



**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

Expressed in United States Dollars

## **MANAGEMENT’S RESPONSIBILITY**

To the Shareholders of Planet 13 Holdings Inc.:

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

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

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

The consolidated financial statements were approved by the Board of Directors on April 13, 2020 and were signed on behalf of Management by:

“Larry Scheffler”  
Larry Scheffler, Co-CEO

“Robert Groesbeck”  
Robert Groesbeck, Co-CEO

“Dennis Logan”  
Dennis Logan, CFO

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Planet 13 Holdings Inc.

### *Opinion*

We have audited the accompanying consolidated financial statements of Planet 13 Holdings Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

### *Other Matters*

The consolidated financial statements of Planet 13 Holdings Inc. for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on April 30, 2019.

### *Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Erez Bahar.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

April 13, 2020

# PLANET 13 HOLDINGS INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>Expressed in United States Dollars</i>	As at December 31, 2019	As at December 31, 2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 12,814,712	\$ 19,364,086
HST receivable	16,544	101,831
Inventories (Note 7)	5,474,004	5,322,111
Biological assets (Note 8)	514,526	915,177
Prepaid expenses and other current assets (Note 11)	3,694,272	1,391,278
<b>Total Current Assets</b>	<b>22,514,058</b>	<b>27,094,483</b>
Property and equipment (Note 9)	30,211,154	17,256,484
Right of use assets (Note 10)	9,478,733	-
Long-term deposits and other assets	694,601	594,339
	<b>40,384,488</b>	<b>17,850,823</b>
<b>Total Assets</b>	<b>\$ 62,898,546</b>	<b>\$ 44,945,306</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 864,260	\$ 1,720,721
Accrued expenses	1,910,046	1,306,145
Income taxes payable	7,015,606	2,187,109
Notes payable - current portion (Note 12)	884,000	884,000
Current portion of lease liabilities (Note 13)	-	14,459
<b>Total Current Liabilities</b>	<b>10,673,912</b>	<b>6,112,434</b>
Long -term lease liabilities (Note 13)	10,522,377	29,768
Deferred rent (Note 14)	-	427,508
Other long-term liabilities	28,000	-
Deferred tax liability (Note 20)	379,665	470,856
	<b>10,930,042</b>	<b>928,132</b>
<b>Total Liabilities</b>	<b>21,603,954</b>	<b>7,040,566</b>
<b>Shareholders' Equity</b>		
Share capital (Note 15)	51,986,849	42,460,824
Restricted share units (Note 15)	4,119,485	2,800,335
Warrants (Note 15)	5,961,091	7,046,843
Option reserve (Note 15)	399,439	305,890
Accumulated other comprehensive loss	(607,707)	(802,920)
Deficit	(20,564,565)	(13,906,232)
<b>Total Shareholders' Equity</b>	<b>41,294,592</b>	<b>37,904,740</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 62,898,546</b>	<b>\$ 44,945,306</b>

Nature of operations (Note 1)

Commitment and Contingencies (Note 18)

Subsequent events (Note 23)

