



**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

Expressed in United States Dollars

**NOTICE OF NO AUDITOR REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of the company have been prepared by and are the responsibility of the Company's management. The Company's independent auditors have not performed a review of these condensed interim consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY

To the Shareholders of Planet 13 Holdings Inc.:

Management is responsible for the preparation and presentation of the accompanying condensed interim consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the condensed interim consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of condensed interim consolidated financial statements.

The Board of Directors and the Audit Committee are composed primarily of directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information presented. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditors. The Audit Committee has the responsibility of meeting with management and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

The condensed interim consolidated financial statements were approved by the Board of Directors on August 28, 2019 and were signed on behalf of Management by:

"Larry Scheffler"
Larry Scheffler, Co-CEO

"Robert Groesbeck"
Robert Groesbeck, Co-CEO

"Dennis Logan"
Dennis Logan, CFO

PLANET 13 HOLDINGS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>Expressed in United States Dollars (unaudited)</i>	As at June 30, 2019	As at December 31, 2018
Assets		
Current Assets		
Cash	\$ 19,957,330	\$ 19,364,086
HST receivable	180,428	101,831
Inventories (Note 5)	5,846,474	5,322,111
Biological assets (Note 6)	374,245	915,177
Prepaid expenses and other current assets (Note 9)	4,171,830	1,391,278
Total Current Assets	30,530,307	27,094,483
Property and equipment (Note 7)	21,869,408	17,256,484
Right of use assets (Note 8)	9,808,438	-
Long-term deposits and other assets	664,339	594,339
	32,342,185	17,850,823
Total Assets	\$ 62,872,492	\$ 44,945,306
Liabilities		
Current Liabilities		
Accounts payable	\$ 3,231,142	\$ 1,720,721
Accrued expenses	1,562,390	1,306,145
Income taxes payable	6,036,908	2,187,109
Notes payable - current portion (Note 10)	884,000	884,000
Current portion of lease liabilities (Note 11)	-	14,459
Total Current Liabilities	11,714,440	6,112,434
Long-term lease liabilities (Note 11)	10,378,543	29,768
Deferred rent (Note 12)	-	427,508
Deferred tax liability (Note 15)	186,365	470,856
	10,564,908	928,132
Total Liabilities	22,279,348	7,040,566
Shareholders' Equity		
Share capital (Note 13)	48,566,345	42,460,824
Restricted share units (Note 13)	2,303,799	2,800,335
Warrants (Note 13)	6,172,980	7,046,843
Option reserve (Note 13)	427,094	305,890
Accumulated other comprehensive income (loss)	(612,030)	(802,920)
Deficit	(16,265,044)	(13,906,232)
Total Shareholders' Equity	40,593,144	37,904,740
Total Liabilities and Shareholders' Equity	\$ 62,872,492	\$ 44,945,306

See accompanying notes

Nature of operations (Note 1)

Restatement (Note 3 (f) and Note 3(g))

The consolidated financial statements were approved by the Board of Directors and were signed on its behalf by:

"Michael Harman"

Michael Harman, Director

"Marc Lustig"

Marc Lustig, Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

<i>Expressed in United States Dollars (unaudited)</i>	As Restated (Note 3 (f) and 3(g))			As Restated (Note 3 (f) and 3(g))
	Three months Ended June 30, 2019	Three months Ended June 30, 2018	Six months Ended June 30, 2019	Six months Ended June 30, 2018
Revenue				
Revenues, net of discounts	\$ 16,521,717	\$ 4,407,924	\$ 30,357,780	\$ 7,995,466
Cost of Goods Sold (Note 5)	(6,826,598)	(2,170,387)	(13,220,044)	(4,118,561)
Gross Profit before fair value asset adjustment	9,695,119	2,237,537	17,137,736	3,876,905
Realized fair value amounts included in inventory sold	102,919	(1,893,227)	(243,143)	(2,481,061)
Unrealized fair value gain on growth of biological assets	(192,438)	1,956,264	166,333	2,612,472
Gross Profit	9,605,600	2,300,574	17,060,926	4,008,316
Expenses				
General and Administrative (Note 14)	5,476,208	1,644,528	10,016,428	2,755,501
Sales and Marketing	1,644,752	229,363	3,046,881	334,909
Depreciation and Amortization	668,041	29,076	1,265,130	61,439
Share-Based Compensation Expense	539,262	1,596,134	1,111,614	1,596,134
Total Expenses	8,328,263	3,499,101	15,440,053	4,747,983
Income (Loss) From Operations	1,277,337	(1,198,527)	1,620,873	(739,667)
Other Expense:				
Interest expense, net	372,456	121,405	588,155	239,857
Realized foreign exchange (gain) loss	2,337	(10,721)	5,062	(10,721)
Other (income) expense	(161,678)	(18,245)	(178,841)	(31,185)
RTO listing expense (Note 3(g))		4,702,604	-	4,702,604
Loss on settlement of accounts payable (Note 13(d))		96,340	-	96,340
Total Other Expense	213,115	4,891,383	414,376	4,996,895
Income (Loss) before income taxes	1,064,222	(6,089,910)	1,206,497	(5,736,562)
Provision for tax - current (Note 15)	1,999,690	514,093	3,717,532	834,687
Provision for tax - deferred (Note 15)	-	-	(152,223)	20,041
Net income (loss) for the period	\$ (935,468)	\$ (6,604,003)	\$ (2,358,812)	\$ (6,591,290)
Other Comprehensive Income (Loss)				
Foreign exchange translation gain (loss)	(82,316)	(277,242)	190,889	(277,242)
Net Comprehensive Income (Loss) for the Period	\$ (1,017,784)	\$ (6,881,245)	\$ (2,167,923)	\$ (6,868,532)
Loss per share for the period				
Basic and diluted loss per share (Note 16)	(\$0.01)	(\$0.08)	(\$0.02)	(\$0.08)
Weighted Average Number of Common Shares Outstanding				
Basic and Diluted (Note 16)	133,533,681	83,819,620	131,498,887	79,019,809

PLANET 13 HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in United States Dollars (unaudited)

	Number of shares outstanding	Share Capital	Class A Restricted shares	Restricted Share Units	Warrants	Option Reserve	Accumulated Other Comprehensive Income (Loss)	Accumulated (Deficit)	Total Equity
Balance at January 1, 2018	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,182,528)	\$ (3,182,528)
Conversion of debt to Common shares	25,300,000	1,124,661	-	-	-	-	-	-	1,124,661
Conversion of debt for Class A shares	49,700,000	-	2,209,643	-	-	-	-	-	2,209,643
Shares issued on private placement	31,458,400	15,992,924	-	-	-	-	-	-	15,992,924
Warrants issued on private placement	-	-	-	-	4,212,768	-	-	-	4,212,768
Shares issued to former Carpincho shareholders on RTO closing	5,250,000	4,040,637	-	-	-	-	-	-	4,040,637
Class A shares issued on conversion of debt	5,532,940	-	3,409,476	-	-	-	-	-	3,409,476
Share issuance costs on private placement	-	(1,943,556)	-	-	(365,897)	-	-	-	(2,309,453)
Restricted share units issued	-	-	-	1,446,512	-	-	-	-	1,446,512
Issuance of share options	-	-	-	-	-	149,622	-	-	149,622
Net income (loss) for the period	-	-	-	-	-	-	-	(6,591,290)	(6,591,290)
Balance June 30, 2018 as restated (Note 3(0))	117,241,340	19,214,666	5,619,119	1,446,512	3,846,871	149,622	-	(9,773,818)	20,502,972
Shares issued on prospectus offering	8,735,250	15,595,473	-	-	-	-	-	-	15,595,473
Warrants issued on prospectus offering	-	-	-	-	4,579,857	-	-	-	4,579,857
Shares issued on exercise of warrants	2,580,810	3,307,081	-	-	(932,828)	-	-	-	2,374,253
Share issuance costs prospectus offering	-	(1,275,515)	-	-	(447,057)	-	-	-	(1,722,572)
Share based compensation - RSUs	-	-	-	1,353,823	-	-	-	-	1,353,823
Share based compensation - options	-	-	-	-	-	156,268	-	-	156,268
Cumulative foreign exchange gain (loss)	-	-	-	-	-	-	(802,920)	-	(802,920)
Net income (loss) for the period	-	-	-	-	-	-	-	(4,132,414)	(4,132,414)
Balance December 31, 2018	128,557,400	36,841,705	5,619,119	2,800,335	7,046,843	305,890	(802,920)	(13,906,232)	37,904,740
Balance at January 1, 2019	128,557,400	\$ 36,841,705	\$ 5,619,119	\$ 2,800,335	\$ 7,046,843	\$ 305,890	\$ (802,920)	\$ (13,906,232)	\$ 37,904,740
Shares issued on exercise of RSUs	1,922,786	1,478,260	-	(1,478,260)	-	-	-	-	-
Shares issued on exercise of warrants	3,824,248	4,609,550	-	-	(873,863)	-	-	-	3,735,687
Share issuance on exercise of options	15,002	17,711	-	-	-	(8,687)	-	-	9,024
Restricted share units vested	-	-	-	981,724	-	-	-	-	981,724
Issuance of share options vested	-	-	-	-	-	129,891	-	-	129,891
Cumulative foreign exchange gain (loss)	-	-	-	-	-	-	190,890	-	190,890
Net (loss) for the period	-	-	-	-	-	-	-	(2,358,812)	(2,358,812)
Balance June 30, 2019	134,319,436	\$ 42,947,226	\$ 5,619,119	\$ 2,303,799	\$ 6,172,980	\$ 427,094	\$ (612,030)	\$ (16,265,044)	\$ 40,593,144

