

Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines



QUARTERLY REPORT

For the Period Ending: June 30, 2019
(the "Reporting Period")

ITEM 9 LABS CORP.

A Delaware corporation

1709 E Bethany Home Rd., Phoenix, AZ 85016

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SIC Code: Primary: 3843

As of August 20, 2019, the number of shares outstanding of our Common Stock was: 63,547,572

As of June 30, 2019, the number of shares outstanding of our Common Stock was: 63,407,932

As of December 31, 2018, the number of shares outstanding of our Common Stock was: 60,796,642

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes:

No:

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes:

No:

Indicate by check mark whether a Change in Control¹ of the company has occurred over this reporting period:

Yes:

No:

¹ "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

ITEM 9 LABS CORP.

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ITEM 9 LABS CORP.

Quarterly Disclosure Statement

All information contained in this Quarterly Report has been compiled to fulfill the disclosure requirements of Rule 15c2-11 (a)(5) promulgated under the Securities and Exchange Act of 1934, as amended. The enumerated captions contained herein correspond to the sequential format as set forth in the rule.

No dealer, salesman or any other person has been authorized to give any information or to make any representations not contained herein in connection with the Issuer. Any representations not contained herein must not be relied upon as having been made or authorized by the Issuer.

Delivery of this information does not imply that the information contained herein is correct as of any time subsequent to the date of this Quarterly Report.

ITEM 1. THE EXACT NAME OF THE ISSUER AND ITS PREDECESSORS

The exact name of the Issuer is: Item 9 Labs Corp. (hereinafter referred to as “Item 9 Labs,” “Issuer” or the “Company”)

Current status of incorporation with the State of Delaware: Active: Default: Inactive:

The names and history of the Issuer’s predecessors:

The Company was incorporated in the state of Delaware under the name Crown Dynamics Corp on June 15, 2010. On October 26, 2012, the Articles of Incorporation were amended to reflect a name change to Airware Labs Corp, and on April 2, 2018, they were amended again to reflect the name change to Item 9 Labs Corp.

Has the issuer of any of its predecessors ever been in bankruptcy, receivership, or any similar proceeding in the past five years? Yes: No:

ITEM 2. SECURITY INFORMATION

Trading symbol : The Company’s trading symbol is INLB.

The Company’s CUSIP : CUSIP for common stock is 46564C 203.

Par of Stated Value: Common Stock – Par Value \$0.0001

Shares Authorized: The Company is authorized to issue Two Billion (2,000,000,000) shares of common stock.

Shares Outstanding:

Common Stock

(i)	Period End Date:	June 30, 2019*
(ii)	Number of shares authorized:	2,000,000,000
(iii)	Number of shares outstanding:	63,407,932
(iv)	Freely tradable shares (public float):	1,085,129
(v)	Total number of shareholders of record:	259

**On October 18, 2018, the Company completed a 1-for-20 reverse stock split. This period reports post-split numbers.*

Transfer Agent

Nevada Agency and Transfer Company
50 W. Liberty St., Suite 880, Reno, NV 89501
Phone: (775) 322-0626
Email: info@natco.com

Is the Company’s transfer agent registered under the Exchange Act. Yes: No:

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors:

None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

Effective October 18, 2018, the Company completed a 1-for-20 reverse split of its issued and outstanding common stock.

On March 20, 2018, the Company closed on an Agreement and Plan of Exchange to acquire all of the membership interests of BSSD Group, LLC (“BSSD”), an Arizona limited liability company formed on May 2, 2017, in exchange for newly issued restricted shares of the Company’s common stock (the “Shares”), which represent approximately 75% of the issued and outstanding shares of the Company’s common stock on a fully-diluted basis. The 40,355,771 Shares were distributed pro-rata to the BSSD members. As part of the agreement, the Company agreed to increase its authorized shares of common stock to two billion.

On November 26, 2018, the company’s wholly owned subsidiary AZ DP Holdings, LLC (AZDP) performed an asset acquisition of the majority of the assets of Arizona DP Consulting, LLC (AZDPC), a consulting firm specializing in obtaining marijuana dispensary permits and cannabis related business plans. Information related to the acquisition can be found in Note 5 to our Notes to Condensed Interim Consolidated Financial Statements.

ITEM 3. ISSUANCE HISTORY

The goal of this section is to provide disclosure with respect to each event that resulted in any direct changes to the total shares outstanding of any class of the issuer’s securities in the past two completed fiscal years and any subsequent interim period.

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services. Using the tabular format below, please describe these events.

A. Changes to the Number of Outstanding Shares

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods:

Date of Transaction	Transaction type (e.g. new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to (entities must have individual with voting / investment control disclosed).	Reason for share issuance (e.g. for cash or debt conversion) OR Nature of Services Provided (if applicable)	Restricted or Unrestricted as of this filing?	Exemption or Registration Type?
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Shares outstanding as of 8/20/19 **63,547,572.00**
 Shares issued subsequent to 6/30/19 **139,615.00**

08/09/19	New	30,000.00	Common	\$ 1.50	Yes	Horwitz Armstrong	Consulting Service	Restricted	4(a)(2) and 506(b)
08/08/19	New	100,000.00	Common	\$ 1.50	Yes	G Carter	Cash	Restricted	4(a)(2) and 506(b)
07/07/19	New	9,615.00	Common	\$ 2.60	No	Christopher Wolven	Employee Incenti	Restricted	4(a)(2) and 506(b)

Shares outstanding as of 6/30/19 **63,407,957.00**
 Shares issued subsequent to 3/31/19 **252,950.00**

06/28/19	New	40,000.00	Common	\$ 1.50	Yes	M Silber	Cash	Restricted	4(a)(2) and 506(b)
06/28/19	New	9,615.00	Common	\$ 2.60	No	Christopher Wolven	Employee Incenti	Restricted	4(a)(2) and 506(b)
05/11/19	New	35,000.00	Common	\$ 1.50	Yes	JLS Ventures LLC	Consulting Service	Restricted	4(a)(2) and 506(b)
04/26/19	New	33,334.00	Common	\$ 1.50	Yes	A Schoebel	Cash	Restricted	4(a)(2) and 506(b)
04/26/19	New	33,334.00	Common	\$ 1.50	Yes	J Williams	Cash	Restricted	4(a)(2) and 506(b)
04/11/19	New	35,000.00	Common	\$ 1.50	Yes	JLS Ventures LLC	Consulting Service	Restricted	4(a)(2) and 506(b)
04/05/19	New	66,667.00	Common	\$ 1.50	Yes	D Zuniga	Cash	Restricted	4(a)(2) and 506(b)

Shares outstanding as of 3/31/19 **63,155,007.00**
 Shares issued 1/1/19-3/31/19 **2,258,342.00**

03/29/19	New	133,335.00	Common	\$ 1.50	Yes	M Cornette	Cash	Restricted	4(a)(2) and 506(b)
03/29/19	New	33,334.00	Common	\$ 1.50	Yes	A Kiel	Cash	Restricted	4(a)(2) and 506(b)
03/11/19	New	35,000.00	Common	\$ 1.00	Yes	JLS Ventures LLC	Consulting Service	Restricted	4(a)(2) and 506(b)
03/01/19	New	23,529.00	Common	\$ 4.25	No	Kyle Jennings	Employee Incenti	Restricted	4(a)(2) and 506(b)
03/01/19	New	23,529.00	Common	\$ 4.25	No	RC Giant LLC	Consulting Service	Restricted	4(a)(2) and 506(b)
01/29/19	New	2,000,000.00	Common	\$ 1.00	Yes	Viridis Group 19 Capital LLC (Andrew Bowden)	Cash	Restricted	4(a)(2) and 506(b)
01/07/19	New	9,615.00	Common	\$ 2.60	No	Christopher Wolven	Employee Incenti	Restricted	4(a)(2) and 506(b)

Shares outstanding as of 3/31/18	53,221,709.00
Shares issued 10/1/18-3/31/18	45,702,506.00