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

***“Michael Harman”***

Michael Harman, Director

***“Adrienne O’Neal”***

Adrienne O’Neal, Director

# PLANET 13 HOLDINGS INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

*Expressed in United States Dollars*

	Year Ended December 31, 2019	Year Ended December 31, 2018
<b>Revenue</b>		
Revenues, net of discounts	\$ 63,595,036	\$ 21,166,755
Cost of Goods Sold (Note 7)	(27,139,658)	(10,507,200)
<b>Gross Profit before fair value asset adjustment</b>	<b>36,455,378</b>	<b>10,659,555</b>
Realized fair value amounts included in inventory sold	(1,500,965)	(1,726,685)
Unrealized fair value gain on growth of biological assets	1,020,784	1,919,593
<b>Gross Profit</b>	<b>35,975,197</b>	<b>10,852,463</b>
<b>Expenses</b>		
General and Administrative (Note 16)	20,269,839	9,583,376
Sales and Marketing	6,539,483	1,702,841
Depreciation and Amortization (Note 9 & 10)	2,845,464	400,116
Share-Based Compensation Expense (Note 15)	4,822,787	2,601,233
<b>Total Expenses</b>	<b>34,477,573</b>	<b>14,287,566</b>
<b>Income (Loss) From Operations</b>	<b>1,497,624</b>	<b>(3,435,103)</b>
<b>Other Expense:</b>		
Interest expense, net	1,306,876	241,860
Realized foreign exchange (gain) loss	(1,141)	37,879
Other income	(350,775)	(80,285)
RTO listing expense (Note 6)	-	4,702,604
Loss on settlement of accounts payable (Note 15(d))	-	96,340
<b>Total Other Expense</b>	<b>954,960</b>	<b>4,998,398</b>
<b>Income (Loss) before income taxes</b>	<b>542,664</b>	<b>(8,433,501)</b>
Provision for tax - current (Note 20)	7,292,188	2,198,295
Provision for tax - deferred (Note 20)	(91,191)	91,908
<b>Net (loss) for the Year</b>	<b>\$ (6,658,333)</b>	<b>\$ (10,723,704)</b>
<b>Other Comprehensive Income (Loss)</b>		
Foreign exchange translation gain (loss)	195,213	(802,920)
<b>Net Comprehensive (Loss) for the Year</b>	<b>\$ (6,463,120)</b>	<b>\$ (11,526,624)</b>
<b>Loss per share for the Year</b>		
Basic and diluted loss per share (Note 17)	<b>(\$0.05)</b>	<b>(\$0.11)</b>
Weighted Average Number of Common Shares Outstanding Basic and Diluted (Note 17)	134,074,476	95,997,827

# PLANET 13 HOLDINGS INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in United States Dollars

	Number of shares outstanding	Common Share Capital	Class A Restricted Shares	Restricted Share Units	Warrants	Option Reserve	Accumulated Other Comprehensive Income (Loss)	Accumulated (Deficit)	Total Equity
<b>Balance at January 1, 2018</b>	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,182,528)	\$ (3,182,528)
Conversion of debt to Common shares	25,300,000	1,124,661	-	-	-	-	-	-	1,124,661
Conversion of debt for Class A shares	49,700,000	-	2,209,643	-	-	-	-	-	2,209,643
Shares issued on private placement	31,458,400	15,992,924	-	-	-	-	-	-	15,992,924
Shares issued on prospectus offering	8,735,250	15,595,473	-	-	-	-	-	-	15,595,473
Warrants issued on private placement	-	-	-	-	4,212,768	-	-	-	4,212,768
Warrants issued on prospectus offering	-	-	-	-	4,579,857	-	-	-	4,579,857
Shares issued to former Carpincho shareholders on RTO closing	5,250,000	4,040,637	-	-	-	-	-	-	4,040,637
Class A shares issued on conversion of debt	5,532,940	-	3,409,476	-	-	-	-	-	3,409,476
Shares issued on exercise of warrants	-	-	-	-	-	-	-	-	-
Share issuance costs on private placement	-	(1,943,556)	-	-	(365,897)	-	-	-	(2,309,453)
Share issuance costs prospectus offering	-	(1,275,515)	-	-	(447,057)	-	-	-	(1,722,572)
Share based compensation - RSUs	-	-	-	2,800,335	-	-	-	-	2,800,335
Shares issued on exercise of warrants	2,580,810	3,307,081	-	-	(932,828)	-	-	-	2,374,253
Share based compensation - options	-	-	-	-	-	305,890	-	-	305,890
Cumulative foreign exchange (loss)	-	-	-	-	-	-	(802,920)	-	(802,920)
Net (loss) for the year	-	-	-	-	-	-	-	(10,723,704)	(10,723,704)
<b>Balance December 31, 2018</b>	<b>128,557,400</b>	<b>36,841,705</b>	<b>5,619,119</b>	<b>2,800,335</b>	<b>7,046,843</b>	<b>305,890</b>	<b>(802,920)</b>	<b>(13,906,232)</b>	<b>37,904,740</b>
<b>Balance at January 1, 2019</b>	<b>128,557,400</b>	<b>\$ 36,841,705</b>	<b>\$ 5,619,119</b>	<b>\$ 2,800,335</b>	<b>\$ 7,046,843</b>	<b>\$ 305,890</b>	<b>\$ (802,920)</b>	<b>\$ (13,906,232)</b>	<b>\$ 37,904,740</b>
Shares issued on exercise of RSUs	3,954,518	3,245,017	-	(3,245,017)	-	-	-	-	-
Shares issued on exercise of warrants	4,889,647	5,940,463	-	-	(1,085,752)	-	-	-	4,854,711
Share issuance on exercise of options	258,994	340,545	-	-	-	(165,071)	-	-	175,474
Restricted share units vested	-	-	-	4,564,167	-	-	-	-	4,564,167
Issuance of share options vested	-	-	-	-	-	258,620	-	-	258,620
Cumulative foreign exchange gain	-	-	-	-	-	-	195,213	-	195,213
Net (loss) for the year	-	-	-	-	-	-	-	(6,658,333)	(6,658,333)
<b>Balance December 31, 2019</b>	<b>137,660,559</b>	<b>\$ 46,367,730</b>	<b>\$ 5,619,119</b>	<b>\$ 4,119,485</b>	<b>\$ 5,961,091</b>	<b>\$ 399,439</b>	<b>\$ (607,707)</b>	<b>\$ (20,564,565)</b>	<b>\$ 41,294,592</b>

