>	<u>\$ 1,215,442</u>

For the year ended December 31, 2021, total revenues amounted to \$1,820,485, including Significant Tenants revenues of \$1,255,130, as compared to \$1,125,442, including Significant Tenant revenues of \$1,176,666, for the year ended December 31, 2020, an increase of \$605,403, or 49.8%. For the year ended December 31, 2021, the increase in revenues was attributable to an increase in rental revenue from our Significant Tenant of \$135,713, an increase in brokerage revenue of \$413,395 related to commission earned on real estate listings, and an increase in advisory revenues of \$55,935. Substantially all of the Company's real estate properties are leased under triple-net leases to the Significant Tenants.

#### Operating expenses

For the year ended December 31, 2021, operating expenses amounted to \$1,775,785 as compared to \$1,177,709 for the year ended December 31, 2020, an increase of \$598,076, or 50.8%. For the years ended December 31, 2021 and 2020, operating expenses consisted of the following:

	Years Ended December 31,	
	2021	2020
Compensation and benefits	\$ 488,607	\$ 342,692
Professional fees	397,877	195,684
Brokerage fees	265,208	-
General and administrative expenses	201,625	190,806
Depreciation and amortization	386,643	362,833
Real estate taxes	87,769	85,649
Gain on sale of rental property	(51,944)	-
Total	<u>\$ 1,775,785</u>	<u>\$ 1,177,709</u>

- For the year ended December 31, 2021, compensation and benefit expense increased by \$145,915, or 42.6%, as compared to the year ended December 31, 2020. This increase was attributable to an increase in stock-based compensation of \$59,749 and increase in compensation and benefits of \$86,167. The increase in stock-based compensation related to an increase in stock-based compensation from the accretion of stock option expense and an increase in the value of shares issued for services. Additionally, during 2021, we hired additional staff related to the diversification of our services into brokerage services and the expansion of our advisory services.
- For the year ended December 31, 2021, professional fees increased by \$202,193, or 103.3%, as compared to the year ended December 31, 2020. This increase was primarily attributable to an increase in consulting fees of \$122,484 related to an increase in consultants used in our brokerage business, an increase in public relations fees of \$58,035, and an increase in legal fees of \$21,857.
- For the year ended December 31, 2021, we recorded brokerage fees amounting to \$265,208. We did not record brokerage fees during the year ended December 31, 2020.
- General and administrative expenses consist of expenses such as rent expense, directors' and officers' liability insurance, travel expenses, office expenses, telephone and internet expenses and other general operating expenses. For the year ended December 31, 2021, general and administrative expenses increased by \$10,819, or 5.7%, as compared to the year ended December 31, 2020.



- For the year ended December 31, 2021, depreciation expense increased by \$23,810, or 6.6%, as compared to the year ended December 31, 2020.
- For the year ended December 31, 2021, real estate taxes increased by \$2,075, or 2.4%, as compared to the year ended December 31, 2020.
- For the year ended December 31, 2021, we recorded a gain from the sale of our Gilbert property of \$51,944. We did not record any gain or loss from the sale of rental property during the 2020 period.

### ***Income from operations***

As a result of the factors described above, for the year ended December 31, 2021, income from operations amounted to \$44,700 as compared to \$37,733 for the year ended December 31, 2020, an increase of \$6,967, or 18.5%.

### ***Other (expenses) income***

Other (expense) income primarily includes interest expense incurred on debt with third parties and a related party and also includes other income (expense). For the year ended December 31, 2021, total other expenses, net amounted to \$210,519 as compared to total other expenses, net of \$116,071, respectively, representing an increase of \$94,448, or 81.4%. This increase was attributable to an increase in loss from unconsolidated joint ventures of \$27,476 and an impairment loss from unconsolidated joint venture of \$73,970, offset by an increase in interest income of \$6,998 attributable to interest earned on the convertible note receivable.

### ***Net loss***

As a result of the foregoing, for the years ended December 31, 2021 and 2020, net loss amounted to \$165,819, or \$0.01 per common share (basic and diluted), and \$78,338, or \$0.01 per common share (basic and diluted), respectively.

### **Liquidity and Capital Resources**

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. We had cash of \$1,191,940 and \$699,335 of cash as of December 31, 2021 and 2020, respectively.

Our primary uses of cash have been for compensation and benefits, fees paid to third parties for professional services, real estate taxes, general and administrative expenses, and the development of rental properties and other lines of business. All funds received have been expended in the furtherance of growing the business. We receive funds from the collection of rental income and advisory fees. The following trends are reasonably likely to result in changes in our liquidity over the near to long term:

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

We may need to raise additional funds, particularly if we are unable to continue to generate positive cash flows from our operations. We estimate that based on current plans and assumptions, that our available cash will be sufficient to satisfy our cash requirements under our present operating expectations for the next 12 months from the date of this annual report on Form 10-K. Other than revenue received from the lease of our rental properties, from advisory fees, and from brokerage revenues, we presently have no other significant alternative source of working capital.

We have used these funds to fund our operating expenses, pay our obligations, develop rental properties, invest in joint ventures and notes receivable, and to grow our company. We may need to raise significant additional capital or debt financing to acquire new properties, to develop existing properties, to assure we have sufficient working capital for our ongoing operations and debt obligations, and to invest in new joint venture and other projects.

On March 19, 2020, we made an initial investment of \$100,000 into KCB Jade Holdings, LLC (“KCB”). In exchange for the investment, KCB issued to us a convertible debenture (the “Debenture”) dated March 19, 2020 (the “Issuance Date”) in the original principal amount of \$100,000. The Debenture bears interest at the rate of 6.5% per annum and matures on March 19, 2025 (the “Maturity Date”). Interest on the outstanding principal sum of the Debenture commences accruing on the Issuance Date and is computed on the basis of a 365-day year and the actual number of days elapsed and shall be payable annually due by the first day of each calendar anniversary following the Issuance Date. KCB may prepay the Debenture at any point after 18 months following the Issuance Date, in whole or in part. However, if KCB elects to prepay the Debenture prior to the Maturity Date or prior to any conversion as provided in the Debenture in whole or in part, we will be entitled to receive a number of KCB units, in addition to such prepayment amount, constituting 10% of the total outstanding units and 10% of the total percentage interest following such issuance and at the time of such issuance. On or after six months from the Issuance Date, we may convert all or a portion of the principal balance and all accrued and unpaid interest due into a number of units equal to the proportion of the outstanding amount being converted multiplied by 33% of the total number of units issued and outstanding at the time of conversion, constituting 33% of the total percentage interest (the “Conversion Percentage”). If KCB defaults on payment of the Debenture, we may, at its option, extend all conversion rights, through and including the date KCB tenders or attempts to tender payment in full of all amounts due under the Debenture. Conversion rights terminate upon acceptance by the Company of payment in full of principal, accrued interest, and any other amounts due under the Debenture. If (i) KCB does not elect to exercise its rights of prepayment prior to the Maturity Date, (ii) we do not elect to exercise its rights of conversion, and (iii) KCB pays to the Company all outstanding principal and interest accrued and due under the terms of the Debenture on the Maturity Date, we will still be entitled to receive a number of units, in addition to such payment amount, constituting 8% of the total outstanding units and 8% of the total percentage interest following such issuance and at the time of such issuance.

On February 19, 2021, we made an additional investment of \$100,000 into KCB (the “Additional Investment”). In exchange, the KCB issued to the Company an amended and restated convertible debenture (the “A&R Debenture”) on the Amendment Date. The A&R Debenture amends and restates in its entirety the Original Debenture. Pursuant to the A&R Debenture, the Company and KCB agreed to certain new terms that did not exist in the Original Debenture, which are described below.

- *Interest Accrual Commencement:* Pursuant to the A&R Debenture, interest on the Initial Investment begins accruing as of March 19, 2020, while interest on the Additional Investment begins accruing on February 19, 2021.
- *Franchise Fees.* In the A&R Debenture, the parties acknowledge that each time that KCB sells one of its franchise locations, KCB earns a fee (an “Initial Fee”), and that KCB also earns a fee when one of its franchise locations renews its franchise with KCB (a “Renewal Fee”). Pursuant to the A&R Debenture, the Company and KCB agreed that, as additional consideration for the Additional Investment, KCB will pay to the Company, in perpetuity, 5% of any Initial Fee received by KCB after the Amendment Date, as well as 5% of any Renewal Fee received by KCB related to any franchise locations sold after the Amendment Date, in each case to be paid within five (5) days of receipt of KCB thereof.

In addition, following the Amendment Date, KCB agreed not to decrease the amount it charges its franchise locations for an Initial Fee or any Renewal Fee as in effect on the Amendment Date without the prior written consent of the Company, or to take any other actions that would reduce the value of KCB’s obligation to the Company with respect to these franchise fee payments. KCB’s obligation to pay the Company the franchise fees listed above will survive any termination, repayment, or conversion of the A&R Debenture. Failure by KCB to pay the Company the franchise fees in the manner described above will result in an event of default, and, among other things, any due and unpaid franchise fees will accrue interest at 12% per year from the date the obligation was due.

Apart from the terms described above, the terms of the A&R Debenture are substantially identical to the terms of the Original Debenture.

On August 2, 2021, KCB issued to the Company a second amended and restated convertible debenture (the “Second A&R Debenture”). The Second A&R Debenture amends and restates in its entirety the A&R Debenture. Pursuant to the Second A&R Debenture, the Company and KCB agreed to revise certain terms in the A&R Debenture, as described below.

*Right of Prepayment.* KCB may prepay the Second A&R Debenture at any point after 18 months following the Issue Date, in whole or in part. However, if KCB elects to prepay the Second A&R Debenture prior to March 19, 2025 (the “Maturity Date”) or prior to any conversion in whole or in part, the Company will be entitled to receive a number of KCB Class B units (“Class B Units”), in addition to such prepayment amount, constituting 10% of the total outstanding KCB Units (as defined in KCB’s Limited Liability Company Operating Agreement (the “Operating Agreement”), for the avoidance of doubt, being 10% of the total of KCB’s Class A units (“Class A Units”) and the Class B Units together, and 10% of the total Percentage Interest (as defined in the Operating Agreement) following such issuance and at the time of such issuance.

*Voluntary Conversion.* On or after six months from the Issue Date, the Company is entitled to convert all or a portion of the principal balance and all accrued and unpaid interest due under the Second A&R Debenture (the “Outstanding Amount”) into a number of Class B Units equal to the proportion of the Outstanding Amount being converted multiplied by the Conversion Percentage, as defined below). Should KCB default on payment hereof, the Company may, at its option, extend all conversion rights, through and including the date KCB tenders or attempts to tender payment in full of all amounts due under the Second A&R Debenture. Conversion rights will terminate upon acceptance by the Company of payment in full of principal, accrued interest and any other amounts due under the Second A&R Debenture.

*Conversion Percentage.* The Conversion Percentage will be 33% of the total number of Units (for the avoidance of doubt, being 33% of the total of the Class A Units and the Class B Units together), issued and outstanding at the time of conversion, constituting 33% of the total Percentage Interest (the “Conversion Percentage”).

*Right of Maturity Units.* If (i) KCB does not elect to exercise its prepayment rights prior to the Maturity Date, and (ii) the Company does not elect to exercise its conversion rights, and (iii) KCB pays to the Company all outstanding principal and interest accrued and due under the terms of the Second A&R Debenture on the Maturity Date, then the Company will still be entitled to receive a number of Class B Units, in addition to such payment amount, constituting 8% of the total outstanding Units (for the avoidance of doubt, being 8% of the total of the Class A Units and the Class B Units together) and 8% of the total Percentage Interest (as such term is defined in the Second A&R Debenture) following such issuance and at the time of such issuance.

Apart from the terms described above, the terms of the Second A&R Debenture are substantially identical to the terms of the A&R Debenture.

As discussed in the Overview section and elsewhere, during the year ended December 31, 2021, we contributed \$86,000 to the Beakon joint venture and we contributed \$90,000 to the Zoneomics Green joint venture. Additionally, on December 31, 2021, we recorded an other-than-temporary impairment loss of \$73,970 because it was determined that the fair value of our equity method investment in Beakon was less than its carrying value. Based on management’s evaluation, it was determined that due to market conditions and lack of committed funding, our ability to recover the carrying amount of the investment in Beakon was impaired.

Our future operations are dependent on our ability to manage our current cash balance, on the collection of rental and advisory revenues and the attainment of new advisory clients. Our real estate properties are leased to Significant Tenants under triple-net leases for which terms vary. We monitor the credit of these tenants to stay abreast of any material changes in credit quality. We monitor tenant credit by (1) reviewing financial statements and related metrics and information that are publicly available or that are provided to us upon request, and (2) monitoring the timeliness of rent collections. As of December 31, 2021 and 2020, we had an asset concentration related to our Significant Tenant leases. As of December 31, 2021 and 2020, these Significant Tenants represented approximately 79.2% and 83.2% of total assets, respectively. If our Significant Tenants are prohibited from operating due to federal or state regulations or due to COVID-19, or cannot pay their rent, we may not have enough working capital to support our operations and we would have to seek out new tenants at rental rates per square less than our current rate per square foot.

We included audited financial statements of our Significant Tenants as Exhibit 99.1 to this Annual Report on Form 10-K since such audited financial statements represent material information and are necessary for the protection of investors.

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

## Cash Flow

### For the Years Ended December 31, 2021 and 2020

Net cash flow provided by operating activities was \$489,257 for the year ended December 31, 2021, as compared to net cash flow provided by operating activities of \$170,040 for the year ended December 31, 2020, representing an increase of \$319,217.

- Net cash flow provided by operating activities for the year ended December 31, 2021 primarily reflected a net loss of \$165,819 adjusted for the add-back of non-cash items consisting of depreciation of \$358,294, amortization expense of \$28,350, stock-based compensation expense of \$52,000, accretion of stock-based stock option expense of \$56,180, a gain on sale of rental property of \$(51,944), and a loss and impairment loss from unconsolidated joint ventures of \$101,446, offset by changes in operating assets and liabilities primarily consisting of an increase in accounts receivable of \$2,921, a decrease in prepaid expenses of \$71,712, an increase in accounts payable of \$11,244, an increase in accrued expenses of \$16,278, and a decrease in deferred rent receivable of \$8,987.
- Net cash flow provided by operating activities for the year ended December 31, 2020 primarily reflected net loss of \$78,338 adjusted for the add-back of non-cash items consisting of depreciation and amortization of \$362,833, stock-based compensation expense of \$24,200 and accretion of stock-based stock option expense of \$24,231, offset by changes in operating assets and liabilities primarily consisting of an increase in deferred rent receivable of \$173,757 attributable to the abatement of May and June 2020 rent as part of lease amendments effective on May 31, 2020.

During the year ended December 31, 2021, net cash flow provided by investing activities amounted to \$3,348 as compared to net cash used in investing activities of \$110,486, a positive change of \$113,834. During the year ended December 31, 2021, cash provided by investing activities was attributable to proceeds from the sale of rental property of \$322,332, offset by cash used for an investment in a convertible note receivable of \$100,000 as discussed above, cash used in the improvement of rental properties of \$40,360, cash used for the purchase of property and equipment of \$2,624, and cash used for investment in joint ventures of \$176,000. During the year ended December 31, 2020, net cash flow used in investing activities was attributable to cash used for an investment in a convertible note receivable of \$100,000 as discussed above, cash used in the improvement of rental properties of \$9,565 and cash used for the purchase of property and equipment of \$923.

## **Contractual Obligations and Off-Balance Sheet Arrangements**

### ***Contractual Obligations***

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

The following tables summarize our contractual obligations as of December 31, 2021 (dollars in thousands), and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

<b>Contractual obligations:</b>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>5 + years</b>
Convertible notes	\$ 2,020	\$ 20	\$ -	\$ -	\$ 2,000
Interest on convertible notes	975	125	240	240	370
<b>Total</b>	<b>\$ 2,995</b>	<b>\$ 145</b>	<b>\$ 240</b>	<b>\$ 240</b>	<b>\$ 2,370</b>

### ***Off-balance Sheet Arrangements***

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

### **Critical Accounting Policies and Estimates**

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

#### Rental properties

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

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

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

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

## Lease accounting

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

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

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

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

If a change to a pre-existing lease occurs, we evaluate if the modification results in a separate new lease or a modified lease. A new lease results when a modification provides additional right of use. The new lease or modified lease is then reassessed to determine its classification based on the modified terms. As disclosed in Note 3, on January 1, 2019, the Chino Valley lease was modified to increase the monthly base rent from \$35,000 to \$40,000. Additionally, on May 31, 2020, the Chino Valley lease was modified to decrease the monthly base rent from \$40,000 to \$32,800 and the Tempe lease was modified to increase the monthly base rent from \$33,500 to \$49,200. On August 23, 2021 and effective September 1, 2021, the Chino Valley lease was amended, and the monthly base rent was increased to \$55,195. At the commencement of the modified terms, we reassessed its lease classification and concluded it remained properly classified as an operating lease.

The adoption of ASU 2016-02 did not have a material impact on the operating leases where we are a lessor. We will continue to record revenues from rental properties for its operating leases on a straight-line basis. Any revenue on the straight-line basis exceeding the monthly payment amount required on the operating lease is reflected as a deferred rent receivable. Effective May 31, 2020, we amended our leases for which we are the lessor on our Chino Valley, Tempe, Kingman and Green Valley properties. The amendments resulted in an abatement of rent for the months of June and July 2020. This rent abatement resulted in a deferred rent receivable as of December 31, 2021 and 2020 of \$164,770 and \$173,757, respectively.