03/29/18	New	3,710,000.00	Common	\$	0.20	Yes	Private Investor	Debt Conversion	Restricted	4(a)(2) and 506(b)
03/29/18	New	1,150,000.00	Common	\$	0.20	Yes	Private Investor	Debt Conversion	Restricted	4(a)(2) and 506(b)
03/29/18	New	50,000.00	Common	\$	0.20	Yes	Private Investor	Debt Conversion	Restricted	4(a)(2) and 506(b)
03/29/18	New	50,000.00	Common	\$	0.20	Yes	Jessica Smith	Debt Conversion	Restricted	4(a)(2) and 506(b)
03/29/18	New	50,000.00	Common	\$	0.20	Yes	Private Investor	Debt Conversion	Restricted	4(a)(2) and 506(b)
03/29/18	New	50,000.00	Common	\$	0.20	Yes	Private Investor	Debt Conversion	Restricted	4(a)(2) and 506(b)
03/29/18	New	84,334.00	Common	\$	0.20	Yes	Stockbridge Enterprises LP	Debt Conversion	Restricted	4(a)(2) and 506(b)
03/29/18	New	8,474,712.00	Common	\$	-	Yes	Bryce Skalla	Merger	Restricted	4(a)(2) and 506(b)
03/29/18	New	8,474,712.00	Common	\$	-	Yes	Mark Murro III	Merger	Restricted	4(a)(2) and 506(b)
03/29/18	New	8,474,712.00	Common	\$	-	Yes	Patrick Sean Dugan	Merger	Restricted	4(a)(2) and 506(b)
03/29/18	New	8,474,712.00	Common	\$	-	Yes	Andrew Poirier	Merger	Restricted	4(a)(2) and 506(b)
03/29/18	New	6,456,924.00	Common	\$	-	Yes	Carlos Curiel	Merger	Restricted	4(a)(2) and 506(b)
01/31/18	New	50,600.00	Common	\$	0.20	Yes	Stockbridge Enterprises LP	Debt Conversion	Restricted	4(a)(2) and 506(b)
01/31/18	New	50,600.00	Common	\$	0.20	Yes	Stockbridge Enterprises LP	Debt Conversion	Restricted	4(a)(2) and 506(b)
01/31/18	New	50,600.00	Common	\$	0.20	Yes	Stockbridge Enterprises LP	Debt Conversion	Restricted	4(a)(2) and 506(b)
01/31/18	New	50,600.00	Common	\$	0.20	Yes	Stockbridge Enterprises LP	Debt Conversion	Restricted	4(a)(2) and 506(b)

Shares outstanding as of 12/31/17	7,519,203.00
Shares issued 10/1/17-12/31/17	-

Shares outstanding as of 9/30/17	7,519,203.00
Shares issued 7/1/17-9/30/17	15,180.00

09/28/17	New	5,060.00	Common	\$	1.00	Yes	Stockbridge Enterprises LP	Debt Conversion	Restricted	4(a)(2) and 506(b)
09/28/17	New	5,060.00	Common	\$	1.00	Yes	Stockbridge Enterprises LP	Debt Conversion	Restricted	4(a)(2) and 506(b)
09/28/17	New	5,060.00	Common	\$	1.00	Yes	Stockbridge Enterprises LP	Debt Conversion	Restricted	4(a)(2) and 506(b)

Shares outstanding as of 6/30/17	7,504,023.00
Shares issued 4/1/17-6/30/17	25,300.00

06/30/17	New	25,300.00	Common	\$	1.00	Yes	Stockbridge Enterprises LP	Debt Conversion	Restricted	4(a)(2) and 506(b)
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Shares outstanding as of 3/31/17	7,478,723.00
Shares issued 1/1/17-3/31/17	66,166.00

01/31/17	New	55,300.00	Common	\$	1.00	Yes	Stockbridge Enterprises LP	Debt Conversion	Restricted	4(a)(2) and 506(b)
01/31/17	New	5,433.00	Common	\$	1.60	No	Private Investor	Consulting Services	Restricted	4(a)(2) and 506(b)
01/31/17	New	5,433.00	Common	\$	1.60	No	Private Investor	Consulting Services	Restricted	4(a)(2) and 506(b)

Shares outstanding as of 12/31/16	7,412,557.00
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Shares issued 10/1/16-12/31/16	-
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Shares outstanding as of 9/30/16	7,412,557.00
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B. Debt Securities, Including Promissory and Convertible Notes

Use the chart and additional space below to list and describe any issuance of promissory notes, convertible notes or convertible debentures in the past two completed fiscal years and any subsequent interim period.

Check this box if there are no outstanding promissory, convertible notes or debt arrangements:

Date of Note Issuance	Outstanding Balance (\$)	Principal Amount at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder	Reason for Issuance (e.g. Loan, Services, etc.)
9/13/2018	\$1,500,000	\$1,500,000	0%	Not stated	None	Virids Group I9 Capital LLC	Loan
8/2011	\$20,000	\$31,755	8%	8/2012	Conversion at \$0.50	Private Debtholder	Loan

ITEM 4. FINANCIAL STATEMENTS

A. The following financial statements were prepared in accordance with:

- U.S. GAAP
 IFRS

B. The financial statements for this reporting period were prepared by (name of individual)²:

Name: Robert Mikkelson
Title: Chief Financial Officer
Relationship to Issuer: CFO

² The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS by persons with sufficient financial skills.

**ITEM 9 LABS CORP. AND SUBSIDIARY
(FORMERLY AIRWARE LABS CORP.)
UNAUDITED CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS**

	June 30, 2019	September 30, 2018
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 786,813	\$ 1,674,266
Accounts receivable	395,941	97,382
Deferred costs	1,607,632	618,718
Notes and interest receivable	258,712	225,074
Receivable for sale of Airware assets	524,000	639,000
Prepaid expenses and other current assets	67,415	6,107
Total current assets	3,640,513	3,260,547
Property and equipment, net	5,991,816	1,234,042
Investment in Health Defense, LLC	100,000	100,000
Deposit on land purchase from related party	600,000	200,000
Receivable for sale of Airware assets, net of unamortized discount of \$11,855 and \$50,912, respectively	288,145	249,088
Intangible assets, net	3,113,167	-
Goodwill	5,650,000	-
Total Assets	\$ 19,383,641	\$ 5,043,677
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 823,754	\$ 725,510
Accrued payroll	35,000	36,733
Accrued compensated absences	34,424	17,426
Accrued interest	32,844	11,355
Accrued expenses	1,274,329	81,363
Accrued income tax	451,572	88,826
Convertible notes payable	20,000	20,000
Total current liabilities	2,671,923	981,213
Long term debt	2,700,000	1,500,000
Total liabilities	5,371,923	2,481,213
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, par value \$.0001 per share, 2,000,000,000 shares authorized; 63,407,932 and 54,766,642 shares issued and outstanding at June 30, 2019 and September 30, 2018, respectively	6,341	5,477
Additional paid-in capital	17,006,369	3,427,230
Accumulated deficit	(2,947,606)	(870,243)
Total Item 9 Labs Corp stockholders' equity	14,065,104	2,562,464
Noncontrolling Interest	(53,386)	-
Total Liabilities and Stockholders' Equity	\$ 19,383,641	\$ 5,043,677

See accompanying notes to the unaudited condensed consolidated financial statements.

ITEM 9 LABS CORP. AND SUBSIDIARY
(FORMERLY AIRWARE LABS CORP.)
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
Revenues, net	\$ 1,542,067	\$ 439,913	\$ 3,627,951	\$ 945,595
Cost of services	697,672	376,713	1,702,828	686,476
Gross profit	844,395	63,200	1,925,123	259,119
Operating expenses				
Professional fees and outside services	366,397	186,104	920,194	199,862
Payroll and employee related expenses	590,965	-	1,631,343	-
Sales and marketing	268,940	39,671	407,288	52,149
Depreciation and amortization	193,455	12,355	275,955	36,825
Other operating expenses	238,496	209,748	616,403	298,442
Total expenses	1,658,253	447,878	3,851,183	587,278
Loss from operations	(813,858)	(384,678)	(1,926,060)	(328,159)
Other income (expense)				
Interest income	26,553	5,350	74,386	5,350
Interest expense	(21,314)	(619)	(22,925)	(1,119)
Other income	107,896	-	107,896	-
Total other income (expense), net	113,135	4,731	159,357	4,231
Loss from continuing operations, before income tax expense	(700,723)	(379,947)	(1,766,703)	(323,928)
Income tax expense	156,647	-	364,046	-
Net loss from continuing operations	\$ (857,370)	\$ (379,947)	\$ (2,130,749)	\$ (323,928)
Income from discontinued operations	\$ -	\$ 34,752	\$ -	\$ 35,231
Net loss	\$ (857,370)	\$ (345,195)	\$ (2,130,749)	\$ (288,697)
Less: Net income (loss) attributable to noncontrolling interest	\$ 6,806	\$ -	\$ (53,386)	\$ -
Net loss attributable to Item 9 Labs Corp	\$ (864,176)	\$ (345,195)	\$ (2,077,363)	\$ (288,697)
Basic net income (loss) per common share	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.01)
Basic weighted average common shares outstanding	63,159,814	42,071,226	60,774,873	41,204,073

See accompanying notes to the unaudited condensed consolidated financial statements.