**CONSOLIDATED STATEMENTS OF CASH FLOWS***Expressed in United States Dollars*

	<b>Year Ended December 31, 2019</b>	<b>Year Ended December 31, 2018</b>
<b>Operating activities</b>		
Net (loss) for the year	\$ (6,658,333)	\$ (10,723,704)
Add (deduct) non-cash items:		
Share based payments (Note 15)	4,822,787	2,601,233
Depreciation and amortization (Note 9,10)	3,607,286	988,768
Write-off of fixed assets during the year	82,882	-
Loss on settlement of accounts payable	-	96,340
Share base payment to Carpincho shareholders on RTO	-	4,040,637
Deferred tax liability (Note 20)	(91,191)	91,908
Realized foreign exchange (gain) loss	-	37,879
Interest on lease liabilities	1,367,759	-
Non-cash interest expense	-	217,048
<b>Net change in non-cash working capital</b>		
HST receivable	85,287	(101,831)
Inventories (Note 7)	(151,893)	(3,618,283)
Biological assets (Note 8)	400,651	152,129
Prepaid expenses and other assets (Note 11)	(2,426,866)	(1,299,148)
Long term deposits and other assets	(100,262)	(594,339)
Accounts payable	(856,462)	798,672
Accrued expenses	603,902	250,318
Income tax payable	4,828,497	927,433
Other liabilities	28,000	427,508
<b>Cash flow provided by (used in) operating activities</b>	<b>5,542,044</b>	<b>(5,707,432)</b>
<b>Investing activities</b>		
Net cash acquired on acquisition	-	34,678
Purchase of property, plant and equipment (Note 9)	(16,061,582)	(13,313,401)
<b>Cash flow used in investing activities</b>	<b>(16,061,582)</b>	<b>(13,278,723)</b>
<b>Financing activities</b>		
Issuance of common shares and warrants (Note 15)	-	40,381,022
Issuance of shares on warrant and option exercises (Note 15)	5,030,185	2,374,253
Share and warrant issuance costs	-	(4,032,025)
Principal and interest payment on lease liabilities	(1,247,546)	(11,845)
<b>Cash flow provided by financing activities</b>	<b>3,782,639</b>	<b>38,711,405</b>
<b>Net increase (decrease) in cash</b>	<b>(6,736,899)</b>	<b>19,725,250</b>
Cash at beginning of the year	19,364,086	451,869
Effect of foreign exchange on cash	187,525	(813,033)
<b>Cash at end of the year</b>	<b>\$ 12,814,712</b>	<b>\$ 19,364,086</b>

**CONSOLIDATED STATEMENTS OF CASH FLOWS***Expressed in United States Dollars (unaudited)*

	Year Ended December 31, 2019	Year Ended December 31, 2018
<b>Supplemental Disclosure of Cash Flow</b>		
Cash paid during the year for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ 1,270,862
<b>Non-cash activities</b>		
Carrying value of warrants exercised	\$ 1,085,752	\$ 932,828
Carrying value of RSUs exercised	\$ 3,245,017	\$ -
Carrying value of options exercised	\$ 165,071	\$ -
MMDC conversion of notes payable to equity	\$ -	\$ 6,743,780
Shares issued to former Carpincho shareholders	\$ -	\$ 4,040,637
Capital expenditures included in accounts payable	\$ -	\$ 589,935
Additions to Building and Structures on IFRS 16 adoption	\$ 8,030,503	\$ -
Additions to Building and Structures - Leased assets	\$ 2,024,768	
Additions to Lease Liabilities on IFRS 16 adoption	\$ 7,906,631	
Reclassification of prepaid rent to Lease Liabilities on IFRS 16 adoption	\$ 123,872	
Additions to Lease Liabilities	\$ 2,024,768	