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

## Investment in joint ventures

We have equity investments in various privately held entities. We account for these investments either under the equity method or cost method of accounting depending on our ownership interest and level of influence. Investments accounted for under the equity method are recorded based upon the amount of our investment and adjusted each period for our share of the investee’s income or loss. Investments are reviewed for changes in circumstance or the occurrence of events that suggest an other than temporary event where our investment may not be recoverable. We evaluate our investments in these entities for consolidation. We consider our percentage interest in the joint venture, evaluation of control and whether a variable interest entity exists when determining whether or not the investment qualifies for consolidation or if it should be accounted for as an unconsolidated investment under either the equity method of accounting. If an investment qualifies for the equity method of accounting, our investment is recorded initially at cost, and subsequently adjusted for equity in net income (loss) and cash contributions and distributions. The net income or loss of an unconsolidated investment is allocated to its investors in accordance with the provisions of the operating agreement of the entity. The allocation provisions in these agreements may differ from the ownership interest held by each investor. Differences, if any, between the carrying amount of our investment in the respective joint venture and our share of the underlying equity of such unconsolidated entity are amortized over the respective lives of the underlying assets as applicable. These items are reported as a single line item in the statements of operations as income or loss from investments in unconsolidated affiliated entities.

### Revenue recognition

We follow the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASC 606 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures.

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

Currently, the Company's leases provide for payments with fixed monthly base rents over the term of the leases. The leases also require the tenant to remit estimated monthly payments to the Company for property taxes. These payments are recorded as rental income and the related property tax expense reflected separately on the statements of operations.

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

Brokerage revenues primarily consists of real estate sales commissions and are recognized upon the successful completion of all required services have been performed which is when escrow closes. In accordance with the guidelines established for Reporting Revenue Gross as a Principal versus Net as an Agent in the ASC Topic 606, the Company records commission revenues and expenses on a gross basis. Of the criteria listed in ASC Topic 606, the Company is the primary obligor in the transaction, does not have inventory risk, performs all or part of the service, has credit risk, and has wide latitude in establishing the price of services rendered and discretion in selection of agents and determination of service specifications. Brokerage revenue that are payable upon payment of rent or other events beyond the Company's control are recognized upon the occurrence of such events.

### Stock-based compensation

Stock-based compensation is accounted for based on the requirements of ASC 718 – "*Compensation – Stock Compensation*", which requires recognition in the financial statements of the cost of employee, director, and non-employee services received in exchange for an award of equity instruments over the period the employee, director, or non-employee is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee, director, and non-employee services received in exchange for an award based on the grant-date fair value of the award. The Company has elected to recognize forfeitures as they occur as permitted under Accounting Standards Update ("ASU") 2016-09 *Improvements to Employee Share-Based Payment Accounting*.

### **Recent Accounting Pronouncements**

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years, and a modified retrospective approach is required, with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. In November of 2019, the FASB issued ASU 2019-10, which delayed the implementation of ASU 2016-13 to fiscal years beginning after December 15, 2022 for smaller reporting companies which applies to the Company. The Company is currently evaluating the impact of ASU 2016-13 on its future consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. The ASU simplifies the accounting for certain convertible instruments, amends the guidance on derivative scope exceptions for contracts in an entity's own equity and requires the use of the if-converted method for calculating diluted earnings per share. The ASU removes separation models for convertible debt with a cash conversion feature. Such convertible instruments will be accounted for as a single liability measured at amortized cost. The ASU is effective for interim and annual periods beginning after December 15, 2021, with early adoption permitted after December 15, 2020, which can either be on a modified retrospective or full retrospective basis. Adoption of the ASU is not expected to have a material impact on the Company's financial condition and results of operations.

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

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See Index to Consolidated Financial Statements and Consolidated Financial Statement Schedules appearing on pages F-1 to F-30 of this annual report on Form 10-K.

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

None.

#### **ITEM 9A. CONTROLS AND PROCEDURES**

##### **Disclosure controls and procedures**

We maintain "disclosure controls and procedures," as that term is defined in Rule 13a-15(e), promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive officer and principal financial officer, evaluated our company's disclosure controls and procedures as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of December 31, 2021, our disclosure controls and procedures were not effective. The ineffectiveness of our disclosure controls and procedures was due to material weaknesses, which we identified in our report on internal control over financial reporting.

##### **Internal control over financial reporting**

##### ***Management's annual report on internal control over financial reporting***

Our management, including our principal executive officer and principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2021. Our management's evaluation of our internal control over financial reporting was based on the 2013 framework in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that as of December 31, 2021, our internal control over financial reporting was not effective.



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

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

#### ***Limitations on Effectiveness of Controls***

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

#### **Changes in internal control over financial reporting**

There were no changes in our internal control over financial reporting during the fourth quarter of our fiscal year ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **ITEM 9B. OTHER INFORMATION**

None.

#### **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

On January 21, 2022, pursuant to the power granted to the Board in the Company's articles of incorporation, as amended, and the Company's bylaws, the Board increased the size of the Board by two persons, to be a total of seven persons.

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

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

Name	Age	Position
Bryan McLaren	34	Chief Executive Officer, Chief Financial Officer, President, Treasurer, Secretary and Chairman
Berekk Blackwell	32	Chief Operating Officer
Art Friedman	62	Director
Alex McLaren, MD	69	Director
David G. Honaman	70	Director
Derek Overstreet, PhD.	35	Director
Jody Kane	42	Director

Bryan McLaren is the son of Dr. Alex McLaren.

#### Background Information about our Officers and Directors

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

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

**Berekk Blackwell.** Mr. Blackwell has served as our Chief Operating Officer since July 1, 2021. Since September 2020, Mr. Blackwell served as our Director of Business Development. From December 2018 until June 2021, Mr. Blackwell also served as President of Daily Jam Holdings LLC. From January 2016 to December 2018, he served as Vice President of Due North Holdings LLC. Prior to joining the Company, Mr. Blackwell developed domestic and international markets for Kahala Brands, a global franchise organization with more than 3,000 retail locations in over a dozen countries. He also led emerging brand and portfolio operations for several private equity groups investing in the restaurant franchise space. Mr. Blackwell earned his B.A. in Finance from Fort Lewis College. Mr. Blackwell and his spouse filed for bankruptcy in the U.S. Bankruptcy Court, District of Arizona on November 13, 2020.

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

**Alex McLaren, MD.** Dr. McLaren, who has served as a director since 2014, is an accomplished and well-known orthopedic surgeon, professor and researcher. Alex was most recently Vice President of Clinical Outcomes for Shared Clarity, LLC from 2016-2019. From 2006 until 2016, Dr. McLaren served as program director of the Banner University Medical Center-Phoenix (Ariz.) Residency Program in Orthopaedic Surgery. He is the former director of Orthopaedic Education for Banner Good Samaritan Medical Center in Phoenix. He was also the program director of the Phoenix Orthopedic Residency Program at Maricopa County Medical Center between 1998 and 2000. He has been in private orthopedic surgery practice twice during his career in Phoenix. After graduating from Queen's University School of Medicine, Kingston, Ontario, Canada in 1977, Dr. McLaren completed an orthopedic residency at the University of Western Ontario in 1982 and a fellowship at the University of Southern California in 1983. Dr. McLaren is first and foremost an orthopedic educator and researcher whose career has included teaching, research and administration of educational programs. His clinical interest includes orthopedic infections, revision arthroplasty and complex musculoskeletal trauma. With hundreds of publications, numerous grant-funded projects, and medical association postings, Dr. McLaren has established a prized reputation in his field. We believe that Dr. McLaren's services provided to numerous organizations provides us with the requisite skills and qualifications to serve on our board and as a member of the Compensation Committee and the Strategic Committee, which he chairs.

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

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

**Jody Kane.** Mr. Kane, who has served as a director since January 21, 2022, is the co-founder and Managing Partner of Diamond Bridge Capital, an investment firm, where he has managed a portfolio of public and private investments primarily focused on the small cap sector since 2008. In addition, since May 2021, Mr. Kane has served as an advisor to Harbor Access LLC, a U.S. and Canadian based investor relations firm. In this role, he advises companies on corporate strategy and investor awareness. In addition, Mr. Kane owns and manages a real estate portfolio in the New York and Connecticut regions. From August 2014 to July 2020, he served as a research analyst for Wooster Capital Management, LLC, a hedge fund. Mr. Kane has a long history in the investment management business, previously working at the multi-billion dollar Schonfeld Group hedge fund, serving as a published analyst at Sidoti & Co. and working for the billion dollar Michael Steinhardt family office. Mr. Kane was one of the first investors in GrowGeneration Corp. (Nasdaq: GRWG) and served on its board of directors from May 2014 to January 2018. He graduated from Troy University, with a B.S. in Finance.

## **Involvement in Certain Legal Proceedings**

Except as noted above, our directors and executive officers have not been involved in any of the following events during the past 10 years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities;
4. being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;
5. being the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of: (i) any federal or state securities or commodities law or regulation; or (ii) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease- and-desist order, or removal or prohibition order; or (iii) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
6. being the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

## **Code of Ethics**

We have adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including those employees responsible for financial reporting. The code of business conduct and ethics is available on our corporate website, [www.zonedproperties.com](http://www.zonedproperties.com). We intend to disclose any amendments to our code of business conduct and ethics, or waivers of its requirements, on our website or in filings under the Exchange Act to the extent required by applicable rules and exchange requirements.

## **Director Independence**

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

In assessing the independence of our directors, the Board considers all of the business relationships between the Company and our directors and their respective affiliated companies. This review is based primarily on the Company's review of its own records and on responses of the directors to questions in a questionnaire regarding employment, business, familial, compensation and other relationships with the Company and our management. Where relationships exist, the Board determines whether the relationship between the Company and the directors or the directors' affiliated companies impairs the directors' independence. After consideration of the directors' relationships with the Company, the Board has affirmatively determined that none of the individuals serving as non-employee directors during the fiscal year ended December 31, 2021 had a material relationship with us and that each of such non-employee directors is independent.

Bryan McLaren was not considered an independent director during his service on the Board during the fiscal year ended December 31, 2021 because of his employment as our CEO, President, Treasurer, Secretary and Chairman of the Board. Alex McLaren, MD was not considered an independent director during his service on the Board during the fiscal year ended December 31, 2021 because Bryan McLaren is the son of Dr. McLaren.

### Board of Directors and Board Committees

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

The Board of Directors held two meetings during the fiscal year ended December 31, 2021. Each of our current directors attended 100% of the aggregate number of the meetings of the Board and meetings of the committees on which he or she served.

Our Board currently has three committees: the Audit Committee, the Strategic Committee, and the Compensation Committee. As of March 24, 2022, the members and Chairs of our standing Board committees were:

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

### Audit Committee

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

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

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

The Audit Committee held four meetings during the fiscal year ended December 31, 2021.

### **Compensation Committee**

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

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

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

The Compensation Committee held two meetings during the fiscal year ended December 31, 2021.

### **Strategic Committee**

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

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

The Strategic Committee held two meetings during the fiscal year ended December 31, 2021.

During the fourth quarter of the fiscal year ended December 31, 2021, there were no material changes to the procedures by which stockholders may recommend nominees to the Board.

### **Officer and Director Indemnification Agreements**

The Company entered into an Indemnification Agreement (each, an “Indemnification Agreement” and collectively, the “Indemnification Agreements”) with each of the Company’s officers and directors. The Indemnification Agreements supplement the indemnification provisions provided in the Company’s articles of incorporation and bylaws and any resolutions adopted pursuant thereto and generally provide that the Company shall indemnify the indemnitees to the fullest extent permitted by applicable law, subject to certain exceptions, against expenses, judgments, fines and other amounts actually and reasonably incurred in connection with their service as a director or officer and also provide for rights to advancement of expenses and contribution.

## ITEM 11. EXECUTIVE COMPENSATION

### Summary Compensation

The following table summarizes all compensation recorded by us for the years ended December 31, 2021 and 2020 for our “named executive officers” as such term is defined in Item 402(m)(2) of Regulation S-K.

2021 Summary Compensation Table

Name and principal position	Year	Salary \$	Bonus \$	Stock Awards \$	Option Awards \$ <sup>(2)</sup>	Non-Equity Incentive Plan Compensation \$	Nonqualified Deferred Compensation Earnings \$	All Other Compensation \$	Total \$
Bryan McLaren, Chief Executive Officer, President, and Chief Financial Officer	2021	225,225	-	-	-	-	-	-	225,225
	2020	214,500	-	-	-	-	-	-	214,500
Berekk Blackwell, Chief Operating Officer	2021	68,833	-	-	48,677	-	-	48,845	166,355
(1)	2020	-	-	-	-	-	-	20,000	20,000

(1) Mr. Blackwell was appointed as our Chief Operating Officer on July 1, 2021. On January 1, 2021, we granted the Mr. Blackwell an option pursuant to our 2016 Equity Compensation Plan, to purchase 125,000 of the Company’s common stock at an exercise price of \$1.00 per share. The grant date of the Option was January 1, 2021 and the Options expire on January 1, 2031. The options vest as to 25,000 of such shares on January 1, 2021, 10,000 options vest on January 1, 2022 and for each year thereafter through January 1, 2031. In connection with these options, the Company valued these options at a fair value of \$48,677 and will record stock-based compensation expense over the vesting period. Amounts reflected under “All Other Compensation” related to consulting fees paid to Mr. Blackwell prior to him becoming our Chief Operating Officer.

(2) As required by SEC rules, the amounts in this column reflect the grant date or modification date fair value as required by FASB ASC Topic 718. A discussion of the assumptions and methodologies used to calculate these amounts, are contained in the notes to our financial statements under “Note 10 – Shareholders’ Equity”.

### Narrative Disclosure to Summary Compensation Table

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

On May 23, 2018, we entered into an employment agreement with Mr. McLaren (the “2018 Employment Agreement”). Pursuant to the terms of the 2018 Employment Agreement, the Company agreed to continue to pay Mr. McLaren a base annual salary of \$214,500, and to award Mr. McLaren with an annual and/or quarterly bonus payable in either cash and/or equity of no less than 2% of the Company’s net income for the associated period.

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

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

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

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



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

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

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

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

- (i) During any period that Mr. McLaren fails to perform his full-time duties with the Company as a result of incapacity due to physical or mental illness, Mr. McLaren will continue to receive his base salary at the rate in effect at the commencement of any such period, together with all amounts payable to Mr. McLaren under any compensation plan of the Company during such period, until the Golden Parachute Agreement is terminated.
- (ii) If Mr. McLaren’s employment is terminated by the Company for Cause or by Mr. McLaren other than for Good Reason, disability, death or retirement, the Company will pay Mr. McLaren his full base salary through the date of Termination at the rate in effect at the time notice of Termination is given, plus all other amounts and benefits to which Mr. McLaren is entitled under any compensation plan of the Company at the time such payments are due.
- (iii) If employment by the Company shall be terminated (a) by the Company other than for Cause, death or disability or (b) by Mr. McLaren for Good Reason, Mr. McLaren will be entitled to benefits provided below:
  - a. The Company will pay Mr. McLaren his full base salary through the date of Termination at the rate in effect at the time notice of Termination is given, plus all other amounts and benefits to which Mr. McLaren is entitled under any compensation plan of the Company.

- b. In lieu of any further salary payments to Mr. McLaren for periods subsequent to the date of Termination, the Company will pay as severance pay to Mr. McLaren a lump sum severance payment (together with the payments provided in clauses (c) and (d) below) equal to five times the sum of Mr. McLaren's annual base salary in effect immediately prior to the occurrence of the circumstance giving rise to the notice of Termination given in respect of them.
- c. The Company will pay to Mr. McLaren any deferred compensation allocated or credited to Mr. McLaren or his account as of the date of Termination.
- d. In lieu of shares of common stock of the Company issuable upon exercise of outstanding options, if any, granted to Mr. McLaren under the Company's stock option plans (which options shall be cancelled upon the making of the payment referred to below), Mr. McLaren will receive an amount in cash equal to the product of (i) the excess of the closing price of the Company's common stock as reported on or nearest the date of Termination (or, if not so reported, on the basis of the average of the lowest asked and highest bid prices on or nearest the date of Termination), over the per share exercise price of each option held by Mr. McLaren (whether or not then fully exercisable) plus the amount of any applicable cash appreciation rights, times (ii) the number of the Company's common stock covered by each such option.
- e. The Company will also pay to Mr. McLaren all legal fees and expenses incurred by Mr. McLaren as a result of such Termination.
- (iv) In the event that Mr. McLaren is a "disqualified individual" within the meaning of Section 280G of the Code, the parties expressly agree that the payments described herein and all other payments to Mr. McLaren under any other agreements or arrangements with any persons which constitute "parachute payments" within the meaning of Section 280G of the Code are collectively subject to an overall maximum limit. Such maximum limit shall be \$1 less than the aggregate amount which would otherwise cause any such payments to be considered a "parachute payment" within the meaning of Section 280G of the Code, as determined by the Company.

#### Outstanding Equity Awards at 2021 Fiscal Year-End

The following table sets forth information as options outstanding on December 31, 2021.

OUTSTANDING EQUITY AWARDS AT 2021 FISCAL YEAR-END									
OPTION AWARDS						STOCK AWARDS			
Name	Number of Securities Underlying Unexercised options (#) Exercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that Have not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights that have not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or other Rights that have not Vested (\$)
Bryan McLaren	175,000	75,000(a)	—	1.00	12/26/2026	—	—	—	—
Berekk Blackwell	25,000	100,000(b)	---	1.00	1/1/2031				

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

(b) Vest annually at 10,000 options per year through January 1, 2031.

#### Securities Authorized for Issuance under Equity Compensation Plans

On August 9, 2016, our Board of Directors authorized the 2016 Plan and reserved 10,000,000 shares of common stock for issuance thereunder. The 2016 Plan was approved by shareholders on November 21, 2016. The 2016 Plan's purpose is to encourage ownership in the Company by employees, officers, directors and consultants whose long-term service the Company considers essential to its continued progress and, thereby, encourage recipients to act in the stockholders' interest and share in the Company's success. The 2016 Plan authorizes the grant of awards in the form of options intended to qualify as incentive stock options under Section 422 of the Code, options that do not qualify (non-statutory stock options) and grants of restricted shares of common stock. Restricted shares granted pursuant to the 2016 Plan are amortized to expense over the three-year vesting period. Options vest and expire over a period not to exceed seven years. If any share of common stock underlying a stock option that has been granted ceases to be subject to a stock option, or if any shares of common stock that are subject to any other stock-based award granted are forfeited or terminate, such shares shall again be available for distribution in connection with future grants and awards under the 2016 Plan. As of December 31, 2021, 325,000 stock option awards have been granted under the 2016 Plan. At December 31, 2021, 9,675,000 shares are available for future issuance.

