
ZONED PROPERTIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(Unaudited)

ZONED PROPERTIES, INC. AND SUBSIDIARIES
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SEPTEMBER 30, 2015 AND 2014

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

	September 30, 2015	December 31, 2014
	(Unaudited)	
ASSETS		
Cash	\$ 1,358,399	\$ 1,066,377
Rental properties, net (See Note 3)	7,231,052	8,499,705
Rent receivable	1,979	-
Deferred rent receivable	12,778	-
Deferred rent receivable - related party	220,649	28,027
Real estate tax escrow	59,994	39,122
Prepaid expenses and other current assets	177,369	175,313
Property and equipment, net	48,186	45,940
Security deposits	8,445	7,024
TOTAL ASSETS	\$ 9,118,851	\$ 9,861,508
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Mortgage payable	\$ 2,100,000	\$ 2,100,000
Convertible note payable, net	500,000	500,000
Convertible note payable, net - related party	500,000	500,000
Accounts payable	68,242	27,835
Accrued expenses	128,614	57,837
Accrued expenses - related parties	41,792	47,959
Security deposits payable	41,063	18,100
Total Liabilities	3,379,711	3,251,731
Commitments and Contingencies (See Note 9)		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.001 par value, 5,000,000 shares authorized; 2,000,000 shares issued and outstanding at September 30, 2015 and December 31, 2014 (\$1.00 per share liquidation preference)	2,000	2,000
Common stock: \$.001 par value, 100,000,000 shares authorized; 17,060,250 and 18,676,304 issued and outstanding at September 30, 2015 and December 31, 2014, respectively	17,060	18,676
Additional paid-in capital	19,188,697	18,912,548
Subscription receivable	(4,000)	(4,000)
Accumulated deficit	(13,464,617)	(12,319,447)
Total Stockholders' Equity	5,739,140	6,609,777
Total Liabilities and Stockholders' Equity	\$ 9,118,851	\$ 9,861,508

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the Nine Months Ended	
	September 30,	
	2015	2014
	(Unaudited)	(Unaudited)
REVENUES:		
Rental revenues	\$ 297,695	\$ 222,694
Rental revenues - related parties	625,370	-
Total Revenues	923,065	222,694
OPERATING EXPENSES:		
Compensation and benefits	298,411	3,873,809
Professional fees	1,011,008	866,220
General and administrative expenses	198,516	94,786
Depreciation and amortization	110,060	74,252
Property operating expenses	104,016	54,208
Real estate taxes	56,622	27,606
Consulting fees - related parties	53,511	14,167
Settlement expense	67,500	-
Total Operating Expenses	1,899,644	5,005,048
LOSS FROM OPERATIONS	(976,579)	(4,782,354)
OTHER INCOME (EXPENSES):		
Interest expenses	(145,325)	(161,652)
Interest expenses - related parties	(26,250)	(82,913)
Other income	2,545	41,019
Interest income	439	-
Total Other Expenses, net	(168,591)	(203,546)
LOSS BEFORE INCOME TAXES	(1,145,170)	(4,985,900)
PROVISION FOR INCOME TAXES	-	-
NET LOSS	\$ (1,145,170)	\$ (4,985,900)
NET LOSS PER COMMON SHARE:		
Basic and Diluted	\$ (0.06)	\$ (1.15)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic and Diluted	18,491,082	4,353,112

See accompanying notes to unaudited condensed consolidated financial statements.

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

For the Nine Months Ended
September 30,

	<u>2015</u>	<u>2014</u>
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (1,145,170)	\$ (4,985,900)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	110,060	74,252
Stock-based compensation	55,000	4,051,270
Stock-based settlement expense	50,000	-
Accretion of stock-based stock option expense	578,386	-
Deferred rent receivable	(12,778)	-
Deferred rent receivable - related parties	(192,622)	-
Amortization of debt discount	-	142,564
Gain on sale of note receivable	-	(41,019)
Change in operating assets and liabilities:		
Rent receivable	(1,979)	699
Real estate tax escrow	(20,872)	(16,386)
Prepaid expenses and other assets	(2,056)	(129,744)
Security deposits	(1,421)	(7,024)
Accounts payable	40,407	41,899
Accrued expenses	70,777	23,314
Accrued expenses - related parties	(6,167)	3,000
Security deposits payable	22,963	23,100
NET CASH USED IN OPERATING ACTIVITIES	<u>(455,472)</u>	<u>(819,975)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from note receivable	-	211,019
Acquisition of land	(200,000)	(2,793,000)
Acquisition of buildings and improvements	(43,295)	(6,062,980)
Acquisition of property and equipment	(6,961)	(45,109)
NET CASH USED IN INVESTING ACTIVITIES	<u>(250,256)</u>	<u>(8,690,070)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock	1,000,000	7,734,370
Redemption of common stock	(2,250)	(10,000)
Proceeds from sale of preferred stock	-	2,000
Redemption of preferred stock	-	(700)
Proceeds from related party loan	-	200,387
Repayment of related party loan	-	(200,387)
Proceeds from convertible debt	-	1,000,000
Proceeds from mortgage payable	-	2,100,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>997,750</u>	<u>10,825,670</u>
NET INCREASE IN CASH	292,022	1,315,625
CASH, beginning of year	<u>1,066,377</u>	<u>11,964</u>
CASH, end of period	<u>\$ 1,358,399</u>	<u>\$ 1,327,589</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest		
Interest	\$ 145,325	\$ 108,064
Income taxes	\$ -	\$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for land	\$ -	\$ 16,667
Issuance of common stock for convertible debt and interest	\$ -	\$ 396,883
Reclassification of embedded conversion option on convertible debt to paid-in capital upon conversion	\$ -	\$ 170,000
Issuance of common stock for future services	\$ -	\$ 240,000
Purchase and cancellation and treasury shares in exchange for net properties pursuant to settlement	\$ 1,406,603	\$ -