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Expressed in United States Dollars (unaudited)</i>	As Restated (Note 3 (f) and 3(g))	
	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Operating activities		
Net income (loss) for the period	\$ (2,358,812)	\$ (6,591,290)
Add (deduct) non-cash items:		
Share based payments (Note 13)	1,224,131	1,596,134
Depreciation and amortization (Note 7,8)	1,580,761	320,227
Loss on settlement of accounts payable	-	96,340
Share base payment to Carpincho shareholders on RTO	-	3,910,559
Settlement of AP for RSUs	-	346,206
Deferred tax liability (Note 15)	(284,491)	174,908
Realized fair value amounts included in inventory sold	(102,919)	2,481,061
Unrealized fair value gain on growth of biological assets	192,438	(2,612,472)
Non-cash interest expense	-	217,048
Net change in non-cash working capital		
HST receivable	(78,597)	(47,060)
Inventories (Note 5)	(11,150)	(700,177)
Biological assets (Note 6)	(89,519)	285,340
Prepaid expenses and other assets (Note 9)	(2,780,552)	(641,272)
Long term deposits and other assets	(70,000)	-
Accounts payable	1,510,420	148,936
Accrued expenses	256,246	412,246
Income tax payable	3,849,799	880,388
Cash flow provided by (used in) operating activities	2,837,755	277,122
Investing activities		
Purchase of property, plant and equipment (Note 7)	(5,946,852)	(1,201,858)
Cash flow used in investing activities	(5,946,852)	(1,201,858)
Financing activities		
Issuance of common shares and warrants (Note 13)	-	20,205,692
Issuance of shares on warrant and option exercises (Note 13)	3,744,711	-
Share and warrant issuance costs	-	(2,309,453)
Principal repayment on lease liabilities (Note 11)	(15,934)	(2,721)
Cash flow provided by (used in) financing activities	3,728,777	17,893,518
Net increase (decrease) in cash	619,680	16,968,782
Cash at beginning of the period	19,364,086	451,869
Net cash acquired on acquisition	-	34,678
Effect of foreign exchange on cash	(26,436)	(345,871)
Cash at end of the period	\$ 19,957,330	\$ 17,109,458

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Expressed in United States Dollars (unaudited)</i>	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Supplemental Disclosure of Cash Flow		
Cash paid during the period for:		
Interest	\$ 372,456	\$ -
Income taxes	\$ -	\$ -
Non-cash activities		
Carrying value of warrants exercised	\$ 873,863	\$ -
Carrying value of RSUs exercised	\$ 1,478,260	\$ -
Carrying value of options exercised	\$ 8,687	\$ -
MMDC conversion of notes payable to equity	\$ -	\$ 5,619,119
Right of use assets	\$ 9,808,438	\$ -
Lease liabilities	\$ (10,378,543)	\$ -

PLANET 13 HOLDINGS INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

Expressed in United States Dollars, unless otherwise indicated

1) Nature of Operations

Planet 13 Holdings Inc. (formerly Carpincho Capital Corp.) ("P13" or "the Company") was incorporated under the Canada Business Corporations Act on April 26, 2002 and continued under the British Columbia Corporations Act on June 24, 2019. Planet 13's wholly owned subsidiary, MM Development Company, Inc. ("MMDC") is a privately held corporation existing under the laws of the State of Nevada. MMDC, founded on March 20, 2014, is a vertically integrated cultivator and provider of cannabis and cannabis-infused products licensed under the laws of the State of Nevada, with two licenses for cultivation, two licenses for production, and two dispensary licenses (one medical license and one recreational license). On June 11, 2018, MMDC completed a reverse-takeover ("RTO") of Carpincho Capital Corp. Upon completion of the RTO, the shareholders of MMDC obtained control of the consolidated entity. Under the purchase method of accounting, MMDC was identified as the acquirer, and, accordingly, P13 is considered to be a continuation of MMDC, with the net assets of the Company at the date of the RTO deemed to have been acquired by MMDC (Refer to note Note 6 in the Company's Audited Annual Financial Statements for the year ended December 31, 2018)). The 2018 comparative figures in the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2019 (or "consolidated financial statements") include any and all results of operations of Carpincho Capital Corp. from the date of the RTO.

P13 is a public company which is listed on the Canadian Securities Exchange under the symbol "PLTH" and the OTCQX exchange under the symbol "PLNHF".

The Company's registered office is located at 82 Richmond Street East, Suite 400, Toronto, ON M5C 1P1 and the head office address is 2548 West Desert Inn. Rd, Las Vegas, NV 89109.

2) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and using the accounting policies, determination of significant estimates and judgements, and corresponding accounting treatment consistent with the Company's 2018 annual audited consolidated financial statements, except for new standards adopted during the three and six months ended June 30, 2019 as described below.

The consolidated financial statements should be read in conjunction with the Company's 2018 annual audited consolidated financial statements.

The unaudited condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 28, 2019.

3) Summary of significant accounting policies

(a) Basis of Measurement

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial instruments that are measured at fair value, and biological assets that are measured at fair value less costs to sell, as described herein.

PLANET 13 HOLDINGS INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

Expressed in United States Dollars, unless otherwise indicated

3) Summary of significant accounting policies (continued)

(b) Principles of Consolidation

These consolidated financial statements for the three and six months ended June 30, 2019 include the financial position, results of operations and cash flows of the Company and its subsidiaries. The Company's subsidiaries as at June 30, 2019 are as follows:

Subsidiary	Country of Incorporation	Economic Interest	Basis of Accounting
MM Development Company, Inc. ("MMDC")	USA	100%	Full consolidation
10653918 Canada Inc. ("Finco")	Canada	100%	Full consolidation
BLC Management Company LLC. ("BLC")	USA	100%	Full consolidation
LBC Company LLC. ("LBC")	USA	100%	Full consolidation
MM Development MI, Inc.	USA	100%	Full Consolidation
MM Development CA, Inc.	USA	100%	Full Consolidation
MMDC CASA Holdings, Inc	USA	100%	Full Consolidation
PLTHCA SA, Inc	USA	100%	Full Consolidation

Subsidiaries - Subsidiaries are entities over which the Company has control, whereby control is defined as the power to direct activities of an entity that significantly affect the entity's returns so as to obtain benefit from its activities. Control is presumed to exist where the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date at which control ceases.

