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

FORM 10-Q

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

For the Quarterly Period ended March 31, 2020

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

For the transition period from _____ to _____

Commission File number 0-54433

MARIMED INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

27-4672745

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

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

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

Securities registered pursuant to Section 12(b) of the Act: None.

Title of each class
Not Applicable.

Ticker symbol(s)
Not Applicable.

Name of each exchange on which registered
Not Applicable.

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

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

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

Large Accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

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

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

As of May 28, 2020, 248,115,746 shares of the registrant's common stock were outstanding.

EXPLANATORY NOTE

As previously disclosed in the Current Report on Form 8-K filed by MariMed Inc. (the “Company”) on May 11, 2020, the Company was unable to file its Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (“Form 10-Q”), originally due on May 11, 2020, due to circumstances related to the Coronavirus Disease 2019 (“COVID-19”) pandemic. Specifically, due to the Massachusetts “stay-at-home” mandate, the Company’s executive offices have been closed since early March 2020, before which certain of the Company’s personnel responsible for its financial reporting function were quarantined as precautionary actions undertaken by the Company to prevent exposure of other personnel and to reduce the spread of the virus. Each of the foregoing has disrupted normal interactions among the Company’s accounting personnel and other staff involved in the preparation of the Form 10-Q and ready access to certain documentation necessary to complete the preparation of the Form 10-Q, and to facilitate review of the Form 10-Q by the Company’s independent auditors.

The Company relied on Release No. 34-88465 issued by the Securities and Exchange Commission on March 25, 2020, pursuant to Section 36 of the Securities Exchange Act of 1934, as amended, to avail itself of a 45-day extension to file its Form 10-Q.

	Page
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of March 31, 2020 (Unaudited) and December 31, 2019	3
Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2020 and 2019 (Unaudited)	4
Condensed Consolidated Statements of Stockholders' Equity (Deficit) for the Three Months Ended March 31, 2020 and 2019 (Unaudited)	5
Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2020 and 2019 (Unaudited)	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	36
Item 3. Quantitative and Qualitative Disclosure About Market Risk	44
Item 4. Controls and Procedures	44
PART II – OTHER INFORMATION	
Item 1. Legal Proceedings	45
Item 1A. Risk Factors	45
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	45
Item 3. Defaults Upon Senior Securities	45
Item 4. Mine Safety Disclosures	45
Item 5. Other Information	45
Signatures	47

MariMed Inc.
Condensed Consolidated Balance Sheets

	March 31, 2020 <i>(Unaudited)</i>	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,854,775	\$ 738,688
Accounts receivable, net	2,512,053	1,669,139
Deferred rents receivable	2,001,078	1,796,825
Due from third parties, net	99,320	-
Notes receivable, current portion	315,046	311,149
Inventory	2,715,597	1,219,429
Investments	762,142	1,449,144
Other current assets	173,054	192,368
Total current assets	10,433,065	7,376,742
Property and equipment, net	43,678,493	42,792,369
Intangibles, net	2,293,088	2,364,042
Investments	1,324,661	1,324,661
Notes receivable, less current portion	1,643,042	1,639,496
Right-of-use assets under operating leases	5,659,098	5,787,423
Right-of-use assets under finance leases	102,932	111,103
Other assets	207,905	175,905
Total assets	\$ 65,342,284	\$ 61,571,741
Liabilities, mezzanine equity, and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	\$ 4,740,250	\$ 4,719,069
Accrued expenses	4,570,303	5,395,996
Notes payable, current portion	20,390,000	23,112,742
Mortgages payable, current portion	483,890	223,888
Debentures payable, current portion	578,250	-
Operating lease liabilities, current portion	1,001,784	917,444
Finance lease liabilities, current portion	38,412	38,412
Due to related parties	1,214,166	1,454,713
Other current liabilities	1,642,302	858,176
Total current liabilities	34,659,357	36,720,440
Notes payable, less current portion	6,417,500	-
Mortgages payable, less current portion	7,028,359	7,112,842
Debentures payable, less current portion	5,378,519	5,835,212
Operating lease liabilities, less current portion	5,266,271	5,399,414
Finance lease liabilities, less current portion	67,898	75,413
Other liabilities	100,200	100,200
Total liabilities	58,918,104	55,243,521
Mezzanine equity:		
Series B convertible preferred stock, \$0.001 par value; 4,908,333 and zero shares authorized, issued and outstanding at March 31, 2020 and December 31, 2019, respectively	14,725,000	-
Stockholders' equity (deficit):		
Series A convertible preferred stock, \$0.001 par value; zero and 50,000,000 shares authorized at March 31, 2020 and December 31, 2019, respectively; zero shares issued or outstanding at March 31, 2020 and December 31, 2019	-	-
No designation preferred stock, \$0.001 par value; 45,091,667 and zero shares authorized at March 31, 2020 and December 31, 2019, respectively; zero shares issued or outstanding at March 31, 2020 and December 31, 2019	-	-
Common stock, \$0.001 par value; 500,000,000 shares authorized at March 31, 2020 and December 31, 2019; 235,320,824 and 228,408,024 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively	235,321	228,408
Common stock subscribed but not issued; 30,307 and 3,236,857 shares at March 31, 2020 and December 31, 2019, respectively	5,365	1,168,074
Additional paid-in capital	101,211,107	112,245,730
Accumulated deficit	(109,181,971)	(106,760,527)
Noncontrolling interests	(570,642)	(553,465)
Total stockholders' equity (deficit)	(8,300,820)	6,328,220
Total liabilities, mezzanine equity, and stockholders' equity (deficit)	\$ 65,342,284	\$ 61,571,741

See accompanying notes to condensed consolidated financial statements.

MariMed Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
Revenues	\$ 7,466,019	\$ 3,515,815
Cost of revenues	<u>2,597,917</u>	<u>1,254,790</u>
Gross profit	4,868,102	2,261,025
Operating expenses:		
Personnel	1,513,383	673,375
Marketing and promotion	112,384	118,899
General and administrative	2,247,935	1,691,032
Total operating expenses	<u>3,873,702</u>	<u>2,483,306</u>
Operating income (loss)	994,400	(222,281)
Non-operating income (expenses):		
Interest expense	(2,691,145)	(1,940,547)
Interest income	46,031	282,409
Equity in earnings of investments	-	1,958,407
Change in fair value of investments	(687,002)	-
Total non-operating income (expenses), net	<u>(3,332,116)</u>	<u>300,269</u>
Net income (loss)	<u>\$ (2,337,716)</u>	<u>\$ 77,988</u>
Net income (loss) attributable to noncontrolling interests	<u>\$ 83,728</u>	<u>\$ 101,199</u>
Net income (loss) attributable to MariMed Inc.	<u>\$ (2,421,444)</u>	<u>\$ (23,211)</u>
Net loss per share	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>
Weighted average common shares outstanding	<u>230,829,366</u>	<u>212,034,324</u>

See accompanying notes to condensed consolidated financial statements.

MariMed Inc.
Condensed Consolidated Statements of Stockholders' Equity (Deficit)
(Unaudited)

	Common Stock		Common Stock Subscribed But Not Issued		Additional Paid-In Capital	Accumulated Deficit	Non- Controlling Interests	Total Stockholders' Equity
	Shares	Par Value	Shares	Amount				
	Balances at December 31, 2018	211,013,043	\$ 211,013	97,136				
Sales of common stock	799,995	800			2,599,200			2,600,000
Issuance of subscribed shares	97,136	97	(97,136)	(169,123)	169,026			-
Exercise of options	260,015	260			12,740			13,000
Exercise of warrants	22,000	22			15,778			15,800
Amortization of option and warrant issuances					527,163			527,163
Conversion of debentures payable	233,194	233			696,702			696,935
Distributions							(172,614)	(172,614)
Net income (loss)						(23,211)	101,199	77,988
Balances at March 31, 2019	212,425,383	\$ 212,425	-	\$ -	\$ 91,200,774	\$ (25,599,019)	\$ (291,447)	\$ 65,522,733

	Common Stock		Common Stock Subscribed But Not Issued		Additional Paid-In Capital	Accumulated Deficit	Non- Controlling Interests	Total Stockholders' Equity (Deficit)
	Shares	Par Value	Shares	Amount				
	Balances at December 31, 2019	228,408,024	\$ 228,408	3,236,857				
Issuance of subscribed shares	3,236,857	3,237	(3,236,857)	(1,168,074)	1,164,837			-
Stock grants			30,307	5,365				5,365
Amortization of option grants					317,355			317,355
Discount on debentures payable					28,021			28,021
Beneficial conversion feature on debentures payable					379,183			379,183
Conversion of debentures payable	8,584,276	8,584			1,796,073			1,804,657
Conversion of common stock to preferred stock	(4,908,333)	(4,908)			(14,720,092)			(14,725,000)
Distributions							(100,905)	(100,905)
Net income (loss)						(2,421,444)	83,728	(2,337,716)
Balances at March 31, 2020	235,320,824	\$ 235,321	30,307	\$ 5,365	\$ 101,211,107	\$ (109,181,971)	\$ (570,642)	\$ 8,300,820

*The above statements do not show columns for Series A convertible preferred stock and undesignated preferred stock as the balances were zero and there was no activity in the periods presented.
See accompanying notes to condensed consolidated financial statements.*

MariMed Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net income (loss) attributable to MariMed Inc.	\$ (2,421,444)	\$ (23,211)
Net income (loss) attributable to noncontrolling interests	83,728	101,199
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	484,091	218,196
Amortization of intangibles	79,079	61,667
Amortization of stock grants	5,365	-
Amortization of option grants	317,355	527,163
Amortization of warrants attached to debt	223,363	760,292
Amortization of beneficial conversion feature	990,846	756,959
Amortization of original issue discount	56,808	12,337
Inventory absorption	17,999	-
Equity in earnings of investments	-	(1,958,407)
Change in fair value of investments	687,002	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(842,914)	(1,757,054)
Deferred rents receivable	(204,253)	(2,293)
Due from third parties, net	(99,320)	708,302
Inventory	(1,496,168)	(3,250,000)
Other current assets	19,314	48,055
Other assets	(32,000)	(152,981)
Accounts payable	21,180	(1,974,962)
Accrued expenses	837,128	(134,287)
Deferred rents payable	-	(105,901)
Operating lease payments	79,523	110,116
Finance lease interest payments	2,087	(420)
Other current liabilities	784,126	-
Other liabilities	-	(169,000)
Net cash used in operating activities	<u>(407,105)</u>	<u>(6,224,230)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(1,363,169)	(1,538,414)
Purchase of cannabis licenses	(25,000)	-
Investment in notes receivable	-	(509,421)
Interest on notes receivable	34,397	14,894
Due from related parties	-	(1,040)
Net cash used in investing activities	<u>(1,353,772)</u>	<u>(2,033,981)</u>
Cash flows from financing activities:		
Issuance of common stock	-	2,600,000
Issuance of promissory notes	4,517,500	6,000,000
Repayments of promissory notes	(2,400,000)	-
Proceeds from issuance of debentures	935,000	-
Proceeds from mortgages	235,900	-
Payments on mortgages	(60,381)	(29,461)
Exercise of stock options	-	13,000
Exercise of warrants	-	15,800
Due to related parties	(240,547)	(56,040)
Finance lease principal payments	(9,603)	(954)
Distributions	(100,905)	(172,614)
Net cash provided by financing activities	<u>2,876,964</u>	<u>8,369,731</u>
Net change to cash and cash equivalents	1,116,087	111,520
Cash and cash equivalents at beginning of period	738,688	4,104,315
Cash and cash equivalents at end of period	<u>\$ 1,854,775</u>	<u>\$ 4,215,835</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 380,084</u>	<u>\$ 316,616</u>
Cash paid for income taxes	<u>\$ 13,000</u>	<u>\$ 10,011</u>
Non-cash activities:		
Conversions of debentures payable	<u>\$ 1,804,657</u>	<u>\$ 696,937</u>
Beneficial conversion feature on debentures payable	<u>\$ 379,183</u>	<u>\$ -</u>
Discount on debentures payable	<u>\$ 28,021</u>	<u>\$ -</u>
Exchange of common stock to preferred stock	<u>\$ 14,725,000</u>	<u>\$ -</u>
Conversion of accrued interest to promissory note	<u>\$ 1,500,000</u>	<u>\$ -</u>
Issuance of common stock associated with subscriptions	<u>\$ 1,168,074</u>	<u>\$ 169,123</u>
Conversion of debentures receivable to investment	<u>\$ -</u>	<u>\$ 30,000,000</u>
Operating lease right-of-use assets and liabilities	<u>\$ -</u>	<u>\$ 6,334,392</u>
Finance lease right-of-use assets and liabilities	<u>\$ -</u>	<u>\$ 33,855</u>

Conversion of notes receivable to investment	\$ -	\$ 257,687
Conversion of advances to notes receivable	\$ -	\$ 855,913

See accompanying notes to condensed consolidated financial statements.

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

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

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

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

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

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

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

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

In anticipation of the growing demand for hemp-derived cannabidiol ("CBD") following the adoption of the U.S. Farm Bill in late 2018—which descheduled industrial hemp and hemp-derived CBD as controlled substances and classified such natural resources as agricultural commodities, thereby enabling a new emerging industry of CBD oils, isolates, and infused products within the United States—the Company established a wholly owned subsidiary, MariMed Hemp Inc. ("MariMed Hemp"), to market and distribute hemp-derived CBD products across several vertical markets. Prior to this, as a means of expanding into the global CBD market, the Company (i) acquired a majority interest of MediTaurus LLC ("MediTaurus"), an entity operating in the United States and Europe that has developed proprietary CBD formulations under its Florance™ brand, and (ii) invested \$30.0 million in GenCanna Global Inc. ("GenCanna"), a Kentucky-based cultivator, producer, and distributor of hemp and GMP-quality CBD oils and isolates, although GenCanna has since filed voluntary petitions under Chapter 11 with the U.S. Bankruptcy Court in the Eastern District of Kentucky as further described in Note 4 – *Investments*.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic, and governmental authorities around the world have implemented measures to reduce its spread. The spread of COVID-19 in the United States and the measures to contain it have negatively impacted the economy and have created significant volatility and disruption in financial markets. Business shutdowns in certain states in response to stay-at-home orders and related measures have delayed the Company's expansion and consolidation efforts, and have materially and adversely affected the Company's business, operations, financial condition, and liquidity.

In particular, as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, due to the anticipated adverse effects of COVID-19, the Company (i) recorded bad debt reserves against receivables and working capital balances of approximately \$3.8 million in the aggregate, as described in Note 16 – *Bad Debts*, and (ii) wrote off approximately \$3.2 million in the aggregate of goodwill and carrying value of certain investments, as described in Note 4 – *Investments*.

Volatility in the financial markets and investor uncertainty from COVID-19 have also delayed the Company's ability to consummate debt financings to raise working capital to support its operations and expansion plans. Continued disruption to the global economy may materially and adversely affect the future carrying values of certain of the Company's assets, including inventories, accounts receivables, and intangibles. The full extent to which COVID-19 and the measures to contain it will impact our business, operations financial condition, and liquidity will depend on the severity and duration of the COVID-19 outbreak and other future developments related to the response to the virus, all of which are highly uncertain at this time. As a result, the Company cannot predict the ultimate impact of COVID-19 on its operational and financial performance.

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

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

In accordance with GAAP, interim financial statements are not required to contain all of the disclosures normally required in annual financial statements. In addition, the results of operations of interim periods may not necessarily be indicative of the results of operations to be expected for the full year. Accordingly, these interim financial statements should be read in conjunction with the Company’s most recent audited annual financial statements and accompanying notes for the year ended December 31, 2019.

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

Going Concern

In connection with the preparation of its financial statements for the quarter ended March 31, 2020, the Company’s management evaluated the Company’s ability to continue as a going concern in accordance with ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40)*, which requires an assessment of relevant conditions or events, considered in the aggregate, that are known or reasonably knowable by management on the issuance dates of the financial statements which indicate the probable likelihood that the Company will be unable to meet its obligations as they become due within one year after the issuance date of the financial statements.

As part of its evaluation, management assessed known events, trends, commitments, and uncertainties, which at the time included the status of the Company’s consolidation plan, the impact of the COVID-19 pandemic on its operations, developments concerning GenCanna’s bankruptcy proceedings, the recent level of cannabis industry investment activity, stock price movement of public cannabis companies, actions and/or results of certain bellwether cannabis companies, the measure of cannabis investor confidence, and changes to state laws with respect to adult-use recreational and medical cannabis use.

At March 31, 2020, the Company had negative working capital of approximately \$24.2 million, and for the quarter then ended, incurred negative net cash flow from operations of approximately \$407,000. For further discussion on these metrics and the Company’s liquidity and capital resources, please refer to Item 2. *Management’s Discussion and Analysis of Financial Condition and Results of Operations* of the Company’s Form 10-Q for the quarter year ended March 31, 2020.

As of the filing date of this report, the Company is in continuing discussions with financial institutions to explore the potential to generate liquidity from the Company’s unencumbered real property through mortgage-backed financings, the refinancing of certain outstanding mortgage loans, the sales-leaseback of certain properties, and/or a combination thereof. These discussions and resultant transactions have been hindered by the shelter-in-place executive orders mandated across the United States during the period March 2020 through May 2020 in response to the COVID-19 pandemic. Based on the Company’s discussions to date, such financings could potentially generate upwards of \$17.0 million of proceeds to the Company; however, the Company has no current commitments, nor is there any assurance that terms will be reached that will be acceptable to the Company.

The operations of the Company's recently acquired entities in Illinois and Massachusetts are expected to generate considerable liquidity and working capital for the Company. The state of Illinois legalized adult-use cannabis in January 2020, which was added to the Company's two existing cannabis licenses, thereby increasing the Company's operations in this state to service both medical and recreational cannabis consumers. In Massachusetts, the cultivation and production facility acquired by the Company has completed its first harvest and commenced full scale selling operations in this state's robust cannabis market. Despite these positive developments, there is no assurance that the Company will continue to meet or exceed its projections given the uncertainty of the global economy due to COVID-19.