See accompanying notes to unaudited condensed consolidated financial statements.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 and 2014
(Unaudited)

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS

Organization

Zoned Properties, Inc., formerly Vanguard Minerals Corp. (the “Company”) was incorporated in the State of Nevada on August 25, 2003. On May 2, 2006, the Company changed its name to Knewtrino, Inc. On August 10, 2007, the Company changed its name to Vanguard Minerals Corporation. On October 2, 2013, the Company changed its name to Zoned Properties, Inc. to reflect its maturing business model that focuses on commercial property acquisition and development.

In September 2013, the Company issued the former CEO of the Company, 125,000 shares of common stock of the Company, representing approximately 91.54% of the issued and outstanding voting power of the Company, in exchange for his assumption of liabilities of the Company amounting to \$150,000. The transaction resulted in a change in control of the Company.

The Company is a strategic real estate investment firm whose primary focus is acquiring commercial properties that face unique zoning challenges. The Company acquires properties that have the potential to increase value within their surrounding communities. The Company manages a portfolio of properties that it owns, leases, and provides direct development on each property it acquires. This can include complete architectural design and subsequent build-outs, general support, landscaping, general up-keep, facilities management, and state of the art security systems.

The Company incorporated the following wholly-owned limited liability companies:

- Gilbert Property Management, LLC was organized in the State of Arizona on February 10, 2014.
- Tempe Industrial Properties, LLC was organized in the State of Arizona on February 19, 2014.
- Chino Valley Properties, LLC was organized in the State of Arizona on April 15, 2014.
- Kingman Property Group, LLC was organized in the State of Arizona on April 15, 2014.
- Green Valley Group, LLC (“Green Valley”) organized in the State of Arizona on April 15, 2014.
- Zoned Oregon Properties, LLC was organized in the State of Oregon on June 16, 2015.
- Zoned Colorado Properties, LLC was organized in the State of Colorado on September 17, 2015.
- Zoned Illinois Properties, LLC was organized in the State of Illinois on July 15, 2015.

Basis of Presentation and Principals of Consolidation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates for the nine months ended September 30, 2015 and 2014 include the collectability of rent, the useful life of rental properties, property and equipment, assumptions used in assessing impairment of long-term assets, valuation allowances for deferred tax assets, and the fair value of non-cash equity transactions, including options and stock-based compensation.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, note receivable, deferred rent receivable, prepaid expenses and other current assets, real estate tax escrow, short-term notes payable, accounts payable, accrued expenses, and other payables approximate their fair market value based on the short-term maturity of these instruments.

Risks and Uncertainties

The Company's operations are subject to risk and uncertainties including financial, operational, regulatory and other risks including the potential risk of business failure. The Company conducts a significant portion of its business in Arizona. Consequently, any significant economic downturn in the Arizona market could potentially have an effect on the Company's business, results of operations and financial condition.

Cash and cash equivalents

Cash and cash equivalents are carried at cost and represent cash on hand, demand deposits placed with banks or other financial institutions and all highly liquid investments with an original maturity of three months or less as of the purchase date of such investments. The majority of the Company's cash and cash equivalents are held at major commercial banks, which may at times exceed the Federal Deposit Insurance Corporation ("FDIC") limit. To date, the Company has not experienced any losses on its invested cash. The Company had no cash equivalents at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015, the Company had approximately \$1,056,000 of cash in excess of FDIC limits.

Accounts receivable

The Company recognizes an allowance for losses on accounts receivable in an amount equal to the estimated probable losses net of recoveries. The allowance is based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The expense associated with the allowance for doubtful accounts is recognized in general and administrative expense.

Real Estate Tax Escrow

Real estate tax escrow consists of funds held for the purpose of real estate taxes owed. These funds will be released as required to satisfy tax payments as due.

Rental Properties

Rental properties are carried at cost less accumulated depreciation and amortization. Betterments, major renovations and certain costs directly related to the improvement of rental properties are capitalized. Maintenance and repair expenses are charged to expense as incurred. Depreciation is recognized on a straight-line basis over estimated useful lives of the assets, which range from 7 to 39 years. Tenant improvements are amortized on a straight-line basis over the lives of the related leases, which approximate the useful lives of the assets.