## PLANET 13 HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

*Expressed in United States Dollars*

#### 1) Nature of operations

Planet 13 Holdings Inc. ("P13" or the "Company") was incorporated under the Canada Business Corporations Act on April 26, 2002. MM Development Company, Inc. ("MMDC") is a privately held corporation existing under the laws of the State of Nevada. MMDC, founded on March 20, 2014, is a vertically integrated cultivator and provider of cannabis and cannabis-infused products licensed under the laws of the State of Nevada, with two licenses for cultivation, two licenses for production, and two dispensary licenses (one medical license and one recreational license). On June 11, 2018, MMDC completed a reverse-takeover ("RTO") of Carpincho Capital Corp. Upon completion of the RTO, the shareholders of MMDC obtained control of the consolidated entity. Under the purchase method of accounting, MMDC was identified as the acquirer, and, accordingly, P13 is considered to be a continuation of MMDC, with the net assets of the Company at the date of the RTO deemed to have been acquired by MMDC (Note 6).

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

The Company's registered office is located at 240 Richmond Street West, Toronto, ON M5V 1V6 and the head office address is 2548 West Desert Inn. Rd, Las Vegas, NV 89109.

#### 2) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations of the IFRS Interpretations Committee ("IFRIC") as issued by the International Accounting Standards Board ("IASB") in effect for the year ended December 31, 2019.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 13, 2020.

#### 3) Summary of significant accounting policies

##### (a) Basis of Measurement

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

## PLANET 13 HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Expressed in United States Dollars

#### 3) Summary of significant accounting policies (continued)

##### (b) Principles of Consolidation

These consolidated financial statements for the years ended December 31, 2019 and 2018 include the financial position, results of operations and cash flows of the Company and its subsidiaries. The Company's subsidiaries as at December 31, 2019 are as follows:

Subsidiary	Country of Incorporation	Economic Interest	Nature of Business
MM Development Company, Inc. ("MMDC")	USA	100%	Vertically integrated Cannabis Operations
BLC Management Company LLC. ("BLC")	USA	100%	Management Company
LBC Company LLC. ("LBC")	USA	100%	CBD Retail Sales and Marketing
MM Development MI, Inc.	USA	100%	Holding Company
MM Development CA, Inc.	USA	100%	Holding Company
MMDC CASA Holdings, Inc	USA	100%	Holding Company
PLTHCA SA, Inc	USA	100%	Holding Company

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

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

##### (c) Functional Currency

The Company's functional currency is the Canadian dollar ("CAD"). Management has chosen to present these consolidated financial statements in United States ("USD") dollars. The functional currency of the Company's subsidiaries is USD. All amounts are presented in USD values unless otherwise stated.

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

**3) Summary of significant accounting policies (continued)**

(d) Revenue Recognition

On January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgement thresholds have been introduced which may affect the timing of revenue recognized.

(e) Revenue Recognition (continued)

The Company records revenue from contracts with customers in accordance with the five steps in IFRS 15 as follows:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price, which is the total consideration provided by the customer;
4. Allocate the transaction price among the performance obligations in the contract based on their relative fair values;  
and
5. Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

The Company has elected to adopt IFRS 15 using the cumulative effect method as of the date of initial application on January 1, 2018, with no restatement of comparative period amounts. As the effect of adopting IFRS 15 did not have a material impact on the consolidated financial statements, there was no adjustment made to the opening balance of equity at the date of initial application.

Revenue from the sale of cannabis, net of any discounts, is recognized at a point in time when control over the goods have been transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer, which is consistent with the Company's previous revenue recognition policy under IAS 18.

(f) Cash and Cash Equivalents

Cash and cash equivalents are classified as financial assets and are measured initially at fair value and subsequently on an amortized cost basis. Cash includes cash deposits in financial institutions plus cash held at the retail location and other deposits that are readily convertible into cash. For the years presented, the Company did not have any cash equivalents.

(g) Inventory

Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell at harvest, which becomes the initial deemed cost. All subsequent direct and indirect post-harvest costs are capitalized to inventory as incurred, including labour related costs, consumables, materials, packaging supplies, utilities, facilities costs, quality and testing costs, and production related depreciation. Inventories of raw materials that is comprised of harvested cannabis, packaging and miscellaneous consumables, harvested work-in-process, finished goods and inventories for resale and are valued at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business and the estimated costs necessary to make the sale. Inventories of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value and are measured on a FIFO basis.