All material intercompany transactions between the Company and its subsidiaries are eliminated upon consolidation.

(c) Functional Currency

The Company's functional currency is the Canadian dollar ("CAD"). Management has chosen to present these consolidated financial statements in United States ("USD") dollars. The functional currency of the Company's subsidiaries is USD. All amounts are presented in USD values, unless otherwise stated. The Company's USA based subsidiaries do not incur transactions in Canadian dollars.

Canadian currency transactions incurred by the Company are translated into USD at exchange rates in effect on the date of the transaction. Monetary assets and liabilities denominated in Canadian dollars are translated to USD at the foreign exchange rate applicable at the end of each reporting period.

Realized and unrealized exchange gains and losses are recognized in the consolidated statements of changes in equity. Non-monetary assets and liabilities that are measured in terms of historical cost in CAD are translated using the exchange rate at the date of the transaction.

The assets and liabilities are translated into US dollars at period end exchange rates. Income and expenses, and cash flows are translated into USD using the average exchange rate. Exchange differences resulting from the translation of Canadian operations are recognized in other comprehensive income (loss) and accumulated in equity.

3) Summary of significant accounting policies (continued)

PLANET 13 HOLDINGS INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

Expressed in United States Dollars, unless otherwise indicated

(d) Recent Accounting Pronouncements Adopted during the period

Beginning on January 1, 2019, the Company implemented IFRS 16 “Leases”. As required by IAS 34 Interim Financial Reporting and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the nature and effect of these changes are described below.

(i) *IFRS 16 Leases*

The adoption of IFRS 16 resulted in changes to property and equipment contracts which were previously classified as operating leases under IAS 17. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right of use (“**ROU**”) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company applied the modified retrospective approach to remaining lease payments as of January 1, 2019 without restatement of comparative figures presented for 2018 as previously reported under IAS 17.

Upon the initial application as of January 1, 2019, ROU assets and lease liabilities were recorded, with no net impact on retained earnings. For leases previously classified as operating leases under IAS 17, the lease liability has been measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as at the date of application. Additionally, the ROU asset has been measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized in the statement of financial position immediately before the date of initial application.

For leases previously classified as finance leases under IAS 17, the lease liability and the ROU asset have been measured as the carrying amount of the lease asset and liability immediately before the date of initial application.

The following table summarizes the impact of the initial application on the statement of financial position:

	Balance at December 31, 2018	IFRS 16 Initial Application	Balance at January 1, 2019
ASSETS			
Property, plant & equipment	\$ 17,256,484	\$ (52,136)	\$ 17,204,348
Right of use assets	-	8,082,639	8,082,639
Total			
LIABILITIES			
Capital lease obligations - current	\$ 14,459	\$ (14,459)	\$ -
Capital lease obligations - long-term	29,768	(29,768)	-
Deferred rent	427,508	(427,508)	-
Lease liabilities	-	8,494,971	8,494,971

3) Summary of significant accounting policies (continued)

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application as previously assessed under IAS 17 *Leases* and IFRIC 4 *Determining whether an arrangement contains a lease*. The Company has elected to account for all short-term leases and all leases for which the underlying asset is of low value as expenses on a straight-line basis over the term of the lease, and hence, did not recognize a lease liability and a right of use asset at the date of initial application. Short-term leases are leases with a lease term of

PLANET 13 HOLDINGS INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

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12 months or less. The lease expense for all short-term leases was \$6,080 for the six months ended June 30, 2019 respectively.

The Company's only significant debt obligation is a promissory note payable for land secured by a deed of trust. Further, due to the nature of the Company's business operations in the Cannabis industry and its illegality under United States Federal regulations, the Company is unable to borrow monies from U.S financial institutions. Consequently, when measuring lease liabilities, the Company discounted lease payments using a rate of 15.0%, which represents the estimated weighted average incremental borrowing rate of the Company on the date of application. The Company has not included extension options in the measurement of lease terms for those specific leases for which it is not reasonably certain to exercise the related extension options. The Company determines the probability of exercising a renewal option when determining the lease term by considering whether there is an economic incentive to exercise the renewal option based on investments in major leaseholds and operational performance.

The following table reconciles the Company's operating lease commitments at December 31, 2018, as previously disclosed in the Company's financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	\$ 9,153,300
Extension options reasonably certain to be exercised	22,758,094
Finance lease obligations recognized at December 31, 2018	44,227
Discounted using incremental borrowing rate	(23,460,650)
Lease liabilities as at January 1, 2019	\$ 8,494,971

The ROU asset is subsequently depreciated using the straight-line method from the application date to the earlier of the end of the useful life of the ROU asset or the end of the lease term.

Critical Accounting Estimates and Judgments for Leases

The adoption of IFRS 16, *Leases*, required the Company to assess its significant judgements and certain key estimates when applying the standard.

The Company exercises judgment in determining the appropriate lease term on a lease by lease basis. The Company considers all facts and circumstances that create an economic incentive to exercise a renewal option including investments in major leaseholds, operational performances and past business practice. The periods covered by renewal options are only included in the lease term if the Company is reasonably certain to renew. The Company considers reasonably certain to be a high threshold. Changes in the economic environment or changes in the retail or cannabis industry, the assessment of the lease term, and any changes in the estimate of lease terms may have a material impact on the Company's financial position and statement of operations.

3) Summary of significant accounting policies (continued)

In determining the carrying amount of right of use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. The Company determines the incremental borrowing rate of each leased asset or portfolio of leased assets by incorporating the Company's creditworthiness, the security, term and value of the underlying leased asset, and the economic environment in which the leased asset operates in, as well as the Company's ability to borrow funds. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

PLANET 13 HOLDINGS INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

Expressed in United States Dollars, unless otherwise indicated

Depreciation for the ROU assets is calculated on the straight-line basis over the following estimated useful lives of the assets:

Assets	Useful Life
Right of use – Buildings	Shorter of useful life or term of lease (7-21years)
Right of use – Vehicles	Shorter of useful life or term of lease (4-6 years)

(ii) *IFRIC 23 Uncertainty Over Income Tax Treatments*

IFRIC 23 Clarifies the application of recognition and measurement requirements in IAS 12 – Income Taxes when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. The adoption of this standard did not have a material impact on the financial statements.

(e) Accounting Pronouncements Issued But Not Yet Effective

On October 22, 2018, the IASB issued a narrow scope amendments to IFRS 3 Business Combinations. The amendment narrowed and clarified the definition of a business as well as permitted a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. This amendment is effective on January 1, 2020. The Company intends to adopt this amendment in its consolidated financial statements for the annual period beginning January 1, 2020. The extent of the impact of the adoption of this amendment has not yet been determined.

On October 31, 2018, the IASB issued amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors. These amendments clarify and align the definition of materiality and provide guidance to help improve consistency in the application of materiality when used in other IFRS standards. These amendments are effective on January 1, 2020. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning January 1, 2020. The extent of the impact of the adoption of these amendments has not yet been determined.

(f) Biological assets and inventory

Paragraph 12 of IAS 41 Agricultural states that “[a] biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably.” Once the cannabis plant has been harvested, the costs incurred thereafter are within the scope of IAS 2 Inventories.

3) Summary of significant accounting policies (continued)

IAS 2.20 states: “in accordance with IAS 41 Agricultural inventories comprising agricultural produce that an entity has harvested are measured on initial recognition at their fair value less costs to sell at the point of harvest. This is the cost of the inventories at that date for application of this Standard.”