ITEM 9 LABS CORP. AND SUBSIDIARY
(FORMERLY AIRWARE LABS CORP.)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED JUNE 30, 2018 AND 2019

	Item 9 Labs Corp Equity					Non Controlling Interest
	Common Stock		Additional Paid-in Capital	Accumulated (Deficit)	Total	
	Shares	Amount				
Balance at September 30, 2017	7,519,182	\$ 752	\$ 1,149,400	\$ (181,522)	\$ 968,630	\$ -
Net income	-	-	-	84,112	84,112	-
Balance at December 31, 2017	7,519,182	\$ 752	\$ 1,149,400	\$ (97,410)	\$ 1,052,742	\$ -
Issuance of stock by predecessor	5,346,733	\$ 535	\$ (535)	-	-	-
Increase in additional paid-in capital from merger	-	-	618,311	-	618,311	-
Issuance of stock for cash (pre merger)	202,400	20	202,380	-	202,400	-
Merger stock issued	40,355,771	4,036	(4,036)	-	-	-
Net loss	-	-	-	(27,614)	-	-
Balance at March 31, 2018	53,424,086	\$ 5,343	\$ 1,965,520	\$ (125,024)	\$ 1,873,453	\$ -
Issuance of stock for cash (post merger), net of \$16,050 of issuance costs	1,309,200	\$ 131	\$ 1,309,069	-	\$ 1,309,200	-
Exchange of shares to be issued for services	-	-	99,933	-	99,933	-
Stock options to be issued issued for services	-	-	1,510	-	1,510	-
Net loss	-	-	-	(345,195)	(345,195)	-
Balance at June 30, 2018	54,733,286	\$ 5,474	\$ 3,376,032	\$ (470,219)	\$ 2,938,901	\$ -
Balance at September 30, 2018	54,766,642	\$ 5,477	\$ 3,427,230	\$ (870,243)	\$ 2,562,464	\$ -
Stock issued for acquisition	3,000,000	300	7,499,700	-	7,500,000	-
Issuance of stock for cash	3,150,000	315	3,149,685	-	3,150,000	-
Exchange of shares for services	30,000	3	29,997	-	30,000	-
Net loss	-	-	-	(323,625)	(323,625)	(47,885)
Balance at December 31, 2018	60,946,642	\$ 6,095	\$ 14,106,612	\$ (1,193,868)	\$ 12,918,839	\$ (47,885)
Issuance of stock for cash	2,116,669	\$ 212	\$ 2,249,791	-	\$ 2,250,003	-
Exchange of shares for services	58,529	6	134,994	-	135,000	-
Stock compensation	33,144	3	124,997	-	125,000	-
Net loss	-	-	-	(889,562)	(889,562)	(12,307)
Balance at March 31, 2019	63,154,984	\$ 6,316	\$ 16,616,394	\$ (2,083,430)	\$ 14,539,280	\$ (60,192)
Issuance of stock for cash	173,333	\$ 17	\$ 259,983	-	\$ 260,000	-
Exchange of shares for services	70,000	7	104,993	-	105,000	-
Stock compensation	9,615	1	24,999	-	25,000	-
Net income (loss)	-	-	-	(864,176)	(864,176)	6,806
Balance at June 30, 2019	63,407,932	\$ 6,341	\$ 17,006,369	\$ (2,947,606)	\$ 14,065,104	\$ (53,386)

See accompanying notes to the unaudited condensed consolidated financial statements.

ITEM 9 LABS CORP. AND SUBSIDIARY
(FORMERLY AIRWARE LABS CORP.)
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended June 30,	
	2019	2018
Cash Flows from Operating Activities:		
Net loss	\$ (2,130,749)	\$ (288,697)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	275,955	36,825
Interest accrued on notes receivable	(33,638)	-
Common stock issued for services	270,000	100,000
Stock compensation expense	150,000	1,510
Gain on sale of Airware assets	-	(29,930)
Interest accretion on receivable for sale of Airware assets	(39,057)	-
Changes in operating assets and liabilities:		
Accounts receivable	(298,562)	40,827
Deferred costs	(988,914)	(213,440)
Prepaid expenses and other current assets	(61,308)	(17,226)
Accounts payable	98,247	4,490
Accrued payroll	(1,733)	-
Accrued compensated absences	16,998	-
Accrued interest	21,489	1,000
Accrued expenses	1,192,966	20,104
Accrued income tax	362,746	-
Net Cash Used in Operating Activities	(1,165,560)	(344,537)
Cash Flows From Investing Activities:		
Issuance of notes receivable	-	(210,000)
Deposit on land purchase from related party	(400,000)	(200,000)
Purchases of property and equipment	(4,796,896)	(73,616)
Cash paid for purchase of AZ DP Consulting LLC assets	(1,500,000)	-
Cash received from sale of Airware assets	-	300,000
Cash received on receivable for sale of Airware assets	115,000	-
Cash acquired in merger	-	26,363
Net Cash Used in Investing Activities	(6,581,896)	(157,253)
Financing Activities:		
Proceeds from the sale of common stock, net of issuance costs	5,660,003	1,511,600
Proceeds from the issuance of long term debt	1,200,000	-
Net Cash Provided by Financing Activities	6,860,003	1,511,600
Net (Decrease)/Increase in Cash	(887,453)	1,009,810
Cash - Beginning of Period	1,674,266	13,860
Cash - End of Period	\$ 786,813	\$ 1,023,670
Supplemental disclosure of cash flow information:		
Interest paid in cash	\$ -	\$ -
Income taxes paid in cash	\$ -	\$ -
Supplemental disclosure of non-cash investing and financing activities:		
Stock issued for asset acquisition of Arizona DP Consulting, LLC	\$ 7,500,000	\$ -
Member equity issued for property, plant and equipment	\$ -	\$ 958,510
Net assets acquired in reverse merger:		
Issuance of common stock for reverse merger	\$ -	\$ 683,231
Accounts receivable	-	(44,801)
Property and equipment	-	(6,150)
Goodwill	-	(1,323,780)
Accounts payable and accrued expenses	-	697,863
Convertible notes payable	-	20,000
Cash acquired in merger	\$ -	\$ 26,363
Net assets acquired in acquisition of Arizona DP Consulting, LLC		
Intangible assets	\$ 3,010,000	\$ -
Goodwill	5,990,000	-
Total purchase consideration	\$ 9,000,000	\$ -

See accompanying notes to the unaudited condensed consolidated financial statements.

ITEM 9 LABS CORP.
(FORMERLY AIRWARE LABS CORP)
UNAUDITED NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Description of Business and Summary of Significant Accounting Policies

Description of Business

Item 9 Labs Corp. (“Item 9 Labs” or the “Company”), formerly Airware Labs Corp., is a Delaware corporation. The Company was incorporated under the laws of the State of Delaware on June 15, 2010 as Crown Dynamics Corp. On October 26, 2012, the Articles of Incorporation were amended to reflect a name change to Airware Labs Corp, and on April 2, 2018, they were amended again to reflect the name change to Item 9 Labs Corp.

On October 18, 2018 the Company effected a 1 for 20 reverse stock split of the Company’s common stock. The par value and number of authorized shares were not adjusted as a result of the reverse stock split. The total number of shares outstanding at the time of the split was adjusted from 1,095,332,835 to 54,766,642. All share information in these financial statements has been retroactively adjusted to reflect the effect of the reverse split.

On March 20, 2018, the Company closed on an Agreement and Plan of Exchange (the “Agreement”) to acquire all of the membership interests of BSSD Group, LLC (“BSSD”), an Arizona limited liability company formed on May 2, 2017, in exchange for newly issued restricted shares of the Company’s common stock (the “Shares”), which represent approximately 75% of the issued and outstanding shares of the Company’s common stock on a fully-diluted basis. The 40,355,771 Shares were distributed pro-rata to the BSSD members. As part of the Agreement, the Company agreed to increase its authorized shares of common stock to two billion.