In light of the aforementioned disclosures, among other factors reviewed as part of management's evaluation, there is a substantial doubt that the Company will be able to continue as a going concern within one year after the issuance date of these financial statements.

Principles of Consolidation

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

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

Intercompany accounts and transactions have been eliminated.

Use of Estimates

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

Cash Equivalents

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

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

Accounts Receivable

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

The Company provides credit to its clients in the form of payment terms. The Company limits its credit risk by performing credit evaluations of its clients and maintaining a reserve, if deemed necessary, for potential credit losses. Such evaluations include the review of a client's outstanding balances with consideration towards such client's historical collection experience, as well as prevailing economic and market conditions and other factors. Based on such evaluations, the Company maintained an allowance for doubtful accounts of approximately \$39.7 million at March 31, 2020 and December 31, 2019. Please refer to Note 16 – *Bad Debts* for further discussion on receivable reserves.

Inventory

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

Investments

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

Revenue Recognition

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

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

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

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

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

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

- Real Estate – rental income and additional rental fees from leasing of the Company's regulatory-compliant cannabis facilities to its clients, which are cannabis-licensed operating companies. Rental income is generally a fixed amount per month that escalates over the respective lease terms, while additional rental fees are based on a percentage of tenant revenues that exceed a specified amount.
- Management – fees for providing the Company's cannabis clients with corporate services and operational oversight of their cannabis cultivation, production, and dispensary operations. These fees are based on a percentage of such clients' revenue, and are recognized after services have been performed.
- Supply Procurement – the Company maintains volume discounts with top national vendors of cultivation and production resources, supplies, and equipment, which the Company acquires and resells to its clients or third parties within the cannabis industry. The Company recognizes this revenue after the delivery and acceptance of goods by the purchaser.
- Licensing – revenue from the sale of precision-dosed, cannabis-infused products, such as Kalm Fusion™ and Betty's Eddies™, to legal dispensaries throughout the United States. The recognition of this revenue occurs when the products are delivered.
- Consulting – fees from third-parties where the Company provides assistance in securing cannabis licenses, and advisory services in the areas of facility design and development, and cultivation and dispensing best practices. These fees are recognized as the services are performed.
- Product Sales – direct sales of cannabis, hemp, and products derived from these plants. In 2019, the Company commenced (i) the direct sale of acquired hemp seed inventory in the second quarter, and (ii) cannabis dispensary and wholesale operations of ARL in Massachusetts and the KPGs in Illinois in the fourth quarter. Future product sales are expected to include the distribution of Company-acquired and developed hemp-derived CBD product lines, and the Company's planned cannabis-licensure acquisitions in Maryland and Nevada. This revenue is recognized when products are delivered or at retail points-of-sale.

Research and Development Costs

Research and development costs are charged to operations as incurred.

Property and Equipment

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

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

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

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

For the quarters ended March 31, 2020 and 2019, based on the results of management's analyses, there were no impairment losses.

Leases

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

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

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

Impairment of Long-Lived Assets

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

Fair Value of Financial Instruments

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

- Level 1 Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.
- Level 3 Pricing inputs that are generally observable inputs and not corroborated by market data.

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

The fair value of option and warrant issuances are determined using the Black-Scholes pricing model and employing several inputs such as the expected life of instrument, the exercise price, the expected risk-free interest rate, the expected dividend yield, the value of the Company's common stock on issuance date, and the expected volatility of such common stock. The following table summarizes the range of inputs used by the Company during the three month ended March 31, 2020. No options or warrants were issued during the same period in 2019.

Life of instrument	3.0 years
Volatility factor	1.06
Risk-free interest rates	1.3%
Dividend yield	0%

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

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

Extinguishment of Liabilities

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

Stock-Based Compensation

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

Income Taxes

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

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. The Company did not take any uncertain tax positions and had no adjustments to unrecognized income tax liabilities or benefits for the quarter ended March 31, 2020 and 2019.

Related Party Transactions

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

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

Comprehensive Income

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

Earnings Per Share

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

As of March 31, 2020 and 2019, there were 18,201,357 and 18,429,211, respectively, of potentially dilutive securities in the form of outstanding options and warrants. Also as of such dates, there were (i) \$9.4 million and \$8.0 million, respectively, of outstanding convertible debentures payable, (ii) 4,908,333 and zero shares, respectively, of Series B convertible preferred stock outstanding, and (iii) \$350,000 of outstanding convertible promissory notes in both years, all of which were potentially dilutive and whose conversion into common stock is based on the market value of common stock on or about the future conversion date.

For the quarters ended March 31, 2020 and 2019, all potentially dilutive securities had an anti-dilutive effect on earnings per share, and in accordance with ASC 260, were excluded from the diluted net income per share calculations, resulting in identical basic and fully diluted net income per share for these periods. The potentially dilutive securities may dilute earnings per share in the future.

Commitments and Contingencies

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

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

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

Beneficial Conversion Features on Convertible Debt

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

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

Risk and Uncertainties

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

Noncontrolling Interests

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

Off Balance Sheet Arrangements

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

Recent Accounting Pronouncements

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

NOTE 3 – ACQUISITIONS

KPG of Anna LLC and KPG of Harrisburg LLC

Effective October 1, 2019, the Illinois Department of Financial and Professional Regulation approved the Company's acquisition of (i) 100% of the ownership interests of KPG of Anna LLC and KPG of Harrisburg LLC, the Company's two cannabis-licensed clients that operate medical marijuana dispensaries in the state of Illinois (both entities collectively, the "KPGs"), and (ii) the 40% ownership interests not already owned by the Company of Mari Holdings IL LLC, the Company's subsidiary which owns the real estate in which the KPGs' dispensaries are located ("Mari-IL"). On such date, 1,000,000 shares of the Company's common stock, representing the entire purchase price, were issued to the sellers of the KPGs and Mari-IL, and these entities became wholly-owned subsidiaries of the Company.

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

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

Based on an impairment analysis performed shortly before the filing date of this report, the Company determined the intangibles of approximately \$2.1 million arising from this transaction were not impaired.

The Harvest Foundation LLC

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

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

Kind Therapeutics USA Inc.

In December 2018, the Company entered into a memorandum of understanding (“MOU”) to acquire Kind Therapeutics USA Inc. (“Kind”), its client in Maryland that holds licenses for the cultivation, production, and dispensing of medical cannabis. The MOU provides for a total purchase price of \$6.3 million in cash, 2,500,000 shares of the Company’s common stock, and other consideration. The acquisition is subject to the approval by the Maryland Medical Cannabis Commission, which approval is not expected prior to March 2021.

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

The sellers of Kind have attempted to renegotiate the terms of the MOU. Even though the MOU contains all the definitive material terms with respect to the acquisition transaction and confirms the management and lease agreements, the selling parties now allege that the MOU is not an enforceable agreement. The Company engaged with the sellers in good faith in an attempt to reach updated terms acceptable to both parties, however the sellers failed to reciprocate in good faith, resulting in an impasse, and both parties commencing legal proceedings which are pending in the Circuit Court for Washington County, Maryland. For further information, see Note 18 – *Commitments and Contingencies* and Part II, Item 1. *Legal Proceedings* in this report.

MediTaurus LLC

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

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

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

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

Based on a valuation of MediTaurus in late 2019, the goodwill on the transaction was adjusted to approximately \$2.7 million, which was written off in expectation of the impact of the COVID-19 pandemic on MediTaurus’ business.

AgriMed Industries of PA LLC

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

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

NOTE 4 – INVESTMENTS

At March 31, 2020 and December 31, 2019, the Company’s investments were comprised of the following:

	March 31, 2020	December 31, 2019
Current investments:		
Terrace Inc.	\$ 762,142	\$ 1,449,144
Total current investments	\$ 762,142	\$ 1,449,144
Non-current investments:		
CVP Worldwide LLC	\$ 1,066,975	\$ 1,066,975
Chooze Corp.	257,686	257,686
GenCanna Global Inc.	-	-
Iconic Ventures Inc.	-	-
Total non-current investments	1,324,661	1,324,661
Total investments	\$ 2,086,803	\$ 2,773,805

Terrace Inc.

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

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

At March 31, 2020, the carrying amount of this investment approximated \$762,000, based on its publicly traded stock price on such date, which required the Company to record a charge to net income of approximately \$687,000.

CVP Worldwide LLC

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

The Company will earn a percentage share of Sprout’s revenues generated from sales (i) to the Company’s clients, and (ii) by the Company to third parties. As of March 31, 2020, no share of Sprout’s revenue was earned by the Company.

The investment is accounted under the equity method. During the three months ended March 31, 2020, CVP broke even, resulting in no change to the carrying value of the investment.

GenCanna Global Inc.

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

In late January 2020, an involuntary bankruptcy proceeding under Chapter 11 was filed against GenCanna USA, GenCanna’s wholly-owned operating subsidiary, with the U.S. Bankruptcy Court in the Eastern District of Kentucky (the “Bankruptcy Court”). In the months leading up to the filing, GenCanna had faced several challenges including defaults under its senior credit facility with MGG Investment Group LP (“MGG”), a fire at its main processing and lab facility, the domestic decline of CBD selling prices, and the contraction of the cannabis capital markets. On February 6, 2020, GenCanna USA, under pressure from certain of its creditors and MGG, agreed to convert the involuntary bankruptcy proceeding into a voluntary Chapter 11 proceeding. In addition, GenCanna and GenCanna USA’s subsidiary, Hemp Kentucky LLC (collectively with GenCanna and GenCanna USA, the “GenCanna Debtors”), filed voluntary petitions under Chapter 11 in the Bankruptcy Court. As a result, the Company recorded a charge to net income of approximately \$30.2 million in December 2019, which reduced the carrying value of this investment to zero.

On February 18, 2020, the GenCanna Debtors sought permission from the Bankruptcy Court to sell all or substantially all of their assets under the terms of the U.S. Bankruptcy Code. After the entry of various orders to establish the bidding procedures and criteria for such sale, the GenCanna Debtors received only four proposals (including a credit bid from MGG) for the purchase of their assets and a single proposal for a plan of reorganization submitted by the Company.

On May 19, 2020, after an abbreviated solicitation/bid/sale process, the Bankruptcy Court, over numerous objections by creditors and shareholders of the GenCanna Debtors, entered an order authorizing the sale of all or substantially all of the assets of the GenCanna Debtors to MGG for its credit bid in the amount of \$73.5 million and cash in the amount of \$3.5 million.

Based on recent filings with the Bankruptcy Court, the GenCanna Debtors are proposing to file a liquidating plan of reorganization to collect various prepetition payments and commercial claims against third parties, liquidate the remaining assets of the GenCanna Debtors, and make payments to creditors. In connection with this liquidation process, the Company will be filing its proofs of claim for the \$33.2 million of hemp seeds sold to GenCanna, which transaction is further discussed in Note 17 – *Related Party Transactions*.

Iconic Ventures Inc.

In December 2018, the Company purchased 2,500,000 shares of common stock of Iconic Ventures Inc. (“Iconic”) for an aggregate cash payment of \$500,000. Iconic has developed DabTabs™, a unique solution for cannabinoid vaporization.

The Company’s investment equates to a current ownership interest in Iconic of approximately 10%. The Company has no board representation, nor does it have the ability to exert operational or financial control over the entity. In 2019, the Company wrote off the investment after an impairment review that considered the viability of the entity in light of the current economic climate.

Chooze Corp.

In January 2019, the entire principal and accrued interest balance of a note receivable from Chooze Corp. of approximately \$258,000 was converted into a 2.7% equity interest in Chooze. In accordance with ASC 321, the Company elected the measurement alternative to value this equity investment without a readily determinable fair value. Following the Company’s purchase, there has been no impairment to this investment, nor any observable price changes to investments in the entity. Accordingly, this investment was carried at approximately \$258,000 at March 31, 2020 and December 31, 2019.

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

Binske®

In July 2019, the Company entered into a licensing agreement for the exclusive manufacturing and distribution in seven eastern U.S. states of the Binske® portfolio of products, a brand known for utilizing best-in-class proprietary strains and craft ingredients in its edibles, concentrates, vaporizers, and topicals. In consideration for the license and other rights, the Company agreed to pay a royalty of 10.0% to 12.5% of gross revenue, as defined, derived from the sale of Binske® products, subject to an annual minimum royalty. No gross revenue was generated as of March 31, 2020.

NOTE 5 – DEFERRED RENTS RECEIVABLE

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

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

The Company leases the following owned properties:

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

The Company subleases the following property:

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

As of March 31, 2020 and December 31, 2019, cumulative fixed rental receipts under such leases approximated \$10.6 million and \$9.5 million, respectively, compared to revenue recognized on a straight-line basis of approximately \$12.6 million and \$11.3 million. Accordingly, the deferred rents receivable balances at March 31, 2020 and December 31, 2019 approximated \$2.0 million and \$1.8 million, respectively.

Future minimum rental receipts for non-cancelable leases and subleases as of March 31, 2020 were:

2020	\$	3,397,881
2021		4,667,497
2022		4,590,656
2023		4,292,769
2024		4,348,027
Thereafter		44,032,417
Total	\$	<u>65,329,248</u>

NOTE 6 – NOTES RECEIVABLE

At March 31, 2020 and December 31, 2019, notes receivable were comprised of the following:

	March 31, 2020	December 31, 2019
First State Compassion Center	\$ 513,364	\$ 527,261
Healer LLC	859,754	846,985
Atalo Holdings Inc.	-	-
Maryland Health & Wellness Center Inc.	330,040	323,526
High Fidelity Inc.	254,930	252,873
Total notes receivable	1,958,088	1,950,645
Notes receivable, current portion	315,046	311,149
Notes receivable, less current portion	\$ 1,643,042	\$ 1,639,496

The Company loaned approximately \$700,000 to First State Compassion Center, its Delaware cannabis-licensee client, during the period from October 2015 to April 2016. In May 2016, this client issued a 10-year promissory note, as subsequently amended, to the Company bearing interest at a rate of 12.5% per annum. The monthly payments of approximately \$10,100 will continue through April 2026, at which time the note will become due. At March 31, 2020 and December 31, 2019, the current portion of this note was approximately \$60,000 and \$58,000, respectively, and is included in *Notes Receivable, Current Portion* on the respective balance sheets.

From August 2018 to June 2019, the Company loaned an aggregate of \$800,000 to Healer LLC (“Healer”), an entity that provides cannabis education, dosage programs, and products developed by Dr. Dustin Sulak, an integrative medicine physician and nationally renowned cannabis practitioner. The loans bear interest at 6% per annum, with principal and interest payable on the maturity dates which are three years from the respective loan dates.

In 2019, the Company extended loans aggregating \$980,000 to Atalo Holdings Inc. (“Atalo”), an agriculture and biotechnology firm specializing in research, development, and production of industrial hemp and hemp-based CBD products. The loans bear interest at 6% per annum, with principal and interest payable on the earlier of April 3, 2020 or the date on which the Company acquires at least 25% of Atalo’s outstanding capital stock, in which case the principal and interest due shall be credited toward Company’s purchase price for such capital stock. In December 2019, the Company wrote off the entire carrying value of the Atalo note receivable balance based on the expectation that the operations of Atalo would be negatively impacted by the COVID-19 pandemic.

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

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

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

NOTE 7 – INVENTORY

At March 31, 2020 and December 31, 2019, inventory was comprised of approximately \$212,000 and \$226,000, respectively, of CBD isolate and hemp extract, and approximately \$2,504,000 and \$994,000 of work-in-process and finished cannabis and CBD products.

NOTE 8 – PROPERTY AND EQUIPMENT

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

	March 31, 2020	December 31, 2019
Land	\$ 3,988,810	\$ 3,887,710
Buildings and building improvements	27,115,201	27,063,235
Tenant improvements	8,084,071	7,762,991
Furniture and fixtures	325,113	299,645
Machinery and equipment	4,177,666	4,086,691
Construction in progress	3,602,356	2,827,940
	<u>47,293,217</u>	<u>45,928,212</u>
Less: accumulated depreciation	(3,614,724)	(3,135,843)
Property and equipment, net	<u>\$ 43,678,493</u>	<u>\$ 42,792,369</u>

During the quarters ended March 31, 2020 and December 31, 2019, additions to property and equipment were approximately \$1.4 million and \$2.9 million, respectively.

Additions during the quarter ended March 31, 2020 consisted primarily of (i) the purchase of land and building, and the commencement of building improvements in Mt. Vernon, IL, and (ii) improvements to the properties in Anna, IL and Harrisburg, IL.

Additions during the quarter ended December 31, 2019 consisted primarily of (i) the purchase of land and building and the commencement of building improvements in Annapolis, MD, and (ii) tenant improvements to the property in Milford, DE.

Depreciation expense for the quarters ended March 31, 2020 and December 31, 2019 approximated \$484,000 and \$301,000, respectively.

NOTE 9 – DEBT

Mortgages Payable

At March 31, 2020 and December 31, 2019, mortgage balances, including accrued but unpaid interest, were comprised of the following:

	March 31, 2020	December 31, 2019
Bank of New England – Massachusetts property	\$ 4,797,229	\$ 4,825,226
Bank of New England – Delaware property	1,656,009	1,682,275
DuQuoin State Bank – Illinois properties	823,111	829,229
South Porte Bank – Illinois property	235,900	-
Total mortgages payable	<u>7,512,249</u>	<u>7,336,730</u>
Mortgages payable, current portion	(483,890)	(223,888)
Mortgages payable, less current portion	<u>\$ 7,028,359</u>	<u>\$ 7,112,842</u>

In November 2017, the Company entered into a 10-year mortgage agreement with Bank of New England for the purchase of a 138,000 square foot industrial property in New Bedford, Massachusetts, within which the Company has built a 70,000 square foot cannabis cultivation and processing facility. This mortgage was personally guaranteed by the Company's CEO and CFO. From the mortgage date through May 2019, the Company was required to make monthly payments of interest-only at a rate equal to the prime rate plus 2%, with a floor of 6.25% per annum. From May 2019 to May 2024, the Company is required to make principal and interest payments at a rate equal to the prime rate on May 2, 2019 plus 2%, with a floor of 6.25% per annum. Principal and interest payments shall continue from May 2024 through the end of the lease at a rate equal to the prime rate on May 2, 2024 plus 2%, with a floor of 6.25% per annum. The outstanding principal balance on this mortgage approximated \$4,797,000 and \$4,825,000 and on March 31, 2020 and December 31, 2019, respectively, of which approximately \$96,000 and \$94,000, respectively, was current.