Upon the acquisition of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, identified intangibles, such as acquired above-market leases and acquired in-place leases) and acquired liabilities (such as acquired below-market leases) and allocate the purchase price based on these assessments. The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known trends, and market/economic conditions. The Company records acquired intangible assets (including acquired above-market leases and acquired in-place leases) and acquired intangible liabilities (including below-market leases) at their estimated fair value. The Company amortizes acquired above-and below-market leases as a decrease or increase to rental income, respectively, over the lives of the respective leases. Amortization of acquired in-place leases is included as a component of depreciation and amortization. For the nine months ended September 30, 2015 and 2014, there were no acquired in-place leases.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 and 2014
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Rental Properties (continued)

The Company's properties, including any related intangible assets, are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the aggregate projected future cash flows over the anticipated holding period on an undiscounted basis. An impairment loss is measured based on the excess of the property's carrying amount over its estimated fair value. Impairment analyses are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. If the Company's estimates of the projected future cash flows, anticipated holding periods, or market conditions change, the Company's evaluation of impairment losses may be different and such differences could be material to its consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses. For the nine months ended September 30, 2015 and 2014, the Company did not record any impairment losses.

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

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation. Depreciation of property and equipment is provided utilizing the straight-line method over the estimated useful lives. The Company uses a five year life for office equipment, seven years for furniture and fixtures, and 5 to 10 years for vehicles. Expenditures for maintenance and repairs are charged to expense as incurred. Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in statements of operations.

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

Revenue Recognition

Rental income includes base rents that each tenant pays in accordance with the terms of its respective lease and is reported on a straight-line basis over the non-cancellable term of the lease, which includes the effects of rent steps and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space or controls the physical use of the leased space and the leased space is substantially ready for its intended use. Rental income also includes the amortization of acquired above-and below-market leases, net. Beginning in 2014, the Company began generating revenues from the non-residential rental properties.

Certain of the Company's leases currently contain rental increases at specified intervals. The Company records as an asset, and include in revenue, rents receivable that will be received if the tenant makes all rent payments required through the expiration of the initial term of the lease. Deferred rents receivable in the accompanying balance sheets includes the cumulative difference between rental revenue recorded on a straight-line basis and rents received from the tenants in accordance with the lease terms. Accordingly, management determines to what extent the deferred rent receivable applicable to each specific tenant is collectible. The Company reviews material rents receivable and takes into consideration the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area in which the property is located. In the event that the collectability of rent receivable with respect to any given tenant is in doubt, we record an increase in the allowance for uncollectible accounts or the Company records a direct write-off of the specific rent receivable. No such reserves related to deferred rent receivable have been recorded as of September 30, 2015 and December 31, 2014. For the nine months ended September 30, 2015, in connection with certain related party leases, the Company only included in revenues the amount of rents received from the related parties in accordance with the lease terms since on August 1, 2015, the Company transferred title to its Bernalillo, New Mexico and the respective related party lease as part of a settlement agreement (See Note 9), and cancelled a related party lease in June 2015.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 and 2014
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basic Income (Loss) Per Share

Basic income (loss) per share is computed by dividing net income (loss) by weighted average number of shares of common stock outstanding during each period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during the period. All potentially dilutive common shares were excluded from the computation of diluted shares outstanding as they would have an anti-dilutive impact on the Company's net losses and consisted of the following:

	September 30, 2015	December 31, 2014
Convertible debt	200,000	200,000
Stock options	1,300,000	-
	1,500,000	200,000

Income Tax

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

The Company follows the provisions of FASB ASC 740-10 "Uncertainty in Income Taxes" (ASC 740-10). Certain recognition thresholds must be met before a tax position is recognized in the financial statements. An entity may only recognize or continue to recognize tax positions that meet a "more-likely-than-not" threshold. As of September 30, 2015 and December 31, 2014, the Company does not believe it has any uncertain tax positions that would require either recognition or disclosure in the accompanying consolidated financial statements.

Stock-Based Compensation

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718 which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third-parties, compensation expense is determined at the "measurement date." The expense is recognized over the service period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company initially records compensation expense based on the fair value of the award at the reporting date.

Related Parties

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal with if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 and 2014
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued an update ("ASU 2014-09") *Revenue from Contracts with Customers*. ASU 2014-09 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. ASU 2014-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

In June 2014, the FASB issued an update ("ASU 2014-12") to ASC Topic 718, *Compensation – Stock Compensation*. ASU 2014-12 requires an entity to treat performance targets that can be met after the requisite service period of a share based award has ended, as a performance condition that affects vesting. ASU 2014-12 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. The Company is currently evaluating the impact of the adoption of ASU 2014-12 on its consolidated financial statements.

In August 2014, FASB issued ASU 2014-15, *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*, that will require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. In connection with each annual and interim period, management will assess if there is substantial doubt about an entity's ability to continue as a going concern within one year after the issuance date. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations within one year after the issuance date. The new standard defines substantial doubt and provides example indicators. Disclosures will be required if conditions give rise to substantial doubt. However, management will need to assess if its plans will alleviate substantial doubt to determine the specific disclosures. This standard is effective for public entities for annual periods ending after December 15, 2016. Earlier application of this standard is permitted. This standard is not expected to have a material effect on our financial position, results of operations and cash flows.