The Company also continues to maintain its 2014 Plan, pursuant to which 1,250,000 previously awarded stock options are outstanding. The 2014 Plan has been superseded by the 2016 Plan. Accordingly, no additional shares subject to the existing 2014 Plan will be issued and the 1,250,000 shares issuable upon exercise of stock options will be issued pursuant to the 2014 Plan, if exercised. As of December 31, 2021, options to purchase 1,250,000 shares of common stock are outstanding pursuant to the 2014 Plan.

The table below sets forth information as of December 31, 2021.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	325,000	\$ 0.97	9,675,000
Equity compensation plans not approved by security holders	1,250,000	\$ 1.00	0
<b>Total</b>	<b>1,545,000</b>	<b>\$ 0.99</b>	<b>9,675,000</b>

#### *Director Compensation*

The following table sets forth compensation paid, earned or awarded during 2021 to each of our directors, other than Bryan McLaren, whose compensation is described above in the “2021 Summary Compensation Table”.

#### 2021 Director Compensation

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$ (1))	All Other Compensation (\$)	Total (\$)
Art Friedman	-	12,000	-	12,000
David G. Honaman	-	14,000	-	14,000
Alex McLaren, MD	-	14,000	-	14,000
Derek Overstreet	-	12,000	-	12,000

(1) As required by SEC rules, the amounts in this column reflect the grant date or modification date fair value as required by FASB ASC Topic 718. A discussion of the assumptions and methodologies used to calculate these amounts is contained in the notes to our financial statements under “Shareholders’ Deficit”. In January 2021, Mr. Friedman received 30,000 shares of restricted stock, Dr. Overstreet received 30,000 shares of restricted stock, Dr. McLaren received 35,000 shares of restricted stock and Mr. Honaman received 35,000 shares of restricted stock.

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

The following table sets forth certain information regarding beneficial ownership of our common stock and preferred stock as of March 30, 2021, by:

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

As of March 24, 2022, there were 12,201,548 shares of our common stock outstanding and 2,000,000 shares of Preferred Stock outstanding.

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

### Common Stock

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
<b><i>Named Executive Officers and Directors:</i></b>		
Bryan McLaren	207,500(1)	1.7%
Berekk Blackwell	40,000(2)	*
Art Friedman	152,050(3)	1.2%
Alex McLaren, MD	1,685,417(4)	13.8%
David G. Honaman	123,750(5)	1.0%
Derek Overstreet, PhD	98,750(6)	*
Jody Kane	49,424(7)	*
All executive officers and directors as a group (seven persons)	2,356,891(8)	19.2%
<b><i>Other 5% Stockholders:</i></b>		
Greg Johnston 16912 61 <sup>st</sup> Dr. NW Stanwood, WA 98292	1,262,500	10.4%
Melinda Jay Johnston 915 Stitch Rd. Lake Stevens, WA 98258	1,250,000	10.3%
Joseph Bartonek 949 Durham Rd. Edison, NJ 08817	756,250	6.2%

\* Less than 1%.

(1) Includes 175,000 vested stock options.

(2) Consists of 40,000 vested stock options.

(3) Includes 8,750 vested stock options.

(4) Includes 1,501,667 shares held by McLaren Family LLLP. Dr. McLaren is the general partner of McLaren Family LLLP and has voting and dispositive power over such shares and includes 23,750 vested stock options.

(5) Includes 23,750 vested stock options.

(6) Includes 18,750 vested stock options.

(7) Includes 8,750 vested stock options and 13,175 shares owned by Diamond Bridge Capital, LP, which is 50% owned by Mr. Kane. Mr. Kane's shares voting and dispositive power over these shares with the other 50% owner of Diamond Bridge Capital, LP.

(8) Includes 298,750 vested stock options.

## Preferred Stock

<u>Name and Address of Beneficial Owner</u>	<u>Shares of Preferred Stock Beneficially Owned</u>	<u>Percent of Class Beneficially Owned</u>	<u>Percent of Voting Power <sup>(1)</sup></u>
Greg Johnston c/o Zoned Properties, Inc. 8360 E. Raintree Drive #230 Scottsdale, AZ 85260	1,000,000	50.0%	45.7% <sup>(2)</sup>
Alex McLaren c/o Zoned Properties, Inc. 8360 E. Raintree Drive #230 Scottsdale, AZ 85260	1,000,000 <sup>(3)</sup>	50.0%	46.0% <sup>(4)</sup>

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

(2) Combined with Mr. Johnston's common stockholdings, Mr. Johnston holds 45.7% of the voting power of the Company.

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

(4) Combined with Dr. McLaren's common stockholdings, Dr. McLaren holds 46.0% of the voting power of the Company.

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

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

#### ***Convertible Notes Payable***

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

As of December 31, 2021 and 2020, the principal balance due under the McLaren Debenture was \$20,000.

As of December 31, 2021 and 2020, accrued interest payable due under the McLaren Debenture was \$5,400 and \$4,200, respectively, which is included in accrued expenses – related party on the accompanying consolidated balance sheets.

For the years ended December 31, 2021 and 2020, interest expense – related party amounted to \$1,200.

On January 9, 2022, the Company repaid the note payable – related party in the principal amount of \$20,000 and all accrued and unpaid interest due.

#### **Director Independence**

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

In assessing the independence of our directors, the Board considers all of the business relationships between the Company and our directors and their respective affiliated companies. This review is based primarily on the Company's review of its own records and on responses of the directors to questions in a questionnaire regarding employment, business, familial, compensation and other relationships with the Company and our management. Where relationships exist, the Board determines whether the relationship between the Company and the directors or the directors' affiliated companies impairs the directors' independence. After consideration of the directors' relationships with the Company, the Board has affirmatively determined that none of the individuals serving as non-employee directors during the fiscal year ended December 31, 2021 had a material relationship with us and that each of such non-employee directors is independent.

Bryan McLaren was not considered an independent director during his service on the Board during the fiscal year ended December 31, 2021 because of his employment as our CEO, President, Treasurer, Secretary and Chairman of the Board. Alex McLaren, MD was not considered an independent director during his service on the Board during the fiscal year ended December 31, 2021 because Bryan McLaren is the son of Dr. McLaren.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the fees that were billed or that will be billed to our company for the years ended December 31, 2021 and 2020 for professional services rendered by D. Brooks and Associates CPAs, P.A.:

<b>Fees</b>	<b>2021</b>	<b>2020</b>
Audit Fees	\$ 46,500	\$ 45,000
Audit-Related Fees	0	0
Tax Fees	0	0
Other Fees	0	0
<b>Total Fees</b>	<b>\$ 46,500</b>	<b>\$ 45,000</b>

#### **Audit Fees**

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

#### **Audit-Related Fees**

During 2021 and 2020, our independent registered public accountants did not provide any assurance and related services that are reasonably related to the performance of the audit or review of our financial statements that are not reported under the caption "Audit Fees" above.

#### **Tax Fees**

As our independent registered public accountants did not provide any services to us for tax compliance, tax advice and tax planning during 2021 and 2020, no tax fees were billed or paid during those fiscal years.

#### **All Other Fees**

Our independent registered public accountants did not provide any products and services not disclosed in the table above during 2021 and 2020. As a result, there were no other fees billed or paid during 2021 and 2020.

#### **Pre-Approval Policies and Procedures**

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

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

## PART IV

### ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES

Exhibits required by Item 601 of Regulation S-K:

#### EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
3.1	<a href="#"><u>Articles of Incorporation, as amended, of Zoned Properties, Inc.</u></a> <sup>(1)</sup>
3.2	<a href="#"><u>Bylaws of Zoned Properties, Inc.</u></a> <sup>(1)</sup>
10.1+	<a href="#"><u>Board Member Agreement dated as of October 1, 2014 by and between the registrant and Alex McLaren.</u></a> <sup>(1)</sup>
10.2+	<a href="#"><u>Board Member Agreement dated as of October 1, 2014 by and between the registrant and Art Friedman.</u></a> <sup>(1)</sup>
10.3+	<a href="#"><u>Board Member Agreement dated as of September 26, 2016 by and between the registrant and David G. Honaman.</u></a> <sup>(8)</sup>
10.4+	<a href="#"><u>Board Member Agreement effective April 1, 2017 by and between Zoned Properties, Inc. and Derek Overstreet.</u></a> <sup>(9)</sup>
10.5	<a href="#"><u>Lease dated as of August 6, 2015 by and between Chino Valley Properties, LLC and CCC Holdings, LLC.</u></a> <sup>(1)</sup>
10.6	<a href="#"><u>First Amendment to Commercial Lease Agreement dated September 25, 2015 by and among Chino Valley Properties, LLC, CCC Holdings, LLC and Alan Abrams.</u></a> <sup>(1)</sup>
10.7	<a href="#"><u>Lease dated as of August 15, 2015 by and between the registrant and CCC Holdings, LLC.</u></a> <sup>(1)</sup>
10.8	<a href="#"><u>First Amendment to Commercial Lease Agreement dated September 25, 2015 by and among the registrant, CCC Holdings, LLC and Alan Abrams.</u></a> <sup>(1)</sup>
10.9	<a href="#"><u>Lease Agreement dated as of October 1, 2014 by and between Green Valley Group, LLC and Broken Arrow Herbal Center, Inc.</u></a> <sup>(1)</sup>
10.10	<a href="#"><u>Lease dated as of October 1, 2014 by and between Kingman Property Group, LLC and CJK, Inc.</u></a> <sup>(1)</sup>
10.11+	<a href="#"><u>Agreement dated as of October 1, 2015 by and between the registrant and CFO Oncall, Inc.</u></a> <sup>(1)</sup>
10.12	<a href="#"><u>Stock Option Grant Notice and Agreement between registrant and Newbridge Financial, Inc.</u></a> <sup>(1)</sup>
10.13	<a href="#"><u>Deed of Trust dated March 7, 2015 in favor of Investment Property Exchange Services, Inc. covering Tempe, AZ property.</u></a> <sup>(1)</sup>
10.14+	<a href="#"><u>Stock Option Grant Notice and Agreement dated December 20, 2015 between Zoned Properties, Inc. and Bryan McLaren.</u></a> <sup>(2)</sup>
10.15	<a href="#"><u>Contract to Buy and Sell Real Estate (Commercial) entered into on April 21, 2016 between Zoned Colorado Properties, LLC and Parachute Development Corporation.</u></a> <sup>(3)</sup>
10.16	<a href="#"><u>Second Amendment to Commercial Lease by and between Zoned Properties, Inc., C3C3 Group, LLC and Alan Abrams.</u></a> <sup>(4)</sup>
10.17	<a href="#"><u>Third Amendment to Commercial Lease by and between Chino Valley Properties, LLC, C3C3 Group, LLC and Alan Abrams.</u></a> <sup>(5)</sup>
10.18	<a href="#"><u>Commercial Real Estate Purchase Contract dated December 22, 2016 by and between Zoned Properties, Inc. and Big Lake Estates, LLC.</u></a> <sup>(6)</sup>
10.19	<a href="#"><u>Convertible Debenture dated January 9, 2017 Issued by Zoned Properties, Inc. in Favor of Alan Abrams.</u></a> <sup>(7)</sup>
10.20	<a href="#"><u>Convertible Debenture dated January 9, 2017 Issued by Zoned Properties, Inc. in Favor of Bryan McLaren.</u></a> <sup>(7)</sup>
10.21	<a href="#"><u>Fourth Amendment to Commercial Lease by and between Chino Valley Properties, LLC, C3C3 Group, LLC and Alan Abrams.</u></a> <sup>(9)</sup>
10.22	<a href="#"><u>Third Amendment to Commercial Lease by and between Zoned Properties, Inc., C3C3 Group, LLC and Alan Abrams, and Zoned Arizona Properties, LLC, dated as of October 1, 2017.</u></a> <sup>(10)</sup>
10.23	<a href="#"><u>Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 by and between Chino Valley Properties, LLC and Broken Arrow Herbal Center, Inc.</u></a> <sup>(11)</sup>
10.24	<a href="#"><u>Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 by and between Green Valley Group, LLC and Broken Arrow Herbal Center, Inc.</u></a> <sup>(11)</sup>
10.25	<a href="#"><u>Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 by and between Zoned Arizona Properties, LLC and CJK, Inc.</u></a> <sup>(11)</sup>
10.26	<a href="#"><u>Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 by and between Kingman Property Group, LLC and CJK, Inc.</u></a> <sup>(11)</sup>

Exhibit Number	Description of Exhibit
10.27	<a href="#"><u>Confidential Advisory Services Agreement dated May 1, 2018 by and between Zoned Properties, Inc. and Broken Arrow Herbal Center, Inc.</u></a> <sup>(11)</sup>
10.28	<a href="#"><u>Confidential Advisory Services Agreement dated May 1, 2018 by and between Zoned Properties, Inc. and CJK, Inc.</u></a> <sup>(11)</sup>
10.29+	<a href="#"><u>Employment Agreement by and between the registrant and Bryan McLaren dated May 23, 2018.</u></a> <sup>(12)</sup>
10.30+	<a href="#"><u>Golden Parachute Agreement by and between the registrant and Bryan McLaren dated May 23, 2018.</u></a> <sup>(12)</sup>
10.31	<a href="#"><u>Stock Redemption Agreement effective January 1, 2019 by and among Zoned Properties, Inc., Christopher Carra, Alan B. Abrams, Clayton Abrams Revocable Trust and Kyle Abrams Revocable Trust.</u></a> <sup>(13)</sup>
10.32	<a href="#"><u>First Amendment to Confidential Advisory Services Agreement dated January 1, 2019 by and between Zoned Properties, Inc., on behalf of Chino Valley Properties, LLC and Broken Arrow Herbal Center, Inc.</u></a> <sup>(13)</sup>
10.33	<a href="#"><u>First Amendment to Confidential Advisory Services Agreement dated January 1, 2019 by and between Zoned Properties, Inc., on behalf of Zoned Arizona Properties, LLC and CJK, Inc.</u></a> <sup>(13)</sup>
10.34	<a href="#"><u>Amendment to Convertible Debenture entered into as of January 2, 2019 by and between Zoned Properties, Inc. and Alan Abrams.</u></a> <sup>(13)</sup>
10.35	<a href="#"><u>First Amendment to Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated January 1, 2019 by and between Chino Valley Properties, LLC and Broken Arrow Herbal Center, Inc.</u></a> <sup>(13)</sup>
10.36	<a href="#"><u>Convertible Debenture issued March 19, 2020 from KCB Jade Holdings, LLC.</u></a> <sup>(14)</sup>
10.37	<a href="#"><u>First Amendment to Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated as of May 31, 2020, by and between Zoned Arizona Properties, LLC and CJK, Inc.</u></a> <sup>(15)</sup>
10.38	<a href="#"><u>Second Amendment to Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated as of May 31, 2020, by and between Chino Valley Properties, LLC and Broken Arrow Herbal Center, Inc.</u></a> <sup>(15)</sup>
10.39	<a href="#"><u>First Amendment to Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated as of May 31, 2020, by and between Green Valley Properties, LLC and Broken Arrow Herbal Center, Inc.</u></a> <sup>(15)</sup>
10.40	<a href="#"><u>First Amendment to Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated as of May 31, 2020, by and between Kingman Property Group, LLC and CJK, Inc.</u></a> <sup>(15)</sup>
10.41	<a href="#"><u>Amended and Restated Convertible Debenture issued February 19, 2021 from KCB Jade Holdings, LLC.</u></a> <sup>(16)</sup>
10.42	<a href="#"><u>Commercial Lease Agreement entered into on March 3, 2021, and dated as of February 26, 2021, between Gilbert Property Management, LLC and AZ2CAL Enterprises, LLC (Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on March 8, 2021).</u></a>
10.43	<a href="#"><u>Vacant Land/Lot Purchase Contract between AZ2CAL Enterprises, LLC (as Buyer) and Gilbert Property Management, LLC (as Seller) dated April 15, 2021 (Incorporated by reference to exhibit 99.1 to Current Report on Form 8-K filed with the SEC by the Company on June 9, 2021)</u></a>
10.44	<a href="#"><u>Amendment to Vacant Land/Lot Purchase Contract between AZ2CAL Enterprises, LLC (as Buyer) and Gilbert Property Management, LLC (as Seller) dated May 17, 2021 (Incorporated by reference to exhibit 99.2 to Current Report on Form 8-K filed with the SEC by the Company on June 9, 2021).</u></a>
10.45	<a href="#"><u>Second Amended and Restated Convertible Debenture issued by KCB Jade Holdings, LLC in favor of the registrant (Incorporated by reference to exhibit 10.1 to Current Report on Form 8-K filed with the SEC by the Company on August 4, 2021).</u></a>



Exhibit Number	Description of Exhibit
10.46	<a href="#">Third Amendment to the Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018, between Chino Valley and CJK, Inc. ("CJK"), as amended, entered into on August 23, 2021 and effective September 1, 2021 (Incorporated by reference to exhibit 10.1 to Current Report on Form 8-K filed with the SEC by the Company on August 24, 2021).</a>
10.47	<a href="#">Form of Indemnification Agreement (Incorporated by reference to exhibit 10.2 to Current Report on Form 8-K filed with the SEC by the Company on August 24, 2021).</a>
10.48	<a href="#">Fourth Amendment to Regulated Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018, between Chino Valley and CJK, Inc., as amended, entered into on January 24, 2022 (Incorporated by reference to exhibit 10.1 to Current Report on Form 8-K filed with the SEC by the Company on January 25, 2022).</a>
21.1*	<a href="#">List of Subsidiaries.</a>
23.1*	<a href="#">Consent of Independent Registered Public Accounting Firm – D, Brooks and Associates CPA's P.A. *</a>
31.1*	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.</a>
31.2*	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.</a>
32.1**	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
99.1	<a href="#">Audited financial statements of AC Management Group, LLC for the year ended December 31, 2021.</a>
101.INS*	INLINE XBRL INSTANCE DOCUMENT
101.SCH*	INLINE XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT
101.CAL*	INLINE XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT
101.DEF*	INLINE XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT
101.LAB*	INLINE XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT
101.PRE*	INLINE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

+ Management contract or compensatory plan or arrangement.

