

**These financial statements for Planet 13 Holdings Inc. are also included in the Form 10-K for the year ended December 31, 2021 filed on SEDAR on March 28, 2022 in its entirety.**

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and Directors of  
Planet 13 Holdings Inc.

***Opinion on the Consolidated Financial Statements***

We have audited the accompanying consolidated balance sheets of Planet 13 Holdings Inc. (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of operations and comprehensive loss, changes in shareholder' equity, and cash flows for the years ended December 31, 2021, 2020 and 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years ended December 31, 2021, 2020 and 2019, in conformity with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

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

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

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

We have served as the Company's auditor since 2019.

/s/ DAVIDSON & COMPANY LLP

Vancouver, Canada

Chartered Professional Accountants

March 28, 2022



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**PLANET 13 HOLDINGS INC.**  
**Consolidated Balance Sheets**  
**(In United States Dollars)**

	December 31, 2021	December 31, 2020
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 61,588,843	\$ 79,000,850
Accounts Receivable	1,216,128	436,874
Inventory	14,225,369	6,919,840
Prepaid Expenses and Other Current Assets	3,977,524	2,198,005
<b>Total Current Assets</b>	<b>81,007,864</b>	<b>88,555,569</b>
Property and Equipment	50,778,277	32,073,925
Intangible Assets	63,398,007	7,551,141
Right of Use Assets - Operating	20,399,965	20,497,895
Right of Use Assets - Finance	-	44,672
Long-term Deposits and Other Assets	1,061,879	1,054,443
Deferred Tax Asset	162,804	-
<b>TOTAL ASSETS</b>	<b>\$ 216,808,796</b>	<b>\$ 149,777,645</b>
LIABILITIES AND SHAREHOLDERS' EQUITY		
<b>LIABILITIES</b>		
Current:		
Accounts Payable	\$ 3,266,783	\$ 1,681,027
Accrued Expenses	7,032,620	2,844,714
Income Taxes Payable	1,126,249	1,446,235
Notes Payable - Current Portion	884,000	884,000
Operating Lease Liabilities	423,573	161,021
Finance Lease Liabilities	-	46,372
<b>Total Current Liabilities</b>	<b>12,733,225</b>	<b>7,063,369</b>
Long-Term Liabilities:		
Operating Lease Liabilities	23,134,012	22,365,892
Warranty Liability	7,206,049	13,204,211
Other Long-term Liabilities	28,000	28,000
Deferred Tax Liability	-	410,359
<b>Total Liabilities</b>	<b>43,101,286</b>	<b>43,071,831</b>
Shareholders' Equity		
Common Shares, no par value, unlimited Common Shares authorized, 198,687,950 issued and outstanding at December 31, 2021 and 126,573,250 at December 31, 2020	-	-
Class A Restricted Shares, no par value, unlimited Class A Restricted Shares authorized, 0 issued and outstanding at December 31, 2021 and 55,232,940 at December 31, 2020	-	-
Additional Paid-In Capital	245,861,704	159,399,056
Retained Earnings (Deficit)	(72,154,194)	(52,693,242)
<b>Total Shareholder's Equity</b>	<b>173,707,510</b>	<b>106,705,814</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 216,808,796</b>	<b>\$ 149,777,645</b>

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

**PLANET 13 HOLDINGS INC.**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**(In United States Dollars, except share amounts)**

	December 31,		
	2021	2020	2019
Revenues, net of discounts	\$ 119,493,435	\$ 70,491,280	\$ 63,595,036
Cost of Goods Sold	(53,485,458)	(35,394,019)	(27,086,453)
<b>Gross Profit</b>	<b>66,007,977</b>	<b>35,097,261</b>	<b>36,508,583</b>
<b>Expenses:</b>			
General and Administrative	59,928,356	27,416,166	25,230,274
Sales and Marketing	5,969,792	3,305,639	6,539,483
Lease Expense	2,608,016	2,114,743	1,912,984
Depreciation and Amortization	5,335,055	3,674,907	2,287,249
<b>Total Expenses</b>	<b>73,841,219</b>	<b>36,511,455</b>	<b>35,969,990</b>
<b>Income (Loss) From Operations</b>	<b>(7,833,242)</b>	<b>(1,414,194)</b>	<b>538,593</b>
<b>Other Income (Expense):</b>			
Interest expense, net	(16,984)	(22,202)	(27,073)
Foreign exchange gain (loss)	1,662,679	398,524	(271,240)
Transaction costs	(256,667)	(275,250)	-
Change in fair value of warrant liability	7,520	(16,805,941)	(5,541,590)
Other Income, net	454,300	216,850	350,775
<b>Total Other Expense</b>	<b>1,850,848</b>	<b>(16,488,019)</b>	<b>(5,489,128)</b>
<b>Loss Before Provision for Income Taxes</b>	<b>(5,982,394)</b>	<b>(17,902,213)</b>	<b>(4,950,535)</b>
<b>Provision For Income Taxes</b>			
Current Tax Expense	(13,954,784)	(7,239,936)	(7,352,808)
Deferred Tax Recovery	476,226	133,420	-
	<u>(13,478,558)</u>	<u>(7,106,516)</u>	<u>(7,352,808)</u>
<b>Net Loss</b>	<b>\$ (19,460,952)</b>	<b>\$ (25,008,729)</b>	<b>\$ (12,303,343)</b>
<b>Loss per Share</b>			
<b>Basic and diluted loss per share</b>	<b>\$ (0.10)</b>	<b>\$ (0.16)</b>	<b>\$ (0.09)</b>
<b>Weighted Average Number of Common Shares</b>			
<b>Basic and diluted</b>	<b>195,126,972</b>	<b>151,825,439</b>	<b>134,074,476</b>

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

**PLANET 13 HOLDINGS INC.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
(In U.S. Dollars, except share amounts)

	Number of			Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
	Common Shares	Class A Restricted Shares	Warrants			
<b>Balance, January 1, 2019</b>	73,324,460	55,232,940	1,195,825	\$ 43,471,739	\$ (15,808,678)	\$ 27,663,061
Impact of Adoption of ASC 842	-	-	-	-	427,508	427,508
Shares Issued on Settlement of RSUs	3,954,518	-	-	-	-	-
Share based Compensation - RSUs	-	-	-	4,564,167	-	4,564,167
Shares Issued on Exercise of Broker Warrants	608,110	-	(608,110)	368,310	-	368,310
Shares Issued on Exercise of Other Warrants	4,281,537	-	-	9,909,541	-	9,909,541
Shares Issued on Exercise of Options	258,994	-	-	175,474	-	175,474
Share Based Compensation - Options	-	-	-	258,620	-	258,620
Net Loss for the Year	-	-	-	-	(12,303,343)	(12,303,343)
<b>Balance, December 31, 2019</b>	<u>82,427,619</u>	<u>55,232,940</u>	<u>587,715</u>	<u>\$ 58,747,851</u>	<u>\$ (27,684,513)</u>	<u>\$ 31,063,338</u>
<b>Balance, January 1, 2020</b>	82,427,619	55,232,940	587,715	58,747,851	(27,684,513)	31,063,338
Shares Issued upon Conversion	3,940,932	(3,940,932)	-	4,453,831	-	4,453,831
Shares Issued for Acquisition	1,374,833	3,940,932	-	2,918,277	-	2,918,277
Shares Issued on Settlement of RSUs	2,685,344	-	-	-	-	-
Share based Compensation - RSUs	-	-	-	2,456,018	-	2,456,018
Shares Issued on Exercise of Broker Warrants	1,533,507	-	(1,533,507)	3,220,099	-	3,220,099
Shares Issued on Exercise of Other Warrants	15,998,764	-	-	45,155,719	-	45,155,719
Shares Issued on Exercise of Options	333,001	-	-	217,990	-	217,990
Share Based Compensation - Options	-	-	-	56,550	-	56,550
Shares Issued on Bought Deal Financings, net	18,279,250	-	1,096,755	42,172,721	-	42,172,721
Net Loss for the Year	-	-	-	-	(25,008,729)	(25,008,729)
<b>Balance, December 31, 2020</b>	<u>126,573,250</u>	<u>55,232,940</u>	<u>150,963</u>	<u>\$ 159,399,056</u>	<u>\$ (52,693,242)</u>	<u>\$ 106,705,814</u>
<b>Balance, January 1, 2021</b>	126,573,250	55,232,940	150,963	159,399,056	(52,693,242)	106,705,814
Shares Issued on Settlement of RSUs	3,126,534	-	-	-	-	-
Share based Compensation - RSUs	-	-	-	15,573,539	-	15,573,539
Shares Issued on Exercise of Broker Warrants	446,801	-	(446,801)	2,163,065	-	2,163,065
Shares Issued on Exercise of Other Warrants	3,325,839	-	-	20,906,989	-	20,906,989
Shares Issued on Exercise of Options	121,336	-	-	86,216	-	86,216
Share Based Compensation - Options	-	-	-	3,104	-	3,104
Shares Issued on Bought Deal Financings, net	9,861,250	-	591,676	47,729,735	-	47,729,735
Shares Issued on Conversion of Class A Shares	55,232,940	(55,232,940)	-	-	-	-
Net Loss for the Year	-	-	-	-	(19,460,952)	(19,460,952)
<b>Balance, December 31, 2021</b>	<u>198,687,950</u>	<u>-</u>	<u>295,838</u>	<u>\$ 245,861,704</u>	<u>\$ (72,154,194)</u>	<u>\$ 173,707,510</u>

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

**PLANET 13 HOLDINGS INC.**  
**Consolidated Statements of Cash Flows**  
**(In United States Dollars)**

	<b>December 31,</b> <b>2021</b>	<b>December 31,</b> <b>2020</b>	<b>December 31,</b> <b>2019</b>
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Net loss	\$ (19,460,952)	\$ (25,008,729)	\$ (12,303,343)
Adjustments for items not involving cash:			
Shared based compensation expense	15,576,643	2,512,568	4,822,787
Non-cash lease expense	4,485,919	3,539,018	2,145,541
Depreciation	7,213,096	5,269,627	2,971,894
Loss on disposal of assets	-	-	82,882
Change in fair value of warrant liability	(7,520)	16,805,941	5,541,590
(Gain) loss on translation of warrant liability	100,637	(293,450)	468,740
Transaction costs	256,667	275,250	-
Deferred tax liability	(410,359)	(133,470)	-
Unrealized (gain) loss on foreign currency exchange	(185,916)	(542,000)	211,097
	<u>7,568,215</u>	<u>2,558,225</u>	<u>3,941,188</u>
<b>Net Changes in Non-cash Working Capital Items</b>	<b>(4,589,077)</b>	<b>(3,910,072)</b>	<b>2,007,378</b>
Repayment of lease liabilities	(3,359,021)	(2,337,006)	(1,247,546)
<b>Total Operating</b>	<b><u>(379,883)</u></b>	<b><u>(3,688,853)</u></b>	<b><u>4,701,020</u></b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from private placements	53,852,980	48,125,129	-
Proceeds from exercise of warrants and options	14,180,009	32,871,439	5,030,185
Financing issuance expenses	(3,494,930)	(3,660,589)	-
<b>Total Financing</b>	<b><u>64,538,059</u></b>	<b><u>77,335,979</u></b>	<b><u>5,030,185</u></b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	(25,909,880)	(4,481,058)	(16,061,582)
Purchase of licenses	(55,846,866)	(3,550,400)	-
<b>Total Investing</b>	<b><u>(81,756,746)</u></b>	<b><u>(8,031,458)</u></b>	<b><u>(16,061,582)</u></b>
Effect of foreign exchange on cash	186,563	570,470	(218,997)
<b>NET CHANGE IN CASH DURING THE YEAR</b>	<b>(17,598,570)</b>	<b>66,186,138</b>	<b>(6,549,374)</b>
<b>CASH</b>			
Beginning of Year	<u>79,000,850</u>	<u>12,814,712</u>	<u>19,364,086</u>
End of Year	<u>\$ 61,588,843</u>	<u>\$ 79,000,850</u>	<u>\$ 12,814,712</u>

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

**PLANET 13 HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements**  
**(in United States Dollars)**

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**I. NATURE OF OPERATIONS**

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Planet 13 Holdings Inc. (“P13” or the “Company”) was incorporated under the Canada Business Corporations Act on April 26, 2002 and continued under the British Columbia Business Corporations Act on September 24, 2019.