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

NOTE 3 – RENTAL PROPERTIES

On January 22, 2014, the Company entered into a real estate purchase agreement with a stockholder, pursuant to which the Company acquired land located in Gilbert, Arizona for \$266,667, of which \$250,000 was paid in cash, and \$16,667 was paid by issuing 139 shares of common stock of the Company at an agreed price of \$120 per share based on recent sales of the Company's common stock in a private placement.

On January 29, 2014, the Company entered into a purchase and consulting agreement (the "Ultra Agreement") with Ultra Health, LLC., a related party due to common ownership and investments made by beneficial stockholders of the Company ("Ultra Health"), pursuant to which the Company was to acquire a 1,536 square foot modular building to be delivered and erected on the purchased land for total cash payments of \$675,000. Subsequent to the purchase of this land and building, these real estate assets were transferred to Gilbert Property, LLC, a wholly-owned subsidiary of the Company. In connection with the 1,536 square foot modular building discussed above, on April 10, 2015, the Company became a party to a certain case pending in the Superior Court of the State of Arizona in and for Maricopa County, Arizona styled, *Zoned Properties, Inc. v. Duke Rodriguez, Ultra Health, LLC and Cumbre Investment, LLC ("The Defendants")*, Case No. CV-2015-004225, wherein the Company alleges, among other things, that the Defendants, alone or in collusion with one another, breached a certain contract for the construction of the Gilbert building, and made material misrepresentations or had negligently misrepresented certain material elements upon which the Company relied, in purchasing the land upon which that building was to be constructed, which the Defendants failed to perform. The Company reviews its rental properties for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Based on this review, on December 31, 2014, the Company determined that the Gilbert building carrying value of \$675,000 was not recoverable and recorded an impairment loss - related party of \$675,000.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
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NOTE 3 – RENTAL PROPERTIES (continued)

On July 9, 2015 and effective August 1, 2015, the Company entered into a settlement agreement with the Defendants that, among other things, settles the pending claims and grants mutual general releases (See Note 9).

On March 7, 2014, the Company entered into a real estate purchase agreement with Maryland LLC, an Arizona limited liability company, pursuant to which the Company acquired land and a building located in Tempe, Arizona, for total payment of \$4,600,000, of which \$2,500,000 was paid by cash, and a \$2,100,000 promissory note from Maryland LLC. The transaction was completed and the title of the land was transferred to the Company (See Note 7). Subsequent to the purchase, the Company spent \$206,370 on building improvements and equipment.

On April 4, 2014, the Company entered into a purchase agreement with Ultra Health pursuant to which the Company acquired a modular building in Green Valley, Arizona for total payment of \$87,073. On October 22, 2014, Green Valley entered into a real estate purchase and sale agreement with a company owned by Duke Rodriguez who became beneficial stockholder of the Company in July 2014 ("Duke Rodriguez"), pursuant to which the Company acquired the property located in Green Valley, AZ for a purchase price of \$400,000.

On May 28, 2014, the Company entered into a purchase agreement with Ultra Health pursuant to which the Company acquired three parcels of land and a building in Mohave County, Arizona for total payments of \$260,000. Subsequent to the purchase, the Company spent \$27,538 in improvements.

On August 12, 2014, the Company entered into a real estate purchase agreement with a company owned by Duke Rodriguez, pursuant to which the Company acquired the property located in Bernalillo County, New Mexico consisting of 11.30 acres for total payments of \$2,750,000. Pursuant to a settlement agreement (see Note 9), the Company transferred title to this property to Defendants. On August 1, 2015 (the "Settlement Date") and December 31, 2014, the carrying value of this property was \$2,719,658 and \$2,737,863, respectively.

On the Settlement Date, the Defendants effectuated the transfer of four parcels of property in Chino Valley, Arizona to the Company which consists of approximately 48 acres of land and the Company acquired an additional parcel in Chino Valley for \$200,000 in cash. Based on an independent appraisal, on the Settlement Date, the fair value of property obtained, consisting of land, buildings and improvements, amounted to approximately \$1,528,000. (see Note 9).

At September 30, 2015 and December 31, 2014, rental properties, net consisted of the following:

Description	Useful Life (Years)	September 30, 2015	December 31, 2014
Building and building improvements	39	\$ 4,791,166	\$ 5,364,815
Land	-	2,589,667	3,209,668
Equipment	7	23,164	23,164
Rental properties, at cost		7,403,997	8,597,647
Less: accumulated depreciation		(172,945)	(97,942)
Rental properties, net		<u>\$ 7,231,052</u>	<u>\$ 8,499,705</u>

For the nine months ended September 30, 2015 and 2014, depreciation and amortization of rental properties amounted to \$105,345 and \$73,759, respectively.

ZONED PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 - PROPERTY AND EQUIPMENT

At September 30, 2015 and December 31, 2014, property and equipment consisted of the following:

Description	Useful Life (Years)	September 30, 2015	December 31, 2014
Vehicle and site trailers	5 - 10	\$ 42,555	\$ 42,555
Office furniture and equipment	5 - 7	12,225	5,264
		<u>54,780</u>	<u>47,819</u>
Less: accumulated depreciation		(6,594)	(1,879)
Property and equipment, net		<u>\$ 48,186</u>	<u>\$ 45,940</u>

For the nine months ended September 30, 2015 and 2014, depreciation expense amounted to \$4,715 and \$493, respectively.