The Company maintains another mortgage with Bank of New England, also personally guaranteed by the Company's CEO and CFO, for the 2016 purchase of a 45,070 square foot building in Wilmington, Delaware which was developed into a cannabis seed-to-sale facility and is currently leased to the Company's cannabis-licensed client in that state. The mortgage matures in 2031 with monthly principal and interest payments at a rate of 5.25% per annum through September 2021, and thereafter the rate adjusting every five years to the then prime rate plus 1.5% with a floor of 5.25% per annum. At March 31, 2020 and December 31, 2019, the outstanding principal balance on this mortgage was approximately \$1,656,000 and \$1,682,000, respectively, of which approximately \$107,000 and \$105,000, respectively, was current.

In May 2016, the Company entered into a mortgage agreement with DuQuoin State Bank ("DSB") for the purchase of two properties which the Company developed into two 3,400 square foot free-standing retail dispensaries in Illinois. On May 5th of each year, this mortgage is due to be repaid unless it is renewed for another year at a rate determined at the discretion of DSB's executive committee. The mortgage was renewed in May 2020 at a rate of 6.75% per annum. At March 31, 2020 and December 31, 2019, the outstanding principal balance on this mortgage was approximately \$823,000 and \$829,000, respectively, of which approximately \$25,000 and \$24,000, respectively, was current.

In February 2020, the Company entered into a mortgage agreement with South Porte Bank for the purchase and development of a property in Mt. Vernon, IL. The principal amount of the mortgage is equal to the aggregate amounts advanced to the Company up to a maximum of \$907,200. Interest shall accrue at the rate of 5.5% per annum and the mortgage matures in August 2020. Upon execution, the Company was advanced \$235,900. No additional advances have been made to date. The interest accrued from inception through the end of the quarter of was paid by the Company in March 2020.

Notes Payable

In February 2020, pursuant to an exchange agreement as further described in Note 12 – *Stockholders' Equity*, the Company issued two promissory notes in the aggregate principal amount of approximately \$4.4 million, bearing interest at 16.5% per annum and maturing in August 2021, with a right to extend the maturity date through February 2022 upon payment of an extension fee (the "\$4.4M Notes"). As of March 31, 2020, no payments were made on the \$4.4M Notes and accrued interest approximated \$67,000.

In June 2019, the Company and MariMed Hemp, its wholly-owned subsidiary, issued a secured promissory note in the principal amount of \$10.0 million to an unaffiliated party (the "\$10M Note"). The proceeds from the \$10M Note were used to finance a portion of the purchases of hemp seed inventory which was sold to GenCanna (the "Seed Transactions") as further discussed in Note 17 – *Related Party Transactions*. The \$10M Note provided for the repayment of principal plus a payment of \$1.5 million (the "\$1.5M Payment") on the maturity date of January 31, 2020. Such payment was charged to interest expense over the life of the \$10M Note.

As part of the \$10M Note transaction, the Company issued three-year warrants to purchase 375,000 shares of common stock at an exercise price of \$4.50 per share to the holder of the \$10M Note. The fair value of these warrants on the issuance date of approximately \$601,000 was recorded as a discount to the \$10M Note. Approximately \$523,000 of the warrant discount was amortized to interest expense in 2019, with the remainder in January 2020. Accordingly, the carrying value of the \$10M Note approximated \$9.9 million at December 31, 2019.

In February 2020, the Company entered into an amendment agreement with the holder of the \$10M Note, whereby the Company and MariMed Hemp issued an amended and restated promissory note in the principal amount of \$11,500,000 (the "\$11.5M Note"), comprised of the \$10.0 million principal and the \$1.5M Payment (which the Company had accrued) of the \$10M Note. The \$11.5M Note matures in June 2020 and bears interest at a rate of 15% per annum, requiring monthly interest payments and minimum amortization payments of \$3,000,000 in the aggregate due on or before April 30, 2020, of which the Company paid \$2,300,000 in February 2020 and \$700,000 in April 2020. Accordingly, the outstanding principal on \$11.5M Note was \$9.2 million at March 31, 2020, with approximately \$119,000 of accrued interest.

The \$11.5M Note is secured by a first priority security interest in the assets of certain of the Company's subsidiaries and brands, and a pledge of the Company's ownership interest in certain of its subsidiaries. The \$11.5M Note imposes certain covenants on the borrowers, all of which were complied with as of March 31, 2020.

In April 2019, MariMed Hemp issued a secured promissory note in the principal amount of \$1,000,000 to an unaffiliated party. The proceeds of the note were used to finance a portion of the Seed Transactions as further discussed in Note 17 – *Related Party Transactions*. The note is secured by the collateral assignment of certain receivables from GenCanna and certain obligations of GenCanna to MariMed Hemp. The principal balance plus a payment of \$180,000, initially due in December 2019, was extended to March 2020 in accordance with the terms of the note, requiring an additional payment of \$30,000 (the "\$30,000 Fee"). Prior to the extended due date, the parties agreed that the note would continue on a month-to-month basis bearing interest at a rate of 15% per annum. At March 31, 2020, the outstanding balance consisted of the \$1,000,000 principal amount plus approximately \$274,000 of accrued interest which included the \$30,000 Fee.

In March 2019, the Company raised \$6.0 million through the issuance of a secured promissory note to an unaffiliated party bearing interest at a rate of 13% per annum and a service fee of \$900,000 (the “\$6M Note”). The proceeds of the note were used to finance a portion of the Seed Transactions as further discussed in Note 17 – *Related Party Transactions*. The \$6M Note is secured by the collateral assignment of certain receivables from and obligations of GenCanna to MariMed Hemp. The \$6M Note’s initial maturity date of December 31, 2019 was extended to April 30, 2020 in accordance with its terms, with the Company paying an extension fee in December 2019 of \$300,000 which was charged to interest expense. In April 2020, the maturity date of this note was extended to September 2020 and the note was modified to include unpaid accrued interest of \$845,000 through the modification date, a new note was issued evidencing the aforementioned service fee of \$900,000, and adjustments were made to the security on these notes as further discussed in Note 19 – *Subsequent Events*. At March 31, 2020 and December 31, 2019, accrued interest payable on the \$6M Note approximated \$853,000 and \$635,000, respectively.

In September 2018, the Company raised \$3.0 million from the issuance of a secured promissory note to the same unaffiliated holder of the \$6M Note, bearing interest at a rate of 10% per annum (the “\$3M Note”). The maturity date of the \$3M Note, initially in March 2020, was extended for an additional six months in accordance with its terms, with the interest rate increasing to 12% per annum during the extension period. The Company may elect to prepay the \$3M Note in whole or part without premium or penalty provided the noteholder is given proper notice and the Company is not in default of the note agreement. The \$3M Note is secured by the Company’s property in Maryland. In April 2020, the maturity date of this note was extended to December 2020 as discussed in Note 19 – *Subsequent Events*.

As part of \$3M Note transaction, the Company issued three-year warrants to the lender’s designees to purchase 750,000 shares of the Company’s common stock at an exercise price of \$1.80 per share. The Company recorded a discount on the \$3M Note of approximately \$1,511,000 from the allocation of note proceeds to the warrants based on the fair value of such warrants on the issuance date. Approximately \$882,000 of the warrant discount was amortized to interest expense during 2018, and the remaining \$629,000 was amortized during 2019. Interest accrued on the \$3M Note was paid monthly, and accordingly the carrying value of the \$3M Note was \$3.0 million on March 31, 2020 and December 31, 2019.

In addition to the above transactions, the Company raised \$100,000 and \$2,760,000 in the three month ended March 31, 2020 and December 31, 2019, respectively, from the issuance of promissory notes to individuals and accredited investors bearing interest at rates of 10% to 18% per annum, and maturing in 2020 and 2021. Of these promissory note issuances, \$100,000 was repaid in February, and \$2,760,000 remained outstanding at March 31, 2020 with related accrued interest of approximately \$119,000.

Note Settlements

During the quarter ended March 31, 2020, the Company repaid \$100,000 of promissory notes. No repayments of promissory notes occurred in 2019.

During the quarter ended December 31, 2019, the Company issued 2,435,116 shares of its common stock to retire promissory notes (principal and accrued interest) of approximately \$1,047,000. No such retirements occurred during the quarters ended March 31, 2020 and 2019.

Debt Maturities

As of March 31, 2020, the aggregate scheduled maturities of the Company’s total debt outstanding, inclusive of the promissory notes and mortgages described within this Note 9 – *Debt*, and the convertible debentures described in the following Note 10– *Debentures Payable*, were:

2020	\$	20,573,436
2021		16,080,223
2022		280,844
2023		300,263
2024		320,718
Thereafter		5,928,365
Total		43,483,849
Less discounts		(3,207,331)
	\$	40,276,518

NOTE 10 – DEBENTURES PAYABLE

In a series of transactions from the period October 2018 through February 2020, the Company sold an aggregate of \$21.0 million of convertible debentures (the “\$21M Debentures”) to an accredited investor pursuant to an amended securities purchase agreement (the “SPA”). The following table summarizes the purchase dates and selected terms of each debenture transaction that comprises the \$21M Debentures:

Issue Date	Maturity Date	Initial Principal	Interest Rate	Issue Discount	Warrant Discount	Ben. Conv. Feature	Converted To Common Stk.	Outstanding Principal
10/17/18	10/16/20	\$ 5,000,000	6.0%	1.0%	\$ 457,966	\$ 1,554,389	\$ 5,000,000	\$ -
11/07/18	11/06/20	5,000,000	6.0%	1.0%	599,867	4,015,515	5,000,000	-
05/08/19	05/07/21	5,000,000	6.0%	1.0%	783,701	2,537,235	1,000,000	4,000,000
06/28/19	06/27/21	2,500,000	0.0%	7.0%	145,022	847,745	300,000	2,200,000
08/20/19	08/19/21	2,500,000	0.0%	7.0%	219,333	850,489	300,000	2,200,000
02/21/20	02/20/21	1,000,000	6.5%	6.5%	28,021	379,183	-	1,000,000

The holder of the \$21M Debentures (the “Holder”) has the right at any time to convert all or a portion of the \$21M Debentures, along with accrued and unpaid interest, into the Company’s common stock at conversion prices equal to 80% of a calculated average, as determined in accordance with the terms of the \$21M Debentures, of the daily volume-weighted price during the ten consecutive trading days preceding the date of conversion, subject to a cap in certain conversions. Notwithstanding this conversion right, the Holder shall limit conversions in any given month to certain agreed-upon amounts based on the conversion price, and the Holder shall also be limited from beneficially owning more than 4.99% of the Company’s outstanding common stock (potentially further limiting the Holder’s conversion right).

The Company shall have the right to redeem all or a portion of the \$21M Debentures, along with accrued and unpaid interest, at a 10% premium, provided that the Company first deliver advance written notice to the Holder of its intention to make a redemption, with the Holder allowed to effect certain conversions of the \$21M Debentures during such notice period.

Upon a change in control transaction, as defined, the Holder may require the Company to redeem all or a portion of the \$21M Debentures at a price equal to 110% of the outstanding principal amount of the \$21M Debentures, plus all accrued and unpaid interest thereon. So long as the \$21M Debentures are outstanding, in the event the Company enters into a Variable Rate Transaction (“VRT”), as defined in the SPA, the Holder may cause the Company to revise the terms of the \$21M Debentures to match the terms of the convertible security issued in such VRT.

In conjunction with the issuance of the \$21M Debentures, the Company issued the Holder three-year warrants to purchase an aggregate of 1,354,675 shares of the Company’s common stock at exercise prices ranging from \$0.75 to \$5.50 per share, of which warrants to purchase 180,000 shares of common stock at an exercise price of \$0.75 were issued in the quarter ended March 31, 2020. The fair value of the warrants of approximately \$2.2 million was recorded as a discount to the carrying amount of the \$21M Debentures, and amortized to interest expense over the respective term of the individual debentures comprising the \$21M Debentures.

Based on the conversion prices of the \$21M Debentures in relation to the market value of the Company’s common stock, the \$21M Debentures provided the Holder with a beneficial conversion feature, as the embedded conversion option was in-the-money on the commitment date. The aggregate intrinsic value of the beneficial conversion feature of approximately \$10.2 million was recorded as a discount to the carrying amount of the \$21M Debentures, with an offset to additional paid-in-capital. The beneficial conversion feature is amortized to interest expense over the respective term of the individual debentures comprising the \$21M Debentures.

Pursuant to the terms of a registration rights agreement with the Holder, entered into concurrently with the SPA, the Company agreed to provide the Holder with certain registration rights with respect to any potential shares issued pursuant to the terms of the SPA, the \$21M Debentures, and the warrants. An addendum to the SPA stipulates that the Holder has agreed not to undertake a conversion of all or a portion of the \$21M Debentures that would require the Company to issue more shares than the amount of available authorized shares at the time of conversion, which amount of authorized shares shall not be less than the current authorized number of 500 million shares of common stock, thereby eliminating the requirement to bifurcate and account for the conversion feature of the \$21M Debentures as a derivative.

The Holder converted, in several transactions from November 2018 through March 2020, an aggregate of \$11.6 million of principal and approximately \$616,000 of accrued interest into 18,911,106 shares of common stock at conversion prices ranging from \$0.12 to \$3.06 per share. Of these conversions, an aggregate of \$1.6 million of principal and approximately \$205,000 of accrued interest was converted into 8,584,276 shares of common stock at exercise prices of \$0.12 and \$0.34 per share in the three months ended March 31, 2020.

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

During the quarters ended March 31, 2020 and 2019, amortization of the beneficial conversion features, after adjustment for the aforementioned conversions, approximated \$991,000 and \$758,000, respectively; amortization of the warrant discounts approximated \$146,000 and \$131,000 respectively; and the amortization of original issue discounts approximated \$12,000 and \$57,000, respectively. Additionally, accrued interest expense for such periods approximated \$97,000 and \$123,000, respectively.

At March 31, 2020, the aggregate outstanding principal balance of the \$21M Debentures was \$9.4 million. Also on such date, the unamortized balances of the beneficial conversion features, the warrant discounts, and original issue discounts were approximately \$2,429,000, \$699,000, and \$315,000, respectively. Accordingly, at March 31, 2020, the carrying value of the \$21M Debentures was approximately \$5,957,000, of which approximately \$578,000 was current.

At December 31, 2019, the aggregate outstanding principal balance on the \$21M Debentures was \$10,000,000. Also on such date, the unamortized balances of the beneficial conversion features, the warrant discounts, and original issue discounts were approximately \$3,041,000, \$817,000, and \$307,000, respectively. Accordingly, at December 31, 2019, the carrying value of the \$21M Debentures was approximately \$5,835,000.

NOTE 11 – MEZZANINE EQUITY

Preferred Stock

In February 2020, the Company entered into an exchange agreement with two institutional shareholders (the “TIS”) whereby the Company (i) exchanged 4,908,333 shares of the Company’s common stock previously acquired by the TIS for an equal number of shares of newly designated Series B convertible preferred stock, and (ii) issued two promissory notes in the aggregate principal amount of approximately \$4.4 million in exchange for a loan in the same amount as previously discussed in Note 9 – *Debt*.

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

The holders of Series B convertible preferred stock (the “Series B Holders”) are entitled to cast the number of votes equal to the number of shares of common stock into which the shares of Series B convertible preferred stock are convertible, together with the holders of common stock as a single class, on most matters. However, the affirmative vote or consent of the Series B Holders voting separately as a class is required for certain acts taken by the Company, including the amendment or repeal of certain charter provisions, liquidation or winding up of the Company, creation of stock senior to the Series B convertible preferred stock, and/or other acts defined in the certificate of designation.

The Series B convertible preferred stock shall, with respect to dividend rights and rights on liquidation, winding up and dissolution, rank senior to the Company’s common stock. The Company shall not declare, pay, or set aside any dividends on shares of any other class or series of capital stock of the Company unless the Series B Holders then outstanding shall first receive, or simultaneously receive, a dividend on each outstanding share of Series B convertible preferred stock in an amount calculated pursuant to the certificate of designation.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the Series B Holders then outstanding shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders before any payment shall be made to the holders of common stock by reason of their ownership thereof, an amount per share equal to \$3.00, plus any dividends declared but unpaid thereon, with any remaining assets distributed pro-rata among the holders of the shares of Series B convertible preferred stock and common stock, based on the number of shares held by each such holder, treating for this purpose all such securities as if they had been converted to common stock.

At any time on or prior to the six-year anniversary of the issuance date of the Series B convertible preferred stock, (i) the Series B Holders have the option to convert their shares of Series B convertible preferred stock into common stock at a conversion price of \$1.00 per share, without the payment of additional consideration, and (ii) the Company has the option to convert all, but not less than all, shares of Series B convertible preferred stock into common stock at a conversion price of \$1.00 if the daily volume weighted average price of common stock (the “VWAP”) exceeds \$4.00 per share for at least twenty consecutive trading days prior to the date on which the Company gives notice of such conversion to the Series B Holders.

On the day following the six-year anniversary of the issuance of the Series B convertible preferred stock, all outstanding shares of Series B convertible preferred stock shall automatically convert into common stock as follows:

If the sixty-day VWAP is less than or equal to \$0.50 per share, the Company shall have the option to (i) convert all shares of Series B convertible preferred stock into common stock at a conversion price of \$1.00 per share, and pay cash to the Series B Holders equal to the difference between the 60-day VWAP and \$3.00 per share, or (ii) pay cash to the Series B Holders equal to \$3.00 per share.

If the sixty-day VWAP is greater than \$0.50 per share, the Company shall have the option to (i) convert all shares of Series B convertible preferred stock into common stock at a conversion price per share equal to the quotient of \$3.00 per share divided by the sixty-day VWAP, or (ii) pay cash to the Series B Holders equal to \$3.00 per share, or (iii) convert all shares of Series B convertible preferred stock into common stock at a conversion price per share equal to the sixty-day VWAP per share and pay cash to the Series B Holders at the difference between \$3.00 per share and the sixty-day VWAP per share.