\* Filed herewith

\*\* Furnished herewith

- (1) Incorporated by reference to exhibit to Registration Statement on Form S-1 filed by the Company on November 25, 2015.
- (2) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on January 7, 2016.
- (3) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on April 22, 2016.
- (4) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on August 25, 2016.
- (5) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on October 13, 2016.
- (6) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on December 29, 2016.
- (7) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on January 12, 2017.
- (8) Incorporated by reference to exhibit to Annual Report on Form 10-K filed with the SEC by the Company on March 27, 2017.
- (9) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on April 4, 2017.
- (10) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on October 3, 2017.
- (11) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on May 3, 2018.
- (12) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on May 24, 2018.
- (13) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on January 3, 2019.
- (14) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on March 23, 2020.
- (15) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on June 4, 2020.
- (16) Incorporated by reference to exhibit to Current Report on Form 8-K filed with the SEC by the Company on February 19, 2021.

#### ITEM 16. 10-K SUMMARY

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

## SIGNATURES

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

### Zoned Properties, Inc.

Date: March 24, 2022

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

## POWER OF ATTORNEY

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Bryan McLaren</u> Bryan McLaren	Chief Executive Officer, Chief Financial Officer, President, Treasurer, Secretary and Director (principal executive officer, principal financial officer and principal accounting officer)	March 24, 2022
<u>/s/ Derek Overstreet</u> Derek Overstreet	Director	March 24, 2022
<u>/s/ Art Friedman</u> Art Friedman	Director	March 24, 2022
<u>/s/ Alex McLaren</u> Alex McLaren	Director	March 24, 2022
<u>/s/ David G. Honaman</u> David G. Honaman	Director	March 24, 2022
<u>/s/ Jody Kame</u> Jody Kane	Director	March 24, 2022

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**ZONED PROPERTIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

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**ZONED PROPERTIES, INC. AND SUBSIDIARIES**  
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**DECEMBER 31, 2021 AND 2020**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Zoned Properties, Inc. (the Company) as of December 31, 2021 and 2020, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2021 and 2020, and related notes (collectively referred to as the consolidated financial statements)

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020 the results of its operations and its cash flows for the years ended December 31, 2021 and 2020 in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matters**

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there were no critical audit matters.

D. Brooks and Associates CPAs, P.A.

A handwritten signature in blue ink that reads 'D. Brooks and Associates CPAs, P.A.'.

We have served as the Company's auditor since 2018.  
Palm Beach Gardens, Florida  
PCAOB Firm ID: 4048  
March 24, 2022

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

dbrookscpa.com

**ZONED PROPERTIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	<b>December 31,</b>
	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Cash	\$ 1,191,940	\$ 699,335
Accounts receivable	7,909	4,988
Deferred rent receivable	164,770	173,757
Rental properties, net	6,441,465	7,027,436
Prepaid expenses and other assets	32,350	104,062
Convertible note receivable	200,000	100,000
Property and equipment, net	13,918	17,059
Intangible asset, net	9,450	-
Investment in unconsolidated joint ventures	74,554	-
Security deposits	1,100	1,100
	<u>1,100</u>	<u>1,100</u>
<b>Total Assets</b>	<b><u>\$ 8,137,456</u></b>	<b><u>\$ 8,127,737</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Convertible note payable	\$ 2,000,000	\$ 2,000,000
Convertible note payable - related party	20,000	20,000
Accounts payable	11,244	-
Accrued expenses	108,364	92,750
Accrued interest - related party	5,400	4,200
Deferred revenues	4,750	3,250
Security deposits payable	71,800	71,800
	<u>71,800</u>	<u>71,800</u>
<b>Total Liabilities</b>	<b><u>2,221,558</u></b>	<b><u>2,192,000</u></b>
<b>Commitments and Contingencies (Note 11)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized; 2,000,000 shares issued and outstanding at December 31, 2021 and 2020 (\$1.00 per share liquidation preference or \$2,000,000)	2,000	2,000
Common stock: \$0.001 par value, 100,000,000 shares authorized; 12,201,548 and 12,011,548 issued and outstanding at December 31, 2021 and 2020, respectively	12,202	12,012
Additional paid-in capital	21,000,563	20,854,773
Accumulated deficit	(15,098,867)	(14,933,048)
	<u>(15,098,867)</u>	<u>(14,933,048)</u>
<b>Total Stockholders' Equity</b>	<b><u>5,915,898</u></b>	<b><u>5,935,737</u></b>
<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$ 8,137,456</u></b>	<b><u>\$ 8,127,737</u></b>

See accompanying notes to consolidated financial statements.

**ZONED PROPERTIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For the Year Ended</b>	
	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>REVENUES:</b>		
Rental revenues	\$ 1,261,059	\$ 1,125,346
Advisory revenues	146,031	90,096
Brokerage revenues	413,395	-
<b>Total revenues</b>	<b>1,820,485</b>	<b>1,215,442</b>
<b>OPERATING EXPENSES:</b>		
Compensation and benefits	488,607	342,692
Professional fees	397,877	195,684
Brokerage fees	265,208	-
General and administrative expenses	201,625	190,806
Depreciation	386,643	362,833
Real estate taxes	87,769	85,694
Gain on sale of rental property	(51,944)	-
<b>Total operating expenses</b>	<b>1,775,785</b>	<b>1,177,709</b>
<b>INCOME FROM OPERATIONS</b>	<b>44,700</b>	<b>37,733</b>
<b>OTHER (EXPENSES) INCOME:</b>		
Interest expenses	(120,000)	(120,000)
Interest expenses - related party	(1,200)	(1,200)
Interest income	12,127	5,129
Impairment loss from unconsolidated joint ventures	(73,970)	-
Loss from unconsolidated joint ventures	(27,476)	-
<b>Total other expenses, net</b>	<b>(210,519)</b>	<b>(116,071)</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(165,819)</b>	<b>(78,338)</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>-</b>	<b>-</b>
<b>NET LOSS</b>	<b>\$ (165,819)</b>	<b>\$ (78,338)</b>
<b>NET LOSS PER COMMON SHARE:</b>		
Basic	\$ (0.01)	\$ (0.01)
Diluted	\$ (0.01)	\$ (0.01)
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>		
Basic	12,175,623	12,009,745
Diluted	12,175,623	12,009,745

See accompanying notes to consolidated financial statements.

**ZONED PROPERTIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2019	2,000,000	\$ 2,000	11,901,548	\$ 11,902	\$ 20,806,452	\$ (14,854,710)	\$ 5,965,644
Common stock issued for services	-	-	110,000	110	24,090	-	24,200
Accretion of stock based compensation related to stock options issued	-	-	-	-	24,231	-	24,231
Net loss	-	-	-	-	-	(78,338)	(78,338)
Balance, December 31, 2020	2,000,000	2,000	12,011,548	12,012	20,854,773	(14,933,048)	5,935,737
Common stock issued for services	-	-	130,000	130	51,870	-	52,000
Common stock issued for intangible asset	-	-	60,000	60	37,740	-	37,800
Accretion of stock based compensation related to stock options issued	-	-	-	-	56,180	-	56,180
Net loss	-	-	-	-	-	(165,819)	(165,819)
Balance, December 31, 2021	<u>2,000,000</u>	<u>\$ 2,000</u>	<u>12,201,548</u>	<u>\$ 12,202</u>	<u>\$ 21,000,563</u>	<u>\$ (15,098,867)</u>	<u>\$ 5,915,898</u>

See accompanying notes to consolidated financial statements.



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

**For the Year Ended**  
**December 31,**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (165,819)	\$ (78,338)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation expense	358,294	362,833
Amortization expense	28,350	-
Stock-based compensation	52,000	24,200
Stock option expense	56,180	24,231
Gain on sale of rental property	(51,944)	-
Impairment loss from unconsolidated joint ventures	73,970	-
Loss from unconsolidated joint ventures	27,476	-
Change in operating assets and liabilities:		
Accounts receivable	(2,921)	3,200
Deferred rent receivable	8,987	(173,757)
Prepaid expenses and other assets	71,712	9,530
Accounts payable	11,244	-
Accrued expenses	16,278	(1,891)
Accrued expenses - related parties	1,200	1,200
Deferred revenues	1,500	1,500
Security deposits payable	2,750	(2,668)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>489,257</u>	<u>170,040</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of convertible note receivable	(100,000)	(100,000)
Purchases of rental property improvements	(40,360)	(9,563)
Purchases of property and equipment	(2,624)	(923)
Net proceeds from sale of rental property	322,332	-
Investment in joint ventures	(176,000)	-
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>3,348</u>	<u>(110,486)</u>
<b>NET INCREASE IN CASH</b>	492,605	59,554
<b>CASH, beginning of year</b>	<u>699,335</u>	<u>639,781</u>
<b>CASH, end of year</b>	<u>\$ 1,191,940</u>	<u>\$ 699,335</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 120,000</u>	<u>\$ 120,000</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Common stock issued for intangible asset	<u>\$ 37,800</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

**ZONED PROPERTIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS**

Zoned Properties, Inc. (“Zoned Properties” or the “Company”), was incorporated in the State of Nevada on August 25, 2003. The Company renamed the corporation, Zoned Properties, Inc., and shifted its business model during the first quarter of 2014. The Company is now a real estate development firm for emerging and highly regulated industries, including regulated cannabis. The Company is redefining the approach to commercial real estate investment through its integrated growth services. Headquartered in Scottsdale, Arizona, Zoned Properties has developed a full spectrum of integrated growth services to support its real estate development and investment model; Advisory Services, Brokerage Services, Franchise Services, and Property Technology (“PropTech”) Data Services each cross-pollinate within the model to drive project value associated with complex real estate projects. With national experience and a team of experts devoted to the emerging cannabis industry, Zoned Properties is addressing the specific needs of a modern market in highly regulated industries. Zoned Properties is an accredited member of the Better Business Bureau, the U.S. Green Building Council, and the Forbes Real Estate Council. The Company does not grow, harvest, sell or distribute cannabis or any substances regulated under United States law such as the Controlled Substance Act of 1970, as amended (the “CSA”).

The Company has the following wholly owned subsidiaries:

- Gilbert Property Management, LLC (“Gilbert”) was organized in the State of Arizona on February 10, 2014.
- Chino Valley Properties, LLC (“Chino Valley”) was organized in the State of Arizona on April 15, 2014.
- Kingman Property Group, LLC (“Kingman”) was organized in the State of Arizona on April 15, 2014.
- Green Valley Group, LLC (“Green Valley”) organized in the State of Arizona on April 15, 2014.
- Zoned Oregon Properties, LLC was organized in the State of Oregon on June 16, 2015.
- Zoned Colorado Properties, LLC (“Zoned Colorado”) was organized in the State of Colorado on September 17, 2015.
- Zoned Illinois Properties, LLC was organized in the State of Illinois on July 15, 2015.
- Zoned Arizona Properties, LLC (“Zoned Arizona”) was organized in the State of Arizona on June 2, 2017.
- Zoned Advisory Services, LLC (“Zoned Advisory”) was organized in the State of Arizona on July 27, 2018.
- Zoned Properties Brokerage, LLC (“Zoned Brokerage”) was organized in the State of Arizona on March 17, 2021.
- ZP Data Platform 1, LLC (“ZP Data”) was organized in the State of Arizona on April 14, 2021.

On April 22, 2021, ZP Data entered into a Limited Liability Company Operating Agreement (the “Beakon Operating Agreement”) with a non-affiliated joint venture partner in connection with the formation of Beakon, LLC (“Beakon”), a Delaware limited liability company formed on April 16, 2021 (See Note 7).

On May 1, 2021, the Company entered into a Limited Liability Company Operating Agreement (the “Zoneomics Operating Agreement”) with a non-affiliated joint venture partner in connection with the formation of Zoneomics Green, LLC (“Zoneomics Green”), a Delaware limited liability company formed on May 1, 2021 (See Note 7).

In March 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The Company is monitoring this closely, and although operations have not been materially affected by the COVID-19 outbreak to date, the ultimate duration and severity of the outbreak and its impact on the economic environment and our business is uncertain. Currently, all of the properties in the Company’s portfolio are open to its Significant Tenants pursuant to state and local government requirements. At this time, the Company does not foresee any material changes to its operations from COVID-19. The Company’s tenants are continuing to generate revenue at these properties, and they have continued to make rental payments in full and on time and we believe the tenants’ liquidity position is sufficient to cover its expected rental obligations. Accordingly, while the Company does not anticipate an impact on its operations, it cannot estimate the duration of the pandemic and potential impact on its business if the properties must close or if the tenants are otherwise unable or unwilling to make rental payments. In addition, a severe or prolonged economic downturn could result in a variety of risks to the Company’s business, including weakened demand for its properties and a decreased ability to raise additional capital when needed on acceptable terms, if at all. At this time, the Company is unable to estimate the impact of this event on its operations.

**ZONED PROPERTIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation and principles of consolidation**

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

**Use of estimates**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates for the years ended December 31, 2021 and 2020 include the collectability of accounts and note receivable, the useful life of rental properties and property and equipment, assumptions used in assessing impairment of long-term assets including rental property and investment in joint ventures, valuation allowances for deferred tax assets, and the fair value of non-cash equity transactions, including options and stock-based compensation.

**Risks and uncertainties**

The Company’s operations are subject to risk and uncertainties including financial, operational, regulatory and other risks including the potential risk of business failure. The Company conducts a significant portion of its business in Arizona. Additionally, the Company’s tenants operate in the medical marijuana industry. Consequently, any significant economic downturn in the Arizona market or any changes in the federal government’s enforcement of current federal laws or changes in state laws could potentially have a negative effect on the Company’s business, results of operations and financial condition. Additionally, substantially all of the Company’s real estate properties are leased under triple-net leases to tenants that are controlled by one entity (each, a “Significant Tenant” and collectively, the “Significant Tenants”). For the years ended December 31, 2021 and 2020, rental and advisory revenue associated with the Significant Tenants amounted to \$1,255,130 and \$1,176,666, respectively, which represents 68.9% and 98.6% of the Company’s total revenues, respectively (see Note 3).

**Fair value of financial instruments**

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses, and other payables approximate their fair market value based on the short-term maturity of these instruments. The carrying amount of the convertible note receivable approximates fair value based on the current interest rates for instruments with similar characteristics.

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

**Cash**

Cash is carried at cost and represents cash on hand, demand deposits placed with banks or other financial institutions and all highly liquid investments with an original maturity of three months or less as of the purchase date of such investments. The Company had no cash equivalents on December 31, 2021 and 2020. The majority of the Company’s cash is held at major commercial banks, which may at times exceed the Federal Deposit Insurance Corporation (“FDIC”) limit. To date, the Company has not experienced any losses on its invested cash. On December 31, 2021 and 2020, the Company had approximately \$942,000 and \$449,000, respectively, of cash in excess of FDIC limits of \$250,000.

**Accounts and convertible notes receivable**

The Company recognizes an allowance for losses on accounts and notes receivable in an amount equal to the estimated probable losses net of recoveries. The allowance is based on an analysis of historical bad debt experience, current receivables aging and expected future write-offs, as well as an assessment of specific identifiable customer accounts and notes receivable considered at risk or uncollectible. The expense associated with the allowance for doubtful accounts is recognized in general and administrative expense. For the years ended December 31, 2021 and 2020, the Company did not record any allowances for doubtful accounts.

**ZONED PROPERTIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**Investment in joint ventures**

The Company has equity investments in various privately held entities. The Company accounts for these investments either under the equity method or cost method of accounting depending on the Company's ownership interest and level of influence. Investments accounted for under the equity method are recorded based upon the amount of the Company's investment and adjusted each period for its share of the investee's income or loss. Investments are reviewed for changes in circumstance or the occurrence of events that suggest an other than temporary event where our investment may not be recoverable. The Company evaluates its investments in these entities for consolidation. It considers its percentage interest in the joint venture, evaluation of control and whether a variable interest entity exists when determining whether or not the investment qualifies for consolidation or if it should be accounted for as an unconsolidated investment under either the equity method of accounting.

If an investment qualifies for the equity method of accounting, the Company's investment is recorded initially at cost, and subsequently adjusted for equity in net income (loss) and cash contributions and distributions. The net income or loss of an unconsolidated investment is allocated to its investors in accordance with the provisions of the operating agreement of the entity. The allocation provisions in these agreements may differ from the ownership interest held by each investor. Differences, if any, between the carrying amount of our investment in the respective joint venture and the Company's share of the underlying equity of such unconsolidated entity are amortized over the respective lives of the underlying assets as applicable. These items are reported as a single line item in the statements of operations as income or loss from investments in unconsolidated affiliated entities.

**Rental properties**

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

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

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

If the Company's estimates of the projected future cash flows, anticipated holding periods, or market conditions change, the Company's evaluation of impairment losses may be different and such differences could be material to its consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. For the years ended December 31, 2021 and 2020, the Company did not record any impairment losses.

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

**Property and equipment**

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

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

**ZONED PROPERTIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**Revenue recognition**

The Company follows ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASC 606 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures.

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

Currently, the Company’s leases provide for payments with fixed monthly base rents over the term of the leases. The leases also require the tenant to remit estimated monthly payments to the Company for property taxes. These payments are recorded as rental income and the related property tax expense reflected separately on the statements of operations.

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

Brokerage revenues primarily consist of real estate sales commissions and are recognized upon the successful completion of all required services which is when escrow closes. In accordance with the guidelines established for reporting revenue gross as a principal versus net as an agent in ASC Topic 606, the Company records commission revenues and expenses on a gross basis. Of the criteria listed in ASC Topic 606, the Company is the primary obligor in the transaction, does not have inventory risk, performs all or part of the service, has credit risk, and has wide latitude in establishing the price of services rendered and discretion in selection of agents and determination of service specifications. Brokerage revenues that are payable upon payment of rent or other events beyond the Company’s control are recognized upon the occurrence of such events.