NOTE 5 - RELATED PARTY TRANSACTIONS

(A) *Note receivable- related party*

On December 9, 2013, the Company entered into a Note Purchase and Loan Participation Assignment Agreement (the "Note Purchase Agreement") with and amongst MAC CAM LLC, a limited liability company ("MAC CAM"), partially owned by the Company's former President, a third party entity, and five individuals two of which are considered related parties, pursuant to which the Company issued two convertible promissory notes (\$85,000 to MAC CAM and \$85,000 to a stockholder) aggregating \$170,000 to purchase a Promissory Note dated February 19, 2013, in the original principal amount of \$209,400 and with a maturity date of February 1, 2018, which is secured by a Mortgage/Deed of Trust on Real Property recorded March 5, 2013 in Document No. 2013-01174, of the Official Records of the County Recorder of Graham County, Arizona. On March 12, 2014, the Company sold this note for a cash payment of \$210,500. For the nine months ended September 30, 2014, the Company reported a gain of \$41,019 which is reflected as other income on the accompanying condensed consolidated statements of operations.

(B) *Convertible note payable - related party*

On August 20, 2014, the Company received \$500,000 from a beneficial common stockholder who also holds 50% of the issued preferred stock pursuant to the terms of a Senior Convertible Debenture. The Debenture bears interest at 7% and the principal balance and all accrued interest is due on the maturity date of August 20, 2017. The holder has the option after 12 months to convert all or a portion of the Debenture into shares of the Company's common stock at the conversion price of \$5.00 per share. As of September 30, 2015 and December 31, 2014, the principal balance due and owing under this Debenture is \$500,000. As of September 30, 2015 and December 31, 2014, accrued interest payable amounted to \$38,792 and \$12,542, respectively, and is included in accrued expenses - related parties on the accompanying condensed consolidated balance sheets.

(C) *Preferred stock*

On July 22, 2014, the Board of Directors of the Company accepted a subscription agreement from the McLaren Family LLLP ("MFT"), whose general partner is Alex C. McLaren, a Director and the father of the Company's current President and CEO, Bryan McLaren, for the acquisition of 1,000,000 shares of the Company's Preferred Stock for cash of \$1,000. In addition to a beneficial ownership of common stock, MFT holds 50% of the current Preferred Stock that controls the Company.

On July 22, 2014, the Company accepted a subscription agreement from Gregory Johnston, a beneficial shareholder, for the acquisition of 1,000,000 shares of the Company's preferred stock for cash of \$1,000 (See Note 8). In addition to a beneficial ownership of common stock, Mr. Johnston holds 50% of the current Preferred Stock that controls the Company.

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NOTE 5 – RELATED PARTY TRANSACTIONS (continued)

(D) Employment agreement

On July 31, 2014, the Company entered into a 10 year employment agreement with a beneficial stockholder of the Company, for annual compensation of \$85,000. The Company may also grant this employee/beneficial stockholder stock options of up to 20,000 shares per year for completed service and may receive a bonus at the discretion of the Company's board of directors. Additionally, as part of the employment agreement, the Company entered into a golden parachute agreement with this employee/beneficial stockholder which expires on December 31, 2039, unless terminated earlier as defined in the agreement, whereby, no benefits under this agreement shall be payable unless there is a change in control of the Company. In addition to other terms in the agreement, upon a change in control of the Company as defined in the agreement, if employment by the Company shall be terminated (a) by the Corporation other than for cause, retirement or disability or (b) by this employee for good reason, then he shall be entitled to certain benefits. On July 31, 2015, the employee/beneficial resigned and waived his rights in any such benefits, and amounts due were paid in full. At September 30, 2015 and December 31, 2014, amounts due to this employee/beneficial stockholder under this agreement amounted to \$0 and \$35,417, respectively, which has been included in accrued expenses – related parties on the accompanying condensed consolidated balance sheets.

(E) Related party lease agreements

During 2014, the Company entered into lease agreements with non-profit companies and other companies whose director is a beneficial stockholder of the Company. Additionally, in August 2015, the Company entered into two lease agreements with a company owned by this beneficial shareholder of the Company to lease space in Tempe, Arizona and Chino Valley, Arizona. The Tempe lease commenced on September 1, 2015 and expires on August 31, 2035 with base monthly rent \$13,500, subject to a 5% annual increase. The Chino Valley lease commenced on August 1, 2015 and expires on July 31, 2035 with base monthly rent \$30,000, subject to a 5% annual increase. For the nine months ended September 30, 2015 and 2014, rental income associated with these related party leases amounted to \$625,370 and \$0, respectively. At September 30, 2015 and December 31, 2014, deferred rent receivable – related party amounted to \$220,649 and \$28,027, respectively. In connection with these leases, the related party tenants shall pay security deposits aggregating \$60,000 payable in twelve monthly installments of \$5,000 beginning September 1, 2015

NOTE 6 – CONVERTIBLE NOTE PAYABLE

On August 20, 2014, the Company received \$500,000 from a stockholder pursuant to the terms of a Senior Convertible Debenture. The Debenture bears interest at 7% and is payable monthly and the principal balance and any remaining unpaid interest is due on the maturity date of August 20, 2017. The holder has the option after 12 months to convert all or a portion of the Debenture into shares of the Company's common stock at the conversion price of \$5.00 per share. As of September 30, 2015 and December 31, 2014, the principal balance due and owing under this Debenture is \$500,000.