The Company is a vertically integrated cultivator and provider of cannabis and cannabis-infused products that is licensed under the laws of the States of Nevada, California, and Florida with a license lottery win-result in Illinois. We are licensed in these jurisdictions as follows: six Nevada licenses for cultivation (three medical and three adult-use), six Nevada licenses for production (three medical and three adult-use), three Nevada dispensary licenses (one medical and two adult-use), two Nevada licenses for distribution (one active, one conditional), one adult-use dispensary license in California, one distribution license in California, one Medical Marijuana Treatment Center license in Florida (unlimited medical dispensaries, cultivation and processing) and one lottery win for an adult-use dispensary license in Illinois. As of March 2, 2022, by way of acquisition and in addition to the licenses listed above, we added three California cultivation licenses (one medical and two adult-use), one California cultivation nursery license, one California distribution license, one California license for adult-use manufacture, and one pending California license for cultivation packaging.

P13 is a public company which is listed on the Canadian Securities Exchange (“CSE”) under the symbol PLTH and on the OTCQX exchange under the symbol “PLNHF”.

The Company’s registered office is located at 595 Howe Street, 10<sup>th</sup> Floor, Vancouver, BC V6C 2T5 and the head office address is 2548 W. Desert Inn Road, Las Vegas, NV 89109.

While cannabis and CBD-infused products are legal under the laws of several U.S. states (with varying restrictions applicable), the United States Federal Controlled Substances Act classifies all “marijuana” as a Schedule I drug, whether for medical or recreational use. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for use under medical supervision.

The federal government currently is prohibited from prosecuting businesses that operate in compliance with applicable state and local medical cannabis laws and regulations; however, this does not protect adult use cannabis. In addition, if the federal government changes this position, it would be financially detrimental to the Company.

**2. BASIS OF PRESENTATION**

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These consolidated financial statements reflect the accounts of the Company and have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and pursuant to the rules and regulation of the U.S. Securities and Exchange Commission (“SEC”) for all periods presented. These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due, under the historical cost convention except for certain financial instruments that are measured at fair value, as detailed in the Company’s accounting policies.

Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These consolidated financial statements do not give effect to adjustments to assets or liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material. These consolidated financial statements are presented in U.S. dollars, which is also the Company’s and its subsidiaries’ functional currency.



**PLANET 13 HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements**  
**(in United States Dollars)**

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These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 28, 2022.

i) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries. Subsidiaries are entities in which the Company has a controlling voting interest or is the primary beneficiary of a variable interest entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are deconsolidated from the date control ceases. All intercompany accounts and transactions have been eliminated upon consolidation. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating intercompany balances and transactions.

These consolidated financial statements include the accounts of the Company and the following entities which are subsidiaries of the Company:

Subsidiaries as at December 31, 2021	Jurisdiction of Incorporation	Ownership Interest 2021	Ownership Interest 2020	Nature of Business
MM Development Company, Inc. ("MMDC")	USA	100%	100%	Vertically integrated cannabis operations
BLC Management Company LLC	USA	100%	100%	Holding company
LBC CBD LLC ("LBC")	USA	100%	100%	CBD retail sales and marketing
Newtonian Principles Inc.	USA	100%	100%	Cannabis retail sales
MM Development MI, Inc.	USA	100%	100%	Holding company
MM Development CA, Inc.	USA	100%	100%	Holding company
Planet 13 Illinois, LLC	USA	49%	49%	Holding company
BLC NV Food, LLC	USA	100%	100%	Food retailing
Planet 13 Florida, Inc.	USA	100%	-	Holding company
By The Slice, LLC	USA	100%	100%	Food retailing

ii) Variable interest entities

A variable interest entity ("VIE") is an entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to control the entity's activities or do not substantially participate in the gains and losses of the entity. Upon inception of a contractual agreement, and thereafter, if a reconsideration event occurs, the Company performs an assessment to determine whether the arrangement contains a variable interest in an entity and whether that entity is a VIE. The primary beneficiary of a VIE is the party that has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. Where the Company concludes that it is the primary beneficiary of a VIE, the Company consolidates the accounts of that VIE.

**PLANET 13 HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements**  
**(in United States Dollars)**

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iii) Functional currency

These consolidated financial statements are presented in U.S. dollars (“USD”), which is the Company’s and its subsidiaries functional currency.

Foreign currency transactions are remeasured to the respective functional currencies of the Company’s entities at the exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are remeasured to functional currency at the foreign exchange rate applicable at the statement of balance sheets date. Non-monetary items carried at historical cost denominated in foreign currencies are remeasured to the functional currency at the date of the transactions. Non-monetary items carried at fair value denominated in foreign currencies are remeasured to the functional currency at the date when the fair value was determined. Realized and unrealized foreign exchange gains and losses are recognized through profit and loss.

iv) Emerging growth company

The Company is an “Emerging Growth Company”, as defined in Section 2(a) of the Securities Act of 1933, as amended (the “Securities Act”), as modified by the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), and it has taken advantage of certain exemptions that are not applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the independent registered public accounting firm attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

Further, Section 102(b) (1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not has a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial reporting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public and private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard.

**3. SIGNIFICANT ACCOUNTING POLICIES**

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**(a) Cash**

Cash is comprised of cash deposits in financial institutions plus cash held at its retail locations and other deposits that are readily convertible to cash.

**(b) Inventory**

Inventory is comprised of raw materials, finished goods and work-in-progress. Cost includes expenditures directly related to the cultivation and manufacturing process as well as suitable portions or related production overheads, based on normal operating capacity. Cannabis: Inventory cost includes pre-harvest, post-harvest and shipment and fulfillment, as well as related accessories. Pre-harvest costs include labor and direct materials to grow cannabis, which includes water, electricity, nutrients, integrated pest management, growing supplies and allocated overhead. Post-harvest costs include costs associated with drying, trimming, blending, extraction, purification, quality testing and allocated overhead. Shipment and fulfillment costs include the costs of packaging, labeling, courier services and allocated overhead. Inventory is stated at the lower of cost or net realizable value, determined using weighted average cost. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. At the end of each reporting period, the Company performs an assessment of inventory and records write-downs for excess and obsolete inventories based on the Company’s estimated forecast of product demand, production requirements, market conditions, regulatory environment, and spoilage. Actual inventory losses may differ from management’s estimates and such differences could be material to the Company’s balance sheets, statements of net loss and comprehensive loss and statements of cash flows.

**PLANET 13 HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements**  
**(in United States Dollars)**

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**(c) Property and equipment**

Property and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any. Additions and improvements that materially increase the life of the assets are capitalized while maintenance and repairs are expensed as incurred. Significant expenditures, which extend the useful lives of assets or increase productivity are capitalized. When significant parts of one of our property and equipment have different useful lives, they are accounted for as separate items or components of property and equipment. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the respective accounts and any related gain or loss is recognized in the consolidated statements of operations.

Depreciation is calculated on a straight-line basis over the following expected useful lives:

Land	Not depreciated
Land improvements	5 years
Building	5 – 40 years
Equipment	5 – 7 years
Leasehold improvements	Shorter of estimated useful life or remaining lease term
Construction in progress	Not depreciated

An assets residual value, useful life and depreciation method are reviewed at each reporting period with the effect of any changes in estimate accounted for on a prospective basis. Depreciation of property and equipment commences when the asset is available for use.

Construction in progress includes construction progress payments, deposits, engineering costs and other costs directly related to the construction of the facilities. Expenditures are capitalized during the construction period and construction in progress is transferred to the relevant class of property and equipment when the assets are available for use, at which point in time the depreciation of the asset commences.

Property and equipment acquired in a business combination is depreciated over the remaining useful life of the asset.

**(d) Intangible assets**

Intangible assets include licenses acquired as part of business combinations and other business transactions.

When there is no foreseeable limit on the period of time over which an intangible asset is expected to contribute to the cash flows of the Company, an intangible asset is determined to have an indefinite life. Indefinite life intangible assets are tested for impairment annually, or more frequently when events or circumstances indicate that impairment may have occurred. As part of the impairment evaluation, the Company may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying value, a quantitative impairment test is required to compare the fair value of the asset to its carrying value. An impairment charge is recorded if the carrying value exceeds the fair value. The Company elected to perform a qualitative assessment on November 1, 2021 and determined that it was more likely than not the fair value of the intangible assets was greater than the carrying value.

**PLANET 13 HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements**  
**(in United States Dollars)**

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Licenses acquired in a business combination are measured at fair value at the acquisition date. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

**(e) Impairment of long-lived assets**

The Company reviews long-lived assets, including property and equipment and definite life intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. In order to determine if assets have been impaired, assets are grouped and tested at the lowest level for which identifiable independent cash flows are available ("asset group"). When indicators of potential impairment are present the Company prepares a projected undiscounted cash flow analysis for the respective asset or asset group. If the sum of the undiscounted cash flows is less than the carrying value of the asset or asset group, an impairment loss is recognized equal to the excess of the carrying value over the fair value, if any. Fair value can be determined using a market approach, income approach or cost approach. The reversal of impairment losses is prohibited.

**(f) Share-based compensation**

The Company has an equity incentive plan which includes issuances of stock options and restricted share units ("RSUs"). From time to time, the Company also enters into share-based compensation agreements with non-employees. The accounting for these arrangements typically aligns with those of employees.