For accounting purposes the transaction is being recorded as a reverse recapitalization, with BSSD as the accounting acquirer. Consequently, the historical pre-merger financial statements of BSSD are now those of the Company. In its determination that BSSD was the accounting acquirer, the Company considered pertinent facts and circumstances, including the following: (i) the BSSD owners received the largest portion of the voting rights of the combined entity; (ii) the management team of the combined entity is primarily comprised of owners or management of BSSD; (iii) the continuing business of the combined entity will be the business of BSSD. The accompanying consolidated financial statements reflect the consolidated operations of the Company from March 20, 2018.

Through a licensing agreement, the Company grows medical marijuana and produces cannabis related products at their facility in Pinal County, Arizona on behalf of licensed medical marijuana dispensaries in the state of Arizona. The major assets of the Company, consisting of five acres of land and a cultivation facility, were contributed by the members of BSSD in May 2017 and were recorded at the historical carrying value (original cost less any related accumulated depreciation) of the member as of the contribution date.

On September 12, 2018, the Company executed a \$1,500,000 promissory note (see Note 7) which was used to make a capital contribution into Strive Management, LLC, a Nevada limited liability company (“Strive Management”). In exchange for the contribution, the Company received a 20% membership interest in Strive Management. The remaining interests are held by three individuals one of which is the Company’s current Chief Executive Officer. Through a management agreement with Strive Wellness of Nevada, LLC, a related party (the Company CEO is a member of this LLC), Strive Management will facilitate the cultivation, processing and distribution of marijuana in Nevada. Strive Wellness of Nevada, LLC has been allocated cultivation, processing and distribution licenses from the State of Nevada. Additionally, the Company will acquire an additional 31% ownership of Strive Management upon the approval from the State of Nevada to operate the cultivation and processing facility.

Principles of Consolidation

Item 9 Labs consolidates all variable interest entities (“VIEs”) in which the Company is deemed to be the primary beneficiary and all other entities in which it has a controlling voting interest. An entity is generally a VIE if it meets any of the following

criteria: (i) the entity has insufficient equity to finance its activities without additional subordinated financial support from other parties, (ii) the equity investors cannot make significant decisions about the entity's operations or (iii) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity or receive the expected returns of the entity and substantially all of the entity's activities involve or are conducted on behalf of the investor with disproportionately few voting rights. The Company periodically makes judgments in determining whether its investees are VIEs and, each reporting period, the Company assesses whether it is the primary beneficiary of any of its VIEs. As of June 30, 2019 and September 30, 2018, the Company is deemed the primary beneficiary of Strive Management because the entity has insufficient equity to finance its activities without additional subordinated support. The interests in Strive Management held by non-controlling members has been presented on the statement of operations and statement of stockholders' equity as non-controlling interest.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and variable interest entities in which the Company is the primary beneficiary. Intercompany balances and transactions have been eliminated.

The accompanying interim unaudited condensed consolidated financial statements of the Company as of June 30, 2019, and for the period then ended have been prepared under the rules and regulations of the OTC Market Group and interim financial information, which includes condensed consolidated financial statements of the Company and its wholly owned subsidiaries as of June 30, 2019. Accordingly, the condensed consolidated financial statements do not include all the information and notes necessary for a comprehensive presentation of financial position and results of operations and should be read in conjunction with our September 30, 2018 audited financial statements filed with the OTC Market Group on February 22, 2019 and filed with the Securities and Exchange Commission on our Form 10-12G filed June 27, 2019. It is management's opinion that all material adjustments (consisting of normal recurring adjustments) have been made, which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year ending September 30, 2019.

Accounting Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could materially differ from those estimates. Significant estimates of the Company include estimated useful lives of property and equipment, deferred income taxes, fair value of acquired intangible assets, the fair value of common stock provided as consideration and the estimated fair value of stock options and warrants.

Discontinued Operations

The Company sold the former Airware business of nasal dilator sales on May 3, 2018, see Note 4. The operating results related to this business have been classified as discontinued operations in the condensed interim consolidated financial statements in accordance with Accounting Standards Codification 205-20, *Discontinued Operations* for the three and nine months ended June 30, 2018. Accounts payable from these discontinued operations in the amount of \$427,389 remain on the balance sheet as of June 30, 2019. The amount presented as other income during the three and nine months ended June 30, 2019 represents a gain resulting from the repayment of a liability acquired from Airwares that was negotiated and repaid in full at an amount less than the carrying amount.

Cash

Cash represents cash on hand, demand deposits placed with banks and other financial institutions and all highly liquid instruments purchased with a remaining maturity of three months or less as of the purchase date of such investments. The Company maintains cash on deposit, which, can exceed federally insured limits. The Company has not experienced any losses on such accounts nor believes it is exposed to any significant credit risk on cash.

Accounts Receivable and Notes Receivable

Accounts receivable are reported at the amount management expects to collect from outstanding balances. Differences between the amount due and the amount management expects to collect are reported in the results of operations of the year in which those differences are determined, with an offsetting entry to a valuation allowance for accounts receivable. Management believes all accounts receivable outstanding as of the balance sheet dates are fully collectible, and as such has elected to not record a valuation allowance for these periods.

Deferred Costs

Deferred costs consist of the costs directly related to the production and cultivation of marijuana crops. Deferred costs are relieved to cost of services as products are delivered to dispensaries.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided for on the straight-line method, over the estimated useful lives of the assets. Maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Betterments or renewals are capitalized when incurred. Gains and losses on the disposition of property and equipment are recorded in the period incurred.

The estimated useful lives of property and equipment are:

- Cultivation equipment 2-5 years
- Buildings 30 years

Intangible Assets Subject to Amortization

Intangible assets include trade name, customer relationships, website, a noncompete agreement and intellectual property obtained through a business acquisition (see Note 2). Intangible assets acquired in a business combination are recognized at fair value using generally accepted valuation methods deemed appropriate for the type of intangible asset acquired. Intangible assets with finite lives are amortized over their estimated useful life and reported net of accumulated amortization, separately from goodwill. Amortization is calculated on the straight-line basis using the following estimated useful lives:

- Trade name 10 years
- Customer relationships 5 years
- Noncompete agreements 3 years
- Website and intellectual property 10 years

Generally, the Company utilizes the relief from royalty method to value trade name, the with or without method for valuing the customer relationships, and the discounted cash flow method for valuing website and intellectual property.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable.

Income Taxes

The Company accounts for income taxes under FASB ASC 740, *Income Taxes*. Deferred income tax assets and liabilities are determined based upon differences between financial reporting and tax bases 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.

The Company files income tax returns in the U.S. federal jurisdiction, and the State of Arizona. The Company is subject to U.S. federal, state, and local income tax examinations by tax authorities. All periods beginning on or after January 1, 2014

are open to examination by taxing authorities. The Company believes it has no tax positions for which the ultimate deductibility is highly uncertain.

Revenue Recognition

On October 1, 2017, the Company adopted ASC Topic 606, “Revenue from Contracts with Customers” (“ASC 606”) and all the related amendments. The Company elected to adopt this guidance using the modified retrospective method. The adoption of this guidance did not have a material effect on the Company’s financial position, results of operations or cash flows.

The core principle of ASC 606 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASC 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

The majority of the Company’s revenue is associated with a customer contract that represents an obligation to perform services that are delivered at a single point in time. Any costs incurred prior to the period in which the services are performed to completion are deferred and recognized as cost of services in the period in which the performance obligations are completed. Since the Company’s revenue is generated from one customer contract, the Company does not have material contract assets or liabilities that fall under ASC 606. As of June 30, 2019 and 2018, 90% of the Company’s revenues were generated for performance obligations completed in the State of Arizona.

The Company recognizes revenue as services are rendered. Services are considered complete upon successful delivery of the product to the dispensary as the Company has no further performance obligations at this point in time and collection is assured. Per the dispensary contract, the Company is paid 85% of the wholesale market price of the marijuana for the services rendered.

The Company’s revenues accounted for under ASC 606, do not require significant estimates or judgments based on the nature of the Company’s revenue stream. The sales price is generally fixed at the point of sale and all consideration from the contract is included in the transaction price. The Company’s contracts do not include multiple performance obligations or variable consideration.