The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written-down to net realizable value.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

**3) Summary of significant accounting policies (continued)**

(h) Biological Assets

The Company's biological assets consist of cannabis plants. The Company capitalizes all direct and indirect costs as incurred related to the transformation of the biological assets between the point of initial recognition and the point of harvest, including labour related costs, grow consumables, materials, utilities, facilities costs, quality and testing costs, and production related depreciation. The Company then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. The net unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations of the related period.

(i) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

Land	Not Depreciated
Land improvements	5 Years
Buildings and Structures	5 to 40 Years
All Equipment	2-7 Years
Leasehold Improvements	Shorter of Estimated Useful Life or Remaining Life of Lease

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively if appropriate.

An item of property or equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statements of operations in the year the asset is derecognized.

Construction in progress is not depreciated until it is completed and available for use.

The Company assesses impairment on property, plant and equipment when an indication of impairment occurs, such as evidence of obsolescence or physical damage. In assessing impairment, the Company compares the carrying amount to the recoverable amount which is determined as the higher of the asset's fair values less costs of disposal and its value in use. Value in use is assessed based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized whenever the carrying amount of the asset exceeds its recoverable amount and is recorded in the consolidated statements of comprehensive loss. If, as a result, the estimates used to determine the impairment on property, plant and equipment have improved since the last impairment loss was recognized, the impairment loss that was previously recognized is reversed and is recorded in the consolidated statements of comprehensive loss.

(j) Leases

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease is recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

**3) Summary of significant accounting policies (continued)**

“interest expense, net” in the consolidated statement of operations and comprehensive (loss) income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Lease liabilities represent the net present value of fixed lease payments (including in-substance fixed payments); variable lease payments based on an index, rate, or subject to a fair market value renewal condition; amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if it is probable that the lessee will exercise that option.

The Company’s lease liability is recognized net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee’s incremental borrowing rate. The period over which the lease payments are discounted is the expected lease term, including renewal and termination options that the Company is reasonably certain to exercise.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administration and sales and marketing expense in the consolidated statement of operations and comprehensive (loss) income. Short term leases are defined as leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index, rate, or subject to a fair market value renewal condition are expensed as incurred and recognized in costs of goods sold, general and administration or sales and marketing expense, as appropriate given how the underlying leased asset is used, in the consolidated statement of operations and comprehensive income.

Right-of-use assets are measured at cost, which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. The depreciation is recognized from the commencement date of the lease.

**(k) Share Based Payments**

Equity-settled share-based payments to employees are measured at the fair value of the stock options and Restricted Share Units (“RSUs”) at the grant date and recognized in expense over the vesting periods.

Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve for options and to restricted share units for RSUs.

The fair value of options is determined using the Black–Scholes option pricing model. The number of options 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 unexercised options are transferred to deficit in the year of forfeiture or expiry. Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

The fair value of RSUs is determined using the closing market price of the Company’s shares on the day of granting. The number of RSU 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. Upon the issuance of common shares in exchange for vested RSUs, the amount of the related Restricted Share Unit reserve is transferred to share capital.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

*Expressed in United States Dollars*

### 3) Summary of significant accounting policies (continued)

#### (l) Share Capital

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value of the shares on the date of issue. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in reserves over the vesting periods are recorded as share capital.

The Company issued share purchase warrants and determined the fair value using the Black-Scholes option pricing model. The fair value of broker warrants were recognized as share issue costs and recorded to reserves.

#### (m) Income Taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity.

#### Current tax

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

#### Deferred tax

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted at the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

As the Company operates in the cannabis industry, it is subject to the limits of IRC 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. This results in permanent differences between ordinary and necessary business expenses deemed unallowable under IRC Section 280E.

#### Treatment of the Company as a U.S. Corporation

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 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,

## PLANET 13 HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Expressed in United States Dollars

#### 3) Summary of significant accounting policies (continued)

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.

(n) Earnings Per Share

The Company calculates basic loss per share by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise convertible debentures, restricted share units, warrants and share options issued.

(o) Related Party

The Company considers a person or entity as a related party if they are a member of key management personnel including their close relatives, an associate or joint venture, those having significant influence over the Company, as well as entities that are controlled by related parties.

(p) Fair Value Hierarchy

Financial instruments recorded at fair value are classified using a hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value. The three levels of hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Inputs for the asset or liability that are not based on observable market data.