**Lease accounting**

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

For contracts entered into on or after the effective date, where the Company is the lessee, at the inception of a contract, the Company assess whether the contract is, or contains, a lease. The Company’s assessment is based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether we obtain the right to substantially all the economic benefit from the use of the asset throughout the period, and (3) whether we have the right to direct the use of the asset. The Company allocates the consideration in the contract to each lease component based on its relative stand-alone price to determine the lease payments.

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

If a change to a pre-existing lease occurs, the Company evaluates if the modification results in a separate new lease or a modified lease. A new lease results when a modification provides additional right of use. The new lease or modified lease is then reassessed to determine its classification based on the modified terms. As disclosed in Note 3, on January 1, 2019, the Chino Valley lease was modified to increase the monthly base rent from \$35,000 to \$40,000. Additionally, on May 31, 2020, the Chino Valley lease was modified to decrease the monthly base rent from \$40,000 to \$32,800 and the Tempe lease was modified to increase the monthly base rent from \$33,500 to \$49,200. On August 23, 2021 and effective September 1, 2021, the Chino Valley lease was amended, and the monthly base rent was increased to \$55,195 due to additional space of 27,312 square feet being leased to the lessee. The increase in monthly rent was commensurate with the additional space being leased; therefore, this modification qualifies as a separate contract under ASC 842. At the commencement of the modified terms, the Company reassessed its lease classification and concluded it remained properly classified as an operating lease.

The Company records revenues from rental properties for its operating leases on a straight-line basis. Any revenue on the straight-line basis exceeding the monthly payment amount required on the operating lease is reflected as a deferred rent receivable. Effective May 31, 2020, the Company amended its leases for which it is the lessor on its Chino Valley, Tempe, Kingman and Green Valley properties. The amendments resulted in an abatement of rent for the months of June and July 2020. This rent abatement resulted in a deferred rent receivable as of December 31, 2021 and 2020 of \$164,770 and \$173,757, respectively (see Note 3).

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

**Basic and diluted loss per share**

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

The following potentially dilutive shares have been excluded from the calculation of diluted net loss per share as their effect would be anti-dilutive for the years ended December 31, 2021 and 2020.

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Convertible debt	404,000	404,000
Stock options	1,575,000	1,325,000
	<b>1,979,000</b>	<b>1,729,000</b>

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**Segment reporting**

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

**Income tax**

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

The Company follows the provisions of FASB ASC 740-10, "Uncertainty in Income Taxes". Certain recognition thresholds must be met before a tax position is recognized in the financial statements. An entity may only recognize or continue to recognize tax positions that meet a "more-likely-than-not" threshold. The Company does not believe it has any uncertain tax positions as of December 31, 2021 and 2020 that would require either recognition or disclosure in the accompanying consolidated financial statements.

**Stock-based compensation**

Stock-based compensation is accounted for based on the requirements of ASC 718 – "*Compensation – Stock Compensation*", which requires recognition in the financial statements of the cost of employee, director, and non-employee services received in exchange for an award of equity instruments over the period the employee, director, or non-employee is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee, director, and non-employee services received in exchange for an award based on the grant-date fair value of the award. The Company has elected to recognize forfeitures as they occur as permitted under Accounting Standards Update ("ASU") 2016-09 *Improvements to Employee Share-Based Payment Accounting*.

**Recently issued accounting pronouncements**

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years, and a modified retrospective approach is required, with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. In November of 2019, the FASB issued ASU 2019-10, which delayed the implementation of ASU 2016-13 to fiscal years beginning after December 15, 2022 for smaller reporting companies which applies to the Company. The Company is currently evaluating the impact of ASU 2016-13 on its future consolidated financial statements.

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In August 2020, the FASB issued ASU 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. The ASU simplifies the accounting for certain convertible instruments, amends the guidance on derivative scope exceptions for contracts in an entity's own equity and requires the use of the if-converted method for calculating diluted earnings per share. The ASU removes separation models for convertible debt with a cash conversion feature. Such convertible instruments will be accounted for as a single liability measured at amortized cost. The ASU is effective for interim and annual periods beginning after December 15, 2021, with early adoption permitted after December 15, 2020, which can either be on a modified retrospective or full retrospective basis. Adoption of the ASU is not expected to have a material impact on the Company's financial condition and results of operations.

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

**NOTE 3 – CONCENTRATIONS AND RISKS**

Lease Agreements with Significant Tenants

*Chino Valley*

On May 1, 2018, Chino Valley and Broken Arrow Herbal Center, Inc. ("Broken Arrow") agreed to terminate the prior Chino Valley Lease dated April 6, 2015, as amended, in consideration of (i) entry into that certain Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018 between Chino Valley and Broken Arrow (the "2018 Chino Valley Lease"), with a term of 22 years, expiring April 30, 2040, and (ii) abatement of rent that would otherwise have been due for the month of April 2018 under the prior Chino Valley Lease. The 2018 Chino Valley Lease provided for payment by Broken Arrow of a fixed monthly base rent of \$35,000, as well as real property taxes, personal property taxes, privilege, sales, rental, excise, use and/or other taxes (excluding income or estate taxes) levied upon or assessed against Chino Valley. In addition, pursuant to the terms of the 2018 Chino Valley Lease, Broken Arrow agreed to maintain insurance in full force during the term of the 2018 Chino Valley Lease and any other period of occupancy of the premises by Broken Arrow. On January 1, 2019, Chino Valley and Broken Arrow entered into that the First Amendment to the 2018 Chino Valley Lease (the "2019 Chino Valley Lease Amendment"), pursuant to which the monthly base rent was increased from \$35,000 to \$40,000. Except for the increase in base rent, the terms of the 2018 Chino Valley Lease remain in full force and effect.

On May 29, 2020, Chino Valley and Broken Arrow entered into a second amendment to the 2018 Chino Valley Lease, as amended (the "2020 Chino Valley Amendment"), effective May 31, 2020 ("Effective Date"). Pursuant to the terms of the 2020 Chino Valley Amendment, among other things, the base rent was adjusted to \$32,800 per month, and the base rent was abated from June 1, 2020 to July 31, 2020. Any increase in the rentable area of the leased premises will result in an increase in all amounts calculated based on the same, including, without limitation, base rent. Pursuant to the terms of the 2020 Chino Valley Amendment, the parties agreed that if there is any change in laws such that the dispensing, sale or cultivation of marijuana upon the premises is prohibited or materially and adversely affected as mutually and reasonably determined by Chino Valley and Broken Arrow, Broken Arrow may terminate the 2018 Chino Valley Lease, as amended, by delivering written notice to Chino Valley, together with a termination payment which shall be the sum of (i) any unpaid rent and interest, plus (ii) 5% of the base rent which would have been earned after termination for the balance of the term.

In addition, the parties agreed that from the period from the Effective Date to June 30, 2022 (the "Improvement Period"), Broken Arrow will and/or Broken Arrow will cause its affiliate, CJK, Inc. ("CJK"), to invest a combined total of at least \$8,000,000 of improvements ("Investment by Tenants") in and to the property that is the subject of the Chino Valley Lease and the property that is the subject of the Tempe Lease (discussed below, and collectively referred to as the "Facilities"). As of December 31, 2021, the Company's Significant Tenants have completed improvements to the Facilities totaling in excess of \$8,000,000 and have satisfied the contractual obligations related to the same.

On August 23, 2021, Chino Valley and Broken Arrow entered into the Third Amendment (the "Third Chino Valley Amendment") to the Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018, between Chino Valley and CJK, as amended (the "Chino Valley Lease"), effective September 1, 2021.



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Pursuant to the terms of the Chino Valley Lease, the parties previously agreed that between May 31, 2020 and May 31, 2022 (the “Improvement Period”), Broken Arrow would and/or Broken Arrow would cause its affiliate, CJK, to invest a combined total of at least \$8,000,000 of improvements in and to the property that is the subject of the Chino Valley Lease. The parties also previously agreed that the base rental payments under the Chino Valley Lease would increase commensurate to any and all expanded and operational square footage on the premises by calculating the fixed rate of \$0.82 per square foot per month by the new operational square footage. Broken Arrow has now satisfied its contractual obligation regarding these capital improvements.

Accordingly, in the Third Chino Valley Amendment, the parties agreed that, as of September 1, 2021, the rental payment is increased to \$55,195 per month base rental payment, plus additional rental payments, as a result of the increase in the square footage of the operational space. This lease modification qualifies as a separate contract as the modification grants the tenant additional right of use not included in the original lease, as amended, and the increase in monthly rent payments is commensurate with the standalone price for the additional square footage being leased. In addition, on January 24, 2022 and effective on March 1, 2022, Chino Valley and Broken Arrow entered into the Fourth Amendment to the Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018. Pursuant to the terms of the Fourth Chino Valley Amendment, the parties acknowledge an additional 30,000 square feet have become operational, increasing the premises to a total of 97,312 square feet of operational space (see Note 13).

*Green Valley*

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

On May 29, 2020, Green Valley and Broken Arrow entered into the First Amendment (the “Green Valley Amendment”) to the Green Valley Lease, effective May 31, 2020. Pursuant to the terms of the Green Valley Amendment, among other things, the parties agreed to abate the fixed base rent of \$3,500 from June 1, 2020 to July 31, 2020. In addition, the Green Valley Amendment provides that any increase in the rentable area of the leases premises will result in an increase in all amounts calculated based on the same, including, without limitation, base rent. The parties also agreed that if there is any change in laws such that the dispensing, sale or cultivation of marijuana upon the premises is prohibited or materially and adversely affected as mutually and reasonably determined by Green Valley and Broken Arrow, Broken Arrow may terminate the Green Valley Lease by delivering written notice to Green Valley, together with a termination payment which shall be the sum of (i) any unpaid rent and interest, plus (ii) 5% of the base rent which would have been earned after termination for the balance of the term.

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*Tempe*

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

On May 29, 2020, Zoned Arizona and CJK entered into the First Amendment (the “Tempe Amendment”) to the Tempe Lease, effective May 31, 2020. Pursuant to the terms of the Tempe Amendment, among other things, the base rent was increased to \$49,200 per month, and the base rent was abated from June 1, 2020 to July 31, 2020. Any increase in the rentable area of the leased premises will result in an increase in all amounts calculated based on the same, including, without limitation, base rent. Pursuant to the terms of the Tempe Amendment, the parties agreed that if there is any change in laws such that the dispensing, sale or cultivation of marijuana upon the premises is prohibited or materially and adversely affected as mutually and reasonably determined by Zoned Arizona and CJK, CJK may terminate the Tempe Lease by delivering written notice to Zoned Arizona, together with a termination payment which shall be the sum of (i) any unpaid rent and interest, plus (ii) 5% of the base rent which would have been earned after termination for the balance of the term.

In addition, under the Tempe Amendment the parties agreed to an Investment by Tenant (as defined above in the subheading *Chino Valley*) to the property that is the subject of the Chino Valley Lease and the property that is the subject of the Tempe Lease. If Broken Arrow and/or CJK fails to deliver to the Company receipted bills for hard and soft costs of improvements to the Facilities totaling at least \$8,000,000 on or before June 30, 2022, Broken Arrow and CJK will be in default under the Chino Valley Lease and Tempe Lease, as amended. As of December 31, 2021, the Company’s Significant Tenants have completed improvements to the Facilities totaling in excess of \$8,000,000 and have satisfied the contractual obligations related to the same.

*Kingman*

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

On May 29, 2020, Kingman and CJK entered into the First Amendment (the “Kingman Amendment”) to the Kingman Lease, effective May 31, 2020. Pursuant to the terms of the Kingman Amendment, among other things, the parties agreed to abate the \$4,000 base rent from June 1, 2020 to July 31, 2020. In addition, the Kingman Amendment provides that any increase in the rentable area of the leases premises will result in an increase in all amounts calculated based on the same, including, without limitation, base rent. The parties also agreed that if there is any change in laws such that the dispensing, sale or cultivation of marijuana upon the premises is prohibited or materially and adversely affected as mutually and reasonably determined by Kingman and CJK, CJK may terminate the Kingman Lease by delivering written notice to Kingman, together with a termination payment which shall be the sum of (i) any unpaid rent and interest, plus (ii) 5% of the base rent which would have been earned after termination for the balance of the term.

CJK and Broken Arrow, together, operate under the company brand, “Hana Meds” or “Hana”, and are referred to as the Company’s Significant Tenants.

The Tempe Lease, Kingman Lease, Chino Valley Lease and Green Valley Lease (together referred to as the “New Leases”) includes a Guarantee of Payment and Performance by Mr. Abrams and the Company’s Significant Tenants. Mr. Abrams guarantee is collateralized by the convertible debt of \$2,000,000 owed to him (see Note 8).

As of December 31, 2021 and 2020, security deposits payable to the Significant Tenants amounted to \$71,800 in both periods.

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Future minimum lease payments primarily consist of minimum base rent payments from Significant Tenants. Future minimum lease payments to be received, on all leased properties, for each of the five succeeding calendar years and thereafter as of December 31, 2021 consists of the following:

**Future annual base rent \*:**

2022	\$ 1,362,403
2023	1,362,403
2024	1,362,403
2025	1,362,403
2026	1,350,939
Thereafter	17,903,334
<b>Total</b>	<b>\$ 24,703,885</b>

\* Future annual base rent does not include the Fourth Chino Valley Amendment, effective March 1, 2022 which increased the monthly base rent to \$87,581, or an annual base rent to \$1,050,972 (See Note 13).

Rental and advisory revenue and receivable –Significant Tenants

For the years ended December 31, 2021 and 2020, rental and advisory revenue associated with the Significant Tenant leases described above amounted to \$1,255,130 and \$1,176,666, which represents 68.9% and 96.8% of the Company's total revenues, respectively.

On December 31, 2021 and 2020, accounts receivable from advisory services provided to the Significant Tenants amounted to \$2,813 and \$2,375, respectively. Further, as of December 31, 2021 and 2020 a deferred rent receivable of \$164,770 and \$173,757 is due from Significant Tenants due to the abatement of rent in the months of June and July 2020 under the amendments executed effective May 31, 2020 discussed above, respectively.

Asset concentration

The majority of the Company's real estate properties are leased to the Significant Tenants under triple-net leases that terminate in April 2040. The Company monitors the credit of all tenants to stay abreast of any material changes in credit quality. The Company monitors tenant credit by (1) reviewing financial statements and related metrics and information that are publicly available or that are provided to us upon request, and (2) monitoring the timeliness of rent collections.

As of December 31, 2021 and 2020, the Company had an asset concentration related to the Significant Tenants. As of December 31, 2021 and 2020, the Significant Tenants leased approximately 79.2% and 83.2% of the Company's total assets, respectively. Through December 31, 2021, all rental payments have been made on a timely basis. As of December 31, 2021 and 2020, the lease agreements with the Significant Tenants were personally guaranteed by Alan Abrams and are collateralized by convertibles notes of \$2,000,000 owed to Mr. Abrams (see Note 8). On March 1, 2018, the Company and Alan Abrams entered into a Reaffirmation Agreement (See Note 8).

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**NOTE 4 – RENTAL PROPERTIES**

On December 31, 2021 and 2020, rental properties, net consisted of the following:

<b>Description</b>	<b>Useful Life (Years)</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Building and building improvements	5-39	\$ 6,293,748	\$ 6,260,524
Land	-	2,016,548	2,283,214
Rental properties, at cost		8,310,296	8,543,738
Less: accumulated depreciation		(1,868,831)	(1,516,302)
Rental properties, net		<u>\$ 6,441,465</u>	<u>\$ 7,027,436</u>

On June 1, 2021, the Company closed on the sale of its Gilbert, AZ property with a third party (the “Purchaser”) pursuant to which the Company agreed to sell, and the Purchaser agreed to purchase, the property located in Gilbert, Arizona, for an aggregate purchase price of \$335,000. In connection with the sale, the Company received net proceeds of \$322,332 and recorded a gain on sale of rental property of \$51,944.

For the years ended December 31, 2021 and 2020, depreciation of rental properties amounted to \$352,529 and \$356,934, respectively.

**NOTE 5 – CONVERTIBLE NOTE RECEIVABLE**

On March 19, 2020, the Company made an initial investment of \$100,000 into KCB Jade Holdings, LLC (“KCB”), an entity founded by an individual related to the Company’s COO. KCB, doing business as Open Dør Dispensaries, is committed to guiding retailers through the chaos of cannabis. KCB is interested in cannabis dispensary license holders who want to elevate the experience of regulated cannabis utilizing the Open Dør Dispensaries retail model as franchisee partners. In exchange for the investment, KCB issued to the Company a convertible debenture (the “KCB Debenture”) dated March 19, 2020 (the “Issuance Date”) in the original principal amount of \$100,000. The KCB Debenture bears interest at the rate of 6.5% per annum and matures on March 19, 2025 (the “Maturity Date”). Interest on the outstanding principal sum of the KCB Debenture commences accruing on the Issuance Date and is computed on the basis of a 365-day year and the actual number of days elapsed and shall be payable annually due by the first day of each calendar anniversary following the Issuance Date. KCB may prepay the KCB Debenture at any point after 18 months following the Issuance Date, in whole or in part. However, if KCB elects to prepay the KCB Debenture prior to the Maturity Date or prior to any conversion as provided in the KCB Debenture in whole or in part, the Company will be entitled to receive a number of KCB units, in addition to such prepayment amount, constituting 10% of the total outstanding units and 10% of the total percentage interest following such issuance and at the time of such issuance.

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

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

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

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

On February 19, 2021 (the "Amendment Date"), the Company made an additional investment of \$100,000 into KCB (the "Additional Investment"). In exchange, KCB issued to the Company an amended and restated convertible debenture (the "A&R Debenture") on the Amendment Date. The A&R Debenture amends and restates in its entirety the KCB Debenture. Pursuant to the A&R Debenture, the Company and KCB agreed to certain new terms that did not exist in the KCB Debenture, which are described below.