The Company’s wholly owned subsidiary, MMDC, originally accounted for Biological Assets and Inventory for the three and six months ended June 30, 2018 using an Excel model in connection with MMDC’s year ended December 31, 2017 and 2016 audits. Management compared the model used to value its Biological Assets and Inventory to the relevant authoritative literature and concluded that the model was consistent with the literature and, therefore, followed the model format for reporting purposes for the fiscal years ended December 31, 2017 and 2016 as well as for the three and six

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months ended June 30, 2018 (the “Initial Filing”). However, after reviewing the model as part of the audit of the year ended December 31, 2018, management came to the conclusion that the model it had used did not differentiate between plants that had been harvested and were therefore in the “drying phase” nor did it consider the percentage of completion of each designation (germination, vegetative or flowering) or estimated survival rates. Consequently, the computed fair values of the Company’s Biological Assets and Inventory as set out in the Initial Filing were overstated as at June 30, 2018.

MMDC also did not properly apply the computed fair value of Biological Assets to its ending packaged flower inventory pursuant to IAS 2.20 nor did it use the computed amount in calculating its ending concentrate products.

The Company incorrectly applied these standards to its unaudited condensed interim consolidated financial statements for the three- and six-months months ended June 30, 2018. The correction is being applied retroactively with restatement as of January 1, 2018.

(g) Restatement of certain other expenses, cash flows and Foreign Currency Translation

The audit of the year ended December 31, 2018 and the review of the implementation of the application of *IFRS 16 Leases* for the fiscal year starting on January 1, 2019 lead to a more detailed review of capital expenditures surrounding leasehold improvements, non-cash interest expense, prepaid expenses and accrued expenses for the 2018 fiscal year on a quarterly basis and lead to changes in the other categories of the statement of cash flows. Other changes arising from the audit included the Company incorrectly applying *IFRS 2 Share Based Payments* with respect to the shares issued to former Carpincho shareholders on the RTO that closed June 11, 2018 and treated certain other cash costs as share issuance costs instead of recognizing the costs as expenses on the income statement and the recalculation of the impact of foreign currency translation on cash balances and other assets held during the period.

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3) Summary of significant accounting policies (continued)

The following tables summarize the effects of the adjustments described above with respect to note 3(f) and (g)

Impact on the statement of income operations and comprehensive income (loss) for the three months ended June 30, 2018	As Previously Reported	Effect of Correction	As Restated
Revenue	\$ 4,426,197	\$ (18,273)	\$ 4,407,924
Cost of goods sold	(3,105,592)	935,205	(2,170,387)
Realized fair value amounts included in inventory sold	-	(1,893,227)	(1,893,227)
Unrealized fair value gain on growth of biological assets	1,058,531	897,733	1,956,264
Gross Profit	\$ 2,379,136	\$ (78,562)	\$ 2,300,574
Share based payment (RTO shares issued previously recorded as share issuance costs)) RTO expenses	-	3,910,559	3,910,559
RTO cash expenses	532,367	259,678	792,045
Loss on settlement of accounts payable/debt conversion	848,925	(752,585)	96,340
Other (income) expense	-	(18,245)	(18,245)
Foreign exchange (gain) loss	266,521	(277,242)	(10,721)
Net income (loss) for the period	(3,403,305)	(3,200,698)	(6,604,003)
Foreign currency translation adjustment gain (loss)	-	(277,242)	(277,242)
Net Comprehensive Income (Loss) for the Period	(3,403,305)	(3,477,940)	(6,881,245)

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Impact on the statement of income operations and comprehensive income (loss) for the six months ended June 30, 2018	As Previously Reported	Effect of Correction	As Restated
Revenue	\$ 8,026,679	(31,213)	\$ 7,995,466
Cost of goods sold	(7,214,697)	3,096,136	(4,118,561)
Realized fair value amounts included in inventory sold	-	(2,481,061)	(2,481,061)
Unrealized fair value gain on growth of biological assets	3,189,227	(576,755)	2,612,472
Gross Profit	\$ 4,001,209	\$ 7,107	\$ 4,008,316
Share based payment (RTO shares issued previously recorded as share issuance costs)) RTO expenses	-	3,910,559	3,910,559
RTO cash expenses	532,367	259,678	792,045
Loss (gain) on settlement of accounts payable/debt conversion	848,925	(752,585)	96,340
Other (income) expense	-	(31,185)	(31,185)
Foreign exchange (gain) loss	266,521	(277,242)	(10,721)
Net income (loss) for the period	(3,489,171)	(3,102,119)	(6,591,290)
Foreign currency translation adjustment	-	(277,242)	(277,242)
Net Comprehensive Income (Loss) for the Period	(3,489,171)	(3,379,361)	(6,868,532)

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Impact on the statement of cash flows for the six months ended June 30, 2018	As Previously Reported	Effect of Correction	As Restated
Net income (loss) for the period	\$ (3,489,171)	\$ (3,102,119)	\$ (6,591,290)
Realized fair value adjustments in inventory	-	2,481,061	2,481,061
Changes in inventory	(217,271)	(482,906)	(700,177)
Net change in inventory	(217,271)	1,998,155	1,780,884
Change in unrealized fair value adjustments in Biologicals	-	(2,612,472)	(2,612,472)
Change in biological assets	68,926	216,414	285,340
Net change in biological assets	68,926	(2,396,058)	(2,327,132)
Net change from correction of application of IAS 2.20	(148,345)	(397,903)	(546,248)
Correction of Income tax as a result of the application of IAS 2.20			
Income tax payable	869,202	11,186	880,388
Deferred tax liability	(14,474)	189,382	174,908
Correction of other differences on the correct application of IFRS 2 and the audit of the RTO transaction			
Loss on settlement of accounts payable	848,925	(752,585)	96,340
Settlement of Accounts Payable for RSUs	-	346,206	346,206
Issuance of share based payment to former Carpincho shareholders on the RTO	-	3,910,559	3,910,559
HST Receivable	47,060	(94,120)	(47,060)
Issuance of common shares and warrants - recalculation of issuance costs	19,508,446	697,246	20,205,692
Share and warrant issuance costs	(1,783,390)	(526,063)	(2,309,453)
Effect of foreign exchange on cash	(64,081)	(281,789)	(345,871)
Net impact of corrections on cash flow		-	

4) Financial instruments and risk management

a) Fair value hierarchy

Financial instruments are recorded at fair value are classified using a fair value hierarchy that reflects the significant of the inputs used in making the measurements.

The fair value of hierarchy has the following levels:

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in the markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's financial instruments include cash, accounts payable, accrued expenses and notes payable and the current and long-term portions of lease liabilities. The carrying value of cash is carried at fair value. Accounts payable and accrued expenses and current portion of notes payable approximate their fair value due to their short-term nature.

The following table summarizes the Company's financial instruments at June 30, 2019 and December 31, 2018:

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Amortized cost	June 30, 2019		December 31, 2018	
	Fair Value	Carrying value	Fair Value	Carrying value
Financial Assets:				
Cash	\$ 19,957,330	\$ 19,957,330	\$ 19,364,086	\$ 19,364,086
Financial Liabilities				
Accounts Payable	\$ 3,231,142	\$ 3,231,142	\$ 1,720,721	\$ 1,720,721
Accrued expenses	1,562,390	1,562,390	1,306,145	\$ 1,306,145
Notes payable - current	884,000	884,000	884,000	884,000
Current and long term portions of lease liabilities	-	-	44,227	44,227
Total	\$ 5,677,532	\$ 5,677,532	\$ 3,955,093	\$ 3,955,093

b) Credit risk

Credit risk is the risk that a third party might fail to discharge its obligations under the terms of a financial instrument. Credit risk arises from cash with banks and financial institutions. It is management's opinion that the Company is not exposed to significant credit risk arising from these financial instruments. A portion of the Company's revenue utilizes third-party payment platforms. These platforms batch process several days' worth of activity before funds are remitted to the Company. A failure of such platforms, or the inability of the platform provider to remit funds in a timely manner to the Company could have a material impact on the Company's financial position. The Company limits credit risk by entering into business arrangements with high credit-quality counterparties.

c) Interest rate risk

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. The Company is not exposed to significant interest rate risk, as the Company's notes payable have fixed interest rates.

d) Currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Company operates in Canada and the United States and incurs certain expenditures and obtains financing in both CAD and USD. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of the Company or subsidiary that holds the financial asset or liability. The Company's risk management policy is to review its exposure to non-CAD and non-USD forecast operating costs on a case-by-case basis. The majority of the Company's forecast operating costs are in USD and CAD. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of CAD financial assets and liabilities in USD as at June 30, 2019 is as follows:

US Dollar amounts of foreign currency assets and liabilities		
	Assets	Liabilities
Canadian Dollars	\$701,880	\$129,481

Based on the financial instruments held as at June 30, 2019, the Company's deficit would have changed by \$52,027 had the US dollar shifted by 10% as a result of foreign exchange effect on translation of non-US dollar denominated financial instruments.