The Company shall at all times when the Series B convertible preferred stock is outstanding, reserve and keep available out of its authorized but unissued capital stock, for the purpose of effecting the conversion of the Series B convertible preferred stock, such number of its duly authorized shares of common stock as shall from time to time be sufficient to effect the conversion of all outstanding Series B convertible preferred stock.

NOTE 12 – STOCKHOLDERS’ EQUITY

Common Stock

In February 2020, pursuant to the aforementioned exchange agreement with the TIS, the 4,908,333 shares of common stock exchanged for shares of Series B convertible preferred stock were treated as an increase to treasury stock of \$14,725,000 (\$3.00 per share), and then immediately cancelled, thereby reducing treasury stock to zero, with corresponding reductions to common stock of approximately \$5,000 (the par value of the exchanged common shares) and additional paid-in capital of approximately \$14,720,000.

During the three months ended March 31, 2020 and 2019, the Company issued 3,236,857 and 97,136 common shares, respectively, associated with previously issued subscriptions on common stock with a value of approximately \$1,168,000 and \$169,000, respectively.

During the three months ended March 31, 2019, the Company sold 799,995 shares of common stock at a price of \$3.25 per share, resulting in total proceeds of \$2,600,000. No common stock was sold during the three months ended March 31, 2020.

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

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

As previously disclosed in Note 9 – *Debt*, the Company issued 2,435,116 shares of common stock in 2019 to retire promissory notes (principal and accrued interest) of approximately \$1,047,000.

As previously disclosed in Note 10 – *Debentures Payable*, during the three months ended March 31, 2020, the holder of the \$21M Debentures converted approximately \$1.8 million of principal and interest into 8,584,276 shares of common stock. During the three months ended March 31, 2019, the holder of the \$21M debentures converted approximately \$697,000 of principal and interest into 233,194 shares of common stock.

As further disclosed in Note 13– *Stock Options*, during the three months ended March 31, 2019, 150,000 shares of common stock were issued in connection with the exercise of stock options. No stock options were exercised during the three months ended March 31, 2020.

As further disclosed in Note 14– *Warrants*, during the three months ended March 31, 2019, warrants to purchase 22,000 shares of common stock were exercised. No warrants were exercised during the three months ended March 31, 2020.

Common Stock Issuance Obligations

At March 31, 2020, the Company was obligated to issue 30,307 shares of common stock, valued at approximately \$5,000, in connection with a stock grant to a current employee. Such shares were subsequently issued in May 2020. No obligations to issue shares of common stock existed at March 31, 2019.

Amended and Restated 2018 Stock Award and Incentive Plan

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

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

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

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

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

NOTE 13 – STOCK OPTIONS

During the three months ended March 31, 2019, options to purchase 150,000 shares of common stock were exercised at prices of \$0.26 and \$0.77 per share. Of these exercised options, 100,000 were exercised on a cashless basis with the exercise prices paid via the surrender of 19,376 shares of common stock. No options were exercised during the three months ended March 31, 2020.

During the three months ended March 31, 2020, options to purchase 30,000 shares of common stock were forfeited, resulting in an aggregate reduction of amortization expense of approximately \$19,000. No options were forfeited during the three months ended March 31, 2019.

Stock options outstanding and exercisable as of March 31, 2020 were:

Exercise Price per Share	Shares Under Option		Remaining Life in Years
	Outstanding	Exercisable	
\$ 0.130	200,000	200,000	0.25
\$ 0.140	550,000	550,000	0.75
\$ 0.330	50,000	50,000	0.94
\$ 0.417	900,000	200,000	4.74
\$ 0.450	125,000	125,000	1.51
\$ 0.590	15,000	-	4.69
\$ 0.630	300,000	300,000	1.75
\$ 0.770	200,000	200,000	2.75
\$ 0.900	50,000	50,000	3.12
\$ 0.910	50,000	50,000	2.56
\$ 0.950	50,000	30,000	2.75
\$ 0.992	300,000	300,000	4.49
\$ 1.000	170,000	120,000	4.59
\$ 1.350	100,000	25,000	3.33
\$ 1.950	500,000	125,000	3.25
\$ 2.320	100,000	100,000	3.45
\$ 2.450	2,000,000	2,000,000	2.73
\$ 2.500	100,000	75,000	3.41
\$ 2.650	200,000	150,000	3.48
\$ 2.850	56,250	31,250	2.70
\$ 2.850	100,000	50,000	3.70
\$ 3.000	25,000	25,000	3.71
\$ 3.725	100,000	100,000	3.69
	<u>6,241,250</u>	<u>4,856,250</u>	

NOTE 14 – WARRANTS

During the three months ended March 31, 2020, the Company issued three-year warrants to purchase 180,000 shares of common stock at an exercise price of \$0.75 per share in conjunction with the issuance in February 2020 of \$1.0 million of the \$21M Debentures as previously disclosed in Note 10 – *Debentures Payable*. The fair value of these warrants at issuance of approximately \$28,000 was recorded as a discount to the \$21M Debentures, of which approximately \$3,000 was amortized to interest expense as of March 31, 2020. No warrants were issued during the three months ended March 31, 2019.

During the three months ended March 31, 2019, warrants to purchase 22,000 shares of common stock were exercised at exercise prices of \$0.50 and \$0.90 per share, resulting in aggregate proceeds to the Company of approximately \$16,000. No warrants were exercised during the three months ended March 31, 2020.

At March 31, 2020 and 2019, warrants to purchase 11,960,107 and 10,584,211 shares of common stock, respectively, were outstanding with exercise prices ranging from \$0.62 to \$5.50 per share and \$0.12 to \$5.50 per share, respectively.

NOTE 15 – REVENUES

For the quarters ended March 31, 2020 and 2019, the Company's revenues were comprised of the following major categories:

	March 31,	
	2020	2019
Real estate	\$ 1,973,098	\$ 1,666,563
Management	429,632	425,648
Supply procurement	430,134	1,165,051
Licensing	400,327	258,553
Product sales	4,232,828	-
Total revenues	<u>\$ 7,466,019</u>	<u>\$ 3,515,815</u>

For the three months ended March 31, 2020 and 2019, revenue from two clients represented 39% and 78%, respectively, of total revenues.

NOTE 16 – BAD DEBTS

At March 31, 2020 and 2019, the Company maintained reserves against bad debts of approximately \$43.1 million and \$150,000, respectively.

The March 31, 2020 reserves were primarily comprised of (i) an allowance against the accounts receivable balance due from GenCanna of approximately \$29.0 million, following the commencement of GenCanna's Chapter 11 proceedings as previously discussed in Note 4 – *Investments*, (ii) an allowance against the accounts receivable balance of approximately \$9.7 million, and reserve against the working capital balance of approximately \$1.5 million, due from Kind, in light of the current litigation between the Company and Kind as further discussed in Note 18 – *Commitments and Contingencies*, and (iii) a reserve against the working capital balance of approximately \$1.9 million due from Harvest, based on the Company's expectation of the negative impact of the COVID-19 pandemic on Harvest's local economy.

NOTE 17 – RELATED PARTY TRANSACTIONS

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

The Company purchased \$20.75 million of hemp seed inventory which it sold and delivered to GenCanna for \$33.2 million. The Company provided GenCanna with extended payment terms through December 2019, to coincide with the completion of the seeds' harvest, although the payment by GenCanna was not contingent upon the success of such harvest or its yield. To partially fund the seed purchases, the Company raised \$17.0 million in debt financings which is reflected in *Notes Payable* on the balance sheet and previously discussed in Note 9 – *Debt*.

By the end of 2019, GenCanna had not paid the amount it owed the Company for its seed purchases due to several challenges it faced late in the year, including defaults under its senior credit facility, a fire at its main processing and lab facility, the domestic decline of CBD selling prices, and the contraction of the cannabis capital markets. In February 2020, as previously discussed in Note 4 – *Investments*, under pressure from certain of its creditors, the GenCanna Debtors agreed to convert a previously-filed involuntary bankruptcy proceeding into a voluntary Chapter 11 proceeding, and filed voluntary petitions under Chapter 11 in the Bankruptcy Court.

As required by the relevant accounting guidance, the Company initially recorded the \$33.2 million due from GenCanna as a related party receivable, with approximately \$29.0 million recognized as related party revenue, and approximately \$4.2 million classified as unearned revenue (such amount representing the Company's 33.5% ownership portion of the profit on these transactions, which was to have been recognized as revenue upon payment by GenCanna). As a result of GenCanna's Chapter 11 proceedings, the Company fully reserved the receivable balance of approximately \$29.0 million and wrote off the entire unearned revenue balance of approximately \$4.2 million.

As disclosed in Note 9 – *Debt*, the Company's two mortgages with Bank of New England are personally guaranteed by the Company's CEO and CFO.

In 2019, the Company granted five-year options to purchase up to 100,000 shares of common stock to each of the Company's three independent board members at an exercise price of \$0.99 per share. The aggregate fair value of these options of approximately \$191,000 was fully amortized at March 31, 2020. No options were granted to related parties during the three months ended March 31, 2020.

In 2019, options to purchase 200,000 and 132,499 shares of common stock were exercised by the Company's CEO and an independent board member, respectively, at weighted average exercise prices of \$0.11 and \$0.08 per share, respectively. The independent board member's options were exercised on a cashless basis with the exercise prices paid via the surrender of 3,108 shares of common stock. No options were exercised by related parties during the three months ended March 31, 2020.

In 2019, options to purchase 117,501 shares of common stock were forfeited by board members. No options were forfeited by related parties during the three months ended March 31, 2020.

The Company's current corporate offices are leased from a company owned by a related party under a 10-year lease that commenced August 2018 and contains a five-year extension option. For the three months ended March 31, 2020 and 2019, expenses incurred under this lease approximated \$39,000 in both periods.

The balance of *Due To Related Parties* at March 31, 2020 and December 31, 2019 of approximately \$1,214,000 and \$1,455,000, respectively, were comprised of amounts owed of approximately (i) \$435,000 and \$420,000, respectively, to the Company's CEO and CFO, (ii) \$734,000 and \$990,000, respectively, to companies partially owned by these officers, and (iii) \$45,000 in both periods to two stockholders of the Company. Such amounts owed are not subject to repayment schedules.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Lease Commitments

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

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

- Delaware – 4,000 square feet of retail space in a multi-use building under a five-year lease that commenced in October 2016 and contains a five-year option to extend the term. The Company developed the space into a cannabis dispensary which is subleased to its cannabis-licensed client.
- Delaware – a 100,000 square foot warehouse leased in March 2019 that the Company is developing into a cultivation and processing facility to be subleased to the same Delaware client. The lease term is 10 years, with an option to extend the term for three additional five-year periods.
- Nevada – 10,000 square feet of an industrial building that the Company has built-out into a cannabis cultivation facility and plans to rent to its cannabis-licensed client under a sub-lease which will be coterminous with this lease expiring in 2024.
- Massachusetts – 10,000 square feet of office space which the Company utilizes as its corporate offices under a 10-year lease with a related party expiring in 2028, with an option to extend the term for an additional five-year period.
- Maryland – a 2,700 square foot 2-unit apartment under a lease that expires in July 2020 with an option to renew for a two-year term.

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

The components of lease expense for the year ended March 31, 2020 were as follows:

Operating lease cost	\$	246,462
Finance lease cost:		
Amortization of right-of-use assets	\$	8,171
Interest on lease liabilities		2,087
Total finance lease cost	\$	<u>256,720</u>

The weighted average remaining lease term for operating leases is 9.1 years, and for the finance lease is 3.4 years. The weighted average discount rate used to determine the right-of-use assets and lease liabilities was 7.5% for all leases.

Future minimum lease payments as of March 31, 2020 under all non-cancelable leases having an initial or remaining term of more than one year were:

	Operating Leases	Finance Lease
2020	\$ 750,504	\$ 28,809
2021	1,008,227	38,412
2022	949,535	27,123
2023	910,166	23,201
2024	835,411	3,229
Thereafter	4,304,441	-
Total lease payments	<u>8,758,284</u>	<u>\$ 120,774</u>
Less: imputed interest	<u>(2,490,229)</u>	<u>(14,465)</u>
	<u>\$ 6,268,055</u>	<u>\$ 106,309</u>

Terminated Employment Agreement

An employment agreement which commenced in 2012 with Thomas Kidrin, the former CEO of the Company, that provided Mr. Kidrin with salary, car allowances, stock options, life insurance, and other employee benefits, was terminated by the Company in 2017. At March 31, 2020 and December 31, 2019, the Company maintained an accrual of approximately \$1,043,000 for any amounts that may be owed under this agreement, although the Company contends that such agreement is not valid and no amount is due.

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

Maryland Acquisition

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

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

Both parties, MariMed (including MariMed Holdings MD, LLC and MariMed Advisors Inc.) and Kind, brought motions for a temporary restraining order and a preliminary injunction. By Opinion and Order entered on November 21, 2019, the Court denied both parties motions for a temporary restraining order. In its opinion, the Court specifically noted that, contrary to Kind’s allegations, the MSA and the 20-year lease agreement for Kind’s utilization of the Company’s cultivation and production facility (“Lease”) “appear to be independent, valid and enforceable contracts.” Each party’s preliminary injunction motion is currently pending before the Court.

On or about April 3, 2020, the Company filed its First Amended Counterclaim and Third Party Complaint in which additional claims were added and clarified, including breach of Lease and breach of the Licensing and Manufacturing Agreement (“LMA”) against Kind, along with other alternative claims and seeking damages. The Company believes that its claims for breach of contract with respect to the MOU, the MSA, the Lease, and the LMA, as well as its claims for unjust enrichment, promissory estoppel/detrimental reliance, and fraud in the inducement are meritorious. Further, the Company believes that Kind’s claims against the Company are without merit. The Company intends to aggressively prosecute and defend the action. No trial date is currently scheduled.

NOTE 19 – SUBSEQUENT EVENTS

Extension of Promissory Notes

As previously discussed in Note 9 – *Debt*, (i) in September 2018, the Company issued a secured promissory note in the amount of \$3.0 million to an unaffiliated party bearing interest at a rate of 12% per annum, due in September 2020 and secured by the Company’s Maryland property (the “2018 Note”), and (ii) in March 2019, the Company issued a secured promissory note in the amount of \$6.0 million to the same party bearing interest at a rate of 13% per annum, due in March 2020 and secured by the certain GenCanna receivables (the “2019 Note”). In connection with the 2019 Note issuance, the Company incurred a service fee in the amount of \$900,000 (the “Service Fee”). In April 2020, the Company and the holder of the 2018 Note and the 2019 Note entered into a note extension agreement pursuant to which (i) the due date of the 2018 Note was extended to December 31, 2020, (ii) the due date of the 2019 Note was extended to September 30, 2020 and modified to include unpaid accrued interest of \$845,000 through the modification date, and (iii) a new convertible note in the amount of \$900,000 was issued evidencing the Service Fee bearing interest at a rate of 12% per annum, due June 30, 2020, and with up to 50% of the principal and accrued and unpaid interest payable, at the option of either party, in shares of the Company’s common stock at a per share conversion price equal to the average closing price of the common stock on the twenty consecutive trading days prior to the maturity date.

In consideration of the extension, the Company (i) paid the holder of the notes a fee of \$50,000, (ii) extended the security interest in the Company’s properties in Maryland to secure each note held by the holder of the notes, and (iii) granted the holder of the notes certain security interests in equity interests held by the Company in Chooze Corp., Terrace Inc., and CVP Worldwide LLC. Each of the notes provides for cross-default and imposes certain covenants on the Company.

Issuance of Promissory Note

In April 2020, in exchange for proceeds of \$700,000, the Company issued an interest-free promissory note in the principal amount of approximately \$719,000 to an unaffiliated third-party that matures in September 2020.

Option Grants

In April 2020, the Company granted certain employees five-year options to purchase an aggregate of up to 564,500 shares of common stock with an exercise price of \$0.30 per share. The fair value of the options on grant date of approximately \$67,000 will be amortized to compensation expense over the anticipated three-year average holding term.

Conversion of Debentures Payable

In April and May 2020, the holder of the \$21M Debentures converted an aggregate of \$1.5 million of principal into 12,764,615 shares of common stock at conversion prices of \$0.11 and \$0.13 per share.

Common Stock Issuance Obligations

In May 2020, the Company issued 30,307 shares of common stock in connection with the stock grant to a current employee previously disclosed in Note 12 – *Stockholders’ Equity*.

Item 2. Management's Discussions and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

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

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different. These factors include, but are not limited to, changes that may occur to general economic and business conditions; changes in current pricing levels that we can charge for our services or which we pay to our suppliers and business partners; changes in political, social and economic conditions in the jurisdictions in which we operate; changes to laws and regulations that pertain to our products and operations; and increased competition.

The following discussion should be read in conjunction with the unaudited financial statements and related notes which are included under Item 1 of this report.

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

Overview

General

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

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

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

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

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

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

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

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

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

In anticipation of the growing demand for hemp-derived cannabidiol ("CBD") following the adoption of the U.S. Farm Bill in late 2018—which descheduled industrial hemp and hemp-derived CBD as controlled substances and classified such natural resources as agricultural commodities, thereby enabling a new emerging industry of CBD oils, isolates, and infused products within the United States—the Company established a wholly owned subsidiary, MariMed Hemp Inc. ("MariMed Hemp"), to market and distribute hemp-derived CBD products across several vertical markets. Prior to this, as a means of expanding into the global CBD market, the Company (i) acquired a majority interest of MediTaurus LLC ("MediTaurus"), an entity operating in the United States and Europe that has developed proprietary CBD formulations under its Florance™ brand, and (ii) invested \$30.0 million in GenCanna Global Inc. ("GenCanna"), a Kentucky-based cultivator, producer, and distributor of hemp and GMP-quality CBD oils and isolates, although GenCanna has since filed voluntary petitions under Chapter 11 with the U.S. Bankruptcy Court in the Eastern District of Kentucky as previously described in Note 4 – *Investments*.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic, and governmental authorities around the world have implemented measures to reduce its spread. The spread of COVID-19 in the United States and the measures to contain it have negatively impacted the economy and have created significant volatility and disruption in financial markets. Business shutdowns in certain states in response to stay-at-home orders and related measures have delayed the Company's expansion and consolidation efforts, and have materially and adversely affected the Company's business, operations, financial condition, and liquidity.