Fair Value of Financial Instruments

The carrying value of the Company’s financial instruments, consisting of cash, accounts receivable, accounts payable, and accrued expenses approximate fair value due to their short term to maturity. The Company’s long-term receivable resulting from the sale of Airware was discounted to its estimated fair value on the date (see Note 4).

Net Loss Per Share

Basic earnings per share does not include dilution and is computed by dividing loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of an entity. Dilutive securities are not included in the weighted average number of shares when inclusion would be anti-dilutive. At June 30, 2019, there were 646,008 shares underlying convertible notes payable, warrants and options.

Stock-Based Compensation

The Company accounts for its stock-based awards in accordance with ASC Subtopic 718-10, “*Compensation – Stock Compensation*”, which requires fair value measurement on the grant date and recognition of compensation expense for all stock-based payment awards made to employees and directors. For stock options, the Company estimates the fair value using a closed option valuation (Black-Scholes) model. The fair value is then expensed over the requisite service periods of the

award which is generally the vesting period and the related amount is recognized in the consolidated statements of operations. The Company recognizes forfeitures at the time they occur.

The Black-Scholes option-pricing model requires the input of certain assumptions that require the Company's judgment, including the expected term and the expected stock price volatility of the underlying stock. The assumptions used in calculating the fair value of stock-based compensation represent management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change resulting in the use of different assumptions, stock-based compensation expense could be materially different in the future.

Reclassifications

Certain accounts and financial statement captions in the prior periods have been reclassified to conform to the current period financial statements.

Note 2 –Acquisition

On November 26, 2018, the company's wholly owned subsidiary AZ DP Holdings, LLC (AZDP) performed an acquisition of the majority of the assets of Arizona DP Consulting, LLC (AZDPC), a consulting firm specializing in obtaining marijuana dispensary permits and cannabis related business plans. The purchase price was \$1,500,000 in cash and 3,000,000 shares of restricted common stock having an aggregate value of \$7,500,000 or \$2.50 per share based on current market price of the Company shares at time asset purchase agreement was executed. Pursuant to the agreement, Sara Gullickson transitioned from President to CEO under a 3 year employment agreement and became a member of the board of directors of the company. Additionally, AZDP agreed to hire the employees of AZDPC and lease its existing office space which requires \$3,200 of monthly rent through May 2019. This acquisition effectively terminates the contract dated June 26, 2018 described in Note 11. Below is a summary of AZDPC's revenue, expense and net income for January 1, 2018 through August 31, 2018, and January 1, 2017 through December 31, 2017. Assets and liabilities of AZDPC were negligible so presentation was not deemed necessary.

	(unaudited) January 1 through August 31, 2018	(unaudited) January 1 through December 31, 2017
Revenue	\$ 744,822	\$ 1,084,202
Expense	(356,169)	(655,911)
Net Income	<u>\$ 388,653</u>	<u>\$ 428,291</u>

In accordance with ASC 805, *Business Combinations*, the Company accounted for the acquisition of AZDP using the acquisition method of accounting. The purchase price was allocated to specific identifiable intangible assets at their respective fair values at the date of acquisition. There were no tangible assets acquired.

A summary of assets acquired in the acquisition and their fair values are presented below:

Tradenname	\$ 120,000
Customer Relationship	290,000
Templates, website, and other IP	2,470,000
Noncompete agreement	470,000
Goodwill	5,650,000
	<u>\$ 9,000,000</u>

Identifiable intangible assets consist of the following as of June 30, 2019:

	Balance at October 1, 2018	Additions from Acquisitions	Amortization	Balance at June 30, 2019
Tradenam e	\$ -	\$ 120,000	\$ (6,000)	\$ 114,000
Customer Relationship	-	290,000	(29,000)	261,000
Websites and intellectual property	-	2,470,000	(123,500)	2,346,500
Noncompete agreement	-	470,000	(78,333)	391,667
Total	\$ -	\$ 3,350,000	\$ (236,833)	\$ 3,113,167

Future amortization of the identifiable intangible assets is as follows:

	Remaining 2019	2020	2021	2022	2023	Thereafter	Total
Tradenam e	\$ 3,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 63,000	\$ 114,000
Customer Relationship	14,500	58,000	58,000	58,000	58,000	14,500	261,000
Websites and intellectual property	61,750	247,000	247,000	247,000	247,000	1,296,750	2,346,500
Noncompete agreement	39,167	156,668	156,668	39,164	-	-	391,667
Total	\$ 118,417	\$ 473,668	\$ 473,668	\$ 356,164	\$ 317,000	\$ 1,374,250	\$ 3,113,167

Amortization expense for the three- and nine-month periods ended June 30, 2019 was \$82,500 and \$236,833, respectively. The Company had no amortizable intangible assets during the nine months ended June 30, 2018.

The goodwill arising from the acquisition consists largely of synergies and economies of scale expected from combining the operations and personnel of the businesses. These synergies include access into new markets.

Note 3 - Property and Equipment, Net

The following represents a summary of our property and equipment as of June 30, 2019 and September 30, 2018:

	June 30, 2019	September 30, 2018
Manufacturing Equipment	\$ 154,059	\$ 154,059
Construction in progress	5,031,143	233,768
Land and Building	913,314	913,314
	6,098,516	1,301,141
Accumulated Depreciation	(106,700)	(67,099)
	\$ 5,991,816	\$ 1,234,042

The construction in progress relates to cultivation facilities being built in Arizona and Nevada which were not yet complete or in use as of June 30, 2019; therefore, we have not yet begun to depreciate the costs of constructing these facilities.

Depreciation expense for the nine months ended June 30, 2019 and 2018 was \$39,122 and \$36,825, respectively, and for the three months ended June 30, 2019 and 2018 was \$13,200 and \$12,355, respectively.

Note 4 – Sale of Airware Assets and Investment in Health Defense LLC

On May 3, 2018, the Company entered into an intellectual property sales agreement with Health Defense LLC. Pursuant to the terms of the agreement, the Company sold all of the assets related to the former business of the Company, nasal dilator sales.

In consideration for entering into the agreement, the Company received: (i) \$300,000 in cash at execution, (ii) \$700,000 in cash within one year of execution and (iii) an additional \$300,000 by December 31, 2019. Due to the long-term nature of the final \$300,000, the Company recognized a discount of \$70,070 using a discount rate of 21.50%. During the nine months ended June 30, 2019, the Company recognized \$39,057 of interest income related to the accretion of this discount which is included in interest income on the accompanying consolidated statements of operations. As of June 30, 2019, the receivable

was in default, though management believes it to be fully collectible within one year of these consolidated financial statements. As of June 30, 2019, unamortized discount on this long-term receivable was \$11,855. As of September 30, 2018, unamortized discount on this long-term receivable was \$50,912. As additional consideration, the Company was also given a 10% ownership interest in Health Defense LLC. This ownership is valued at \$100,000 and is reflected on the balance sheet as an other long-term asset.

Note 5 – Notes Receivable

On May 11, 2018, the Company entered into a Promissory Note Agreement with borrower in principal amount of \$150,000. This is a one year note with 20% non-compounded annual interest payable at maturity. It is convertible at the discretion of the Company into a unit offering of the borrower at a 15% discount. The note is personally guaranteed by the borrower.

On May 15, 2018, the Company entered into a Promissory Note Agreement with borrower in principal amount of \$60,000. This is a one year note with 15% non-compounded annual interest payable at maturity. It is convertible at the discretion of the Company into an interest in a strategic partnership of ownership and operations of a certain dispensary license. The note is personally guaranteed by the borrower.

For the nine months ended June 30, 2019 and year ended September 30, 2018, the Company has accrued \$48,712 and \$15,074, respectively, of interest receivable related to these notes which is included in notes and interest receivables on the accompanying consolidated balance. As of the date of the condensed financial statements, the notes receivable are in default though management believes them to be fully collectible in the next twelve months.

Note 6 – Unsecured Convertible Note Payable

In the reverse recapitalization disclosed in Note 1, the Company assumed one unsecured convertible note payable with principal balance totaling \$20,000 which was due in August 2012, carry an interest rate of 8% and is convertible to common stock at \$.50 per share. As of June 30, 2019 and September 30, 2018, this unsecured convertible note payable is considered in default and has been presented as a current liability on the condensed interim consolidated balance sheets.