At June 30, 2019, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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e) Liquidity risk

Prudent liquidity risk management implies maintaining at all times sufficient cash, liquid investments and committed credit facilities to meet the Company's commitments as they arise. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Where insufficient liquidity may exist, the Company may pursue various debt and equity instruments for short or long-term financing of its operations. The Company has the following contractual obligations:

	<1 Year	1 to 3 Years	3 to 5 Years	Thereafter	Total
Accounts Payable	\$ 3,231,142	\$ -	\$ -	\$ -	\$ 3,231,142
Accrued expenses	\$ 1,562,390	\$ -	\$ -	\$ -	\$ 1,562,390
Income taxes payable	\$ 6,036,908	\$ -	\$ -	\$ -	\$ 6,036,908
Notes Payable	\$ 884,000	\$ -	\$ -	\$ -	\$ 884,000
Lease liabilities	\$ 1,162,210	\$ 3,729,324	\$ 4,261,766	\$ 25,887,296	\$ 35,040,596

f) Pricing risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. See Note 6 for the Company's assessment of certain changes in the fair value assumption used in the calculation of biological asset values.

g) Concentration risk

The Company operates exclusively in Southern Nevada. Should economic conditions deteriorate within that region, its results of operations and financial position would be negatively impacted.

h) Banking Risk

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in US federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that US federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty accessing the US banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the business of the Company and leaves their cash holdings vulnerable.

i) Asset Forfeiture Risk

Because the cannabis industry remains illegal under US federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property was never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, could be subject to forfeiture.

5) Inventories

Raw material harvested cannabis consists of both cultivated cannabis and third party purchased raw material harvested cannabis. Finished goods inventory consists of dried cannabis, concentrates, edibles and other products that are complete and available for sale (both internally generated inventory and third-party products purchased in the wholesale market). Work in process inventory consists of cannabis after harvest, in the processing stage. Packaging and miscellaneous consist of consumables for use in the transformation of biological assets and other inventory used in production of finished goods. The Company's inventories are comprised of:

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	June 30, 2018	December 31, 2018
Raw Material		
Harvested Cannabis	\$ 1,503,591	\$ 1,034,023
Packaging and miscellaneous	291,442	131,857
Total Raw Material	1,795,033	1,165,880
Work in Process	1,236,081	1,067,685
Finished Goods	2,815,360	3,088,546
Total Inventories	\$ 5,846,474	\$ 5,322,111

During the three months ended June 30, 2019, the Company recognized \$6,826,598 (2018 - \$2,170,387) of inventory expensed to cost of goods sold (\$13,220,044 for the six months ended June 30, 2019 and \$4,118,561 for the six months ended June 30, 2018).

6) Biological Assets

Biological assets consist of cannabis plants. The changes in the carrying value of biological assets are shown below:

	June 30, 2019	December 31, 2018
Beginning balance	\$ 915,177	\$ 1,067,305
Production costs capitalized	1,209,147	3,135,478
Net change in fair value less costs to sell due to biological transformation	166,333	1,919,593
Transferred to inventory upon harvest	(1,916,412)	(5,207,199)
Ending balance	\$ 374,245	\$ 915,177

The Company values its biological assets at the end of each reporting period at fair value less costs to sell. This is determined using a valuation model to estimate the expected harvest yield per plant applied to the estimated price per gram less cost to sell. This model also considers the progress in the plant life cycle.

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy and are subject to volatility and several uncontrollable factors which could significantly affect the fair value of biological assets in future periods, were used by management as part of this model:

- Growth cycle - the average number of weeks in the growing cycle is 110 days from propagation to harvest for both the three and six months ended June 30, 2019 and 2018;
- Stage of growth – represents the weighted average number of days out of the 110-day growing cycle that biological assets have reached as at the measurement date;
- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant. The average harvest yield of whole flower used is 106 grams per plant for 2019 (2018 – 195 grams);
- Survival rate – the estimated survival rate of cannabis plants as they move from one stage of growth to the next (from germination to vegetative to flowering) based on the Company’s historical results. As plants mature at each stage, their survival rate increases;

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- Price – the average price used of \$5.08 per gram in 2019 (six months to June 30, 2018- \$5.08 per gram) derived from the average selling price of wholesale cannabis as published by the Nevada Department of Taxation for the periods presented;
- Post harvest costs – calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants after harvest, consisting of the cost of direct and indirect materials and labor related to labelling and packaging.

The following quantifies each unobservable input, and also provides the impact a 10% increase/decrease in each input would have on the reported fair value of biological assets:

	June 30,		10% Change as at June 30,	
	2019	2018	2019	2018
Stage of growth	36.7%	44.2%	\$ 38,126	\$ 89,176
Yield by plant	106 grams	195 grams	103,927	201,884
Survival rate	84.2%	84.9%	87,522	171,428
Selling price	\$5.08	\$5.08	37,428	86,797

7) Property and Equipment

	Land and Land Improvements	Buildings	Equipment	Leasehold Improvements	Construction in Progress	Total Capital Assets
Cost						
At December 31, 2017	\$ 366,676	\$ 1,698,077	\$ 980,444	\$ 2,459,355	\$ -	\$ 5,504,552
Additions	258,470	-	1,439,951	11,092,879	1,112,037	13,903,337
At December 31, 2018	625,146	1,698,077	2,420,395	13,552,234	1,112,037	19,407,889
Additions	-	-	441,330	226,704	5,278,818	5,946,852
Transfers & disposals	-	-	(82,319)	-	-	(82,319)
At June 30, 2019	\$ 625,146	\$ 1,698,077	\$ 2,779,406	\$ 13,778,938	\$ 6,390,855	\$ 25,272,422
Accumulated Depreciation						
At December 31, 2017	\$ -	\$ 76,350	\$ 441,834	\$ 644,453	\$ -	\$ 1,162,637
Additions	25,543	42,456	309,873	610,896	-	988,768
At December 31, 2018	25,543	118,806	751,707	1,255,349	-	2,151,405
Additions	25,597	21,226	242,235	992,734	-	1,281,792
Transfers & disposals	-	-	(30,183)	-	-	(30,183)
At June 30, 2019	\$ 51,140	\$ 140,032	\$ 963,759	\$ 2,248,083	\$ -	\$ 3,403,014
Net book value						
At December 31, 2018	\$ 599,603	\$ 1,579,271	\$ 1,668,688	\$ 12,296,885	\$ 1,112,037	\$ 17,256,484
At June 30, 2019	\$ 574,006	\$ 1,558,045	\$ 1,815,647	\$ 11,530,855	\$ 6,390,855	\$ 21,869,408

As at June 30, 2019, costs related to the construction of facilities were capitalized as construction in progress and not depreciated. Depreciation will commence when construction is completed, and the facility is available for its intended use. The contractual construction commitment as at June 30, 2019 was \$5,711,866 (December 31, 2018 - \$281,150).