In particular, as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, due to the anticipated adverse effects of COVID-19, the Company (i) recorded bad debt reserves against receivables and working capital balances of approximately \$3.8 million in the aggregate, as described in Note 16 – *Bad Debts*, and (ii) wrote off approximately \$3.2 million in the aggregate of goodwill and carrying value of certain investments, as described in Note 4 – *Investments*.

Volatility in the financial markets and investor uncertainty from COVID-19 have also delayed the Company's ability to consummate debt financings to raise working capital to support its operations and expansion plans. Continued disruption to the global economy may materially and adversely affect the future carrying values of certain of the Company's assets, including inventories, accounts receivables, and intangibles. The full extent to which COVID-19 and the measures to contain it will impact our business, operations financial condition, and liquidity will depend on the severity and duration of the COVID-19 outbreak and other future developments related to the response to the virus, all of which are highly uncertain at this time. As a result, the Company cannot predict the ultimate impact of COVID-19 on its operational and financial performance.

Revenues

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

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

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

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

Consulting – The Company assists third parties in securing cannabis licenses, and provides advisory services in the areas of (i) facility design and development, (ii) inventory management, and (iii) cultivation and dispensing best practices.

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

Product Sales – The Company's direct sales of cannabis, hemp, and products derived from these plants are classified under this revenue category. In late 2019, the Company commenced (i) the direct sale of acquired hemp seed inventory in the second quarter, and (ii) cannabis dispensary and wholesale operations of ARL in Massachusetts and the KPGs in Illinois in the fourth quarter. Future product sales are expected to include the distribution of Company-acquired and developed hemp-derived CBD product lines, and the Company's planned cannabis-licensee acquisitions in Maryland and Nevada.

Expenses

The Company classifies its expenses into three broad categories:

- cost of revenues, which includes the direct costs associated with the generation of the Company's revenues;
- operating expenses, which include the sub-categories of personnel, marketing and promotion, and general and administrative; and
- non-operating income and expenses, which include the sub-categories of interest expense, interest income, equity in earnings of equity method investments, and changes in the fair value of non-consolidated investments.

Liquidity and Capital Resources

As of March 31, 2020, the Company reported cash and cash equivalents of approximately \$1.9 million and negative working capital of approximately \$24.2 million, compared to cash and cash equivalents of approximately \$739,000 and negative working capital of approximately \$29.3 million as of December 31, 2019. The large negative working capital balances were primarily the result of the issuance of \$17.0 million of promissory notes to fund the purchase of large quantities of top-grade hemp seeds at volume discounts which then were sold to GenCanna, a related party, at market rates (the "Seed Transactions"), coupled with the write off of the receivable balance on the Seed Transactions due from GenCanna of approximately \$29.0 million following GenCanna's Chapter 11 proceedings. The negative working capital balances were also due to the recording in 2019 of a bad debt reserve against the receivable and working capital balances due from (i) Kind of approximately \$11.2 million in the aggregate in light of the current litigation between the Company and Kind, and (ii) Harvest of approximately \$2.2 million in the aggregate due to the anticipated effect on Harvest's operations from a weakened local economy due to the COVID-19 pandemic. Please refer to the footnote disclosures accompanying the Company's financial statements included in this report for further discussion of the Seed Transactions and the bad debt reserves.

The approximate \$1.1 million increase in cash and cash equivalents, and approximate \$5.1 million improvement in working capital, from December 31, 2019 to March 31, 2020 were primarily attributable to the approximate \$4.4 million of proceeds from the exchange agreement consummated in February 2020, and the extension of the maturity date to December 2021 of \$2.0 million of promissory notes, offset by cash used in operations.

As of the filing date of this report, the Company is in continuing discussions with financial institutions to explore the potential to generate liquidity from the Company's unencumbered real property through mortgage-backed financings, the refinancing of certain outstanding mortgage loans, the sales-leaseback of certain properties, and/or a combination thereof. These discussions and resultant transactions have been hindered by the shelter-in-place executive orders mandated across the United States during the period March 2020 through May 2020 in response to the COVID-19 pandemic. Based on the Company's discussions to date, such financings could potentially generate upwards of \$17.0 million of proceeds to the Company; however, the Company has no current commitments, nor is there any assurance that terms will be reached that will be acceptable to the Company.

The operations of the Company's recently acquired entities in Illinois and Massachusetts are expected to generate considerable liquidity and working capital for the Company. Since their acquisition, the KPGs in Illinois have generated approximately \$1.5 million of pretax income for the Company, which continues to exceed forecasts, in part due to the legalization of adult-use cannabis in January 2020, which was added to the Company's two existing cannabis licenses. In Massachusetts, the cultivation and production facility acquired by the Company has completed its first harvest and commenced full scale selling operations in this state's robust cannabis market. Despite these positive developments, there is no assurance that the Company will continue to meet or exceed its projections given the uncertainty of the global economy due to COVID-19.

In connection with the preparation of its financial statements for the quarter ended March 31, 2020, the Company's management evaluated the Company's ability to continue as a going concern in accordance with ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40)*, which requires an assessment of relevant conditions or events, considered in the aggregate, that are known or reasonably knowable by management on the issuance dates of the financial statements which indicate the probable likelihood that the Company will be unable to meet its obligations as they become due within one year after the issuance date of the financial statements.

As part of its evaluation, management assessed known events, trends, commitments, and uncertainties, which at the time included the status of the Company's consolidation plan, the impact of the COVID-19 pandemic on its operations, developments concerning GenCanna's bankruptcy proceedings, the recent level of cannabis industry investment activity, stock price movement of public cannabis companies, actions and/or results of certain bellwether cannabis companies, the measure of cannabis investor confidence, and changes to state laws with respect to adult-use recreational and medical cannabis use.

In light of the aforementioned disclosures, among other factors reviewed as part of management's evaluation, there is a substantial doubt that the Company will be able to continue as a going concern within one year after the issuance date of these financial statements.

Operating Activities

Net cash used in operating activities for the quarter ended March 31, 2020 approximated \$407,000, compared to approximately \$6.2 million for the same period in 2019. The year-over-year improvement was primarily attributable to approximately \$1.9 million of reduced inventory purchases in 2020, the intentional slowing of approximately \$2.8 million of trade accounts payable and other liabilities in 2020, and the conversion of \$1.5 million of accrued interest into a promissory note, offset by higher trade accounts receivable balances.

Investing Activities

Net cash used in investing activities for the quarter ended March 31, 2020 approximated \$1.4 million, compared to approximately \$2.0 million for the same period in 2019. The year-over-year improvement was principally due to the change in the Company's notes receivable balances from the KPGs, who were clients of the Company in 2019 and were acquired by the Company in October 2019, along with a slight decrease in property and equipment purchases in 2020.

Financing Activities

Net cash provided by financing activities for the quarter ended March 31, 2020 approximated \$2.9 million, compared to approximately \$8.4 million for the same period in 2019. In 2020, the Company raised approximately \$5.7 million from debt financings, offset by \$2.4 million of promissory note repayments, compared to debt and equity financings in 2019 of \$8.6 million in the aggregate.

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

Results of Operations

Quarter ended March 31, 2020 compared to quarter ended March 31, 2019

Total revenues for the quarter ended March 31, 2020 grew to approximately \$7.5 million, an increase of 112.4%, from approximately \$3.5 million for the same period in 2019. The year-over-year increase of approximately \$4.0 million was primarily attributable to cannabis sales in 2020 of approximately \$3.8 million from the KPGs in Illinois, acquired by the Company in October 2019, and approximately \$456,000 from ARL in Massachusetts, acquired by the Company in late 2018 and whose selling operations commenced in December 2019. These increases in cannabis sales were offset by a decrease in procurement revenue and management fees charged to Kind, the Company's cannabis-licensed client in Maryland, and against whom the Company is currently in litigation.

Cost of revenues increased to approximately \$2.6 million for the quarter ended March 31, 2020 from to approximately \$1.3 million for the same period in 2019. The year-over-year increase of approximately \$1.3 million was primarily due to variable costs associated with the aforementioned increase in revenues. As a percentage of revenue, these costs decreased to 34.8% in 2020 from 35.7% in 2019 due effective leveraging of fixed costs to generate higher margins.

As a result of the foregoing, gross profit increased to approximately \$4.9 million for the quarter ended March 31, 2020 from approximately \$2.3 million for the same period a year ago, a year-over-year increase of 115.3%.

Personnel expenses increased to approximately \$1.5 million for the quarter ended March 31, 2020 from approximately \$673,000 for the same period a year ago. The increase was primarily due to the hiring of additional staff to support (i) higher levels of revenue, and (ii) the Company's expansion into a direct owner and operator and operator of seed-to-sale cannabis and hemp operations. As a percentage of revenue, personnel expenses remained relatively steady at 20.3% in 2020 compared to 19.2% in 2019.

Marketing and promotion costs decreased slightly to approximately \$112,000 for the quarter ended March 31, 2020 from approximately \$119,000 for the same period a year ago. As a percentage of revenues, these costs fell to 1.5% in 2020 from 3.4% in 2019 from the Company's reduced presence at industry conferences and tradeshows.

General and administrative costs increased to approximately \$2.2 million for the quarter ended March 31, 2020 from approximately \$1.7 million for the same period a year ago. This increase of approximately \$557,000 is primarily due to the additional facility costs and depreciation expense on the significant purchases and development of property and equipment placed into service over the past year in Massachusetts and Maryland. Despite the year-over-year increase, as a percentage of revenue, general and administrative costs decreased to 30.1% in 2020 from 48.1% in 2019, reflecting a more efficient use of the Company's fixed overhead costs.

As a result of the foregoing, the Company generated operating income of approximately \$994,000 for the quarter ended March 31, 2020, compared to an operating loss approximately \$222,000 for the same period in 2019, a positive swing of approximately \$1.2 million.

Net non-operating expenses were approximately \$3.3 million for the quarter ended March 31, 2020 compared to net non-operating income of approximately \$300,000 for the same period in 2019. The year-over-year change is primarily due to (i) an approximate \$751,000 increase in interest expense in 2020 due to higher levels of debt, (ii) an approximate \$687,000 charge in 2020 resulting from the decrease in the fair value of the Company's investment in Terrace, and (iii) the 2019 equity in earnings of the Company's investment in GenCanna of approximately \$2.0 million compared to no such equity in 2020 as the GenCanna investment was written down to zero in December 2019.

As a result of the foregoing, the Company incurred a net loss of approximately \$2.3 million for the quarter ended March 31, 2020 compared to net income of approximately \$78,000 in for the same period in 2019.

2020 Plans

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

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

- 1) Grow the operations of the Company's recently opened dispensary in Middleboro, MA and cultivation and production facility in New Bedford, MA, and develop two additional dispensaries in this state.
- 2) Introduce the Company's Nature Heritage™ branded flower and popular infused-product brands such as Betty's Eddies™ and Kalm Fusion™ into the robust Massachusetts medical and adult-use marketplace.
- 2) Expand the profitability of the dispensaries in Anna and Harrisburg in Illinois—which legalized recreational adult-use of cannabis at the start of 2020, in addition to its continuing medical use cannabis program—and develop two additional dispensaries in this state
- 3) Strengthen operations in Maryland and Delaware by adding over 100,000 square feet of new cannabis cultivation and processing facilities.
- 4) Drive licensing fees through the sale of branded products at the Company's owned and managed facilities and with strategic partners into additional markets.
- 5) Continue to build brands and distribution of CBD-infused products through the Company's MariMed Hemp subsidiary.

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

Subsequent Events

Extension of Promissory Notes

As previously discussed in Note 9 – *Debt*, (i) in September 2018, the Company issued a secured promissory note in the amount of \$3.0 million to an unaffiliated party bearing interest at a rate of 12% per annum, due in September 2020 and secured by the Company’s Maryland property (the “2018 Note”), and (ii) in March 2019, the Company issued a secured promissory note in the amount of \$6.0 million to the same party bearing interest at a rate of 13% per annum, due in March 2020 and secured by the certain GenCanna receivables (the “2019 Note”). In connection with the 2019 Note issuance, the Company incurred a service fee in the amount of \$900,000 (the “Service Fee”). In April 2020, the Company and the holder of the 2018 Note and the 2019 Note entered into a note extension agreement pursuant to which (i) the due date of the 2018 Note was extended to December 31, 2020, (ii) the due date of the 2019 Note was extended to September 30, 2020 and modified to include unpaid accrued interest of \$845,000 through the modification date, and (iii) a new convertible note in the amount of \$900,000 was issued evidencing the Service Fee bearing interest at a rate of 12% per annum, due June 30, 2020, and with up to 50% of the principal and accrued and unpaid interest payable, at the option of either party, in shares of the Company’s common stock at a per share conversion price equal to the average closing price of the common stock on the twenty consecutive trading days prior to the maturity date.

In consideration of the extension, the Company (i) paid the holder of the notes a fee of \$50,000, (ii) extended the security interest in the Company’s properties in Maryland to secure each note held by the holder of the notes, and (iii) granted the holder of the notes certain security interests in equity interests held by the Company in Choose Corp., Terrace Inc., and CVP Worldwide LLC. Each of the notes provides for cross-default and imposes certain covenants on the Company.

Issuance of Promissory Note

In April 2020, in exchange for proceeds of \$700,000, the Company issued an interest-free promissory note in the principal amount of approximately \$719,000 to an unaffiliated third-party that matures in September 2020.

Option Grants

In April 2020, the Company granted certain employees five-year options to purchase an aggregate of up to 564,500 shares of common stock with an exercise price of \$0.30 per share. The fair value of the options on grant date of approximately \$67,000 will be amortized to compensation expense over the anticipated three-year average holding term.

Conversion of Debentures Payable

In April and May 2020, the holder of the \$21M Debentures converted an aggregate of \$1.5 million of principal into 12,764,615 shares of common stock at conversion prices of \$0.11 and \$0.13 per share.

Common Stock Issuance Obligations

In May 2020, the Company issued 30,307 shares of common stock in connection with the stock grant to a current employee previously disclosed in Note 12 – *Stockholders’ Equity*.

The issuance of the shares of common stock described above were deemed to be exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”), in reliance upon Sections 4(a)(2) and/or 4(a)(5) of the Securities Act. A legend restricting the sale, transfer, or other disposition of these securities other than in compliance with the Securities Act was placed on the securities issued in the foregoing transactions.

Off-Balance Sheet Arrangements

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

Inflation

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

Seasonality

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2020 (the “Evaluation Date”). Based upon that evaluation, the chief executive officer and the chief financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) are recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (ii) are accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the quarter ended March 31, 2020 and past fiscal year, we implemented significant measures to remediate the previously disclosed ineffectiveness of our internal control over financial reporting, which included an insufficient degree of segregation of duties amongst our accounting and financial reporting personnel, and the lack of a formalized and complete set of policy and procedure documentation evidencing our system of internal controls over financial reporting. The remediation measures consisted of the engagement of accounting consultants as needed to provide expertise on specific areas of the accounting guidance, the continued hiring of individuals with appropriate experience in internal controls over financial reporting, and the modification of our accounting processes and enhancement to our financial controls, including the testing of such controls.

Other than as described above, there was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) identified in connection with the evaluation required by Rules 13a-15(d) or 15d-15(d) that occurred during the fiscal quarter ended March 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

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

On November 13, 2019, Kind Therapeutics USA Inc. (“Kind”) commenced an action in the Circuit Court for Washington County, MD captioned Kind Therapeutics USA, Inc. vs. MariMed, Inc., et al. (Case No. C-21-CV-19-000670) asserting claims against the Company, including breach of contract, breach of fiduciary duty, accounting, and unjust enrichment, and seeking declaratory judgment and damages in excess of \$75,000. On November 15, 2019, the Company filed counterclaims against Kind and a third-party complaint against the Members of Kind (Jennifer DiPietro, Susan Zimmerman, and Sophia Leonard-Burns) and William Tham (the “Counterclaim”). The Counterclaim alleges breach of contract with respect to each of the Memorandum of Understanding (“MOU”) and the Management Agreement (“MSA”), unjust enrichment, promissory estoppel/detrimental reliance, and fraud in the inducement, and seeking a declaratory judgment that the MOU is an enforceable contract, specific performance of such contract, and the establishment of a constructive trust for the Company’s benefit. The Counterclaim also seeks damages. Both parties, MariMed (including MariMed Holdings MD, LLC and MariMed Advisors Inc.) and Kind, brought motions for a temporary restraining order and a preliminary injunction. By Opinion and Order entered on November 21, 2019, the Court denied both parties motions for a temporary restraining order. In its opinion, the Court specifically noted that, contrary to Kind’s allegations, the MSA and the 20-year lease agreement for Kind’s utilization of the Company’s cultivation and production facility (“Lease”) “appear to be independent, valid and enforceable contracts.” Each party’s preliminary injunction motion is currently pending before the Court. On or about April 3, 2020, the Company filed its First Amended Counterclaim and Third Party Complaint in which additional claims were added and clarified, including breach of Lease and breach of the Licensing and Manufacturing Agreement (“LMA”) against Kind, along with other alternative claims and seeking damages. The Company believes that its claims for breach of contract with respect to the MOU, the MSA, the Lease, and the LMA, as well as its claims for unjust enrichment, promissory estoppel/detrimental reliance, and fraud in the inducement are meritorious. Further, the Company believes that Kind’s claims against the Company are without merit. The Company intends to aggressively prosecute and defend the action. No trial date is currently scheduled.

Item 1A. Risk Factors

As a smaller reporting company, the Company is not required to provide the information contained in this item pursuant to Regulation S-K. However, information regarding the Company’s risk factors appears in Part I, Item 1A. of its Annual Report on Form 10-K for the year ended December 31, 2019. These risk factors describe some of the assumptions, risks, uncertainties, and other factors that could adversely affect the Company’s business or that could otherwise result in changes that differ materially from management’s expectations. There have been no material changes to the risk factors contained in the Annual Report except for the following additional risk related to COVID-19:

Our business, operations, financial condition, and liquidity have been and may continue to be materially and adversely affected by the outbreak of COVID-19.