After adopting ASU 2018-07 which made amendments to ASC Topic 718, *Stock Compensation*, an acquirer measures share-based compensation to non-employees in exchange for goods and services in the same manner as share-based payments to employees, using a fair-value based approach measured at the grant date. This guidance is followed if the acquirer considers the assets and goods to be used or consumed in its own operation. If not, the Company has elected to account for the equity interests issued in accordance with ASC 805, *Business Combinations*, based on the fair value of the equity interests issued. The fair value of share-based compensation to non-employees is periodically remeasured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The corresponding amount is recorded to the share-based payment reserve for options and to restricted share units for RSUs.

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense on a straight-line basis over the vesting period. The amount recognized as expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be satisfied, such that the amount ultimately recognized is based on the number of awards that ultimately vest.

The fair value of the options granted is measured using the Black Scholes option pricing model, taking into account the terms and conditions upon which the share-based payments were granted.

The fair value of RSUs is determined using the closing price of the Company's shares on the day of grant. The number of RSUs expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired RSUs are transferred to deficit in the year of forfeiture or expiry.

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**(g) Warrant liability**

Warrants are accounted for in accordance with the authoritative accounting guidance in ASC Topic 815, *Derivatives and Hedging – Contracts in Entity's Own Equity* ("ASC 815"), as either derivative liabilities or as equity instruments depending on the specific terms of the warrant agreements. Liability-classified instruments are recorded at fair value at each reporting period with any change in fair value recognized as a component of change in fair value of derivative liabilities in the consolidated statements of operations and comprehensive loss. Transaction costs allocated to warrants that are presented as a liability are expensed immediately within other (expense) income in the consolidated statement of operations and comprehensive loss. Refer to paragraph (p) below as well as Note 11 for a discussion on the change in the warrant liability value.

**(h) Revenue recognition**

The Company earns revenue from the sale of cannabis to customers. The Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for the performance obligations.

In order to recognize revenue, the Company applies the following five (5) steps:

- 1) Identify the contract with the customer
- 2) Identify the performance obligation(s)
- 3) Determine the transaction price
- 4) Allocate the transaction price to the performance obligation(s)
- 5) Recognize revenue when/as performance obligation(s) are satisfied

Revenue from the sale of cannabis is recognized at a point in time when control over the goods has transferred to the customer. This corresponds when the Company satisfies its performance obligation. Revenue is recorded net of any point-of-sale discounts provided to the customer. The Company's revenues are principally derived from arrangements with fixed consideration. Variable consideration, if any, is not material.

The majority of the Company's revenue is cash at point of sale. Payment is due upon transferring the goods or providing the services to the customer or within a specified time period permitted under the Company's credit policy. In those cases where the Company provides goods or services on credit, the Company considers whether or not collection is probable in determining whether a contract exists under ASC 606, *Revenue from Contracts with Customers*. Costs associated with goods or services is expensed in the year that the performance obligations are satisfied.

*Loyalty Points Reward Programs*

In certain of its markets, the Company offers a loyalty reward program to its dispensary customers that allows its customers to earn discounts on future purchases. Loyalty points are earned when a qualifying purchase is made. When a customer attains a certain number of points, the customer can redeem the credits on future in-store purchases. Loyalty points do not have an expiration date.

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A portion of the revenue generated in a sale is allocated to the loyalty points earned. The amount allocated to the points earned is deferred until the loyalty points are redeemed.

Deferred Income

Deferred income represents cash payments received in advance of the Company's transfer of control of products or services to its customers and generally consists of unearned revenue from the Company's loyalty programs. The Company's deferred income balances were \$759,060 and \$464,000 as of December 31, 2021 and 2020, respectively, and were recorded within accrued expenses in the consolidated balance sheets. During the years ended December 31, 2021, 2020 and 2019, the Company recognized \$1,136,135, \$180,056 and \$120,722, respectively, of net revenues from amounts recorded as deferred income. The deferred income balance as of December 31, 2021 is expected to be recognized as revenue within the next twelve to eighteen months.

The Company determined that no provision for returns or refunds was necessary as at December 31, 2021 or 2020. State taxes remitted to tax authorities are government-imposed excise taxes on cannabis. Excise taxes are recorded as a reduction of sales in net revenue in the consolidated statements of operations and comprehensive loss and recognized as a current liability within accrued expenses in the consolidated balance sheets, with the liability subsequently reduced when the taxes are remitted to the tax authority. In addition, amounts disclosed as net revenues are net of state taxes, sales tax, duty tax, allowances and discounts.

The following table represents the Company's disaggregated revenue by sales channel:

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Retail	\$ 114,792,191	\$ 68,776,221	\$ 63,595,036
Wholesale	<u>4,701,244</u>	<u>1,715,059</u>	<u>-</u>
Net revenues	<u>\$ 119,493,435</u>	<u>\$ 70,491,280</u>	<u>\$ 63,595,036</u>

**(i) Leases**

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating right-of-use ("ROU") assets and operating lease liabilities are included in operating lease liability in the consolidated balance sheets. Finance lease ROU assets are included in finance ROU assets and finance lease liabilities are included in finance lease liability in the consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets are classified as either a finance lease or an operating lease. A finance lease is a lease in which 1) ownership of the property transfers to the lessee by the end of the lease term; 2) the lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise; 3) the lease is for a major part of the remaining economic life of the underlying asset; 4) the present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already included in the lease payments equals or exceeds substantially all of the fair value; or 5) the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. The Company classifies a lease as an operating lease when the lease does not meet any of these criteria.

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ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the incremental borrowing rate is used based on the information available at commencement date in determining the present value of lease payments. The Company uses the implicit rate when readily determinable. The ROU assets also include any lease payments made prior to the commencement date and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

For finance leases, lease expenses are the sum of interest on the lease obligations and amortization of the ROU assets. ROU assets are amortized based on the lesser of the lease term or the useful life of the leased asset according to the property and equipment accounting policy. If ownership of the ROU assets transfers to the Company at the end of the lease term or if the Company is reasonably certain to exercise a purchase option, amortization is calculated using the estimated useful life of the leased asset, according to the property and equipment accounting policy.

For operating leases, the lease expenses are generally recognized on a straight-line basis over the lease term and recorded to general and administrative expenses in the consolidated statements of operations and comprehensive loss.

The Company has elected to apply the practical expedient in ASC 842 *Leases*, for each class of underlying asset, except real estate leases, to not separate non-lease components from the associated lease components of the lessee's contract and account for both components as a single lease component. Additionally, for certain equipment leases, the Company applies a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

The Company has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less that do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. Short-term leases include real estate and vehicles and are not significant in comparison to the Company's overall lease portfolio. The Company continues to recognize the lease payments associated with these leases as expenses on a straight-line basis over the lease term.

**(j) Income taxes**

Income taxes are comprised of current and deferred taxes. These taxes are accounted for using the asset and liability method of accounting for income taxes under ASC 740 *Income Taxes*. Deferred tax is recognized on the difference between the carrying amount of an asset or a liability, as reflected in the consolidated financial statements, and the corresponding tax base used in the computation of income for tax purposes ("temporary difference") and measured using the enacted tax rates and laws as at the balance sheet date that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Management assesses the likelihood that a deferred tax asset will be realized, and a valuation allowance is provided to the extent that it is more likely than not that all or a portion of a deferred tax asset will not be realized. If it is subsequently determined that the Company will be able to realize deferred tax assets in excess of the net recorded amount, then the valuation allowance will be adjusted accordingly in the period in which this determination is made.

Current tax is recognized in connection with income for tax purposes, unrecognized tax benefits and the recovery of tax paid in a prior period and measured using the enacted tax rates and laws applicable to the taxation period during which the income for tax purposes arose. An unrecognized tax benefit may arise in connection with a period that has not yet been reviewed by the relevant tax authority. A change in the recognition or measurement of an unrecognized tax benefit is reflected in the period during which the change occurs.

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The Company recognizes uncertain income tax positions at the largest amount that is more-likely-than-not to be sustained upon examination by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Recognition or measurement is reflected in the period in which the likelihood changes.

Interest and penalties in respect of income taxes are not recognized in the consolidated statement of operations as a component of income taxes but as a component of interest expense.

As the Company operates in the cannabis industry, it is subject to the limits of U.S. Internal Revenue Code ("IRC") Section 280E ("Section 280E") under which the Company is only allowed to deduct expenses directly related to the cost of producing the products or cost of production.

**(k) Sales and marketing**

The Company expenses sales and marketing costs when incurred. Sales and marketing expense was \$5,969,792 for the year ended December 31, 2021 (2020 - \$3,305,639; 2019 - \$6,539,483).

**(l) Fair value**

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Fair value measurement for invested assets are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Levels 1, 2 or 3). The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: one or more significant inputs used in a valuation technique are unobservable in determining fair values of the asset or liability

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of an asset or liability in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The carrying value of the Company's cash, accounts receivable, deposits, accounts payable, accrued expenses, and notes payable approximate their fair value due to their short-term nature. Warrant liability is measured based on level 1 inputs (Note 11).

The Company's prepaid and other current assets, long lived assets, including property and equipment, and intangible assets are measured at fair value when there is an indicator of impairment and are recorded at fair value only when an impairment charge is recognized.

**(m) Cost of sales**

Cost of sales represents costs directly related to manufacturing and distribution of the Company's products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and handling, the depreciation of certain property, plant and equipment, and tariffs. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance, and property taxes. Cost of sales also includes inventory valuation adjustments. The Company recognizes the cost of sales as the associated revenues are recognized.



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**(n) Earnings (loss) per share**

Basic earnings per share ("Basic EPS") is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share ("Diluted EPS") is calculated using the treasury method of calculating the weighted average number of common shares outstanding. The treasury method assumes that outstanding stock options with an average exercise price below the market price of the underlying shares are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average price of the common shares for the period.

**(o) Operating segments**

Operating segments are components of the Company that engage in business activities which generate revenues and incur expenses (including intercompany revenues and expenses related to transactions conducted with other components of the Company). The operations of an operating segment are distinct, and the operating results are regularly reviewed by the chief operating decision maker ("CODM") for the purposes of resource allocation decisions and assessing its performance.

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 and dispensary operations in both the state of Nevada and the state of California.

As at December 31, 2021 and 2020, all the Company's non-current assets were located in the United States and 100% of the Company's revenue was generated in the United States.

**(p) Critical accounting estimates and judgements**

The preparation of consolidated financial statements in conformity with GAAP requires the Company's management to make judgements, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

*Leases*

The Company applies judgement in determining whether a contract contains a lease and if a lease is classified as an operating lease or a finance lease.