Note 7 – Long Term Debt

On September 13, 2018, the Company entered into a Loan and Revenue Participation Agreement with Viridis Group I9 Capital LLC (“Viridis”) in which Viridis has agreed to loan the Company up to \$2.7 million for the expansion of the Company’s Arizona and Nevada properties (see Note 11). As of September 30, 2018, the Company received \$1,500,000 of proceeds from Viridis in the form of a promissory note. The \$1,500,000 proceeds were utilized to acquire a 20% ownership in Strive Management, LLC as described in Notes 1 and 8. In exchange for the loan, Viridis will be repaid in the form of waterfall revenue participation schedules. Viridis shall receive 5% of the Company’s gross revenues from the Nevada operations, until the loan is repaid, 2% until repaid 200% of the amount loaned, and 1% of gross revenues in perpetuity or until a change in control. Payments on the loan will commence 90 days after the Nevada operation begins earning revenue. Parties acknowledge that the Company is expected to own only 51% of the Nevada operations and therefore Viridis’ revenue participation is limited to the Company’s interest. The operations in Nevada have not yet begun as of the date of this filing.

The additional \$1,200,000 proceeds were utilized to construct an additional 10,000 square foot cultivation and processing facility in Arizona that became operational in June 2019. The proceeds were received as construction draws between November 2018 and January 2019. In exchange for the loan, Viridis will be repaid in the form of waterfall revenue participation schedules. Viridis shall receive 5% of the Company’s gross revenues from the Arizona operations, until the loan is repaid, 2% until repaid 200% of the amount loaned, and 1% of gross revenues in perpetuity or until a change in control. Payments on the loan will commence 90 days after the Arizona operation begins earning revenue. Interest on the notes accrue monthly at a 2.9% annual rate. Interest of \$24,097 has been accrued as of June 30, 2019.

Note 8 – Variable Interest Entity

As of June 30, 2019, the Company has determined that it holds a variable interest in Strive Management due to the Company being its sole source of capital. Further, the Company has agreed to construct an operational facility in Nevada. As such, Item 9 Labs Corp will raise funds as necessary (\$4,000,000 expected) to construct the facility, which will be wholly owned by a subsidiary of Item 9 Labs Corp and leased to Strive Management, LLC, the operating company. No funds have been raised as of the date of these financial statements. If the funds are not raised, the additional 31% interest due to the Company upon operational approval from the State of Nevada as discussed in Note 1 would be subject to reclamation by the other members of Strive Management. The Company has been determined to be the primary beneficiary of Strive Management as the Company has the power to direct the activities that significantly impact Strive Management's economic performance and the obligation to absorb losses. Strive Management's financial statements as of June 30, 2019 and September 30, 2018 have been consolidated with the Company. Upon consolidation, the asset of Strive Management was recorded at its carrying amounts. As of June 30, 2019, and September 30, 2018 the effects of consolidating Strive Management resulted in an increase in assets of \$1,426,808 and \$1,500,000, respectively, primarily from cash. For the three and nine months ended June 30, 2019, Strive Management incurred income of \$8,508 and a loss of \$66,732, respectively.

Note 9 – Income Taxes

Income tax provision reflected in the consolidated statements of operations has been computed on the taxable income generated by the company since the reverse merger on March 20, 2018 and for the three and nine months ended June 30, 2019 which consist of the following:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
Federal	\$ 155,347	\$ 13,272	\$ 395,808	\$ 54,415
State	-	(18,617)	(33,062)	(15,872)
Income Tax Provision	<u>\$ 155,347</u>	<u>\$ (5,345)</u>	<u>\$ 362,746</u>	<u>\$ 38,543</u>

The following table summarizes the effects of the significant differences between the U.S. federal statutory tax rate and the Company's effective tax rate for financial statement purposes for the three and nine month periods ended June 30, 2019 and 2018:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
U.S. federal statutory rate	\$ 91,877	\$ -	\$ 215,898	\$ -
Non-deductible items	<u>63,470</u>	<u>-</u>	<u>179,910</u>	<u>-</u>
	<u>\$ 155,347</u>	<u>\$ -</u>	<u>\$ 395,808</u>	<u>\$ -</u>

From Company inception through date of the merger, March 20, 2018, the Company was a Limited Liability Company, electing to be treated as a partnership for income tax purposes and all of the Company's income during these periods pass through to the then-members of the Company, and the Company, therefore had no corporate tax obligation to record.

The Company has net operating loss carryforwards on its Federal and State filings approximating \$17.8 million, and \$9.5 million respectively. The deferred tax assets relating to the carryforwards has been fully reserved due to the uncertainty of the Company's ability to utilize the carryforwards. The Company has no other deferred tax assets as of June 30, 2019 and September 30, 2018.

Note 10 - Concentrations

For the three and nine months ended June 30, 2019 and 2018, 92% and 100%, respectively, of the Company's revenue was generated from a single customer. All trade accounts receivable at June 30, 2019 and 2018 was due from one customer.

Note 11 - Commitments and Contingencies

The production and possession of marijuana is prohibited by the United States of America, though the state of Arizona allows these activities to be performed at licensed facilities such as BSSD. The Company does not believe the federal prohibition of these activities will negatively impact the business. As such, the Company has not elected to record a related accrual contingency.

The Company is in default on convertible notes payable totaling \$20,000 (see Note 6). The Company has attempted to communicate with the note holder to request extension or conversion, but has been unsuccessful in doing so. The full balance on this note is included in current liabilities.

On April 20, 2018, the Company entered into an agreement for the purchase of approximately 44 acres of land from an affiliate of a founding member of BSSD. The purchase price of the property is \$3,000,000, payable as follows; (i) \$200,000 deposited with escrow agent as an initial earnest money deposit in April 2018, (ii) on or before February 1, 2019, the Company will deposit an additional \$800,000 into escrow as additional earnest money deposit and (iii) the balance of the purchase price shall be paid via a promissory note. The earnest money amounts are non-refundable. The Company has negotiated an amendment to this agreement that will spread the \$800,000 payment over the course of 4 months through June 30, 2019. As of June 30, 2019, the Company had paid a total of \$600,000 which was deposited in escrow, and classified as a long-term asset on the consolidated balance sheet as of June 30, 2019. As of the date of these financial statements, a total of \$600,000 has been deposited in escrow.

On June 26, 2018, the Company entered into a contractor agreement with Chase Herschman pursuant to which he will provide services in exchange for \$120,000 annually, payable each month; up to \$420,000 in common stock options which shall vest upon the occurrence of certain benchmarks as described in the contractor agreement and a commission of 1% of the gross profits of the Company. The term of the agreement is a period of three years.

Under the terms of the Loan and Revenue Participation Agreement (see Note 7), upon a change in control of the Company, Viridis will be entitled to receive 200% of the principal amount of the loans to the Company computed after considering previous revenue participation payments through the date of change of control and 1% of the aggregate sales price or consideration received in the change in control transaction.

As of September 30, 2018, the Company received the \$1,500,000 and invested the funds in Strive Management (see Notes 7 and 8). The remaining \$1,200,000 has been provided by Viridis directly to contractors of the Arizona property from an account owned and controlled by Viridis. The Company recorded the \$1,200,000 as construction in progress (see Note 3) a long-term debt (see Note 7) upon the completion and occupancy of the Arizona facility expansion, as agreed upon in the terms of the note which occurred in June 2019.

As part of the agreement to invest in Strive Management, the Company has committed to raise funding of approximately \$4,000,000 to complete the construction of a cultivation and processing facility in Nevada which will be leased to Strive Management LLC.

On October 22, 2018 the Company entered into a 6 month services agreement with Axiom Group to provide marketing and data distribution services. As part of the agreement, the Company will pay a sum of \$15,000 and issue 15,000 shares of common stock to Axiom Group each month the agreement is in place. This contract was terminated in December 2018.

On March 11, 2019 the Company entered into a 6 month services agreement with JLS Ventures to provide marketing and data distribution services. As part of the agreement, the Company will pay a sum of \$15,000 and issue 35,000 shares of common stock to JLS Ventures each month the agreement is in place. This contract was terminated in May 2019.

The Company made a commitment to its Chief Operating Officer to issue 9,615 common stock shares quarterly, starting January 2019, as compensation through October 2019. The shares are being valued at \$2.60 per share as that was the market closing price as of the date the agreement was signed. The Company recognized \$25,000 of stock compensation for the shares issued in April 2019 which is included in payroll and employee related expenses on the statements of operations.