In March 2020, the World Health Organization declared COVID-19 a global pandemic, and governmental authorities around the world have implemented measures to reduce the spread of the virus. The spread of COVID-19 in the United States and the measures to contain it have negatively impacted the economy and created significant volatility and disruption in financial markets. Business shutdowns in certain states in response to stay-at-home orders and related measures have temporarily eliminated certain customers’, principally non-medical use customers’, access to our managed dispensaries, adversely impacting sales during this restricted period. In addition, these restrictions and other disruptions caused by the outbreak have impacted our expansion, consolidation, and administrative functions. Further, the volatility in the financial markets and investor uncertainty has delayed and adversely impacted our ability to consummate debt and equity financings to raise working capital to support our operations and expansion plans. As a result, our business, operations, financial condition, and liquidity have been and may continue to be materially and adversely affected. Further, the disruption to the global economy and to our business, along with the decline in our stock price, may also negatively impact the future carrying values of certain assets, including inventories, accounts receivables, intangibles, and goodwill. The full extent to which COVID-19 and the measures to contain it will impact our business, operations financial condition, and liquidity will depend on the severity and duration of the COVID-19 outbreak and other future developments related to the response to the virus all of which are highly uncertain. As a result, we cannot predict the ultimate impact of COVID-19 on the Company and its operational and financial performance.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
3.1	Certificate of Incorporation of the Company (a)
3.1.1	Amended Certificate of Incorporation of the Company (b)
3.1.2	Series B Convertible Preferred Stock Certificate of Designation as filed with the Secretary of State of Delaware on February 27, 2020. (h)
3.1.3	Certificate Eliminating the Series A Preferred Stock as filed with the Secretary of State of Delaware on February 27, 2020. (h)
3.2	By-Laws - Restated as Amended (a)
4.1	Amended and Restated Promissory Note, dated February 10, 2020, in the principal amount of \$11,500,000, issued by MariMed Hemp Inc. and MariMed Inc. (f)
4.1.1	Promissory Note, dated February 27, 2020, in the principal amount of \$3,742,500, issued by MariMed Inc. to Navy Capital Green Fund, LP. (h)
4.1.2	Promissory Note, dated February 27, 2020, in the principal amount of \$675,000, issued by MariMed Inc. to Navy Capital Green Co-Invest Fund, LLC. (h)
4.1.3	Senior Secured Commercial Promissory Note, dated April 23, 2020, in the principal amount of \$6,845,000, issued by MariMed Advisors, Inc. to Best Buds Funding LLC. *
4.1.4	12% Convertible Promissory Note, dated April 23, 2020, in the principal amount of \$900,000, issued by MariMed Inc. to Best Buds Funding LLC. *
10.1	Employment Agreement dated as of August 30, 2012 between Worlds Online Inc. and Thomas Kidrin (a)
10.2	2011 Stock Option and Restricted Stock Award Plan (a)
10.3	Form of Convertible Debenture issued by the Company (c)
10.4	Form of Secured Convertible Debenture of GenCanna Global, Inc. (c)
10.5	Form of Securities Purchase Agreement between the Company and YA II PN, LTD. (c)
10.6	Amended and Restated Registration Rights Agreement dated as of November 5, 2018 between the Company and YA II PN, LTD. (c)
10.7	Amended and Restated 2018 Stock Award and Incentive Plan. (d)
10.8	Form of Stock Option Agreement, dated September 27, 2019, with each of David R. Allen, Eva Selhub, M.D., and Edward J. Gildea. (e)
10.9	Amendment Agreement, dated as of February 10, 2020, between SYYM LLC, as noteholder and collateral agent, and MariMed, Inc. and MariMed Hemp, Inc., as co-borrowers. (g)
10.10	Exchange Agreement, dated as of February 27, 2020, among MariMed Inc., Navy Capital Green Management, LLC, a Delaware limited liability company, as discretionary investment manager of Navy Capital Green Fund, LP, and Navy Capital Green Co-Invest Fund, LLC. (h)
10.11	Note Extension Agreement, dated April 23, 2020, among Best Buds Funding LLC, as lender, and each of MariMed Inc., Mari Holdings MD LLC, and MariMed Advisors Inc., as the borrower parties. *
31.1.	Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer *
31.2.	Rule 13a-14(a)/15d-14(a) Certifications of Chief Financial Officer *
32.1.	Section 1350 Certifications of Chief Executive Officer **
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101.INS XBRL	Instance Document *
101.SCH XBRL	Taxonomy Extension Schema *
101.CAL XBRL	Taxonomy Extension Calculation Linkbase *
101.DEF XBRL	Taxonomy Extension Definition Linkbase *
101.LAB XBRL	Taxonomy Extension Label Linkbase *
101.PRE XBRL	Taxonomy Extension Presentation Linkbase *

* Filed herewith.

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

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

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

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

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

- (e) Incorporated by reference to Exhibit 10.2 filed with the Quarterly Report on Form 10-Q for the period ended September 30, 2019, filed on November 29, 2019.
- (f) Incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed on February 12, 2020.
- (g) Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on February 12, 2020.
- (h) Incorporated by reference to Current Report on Form 8-K filed on February 27, 2020.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

Date: May 28, 2020

MARIMED INC.

By: /s/ Robert Fireman

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

By: /s/ Jon R. Levine

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

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SENIOR SECURED COMMERCIAL PROMISSORY NOTE

DATE OF NOTE: April 23, 2020

PRINCIPAL AMOUNT OF NOTE: \$6,845,000

MATURITY DATE: September 30, 2020

INTEREST RATE: As prescribed by Section 1 herein, as adjusted

For Value Received, **MARIMED ADVISORS, INC.**, a Delaware corporation having its principal office at 26 Ossipee Road, Newton, Massachusetts 02464 (the "Maker"), promises to pay to the order of **BEST BUDS FUNDING LLC** having a principal address at c/o BLDG Management, 417 Fifth Ave., Suite 400, New York, NY 10016, or its successors and assigns (the "Payee"), the aggregate principal sum of Six Million Eight Hundred and Forty-Five Thousand (\$6,845,000) Dollars, in lawful money of the United States of America, with interest thereon to be computed on the unpaid principal balance from time to time outstanding (herein called the "Principal Amount") at the rate and in the manner set forth in Section 1, below, from the date of this Note until paid in full, subject to Section 6, below.

Maker herein acknowledges and expressly warrants that this transaction is not a consumer transaction and that the monies borrowed pursuant to this Note are being used solely for commercial purposes, and that no portion of the loan proceeds are to be used for personal, family, household, agricultural or consumer purposes.

Maker herein acknowledges that this Note is being made and delivered under the terms of a Note Extension Agreement ("Note Extension Agreement") of even date herewith by and among Payee, as lender, and each of Maker, Marimed, Inc. ("Marimed"), and Mari Holdings MD LLC ("MHM" and, collectively with the Maker, Marimed and MHM, the "Marimed Companies"), as the borrower parties. The Note Extension Agreement is attached hereto as Schedule B and incorporated herein by reference. In the event of any conflict between this Note and the Note Extension Agreement, the terms of this Note shall govern. Among the terms contained in the Note Extension Agreement, it is acknowledged that this Note shall be cross-collateralized by any and all security interests and related rights granted by the Marimed Companies to Payee under the terms of the 2018 Note and the 2020 Note (as same are defined in the Note Extension Agreement), including, but not limited to, a first priority security interest in each of the Hagerstown Property and Annapolis Property (as each is defined in the Note Extension Agreement) and other property and collateral as prescribed by the Note Extension Agreement and the Hagerstown Deed of Trust, Annapolis Deed of Trust, the Security Agreement and Guaranty (as each is defined in the Note Extension Agreement) as same are deemed modified by the Note Extension Agreement.

1. **PAYMENTS OF INTEREST.** Interest on the Principal Amount shall be paid monthly in arrears, with first payment due on May 20, 2020. The Note shall bear interest at ten percent (10%) per annum provided interest is timely paid monthly on or prior to the 20th of each

month, or at the annual rate of fifteen (15%) if interest is not paid by the 20th of each month or such amounts are otherwise accrued through maturity date of the Note (September 30, 2020). The applicable interest rate under this Section 1 being the "Interest Rate." For clarity, interest for any monthly interest amount not paid timely in accordance with the foregoing shall be recalculated based on an interest rate of fifteen (15%) per annum from the date of this Note until the date such interest is paid, subject to further adjustment as provided in Section 6, below. Interest payment hereunder shall be made in an amount equal to one twelfth of the applicable annual interest on the Principal Amount, and shall be made as prescribed hereby until the earlier of the date the all outstanding principal and interest under this Note has been paid in full or the Maturity Date as defined herein.

2. **APPLICATION OF PAYMENTS.** Monthly payments shall be applied first to accrued and unpaid interest. Interest shall be calculated on the basis of a 360-day year and accrued and paid for the actual number of days elapsed in any period for which interest is payable. Accordingly, interest accruing hereunder shall be calculated with respect to each period for which interest is accrued, shall be payable in arrears on each payment date and shall be computed on the basis of a fraction, the denominator of which shall be 360 and the numerator of which shall be the actual number of days in the relevant period for which interest is accrued. For purposes of making payments hereunder, but not for purposes of calculating interest accrual periods, if the payment date for a given month is not a Business Day, the amounts due on the Payment Date for such month shall be due on the next succeeding Business Day. "Business Day" shall mean a day other than (a) a Saturday or Sunday, or (b) any day on which commercial banks in New York City are authorized or required by law to be closed for general banking business.

3. **MATURITY DATE.** The Principal Amount, together with all accrued and unpaid interest thereon and all other sums payable hereunder, shall mature and shall be due and payable to the Payee on September 30, 2020 (the "Maturity Date").

4. **GUARANTY; SECURITY INTEREST.** The obligations of the Maker under this Note are hereby guaranteed by Mari Holdings MD, LLC under the terms of the Guaranty Agreement (as defined in the Note Extension Agreement), as deemed amended hereby and by the terms of the Note Extension Agreement.

5. **ACCELERATION; EXPENSES.** The Payee may, without any prior notice to Maker, unless applicable law requires otherwise (and in such case, after the minimum required notice has been given), accelerate the Maturity Date if an Event of Default (as defined in Section 7, below, as well as any Event of Default defined in the Hagerstown Deed of Trust or Annapolis Deed of Trust or under the 2018 Note or 2020 Note, any of which shall be deemed a cross-default with respect hereto) shall occur regardless of any prior forbearance. The Maker shall pay all of the costs and expenses incurred by the Payee in connection with collecting or attempting to collect any sums due under this Note or enforcing any provision of this Note or the Deeds of Trust or other security interest related hereto, including, but not limited to, attorneys' fees and disbursements and applicable statutory costs, whether incurred out of court or in litigation, including appeals and bankruptcy proceedings.

6. **DEFAULT INTEREST.**

(a) During the continuance of an Event of Default (which are those events set forth in Section 7, below, as well as those Events of Default defined in the Hagerstown Deed of Trust and Annapolis Deed of Trust) interest on the Principal Amount shall accrue at the 16% per annum (“Default Rate”) until the Principal Amount, together with all accrued interest thereon, is paid in full. The foregoing shall not be construed as a waiver by Payee of its right to pursue any other remedies available to it under this Note, the Deeds of Trust, the Guaranty or any other instrument securing or evidencing the Principal Amount. All amounts evidenced hereby shall bear interest at the Default Rate from the date of maturity of this Note, by acceleration or otherwise, until paid. Any accrued and unpaid interest on this Note remaining past due for thirty (30) days or more may, at Payee’s election, be added to and become part of the unpaid principal balance secured by this Note.

(b) Maker acknowledges that, in connection with any failure to timely pay all amounts due in respect of the Note on the Maturity Date, or during the time that any payment due under the Note is delinquent for more than thirty (30) days: (i) Payee’s risk of nonpayment will be materially increased; (ii) Payee’s ability to meet its other obligations and to take advantage of other investment opportunities will be adversely impacted; (iii) Payee will incur additional costs and expenses arising from its loss of the use of the amounts due; (iv) it is extremely difficult and impractical to determine such additional costs and expenses; (v) Payee is entitled to be compensated for such additional risks, costs and expenses; and (vi) the increase from the Interest Rate to the Default Rate represents a fair and reasonable estimate of the additional risks, costs and expenses Payee will incur by reason of Maker’s delinquent payment and the additional compensation Payee is entitled to receive for the increased risks of nonpayment associated with a delinquency on the Note (taking into account all circumstances existing on the date of this Note).

(c) Notwithstanding anything herein to the contrary, all agreements between the Borrower and the Payee is hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of maturity of the indebtedness evidenced hereby or otherwise, shall the amount paid or agreed to be paid to the Payee for the use, forbearance or detention of the indebtedness evidenced hereby, exceed the maximum permissible interest rate under applicable law.

7. **EVENTS OF DEFAULT.** The occurrence of any of the following events shall be deemed an “Event of Default”:

(a) The Maker shall fail to pay the principal of or interest on this Note on the Maturity Date;

(b) Any of the Marimed Companies shall be declared in default under the 2018 Note or 2020 Note or shall breach any representation, warranty or covenant (subject to any prescribed cure periods specifically prescribed) under the terms of the Note Extension Agreement, this Note, the 2018 Note, the 2020 Note, the Security Agreement, the Guaranty, the Hagerstown Deed of Trust, or the Annapolis Deed of Trust.

(c) (1) The Maker shall commence any proceeding or other action relating to it in bankruptcy or seek reorganization, arrangement, readjustment of its debts, receivership, dissolution, liquidation, winding-up, composition or any other relief under any bankruptcy law, or under any other insolvency, reorganization, liquidation, dissolution, arrangement, composition, readjustment of debt or any other similar act or law, of any jurisdiction, domestic or foreign, now or hereafter existing; or (2) the Maker shall admit the material allegations of any petition or pleading in connection with any such proceeding; or (3) the Maker shall apply for, or consent or acquiesce to, the appointment of a receiver, conservator, trustee or similar officer for it or for all or a substantial part of its property; or (4) the Maker shall make a general assignment for the benefit of creditors;

(d) (1) The commencement of any proceedings or the taking of any other action against the Maker in bankruptcy or seeking reorganization, arrangement, readjustment of its debts, liquidation, dissolution, arrangement, composition, or any other relief under any bankruptcy law or any other similar act or law of any jurisdiction, domestic or foreign, now or hereafter existing and the continuance of any of such events for sixty (60) days undismitted, unbonded or undischarged; or (2) the appointment of a receiver, conservator, trustee or similar officer for the Maker for any of its property and the continuance of any of such events for sixty (60) days undismitted, unbonded or undischarged; or (3) the issuance of a warrant of attachment, execution or similar process against any of the property of the Maker and the continuance of such event for sixty (60) days undismitted, unbonded and undischarged;

(e) The Maker shall default with respect to any indebtedness of \$500,000 or more for borrowed money (other than under this Note) if either (1) the effect of such default is to accelerate the maturity of such indebtedness (giving effect to any applicable grace periods) or (2) the holder of such indebtedness declares the Maker to be in default (giving effect to any applicable grace periods); or

(f) Any judgment or judgments against the Maker or any attachment, levy or execution against any of its properties for any amount in excess of \$500,000 in the aggregate shall remain unpaid, or shall not be released, discharged, dismissed, stayed or fully bonded for a period of forty-five (45) days or more after its entry, issue or levy, as the case may be.

8. **PREPAYMENT.** This Note may be prepaid in whole or in part, and without penalty, at any time and from time to time.

9. **WAIVER; ENFORCEMENT.** Presentment, demand notice of dishonor, notice of protest, and protest are hereby waived by all makers, sureties, guarantors and endorsers hereof. This Note shall be the joint and several obligation of all makers, sureties, guarantors and endorsers, and shall be binding upon them and their successors and assigns. No release of any security for the indebtedness evidenced by this Note, or any portion thereof, and no alteration, amendment or waiver of any provision of this Note or of any instrument evidencing and/or securing the indebtedness evidenced by this Note made by agreement between the Payee and any other person or party shall release, discharge, modify, change or affect the liability of the Maker under this Note or under such instrument. The remedies provided the Payee in this Note and the other agreement and documents specified herein (including, but not limited to, the

Guaranty, Note Extension Agreement and Deeds of Trust) shall be cumulative and concurrent, and shall be in addition to every other right or remedy now and hereafter provided by law or equity. Such remedies may be pursued singly, successively or together against the Maker, any of the property, rights or other assets subject to the Deeds of Trust, or any other security at the option of the Payee. The failure to exercise or delay in exercising any such remedy shall not be construed as a waiver or release thereof. All amounts due under this Note shall be payable without setoff, counterclaim or any other deduction whatsoever. In the event that it should become necessary to employ counsel to collect or enforce the indebtedness evidenced hereby or to protect or foreclose the security therefor, Maker also shall pay on demand all costs of collection incurred by Payee, including reasonable attorneys' fees and costs reasonably incurred for the services of counsel whether or not suit be brought. To the fullest extent permitted by law, the Maker hereby irrevocably waives trial by jury in any judicial proceeding brought by the Payee or the Maker involving, directly or indirectly, any matter in any way arising out of, related to, or connected with this Note, the Deeds of Trust, the Guaranty and/or the transactions contemplated hereby or thereby. To the fullest extent permitted by law, the Maker hereby irrevocably waives, in connection with any suit, action or proceeding brought by the Payee under this Note, the Deeds of Trust or the Guaranty, any and every right it may have to, (i) interpose any counterclaim therein and (ii) have the same consolidated with any other or separate suit, action or proceeding. Nothing herein contained shall prevent or prohibit the Payee from instituting or maintaining a separate action against the Maker with respect to any asserted claim.