NOTE 7 – MORTGAGE PAYABLE

On March 7, 2014 the Company executed a \$2,100,000 mortgage payable to acquire real estate having a carrying value of approximately \$4,600,000. The mortgage bears interest at 7.5%. Monthly interest only payments began April 7, 2014 and continue each month thereafter until paid. The entire unpaid balance and accrued interest is due on March 7, 2019, the maturity date of the mortgage and is secured by the underlying property. The mortgage terms do not allow participations by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project.

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NOTE 8 – STOCKHOLDERS' EQUITY

(A) Preferred Stock

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

Once any shares of Preferred Stock are outstanding, at least 51% of the total number of shares of Preferred Stock outstanding must approve the following transactions:

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

On July 22, 2014, the Board of Directors accepted a subscription agreement from the McLaren Family LLLP, whose general partner is Alex C. McLaren, a Director and the father of the Company's current President and CEO Bryan McLaren, for the acquisition of 1,000,000 shares of the Company's Preferred Stock for cash of \$1,000. The Company simultaneously accepted a subscription agreement from a beneficial common stockholder, for the acquisition of 1,000,000 shares of the Company's preferred stock for cash of \$1,000.

In connection with the issuance of super voting control preferred stock on July 22, 2014 (herein referred to as the "Valuation Date"), the Company assessed the fair value of the issued preferred stock issued to a MAC CAM, Gregory Johnston and McLaren Family LLLP for purposes of determining the valuation as set forth in ASC 820-10-35-37 *Fair Value in Financial Instruments*. Based on an independent appraisal report which utilized the market approach, on the Valuation Date, for the nine months ended September 30, 2014, the Company recorded stock-based compensation of \$3,365,000. The preferred stock issued was valued based upon industry specific control premiums and the Company's market cap at the time of the transaction. The market approach was utilized to arrive at an indication of equity value based on recent transactions involving the Company's common stock. The control premium for the Company was based on publicly traded companies or comparable entities which have been recently acquired in arm's-length transactions. The Company estimated the control premium for the voting control of the preferred stock based on Real Estate industries at 17.5% as of July 22, 2014, based on comparable publicly traded data, adjusted for company-specific factors.

(B) Common stock issued/redeemed for cash

On January 20, 2015, the Company cancelled 225,000 shares of common stock and returned proceeds of \$2,250 to an investor.

In May 2015, the Company issued 1,000,000 shares of common stock to accredited investors pursuant to a private placement, exempt from registration pursuant to Rule 506(c) under the Securities Act of 1933, as amended, at a price of \$1.00 per share for proceeds of \$1,000,000.

(C) Common stock issued for services

On January 10, 2015, the Company issued an aggregate of 30,000 shares of common stock to three members of the Company's board of directors (10,000 each) for services rendered. The shares were valued at their fair value of \$30,000 using the recent sale price of the common stock on the dates of grant of \$1.00 per common share. In connection with these shares, in January 2015, the Company recorded stock-based compensation expense of \$30,000.

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NOTE 8 – STOCKHOLDERS' EQUITY (continued)

(C) Common stock issued for services (continued)

On May 1, 2015, the Company entered into a five year employment agreement with an officer of the Company. In connection with this employment agreement, the Company issued 15,000 shares of its common stock. The shares were valued at their fair value of \$15,000 using the recent sale price of the common stock on the dates of grant of \$1.00 per common share. Accordingly, the Company recorded compensation expense of \$15,000.

In July 2015, the Company issued 2,500 shares of common stock to an employee for services rendered. The shares were valued at their fair value of \$2,500 using the recent sale price of the common stock on the dates of grant of \$1.00 per common share. In connection with these shares, in July 2015, the Company recorded compensation expense of \$2,500.

Effective September 1, 2015, the Company entered into a one year consulting agreement with an investor relations firm for investor relations services. In connection with this consulting agreement, the Company shall compensate the consultant for services rendered 1) cash of \$5,000 per month and 2) 7,500 restricted shares to be issued within the first thirty days of the contractual period and an additional 7,500 shares of restricted stock to be issued at the end of month seven. On September 30, 2015, the Company issued 7,500 shares of restricted stock. The shares were valued at their fair value of \$7,500 using the recent sale price of the common stock on the dates of grant of \$1.00 per common share. Accordingly, the Company recorded consulting fees of \$7,500.

(D) Stock options granted pursuant to consulting and employment agreements

On May 6, 2015, the Company entered into a 36-month consulting agreement with a stockholder for business advisory services. In connection with this consulting agreement, the Company granted options to purchase 1,000,000 shares of the Company's common stock under the Company's 2014 Employee Stock Option Plan. The options vest as to 125,000 of such shares on July 1, 2015 and for each quarter thereafter through April 1, 2017, and expire on May 5, 2025 or earlier due to employment termination. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 120%; risk-free interest rate of 2.25%; and, an estimated holding period of 10 years. In connection with these options, the Company valued these options at a fair value of \$948,400 and will record stock-based consulting expense over the vesting period. For the nine months ended September 30, 2015, the Company recorded consulting expense of \$497,696 related to these options.