The Company determines the lease term as the non-cancellable term of the lease, which may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The lease term is used in determining classification between operating lease and finance lease, calculating the lease liability and determining the incremental borrowing rate. The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date of the lease, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

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The Company is required to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. The Company generally uses the incremental borrowing rate when initially recording real estate leases. Information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is not available. The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

*Share-based compensation*

The Company uses the Black-Scholes valuation model to determine the fair value of options and warrants granted to employees and non-employees under share-based payment arrangements, where appropriate. In estimating fair value, management is required to make certain assumptions and estimates such as the expected term of the instrument, volatility of the Company's future share price, risk free rates, future dividend yields and estimated forfeitures at the initial grant date, by reference to the underlying terms of the instrument, and the Company's experience with similar instruments. Changes in assumptions used to estimate fair value could result in materially different results. Refer to Note 12 for further information.

*Estimated useful lives and depreciation of property and equipment, right-of-use assets*

Depreciation and amortization of property and equipment, right-of-use assets and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. Impairment of definite long-lived assets is influenced by judgment in defining a reporting unit and determining the indicators of impairment, and estimates used to measure impairment losses. Refer to Notes 6, 7 and 8 for further information.

*Impairment of indefinite life intangible assets*

Indefinite life intangible assets are tested for impairment annually, or more frequently when events or circumstances indicate that impairment may have occurred. As part of the impairment evaluation, the Company may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of the indefinite-lived intangible asset or the reporting unit is less than its carrying value, a quantitative impairment test is required to compare the fair value of the asset to its' carrying value. An impairment charge is recorded if the carrying value exceeds the fair value. The assessment of whether an indication of impairment exists is performed at the end of each reporting period and requires the application of judgment, historical experience, and external and internal sources of information. The Company makes estimates in determining the future cash flows and discount rates in the quantitative impairment test to compare the fair value to the carrying value.

*Valuation of inventory*

Inventory is comprised of raw materials, work-in-progress and finished goods. Cannabis and hemp costs include expenditures directly related to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. At the end of each reporting period, the Company performs an assessment of inventory and record inventory valuation adjustments for excess and obsolete inventories based on the estimated forecast of product demand, production requirements, market conditions, regulatory environment, and spoilage. A reserve is estimated to ensure the inventory balance at the end of the year reflects the estimates of product the Company expect to sell in the next year. Changes in the regulatory structure, lack of retail distribution locations or lack of consumer demand could result in future inventory reserves.

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*Warrant liability*

Warrants are accounted for in accordance with the applicable authoritative accounting guidance in ASC Topic 815, Derivatives and Hedging - Contracts in Entity's Own Equity ("ASC 815"), as either derivative liabilities or as equity instruments depending on the specific terms of the warrant agreements. Liability-classified instruments are recorded at fair value at each reporting period with any change in fair value recognized as a component of the change in fair value of derivative liabilities in the consolidated statements of operations and comprehensive loss. Transaction costs allocated to warrants that are presented as a liability are expensed immediately within other expenses (income) in the consolidated statements of operations and comprehensive loss. Refer to paragraph (p) below as well as Note 11 for a discussion on the change in the warrant liability value.

*Deferred tax assets and uncertain tax positions*

The Company recognizes deferred tax assets and liabilities based on the differences between the consolidated financial statement carrying amounts and the respective tax bases of its assets and liabilities. The Company measures deferred tax assets and liabilities using current enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse. The Company routinely evaluates the likelihood of realizing the benefit of its deferred tax assets and may record a valuation allowance if, based on all available evidence, it determines that some portion of the tax benefit will not be realized.

In evaluating the ability to recover deferred tax assets within the jurisdiction from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies and results of operations. In projecting future taxable income, the Company considers historical results and incorporates assumptions about the amount of future pretax operating income adjusted for items that do not have tax consequences. The Company's assumptions regarding future taxable income are consistent with the plans and estimates that are used to manage its underlying businesses. In evaluating the objective evidence that historical results provide, the Company considers three years of cumulative operating income (loss). The income tax expense, deferred tax assets and liabilities and liabilities for unrecognized tax benefits reflect the Company's best assessment of estimated current and future taxes to be paid. Deferred tax asset valuation allowances and liabilities for unrecognized tax benefits require significant judgment regarding applicable statutes and their related interpretation, the status of various income tax audits and the Company's particular facts and circumstances. Although the Company believes that the judgments and estimates discussed herein are reasonable, actual results, including forecasted COVID-19 business recovery, could differ, and the Company may be exposed to losses or gains that could be material. To the extent the Company prevails in matters for which a liability has been established or is required to pay amounts in excess of the established liability, the effective income tax rate in a given financial statement period could be materially affected.

**(q) Accounting standards issued but not yet effective**

*Allowance for credit losses*

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses ("ASC 326"): Measurement of Credit Losses on Financial Instruments. This guidance was subsequently amended by ASU 2018-19, Codification Improvements, ASU 2019-04, Codification Improvements, ASU 2019-05, Targeted Transition Relief, ASU 2019-10, Effective Dates, and ASU 2019-11, Codification Improvements. These ASUs are referred to collectively as the new guidance on current expected credit loss ("CECL"). The standard is effective for non-public business entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effect of adopting this ASU.

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*Income taxes*

In December 2019, the FASB issued ASU 2019-12, Income Taxes (“ASC 740”) - Simplifying the Accounting for Income Taxes (“ASU 2019-12”), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. The standard is effective for non-public business entities for annual reporting periods beginning after December 15, 2021 and including interim periods within those fiscal years, which means that it will be effective for the Company in the first quarter of our year beginning January 1, 2022. Early adoption is permitted. The Company is currently evaluating the effect of adopting this ASU.

*Debt with conversion options and other options*

In August 2020, the FASB issued ASU 2020-06, Debt - Debt with Conversion and Other Options (“ASC 470-20”) and Derivatives and Hedging—Contracts in Entity’s Own Equity (“ASC 815-40”): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity (“ASU 2020-06”), which is intended to address issues identified as a result of the complexity associated with applying generally accepted accounting principles (GAAP) for certain financial instruments with characteristics of liabilities and equity. ASU 2020-06 is effective for public smaller reporting companies and non-public entities in fiscal years beginning after December 15, 2023. The Company is currently evaluating the effect of adopting this ASU.

*Freestanding written call options*

In May 2021, the FASB issued ASU 2021-04, Earnings Per Share (“ASC 260”), Debt - Modifications and Extinguishments (“ASC 470-50”), Compensation – Stock Compensation (“ASC 718”), and Derivatives and Hedging - Contracts in Entity’s Own Equity (“ASC 815-40”), which clarifies existing guidance for freestanding written call options which are equity classified and remain so after they are modified or exchanged in order to reduce diversity in practice. The standard is effective for all entities in fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the effect of adopting this ASU.

*Business Combinations*

In October 2021, the FASB issued ASU 2021-08, Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (“ASU 2021-08”) (“ASC 805”). ASU 2021-08 requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities from acquired contracts using the revenue recognition guidance under ASC 606 in order to align the recognition of a contract liability with the definition of performance obligation. This approach differs from the current requirement to measure contract assets and contract liabilities acquired in a business combination at fair value. ASU 2021-08 is effective for financial statements of non-public business entities issued for fiscal years beginning after December 15, 2023 and early adoption is permitted. The Company is currently evaluating the effect of adopting this ASU.

**4. Inventory**

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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 inventory is comprised of:

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	December 31, 2021	December 31, 2020
Raw materials	\$ 3,093,646	\$ 1,292,310
Packaging and miscellaneous	1,825,514	566,157
Work in progress	2,883,955	1,801,434
Finished goods	6,422,254	3,259,939
	<u>\$ 14,225,369</u>	<u>\$ 6,919,840</u>

Cost of Inventory is recognized as an expense when sold and included in cost of goods sold. During the year ended December 31, 2021, the Company recognized \$53,485,458 (2020 - \$35,394,019; 2019 - \$27,086,453) of inventory expensed to cost of goods sold.

**5. Prepaid expenses and other current assets**

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	December 31, 2021	December 31, 2020
Security deposits	\$ 2,287,596	\$ 1,031,255
Advertising and Marketing	306,415	55,126
Prepaid rent	218,599	203,354
Insurance	804,608	550,946
License fees	36,008	34,157
Miscellaneous	324,298	323,167
	<u>\$ 3,977,524</u>	<u>\$ 2,198,005</u>

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**6. Property and equipment**

	<u>Land and Improvements</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold Improvements</u>	<u>Construction in Progress</u>	<u>Total Property and Equipment</u>
<b>Gross carrying amount</b>						
At December 31, 2019	\$ 625,146	\$ 1,698,077	\$ 4,075,085	\$ 27,094,559	\$ 1,778,283	\$ 35,271,150
Additions	-	9,817	2,096,736	2,110,612	3,174,371	7,391,536
Transfers	-	-	65,435	1,242,871	(1,308,306)	-
Disposals	-	-	-	-	(277,093)	(277,093)
At December 31, 2020	<u>625,146</u>	<u>1,707,894</u>	<u>6,237,256</u>	<u>30,448,042</u>	<u>3,367,255</u>	<u>42,385,593</u>
Additions	5,153	-	3,057,631	10,663,811	12,368,056	26,094,651
Transfers	-	-	1,927,109	13,680,522	(15,607,631)	-
Disposals	-	-	(116,755)	(74,004)	-	(190,759)
At December 31, 2021	<u>\$ 630,299</u>	<u>\$ 1,707,894</u>	<u>\$ 11,105,241</u>	<u>\$ 54,718,371</u>	<u>\$ 127,680</u>	<u>\$ 68,289,485</u>

**Depreciation**

At December 31, 2019	\$ 76,737	\$ 161,258	\$ 1,242,945	\$ 3,579,056	\$ -	\$ 5,059,996
Additions	51,194	42,492	1,034,935	4,141,006	-	5,269,627
Transfers & disposals	-	-	(17,955)	-	-	(17,955)
At December 31, 2020	<u>127,931</u>	<u>203,750</u>	<u>2,259,925</u>	<u>7,720,062</u>	<u>-</u>	<u>10,311,668</u>
Additions	51,366	42,697	1,542,438	5,576,595	-	7,213,096
Transfers & disposals	-	-	(1,197)	(12,359)	-	(13,556)
At December 31, 2021	<u>\$ 179,297</u>	<u>\$ 246,447</u>	<u>\$ 3,801,166</u>	<u>\$ 13,284,298</u>	<u>\$ -</u>	<u>\$ 17,511,208</u>

**Carrying amount**

At December 31, 2019	\$ 548,409	\$ 1,536,819	\$ 2,832,140	\$ 23,515,503	\$ 1,778,283	\$ 30,211,154
At December 31, 2020	<u>\$ 497,215</u>	<u>\$ 1,504,144</u>	<u>\$ 3,977,331</u>	<u>\$ 22,727,980</u>	<u>\$ 3,367,255</u>	<u>\$ 32,073,925</u>
At December 31, 2021	<u>\$ 451,002</u>	<u>\$ 1,461,447</u>	<u>\$ 7,304,075</u>	<u>\$ 41,434,073</u>	<u>\$ 127,680</u>	<u>\$ 50,778,277</u>

For the year ended December 31, 2021 depreciation expense was \$7,213,096 (2020 - \$5,269,628, 2019 - \$2,971,894) of which \$1,922,713 (2020 - \$1,637,415, 2019 - \$730,839) was included in cost of goods sold.