For the six months ended June 30, 2019 depreciation expense was \$1,281,792 (2018- \$320,227) of which \$286,987 (2018 - \$258,788) was included in cost of goods sold.

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8) Right of use assets

	Buildings	Vehicles	Total
Cost			
Balance at December 31, 2018	\$ -	\$ -	\$ -
IFRS 16 Adoption	7,933,903	148,736	8,082,639
Additions	2,024,768	-	2,024,768
Balance at June 30, 2019	\$ 9,958,671	\$ 148,736	\$ 10,107,407
Accumulated Depreciation			
Balance at December 31, 2018	\$ -	\$ -	\$ -
IFRS 16 Adoption	-	-	-
Depreciation	273,233	25,736	298,969
Balance at June 30, 2019	\$ 273,233	\$ 25,736	\$ 298,969
Net book value			
At December 31, 2018	\$ -	\$ -	\$ -
At June 30, 2019	\$ 9,685,438	\$ 123,000	\$ 9,808,438

For the six months ended June 30, 2019 depreciation expense was \$298,969 (2018- \$nil) of which \$28,644 (2018 - \$nil) was included in cost of goods sold.

9) Prepaid expenses and other current assets

	June 30, 2019	December 31, 2018
Advertising and marketing	\$ 128,301	\$ 79,584
Security deposits	922,924	156,795
Merchandise	6,574	116,820
Prepaid rent	-	81,951
Taxes receivable	98,187	53,402
Director and officer insurance	293,358	81,639
Health insurance	215,938	42,458
Licenses	52,679	256,806
Funds awaiting clearing from payment processors	2,275,188	351,445
Miscellaneous	178,681	170,378
Total	\$ 4,171,830	\$ 1,391,278

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10) Notes Payable

Notes payable consist of the following:

Non-related parties

	June 30, 2019	December 31, 2018
Promissory note dated November 4, 2015, with semi-annual interest at 5.0%, secured by deed of trust, due December 1, 2019	\$ 884,000	\$ 884,000
Less current portion	(884,000)	(884,000)
Long-term portion of Promissory Notes	\$ -	\$ -
<hr/>		
Stated maturities of debt obligations are as follows:		
Next 12 months Promissory Note	\$ 884,000	

The promissory note with an outstanding balance at June 30, 2019 and December 31, 2018 of \$884,000 is collateralized by a deed of trust on the related land.

11) Lease liabilities

The Company's lease agreements are for cultivation, manufacturing, retail and office premises and for vehicles. The property lease terms range between 7 years and 21 years depending on the facility and are subject to an average of 2 renewal periods of equal length as the original lease. Leases for vehicles are typically between 4 years and 6 years with no renewal terms. When measuring lease liabilities, the lease payments are discounted using the Company's weighted average incremental borrowing rate of 15%. The Company has only included extension options in the measurement of lease terms for those specific leases for which it is reasonably certain to exercise the related extension options.

	June 30, 2019	January 1, 2019
Total lease liabilities	\$ 10,378,543	\$ 8,494,971

The following table summarizes undiscounted future lease payments :

	June 30, 2019	December 31, 2018
Less than one year	\$ 1,322,010	\$ 1,162,210
One to five years	7,698,300	7,991,090
Greater than five years	27,830,571	-
Total undiscounted future lease payments	\$ 36,850,881	\$ 9,153,300

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The following table summarizes lease-related cash flows for the six months ended June 30, 2019:

Principal repayment	\$ 15,934
Interest	577,106
Non-lease components	116,525
Short-term leases	6,080
Total cash outflows	<u>\$ 715,645</u>

Non-lease components consist of payments for common area maintenance, utilities and property taxes and have not been considered in the calculation of the lease obligation. Short-term leases are leases with a lease term of 12 months or less. Payments associated with short-term leases are recognized as expenses on a straight-line basis.

12) Deferred Rent

IAS 17 was superseded by IFRS 16 effective for financial statements issued after January 1, 2019) sets forth the accounting treatment for leases and requires that lease expense under operating leases having fixed rental increases be accounted for on a straight-line basis over the term of the lease. As at December 31, 2018, the deferred rent liability of \$427,508, represents the difference between the cumulative straight-line rent expense recorded and the actual cash payments made under operating leases. On January 1, 2019 upon the adoption of IFRS 16 the amount of deferred rent was adjusted to \$nil. See Note 3 d(i).

13) Share Capital

a) Authorized

Unlimited number of common shares and unlimited number of Class A shares

	Number of Shares
Common shares	
Balance at January 1, 2019	73,324,460
Shares issued on RSU exercise	1,922,786
Shares issued on exercise of options	15,002
Shares issued on exercise of warrants	3,824,248
Total Common shares outstanding	79,086,496
Class A shares	
Balance at January 1, 2019	55,232,940
Total Class A Shares outstanding	55,232,940
Balance June 30, 2019	134,319,436

The Class A restricted shares have equal rateable rights as the Company's common shares to dividends, all of the Company's assets that are available for distribution upon liquidation, dissolution or winding up of the Company's affairs, do not have pre-emptive rights, are entitled to receive notice and attend shareholders meetings and to exercise one vote for each Class A share held at all meetings of shareholders of the Company other than with respect to the vote for the election or removal of directors. Each Class A shareholder is able to convert each outstanding Class A share at the option of the holder thereof into one common share at any time provided that such conversion would not cause the Company to become a US Domestic Issuer. The restriction on conversion of Class A shares are designed to prevent the Company from becoming a US Domestic Issuer. Generally, a company will be considered to be a US Domestic Issuer if:

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(A) 50% or more of the holders of a company's common voting shares are U.S. Persons; and either (B) (i) the majority of the executive officers or directors of the Issuer are United States citizens or residents; (ii) the company has 50% or more of its assets located in the United States; or (iii) the business of the company is principally administered in the United States.

As there are no restrictions on issue or transfer of the Company's common shares, there is no guarantee that the Company will not become a US Domestic Issuer in the future.

The Company's Class A Shares were issued to all shareholders of the Company who were resident in the United States on the date of the closing of the RTO.

On March 1, 2019 the Company issued 1,922,786 common shares on the exercise of Restricted Share Units that had vested during the period.

On March 20, 2019 the Company issued 15,002 common shares on the exercise of options that had a strike price of \$0.80 per common share resulting in cash proceeds receivable of \$9,024. The share price on March 20, 2019 was CAD\$1.80.

During the six months ended June 30, 2019, the Company issued 3,824,248 common shares to warrant holders who exercised 3,824,248 warrants resulting in cash proceeds of \$3,735,687.

b) Stock options

The Company has established an incentive stock option plan (the "Plan") for employees, management, directors, and consultants of the Company, as designated and administered by a committee of the Company's Board of Directors. Under the Plan, the Company may grant options for up to 10% of the issued and outstanding common shares of the Company.

On January 7, 2019 the Company granted 100,000 incentive stock options to employees of the Company. These options are exercisable at a price of CAD\$1.55 per common share for a period of five years from the grant date.

On June 30, 2019 the Company granted 22,500 incentive stock options to employees of the Company. These options are exercisable at a price of CAD\$2.60 per common share for a period of five years from the grant date.

The following table summarizes information about stock options outstanding as at June 30, 2019:

Expiry date	Exercise Price CAD\$	June 30, 2019 Outstanding	June 30, 2019 Exercisable
June 11, 2021	\$0.80	175,000	175,000
June 11, 2023	\$0.80	575,000	196,668
July 31, 2023	\$0.75	25,000	8,333
January 7, 2024	\$1.50	100,000	33,334
June 30, 2019	\$2.60	22,500	7,500
		897,500	420,835

The employee options vest one third on the grant date and one third on the first and second anniversary of the grant date. The fair value ascribed to the options issued during the six months ended June 30, 2019 was \$150,609 and is being recognized as non-cash compensation expense over the vesting period of the options. The following assumptions were used to arrive at the value ascribed to the options issued using a Black Scholes Option Pricing model:

Assumption	June 11, 2019	January 7, 2019
Closing share price in CAD\$ the day prior to granting	\$2.60	\$1.50
Risk-free rate	1.40%	1.87%
Expected dividend yield	0.00%	0.00%
Expected volatility	98.86%	110.41%
Option life in years	5.00	5.00

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Volatility was estimated by comparing the volatility of publicly traded companies that operate in the US cannabis market. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the Government of Canada Bond yields on the date of the option grant with a remaining term equal to the expected life of the options.