- *Interest Accrual Commencement:* Pursuant to the A&R Debenture, interest on the Initial Investment begins accruing as of March 19, 2020, while interest on the Additional Investment begins accruing on February 19, 2021.
- *Franchise Fees.* In the A&R Debenture, the parties acknowledge that each time that KCB sells one of its franchise locations, KCB earns a fee (an "Initial Fee"), and that KCB also earns a fee when one of its franchise locations renews its franchise with KCB (a "Renewal Fee"). Pursuant to the A&R Debenture, the Company and KCB agreed that, as additional consideration for the Additional Investment, KCB will pay to the Company, in perpetuity, 5% of any Initial Fee received by KCB after the Amendment Date, as well as 5% of any Renewal Fee received by KCB related to any franchise locations sold after the Amendment Date, in each case to be paid within five (5) days of receipt of KCB thereof.

In addition, following the Amendment Date, KCB agreed not to decrease the amount it charges its franchise locations for an Initial Fee or any Renewal Fee as in effect on the Amendment Date without the prior written consent of the Company, or to take any other actions that would reduce the value of KCB's obligation to the Company with respect to these franchise fee payments. KCB's obligation to pay the Company the franchise fees listed above will survive any termination, repayment or conversion of the A&R Debenture. Failure by KCB to pay the Company the franchise fees in the manner described above will result in an event of default, and, among other things, any due and unpaid franchise fees will accrue interest at 12% per year from the date the obligation was due.

Apart from the terms described above, the terms of the A&R Debenture are substantially identical to the terms of the KCB Debenture.

On August 2, 2021, KCB issued to the Company a second amended and restated convertible debenture (the "Second A&R Debenture"). The Second A&R Debenture amends and restates in its entirety the A&R Debenture. Pursuant to the Second A&R Debenture, the Company and KCB agreed to revise certain terms in the A&R Debenture, as follows.

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*Right of Prepayment.* KCB may prepay the Second A&R Debenture at any point after 18 months following the Issue Date, in whole or in part. However, if KCB elects to prepay the Second A&R Debenture prior to March 19, 2025 (the “Maturity Date”) or prior to any conversion in whole or in part, the Company will be entitled to receive a number of KCB Class B units (“Class B Units”), in addition to such prepayment amount, constituting 10% of the total outstanding KCB Units (as defined in KCB’s Limited Liability Company Operating Agreement (the “Operating Agreement”), for the avoidance of doubt, being 10% of the total of KCB’s Class A units (“Class A Units”) and the Class B Units together, and 10% of the total Percentage Interest (as defined in the Operating Agreement) following such issuance and at the time of such issuance.

*Voluntary Conversion.* On or after six months from the Issue Date, the Company is entitled to convert all or a portion of the principal balance and all accrued and unpaid interest due under the Second A&R Debenture (the “Outstanding Amount”) into a number of Class B Units equal to the proportion of the Outstanding Amount being converted multiplied by the Conversion Percentage, as defined below). Should KCB default on payment hereof, the Company may, at its option, extend all conversion rights, through and including the date KCB tenders or attempts to tender payment in full of all amounts due under the Second A&R Debenture. Conversion rights will terminate upon acceptance by the Company of payment in full of principal, accrued interest and any other amounts due under the Second A&R Debenture.

*Conversion Percentage.* The Conversion Percentage will be 33% of the total number of Units (for the avoidance of doubt, being 33% of the total of the Class A Units and the Class B Units together), issued and outstanding at the time of conversion, constituting 33% of the total Percentage Interest (the “Conversion Percentage”).

*Right of Maturity Units.* If (i) KCB does not elect to exercise its prepayment rights prior to the Maturity Date, and (ii) the Company does not elect to exercise its conversion rights, and (iii) KCB pays to the Company all outstanding principal and interest accrued and due under the terms of the Second A&R Debenture on the Maturity Date, then the Company will still be entitled to receive a number of Class B Units, in addition to such payment amount, constituting 8% of the total outstanding Units (for the avoidance of doubt, being 8% of the total of the Class A Units and the Class B Units together) and 8% of the total Percentage Interest (as such term is defined in the Second A&R Debenture) following such issuance and at the time of such issuance. Apart from the terms described above, the terms of the Second A&R Debenture are substantially identical to the terms of the A&R Debenture.

The convertible note receivable has been accounted for at amortized cost and is evaluated for collectability at each reporting date. As of December 31, 2021 and 2020, an allowance was not deemed necessary.

On December 31, 2021, convertible note receivable and interest receivable amounted to \$200,000 and \$10,756, respectively. On December 31, 2020, convertible note receivable and interest receivable amounted to \$100,000 and \$5,129, respectively.

**NOTE 6 – INTANGIBLE ASSETS**

On April 1, 2021, the Company’s subsidiary, Zoned Brokerage, entered in an engagement letter for real estate brokerage services with a consultant for a guaranteed term of one year (the “Guaranteed Term”). During the Guaranteed Term, neither party may terminate the engagement letter, except for “Cause” as defined in the engagement letter. In connection with the engagement letter, the Company issued 60,000 shares of its common stock for the acquisition of brokerage materials and active real estate listings. In the event of termination of the engagement letter due to cause with respect to the consultant, the consultant must return to the Company a portion of the stock equal to the remaining portion of the Guaranteed Term. The shares were valued at their fair value of \$37,800 using the quoted per share price on the date of grant of \$0.63. In connection with these shares, on April 1, 2021, the Company recorded an intangible asset of \$37,800 which is amortized over the one-year term of the engagement letter.

On December 31, 2021 and 2020, intangible assets consisted of the following:

	Useful life	December 31, 2021	December 31, 2020
Real estate brokerage materials and listing	1 year	\$ 37,800	-
Less: accumulated amortization		(28,350)	-
		<u>\$ 9,450</u>	<u>\$ -</u>

For the year ended December 31, 2021, amortization of intangible assets amounted to \$28,350, respectively.

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**NOTE 7 – INVESTMENT IN JOINT VENTURES**

On December 31, 2021 and 2020, the Company held investments with aggregate carrying values of \$74,554 and \$0, respectively. The entities listed below are partially owned by the Company. The Company accounts for these investments under the equity method of accounting as the Company exercises significant influence but does not exercise financial and operating control over these entities. Investments are reviewed for changes in circumstance or the occurrence of events that suggest an other than temporary event where the Company’s investment may not be recoverable. A summary of the Company’s original investments in the unconsolidated affiliated entities and net carrying value amount is as follows:

Entity	Date Acquired	Ownership %	Original Investment Amount	Net Carrying Value	
				December 31, 2021	December 31, 2020
Beakon, LLC (the “Beakon Joint Venture”)	April 22, 2021	50.0%	\$ 86,000	\$ -	\$ -
Zoneomics Green, LLC (the “Zoneomics Green Joint Venture”)	May 1, 2021	50.0%	90,000	74,554	-
Total investments in unconsolidated joint venture entities			\$ 176,000	\$ 74,554	\$ -

On April 22, 2021, ZP Data entered into a Limited Liability Company Operating Agreement (the “Beakon Operating Agreement”) with a non-affiliated joint venture partner in connection with the formation of Beakon, LLC (“Beakon”), a Delaware limited liability company formed on April 16, 2021. Beakon signed a licensing agreement for the licensing of a consumer data/marketing software platform that Beakon will white-label for the cannabis industry. Beakon’s goal is to develop and leverage the platform to help drive foot traffic to brick and mortar retail (i.e. dispensaries), and thus enhance the value of the real estate and mitigate risk. Pursuant to the Beakon Operating Agreement, ZP Data purchased 50 units of Beakon for \$50, which represent 50% of the membership interests of Beakon. Each unit represents, with respect to any member, such member’s: (i) interest in Beakon’s capital, (ii) share of Beakon’s net profits and net losses (and specially allocated items of income, gain, and deduction), and the right to receive distributions of net cash flow from Beakon, (iii) right to inspect Beakon’s books and records, and (iv) right to participate in the management of and vote on matters coming before the members as provided in the Beakon Operating Agreement. The transactions discussed above resulted in a joint venture, in accordance with ASC 323-10 – *Investments- Equity and Joint Ventures*, between ZP Data and the non-affiliated party. Each of the entities has 50% equity ownership and voting rights, and joint control in Beakon. ZP Data will account for its investment in Beakon under the equity method of accounting in accordance with ASC 323. During the year ended December 31, 2021, the Company contributed \$86,000 to Beakon. Currently, the licensing company and Beakon have completed the creation of the foundational design, technology platform, and market positioning for Beakon to launch in the cannabis industry. However, in order to successfully launch, the technology platform relies upon a required merchant banking component. This was the primary risk for the Company in its financial investment and for Beakon in moving to a successful launch. While Company management knew this risk was a major factor going into the investment, it was not foreseen exactly when an appropriate merchant banking solution would be available given the federal status of regulated cannabis and specifically the federal banking status as it relates to regulated cannabis, even for ancillary services such as Beakon. During the fourth quarter of 2021, a negative open memo was published and distributed by Visa regarding merchant banking in regulated industries. The Company believes that this occurrence has unexpectedly and significantly increased the risk to the Beakon project and must be remedied prior to the launch of Beakon. The uncertainty related to cannabis banking reform and regulation at the federal level, which the Beakon platform relies upon, is now so uncertain that the Company believes it is most appropriate to cause an impairment of the Beakon investment at this time, while also understanding that Beakon may still very well create material value for the Company in the future. The Company has no further financial or investment obligations at this time. Accordingly, on December 31, 2021, the Company recorded an other-than-temporary impairment loss of \$73,970 because it was determined that the fair value of its equity method investment in Beakon was less than its carrying value. Based on management’s evaluation, it was determined that due to market and regulatory conditions, implementing the Company’s business model was at risk and that the Company’s ability to recover the carrying amount of the investment in Beakon was impaired. Beakon is currently inactive. For the year ended December 31, 2021, the \$73,970 impairment loss is included in impairment loss from unconsolidated joint ventures on the consolidated statement of operations.

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On May 1, 2021, the Company entered into a Limited Liability Company Operating Agreement (the “Zoneomics Green Operating Agreement”) with a non-affiliated joint venture partner in connection with the formation of Zoneomics Green, LLC (“Zoneomics Green”), a Delaware limited liability company formed on May 1, 2021. Zoneomics Green’s goal is to utilize advanced property technology to provide solutions for property identification in regulated industries such as regulated cannabis. Pursuant to the Zoneomics Green Operating Agreement, the Company purchased 50 units of Zoneomics Green for a capital contribution of \$90,000, which represent 50% of the membership interests of Zoneomics Green. Each unit represents, with respect to any member, such member’s: (i) interest in Zoneomics Green’s capital, (ii) share of Zoneomics Green’s net profits and net losses (and specially allocated items of income, gain, and deduction), and the right to receive distributions of net cash flow from Zoneomics Green, (iii) right to inspect Zoneomics Green’s books and records, and (iv) right to participate in the management of and vote on matters coming before the members as provided in the Zoneomics Green Operating Agreement. The transactions discussed above resulted in a joint venture, in accordance with ASC 323-10 – *Investments- Equity and Joint Ventures*, between the Company and the non-affiliated party. Each of the entities has 50% equity ownership and voting rights, and joint control in Zoneomics Green. In June 2021, the Company contributed \$90,000 to Zoneomics Green.

The following represents summarized financial information derived from the financial statements of the Beakon and Zoneomics Green Joint Ventures, respectively, as of December 31, 2021 and for the year ended December 31, 2021.

**Balance sheet**

	<u>Beakon</u>	<u>Zoneomics Green</u>
Current assets:		
Cash	\$ 2,940	\$ 59,109
Licensing agreement	150,000	-
Total assets	<u>\$ 152,940</u>	<u>\$ 59,109</u>
Liabilities	\$ -	\$ -
Equity	152,940	59,109
Total liabilities and equity	<u>\$ 152,940</u>	<u>\$ 59,109</u>

**Statement of operations**

	<u>For the Year Ended December 31, 2021</u>	
	<u>Beakon</u>	<u>Zoneomics Green</u>
Net sales	\$ -	\$ -
Operating expenses	(24,060)	(30,891)
Net loss	<u>\$ (24,060)</u>	<u>\$ (30,891)</u>
Company’s share of loss from unconsolidated joint ventures	<u>\$ (12,030)</u>	<u>\$ (15,446)</u>

During the year ended December 31, 2021, the Company recorded a loss from joint venture of \$101,446 which represents the Company’s proportionate share of losses from its joint ventures of \$27,476 and a loss on impairment of \$73,970.



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**NOTE 8 – CONVERTIBLE NOTE PAYABLE**

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

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

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

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

As of December 31, 2021 and 2020, the principal balance due under the Abrams Debenture is \$2,000,000. As of December 31, 2021 and 2020, accrued interest payable due under the Abrams Debenture amounted to \$30,000, which is included in accrued expenses on the accompanying consolidated balance sheets.

For the years ended December 31, 2021 and 2020, interest expense related to the Abrams Debenture amounted to \$120,000

**NOTE 9 – RELATED PARTY TRANSACTION**

***Convertible notes payable – related party***

On January 9, 2017, the Company issued a convertible debenture (the “McLaren Debenture”) in the principal amount of \$20,000 in favor of Bryan McLaren, the Company’s Chief Executive Officer, President, Chief Financial Officer, and a member of the Company’s Board of Directors, in exchange for cash from Mr. McLaren of \$20,000. The McLaren Debenture accrued interest at the rate of 6% per annum payable quarterly by the 1<sup>st</sup> of each quarter and matured on January 9, 2022. Pursuant to the terms of the McLaren Debenture, Mr. McLaren was entitled to convert all or a portion of the principal balance and all accrued and unpaid interest due under this McLaren Debenture into shares of the Company’s common stock at a conversion price of \$5.00 per share.

As of December 31, 2021 and 2020, the principal balance due under the McLaren Debenture was \$20,000.

As of December 31, 2021 and 2020, accrued interest payable due under the McLaren Debenture was \$5,400 and \$4,200, respectively, which is included in accrued expenses – related party on the accompanying consolidated balance sheets.

For the years ended December 31, 2021 and 2020, interest expense – related party amounted to \$1,200.

On January 7, 2022, the Company repaid this debt and all accrued and unpaid interest due.

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***Indemnification agreements***

On August 23, 2021, the Company entered into indemnification agreements with each of its directors and executive officers. In general, these indemnification agreements require the Company to indemnify a director and officer to the fullest extent permitted by law against liabilities that may arise in connection with that director's service as a director and officer for the Company. Additionally, the Company shall advance expenses incurred as a result of any proceeding against them as to which they could be indemnified. In August 2021, the Company did not renew its officers and directors insurance.

**NOTE 10 – STOCKHOLDERS' EQUITY**

***(A) Preferred Stock***

On December 13, 2013, the Board of Directors of the Company authorized and approved the creation of a new class of Preferred Stock consisting of 5,000,000 shares authorized, \$.001 par value. The preferred stock is not convertible into any other class or series of stock. The holders of the preferred stock are entitled to fifty (50) votes for each share held. Voting rights are not subject to adjustment for splits that increase or decrease the common shares outstanding. Upon liquidation, the holders of the shares will be entitled to receive \$1.00 per share plus redemption provision before assets distributed to other shareholders. The holders of the shares are entitled to dividends equal to common share dividends. As of December 31, 2021 and 2020, there were 2,000,000 shares of preferred stock outstanding. Once any shares of Preferred Stock are outstanding, at least 51% of the total number of shares of Preferred Stock outstanding must approve the following transactions:

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

***(B) Common stock issued for services***

**2020**

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

**2021**

On January 31, 2021, the Company issued an aggregate of 130,000 shares of common stock to members of the Company's board of directors for services rendered. The shares were valued at their aggregate fair value of \$52,000 using the quoted per share price on the date of grant of \$0.40. In connection with these grants, in January 2021, the Company recorded stock-based compensation expense of \$52,000 which is included in compensation and benefits on the consolidated statements of operations.

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***(C) Shares issued for intangible assets***

On April 1, 2021, the Company's subsidiary, Zoned Brokerage, entered in an engagement letter for real estate brokerage services with a consultant for a guaranteed term of one year (the "Guaranteed Term"). During the Guaranteed Term, neither party may terminate the engagement letter, except for "Cause" as defined in the engagement letter. In connection with the engagement letter, the Company issued 60,000 shares of its common stock for the acquisition of brokerage materials and active real estate listings. In the event of termination of the engagement letter due to Cause with respect to the consultant, the consultant must return to the Company a portion of the stock equal to the remaining portion of the Guaranteed Term. The shares were valued at their fair value of \$37,800 using the quoted per share price on the date of grant of \$0.63. In connection with these shares, on April 1, 2021, the Company recorded an intangible asset of \$37,800 which is amortized over the one-year term of the engagement letter.

***(D) Equity incentive plans***

On August 9, 2016, the Company's Board of Directors authorized the 2016 Equity Incentive Plan (the "2016 Plan") and reserved 10,000,000 shares of common stock for issuance thereunder. The 2016 Plan was approved by shareholders on November 21, 2016. The 2016 Plan's purpose is to encourage ownership in the Company by employees, officers, directors and consultants whose long-term service the Company considers essential to its continued progress and, thereby, encourage recipients to act in the stockholders' interest and share in the Company's success. The 2016 Plan authorizes the grant of awards in the form of options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, options that do not qualify (non-statutory stock options) and grants of restricted shares of common stock. Restricted shares granted pursuant to the 2016 Plan are amortized to expense over the vesting period. Options vest and expire over a period not to exceed seven years. If any share of common stock underlying a stock option that has been granted ceases to be subject to a stock option, or if any shares of common stock that are subject to any other stock-based award granted are forfeited or terminate, such shares shall again be available for distribution in connection with future grants and awards under the 2016 Plan. As of December 31, 2021, 325,000 stock option awards are outstanding and 125,000 options are exercisable under the 2016 Plan. As of December 31, 2020, 75,000 stock option awards were outstanding and 75,000 options were exercisable under the 2016 Plan. As of December 31, 2021 and 2020, 9,675,000 and 9,925,000 shares, respectively, were available for future issuance.