During the year ended December 31, 2021 the Company transferred \$13,680,522 (2020 - \$1,242,871, 2019 - \$5,146,366) and \$1,927,109 (2020 - \$65,435, 2019 - \$950,535) of costs from Construction in Progress to Leasehold Improvements and Equipment, respectively, upon completion of the related projects.

**7. Intangible assets**

	Retail Dispensary Santa Ana	Retail Dispensary Clark County	Cultivation and Production Clark County	Master License Florida	Total
Carrying amount					
Balance, December 31, 2019	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	6,151,343	690,000	709,798	-	7,551,141
Balance, December 31, 2020	<u>6,151,343</u>	<u>690,000</u>	<u>709,798</u>	<u>-</u>	<u>7,551,141</u>
Additions	-	-	-	55,846,866	55,846,866
Balance at December 31, 2021	<u>\$ 6,151,343</u>	<u>\$ 690,000</u>	<u>\$ 709,798</u>	<u>\$ 55,846,866</u>	<u>\$ 63,398,007</u>

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Santa Ana acquisition

On May 20, 2020, the Company closed on its acquisition of Newtonian Principles, Inc. resulting in the Company acquiring a California cannabis sales license held by Newtonian Principles, Inc. and a 30-year lease for a dispensary in Santa Ana, California. The acquisition was accounted for as an asset purchase acquisition as Newtonian Principles, Inc. was deemed to not be a business under ASC 805 Business Combinations. The facility became operational in July 2021.

The following table summarizes the allocation of consideration exchanged to the estimated fair value of identifiable intangible assets acquired assumed:

Consideration paid:

Cash	\$ 1,153,733
Issuance of 3,940,932 Class A Shares (Note 11)	4,453,831
	<u>5,607,564</u>

Fair value of net assets acquired:

Right of use asset	\$ 4,395,037
Right of use liability	(4,395,037)
Deferred tax liability	(543,779)
Intangible asset - License	6,151,343
	<u>\$ 5,607,564</u>

W Vapes acquisition

On July 17, 2020, the Company entered into an asset purchase agreement with West Coast Developments Nevada, LLC and W The Brand, LLC (together "WCDN") pursuant to which the Company acquired cannabis inventory, equipment and tenant improvements located in Las Vegas, Nevada. The acquisition was accounted for as an asset purchase acquisition as WCDN assets acquired was deemed to not be a business.

The following table summarizes the allocation of consideration exchanged to the estimated fair value of tangible and intangible assets acquired:

Consideration paid:

Cash	\$ 1,706,667
Issuance of 1,374,833 Class A Shares (Note 11)	2,918,277
	<u>4,624,944</u>

Fair value of net assets acquired:

Inventory	\$ 1,632,872
Fixed assets	2,282,274
Intangible asset - License	709,798
	<u>\$ 4,624,944</u>

The Company acquired two cultivation licenses (one medical and one recreational), two production licenses (one medical and one recreational) and one conditional distribution license. The transaction was scheduled to close in two parts, the first closing being cash transferred for the equipment and cannabis inventory which occurred on July 17, 2020, and the second closing (the "Second Closing") being contingent on the approval to transfer the license and receipt of the cultivation and production licenses from the State of Nevada's Cannabis Control Board ("CCB"). On August 25, 2020, the CCB conditionally approved the transfer of the cultivation and production licenses to MMDC, and on September 3, 2020 the Company received the cultivation and production licenses pursuant to a letter from the CCB.

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On September 11, 2020, the Company mutually agreed with WCDN that the receipt by the Company of a business license issued by unincorporated Clark County which would permit the Company to conduct business in Clark County (the “Clark County Business License”) was a necessary condition precedent to the Second Closing. As a result, the Second Closing occurred, and the 1,374,833 common shares in the Capital of the Company were released from escrow to WCDN, on November 27, 2020 upon receipt by the Company of the Clark County Business License.

Concurrent with the first closing of the WCDN assets acquired, RX Land, LLC (“RX Land”), an entity owned by the Corporation’s co-CEOs, acquired the WCDN facility for US\$3.3 million and entered into a lease agreement with WCDN in respect of such facility (the “Initial West Bell Lease”). In accordance with the terms of the WCDN asset acquisition and approvals by the independent directors of Planet 13, WCDN assigned the Initial West Bell Lease to MMDC on November 25, 2020, and MMDC subsequently entered into an amending agreement with RX Land on November 27, 2020, to amend certain terms of such lease agreement including increasing the lease payments, extending the duration of the lease and, if desired, allowing for second floor installation by MMDC without a corresponding lease rate increase due to an increase in facility size. The entering into by MMDC of the assignment agreement and the amending agreement with RX Land constitutes a “related party transaction”.

By way of an October 10, 2020 letter from the CCB, the Company received a distribution license from WCDN.

Medizin license acquisition

On July 31, 2020, the Nevada Tax Commission approved a settlement agreement between the Nevada Tax Commission, the Corporation and other plaintiffs, and intervening defendants (the “Nevada License Settlement”) in connection with a lawsuit filed by the Company and other defendants after the defendants were notified in December 2018 that no licenses had been awarded to any of the defendants as part of a competitive application process that the Company and the other defendants had participated in for Nevada cannabis dispensary licenses in September 2018.

On August 7, 2020, the CCB convened and approved the Nevada License Settlement.

On September 3, 2020, the CCB transferred the Clark County dispensary license to MMDC.

On November 20, 2020, the Corporation opened the Medizin store location, having received CCB final inspection approvals and a Clark County business license. The Company has capitalized \$690,000 in costs incurred to secure the license under the Nevada License Settlement.

Florida License Acquisition

On September 28, 2021, the Florida Department of Health’s Office of Medical Marijuana Use (“OMMU”) approved the Company to acquire a license to operate a Medical Marijuana Treatment Center issued by the Florida Department of Health from a subsidiary of Harvest Health & Recreation Inc. The acquisition closed with an effective date of October 1, 2021, and the Company released \$55,000,000 of restricted cash that was being held in escrow to the seller in exchange for receipt of the Medical Marijuana Treatment Center license.



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The Company has capitalized \$846,866 in costs incurred to secure the license pursuant to the license acquisition.

### **8. Leases**

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On January 1, 2019, the Company adopted ASC 842, Leases (“ASC 842”) using the modified retrospective transition method. Topic 842 requires the recognition of lease assets and liabilities for operating and finance leases. Beginning on January 1, 2019, the Company’s consolidated financial statements are presented in accordance with the revised policies.

Management elected to utilize the practical expedients permitted under the transition guidance within Topic 842, which allowed the Company to carry forward prior conclusions about lease identification, classification and initial direct costs for leases entered prior to adoption of Topic 842. Additionally, management elected not to separate lease and non-lease components for all of the Company’s leases. For leases with a term of 12 months or less, management elected the short-term lease exemption, which allowed the Company to not recognize right-of-use assets (“ROU”) or lease liabilities for qualifying leases existing at transition and new leases the Company may enter into in the future.

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. Certain leases include escalation clauses or payment of executory costs such as property taxes, utilities, or insurance and maintenance. Rent expense for leases with escalation clauses is accounted for on a straight-line basis over the lease term. The Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

On initial recognition, the Company recorded operating right-of-use assets of \$8,708,316, operating lease liabilities of \$8,639,028 and finance ROU assets and finance lease liabilities of \$133,561. On initial recognition, operating ROU assets were adjusted for prepaid rent and deferred rent was reversed which resulted in the Company recording \$427,508 to opening accumulated deficit. The Company’s incremental borrowing rate was used in determining the present value of future payments at the commencement date of the lease.

The following table provides the components of lease cost recognized in the consolidated statement of operations and comprehensive loss for 2021 and 2020:

	December 31, 2021	December 31, 2020
Operating lease costs	\$ 4,437,816	\$ 3,227,428
Finance lease costs:		
Amortization of lease assets	44,672	46,194
Interest on lease liabilities	3,431	10,774
Finance lease costs	48,103	56,968
Short term lease expense	19,917	17,154
Total lease costs	<u>\$ 4,505,836</u>	<u>\$ 3,301,550</u>

Other information related to operating and finance leases as of and for the year end December 31, 2021 and 2020 are as follows:

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	December 31, 2021		December 31, 2020	
	Finance Lease	Operating Lease	Finance Lease	Operating Lease
Weighted average discount rate	15.00%	15.00%	15.00%	15.00%
Weighted average remaining lease term	-	11.87	0.88	12.80

The maturity of the contractual undiscounted lease liabilities as of December 31, 2021 and 2020 are:

	December 31, 2021		December 31, 2020	
	Finance Lease	Operating Lease	Finance Lease	Operating Lease
2021	\$ -	\$ -	\$ 49,803	\$ 3,180,999
2022	-	3,595,030	-	3,354,437
2023	-	3,729,936	-	3,482,126
2024	-	3,870,217	-	3,614,972
2025	-	3,956,923	-	3,694,021
2026	-	3,880,082	-	3,757,894
2027	-	3,903,423	-	-
Thereafter	-	50,234,732	-	54,138,155
Total undiscounted lease liabilities	-	73,170,343	49,803	75,222,604
Interest on lease liabilities	-	(49,612,758)	(3,431)	(52,695,691)
Total present value of minimum lease payments	-	23,557,585	46,372	22,526,913
Lease liability - current portion	-	(423,573)	(46,372)	(161,021)
Lease liability	\$ -	\$ 23,134,012	\$ -	\$ 22,365,892

Principally, all leases relate to real estate. Additional information on the right-of-use assets is as follows:

	Finance Lease	Operating Lease
<b>Gross carrying amount</b>		
Balance, December 31, 2019	\$ 133,561	\$ 10,733,087
Lease modifications	-	335,798
Additions	-	10,893,679
Balance, December 31, 2020	133,561	21,962,564
Additions	-	867,559
Balance, December 31, 2021	\$ 133,561	\$ 22,830,123
<b>Depreciation</b>		
Balance, December 31, 2019	\$ 42,695	\$ 615,550
Additions	46,194	849,119
Balance, December 31, 2020	88,889	1,464,669
Additions	44,672	965,489
Balance, December 31, 2021	\$ 133,561	\$ 2,430,158
<b>Carrying amount December 31, 2019</b>	\$ 90,866	\$ 10,117,537
<b>Carrying amount December 31, 2020</b>	\$ 44,672	\$ 20,497,895
<b>Carrying amount December 31, 2021</b>	\$ -	\$ 20,399,965

For the year ended December 31, 2021 the Company incurred \$4,437,816 of operating lease costs (2020 - \$3,227,428; 2019 - \$2,019,931), of which \$1,829,800 (2020 - \$1,112,685; 2019 - \$106,947) was capitalized to inventory.