Share based compensation expense attributable to employee options that vested during the six months ended June 30, 2019 was \$129,890 (\$149,622 for the six months ended June 30, 2018).

The following table reflects the continuity of stock options for the periods presented:

	June 30, 2019	Weighted Average CAD\$ Exercise price	December 31, 2018	Weighted Average CAD\$ Exercise price
Stock option activity				
Balance – beginning of period	790,002	\$0.80	-	-
Granted	122,500	\$1.70	820,000	\$0.80
Exercised	(15,002)	\$0.80	-	-
Expired	-	-	-	-
Forfeited	-	-	(29,998)	\$0.80
Balance – end of period	897,500	\$0.92	790,002	\$0.80
			June 30, 2019	
The outstanding options have a weighted-average CAD\$ exercise price of:			\$0.92	
The weighted average remaining life in years of the outstanding options is:			3.66	

c) Warrants

The following table summarizes warrants outstanding at June 30, 2019:

Date of Issuance	Date of Expiry	CAD\$ Exercise Price	June 30, 2019 Outstanding
June 11, 2018	June 11, 2020	\$0.80	121,312
June 11, 2018	June 11, 2020	\$1.40	10,688,525
December 4, 2018	December 4, 2020	\$3.00	524,115
December 4, 2018	December 4, 2021	\$3.75	4,792,525
			16,126,477
			June 30, 2019
The outstanding warrants have a weighted-average CAD\$ exercise price of:			\$2.15
The weighted average remaining life in years of the outstanding warrants is:			1.41

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The following table reflects the continuity of warrants for the periods presented:

Warrant activity	June 30, 2019 Number	Weighted Average CAD\$ Exercise price	December 31, 2018 Number	Weighted Average CAD\$ Exercise price
Balance – beginning of period	19,950,725	\$1.99	-	-
Issued on private placements	-	-	15,729,150	\$1.40
Issued to brokers on private placement	-	-	1,485,645	\$0.80
Issued on prospectus financing	-	-	4,792,625	\$3.75
Issued to brokers on prospectus financing	-	-	524,115	\$3.00
Exercised	(3,824,248)	\$1.31	(2,580,810)	\$1.21
Expired	-	-	-	-
Balance – end of period	16,126,477	\$2.15	19,950,725	\$1.99

The Company received cash proceeds of \$3,735,687 (CAD\$5,023,943) from the exercise of warrants during the six months ended June 30, 2019. The Company reduced the carrying value of warrants by \$873,863 that was associated with the warrants that were exercised and reallocated this amount to common share capital. The share price at the time of exercise was as follows:

Date	Number of warrants exercised	CAD\$ Exercise price	CAD\$ Share price
22-Jan-19	250	\$1.40	\$2.02
22-Jan-19	100,000	\$0.80	\$2.02
31-Jan-19	100,000	\$0.80	\$2.16
14-Feb-19	100,000	\$0.80	\$1.88
07-Mar-19	244,608	\$0.80	\$1.77
26-Mar-19	187,500	\$1.40	\$1.99
01-Apr-19	33,000	\$1.40	\$2.37
02-Apr-19	5,790	\$0.80	\$2.29
03-Apr-19	123,000	\$1.40	\$2.75
04-Apr-19	96,875	\$1.40	\$2.96
05-Apr-19	125,000	\$1.40	\$2.92
09-Apr-19	16,000	\$1.40	\$2.87
09-Apr-19	437,500	\$1.40	\$2.87
10-Apr-18	200,000	\$1.40	\$3.07
11-Apr-19	18,750	\$1.40	\$3.09
11-Apr-19	10,000	\$1.40	\$3.09
12-Apr-19	25,000	\$1.40	\$3.17
12-Apr-19	46,500	\$1.40	\$3.17
18-Apr-19	31,250	\$1.40	\$3.45
26-Apr-18	20,000	\$1.40	\$3.24
26-Apr-18	15,625	\$1.40	\$3.24
01-May-19	1,318,500	\$1.40	\$3.30
02-May-19	15,625	\$1.40	\$3.20
02-May-19	31,250	\$1.40	\$3.20
03-May-19	15,625	\$1.40	\$3.17
06-May-19	156,250	\$1.40	\$3.09
07-May-19	100	\$3.75	\$2.88
08-May-19	300,000	\$1.40	\$2.98
14-May-19	50,000	\$1.40	\$2.69
31-May-19	250	\$1.40	\$2.66
Total	3,824,248		

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d) Restricted Share Units

The Company has established a Restricted Share Unit incentive plan (the “RSU Plan”) for employees, management, directors, and consultants of the Company, as designated and administered by a committee of the Company’s Board of Directors. Under the RSU Plan, the Company may grant RSUs and/or options for up to 10% of the issued and outstanding common shares of the Company.

On June 11, 2018, the Company granted Management and Directors and Consultants of the Company 5,638,358 Restricted Share Units under the RSU plan. The value ascribed to the RSU issued was CAD\$1.00 per share, the closing share price of the Company’s common shares on June 11, 2018. The RSUs vest 1/3 on the grant date and 1/3 on each of the first and second anniversaries of the grant date. 575,000 of the RSUs granted were issued to a consultant of the Company as payment of an outstanding accounts payable in the amount of \$346,206. The fair value of the RSUs issued was \$442,546. The Company recorded a loss on settlement of the accounts payable of \$96,340. The RSUs issued on settlement of the accounts payable amount vest on the same terms as the rest of the RSU grant.

On July 31, 2018, the Company granted a member of Management of the Company 25,000 Restricted Share Units under the RSU plan. The value ascribed to the RSU issued was CAD\$0.75 per share, the closing share price of the Company’s common shares on July 31, 2018. The RSUs vest 1/3 on the grant date and 1/3 on each of the first and second anniversaries of the grant date.

On November 9, 2018, 295,667 RSUs that were previously granted on June 11, 2018 were cancelled as a result of an employee resignation.

On June 30, 2019 the Company issued 3,259,623 Restricted Share Units under the RSU plan. The value ascribed to the RSUs issued was CAD\$2.60 per share, the closing share price of the Company’s common shares on June 28, 2019. 136,278 of the RSU’s vested immediately and the balance of the RSUs vest 1/3 on January 1, 2020, 1/3 on January 1, 2021 and 1/3 on January 1, 2022.

The Company issued 1,922,786 common shares on the exercise of 1,922,786 RSUs during the six months ended June 30, 2019 (nil for the six months ended June 30, 2018). The following table summarizes the RSUs that are outstanding as at June 30, 2019:

Restricted Share Units (RSUs)	Share Price on Grant Date	June 30, 2019 Outstanding	June 30, 2019 Vested
Grant Date			
June 11, 2018	CAD \$1.00	3,345,876	1,714,119
July 31, 2018	CAD\$0.75	16,667	-
June 30, 2019	CAD\$2.60	3,259,623	136,278
		6,622,166	1,850,397

The Company recognize \$981,724 in share-based compensation expense attributable to RSUs vesting during the six months ended June 30, 2019 (\$1,446,512 for the six months ended June 30, 2018).