Financial instruments are measured either at fair value or at amortized cost. The table below lists the valuation methods used to determine fair value of each financial instrument.

Fair Value Method

**Financial Instruments Measured at *Amortized Cost***

Cash and cash equivalents, restricted cash, short term investments, accounts receivable	Carrying amount (approximates fair value due to short term nature)
Accounts payable and accrued liabilities	Carrying amount (approximates fair value due to short term nature)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

**3) Summary of significant accounting policies (continued)**

(q) New Standards Adopted in the Current Year

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

(i) *IFRS 16 Leases*

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

**3) Summary of significant accounting policies (continued)**

a lease liability and a right of use asset at the date of initial application. Short-term leases are leases with a lease term of 12 months or less. The lease expense for all short-term leases was \$6,080 for the year ended December 31, 2019.

The Company's only significant debt obligation is a promissory note payable for land secured by a deed of trust. Further, due to the nature of the Company's business operations in the Cannabis industry and its illegality under United States

Federal regulations, the Company is unable to borrow monies from U.S financial institutions. Consequently, when measuring lease liabilities, the Company discounted lease payments using a rate of 15.0%, which represents the estimated weighted average incremental borrowing rate of the Company on the date of application. The Company has not included extension options in the measurement of lease terms for those specific leases for which it is not reasonably certain to exercise the related extension options. The Company determines the probability of exercising a renewal option when determining the lease term by considering whether there is an economic incentive to exercise the renewal option based on investments in major leaseholds and operational performance.

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

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

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

**Critical Accounting Estimates and Judgments for Leases**

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Expressed in United States Dollars

### 3) Summary of significant accounting policies (continued)

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

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

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

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

#### (r) Accounting Pronouncements Issued But Not Yet Effective

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

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

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

### 4) Significant accounting judgements, estimates and assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions about the carrying amount and classification of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

Significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

*Expressed in United States Dollars*

### 4) Significant accounting judgements, estimates and assumptions (Continued)

#### a) Critical estimates

##### Useful life of property and equipment

Depreciation of property and equipment is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets. The Company reviews the estimated lives of its property and equipment at the end of each reporting period. There were no material changes in the lives of property and equipment during the year ended December 31, 2019 or the year ended December 31, 2018.

##### Share-based payments

In estimating fair value of options using the Black-Scholes option pricing model, management is required to make certain assumptions and estimates such as the expected life of options (between 3-5 years), volatility (expected volatility estimated between 98.29% and 110.41%) of the Company's future share price, risk free rate (estimated between 1.40% to 1.87%, future dividend yields (estimated to be nil) and estimated forfeitures at the initial grant date (estimated at nil). Changes in assumptions used to estimate fair value could result in materially different results.

##### Income taxes

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax assets and unused tax losses can be utilized. In addition, the valuation of tax credits receivable requires management to make judgements on the amount and timing of recovery.

#### b) Critical judgements

##### Inventories and biological assets

Significant Judgement of Biological Assets and Inventory

Determination of the fair values of the biological assets requires the Company to make a number of estimates primarily related to the fair value at point of harvest, attrition rates, expected future yields from the cannabis plants and estimating plants at various phases of the growth cycle.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventory and thus any critical estimates and judgements related to the valuation of biological assets are also applicable for inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

### 5) Financial instruments and risk management

#### a) Fair value hierarchy

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

The fair value of hierarchy has the following levels:

- Level 1 – quoted prices in active markets for identical financial instruments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

**5) Financial instruments and risk management (Continued)**

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

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

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

Amortized cost	December 31, 2019		December 31, 2018	
	Fair Value	Carrying value	Fair Value	Carrying value
<b>Financial Assets:</b>				
Cash	\$ 12,814,712	\$ 12,814,712	\$ 19,364,086	\$ 19,364,086
<b>Financial Liabilities</b>				
Accounts Payable	\$ 864,260	\$ 864,260	\$ 1,720,721	\$ 1,720,721
Accrued expenses	1,910,046	1,910,046	1,306,145	1,306,145
Notes payable - current	884,000	884,000	884,000	884,000
Total	\$ 3,658,306	\$ 3,658,306	\$ 3,910,866	\$ 3,910,866

**b) Credit risk**

Credit risk is the risk that a third party might fail to discharge its obligations under the terms of a financial instrument. Credit risk arises from cash with banks and financial institutions. It is management's opinion that the Company is not exposed to significant credit risk arising from these financial instruments. The Company limits credit risk by entering into business arrangements with high credit-quality counterparties.