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**9. Notes payable**

Non-related parties

	December 31, 2021	December 31, 2020
Promissory note dated November 4, 2015, with semi-annual interest at 5.0%, secured by deed of trust, due December 1, 2019	<b>884,000</b>	884,000
	<b>\$ 884,000</b>	\$ 884,000
Less current portion	<b>(884,000)</b>	(884,000)
	<b>\$ -</b>	\$ -

Stated maturities of debt obligations are as follow:

Next 12 months Promissory Note	<b>\$ 884,000</b>
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**10. Share capital**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of Class A shares.

	Number of Common Shares		
	December 31, 2021	December 31, 2020	December 31, 2019
<b>Common Shares</b>			
Balance at January 1	<b>126,573,250</b>	82,427,619	73,324,460
Shares issued on settlement of RSU's	i. <b>3,126,534</b>	2,685,344	3,954,518
Shares issued on exercise of options	ii. <b>121,336</b>	333,001	258,994
Shares issued on exercise of warrants	iii. <b>3,772,640</b>	17,532,271	4,889,647
Shares issued on financing - July 2020	iv. -	5,359,000	-
Shares issued on financing - September 2020	v. -	6,221,500	-
Shares issued on financing - November 2020	vi. -	6,698,750	-
Shares issued on financing - February 2021	vii. <b>9,861,250</b>	-	-
Shares issued on conversion of Class A shares (Note 7)	viii. <b>55,232,940</b>	3,940,932	-
Shares issued on acquisition (Note 7)	-	1,374,833	-
<b>Total common shares outstanding on December 31</b>	<b>198,687,950</b>	<b>126,573,250</b>	<b>82,427,619</b>

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i. Shares issued for Restricted Share Units

During the year ended December 31, 2021, the Company issued 3,126,534 common shares on the settlement of Restricted Share Units (“RSUs”) that had vested during the period. The Company did not receive any cash proceeds on the settlement.

During the year ended December 31, 2020, the Company issued 2,685,344 common shares on the settlement of Restricted Share Units (“RSUs”) that had vested during the period. The Company did not receive any cash proceeds on the settlement.

During the year ended December 31, 2019, the Company issued 3,954,518 common shares on the settlement of RSUs that had vested during the year. The Company did not receive any cash proceeds on the settlement.

ii. Shares issued for Stock Options

During the year ended December 31, 2021, the Company issued 121,336 common shares on the exercise of options that had a strike price in the range of CAD\$0.75 to CAD\$1.55 per common share resulting in cash proceeds of \$86,216 (CAD\$108,987).

During the year ended December 31, 2020, the Company issued 333,001 common shares on the exercise of options that had a strike price in the range of CAD\$0.75 to CAD\$1.55 per common share resulting in cash proceeds of \$217,990 (CAD\$290,983).

During the year ended December 31, 2019, the Company issued 258,994 common shares on the exercise of options with a strike price in the range of CAD\$0.75 to CAD\$1.55 per common share resulting in cash proceeds of \$175,474 (CAD\$231,945).

iii. Shares issued on the exercise of Warrants

During the year ended December 31, 2021, the Company issued 3,772,640 common shares to warrant holders who exercised 3,772,640 warrants resulting in cash proceeds of \$14,093,793 (CAD\$17,848,084).

During the year ended December 31, 2020, the Company issued 17,532,271 common shares to warrant holders who exercised 17,532,271 warrants resulting in cash proceeds of \$32,653,449 (CAD\$43,079,021).

During the year ended December 31, 2019, the Company issued 4,889,647 common shares to warrant holders who exercised 4,889,647 warrants resulting in cash proceeds of \$4,854,711 (CAD\$6,480,875).

iv. Shares issued on Financing – July 2020

On July 3, 2020, the Company completed a bought deal financing for aggregate gross proceeds of \$8,493,808 (CAD\$11,521,850) at a price of CAD\$2.15 per unit. The Company issued 5,359,000 units of the Company. Each unit was comprised of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of CAD\$2.85 per common share for a period of 24 months.

The Company also issued 321,540 broker warrants that entitle the holder to purchase one common share for a period of 24 months from the closing of the offering at a price of CAD\$2.15 per common share. The broker warrants were measured based on the fair value of the warrants using a Black Scholes valuation model.

The Company incurred \$825,359 in cash share issuance costs and \$222,398 in broker warrant costs. The warrants are initially measured at fair value (Note 11) with residual proceeds being allocated to the common shares. Issuance costs have been allocated in the same proportion, with costs allocated to the warrant liability being expensed as incurred. The net proceeds were allocated as follows

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	<u>Gross Proceeds</u>	<u>Issuance Costs</u>
<b>July 3, 2020 Financing</b>		
Common shares (APIC)	\$ 8,118,500	\$ (1,001,461)
Warrant liability (Note 11)	375,308	(46,296)
<b>Total</b>	<b>\$ 8,493,808</b>	<b>\$ (1,047,757)</b>

v. Shares issued on Financing – September 2020

On September 10, 2020, the Company completed a bought deal financing for aggregate gross proceeds of \$17,489,401 (CAD\$23,019,550) at a price of CAD\$3.70 per unit. The Company issued 6,221,500 units of the Company. Each unit was comprised of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of CAD\$5.00 per common share for a period of 24 months.

The Company also issued 373,290 broker warrants that entitle the holder to purchase one common share for a period of 24 months from the closing of the offering at a price of CAD\$3.70 per common share. The broker warrants were measured based on the fair value of the warrants using a Black Scholes valuation model.

The Company incurred \$1,291,216 in cash share issuance costs and \$585,816 in broker warrant costs. The warrants are initially measured at fair value (Note 11) with residual proceeds being allocated to the common shares. Issuance costs have been allocated in the same proportion, with costs allocated to the warrant liability being expensed as incurred. The net proceeds were allocated as follows:

	<u>Gross Proceeds</u>	<u>Issuance Costs</u>
<b>September 10, 2020 Financing</b>		
Common shares (APIC)	\$ 16,662,200	\$ (1,788,253)
Warrant liability (Note 11)	827,201	(88,779)
<b>Total</b>	<b>\$ 17,489,401</b>	<b>\$ (1,877,032)</b>

vi. Shares issued on Financing – November 2020

On November 5, 2020, the Company completed a bought deal financing for aggregate gross proceeds of \$22,141,920 (CAD\$28,804,625) at a price of CAD\$4.30 per unit. The Company issued 6,698,750 units of the Company. Each unit was comprised of one common share in the capital of the Company and one-half of one Common Share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of CAD\$5.80 per common share for a period of 24 months.

The Company also issued 401,925 broker warrants that entitle the holder to purchase one common share for a period of 24 months from the closing of the offering at a price of CAD\$4.30 per common share. The broker warrants were measured based on the fair market value of the warrants using a Black Scholes valuation model.

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The Company incurred \$1,544,014 in cash share issuance costs and \$730,523 in broker warrant costs. The warrants are initially measured at fair value (Note 11) with residual proceeds being allocated to the common shares. Issuance costs have been allocated in the same proportion, with costs allocated to the warrant liability being expensed as incurred. The net proceeds were allocated as follows:

	<u>Gross Proceeds</u>	<u>Issuance Costs</u>
<b>November 5, 2020 Financing</b>		
Common shares (APIC)	\$ 20,777,360	\$ (2,134,362)
Warrant liability (Note 11)	1,364,560	(140,175)
<b>Total</b>	<u>\$ 22,141,920</u>	<u>\$ (2,274,537)</u>

**vii. Shares issued on Financing – February 2021**

On February 2, 2021, the Company completed a bought deal financing for aggregate gross proceeds of \$53,852,980 (CAD\$69,028,750) at a price of CAD\$7.00 per unit. The Company issued 9,861,250 units of the Company. Each unit was comprised of one common share in the capital of the Company and one-half of one Common Share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of CAD\$9.00 per common share for a period of 24 months.

The Company also issued 591,676 broker warrants that entitle the holder to purchase one common share for a period of 24 months from the closing of the offering at a price of CAD\$7.00 per common share. The broker warrants were measured based on the fair market value of the warrants using a Black Scholes valuation model.

The Company incurred \$3,494,930 in cash share issuance costs and \$1,296,170 in broker warrant costs. The warrants are initially measured at fair value (Note 11) with residual proceeds being allocated to the common shares. Issuance costs have been allocated in the same proportion, with costs allocated to the warrant liability being expensed as incurred. The net proceeds were allocated as follows:

	<u>Gross Proceeds</u>	<u>Issuance Costs</u>
<b>February 2, 2021 Financing</b>		
Common shares (APIC)	\$ 50,967,999	\$ (4,534,434)
Warrant liability (Note 11)	2,884,981	(256,666)
<b>Total</b>	<u>\$ 53,852,980</u>	<u>\$ (4,791,100)</u>

**viii. Shares issued on conversion of Class A Shares**

The Class A restricted shares have equal ratable 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.

During fiscal 2021, the Company failed the foreign private issuer ("FPI") test and became a US domestic issuer effective January 1, 2022 (Note 21).

On May 6, 2021, the Company issued 55,232,940 common shares on the conversion of 55,232,940 Class A Shares. As of December 31, 2021, there were no longer any Class A Shares outstanding.

	<b>Number of Class A Shares</b>	
	<b>December 31, 2021</b>	December 31, 2020
<b>Class A Shares</b>		
Balance at January 1	<b>55,232,940</b>	55,232,940
Shares Issued on Acquisition (Note 7)	-	3,940,932
Conversion of Class A Shares to Common	<b>(55,232,940)</b>	<b>(3,940,932)</b>
<b>Total Class A Shares Outstanding</b>	<b>-</b>	<b>55,232,940</b>

#### **11. Warrants**

The following table summarizes the fair value of the warrant liability at December 31, 2021, 2020 and 2019:

	2021	2020	2019
Opening balance as at January 1	\$ 13,204,211	\$ 9,823,510	\$ 9,237,466
Additions	2,884,981	2,567,069	-
Exercises	(8,976,258)	(15,698,859)	(5,424,285)
Foreign exchange	100,635	(293,450)	468,739
Change in fair value	(7,520)	16,805,941	5,541,590
Closing balance as at December 31	<u>\$ 7,206,049</u>	<u>\$ 13,204,211</u>	<u>\$ 9,823,510</u>

The warrant liability is adjusted to fair value on the date the warrants are exercised and at the end of each reporting period. The amount that is reclassified to equity on the date of exercise is the fair value at that date.