Note 12– Related Party Transactions

As discussed in Note 1, on March 20, 2018, the Company issued 40,355,771 shares of common stock to the members of BSSD for their membership interests.

As discussed in Note 11, the Company has entered into an agreement as of April 20, 2018 for the purchase of land. The land owner is one of the original members of BSSD and a current employee of the Company.

As discussed in Notes 7 and 11, the Company has entered into a Loan and Revenue Participation Agreement and Promissory Note with Viridis. The member of Viridis was elected to the Company’s board of directors on December 21, 2018.

As discussed in the *Description of the Business* section of Note 1 and in Note 2 of the financial statement disclosures, the Company is involved in transactions with companies that are owned in whole, or in part by the Company’s CEO, Sara Gullickson.

Note 13 - Stockholders’ Deficit

Common Stock

As discussed in Note 1, on March 20, 2018, the Company issued 40,355,771 shares of common stock to the members of BSSD for their membership interests.

During the nine months ended June 30, 2019, the Company raised \$5,660,003 via private placements. The selling price for 5,000,000 shares was \$1 per share and the selling price for 440,000 was \$1.50 per share for a total of 5,440,002 shares of common stock issued. Additionally, 158,529 shares with a market value of \$270,000 were issued to contractors for services and 42,759 shares valued at \$150,000 were issued to employees as compensation

Warrants

As of June 30, 2019 there are 298,411 warrants for purchase of the Company’s common stock outstanding. The Company issued no new warrants during the nine months ended June 30, 2019 and no warrants expired during that period. Warrants outstanding are as follows:

	Common Shares Issuable Upon Exercise of Warrants	Exercise Price of Warrants	Date Issued	Expiration Date
Warrants issued by predecessor	175,000	\$ 2.00	3/31/2015	8/31/2020
Warrants issued by predecessor	100,000	\$ 1.00	7/28/2016	7/28/2021
Warrants issued by predecessor	<u>23,411</u>	\$ 1.30	12/22/2016	12/22/2019
Balance of Warrants at June 30, 2019	<u><u>298,411</u></u>			

(1) As discussed in Note 2, on March 20, 2018 the Company executed an agreement to acquire all the voting interest in BSSD Group, LLC. As BSSD Group, LLC is the accounting acquirer, all previously outstanding warrants were re-issued under the new company.

Stock Options

On May 8, 2018, the Company granted 22,500 stock options to board members. The options are exercisable at \$2.40 per share with a ten year term. The options will vest equally over three years unless there is a change of control of the Company at which time any unvested options vest immediately. As of June 30, 2019, there are 294,991 stock options outstanding.

As discussed in Note 2, on March 20, 2018 the Company executed an agreement to acquire all the voting interest in BSSD Group, LLC. As BSSD Group, LLC is the accounting acquirer, all previously outstanding options were re-issued and vested immediately as this was considered a change in control.

The Company determines the fair value of stock options issued on the date of grant using the Black-Scholes option-pricing model. There was no option activity in the nine months ended June 30, 2019. The following assumptions were used for determining the fair value of the options granted during the year ended September 30, 2018:

Expected stock price volatility	34.72%
Expected dividend yield	0.00%
Risk-free interest rate	2.97%
Option life	10 years
Stock-based compensation recognized	3,773
Unrecognized compensation expense to be recognized in future periods	23,390

We do not have an extensive history as a public company and our common stock transactions are too infrequent, therefore we could not practicably estimate the expected volatility of our own stock. Accordingly, we have substituted the historical volatility of a relevant comparable company that is publicly traded and does business within the industry we operate.

The options granted during the year ended September 30, 2018 were determined to have a fair value at date of grant of \$2.40. The unrecognized compensation expense of \$13,856 will be recognized over a weighted average period of 1.09 years. Compensation expense in the amount of \$3,178 and \$9,534, respectively, was recognized in the three and nine months ended June 30, 2019.

There was no activity in stock options during the nine months ended June 30, 2019 and 2018. 294,991 and 272,491 options remain outstanding as of June 30, 2019 and 2018, respectively. 272,491 options were exercisable as of June 30, 2019 and 2018.

Note 14 - Subsequent Events

On July 1, 2019, the Company entered into a 3 year agreement with a concert venue to be the name sponsor for the venue. In exchange, the Company issued 45,457 shares of restricted common stock valued at \$200,000(\$4.40/share) and is to pay \$5,000 monthly for the first 12 months and \$60,000 in July 2020 and 2021.

On July 3, 2019, the Company's Board approved an employment agreement for a sales director. In connection therewith, the Company granted 16,667 common stock shares totaling \$50,000 which will vest six months from the employment agreement.

ITEM 5. ISSUER'S BUSINESS, PRODUCTS, AND SERVICES

Forward Looking Statements

Forward-looking statements in this report reflect the good-faith judgment of our management and the statements are based on facts and factors as we currently know them. Forward-looking statements are subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Such statements involve risks and uncertainties, including, but not limited to, risks and effects of legal and administrative proceedings and governmental regulation, especially in a foreign country, future financial and operational results, competition, general economic conditions, proposed transactions that are not legally binding obligations of the company and the ability to manage and continue growth. Readers are urged not to place undue reliance on these forward-looking statements because they speak only as of the date of this report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report.

Business Summary

Item 9 Labs Corp. creates comfortable cannabis health solutions for the modern consumer. The Company is bringing best of industry practices to markets from coast to coast through cultivation and production, distinctive retail environments, licensing services, and diverse product suites catering to different medical cannabis demographics. Item 9 Labs Corp. is headquartered in Phoenix, Arizona, with medical cannabis operations in multiple U.S. markets.

Item 9 Labs Corp.'s asset portfolio includes Dispensary Permits, Dispensary Templates, and Strive Life. These assets provide services specific to different stakeholder groups. Dispensary Permits is the Company's consulting firm specializing in strategic license application and compliance. Dispensary Templates, a subdivision of the firm, is a technology platform with an extensive digital library of licensing and business planning resources. Strive Life is a turnkey dispensary model for the retail sector, elevating the patient experience with consistent and superior service, high-end design, and precision-tested products. It is currently being implemented in Arizona and North Dakota.

In addition, Item 9 Labs Corp. is advancing the industry with its dynamic product suites. The Company has created complementary brands Item 9 Labs and Strive Wellness to channel consumer diversity. Proprietary delivery platforms include the Apollo Vape and Pod system, as well as a pioneering intra-nasal device. The Company has received multiple accolades for its medical-grade flower and concentrates.

Item 9 Labs Corp. will be managing cultivation, processing, distribution, and dispensary operations in up to ten U.S. markets by the end of 2019. Current facilities include distribution and processing operations Strive Wellness of Ohio and Strive Wellness of Nevada, as well as dispensary Strive Life North Dakota.

Business Plan, Products Services, and Market

Item 9 Labs has a proven track record in administering high-grade medical marijuana and is currently developing an innovative, proprietary intra-nasal delivery system. This progressive approach offers significant health benefits, setting a new benchmark in medicinal marijuana products.

Harnessing breakthrough distillation technology of Delta 8 THC and CBD cannabinoids, Item 9 maintains plant derived natural soil media and nutrient regiments. The Company believes this natural approach generates a superior product through enhanced taste, smell, and effect increasing distinction and customer demand. As a direct result of these organic farming techniques, Item 9's medicinal products currently sell at a price that is 5-10% higher than its local competitors.

The Company is working to gain market leadership in Nevada after receiving cultivation, production and distribution licenses in June of 2018 through a Joint Venture and Operating Agreement with Strive Wellness of Nevada, LLC. Strive Wellness received its Special Use Permit in December 2018. Strive Wellness and the Company are partnering to construct and manage a 20,000 square-foot medical marijuana cultivation and processing facility in Pahrump Nevada. The facility will implement sustainable construction practices suggested by Bowden Investment Group, a company specializing in real estate and environmentally friendly development. Strive Wellness is expected to be operational and to be producing legal medical marijuana products by the end of 2019.

Item 9 Labs will grow through replicating the Nevada expansion operation nationally with discussions underway in several key states with similar medical marijuana legislation.