In connection with an employment agreement (see Note 10), the Company granted options to purchase 300,000 shares of the Company's common stock to the employee under the Company's 2014 Employee Stock Option Plan. The options vest as to 50,000 of such shares on August 1, 2015, 50,000 options vest on May 1, 2016 and for each year thereafter through May 1, 2020, and expire five years from the date of grant or earlier due to employment termination. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 120%; risk-free interest rate of 1.50%; and, an estimated holding period of 5 years. In connection with these options, the Company valued these options at a fair value of \$248,100 and will record stock-based consulting expense over the vesting period. For the nine months ended September 30, 2015, the Company recorded stock-based compensation expense of \$80,690.

At September 30, 2015, there were 175,000 options vested and exercisable. As of September 30, 2015, there was \$618,114 unvested stock-based compensation expense to be recognized through April 2020. The aggregate intrinsic value at September 30, 2015 was \$0 and was calculated based on the difference between the Company's share price established in its most recent PPM and the exercise price of the underlying options.

(E) Common stock issued for settlement

On June 16, 2015, the Company issued 50,000 shares of common stock in connection with a settlement agreement related to a claim. The shares were valued at their fair value of \$50,000 using the recent sale price of the common stock on the dates of grant of \$1.00 per common share. In connection with these shares, in June 2015, the Company recorded settlement expense of \$50,000.

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NOTE 8 – STOCKHOLDERS' EQUITY (continued)

(F) Common stock redeemed and cancelled

On August 1, 2015, the Defendants returned 2,496,054 shares of common stock to the Company and the Company cancelled such shares. On the Settlement Date, such shares were valued at \$1,406,603 or \$0.5635 per common share which represents the cost of the treasury shares purchased and retired. (See Note 9).

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Litigation settlement

Zoned Properties, Inc. v. Duke Rodriguez, Ultra Health, LLC and Cumbre Investment, LLC

On April 10, 2015, the Company became a party to a certain case pending in the Superior Court of the State of Arizona in and for Maricopa County, Arizona styled, *Zoned Properties, Inc. v. Duke Rodriguez, Ultra Health, LLC and Cumbre Investment, LLC* (“*The Defendants*”), Case No. CV-2015-004225, wherein the Company alleges, among other things, that the Defendants, alone or in collusion with one another, breached a certain contract for the construction of the Gilbert building, and had made material misrepresentations or had negligently misrepresented certain material elements upon which the Company relied in purchasing the land upon which that building was to be constructed, which the Defendants failed to deliver (See Note 3). On June 8, 2015, the Company filed a motion to dismiss the counterclaim. The motion to dismiss has been fully-briefed and was set for oral argument on August 7, 2015. On July 9, 2015 and effective August 1, 2015, the Company entered into a settlement agreement with the Defendants that, among other things, settles the pending claims and grants mutual general releases. Under the terms of the settlement:

1. On August 1, 2015, the Company transferred title to its Bernalillo, New Mexico property to Defendants. At June 30, 2015 and December 31, 2014, the carrying value of this property was \$2,719,658 and \$2,737,863, respectively. In connection with such property, the Company forfeited quarterly straight-lined rental revenue of approximately of \$287,000 through September 2024. For the six months ended June 30, 2015, rental revenues from this property amounted to \$120,000. The Company did not have rental revenue from this property in the comparable 2014 periods.
2. The Defendants returned 2,496,054 shares of common stock to the Company and the Company cancelled such shares. On the Settlement Date, such shares were valued at \$1,406,603 or \$0.5635 per common share which represents the cost of the treasury shares purchased and retired.
3. The Defendants effectuated the transfer of four parcels of property in Chino Valley, Arizona to the Company which consists of approximately 48 Acres of land and the Company acquired an additional parcel in Chino Valley for \$200,000 in cash. Based on an independent appraisal, on the Settlement Date, the fair value of property obtained, consisting of land, buildings and improvements, amounted to approximately \$1,528,000.
4. The Company shall obtain water rights associated with property in Chino Valley, Arizona.

In connection with the settlement, on the Settlement Date, the Company did not record any settlement gain or loss.

All of the settlement term were settled as of August 1, 2015 except for the Company obtaining the water rights associated with property in Chino Valley, Arizona. The parties continue to work towards addressing this outstanding item. It is anticipated that the Company will complete the transfer of such water rights prior to December 31, 2015. In the event that this condition is not satisfied, the Company will move to enforce this condition.