The following table summarizes the number of warrants outstanding at December 31, 2021, 2020 and 2019:

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	December 31, 2021	Weighted Average Exercise Price - CAD	December 31, 2020	Weighted Average Exercise Price - CAD	December 31, 2019	Weighted Average Exercise Price - CAD
Balance - beginning of year	7,158,337	\$ 4.98	15,061,078	\$ 2.20	19,950,725	\$ 1.99
Issued	5,522,301	\$ 8.79	10,236,380	\$ 4.53	-	\$ -
Exercised	(3,772,640)	\$ 4.73	(17,532,271)	\$ 2.46	(4,889,647)	\$ 1.33
Expired	(46,047)	\$ 3.75	(606,850)	\$ 1.40	-	\$ -
Balance - end of year	<u>8,861,951</u>	<u>\$ 7.46</u>	<u>7,158,337</u>	<u>\$ 4.98</u>	<u>15,061,078</u>	<u>\$ 2.20</u>

The Company received cash proceeds of \$14,093,793 (CAD\$17,848,084) from the exercise of warrants (2020 - \$32,653,449 (CAD\$43,079,021), 2019 - \$4,854,711 (CAD\$6,480,875)).

*Fair values*

The Company complies with ASC 820, Fair Value Measurement, for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. Financial instruments recorded at fair value in the consolidated balance sheet are classified using a fair value hierarchy that reflects the observability of significant inputs used in making the measurements. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability. The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2021 and 2020:

	Quoted prices in active markets for identical asset (Level 1)	Significant unobservable inputs (Level 3)	Total
<b>December 31, 2021</b>			
Warrant liability	\$ (7,206,049)	\$ -	\$ (7,206,049)
<b>December 31, 2020</b>			
Warrant liability	(13,204,211)	-	(13,204,211)

**12. Share based compensation**

**(a) 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. The maximum term of an option is five years and the related vesting period runs from immediate to the life of the grant.



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During the years ended December 31, 2021 and 2020

No incentive stock options were granted during the years ended December 31, 2021 and 2020.

During the year ended December 31, 2019

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 5 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 5 years from the grant date.

On July 4, 2019, the Company granted 100,000 incentive stock options to consultants of the Company. The options are exercisable at a price of CAD\$2.65 per common share for a period of 3 years from the grant date.

The following table summarizes information about stock options outstanding at December 31, 2021, 2020 and 2019:

<u>Expiry Date</u>	<u>Exercise price CAD\$</u>	<u>December 31, 2021 Outstanding</u>	<u>December 31, 2021 Exercisable</u>	<u>December 31, 2020 Outstanding</u>	<u>December 31, 2020 Exercisable</u>	<u>December 31, 2019 Outstanding</u>	<u>December 31, 2019 Exercisable</u>
June 11, 2021	\$ 0.80	-	-	-	-	175,000	175,000
July 4, 2022	\$ 2.65	100,000	100,000	100,000	100,000	100,000	50,000
June 11, 2023	\$ 0.80	61,668	61,668	158,004	158,004	282,674	139,332
July 31, 2023	\$ 0.75	-	-	11,667	11,667	20,000	11,667
January 7, 2024	\$ 1.55	-	-	16,667	-	66,668	33,334
June 30, 2024	\$ 2.60	7,500	7,500	7,500	-	22,500	7,500
<b>Total</b>		<b>169,168</b>	<b>169,168</b>	<b>293,838</b>	<b>269,671</b>	<b>666,842</b>	<b>416,833</b>

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 was \$nil (2020: \$nil; 2019: \$625,947) 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:

	<u>January 7, 2019</u>	<u>June 30, 2019</u>	<u>July 4, 2019</u>
Closing share price in CAD the day prior to granting	\$ 1.55	\$ 2.60	\$ 2.65
Risk-free rate	1.87%	1.40%	1.62%
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	110.41%	98.86%	98.29%
Option life in years	5.00	5.00	3.00

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.

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Share based compensation expense attributable to employee options was \$3,104 for the year ended December 31, 2021, (2020: \$56,550; 2019: \$258,620).

	December 31, 2021	Weighted Average Exercise Price - CAD	December 31, 2021	Weighted Average Exercise Price - CAD	December 31, 2021	Weighted Average Exercise Price - CAD
Balance - beginning of year	293,838	\$ 1.52	666,842	\$ 1.22	790,002	\$ 0.80
Issued	-	-	-	-	222,500	2.15
Exercised	(121,336)	0.91	(333,001)	0.87	(258,994)	0.88
Expired	(3,334)	0.80	(40,003)	1.79	-	-
Forfeited	-	-	-	-	(86,666)	0.80
Balance - end of year	<u>169,168</u>	<u>\$ 2.01</u>	<u>293,838</u>	<u>\$ 1.52</u>	<u>666,842</u>	<u>\$ 1.22</u>

December 31, 2021		
2021	2020	2019

The outstanding options have a weighted average CAD\$ exercise price of: **\$ 2.01**    \$ 1.52    \$ 1.22

Weighted average remaining life in years of outstanding options: **0.94**    2.19    2.88

The total intrinsic value of stock options exercised, outstanding and exercisable as of December 31, 2021, was \$274,611, \$238,010 and \$238,010, respectively.

The total intrinsic value of stock options exercised, outstanding and exercisable as of December 31, 2020, was \$1,544,421, \$1,221,981 and \$1,127,964, respectively.

The total intrinsic value of stock options exercised, outstanding and exercisable as of December 31, 2019, was \$326,857, \$460,965 and \$460,965, respectively.

(b) 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.

The following table summarizes the RSUs that are outstanding as at December 31, 2021, 2020 and 2019:

	December 31, 2021	December 31, 2020	December 31, 2019
Balance - beginning of year	1,764,250	4,355,742	5,367,691
Issued	4,086,178	100,518	3,259,624
Exercised	(3,126,534)	(2,685,344)	(3,954,518)
Expired	(131,965)	(6,666)	(317,055)
Balance - end of year	<u>2,591,929</u>	<u>1,764,250</u>	<u>4,355,742</u>

The Company recognized \$15,573,539 in share-based compensation expense attributable to RSUs vesting during the year ended December 31, 2021 (\$2,456,018 for the year ended December 31, 2020; \$4,564,167 for the year ended December 31, 2019).

During the year ended December 31, 2021

On April 19, 2021, the Company granted 4,082,474 RSUs to officers, directors, and employees pursuant to the Company's RSU Plan. The RSUs granted vest in three equal tranches on November 1, 2021, November 1, 2022, and November 1, 2023, unless otherwise varied pursuant to the terms of the plan. The value ascribed to the RSUs issued was CAD\$8.12.

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On June 10, 2021, the Company granted 3,704 RSUs to a consultant of the Company pursuant to the Company's RSU Plan. The value ascribed to the RSUs issued was CAD\$8.51. The RSUs vested immediately and were exercised on June 10, 2021.

The Company issued 3,126,534 common shares on the exercise of 3,126,534 RSUs during the year ended December 31, 2021 (2,685,344 common shares on the exercise of 2,685,344 RSUs for the year ended December 31, 2020; 3,954,518 common shares on the exercise of 3,954,518 RSUs for the year ended December 31, 2019).

During the year ended December 31, 2020

On January 1, 2020, the Company issued 50,000 RSUs under the RSU plan. The value ascribed to the RSUs issued was CAD\$2.57 per share, the closing share price of the Company's common shares on December 31, 2019.

On June 30, 2020, 6,666 RSUs that were previously granted on June 11, 2018 were cancelled as a result of an employee resignation.

On July 3, 2020, the Company issued 50,518 RSUs under the RSU plan. The value ascribed to the RSUs issued was CAD\$2.04 per share, the closing share price of the Company's common shares on July 3, 2020.

During the year ended December 31, 2019

On June 24, 2019, 82,362 RSUs that were previously granted on June 11, 2018 were cancelled as a result of a Director not standing for re-election.

On June 30, 2019 the Company issued 3,259,624 RSUs 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 RSUs 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.

On August 29, 2019, 82,362 RSUs that were previously granted on June 11, 2018 were cancelled and 152,331 RSUs that were previously granted on June 30, 2019 were cancelled as a result of a Director resignation.

**13. Loss per share**

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	<u>December 31, 2021</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>(Loss) available to common shareholders</b>	<b>\$ (19,460,953)</b>	<b>\$ (25,008,729)</b>	<b>\$ (12,303,343)</b>
Weighted average number of shares outstanding, basic and diluted	<u>195,126,972</u>	<u>151,825,439</u>	<u>134,074,476</u>
<b>Basic and diluted (loss) per share</b>	<b>\$ (0.10)</b>	<b>\$ (0.16)</b>	<b>\$ (0.09)</b>

Approximately 11,623,051, 9,216,425, and 20,083,662 of potentially dilutive securities for the years ended December 31, 2021, December 31, 2020 and December 31, 2019 respectively were excluded in the calculation of diluted EPS as their impact would have been anti-dilutive due to net loss in the year.

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**14. Income taxes**

The components of income tax expense (benefit) of the Company are summarized as follows:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Current tax expense (recovery)</b>			
Current period	\$ 13,954,784	\$ 7,239,936	\$ 7,352,808
<b>Deferred tax expense (recovery)</b>			
Origination and reversal of timing differences	(4,376,359)	(2,478,308)	(1,139,833)
Change in unrecognized temporary differences	3,900,133	2,344,888	1,139,833
	<u>\$ 13,478,558</u>	<u>\$ 7,106,516</u>	<u>\$ 7,352,808</u>

The actual income tax provision differs from the expected amount calculated by applying the statutory income tax rate to the loss before tax. These differences result from the following:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Loss before income tax	\$ (5,982,395)	\$ (17,902,213)	\$ (4,950,535)
Statutory income tax rate	21.0%	21.0%	21.0%
Income tax expense at statutory rate	(1,256,303)	(3,759,465)	(1,039,612)
Increase (reduction) in income taxes resulting from:			
Change in fair value of warrant liability	(1,579)	4,453,574	1,468,521
Other non-taxable amounts	12,019,720	6,071,951	6,921,569
Change in valuation allowance	3,900,133	2,344,888	1,083,292
Foreign exchange impacts	-	(575,595)	(327,920)
Difference in rates	(1,159,859)	(1,317,876)	(753,552)
Other	(23,554)	(110,961)	510
Income tax expense (benefit)	<u>\$ 13,478,558</u>	<u>\$ 7,106,516</u>	<u>\$ 7,352,808</u>

Section 280E prohibits businesses engaged in the trafficking of Schedule I or Schedule II controlled substances from deducting normal business expenses, such as payroll and rent, from gross income (revenue less cost of goods sold). Section 280E was originally intended to penalize criminal market operators, but because cannabis remains a Schedule I controlled substance for Federal purposes, the Internal Revenue Service ("IRS") has subsequently applied Section 280E to state-legal cannabis businesses. Cannabis businesses operating in states that align their tax codes with the IRC are also unable to deduct normal business expenses from taxable income subject to state taxes. The non-taxable amounts shown in the effective rate reconciliation above include the impact of applying IRC Section 280E to the Company's businesses that are involved in selling cannabis, along with other typical non-deductible expenses. As the application and IRS interpretations on Section 280E continue to evolve, the impact of this cannot be reliably estimated. Any changes to the application of Section 280E may have a material effect on the Company's consolidated financial statements.