The Company also continues to maintain its 2014 Equity Compensation Plan (the "2014 Plan"), pursuant to which 1,250,000 previously awarded stock options are outstanding. The 2014 Plan has been superseded by the 2016 Plan. Accordingly, no additional shares subject to the existing 2014 Plan will be issued and the 1,250,000 shares issuable upon exercise of stock options will be issued pursuant to the 2014 Plan, if exercised. As of December 31, 2021 and 2020, options to purchase 1,250,000 shares of common stock are outstanding and 1,175,000 options are exercisable pursuant to the 2014 Plan.

***(E) Stock options***

On January 6, 2020, the Company granted an employee an option, pursuant to the 2016 Plan, to purchase 125,000 of the Company's common stock at an exercise price of \$1.00 per share. The grant date of the option was January 6, 2020 and the option expires on January 6, 2030. The option vests as to (i) 35,000 of such shares on January 6, 2020; and (ii) as to 10,000 of such shares on January 6, 2021 and each year thereafter through January 6, 2029. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 110%; risk-free interest rate of 1.81%; and an estimated holding period of 10 years. In connection with these options, the Company valued these options at a fair value of \$23,388 and will record stock-based compensation expense over the vesting period. In July 2020, this employee was terminated and 90,000 unvested options were cancelled.

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On January 1, 2021, the Company granted a consultant, now Chief Operating Officer of the Company as of July 1, 2021, an option, pursuant to the 2016 Plan, to purchase 125,000 of the Company's common stock at an exercise price of \$1.00 per share. The grant date of the option was January 1, 2021 and the option expires on January 1, 2031. The option vests as to (i) 25,000 of such shares on January 1, 2021; and (ii) as to 10,000 of such shares on January 1, 2022 and each year thereafter through January 1, 2031. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 117%; risk-free interest rate of 0.93%; and an estimated holding period of 10 years. In connection with these options, the Company valued these options at a fair value of \$48,677 and will record stock-based compensation expense over the vesting period.

On July 1, 2021, the Company entered into a 12-month engagement with an individual to act as the Company's Director of Real Estate. In connection with this engagement letter, on July 1, 2021, the Company granted the consultant an option, pursuant to the 2016 Plan, to purchase 125,000 of the Company's common stock at an exercise price of \$1.00 per share. The grant date of the option was July 1, 2021 and the option expires on July 1, 2031. The option vests as to (i) 25,000 of such shares on July 1, 2021; and (ii) as to 10,000 of such shares on July 1, 2022 and each year thereafter through July 1, 2031. The vesting of the Option pursuant to the Vesting Schedule hereof is earned only by continuing as a service provider at the will of the Company. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 119%; risk-free interest rate of 1.48%; and an estimated holding period of 10 years. In connection with these options, the Company valued these options at a fair value of \$69,677 and will record stock-based compensation expense over the vesting period.

For the years ended December 31, 2021 and 2020, in connection with the accretion of stock-based option expense, the Company recorded stock option expense of \$56,180 and \$24,231, respectively. As of December 31, 2021, there were 1,575,000 options outstanding and 1,300,000 options vested and exercisable. As of December 31, 2021, there was \$92,335 of unvested stock-based compensation expense to be recognized through June 2031. The aggregate intrinsic value on December 31, 2021 was \$1,400 and was calculated based on the difference between the quoted share price on December 31, 2021 of \$0.775 and the exercise price of the underlying options.

Stock option activities for the years ended December 31, 2021 and 2020 are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance Outstanding December 31, 2019	1,290,000	\$ 0.99	5.74	\$ -
Granted	125,000	1.00		-
Forfeited	(90,000)	1.00		-
Balance Outstanding December 31, 2020	1,325,000	0.99	4.85	-
Granted	250,000	1.00	-	-
Balance Outstanding December 31, 2021	1,575,000	\$ 0.99	4.71	\$ 1,400
Exercisable, December 31, 2021	1,300,000	\$ 0.99	4.00	\$ 1,400
Balance Non-vested on December 31, 2020	100,000	\$ 1.00	-	\$ -
Granted	250,000	1.00	-	-
Vested during the period	(75,000)	1.00	-	-
Balance Non-vested on December 31, 2021	275,000	\$ 1.00	8.10	\$ -

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**NOTE 11 - INCOME TAXES**

The Company maintains deferred tax assets and liabilities that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The deferred tax assets on December 31, 2021 and 2020 consist of net operating loss carryforwards. The net deferred tax asset has been fully offset by a valuation allowance because of the uncertainty of the attainment of future taxable income.

The items accounting for the difference between income taxes at the effective statutory rate and the provision for income taxes for the years ended December 31, 2021 and 2020 were as follows:

	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Income tax benefit at U.S. statutory rate	\$ (34,822)	\$ (16,311)
Income tax benefit – state	(10,778)	(5,092)
Non-deductible expenses	16,192	6,663
Change in valuation allowance	29,408	14,740
<b>Total provision for income tax</b>	<b>\$ -</b>	<b>\$ -</b>

The Company's approximate net deferred tax asset as of December 31, 2021 and 2020 was as follows:

<b>Deferred Tax Asset:</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Net operating loss carryforward	\$ 514,580	\$ 485,172
Net deferred tax assets before valuation allowance	514,580	485,172
Valuation allowance	(514,580)	(485,172)
<b>Net deferred tax asset</b>	<b>\$ -</b>	<b>\$ -</b>

The net operating loss carryforward was approximately \$1,871,200 on December 31, 2021. The Company provided a valuation allowance equal to the net deferred income tax asset as of December 31, 2021 and 2020 because it was not known whether future taxable income will be sufficient to utilize the loss carryforward. Additionally, the future utilization of the net operating loss carryforward to offset future taxable income is subject to an annual limitation as a result of ownership changes that may occur in the future. The 2017 estimated loss carry forward of approximately \$1,488,189 expires on December 31, 2037. Subsequent to 2017, all estimated loss carry forwards may be carried forward indefinitely subject to annual usage limitations. Based on the Company's analysis to determine the limitation on the utilization of its net operating loss carryforward amounts, in 2018, the deferred tax asset was reduced by any carryforward that cannot be utilized or expires prior to utilization as a result of such limitations, with a corresponding reduction of the valuation allowance. In 2021, the valuation allowance increased by \$29,408. The potential tax benefit arising from certain loss carryforwards will expire in 2041.

The Company does not have any uncertain tax positions or events leading to uncertainty in a tax position. The Company's 2021, 2020, 2019 and 2018 Corporate Income Tax Returns are subject to Internal Revenue Service examination.

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**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

***Rental property acquisition***

On April 22, 2016, Zoned Colorado, a wholly owned subsidiary of the Company, entered into a Contract to Buy and Sell Real Estate (the “Parachute Agreement”) with Parachute Development Corporation (“Seller”) pursuant to which Zoned Colorado agreed to purchase, and Seller agreed to sell, property in Parachute, Colorado (the “Property”) for a purchase price of \$499,857. In April 2016, the Company paid a refundable deposit of \$45,000 into escrow in connection with the Parachute Agreement which is included in prepaid expenses and other assets on the consolidated balance sheet as of December 31, 2020. In January 2021, the Parachute Agreement was mutually terminated, and the refundable deposit was returned to the Company.

***Legal matters***

From time to time, the Company may be involved in litigation related to claims arising out of its operations in the normal course of business. As of December 31, 2021 and 2020, the Company is not involved in any pending or threatened legal proceedings that it believes could reasonably be expected to have a material adverse effect on its financial condition, results of operations, or cash flows.

***Employment and Related Golden Parachute Agreement***

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

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

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

**ZONED PROPERTIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

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

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

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

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

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

**ZONED PROPERTIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

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

- (i) During any period that he fails to perform his full-time duties with the Company as a result of incapacity due to physical or mental illness, Mr. McLaren will continue to receive his base salary at the rate in effect at the commencement of any such period, together with all amounts payable to him under any compensation plan of the Company during such period, until the Golden Parachute Agreement is terminated.
- (ii) If Mr. McLaren's employment is terminated by the Company for Cause or by Mr. McLaren other than for Good Reason, disability, death or retirement, the Company will pay Mr. McLaren his full base salary through the date of Termination at the rate in effect at the time notice of Termination is given, plus all other amounts and benefits to which he is entitled under any compensation plan of the Company at the time such payments are due.
- (iii) If employment by the Company shall be terminated (a) by the Company other than for Cause, death or disability or (b) by Mr. McLaren for Good Reason, Mr. McLaren will be entitled to benefits provided below:
  - a. The Company will pay Mr. McLaren his full base salary through the date of Termination at the rate in effect at the time notice of Termination is given, plus all other amounts and benefits to which he is entitled under any compensation plan of the Company.
  - b. In lieu of any further salary payments to Mr. McLaren for periods subsequent to the date of Termination, the Company will pay as severance pay to Mr. McLaren a lump sum severance payment (together with the payments provided in clauses (c) and (d) below) equal to five times the sum of his annual base salary in effect immediately prior to the occurrence of the circumstance giving rise to the notice of Termination given in respect of them.
  - c. The Company will pay to Mr. McLaren any deferred compensation allocated or credited to him or his account as of the date of Termination.
  - d. In lieu of shares of common stock of the Company issuable upon exercise of outstanding options, if any, granted to Mr. McLaren under the Company's stock option plans (which options shall be cancelled upon the making of the payment referred to below), Mr. McLaren will receive an amount in cash equal to the product of (i) the excess of the closing price of the Company's common stock as reported on or nearest the date of Termination (or, if not so reported, on the basis of the average of the lowest asked and highest bid prices on or nearest the date of Termination), over the per share exercise price of each option held by Mr. McLaren (whether or not then fully exercisable) plus the amount of any applicable cash appreciation rights, times (ii) the number of the Company's common stock covered by each such option.
  - e. The Company will also pay to Mr. McLaren all legal fees and expenses incurred by him as a result of such Termination.

**401(k) Plan**

On September 29 2021, the Company's board of directors adopted the Zoned Properties 401(k) Plan (the "Plan") effective January 1, 2021. The Company will contribute a matching contribution to the Plan for each employee in an amount equal to 100% of the matched employee contributions that are not in excess of 4% of the employee's plan compensation. During the year ended December 31, 2021, contributions into the Plan amounted to \$907.



**ZONED PROPERTIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 13 – SUBSEQUENT EVENTS**

*Stock options*

The Company's Board of Directors unanimously agreed to stop receiving any direct stock issuance or cash payments related to their compensation for services on the Company's Board of Directors. The Company and its Directors believe it is in the Company's best interest to transition Directors compensation to a multi-year stock option plan. Accordingly, on January 21, 2022, the Company granted stock options to purchase an aggregate of 525,000 of the Company's common stock at an exercise price of \$0.78 per share to members of the Company's board of directors pursuant to the 2016 Plan. The grant date of the stock options was January 21, 2022 and the options expire on January 21, 2032. The stock option shall vest in equally quarterly installments, with the first installment of 43,750 stock options vesting on January 20, 2022, and 43,750 stock options vesting each quarter through October 21, 2024. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 112.3%; risk-free interest rate of 1.75%; and an estimated holding period of 10 years. In connection with these options, the Company valued these stock options at a fair value of \$391,185 and will record stock-based compensation expense over the vesting period.

On January 21, 2022, the Company granted a stock option to purchase an aggregate of 75,000 of the Company's common stock at an exercise price of \$1.00 per share to the Company's chief operating officer pursuant to the 2016 Plan. The grant date of the stock option was January 21, 2022 and the options expire on January 21, 2032. The option vests as to (i) 15,000 of such shares on January 21, 2022; and (ii) as to 7,500 of such shares on January 21, 2023 and each year thereafter through January 21, 2030. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 112.3%; risk-free interest rate of 1.75%; and an estimated holding period of 10 years. In connection with these options, the Company valued these stock options at a fair value of \$55,334 and will record stock-based compensation expense over the vesting period.

*Lease amendment*

Effective January 24, 2022, Chino Valley and Broken Arrow entered into the Fourth Amendment (the "Fourth Chino Valley Amendment") to the Licensed Medical Marijuana Facility Triple Net (NNN) Lease Agreement dated May 1, 2018, between Chino Valley and CJK, as amended. Pursuant to the terms of the Fourth Chino Valley Amendment, the parties acknowledge that an additional 30,000 square feet have become operational, increasing the premises to a total of 97,312 square feet of operational space. In connection with the Fourth Chino Valley Amendment, the Company paid \$500,000 to CJK as a tenant improvement allowance for investment into the premises, which shall be capitalized as a lease incentive receivable and recognized on a straight-line basis over the remaining lease term as a reduction to the lease income.

Pursuant to the terms of the Fourth Chino Valley Amendment, effective March 1, 2022, the monthly base rent was increased to \$87,581, representing an increase from \$0.82 per square foot to \$0.90 per square foot, for all current and future operational square footage that may be developed as the premises continues to expand. In addition, Broken Arrow agreed that it would provide audited financial statements to Chino Valley on an annual basis no later than March 20<sup>th</sup> of each calendar year.

*Note payable – related party*

On January 7, 2022, the Company repaid the note payable – related party in the principal amount of \$20,000 and all accrued and unpaid interest due (See Note 9).

*Assumption of office lease*

On March 15, 2022, the Company entered to an Assumption of Lease and Consent Agreement with a landlord, whereby the landlord consented to the assignment of an office lease, as amended, from the original tenant to the Company. The lease term shall begin on March 15, 2022 and expire on November 30, 2024, provided the Company has the option to extend the lease for an additional five years. The monthly base rent shall be \$2,932 per month through November 30, 2021, \$3,005 from December 1, 2022 through November 30, 2023, and \$3,078 from December 1, 2023 through November 30, 2024.

## SUBSIDIARIES

<b>Subsidiary Name</b>	<b>Jurisdiction of Incorporation</b>
Gilbert Property Management, LLC	Arizona
Green Valley Group, LLC	Arizona
Kingman Property Group, LLC	Arizona
Chino Valley Properties, LLC	Arizona
Zoned Arizona Properties, LLC	Arizona
Zoned Advisory Services, LLC	Arizona
Zoned Oregon Properties, LLC	Oregon
Zoned Colorado Properties, LLC	Colorado
Zoned Illinois Properties, LLC	Illinois
Zoned Properties Brokerage, LLC	Arizona
ZP Data Platform 1, LLC	Arizona

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference to the Registration Statement on Form S-8 (File No. 333-213150) of Zoned Properties, Inc. of our report dated March 24, 2022, relating to the consolidated financial statements of Zoned Properties, Inc. which appear in this Form 10-K.

/s/ D. Brooks and Associates CPAs, P.A.

D. Brooks and Associates CPAs, P.A.

Palm Beach, FL

March 24, 2022

Certifications

I, Bryan McLaren, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2021 of Zoned Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 24, 2022

/s/ Bryan McLaren

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

Certifications

I, Bryan McLaren, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2021 of Zoned Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 24, 2022

/s/ Bryan McLaren

Bryan McLaren  
Chief Financial Officer  
(principal financial officer)

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

In connection with the annual report of Zoned Properties, Inc. (the "Company") on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryan McLaren, Chief Executive Officer, President and Chief Financial Officer of the Company, certify to the best of my knowledge:

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

Date: March 24, 2022

*/s/ Bryan McLaren*

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



**AC Management Group, LLC and Affiliates**  
Consolidated Financial Statements  
December 31, 2021 and 2020

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
AC Management Group, LLC and Affiliates  
Tempe, Arizona

### Opinion

We have audited the accompanying consolidated financial statements (“financial statements”) of AC Management Group, LLC (an Arizona corporation) and Affiliates (Arizona nonprofit organizations), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of income, changes in members’ equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AC Management Group, LLC and Affiliates as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AC Management Group, LLC and Affiliates and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AC Management Group, LLC and Affiliates’ ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AC Management Group, LLC and Affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AC Management Group, LLC and Affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

/s/ Price, Kong & Co., CPA's, P.A.