10. **DEED OF TRUST.** The indebtedness evidenced by this Note is secured by the Deeds of Trust and the properties, rights and other assets and proceed thereof subject to the Deed of Trust, and is subject to all of the terms and conditions thereof. Reference is made thereto for certain rights as to acceleration of the indebtedness evidenced by this Note. Upon the occurrence of an Event of Default (as defined in the Deed of Trust), the Principal Amount and all accrued and unpaid interest thereon, and all other amounts secured by the Deed of Trust shall, at the option of the Payee, become immediately due and payable.

11. **LEGAL RATE OF INTEREST.** This Note is subject to the express condition that at no time shall the Maker be obligated or required to pay interest on the Principal Amount at a rate in excess of the maximum rate which the Maker is permitted by law to contract or agree to pay. If by the terms of this Note, the Maker at any time is required or obligated to pay interest on the Principal Amount at a rate in excess of such maximum rate, then the rate of interest hereunder shall be deemed to be reduced immediately and automatically to such maximum rate, interest payable hereunder shall be computed at such maximum rate and any prior interest payment made in excess of such maximum rate shall be immediately and automatically applied to, and shall be deemed to have been payment made in reduction of, the Principal Amount.

12. **RELATIONSHIP OF PARTIES.** The Payee shall in no event be constituted for any purpose to be a partner, joint venture or associate of the Maker or of any lessee, operator, concessionaire or licensee of the Maker in the conduct of their respective businesses.

13. **MODIFICATION.** This Note may not be modified, amended, discharged or waived orally, but only by an agreement in writing signed by Maker and Payee.

14. **GOVERNING LAW.** This Note is delivered in and shall be governed and construed under the laws of the New York without regard to conflicts of law provisions, and, in any litigation in connection herewith, or enforcement of this Note, or any endorsement or guarantee of this Note or any security given for the payment hereof including the Deed of Trusts and Guaranty or other loan documents, Maker, and each of them, waive trial by jury and consent to confer personal jurisdiction in any court located in the State of New York, County of New York, or the United States Federal Court for the Southern District of New York. The term "Maker" shall include successors, endorsees, and assigns of the Maker. This Note shall be the joint and several obligation of all makers, sureties, guarantors and endorsers and shall be binding upon them, their successors and assigns.

15. **TIME IS OF THE ESSENCE.** Maker agrees that, with respect to each and every obligation and covenant of Maker contained in this Note time is of the essence.

IN WITNESS WHEREOF THE MAKER HEREUNTO SET ITS HANDS ON THE DATE OF THIS NOTE.

MARIMED ADVISORS, INC.

By:
Title:

Address of Real
Property Collateral:

504 E 1st Street
Hagerstown, MD

2061 Generals Highway
Annapolis, MD 21401

STATE OF MASSACHUSETTS)
: ss.:
COUNTY OF MIDDLESEX)

On the day of April in the year 2020 before me, the undersigned, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her capacity, and that by his/her signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

Notary Public

MARIMED, INC.

12% CONVERTIBLE PROMISSORY NOTE

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("ACT"), OR APPLICABLE STATE LAW. THIS NOTE AND THE SHARES UNDERLYING THIS NOTE MAY NOT BE PLEDGED, SOLD, ASSIGNED OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT WITH RESPECT THERETO UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAW, OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

\$900,000

April 23, 2020

FOR VALUE RECEIVED, MARIMED, INC., a Delaware corporation with its principal office at 10 Oceana Way Norwood, MA 02062 ("Company") unconditionally promises to pay to the order of BEST BUDS FUNDING LLC, with its principal offices at c/o BLDG Management, 417 Fifth Ave., Suite 400, New York, NY 10016, or its successors and assigns ("Holder"), on June 30, 2020, subject to conversion or earlier prepayment as provided herein (in any event, and as such date may be accelerated under Section 1 hereof, the "Maturity Date"), the principal amount of Nine Hundred Thousand Dollars (\$900,000), in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public or private debts, together with interest on the unpaid balance of said principal amount from time to time outstanding at the rate of twelve (12%) percent per annum. Payments of principal and interest are to be made at the address of the Holder designated above or at such other place as the Holder shall have notified the Company in writing.

The Company herein acknowledges that this Note is being made and delivered under the terms of a Note Extension Agreement ("Note Extension Agreement") of even date herewith by and among Holder, as lender, and each of Company, Marimed Advisors, Inc. ("Marimed Advisors"), and Mari Holdings MD LLC ("MHM") and, collectively with the Company, Marimed Advisors and MHM, the "Marimed Companies", as the borrower parties. The Note Extension Agreement is attached hereto as Schedule A and incorporated herein by reference. In the event of any conflict between this Note and the Note Extension Agreement, the terms of this Note shall govern. Among the terms contained in the Note Extension Agreement, it is acknowledged that this Note shall be cross-collateralized by any and all security interests and related rights granted by the Marimed Companies to Payee under the terms of the 2018 Note and the Mezzanine Note (as same are defined in the Note Extension Agreement), including, but not limited to, a first priority security interest in each of the Hagerstown Property and Annapolis Property (as each is defined in the Note Extension Agreement) and other property and collateral as prescribed by the Note Extension Agreement and the Hagerstown Deed of Trust, Annapolis Deed of Trust, the Security Agreement and Guaranty (as each is defined in the Note Extension Agreement) as same are deemed modified by the Note Extension Agreement.

1. Events of Default.

1.1 Upon the occurrence of any of the following events (herein called "Events of Default"):

- (a) The Company shall fail to pay the principal of or interest on this Note on the Maturity Date;
- (b) Any of the Marimed Companies shall be declared in default under the 2018 Note or Mezzanine Note or shall breach any representation, warranty or covenant (subject to any prescribed

cure periods specifically prescribed) under the terms of the Note Extension Agreement, this Note, the 2018 Note, the Mezzanine Note, the Security Agreement, the Guaranty, the Hagerstown Deed of Trust, or the Annapolis Deed of Trust.

(c) (1) The Company shall commence any proceeding or other action relating to it in bankruptcy or seek reorganization, arrangement, readjustment of its debts, receivership, dissolution, liquidation, winding-up, composition or any other relief under any bankruptcy law, or under any other insolvency, reorganization, liquidation, dissolution, arrangement, composition, readjustment of debt or any other similar act or law, of any jurisdiction, domestic or foreign, now or hereafter existing; or (2) the Company shall admit the material allegations of any petition or pleading in connection with any such proceeding; or (3) the Company shall apply for, or consent or acquiesce to, the appointment of a receiver, conservator, trustee or similar officer for it or for all or a substantial part of its property; or (4) the Company shall make a general assignment for the benefit of creditors;

(d) (1) The commencement of any proceedings or the taking of any other action against the Company in bankruptcy or seeking reorganization, arrangement, readjustment of its debts, liquidation, dissolution, arrangement, composition, or any other relief under any bankruptcy law or any other similar act or law of any jurisdiction, domestic or foreign, now or hereafter existing and the continuance of any of such events for sixty (60) days undismissed, unbonded or undischarged; or (2) the appointment of a receiver, conservator, trustee or similar officer for the Company for any of its property and the continuance of any of such events for sixty (60) days undismissed, unbonded or undischarged; or (3) the issuance of a warrant of attachment, execution or similar process against any of the property of the Company and the continuance of such event for sixty (60) days undismissed, unbonded and undischarged;

(e) The Company shall default with respect to any indebtedness of \$500,000 or more for borrowed money (other than under this Note) if either (1) the effect of such default is to accelerate the maturity of such indebtedness (giving effect to any applicable grace periods) or (2) the holder of such indebtedness declares the Company to be in default (giving effect to any applicable grace periods); or

(f) Any judgment or judgments against the Company or any attachment, levy or execution against any of its properties for any amount in excess of \$500,000 in the aggregate shall remain unpaid, or shall not be released, discharged, dismissed, stayed or fully bonded for a period of forty-five (45) days or more after its entry, issue or levy, as the case may be.

then, and in any such event, the Holder, at its option and with written notice to the Company, may declare the entire principal amount of this Note then outstanding together with accrued unpaid interest thereon immediately due and payable, and the same shall forthwith become immediately due and payable without presentment, demand, protest, or other notice of any kind, all of which are expressly waived. The Events of Default listed herein are solely for the purpose of protecting the interests of the Holder of this Note. If the Note is not paid in full upon acceleration, as required above, interest shall accrue on the outstanding principal of and interest on this Note from the date of the Event of Default up to and including the date of payment at a rate equal to the lesser of sixteen percent (16%) per annum or the maximum interest rate permitted by applicable law.

1.2 Non-Waiver and Other Remedies. No course of dealing or delay on the part of the Holder of this Note in exercising any right hereunder shall operate as a waiver or otherwise prejudice the right of the Holder of this Note. No remedy conferred hereby shall be exclusive of any other remedy referred to herein or now or hereafter available at law, in equity, by statute or otherwise.

1.3 Collection Costs; Attorney's Fees. In the event this Note is turned over to an attorney for collection or Holder otherwise seeks advice of an attorney in connection with the exercise of its rights hereunder upon the occurrence of an Event of Default, the Company agrees to pay all reasonable costs of collection, including reasonable attorney's fees and expenses and all out of pocket expenses incurred in

connection with such collection efforts, which amounts may, at the Holder's option, be added to the principal hereof.

2. Unconditional Obligation; Covenants.

2.1 Unconditional Obligation. No provision of this Note shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the place, at the respective times, at the rates, and in the currency herein prescribed.

2.2 Affirmative Covenants. The Company covenants and agrees that, while this Note is outstanding, it shall:

(a) Pay and discharge all taxes, assessments and governmental charges or levies imposed upon it or upon its income and profits, or upon any properties belonging to it before the same shall be in default; provided, however, that the Company shall not be required to pay any such tax, assessment, charge or levy that is being contested in good faith by proper proceedings and adequate reserves for the accrual of same are maintained if required by generally accepted accounting principles;

(b) Preserve its corporate existence and continue to engage in business of the same general type as conducted as of the date hereof;

(c) Comply in all respects with all statutes, laws, ordinances, orders, judgments, decrees, injunctions, rules, regulations, permits, licenses, authorizations and requirements ("Requirement(s)") of all governmental bodies, departments, commissions, boards, companies or associations insuring the premises, courts, authorities, officials, or officers, that are applicable to the Company; except where the failure to comply would not have a material adverse effect on the Company; provided that nothing contained herein shall prevent the Company from contesting the validity or the application of any Requirements.

3. Conversion.

3.1 Conversion. During the period commencing two business days prior to the Maturity Date and ending ten business days after the Maturity Date, 50% of the principal and interest then outstanding on this Note are convertible, in whole, but not in part, at any time, at the election of the Company or Holder, into that number of shares of the Company's common stock ("Shares") determined by dividing 50% of the principal and interest owing on the Notes at the time of conversion by the average closing price per share of the Company's common stock on the twenty consecutive trading days prior to the date of conversion as reported by the OTC BB (the "Conversion Price"). If the Company's common stock is not traded on the OTC BB, Nasdaq, NYSE or other nationally recognized United States based exchange at the time of conversion, or if the Company is not a reporting company under the Securities Exchange Act of 1934, as amended, at the prescribed time of conversion, the Company shall have no right to exercise the conversion rights prescribed hereby and all principal and interest shall be due and owing, and payable only, in cash, unless the conversion right is exercised by the Holder. In the event the Company has not satisfied in full the payment of all principal and interest due and owing under this Note through cash payment, or as may be permitted hereby, in cash and Shares, the Holder shall have the right, exercisable at any time during the six month period following the Maturity Date, to convert all principal and interest under this Note that due at the time of such conversion (including any default interest) into Shares at the Conversion Price.

3.2 Mechanics and Effect of Conversion. In connection with any conversion under Section 3.1, Holder shall surrender this Note to the Company at its principal executive office, together, in

circumstances of Holder's exercise of the conversion rights prescribed hereby, Holder's written instructions to convert same. The Company shall, as soon as practicable, but not later than five (5) business days after receipt of the Note (and conversion instructions if applicable), issue and deliver to a location in the United States designated by the Holder certificates representing the securities to which the Holder shall be entitled as aforesaid.

3.3 Fractional Shares. The Company shall not be required to issue fractions of shares of common stock upon conversion. If any fractions of a share would, but for this Section 3.4, be issuable upon any conversion, in lieu of such fractional share the Company shall round up or down to the nearest whole number of shares.

3.4 Reservation of Shares. The Company shall reserve and shall at all times have reserved out of its authorized but unissued shares of common stock sufficient shares of common stock to permit the conversion of the unpaid principal amount and interest pursuant to this Section 3. All shares of common stock that may be issued upon conversion shall be validly issued, fully paid and nonassessable.

3.5 Investment Purpose. In the event of conversion as contemplated by Section 3.1, the Holder acknowledges and agrees that it will acquire the Shares for its own account for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof, except pursuant to sales registered or exempted under the Securities Act; *provided, however*, that by making the representations herein, the Holder reserves the right to dispose of the Shares at any time in accordance with or pursuant to an effective registration statement covering such Shares or an available exemption under the Securities Act.

3.6 Accredited Holder Status. The Holder is an "Accredited Holder" as that term is defined in Rule 501(a)(3) of Regulation D.

3.7 Reliance on Exemptions. The Holder understands that the Shares are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying in part upon the truth and accuracy of, and the Holder's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Holder set forth herein in order to determine the availability of such exemptions and the eligibility of the Holder to acquire the Securities.

3.8 Information. The Holder and its advisors (and or, its counsel), have been furnished with all materials relating to the business, finances and operations of the Company and information he deemed material to making an informed investment decision regarding its acquisition of the Shares, which have been requested by the Holder. The Holder and its advisors, if any, have been afforded the opportunity to ask questions of the Company and its management.

3.9 Transfer or Resale. The Holder understands that except as provided in Section 4: (i) the Shares have not been and are not being registered under the Securities Act or any state securities laws, and may not be offered for sale, sold, assigned or transferred unless (A) subsequently registered thereunder, (B) the Holder shall have delivered to the Company an opinion of counsel, in a generally acceptable form to the Company's transfer agent pursuant to the Irrevocable Transfer Agent Instructions, to the effect that such Shares to be sold, assigned or transferred may be sold, assigned or transferred pursuant to an exemption from such registration requirements, or (C) the Holder provides the Company with reasonable assurances (in the form of seller and broker representation letters) that such Shares can be sold, assigned or transferred pursuant to Rule 144 or Rule 144A promulgated under the Securities Act, as amended (or a successor rule thereto) (collectively, "Rule 144"), in each case following the applicable holding period set forth therein; (ii) any sale of the Shares made in reliance on Rule 144 may be made

only in accordance with the terms of Rule 144 and further, if Rule 144 is not applicable, any resale of the Shares under circumstances in which the seller (or the person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the Securities Act) may require compliance with some other exemption under the Securities Act or the rules and regulations of the Securities and Exchange Commission ("SEC") thereunder; and (iii) neither the Company nor any other person is under any obligation to register the Shares under the Securities Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder.

3.10 Legends. The Holder agrees to the imprinting on the certificate representing the Shares of a restrictive legend in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED SOLELY FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TOWARD RESALE AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF COUNSEL, IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS.

4. Registration Rights. The Company has agreed to file a registration statement with the SEC or include the shares of Common Stock which may be issued upon conversion of this Note on a registration statement already filed with the Commission under the terms of the Note Extension Agreement. These registration rights shall inure to the benefit of the transferees of this Note and the shares underlying it.

5. Miscellaneous.

5.1 Required Consent. The Company may not modify any of the terms of this Note without the prior written consent of the Holder.

5.2 Lost Documents. Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Note or any Note exchanged for it, and (in the case of loss, theft or destruction) of indemnity satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Note, if mutilated, the Company will make and deliver in lieu of such Note a new Note of like tenor and unpaid principal amount and dated as of the original date of the Note.

5.3 Benefit. This Note shall be binding upon and inure to the benefit of the parties hereto and their legal representatives, successors and assigns.

5.4 Notices. All notices, requests, consents and other communications under this Note must be in writing and is sufficiently given if delivered to the addressees in person, by overnight courier service, or, if mailed, postage prepaid, by certified mail (return receipt requested), and will be effective three days after being placed in the mail if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier or confirmed telecopy, in each case addressed as follows:

Holder or Company: At the address designated on page 1 of this Note and in the case of the Company, with a copy to (which will not constitute notice to the Company):

Kurzman Eisenberg Corbin & Lever, LLP
One North Broadway, 12th Floor
White Plains, NY 10601
Attention: Kenneth S. Rose, Esq.
Email: krose@kelaw.com

and

Graubard Miller
405 Lexington Avenue
New York, New York 10174
Attention: Brian L. Ross, Esq.
Email: bross@graubard.com

or to such other address as any of them, by notice to the others, may designate from time to time.

5.5 Governing Law and Jurisdiction. This Note will be deemed to have been made and delivered in New York City and will be governed as to validity, interpretation, construction, effect and in all other respects by the internal laws of the State of New York. Each of the Company and the Holder hereby (i) agrees that any legal suit, action or proceeding arising out of or relating to this Note will be instituted exclusively in New York State Supreme Court, County of New York, or in the United States District Court for the Southern District of New York, (ii) waives any objection to the venue of any such suit, action or proceeding and the right to assert that such forum is not a convenient forum for such suit, action or proceeding, (iii) irrevocably consents to the jurisdiction of the New York State Supreme Court, County of New York, and the United States District Court for the Southern District of New York in any such suit, action or proceeding, (iv) agrees to accept and acknowledge service of any and all process that may be served in any such suit, action or proceeding in New York State Supreme Court, County of New York or in the United States District Court for the Southern District of New York and (v) agrees that service of process upon it mailed by certified mail to its address set forth on my signature page will be deemed in every respect effective service of process upon it in any suit, action or proceeding.

5.6 Section Headings. Section headings herein have been inserted for reference only and shall not be deemed to limit or otherwise affect, in any matter, or be deemed to interpret in whole or in part any of the terms or provisions of this Note.

5.7 Survival of Agreements. The agreements contained herein shall survive the delivery of this Note.

IN WITNESS WHEREOF, this Note has been executed and delivered on the date specified above by the duly authorized representative of the Company.

MARIMED, INC.