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset. Deferred tax assets (liabilities) are attributable to the following:

**PLANET 13 HOLDINGS INC.**  
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	December 31, 2021	December 31, 2020	December 31, 2019
Loss carryforwards	\$ 9,094,791	\$ 5,303,168	\$ 3,173,256
Share issue costs	1,489,956	1,381,446	795,041
Stock compensation	657,647	-	-
Exchange rate difference on monetary assets	715,299	563,080	125,520
Accrued expenses	139,999	49,128	-
Property and equipment	(1,578,803)	(1,251,229)	(1,424,886)
Licenses	(543,779)	(543,779)	-
Deferred tax assets (liabilities)	9,975,111	5,501,814	2,668,931
Valuation allowance	(9,812,307)	(5,912,173)	(2,668,931)
Net deferred tax liability	<u>\$ 162,804</u>	<u>\$ (410,359)</u>	<u>\$ -</u>

As at December 31, 2021, the Company has \$19,139,273 (December 31, 2020 - \$12,013,192) in Canadian non-capital loss carryforwards that expire between 2035 and 2040. In addition, as at December 31, 2021, the Company has U.S. federal Net Operating Losses of \$49,079,058 (December 31, 2020 - \$32,877,923). The U.S. federal Net Operating Losses attributable to 2019 will expire in 2039 and the losses attributable to 2020 onward will have an indefinite carry forward. As at December 31, 2021, the Company has California State Net Operating Losses of \$6,529,220 (December 31, 2020 - \$953,517). The California state Net Operating will expire in 2040.

In March 2020, the U.S. enacted the Coronavirus Aid, Relief, and Economic Security Act (the "Act"). The Act, among other provisions, reinstates the ability of corporations to carry net operating losses back to the five preceding tax years, has increased the excess interest limitation on modified taxable income from 30 percent to 50 percent. The Company has made a reasonable estimate of the effects on existing deferred tax balances and has concluded that the Act has not had a significant on the deferred tax balances.

The Company believes that, pursuant to Section 7874 of the Code, even though it is organized as a Canadian corporation, the Company should be treated as a U.S. domestic corporation for U.S. federal income tax purposes. Because the Company is a taxable corporation in Canada, it is likely to be subject to income taxation in both the United States and Canada on the same income, which in turn, may reduce the amount of income available for distribution to shareholders. The balance of this discussion assumes the Company is a U.S. domestic corporation for U.S. federal income tax purposes. However, no tax opinion or ruling from the Internal Revenue Service ("IRS") concerning the U.S. federal income tax characterization of the Company has been obtained and none will be requested. Thus, there can be no assurance that the IRS will not challenge the characterization of the Company as a domestic corporation, or that if challenged, a U.S. court would not agree with the IRS. If the Company is not treated as a U.S. domestic corporation, then the acquisition, ownership and disposition of common shares, warrants and common shares received on the exercise of warrants may have materially different implications for Non-U.S. Holders.

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**15. General and administrative**

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	December 31,		
	2021	2020	2019
Salaries and wages	\$ 21,902,505	\$ 9,611,047	\$ 6,941,111
Share based compensation	15,576,643	2,512,568	4,822,787
Executive compensation	2,039,174	1,204,925	874,598
Licenses and permits	3,217,834	1,957,183	1,704,755
Payroll taxes and benefits	3,953,034	1,971,215	1,531,261
Supplies and office expenses	3,638,097	960,456	1,184,401
Subcontractors	3,500,330	1,569,921	1,272,414
Professional fees (legal, audit and other)	5,015,903	2,944,706	2,723,555
Miscellaneous general and administrative expenses	1,084,836	4,684,145	4,175,392
	<u>\$ 59,928,356</u>	<u>\$ 27,416,166</u>	<u>\$ 25,230,274</u>

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**16. Supplemental cash flow information**

Change in Working Capital	December 31,		
	2021	2020	2019
HST Receivable	\$ (56,787)	\$ (91,533)	\$ 85,287
Accounts Receivable	(722,467)	-	-
Inventory	(7,305,529)	(159,401)	(284,626)
Prepaid Expenses and Other Assets	(1,780,041)	1,160,976	(2,357,578)
Long-term Deposits and Other Assets	(7,436)	(359,842)	(100,262)
Deferred Tax Assets	(162,804)	-	-
Accounts Payable	1,578,349	451,998	(859,267)
Accrued Expenses	4,187,906	934,668	603,902
Income Taxes Payable	(319,986)	(5,713,518)	4,891,922
Other Liabilities	-	-	28,000
	<u>\$ (4,589,077)</u>	<u>\$ (3,776,652)</u>	<u>\$ 2,007,378</u>
<b>Cash Paid</b>			
Income Taxes	<u>\$ 13,000,000</u>	<u>\$ 12,953,454</u>	<u>\$ -</u>
<b>Non-cash Financing and Investing Activities</b>			
Acquisition of Licenses and Intangible Assets in Exchange for Shares	\$ -	\$ 4,997,610	\$ -
Initial Recognition of ROU Assets and Lease Liabilities	\$ 867,559	\$ 11,229,477	\$ 2,024,771
Fixed Asset Amounts in Accounts Payable	\$ 363,077	\$ 369,066	\$ -
Additions to Buildings and Structures on ASC 847 Adoption	\$ -	\$ -	\$ 8,789,741
Additions to Lease Liabilities on ASC 847 Adoption	\$ -	\$ -	\$ 8,307,650
Reclassification of Prepaid Rent to Lease Liabilities on ASC 842 Adoption	\$ -	\$ -	\$ 54,584
Warrant liability reclassified to APIC on settlement	\$ 6,347,946	\$ 15,708,309	\$ 5,684,960
Reclass of long-term lease to current lease	\$ 216,180	\$ -	\$ -

**17. Related Party Transactions and Balances**

Related party transactions are summarized as follows:

**a) Building Lease**

The Company is the sub-lessee of 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-CEOs. Amounts paid for rent for each of the years ended December 31, 2021, 2020 and 2019 was \$16,027, \$24,040 and \$24,040, respectively. Amounts paid for printed marketing collateral and stationery items to the same company were \$450,692, \$170,009, and \$279,457 for the years ended December 31, 2021, 2020 and 2019 respectively.

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The Company leased a cultivation facility from an entity owned by the Company's co-CEOs. Rent paid for this facility for the years ended December 31, 2021, 2020 and 2019 was \$301,894, \$339,688, and \$nil. On April 30, 2021, the Company's Co-CEOs sold this building to an arm's length third party who assumed the lease.

**(b) Other**

A company owned by one of the Company's executives pays the Company for storage space. Amounts paid to the Company for storage space were \$171,895, \$62,720 and \$nil for the years ended December 31, 2021, 2020 and 2019, respectively, and is recorded in Other Income.

**18. Commitments and contingencies**

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**(a) Construction Commitments**

The Company had no outstanding construction commitments as of December 31, 2021.

**(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 at December 31, 2021, 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.



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**(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 December 31, 2021, 2020, and 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 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 and California, 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.

**19. Risks**

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*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. The Company limits credit risk by entering into business arrangements with high credit-quality counterparties.

The Company evaluates the collectability of its accounts receivable and maintains an allowance for credit losses at an amount sufficient to absorb losses inherent in the existing accounts receivable portfolio as of the reporting dates based on the estimate of expected net credit losses.

*Concentration risk*

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

*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.

*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, it could be subject to forfeiture.

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*Currency rate risk*

As at December 31, 2021, a portion of the Company's financial assets and liabilities held in Canadian dollars consist of cash and cash equivalents of \$165,943 (2020 - \$21,771,531; 2019 - \$1,093,191). The Company's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by transacting, to the greatest extent possible, with third parties in the functional currency. The Company is exposed to currency rate risk in other comprehensive income, relating to foreign subsidiaries which operate in a foreign currency. The Company does not currently use foreign exchange contracts to hedge its exposure of its foreign currency cash flows as management has determined that this risk is not significant at this point in time.

**20. COVID-19**

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In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. The outbreak of this contagious disease, along with the related adverse public health developments, have negatively affected workforces, economies, and financial markets on a global scale. The Company incurred lower revenues, and additional expenditures related to COVID-19 during the first half of 2020. During the first half of 2020 the Company's operations in Nevada were mandated as an essential service but were restricted to delivery only, with no curb-side pickup or instore sales permitted until such delivery-only order was lifted on May 30, 2020. The Company's operating results were not materially impacted during the second half of 2020. Currently, the Company is closely monitoring the impact of the pandemic on all aspects of its business and it is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations.

**21. Subsequent events**

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On March 2, 2022 (the "**Closing Date**"), the Company completed a business combination of Next Green Wave Holdings Inc. ("NGW"). The Company entered into an arrangement agreement (the "**Arrangement Agreement**") with NGW on December 20, 2021 pursuant to which the Company agreed to acquire (the "**Arrangement**") all of the issued and outstanding common shares of NGW (the "**NGW Shares**") pursuant to a plan of arrangement (the "**Plan of Arrangement**") under the Business Corporations Act (British Columbia). The Arrangement was approved by the holders of NGW Shares (the "**NGW Shareholders**") at a special meeting of NGW Shareholders held on February 25, 2022 and approved by the Supreme Court of British Columbia on March 1, 2022.

Pursuant to the Plan of Arrangement, on March 2, 2022, the Company acquired all of the NGW Shares, for a total consideration of 21,361,002 Planet 13 common shares (the "**Planet 13 Shares**"), and NGW was then amalgamated with the Company. The NGW Shareholders received 0.1145 of one Planet 13 Share (the "**Exchange Ratio**") and a nominal cash payment of C\$0.0001 for each NGW Share held. As a result, 21,361,002 Planet 13 Shares and C\$18,656 in cash were issued in exchange for the NGW Shares. In addition, the number of Planet 13 Shares issued to any person pursuant to the Arrangement was rounded down to the nearest whole Planet 13 Share, with a cash consideration paid in lieu of the issuance of such fractional Planet 13 Share of C\$3.379 per share, resulting in an aggregate cash-in-lieu consideration of C\$78.

Based upon the Exchange Ratio, all NGW options to acquire NGW Shares that were outstanding immediately prior to the Effective Time were also exchanged for Planet 13 options that entitle the holders to receive, upon exercise thereof, Planet 13 Shares. 1,106,925 Planet 13 replacement options were issued in exchange for the NGW options.

The Company has not yet completed its initial accounting of its business combination with NGW due to the limited time from the acquisition date and the date of these financial statements. The Company is currently determining the fair values of net assets acquired and the preliminary purchase price allocation.