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Price, Kong & Co., CPA's, P.A.  
Phoenix, Arizona  
March 22, 2022

**AC MANAGEMENT GROUP, LLC & AFFILIATES**

Consolidated Statements of Financial Position

December 31, 2021 and 2020

**ASSETS**

	<u>2021</u>	<u>2020</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 503,343	\$ 2,133,021
Accounts receivable	243,956	107,462
Inventory	1,373,999	1,272,231
Prepaid expenses	323,087	172,685
<b>Total Current Assets</b>	<u>2,444,385</u>	<u>3,685,399</u>
<b>Noncurrent Assets</b>		
Property and equipment, net of accumulated depreciation	12,300,262	6,553,836
Security deposits	82,100	77,100
<b>Total Noncurrent Assets</b>	<u>12,382,362</u>	<u>6,630,936</u>
<b>Total Assets</b>	<u>\$ 14,826,747</u>	<u>\$ 10,316,335</u>

**LIABILITIES AND MEMBERS' EQUITY**

<b>Current Liabilities</b>		
Accounts payable	\$ 999,404	\$ 245,874
Accrued expenses	454,661	516,800
Income tax payable	424,758	521,355
Due to related parties	330,978	179,750
Sales tax payable	522,585	64,685
Current portion of capital lease payable	122,326	-
Current portion of related party notes payable	818,185	-
Current portion of deferred rent liability	10,996	-
<b>Total Current Liabilities</b>	<u>3,683,893</u>	<u>1,528,464</u>
<b>Noncurrent Liabilities</b>		
Capital lease payable, less current portion	53,305	-
Related party notes payable, less current portion	181,815	-
Deferred rent liability, less current portion	100,813	-
Deferred tax liability	144,000	30,000
<b>Total Noncurrent Liabilities</b>	<u>479,933</u>	<u>30,000</u>
<b>Total Liabilities</b>	<u>4,163,826</u>	<u>1,558,464</u>
<b>Members' Equity</b>	<u>10,662,921</u>	<u>8,757,871</u>
<b>Total Liabilities and Members' Equity</b>	<u>\$ 14,826,747</u>	<u>\$ 10,316,335</u>

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

**AC MANAGEMENT GROUP, LLC & AFFILIATES**

Consolidated Statements of Income

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues		
Medicinal sales	\$ 4,295,934	\$ 6,214,246
Recreational sales	3,833,396	-
Wholesale sales	4,405,475	4,159,667
Total Revenues	<u>12,534,805</u>	<u>10,373,913</u>
Cost of Goods Sold	<u>9,642,847</u>	<u>6,437,456</u>
Gross Profit	2,891,958	3,936,457
Operating Expenses		
Salaries and wages	2,198,472	1,324,339
Rent	636,509	305,555
Advertising	470,993	212,904
Professional fees	266,386	167,334
Royalties	177,915	163,749
Depreciation	104,027	1,053
Computer and internet	89,615	36,633
Travel and training	85,956	52,893
Insurance	80,741	34,854
Office expenses	70,647	36,845
Licensing	68,822	-
Repairs and maintenance	35,733	23,511
Utilities	25,377	19,368
Bad debt expense	-	11,400
Other	90,198	79,031
Total Operating Expenses	<u>4,401,391</u>	<u>2,469,469</u>
Operating Income (Loss)	(1,509,433)	1,466,988
Other Income (Expense)		
ATM fees	6,759	9,437
License rental income	29,000	-
Interest expense	(31,653)	-
Income tax expense	(156,909)	(523,173)
Deferred tax expense	(114,000)	(30,000)
Gain on disposal of fixed assets	4,671	-
Other income	31,064	50,000
Total Other Income (Expense)	<u>(231,068)</u>	<u>(493,736)</u>
Net Income (Loss)	<u>\$ (1,740,501)</u>	<u>\$ 973,252</u>

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

**AC MANAGEMENT GROUP, LLC & AFFILIATES**  
Consolidated Statements of Changes in Members' Equity  
December 31, 2021 and 2020

Members' Equity as of January 1, 2020	\$ 1,733,261
Members' Contributions	6,051,358
Net Income	<u>973,252</u>
Members' Equity as of December 31, 2020	8,757,871
Members' Contributions	3,645,551
Net Loss	<u>(1,740,501)</u>
Members' Equity as of December 31, 2021	<u><u>\$ 10,662,921</u></u>

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

**AC MANAGEMENT GROUP, LLC & AFFILIATES**

Consolidated Statements of Cash Flows

December 31, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Net income (loss)	\$ (1,740,501)	\$ 973,252
Adjustments to reconcile change in members' equity to net cash provided by (used for) operating activities:		
Depreciation expense	411,052	38,866
Gain on disposal of fixed assets	(4,671)	-
(Increase) decrease in operating assets:		
Accounts receivable	(136,494)	77,152
Inventory	(101,768)	(431,485)
Prepaid expenses	(150,402)	(147,606)
Increase (decrease) in operating liabilities:		
Accounts payable	753,530	187,845
Accrued expenses	(62,139)	304,314
Income tax payable	(96,597)	469,146
Sales tax payable	457,900	(2,590)
Due to related party	151,228	139,187
Deferred rent liability	111,809	-
Deferred tax liability	114,000	30,000
Net cash provided by (used for) operating activities	<u>(293,053)</u>	<u>1,638,081</u>
Cash Flows from Investing Activities:		
Insurance claim payment	21,393	-
Purchases of property and equipment	<u>(5,912,280)</u>	<u>(6,293,755)</u>
Net cash used for investing activities	<u>(5,890,887)</u>	<u>(6,293,755)</u>
Cash Flows from Financing Activities:		
Principal payments on notes payable to related party	(91,289)	-
Issuance of notes payable to related party	1,000,000	-
Contributions from members	3,645,551	6,051,358
Net cash provided by financing activities	<u>4,554,262</u>	<u>6,051,358</u>
Net Change in Cash	(1,629,678)	1,395,684
Cash - Beginning of Year	<u>2,133,021</u>	<u>737,337</u>
Cash - End of Year	<u>\$ 503,343</u>	<u>\$ 2,133,021</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Property acquired under capital lease	<u>\$ 266,920</u>	<u>\$ -</u>
Interest paid	<u>\$ 31,653</u>	<u>\$ -</u>
Income taxes paid	<u>\$ 253,096</u>	<u>\$ 51,300</u>

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

**AC Management Group, LLC and Affiliates**  
Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 1 – NATURE OF OPERATIONS**

AC Management Group, LLC (“AC Management”) is an Arizona Limited Liability Company organized in May 2015. The Company is engaged in the leasing of supplies, labor, and other managed services to two medical marijuana dispensaries located in the state of Arizona, as described below. AC Management engages only with those dispensaries that are properly licensed and in good standing with the state of Arizona. The services are performed under cost-plus-fee contracts, fixed-price contracts, and fixed-price contracts modified by incentive and penalty provisions.

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

Broken Arrow Herbal Center, Inc. dba Hana Meds (“Broken Arrow”) is an Arizona corporation operating on a not-for-profit basis that was incorporated in June 2011. Broken Arrow’s mission is to function as a full service alternative health and wellness facility that provides cannabis and natural homeopathic remedies in a compassionate, safe and supportive environment for qualified patients and caregivers. To this end, Broken Arrow operates as a marijuana dispensary and a marijuana cultivation facility, while at all times complying with the Act, and the Rules.

In November 2020, Arizona voters passed Arizona Proposition 207, a Marijuana Legalization Initiative that legalized the possession and use of marijuana for adults (age 21 years or older). Under Arizona Revised Statutes (A.R.S.) Title 36, Chapter 28.2 Responsible Adult Use of Marijuana (the Smart and Safe Arizona Act) and Arizona Administrative Code Title 9, Chapter 18, Adult-Use of Marijuana Program, CJK and Broken Arrow obtained marijuana establishment licenses in addition to the medical registration certificates. Accordingly, CJK and Broken Arrow operate as dual licensees wherein they may dispense medical marijuana to registered qualifying patients, and sell marijuana to adults who are at least 21 years of age.

Altogether, the entities listed above are referred to as AC Management Group, LLC and Affiliates (“the Company”).

The Company’s operations are dependent on the Arizona medical marijuana dispensaries, including the economic and legal conditions which affect the medicinal cannabis and health care industries. Changes in those conditions may affect the Company’s continuing operations.

**AC Management Group, LLC and Affiliates**  
Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company and its affiliates described in Note 1. All intercompany balances and transactions have been eliminated upon consolidation.

Accounting Method

The consolidated financial statements of the Company have been prepared on the accrual basis of accounting under accounting principles generally accepted in the United States of America (“U.S. GAAP”). In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred. All revenue and expenses which are applicable to future periods have been presented as deferred or prepaid on the accompanying statements of financial position.

Risks and Uncertainties

The Company’s operations are subject to risk and uncertainties including financial, operational, regulatory and other risks including the potential risk of business failure. The Company conducts substantially all of its business in Arizona. Additionally, the Company operates in the marijuana industry. Consequently, any significant economic downturn in the Arizona market or any changes in the federal government’s enforcement of current federal laws or changes in state laws could potentially have a negative effect on the Company’s business, results of operations and financial condition. The majority of the Company’s cash and cash equivalents are held at major commercial banks, which may at times exceed the Federal Deposit Insurance Corporation (“FDIC”) limit. To date, the Company has not experienced any losses in these accounts. Uninsured balances totaled \$264,456 and \$1,454,613 for each year ending December 31, 2021 and 2020, respectively. The Company had no cash equivalents at December 31, 2021 and 2020.

Fair Value of Financial Instruments

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The more significant estimates and assumptions are those used in determining collectability of accounts receivable and useful lives of property and equipment. Actual results may differ from those estimates.



**AC Management Group, LLC and Affiliates**  
Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, and deposits in financial institutions and other deposits that are readily convertible into cash. For purposes of the statements of cash flows, the Company considers all highly liquid instruments with original maturities of three months or less to be cash and cash equivalents.

Accounts Receivable

Accounts receivable due under the management contracts are recorded based on contractual prices and terms specific to the contract. The Company provides for potentially uncollectable accounts receivable by use of the allowance method. The allowance is provided based upon a review of the individual accounts outstanding, prior history of uncollectable accounts receivable and existing economic conditions. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Normal accounts receivable are due 15 days after the issuance of the invoice. Receivables past due more than 60 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

At December 31, 2021, 2020, and 2019, the net trade accounts receivable balance was \$ 243,956, \$107,462, and \$ 184,614, respectively. The allowance for doubtful accounts was \$4,565, \$25,000, and \$25,000, as of December 31, 2021, 2020, and 2019, respectively.

Inventory

Inventories are stated at the lower of cost or net realizable value, with cost determined by the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost and depreciated on the straight-line method over their estimated useful lives, typically 3 to 10 years and up to 39 years for buildings. Amortization of leasehold improvements is computed on the straight-line method over the shorter of the life of the improvement or the term of the lease. The Company has a capitalization policy of \$1,000.

Operating Leases

A lease of property and equipment is classified as an operating lease whenever the terms of the lease do not transfer substantially all of the risks and rewards of ownership to the lessee. Lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

**AC Management Group, LLC and Affiliates**  
Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Revenues

The Organization derives its revenues primarily from the sale of marijuana, CBD, and related products in Arizona. Revenues are recognized at a point in time when control of these products is transferred to its customers, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those products. Sales and other taxes the Organization collects concurrent with revenue-producing activities are excluded from revenue. Any shipping and handling fees charged to customers are reported within revenue. Incidental items that are immaterial in the context of the contract are recognized as expense.

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

Variable Consideration

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

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

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

Advertising

The Company expenses advertising as incurred. During the years ended December 31, 2021 and 2020, the Company incurred advertising expenses of \$470,993 and \$212,904, respectively.

Income Taxes – AC Management Group, LLC

AC Management Group, LLC has elected to be taxed as a partnership for Federal and state income tax purposes, wherein all income or loss of the Company are passed through to the members and reported on their respective income tax returns. Accordingly, no provision for income taxes has been included in these consolidated financial statements related to AC Management Group, LLC.

**AC Management Group, LLC and Affiliates**  
Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Income Taxes – AC Management Group, LLC - continued

U.S. GAAP require management to perform an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Company's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be performed for all open tax years, as defined by the various statutes of limitations, for Federal and state purposes. Due to the nature of the industry the Company serves, it is possible that the IRS would impose Internal Revenue Code Section 280E ("280E"). The imposition of 280E would disallow all tax deductions for general and administrative expenses. Management believes the imposition of 280E cannot be reasonably estimated and is unlikely to occur.

Income Taxes – CJK and Broken Arrow

In accordance with the Act, the CJK and Broken Arrow are registered non-profit entities under Arizona law, and therefore are not subject to state income tax. Due to the nature of the CJK and Broken Arrow's activities under Federal law, they are considered unable to qualify as tax exempt organizations under Section 501 of the Internal Revenue Code of 1986, as amended (the "Code").

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

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

These organizations adopted the accounting standard for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, they may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. As a result of implementation of this guidance, management believes that any uncertainties do not represent a significant liability.

**AC Management Group, LLC and Affiliates**  
Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Income Taxes – CJK and Broken Arrow - continued

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

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”. ASU 2016-02 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to recognize a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The pronouncement requires a modified retrospective method of adoption and is effective on January 1, 2022, with early adoption permitted. The Company has not yet completed its assessment of the impact the adoption of this pronouncement will have on the financial statements.

Reclassifications

Certain accounts in the prior-year statements have been reclassified for comparative purpose to conform to the presentation in the current-year financial statements.

Subsequent Events

Subsequent events have been evaluated by management through March 22, 2022, which is the date the consolidated financial statements were available to be issued.

**NOTE 3 – INVENTORIES**

Components of the Company’s inventories as of December 31, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Flower	\$ 582,578	\$ 972,743
Concentrates	361,441	103,870
Materials and supplies	202,345	138,459
Edibles	147,762	53,889
Work in Process	69,568	-
Topicals	6,344	443
Accessories	3,961	2,827
Total inventory	<u>\$ 1,373,999</u>	<u>\$ 1,272,231</u>

**AC Management Group, LLC and Affiliates**  
Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2021 and 2020 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 11,946,523	\$ 397,678
Vehicles and equipment	835,446	238,546
Less: Accumulated depreciation	(481,707)	(81,050)
Net, depreciable property and equipment	12,300,262	555,174
Construction in progress	-	5,998,662
Net, property and equipment	<u>\$ 12,300,262</u>	<u>\$ 6,553,836</u>

Depreciation expense for the years ended December 31, 2021 and 2020, totaled \$411,052 and \$38,866, a portion of which has been allocated to cost of goods sold. Of these depreciable assets \$483,473 were related to capital leases with accumulated depreciation of \$34,534 for the year ended December 31, 2021.

**NOTE 5 – OPERATING LEASES**

On May 1, 2018, Broken Arrow entered into a new lease for the Chino Valley, AZ property, with a term of 22 years, expiring April 30, 2040. The third amendment to this agreement dictates a fixed monthly base rent of \$55,195, as well as real property and other taxes. There is an additional 30,000 square feet of space that is to become operational in 2022 and will require an additional lease amendment to be executed at a new agreed upon rate.

On May 1, 2018, Broken Arrow entered into a new lease for the Green Valley, AZ property, with a term of 22 years, expiring April 30, 2040 with a fixed monthly base rent of \$3,500, as well as property and other taxes.

On May 1, 2018, CJK entered into a lease for the Tempe, AZ property, with a term of 22 years, expiring April 30, 2040. The first amendment to this agreement dictates a fixed monthly base rent of \$49,200, as well as real property and other taxes. The rent is allocated between CJK, for use of cultivation space, and AC Management, for use of administration space.

On May 1, 2018, CJK entered into a lease for the Kingman, AZ property, with a term of 22 years, expiring April 30, 2040, with a fixed monthly base rent of \$4,000, as well as real property and other taxes. The related Hana dispensary moved from Kingman to Phoenix in June 2021. CJK was still leasing this facility as of the date these consolidated financial statements were available to be issued.

**AC Management Group, LLC and Affiliates**  
Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 5 – OPERATING LEASES – continued**

On March 15, 2021, CJK entered into a non-level payment lease agreement for the new Phoenix, AZ dispensary property, with a term of 10 years, expiring February 28, 2031. The lease agreement calls for escalating payments and as of December 31, 2021 the monthly payment was \$17,500. According to U.S. GAAP, the accounting for non-level lease payments requires the rent expense to be reported on a straight-line method over the life of the lease. Accordingly, the Company has recorded a deferred rent liability associated with this lease in the amount of \$111,809 as of December 31, 2021.

Future minimum rental payments on the non-cancelable leases as of December 31, 2021 are as follows:

For the year ended December 31,	
2022	\$ 1,557,115
2023	1,562,474
2024	1,567,968
2025	1,573,598
2026	1,579,370
Thereafter	18,954,085
Total	<u>\$ 26,794,610</u>

The total rental expense for the years ending December 31, 2021 and 2020 was \$1,513,738 and \$979,363, respectively, a portion of which has been allocated to cost of goods sold.

**NOTE 6 – RELATED PARTY TRANSACTIONS**

TC AZ Holdings II, Inc.

CJK entered into an agreement for royalties with a company that is owned by certain members of CJK’s Board of Directors. The total due to the related party for the year ended December 31, 2021 and 2020 was \$330,978 and \$179,750, respectively.

AC Management entered into a note agreement with TC AZ Holdings II, Inc. in June 2021 to provide a working capital loan in the amount of \$500,000. Per the agreement, the interest rate is 10% per annum and the maturity date is November 21, 2022. Monthly interest only payments are due beginning July 2021 until January 2022, at which time a principal payment in the amount of \$45,455 is due.

AC Management entered into a second note agreement with TC AZ Holdings II, Inc. in November 2021 to provide a working capital loan in the amount of \$500,000. Per the agreement, the interest rate is 10% per annum and the maturity date is April 5, 2023. Monthly interest only payments are due beginning December 2021 until June 2022, at which time a principal payment in the amount of \$45,455 is due.

**AC Management Group, LLC and Affiliates**  
Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 6 – RELATED PARTY TRANSACTIONS – continued**

TC AZ Holdings II, Inc. - continued

Future minimum principal payments on the note agreements as of December 31, 2021 are as follows:

For the year ended December 31,	
2022	\$ 818,185
2023	181,815
Total	<u>\$ 1,000,000</u>

**NOTE 7 – CAPITAL LEASES**

The Company leases cultivation equipment under a capital lease agreement, due in monthly installments of \$11,137, with an interest rate of approximately 9.3% expiring in June 2023. The leased cultivation equipment is considered to be capital. The underlying equipment is included in property and equipment on the accompanying statements of financial position and depreciation expense on the accompanying statements of income.

Future minimum lease payments required under the capital lease agreements as of December 31, 2021 are as follows:

Total payments of capital lease	\$ 175,631
Less: amount representing interest	(12,586)
Present value of future minimum lease payments	163,045
Less: Current maturities	(122,326)
Total long-term portion of capital leases payable	<u>\$ 40,719</u>

Future minimum lease payments as of December 31, 2021 are as follows:

For the year ended December 31,	
2022	\$ 122,326
2023	50,305
Total	<u>\$ 175,631</u>

**AC Management Group, LLC and Affiliates**  
Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 8 – INCOME TAXES**

Under Federal law, the Organization is a taxable entity and is therefore subject to Federal income tax. Deferred income taxes are a result of timing differences between book and taxable income. The major timing difference for deferred income taxes payable as of December 31, 2021 is as follows:

Deferred Tax Liability

Tax versus book depreciation differences	\$ 685,236
Approximate federal tax rates over recovery period	<u>21%</u>
Deferred Income Tax Liability (rounded)	<u>\$ 144,000</u>

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

The Company operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits or licenses that could result in the Company ceasing operations. While management of the Company believe that the Company are in compliance with applicable local and state regulation as of December 31, 2021, marijuana regulations continue to evolve and are subject to differing interpretations. As a result, the Company could indirectly be subject to regulatory fines, penalties, or restrictions.

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

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