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14) General and Administrative Expenses

	For the three months ended 30-Jun-19		For the six months ended 30-Jun-19	
	2019	2018	2019	2018
Salaries and wages	\$ 1,616,645	\$ 660,220	\$ 3,176,362	\$ 1,061,694
Executive compensation	201,177	120,996	386,163	219,047
Licenses and permits	448,126	60,000	727,713	120,000
Payroll taxes and benefits	280,473	123,738	739,196	193,993
Supplies and office expenses	341,636	43,884	705,982	97,615
Professional fees (legal, audit and other)	938,783	154,740	1,687,508	228,958
Miscellaneous general and administrative expenses	1,649,368	480,950	2,593,504	834,194
	<u>\$ 5,476,208</u>	<u>\$ 1,644,528</u>	<u>\$ 10,016,428</u>	<u>\$ 2,755,501</u>

15) Income tax

Income tax provision

	2019	2018
Tax expense applicable to:		
Current	3,717,532	834,687
Deferred	(152,223)	20,041
Income tax provision (recovery)	3,565,309	854,728

Reconciliation to statutory tax rate:

	2019	2018
Income (loss) before income taxes	1,206,497	(5,736,562)
Tax expense at statutory rate:	26.50%	26.50%
Expected income tax expense (recovery) at statutory rates	319,722	(1,520,189)
Permanent differences and other	2,994,725	695,972
Change in benefit of current year tax losses not recognized	477,490	1,678,945
Foreign tax differential	(226,628)	-
Income tax provision (recovery)	3,565,309	854,728

Deferred Income Taxes Asset (Liability):

	2019	2018
Inventory fair value adjustments	(78,591)	(278,669)
Biological assets	(107,775)	(192,187)
	(186,366)	(470,856)

Opening balance -	(470,856)
Tax recovery (expense) during period recognized in net income after tax	284,490
Impact of change in foreign exchange rates	-
Closing balance - June 30, 2019	(186,366)

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16) Earnings per share

Net Income (Loss) per common share represents the net income (loss) attributable to common shareholders divided by the weighted average number of common shares outstanding during the period.

The weighted average number of fully dilutive common shares outstanding is derived by adding the effect of all dilutive securities (using the treasury method) to the weighted average number of common shares outstanding. As at June 30, 2019, the Company was in a loss position, such that the exercise of options and warrants and the issuance of RSUs would have been anti-dilutive. As such, the diluted loss per share calculation excludes potential conversion of options, warrants and RSUs that would decrease the loss per share.

	Three Months Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Basic weighted average shares outstanding				
Common shares	78,300,741	32,964,391	76,265,947	29,013,589
Restricted voting shares	55,232,940	50,855,229	55,232,940	50,006,220
Total Basic weighted average shares outstanding	133,533,681	83,819,620	131,498,887	79,019,809
Effect of dilutive securities				
Options	-	-	-	-
Warrants	-	-	-	-
RSUs	-	-	-	-
Diluted weighted average shares outstanding	133,533,681	83,819,620	131,498,887	79,019,809
Net income (loss) for the period	\$ (935,468)	\$ (6,604,003)	\$ (2,358,812)	\$ (6,591,290)
Basic loss per share	\$ (0.01)	\$ (0.08)	\$ (0.02)	\$ (0.08)
Fully diluted loss per share	\$ (0.01)	\$ (0.08)	\$ (0.02)	\$ (0.08)

17) Commitments and Contingencies

(a) Construction Commitments

At June 30, 2019 the Company had construction commitments outstanding of \$5,711,866 (December 31, 2018 - \$281,150) related to the Phase 2 build-out of the Company's Planet 13 cannabis entertainment complex that opened on November 1, 2018.

(b) Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulations as at June 30, 2019, medical and adult use cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

(c) Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At June 30, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of

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the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

(d) Operating Licenses

Although the possession, cultivation and distribution of marijuana for medical and adult use is permitted in Nevada, marijuana is a Schedule-I controlled substance and its use remains a violation of federal law. Since federal law criminalizing the use of marijuana pre-empts state laws that legalize its use, strict enforcement of federal law regarding marijuana would likely result in the Company's inability to proceed with our business plans. In addition, the Company's assets, including real property, cash, equipment and other goods, could be subject to asset forfeiture because marijuana is still federally illegal.

(e) Employment Agreements

The Company has employment agreements in place with its Executive Management team and certain key employees. The annual salaries pursuant to such agreements range from \$60,000 to \$240,000.

18) Related party transactions

Related party transactions are summarized as follows:

(a) Building Lease

Prior to September 2018, the Company leased approximately 15,000 square feet of office and production space for the Company's Clark County Cultivation facility from a limited partnership controlled by Larry Scheffler, Co-CEO of the Company. On September 26, 2018 the property was acquired by an arm's length third party. Related-party rents paid under this lease for the three and six months ended June 30, 2019 equalled *nil* and for the three and six months ended June 30, 2018 equaled \$64,942 and \$355,010, respectively.

(b) Officer Compensation

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and board of directors. The following table summarizes amounts paid to related parties as compensation for the six months ended June 30, 2019 and 2018:

	Year	Remuneration or fees ⁽¹⁾	Share based payments ⁽¹⁾	Included in accounts payable ⁽¹⁾
Management compensation	2019	\$712,264	\$1,691,253	\$ -
	2018	499,477	-	\$10,594
Director compensation	2019	\$ -	\$380,417	\$ -
	2018	-	247,086	-

⁽¹⁾ Amounts disclosed were paid or accrued during the six months ended June 30, 2019 and 2018.

(c) Other

The Company sub-lets approximately 2,000 square feet of office space and purchases certain printed marketing collateral and stationery items from a company owned by one of the Company's Co-CEO. Amounts paid to such company for rent for the three months ended June 30, 2019 and 2018 equaled \$6,010 and \$6,010 respectively and totaled \$12,020 for each of the six months ended June 30, 2019 and 2018. Amounts paid for printed marketing

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collateral and stationery items equaled \$85,484 and \$84,459 for the six months ended June 30, 2019 and 2018 respectively and equaled \$84,484 and \$44,885 for the three months ended June 30, 2019 and 2018 respectively.

19) Segmented disclosure

a) Operating segments

The Company operates in a single reportable operating segment as a vertically integrated cannabis company with cultivation, production and distribution operations in the state of Nevada.

b) Geographic segments

As at June 30, 2019, and December 31, 2018 all the Company's non-current assets were located in the United States.

20) Capital Management

The Company's capital structure consists of all components of shareholders' equity, leases and notes payable. The Company's objective when managing capital is to maintain adequate levels of funding to support the day-today business activities of its cannabis operations in Nevada as well as to fund strategic initiatives, including the buildout of phase II of the Superstore Cannabis Entertainment Complex as well as to fund future expansion opportunities in other locations that may arise and maintain the necessary corporate and administrative functions to facilitate these activities. This has been done primarily through equity financing. Future equity financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the six months ended June 30, 2019. The Company is not subject to externally imposed capital requirements.

21) Subsequent Events

The Company issued 15,500 common shares on August 13, 2019 on the exercise of warrants with a strike price of CAD\$1.40 and realized cash proceeds of CAD\$21,700 from the exercise.

The Company issued 7,712 common shares on August 8, 2019 on the exercise of warrants with a strike price of CAD\$0.80 and realized cash proceeds of CAD\$6,170 from the exercise.

On July 5, 2019 the Company granted 100,000 options to a consultant of the Company. The options have a strike price of CAD\$2.65 and have an expiry date of July 5, 2022. The options vest $\frac{1}{4}$ on the option grant date and $\frac{1}{4}$ at the beginning of each quarter year thereafter.

On July 9, 2019 the Company issued 1,833,731 common shares on the exercise of 1,833,731 vested RSUs .

On July 9, 2019 the Company issued 210,659 common shares on the exercise of options that had vested. The options had a strike prices of CAD\$0.80 that resulted in the Company received proceeds of CAD\$168,527.

On July 9, 2019 the Company issued 33,334 common shares on the exercise of options that had vested. The options had a strike price of CAD\$1.55 that resulted in the Company received proceeds of CAD\$51,688.

On July 31, 2019 the Company issued 33,000 common shares on the exercise of 33,000 vested RSUs.