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NOTE 9 – CONTINGENCIES (continued)

Other legal matters

Holistic Patient Wellness Group, LLC v. Zoned Properties, Inc.; Court Filed: Maricopa County Superior Court, Arizona; Case Number: CV2014-003047, which has been consolidated with CV2014-005642; Date Filed: March 14, 2014

Holistic Patient Wellness Group, LLC (“HPWG”) leased from the Company retail space in Tempe, Arizona to operate a medical marijuana dispensary. HPWG claims that the Company violated the terms of the lease for various reasons. On May 23, 2014, the Company concluded that HPWG had breached the lease, and terminated the lease and retook possession of the property. On May 27, 2014, HPWG filed a petition for an order to show cause, seeking an expedited ruling on its claim that Zoned violated the terms of the stipulated preliminary injunction. The court re-set the hearing multiple times, ultimately continuing it until March 17, 2015. In the interim, and in part to mitigate its own damages, the Company leased the property to a new tenant. At the hearing, HPWG sought sanctions in the amount of \$1,000 per day for the more than 300 days it had been “locked out” of the premises (reduced from its initial demand of \$10,000 per day) and an order allowing them back into the property. After conducting the hearing, the court found that the Company did not violate the terms of the stipulated injunction and denied HPWG’s petition.

On April 27, 2015, two entities related to HPWG moved for leave to amend their answer and counterclaim to assert several new claims against new parties, including the Company. On June 2, 2015, the court *sua sponte* denied the motion. A status hearing occurred on August 17, 2015, during which time the court granted HPWG renewed request to file a motion for leave to amend their answer and counterclaim and to assert several new claims against new parties, including the Company. To date, the motion for leave to amend has not been filed. If and when it is filed, the Company will evaluate any grounds for opposing the motion. The Company believes that any settlement damages with HPWG would be nominal.

NOTE 10 - COMMITMENTS

Employment agreement

On May 1, 2015, the Company entered into a five year employment agreement with an officer of the Company. In connection with this employment agreement, the Company issued 15,000 shares of its common stock. The shares were valued at their fair value of \$15,000 using the recent sale price of the common stock on the dates of grant of \$1.00 per common share. Accordingly, the Company recorded compensation of \$15,000. Additionally, the Company granted options to purchase 300,000 shares of the Company’s common stock to the employee under the Company’s 2014 Employee Stock Option Plan. The options vest as to 50,000 of such shares on August 1, 2015, 50,000 options vest on May 1, 2016 and for each year thereafter through May 1, 2020, and expire five years from the date of grant or earlier due to employment termination. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 120%; risk-free interest rate of 1.50%; and, an estimated holding period of 5 years. In connection with these options, the Company valued these options at a fair value of approximately \$248,000 and will record stock-based consulting expense over the vesting period.

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NOTE 11 – CONCENTRATIONS

Rental income and rent receivable – related parties

During 2014, the Company entered into lease agreements with non-profit companies whose director is a beneficial stockholder of the Company. Additionally, during the nine months ended September 30, 2015, the Company entered into lease agreements with companies owned by this beneficial stockholder of the Company. For the nine months ended September 30, 2015, rental revenue associated with these leases amounted to \$625,370. For the nine months ended September 30, 2015, rental income - related parties represents 67.7% of total revenues. At September 30, 2015 and December 31, 2014, deferred rent receivable – related party amounted to \$220,649 and \$28,027, respectively. A reduction in sales from or loss of such related party leases would have a material adverse effect on our consolidated results of operations and financial condition.

NOTE 12 – SUBSEQUENT EVENTS

Common shares issued

On October 23, 2015, the Company issued 1,000 shares of its common stock in full settlement of accounts payable of \$5,000.

On October 23, 2015, pursuant to an engagement letter, the Company issued 19,600 shares of its common stock to a Company majority owned by the Company's chief financial officer ("CFO") for services rendered. The shares were valued at their fair value of \$19,600 using the recent sale price of the common stock on the dates of grant of \$1.00 per common share. In connection with these shares, in October 2015, the Company recorded compensation expense of \$19,600.

Rental property acquisitions

On October 2, 2015, the Company entered into a letter of intent with HQ Holdings LLC, a Colorado limited liability company, pursuant to which the Company shall acquire a building and underlying land located in Silt, Colorado, subject to certain contingencies such as the Company signing a lease agreement with HQ Holdings LLC and other closing conditions, for total payment of \$430,000, of which \$4,000 was paid as an earnest deposit and \$426,000 in cash to be paid at closing which is expected to occur in the first quarter of 2016.

On October 27, 2015, the Company entered into a letter of intent RFSC LLC, a Colorado limited liability company, pursuant to which the Company shall acquire land and a building located in Carbondale, Colorado, subject to certain contingencies such as the Company signing a lease agreement with HQ Organic LLC, upon RFSC transferring existing its Marijuana Cultivation License to HQ Organic LLC, and other closing conditions for total payment of \$1,000,000, of which \$42,500 was paid as an earnest deposit and \$957,500 in cash to be paid at closing which is expected to occur in the first quarter of 2016.

Employment agreement

On October 26, 2015, the Company entered into an engagement letter with CFO for services rendered through December 31, 2015 and for services to be rendered. Pursuant to the engagement letter, the Company shall pay to a base fee of \$6,500 in cash per month of which \$2,000 shall be deferred and paid upon the earlier of six months or a capital raise, and \$3,500 per month payable quarterly in advance in common shares of the Company valued at the lower of the share price from the most recent capital raise or 60% of the bid price of the Company's common stock at the last trading day of the previous quarter with a minimum number of common shares issuable per month of 1,250 shares.