Business Opportunity/Market

Cannabis is one of the fastest growing industries in the United States. Currently, forty-seven (47) states and the District of Columbia (D.C.) have some form of legal marijuana program. Alaska, Colorado, California, Oregon, Washington, Nevada, Maine, Massachusetts and D.C. have legalized marijuana for adult recreational use. Each jurisdiction’s marijuana laws differ to some extent and vary on how to legally access cannabis.

The total economic output from legal cannabis will grow 150% from \$16 billion in 2017 to \$40 billion by 2021, according to the “US Legal Cannabis: Driving \$40 Billion Economic Output” report released by Arcview Market Research, in partnership with BDS Analytics.

US consumer spending on legal cannabis in 2021 of an estimated \$20.8 billion will generate \$39.6 billion in overall economic impact, 414,000 jobs, and more than \$4 billion in tax receipts.

Describe any subsidiaries, parents, or affiliated companies.

All of our subsidiaries and affiliated companies contact information is the same as provided on the cover page of this report.

BSSD Group, LLC (Arizona)– Cultivation, processing and distribution of cannabis products in the state of Arizona

BSSD Consulting, LLC (Arizona) – Employment organization for Item 9 Labs Corp and its subsidiaries

AZ DP Holdings LLC (Nevada) – Performs consulting services and serves as government relations for Item 9 Labs Corp and its subsidiaries

Item 9 IP Holdings LLC – Holding company for all intellectual property of Item 9 Labs Corp and its subsidiaries

I9 NV Management LLC (Arizona)– Management company for Nevada Operations

Item 9 Properties LLC (Nevada) – Property management company

Strive Life Management LLC (Arizona) – Operations for dispensary franchise model

Strive Management LLC (20% owner) (Nevada)– Management company for Nevada Operations

ITEM 6. ISSUER’S FACILITIES

The Issuer’s maintains a mailbox at 16211 N Scottsdale Road, Suite A6A-466, Scottsdale, AZ. The Company leases 1,800 sq. ft of office space at 1709 E. Bethany Home Rd., Phoenix, AZ 85016. The Company believes this space is sufficient for its needs for the immediate future.

The Company, by and through its subsidiaries, owns and operates the following properties:

Location	Size	Purpose	Control of Property	Ownership Limitations (mortgages etc)
Casa Grande, AZ	5 acres/20,000 sq ft.	Cultivation / Mfr. Facility	100%	None; the company has option to purchase additional acres.
Pahrump, NV	20,000 sq. ft. under construction	Cultivation/Processing/Distribution	100%	None

ITEM 7. OFFICERS, DIRECTORS, AND CONTROL PERSONS

Officers and Directors

Sara Gullickson	Chief Executive Officer and Director
Bryce Skalla	President and Director
Robert Mikkelsen	Chief Financial Officer, Secretary and Treasurer
Christopher Wolven	Chief Operating Officer
Jeffrey Rassas	Executive Chairman
Ronald L. Miller Jr.	Director
Andrew Bowden	Director

Beneficial Ownership

Security Ownership of Certain Beneficial Owners and Management

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Beneficial Ownership ⁽¹⁾
Directors and Officers: (1)		
Bryce Skalla (2)(9)	5,503,878	8.67%
Sara Gullickson (3)	2,305,000	3.63%
Robert Mikkelsen(4)	0	0%
Jeffrey Rassas ICO (5) Hayjour Family Limited Partnership	1,833,349	2.89%
Ronald L. Miller, Jr. (6)	32,501	0.05%
Andrew Bowden (7)	5,200,000	8.18%
Christopher Wolven (8)	269,230	0.41%
All directors and officers as a group (6 people)	15,143,958	23.82%
Beneficial Shareholders greater than 5%		
Stockbridge Enterprises LP (9) 7377 E Doubletree Ranch Rd Suite 200 Scottsdale, AZ 85258	4,964,048	7.81%
Sean Dugan (10)	8,224,712	12.94%
Mark Murro III (10)	6,227,044	9.80%
Andrew Poirier (10)	7,978,045	12.55%
Carlos Curiel (10)	4,106,924	6.46%

- (1) Applicable percentage of ownership is based on 63,547,572 shares of common stock outstanding on August 20, 2019. Percentage ownership is determined based on shares owned together with securities exercisable or convertible into shares of common stock within 60 days of August 20, 2019, for each stockholder. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within 60 days of August 20, 2019, are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Our common stock is our only issued and outstanding class of securities eligible to vote. Unless otherwise stated, all shareholders can be reached at mailing address 1709 E Bethany Home Rd., Phoenix, AZ 85016
- (2) Bryce Skalla is the Company's President and Director. Mr. Skalla's beneficial ownership consists of 5,003,878 shares of restricted common stock held in his name and 500,000 shares held by a minor.
- (3) Sara Gullickson is the Company's CEO and member of the board of directors, and former President. Ms. Gullickson's beneficial ownership consists of 2,305,000 shares which were acquired as consideration for the sale and purchase of Dispensary Permits assets on November 26, 2018.

- (4) Robert Mikkelsen is the Company's CFO, Secretary and Treasurer. His beneficial ownership includes 0 shares of restricted common stock.
- (5) Jeffrey Rassis is Executive Chairman and Director of the Company. Mr. Rassis' beneficial ownership includes: 1,733,349 shares of restricted common stock and 100,000 shares issuable upon the exercise of stock options which have vested as of the date of this report.
- (6) Ronald L. Miller, Jr. is a Director of the Company. Mr. Miller's beneficial ownership includes 30,000 shares issuable upon exercise of stock options which have vested as of the day of this report and 2,501 total shares purchased in May 2014, some of which were purchased by Windsor Westfield Management, LLC and some by Chickamauga Enterprises, L.P. Both companies are indirectly controlled by Mr. Miller. The remaining 376 shares are held directly by Mr. Miller.
- (7) Andrew Bowden is a Director of the Company as of September 11, 2018. Mr. Bowden's beneficial ownership consists of 200,000 shares purchased via private placement in March 2018 by EBAB, LLC, which is controlled by Mr. Bowden, and 5,000,000 shares purchased by Viridis Group 19 Capital LLC, an entity controlled by Mr. Bowden pursuant to the Purchase Agreement dated October 17, 2018,
- (8) Christopher Wolven is Chief Operating Officer and his beneficial ownership consists of 269,230 shares of common stock.
- (9) Stockbridge Enterprises LP is an Arizona limited partnership controlled by Mitchell A. Saltz, Chairman and Managing Partner.
- (10) Skalla, Dugan, Murro, Poirier and Curiel were members of BSSD. On March 20, 2018, the Company closed on an Agreement and Plan of Exchange to acquire all of the membership interests of BSSD in exchange for newly issued restricted shares of the Company's common which were distributed pro-rata to the BSSD members.

ITEM 8. LEGAL/DISCIPLINARY HISTORY

A. None of the officers, directors, promoters or control persons of the Issuer have been involved in the past five (5) years in any of the following:

- (1) A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and minor offenses);
- (2) The entry of an order, judgment, or decree, not subsequently reverse, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities or bank activities;
- (3) A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
- (4) The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

None.

ITEM 9. THIRD PARTY PROVIDERS

Legal Counsel:

Horwitz & Armstrong
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Tel: 949-540-8540

jlockett@horwitzarmstrong.com

Accountant or Auditor:

D. Brooks & Associates CPA's, P.A.
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West Palm Beach, FL 33401

Investor Relations

PROVEN MEDIA

748 Easy Street, Suite 12,
Carefree, AZ 85377

Tel: 480-221-7995

neko@provenmediaservices.com

ITEM 10. ISSUER CERTIFICATION

I, Robert Mikkelsen, certify that:

1. I have reviewed this Quarterly disclosure statement of Item 9 Labs Corp.
2. Based on my knowledge, this Quarterly disclosure 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 circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly represent in all material respects the financial condition, results of operations and cash flows of the Issuer as of, and for, the periods presented in the disclosure statement.

Date: August 21, 2019

Signature: /s/ Robert Mikkelsen

Chief Financial Officer, Secretary and Treasurer

I, Sara Gullickson, certify that:

1. I have reviewed this Quarterly disclosure statement of Item 9 Labs Corp.
2. Based on my knowledge, this Quarterly disclosure 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 circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly represent in all material respects the financial condition, results of operations and cash flows of the Issuer as of, and for, the periods presented in the disclosure statement.

Date: August 21, 2019

Signature: /s/ Sara Gullickson

Chief Executive Officer