By: _____

EXHIBIT A
NOTE EXTENSION AGREEMENT

NOTE EXTENSION AGREEMENT

THIS NOTE EXTENSION AGREEMENT ("Agreement"), dated April 23, 2020, and effective as of March 31, 2020, is made by and among BEST BUDS FUNDING, LLC ("Best Buds"), as lender, and each of Marimed, Inc. ("Marimed"), Mari Holdings MD LLC ("MHM"), and Marimed Advisors, Inc. ("MAI") and, collectively with Marimed and MHM, the "Marimed Companies"), as the borrower parties.

1. It is acknowledged and agreed that there is outstanding:
 - a. a secured commercial promissory note, dated as of March 20, 2019, in the principal amount of \$6,000,000 (the "2019 Note") made by Marimed, Inc. ("Marimed"), to the order of Best Buds Funding, LLC ("Best Buds"), with accrued and unpaid interest of \$845,000 through April 20, 2020 (based on non-default rate thereunder), and an original maturity date of December 31, 2019, which was extended through March 31, 2020 by the previous agreement of Marimed and Best Buds;
 - b. a secured commercial promissory note, dated as of September 17, 2018, in the principal amount of \$3,000,000 (the "2018 Note") made by MAI to the order of Best Buds, with accrued and unpaid interest of \$30,000 through April 17, 2020 (representing the most recent interest payment due and based on extension rate thereunder), and an original maturity date of March 17, 2020, subject to extension through September 17, 2020; and
 - c. \$900,000 ("Other Owed Amounts"), representing amounts owed under the terms of the "agreement" entered into by Best Buds and Marimed concurrently with the 2019 Note and the related Seed Sale Agreement transaction of same date.
 2. It is acknowledged and agreed that the obligations under the 2018 Note are guaranteed under a guaranty agreement delivered by MHM ("Guaranty Agreement"), and secured by a first priority security interest through a security agreement delivered by one or more of the Marimed Companies ("Security Agreement") and a deed in trust ("Hagerstown Deed of Trust") in the property owned by MHM and located in Election District No. 17 in Washington County Maryland and more specifically described in Exhibit "A" to the Hagerstown Deed of Trust (the "Hagerstown Property"), a copy of which is attached hereto as Exhibit 1.
 3. The Marimed Companies acknowledge and agree that but for the entry into this Agreement, an Event of Default would exist with respect to the 2018 Note and 2019 Note under the terms thereof and with respect to the Other Owed Amounts under the applicable agreements governing same. It is the parties intent by this Agreement to extend the maturity and due date of the foregoing obligations resulting in no existence of an Event of Default upon execution of this Agreement and consummation of the transactions contemplated hereby.
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4. In consideration of the terms and provisions set forth in this Agreement (including the additional security interest granted hereby), the parties hereby agree that:
- a. the maturity date of the 2018 Note is hereby extended to December 31, 2020;
 - b. the maturity date of the 2019 Note is hereby extended to September 30, 2020; and
 - c. the Other Amounts Owed shall be converted into principal under a new convertible note with a maturity date of June 30, 2020, as set forth in Section 6, below (these actions and extensions, being collectively referred to as the "Extension").

Upon reaching the maturity dates, the applicable obligations shall be immediately due and payable to Best Buds by the Marimed Companies. Best Buds hereby reserves any and all rights it has as a creditor and as same are prescribed under the terms of the 2018 Note, 2019 Note, the 2020 Note (as defined in Section 6, below), Guaranty Agreement, Security Agreement, the Seed Sale Agreement and related agreements and applicable law. Nothing contained herein shall be deemed a waiver of any rights Best Buds has under or with respect to same.

5. The 2018 Note shall remain outstanding and continue to bear interest under its terms, including any additional or increased interest prescribed by the Notes in the event of an extension or pursuant to any prior extension agreement between the borrower and maker thereof. Interest under the 2018 shall remain payable monthly as prescribed thereby.
 6. The 2019 Note and all principal and interest due thereunder through the date of this Agreement shall be converted on the date of this Agreement into a UCC mezzanine loan and evidenced by the form of promissory note attached hereto as Exhibit 2 ("Mezzanine Note") and, together with the 2018 Note, the "Notes"). The Mezzanine Note shall bear interest at 10% per annum provided interest is timely paid monthly on or prior to the 15th of each month, or at the annual rate of 15% if interest is not paid by the 15th of each month or such amounts are otherwise accrued through maturity date of the Mezzanine Note (September 30, 2020).
 7. Upon execution of this Agreement, all of the Other Owed Amounts shall become evidenced by a convertible promissory note in the form of Exhibit 3 hereto (the "2020 Note"). The 2020 Note shall bear interest at 12% per annum and shall have a maturity date of June 30, 2020. On the maturity date, all principal and interest shall be immediately due and payable to Best Buds by the Marimed Companies, provided, that, at the option of either party, 50% of principal on the 2020 Note and accrued and unpaid interest thereon may be repaid through conversion of same into shares of the common stock of Marimed at a per share conversion price equal to the average closing price of the Marimed common stock as reported on the OTCBB for the 20 consecutive trading days prior to the maturity date of the 2020 Note (the "Initial Conversion Shares"). In consideration of the acceptance of the 2020 Note, Marimed shall pay Best Buds a fee of \$50,000 on or before April 30, 2020.
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8. In consideration of the Extension, the Marimed Companies hereby grant to Best Buds, with respect to the Mezzanine Note and 2020 Note, an additional first priority security interest in the Hagerstown Property and acknowledge and agree that the 2018 Note, Mezzanine Note and 2020 Note are and shall be deemed cross-collateralized by same and under the Hagerstown Deed of Trust. It is understood and agreed by the parties that the security interest in the Hagerstown Property with respect to each of the Notes is shared by and equal among same. The Marimed Companies agree that Best Buds shall be entitled to take all reasonable actions, including as the Marimed Companies' proxy and attorney in fact, to sign all amendments, UCC filings, and other documents necessary to record and perfect Best Buds security interests granted previously or under this Agreement. The Marimed Companies agree to provide all requested assistance to Best Buds with respect to such filings.
 9. In further consideration of the Extension, and with respect to each of the Notes, the Marimed Companies hereby grant to Best Buds, a first priority security interest in the property owned by MHM and located at 2061 Generals Highway Annapolis, MD 21401 (the "Annapolis Property"). Marimed shall cause its counsel to deliver a deed of trust for the Annapolis Property ("Annapolis Deed of Trust") to Best Buds in form and substance reasonably satisfactory to Best Buds within five business days of the date of this Agreement. None of the Marimed Companies shall grant any other security interest, including any senior or junior security interest, in the Annapolis Property without the prior consent of Best Buds. Notwithstanding the foregoing, in the event Marimed is able to secure mortgage financing on the property, Best Buds will release its security interest in the Annapolis Property upon deliver to Best Buds of collateral having equivalent collateral value, as reasonably determined by Best Buds.
 10. The Guaranty and Security Agreement are each hereby deemed immediately amended in all necessary respects to include the Mezzanine Note and 2020 Note as secured obligations thereunder, and to include both the Hagerstown Property and Annapolis Property as collateral thereunder, and as necessary to provide full effect to the intent and provisions of this Agreement. The Security Agreement is hereby deemed further amended (or a separate security interest otherwise hereby granted) to include all fixtures, improvements and equipment located in the Hagerstown Property and Annapolis Property and used in or necessary for the businesses currently operated in such locations.
 11. In further consideration of the Extension, the Security Agreement is hereby deemed further amended (or a separate security interest otherwise hereby granted) to include in the definition of collateral thereunder, and Best Buds is otherwise hereby granted a first priority security interest in, the items listed below and has delivered to Best Buds a stock pledge agreement with respect to same, a copy of which is annexed hereto as Exhibit 4:
 - a. All equity owned by the Marimed Companies in Chooze Corp.
 - b. All equity owned by the Marimed Companies in Terrace Inc.
 - c. All equity owned by the Marimed Companies in CVP Worldwide LLC.
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12. If any of the Notes are not paid on or prior to their respective maturity dates as established by this Agreement, and all principal and interest accrued and due thereunder are not fully repaid on or prior to such maturity date, Best Buds shall immediately and automatically thereafter have the right, exercisable in its sole discretion, to convert all or a portion of the principal and interest owed to Best Buds under all of the Notes, at any time, and from time to time, through September 30, 2021, into shares of the common stock of Marimed at a conversion price equal to the average closing price of a share of common stock of Marimed as reported by the principal market on which such common stock trades or is quoted for the 20 consecutive trading days prior to the date of conversion. Upon any such conversion, Marimed shall use its commercially reasonable best efforts to register, at its expense, such stock (and any Initial Conversion Shares then owned by Best Buds or its designees or transferees) for resale under the Securities Act of 1933 (and have the related registration statement declared effective by the SEC) within 90 days of the date of such conversion and use commercially reasonable efforts to maintain such effectiveness for a period of two years. Notwithstanding the foregoing, nothing herein shall be deemed to extend the maturity date of the Notes beyond September 30, 2020. The registration statement may be on form S-3 or S-1, as applicable. In the event Marimed files on form S-1 to fulfill its obligations under hereunder, it reserves the right to replace such registration with a form S-3 prior to or following effectiveness of the original filing; provided that it shall use its commercially reasonable efforts to have same declared effective promptly.
 13. If the Notes and all principal and interest accrued and due thereunder are not fully repaid on or prior to September 30, 2020, Best Buds shall immediately and automatically thereafter have the right, exercisable in its sole discretion, to appoint up to two persons as observers to attend any and all board of directors meeting(s) of the Marimed Companies (and all meetings of any and all committees thereof). Any such designee shall be required to execute the same agreements and shall be subject to the same policies as the then-directors of Marimed with respect to market standstills and insider trading policies.
 14. Best Buds is hereby authorized, empowered and directed by the Marimed Companies to file all necessary UCC financing statements and such other filings as it reasonably deemed necessary in all applicable justifications to evidence the security interests granted hereby and under the other agreements and documents entered into or delivered in connection herewith.
 15. The grant of any additional security interest hereunder shall not terminate, diminish or modify in any respect any security interest or collateral rights Best Buds may have in any other asset of the Marimed Companies, including any rights with respect to the Seed Supply Agreement (and related purchase orders and proceeds thereunder) granted to it in connection with the Notes. For purposes of clarity, the Mezzanine Note shall be afforded rights to all collateral and rights that secured repayment of the obligations under the 2019 Note.
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16. Any breach of this Agreement by any of the Marimed Companies (including any failure to make payments under the 2018 Note, Mezzanine Note or 2020 Note as and when due) shall immediately and effectively terminate the agreement by Best Buds hereunder to forbear exercise of its rights and remedies under the Notes and other obligations set forth herein and all such obligations shall become immediately due and payable; provided, that in cases of nonpayment breaches, Marimed shall have ten (10) days from receipt of notice from Best Buds (which may be by email to Robert Fireman, or overnight letter to Marimed's principal offices as listed on its most current SEC filings) to cure such breach.
 17. Marimed shall pay to Best Buds, concurrently with the execution of this Agreement, a fee of \$25,000, in reimbursement of Best Bud's counsel's fees in connection with this Agreement and the negotiation, drafting and delivery of same and related transactions.
 18. The Marimed Companies hereby jointly and severally represent to Best Buds that:
 - a. Each of the Marimed Companies has full corporate or company authority to enter into and deliver this agreement and the other agreements and document contemplated hereby and no further action is required by it in connection herewith or therewith.
 - b. This Agreement and the other agreements, deeds, amendments and documents contemplated hereby (the "Transaction Documents") has been duly executed by each of the Marimed Companies that is party thereto and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of each of the applicable Marimed Companies, enforceable against each such person in accordance with their respective terms, subject only to bankruptcy, insolvency, reorganization, moratoriums or similar laws at the time in effect affecting the enforceability of rights of creditors generally and by general equitable principles that may limit the rights to obtain equitable relief.
 - c. The execution, delivery and performance by the Marimed Companies of each of the Transaction Documents, and the consummation by them of the transactions contemplated hereby and thereby do not and will not: (i) conflict with or violate any provision of such entity's certificate or articles of incorporation, bylaws or other organizational or charter documents, (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any lien upon any of the properties or assets of any such entity, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, securities purchase agreement, debt or other instrument (evidencing any indebtedness of such person or otherwise) or other understanding to which any such entity is a party or by which any property or asset of any such entity is bound or affected, or (iii) conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which such entity is subject (including federal and state
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securities laws and regulations), or by which any property or asset of such entity is bound or affected.

- d. Nothing herein shall impair or limit the continuation of the liens and security interests previously granted to Best Buds under any of the this Agreement, 2018 Note, Mezzanine Note, the Seed Supply Agreement (and related agreements entered into with respect thereto), the Security Agreement, the Guaranty, the Hagerstown Deed of Trust, the Annapolis Deed of Trust and the other agreements referenced herein, which liens are continued in full force and effect pursuant to and as provided therein and herein.
 - e. The Hagerstown Property has no mortgages or other liens thereon or security interest granted therein except those granted to Best Buds and mechanics liens in an aggregate amount not in excess of \$400,000.
 - f. The Annapolis Property has no mortgages or other liens thereon or security interest granted therein.
 - g. No consent of any third party or stockholders is required for any of the Marimed Companies to enter into this Agreement or perform their respective obligations hereunder and to grant the security interests and other rights prescribed hereby.
19. It is hereby jointly affirmed by the Marimed Companies that (a) all outstanding principal and interest under the 2018 Note and 2019 Note and the Other Amounts Owed were due and payable on or prior to March 31, 2020, (b) the Subject Agreements are legal, valid, binding and enforceable against the applicable Marimed Companies party thereto in accordance with their respective terms, , subject only to bankruptcy, insolvency, reorganization, moratoriums or similar laws at the time in effect affecting the enforceability of rights of creditors generally and by general equitable principles that may limit the rights to obtain equitable relief, (c) the terms of the Subject Agreements remain unchanged, except as modified pursuant written agreement by the parties, including this Agreement, and (d) giving effect to this Agreement, Best Buds has valid, enforceable and perfected security interests in and liens on the Hagerstown Property and Annapolis Property and other collateral prescribed by the Subject Agreements to which there are no setoffs, deductions, claims, counterclaims, or defenses of any kind or character whatsoever.
20. The Marimed Companies hereby covenant that they shall not take any action that would compromise any of the collateral securing or which will secure the obligations under the Notes.
21. In further consideration of Best Buds execution of this Agreement, each of the Marimed Companies, on behalf of itself and its successors, assigns, parents, subsidiaries, affiliates, officers, directors, employees, agents and attorneys hereby forever, fully, unconditionally and irrevocably waive and release Best Buds and its successors, assigns, parents, subsidiaries, affiliates, officers, directors, members, managers, employees, attorneys and
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agents (collectively, the “Releasees”) from any and all claims, liabilities, obligations, debts, causes of action (whether at law or in equity or otherwise), defenses, counterclaims, setoffs, of any kind, whether known or unknown, whether liquidated or unliquidated, matured or unmatured, fixed or contingent, directly or indirectly arising out of, connected with, resulting from or related to any act or omission by Best Buds or any other Releasee with respect to the Notes or any other Transaction Document (collectively, the “Claims”). Each of the Marimed Companies further agrees that it shall not commence, institute, or prosecute any lawsuit, action or other proceeding, whether judicial, administrative or otherwise, to prosecute, collect or enforce any Claim.

22. This Agreement shall be governed by the laws of the State of New York without regard to conflicts of law provisions. Each of the Marimed Companies waives trial by jury and consent to confer personal jurisdiction on Courts of the State of New York, County of New York, or the Federal Court, Southern District of New York.
23. Notwithstanding the foregoing, nothing contained herein shall be deemed a waiver of any rights under any Subject Agreement and Best Buds reserves all rights and remedies available to it under equity and law. A default under this Agreement or the 2018 Note, Mezzanine Note or the 2020 Note (subject to cure within any period prescribed thereby) shall be deemed a cross-default across and with respect to all of such obligations.
24. Notices. All notices, requests, consents and other communications under this Note must be in writing and is sufficiently given if delivered to the addressees in person, by overnight courier service, or, if mailed, postage prepaid, by certified mail (return receipt requested), and will be effective three days after being placed in the mail if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier or confirmed telecopy, in each case addressed as follows:

If to Best Buds:
c/o BLDG Management
417 Fifth Ave., Suite 400
New York, NY 10016
Attn.: Lloyd Goldman

If to the Marimed Companies:
c/o MariMed, Inc.
10 Oceana Way
Norwood, MA 02062
Attn.: Jon Levine, Chief Financial Officer

with a copy to (which will not constitute notice to the Marimed Companies):

Kurzman Eisenberg Corbin & Lever, LLP
One North Broadway, 12th Floor
White Plains, NY 10601
Attention: Kenneth S. Rose, Esq.
Email: krrose@kelaw.com

and
Graubard Miller
405 Lexington Avenue
New York, New York 10174
Attention: Brian L. Ross, Esq.
Email: bross@graubard.com

The undersigned parties each hereby executes this Agreement as evidence of its agreements to the foregoing as of the date indicated above:

BEST BUDS FUNDING LLC

By: _____

MARIMED, INC.

By: _____

MARI HOLDINGS MD LLC

By: _____

MARIMED ADVISORS, INC.

By: _____

Notarization for Marimed, Inc., Mari Holdings MD LLC and Marimed Advisors, Inc. signature:

STATE OF MASSACHUSETTS)

: ss.:

COUNTY OF MIDDLESEX)

On the day of April in the year 2020 before me, the undersigned, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her capacity, and that by his/her signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

Notary Public

Certifications

I, Robert Fireman, certify that:

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

Date: May 28, 2020

/s/ Robert Fireman

Robert Fireman
Chief Executive Officer
(Principal Executive Officer)

Certifications

I, Jon R. Levine, certify that:

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

Date: May 28, 2020

/s/ Jon R. Levine

Jon R. Levine
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 Quarterly Report of MariMed Inc. (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert Fireman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

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

Date: May 28, 2020

/s/ Robert Fireman

Robert Fireman
Chief Executive Officer
(Principal Executive Officer)

A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**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 Quarterly Report of MariMed Inc. (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jon R. Levine, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

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

Date: May 28, 2020

/s/ Jon R. Levine

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

A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