**c) Interest rate risk**

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

**d) Currency risk**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

**5) Financial instruments and risk management (Continued)**

The carrying amount of CAD financial assets and liabilities in USD as at December 31, 2019 is as follows:

**US Dollar amounts of foreign currency assets and liabilities**

	Assets	Liabilities
Canadian Dollars	\$1,255,923	\$43,620

Based on the financial instruments held as at December 31, 2019, the Company's other comprehensive income (loss) would have changed by \$110,131 had the US dollar shifted by 10% as a result of foreign exchange effect on translation of non-US dollar denominated financial instruments.

At December 31, 2019, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

**e) Liquidity risk**

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

**As at December 31, 2019**

	<1 Year	1 to 5 Years	Thereafter	Total
Accounts Payable	\$ 864,267	\$ -	\$ -	\$ 864,267
Accrued expenses	\$ 1,737,786	\$ -	\$ -	\$ 1,737,786
Income taxes payable	\$ 7,015,606	\$ -	\$ -	\$ 7,015,606
Notes Payable	\$ 884,000	\$ -	\$ -	\$ 884,000
Lease liabilities	\$ 1,362,139	\$ 7,879,190	\$ 27,009,732	\$ 36,251,061

**f) Pricing risk**

Price risk is the risk of variability in fair value due to movements in equity or market prices. See Note 9 for the Company's assessment of certain changes in the fair value assumption used in the calculation of biological asset values.

**g) Concentration risk**

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

**h) Banking Risk**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

**5) Financial instruments and risk management (Continued)**

**i) Asset Forfeiture Risk**

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

**6) RTO listing expense (reverse take-over transaction)**

On June 11, 2018, MMDC and P13 (formerly Carpincho Capital Corp.) completed the definitive share exchange agreement entered into on April 26, 2018, (the “RTO Agreement”), whereby MMDC acquired all of the issued and outstanding shares of Carpincho Capital Corp, on the basis of 0.875 consolidated common shares of the resulting entity for every one (1) outstanding common share of Carpincho Capital Corp. In accordance with IFRS 3, the substance of the transaction was a reverse takeover (“RTO”) of a non-operating company. The transaction does not constitute a business combination since Carpincho Capital Corp did not meet the definition of a business under IFRS 3. As a result, the transaction has been accounted for as an asset acquisition with MMDC being identified as the acquirer (legal subsidiary) and Carpincho Capital Corp. being treated as the accounting acquiree (legal parent) with the transaction being measured at the fair value of the equity consideration issued to Carpincho Capital Corp shareholders. The net assets acquired was the fair value of the net assets of Carpincho Capital Corp, which on June 10, 2018 was \$11,544.

The excess of the purchase price over the net assets was charged to the consolidated statement of operations as an RTO listing expense.

	<b>June 11, 2018</b>
<b>Net assets acquired</b>	
Cash and cash equivalents	\$ 34,678
HST receivable	8,020
Accounts payable and accrued liabilities	(31,154)
<b>Net assets acquired</b>	<b>\$ 11,544</b>
<b>Shares issued and transaction costs incurred recorded as RTO listing expense</b>	
Fair value of 5,250,000 shares issued by MMDC at CAD\$1.00 per share	\$ 4,040,637
Less net assets acquired	(11,544)
Net cost of shares issued on RTO recorded as RTO expense	\$ 4,029,093
RTO transaction costs recorded as RTO expense	673,511
<b>Shares issued and transaction costs incurred recorded as RTO listing expense</b>	<b>\$ 4,702,604</b>

**7) Inventories**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

	December 31, 2019	December 31, 2018
Raw Material		
Harvested Cannabis	\$ 960,475	\$ 1,034,023
Packaging and miscellaneous	500,109	131,857
Total Raw Material	1,460,584	1,165,880
Work in Process	1,641,922	1,067,685
Finished Goods	2,371,498	3,088,546
<b>Total Inventories</b>	<b>\$ 5,474,004</b>	<b>\$ 5,322,111</b>

During the year ended December 31, 2019, the Company recognized \$27,139,658 (2018 - \$10,507,200) of inventory expensed to cost of goods sold.

**8) Biological Assets**

Biological assets consist of cannabis plants. At December 31, 2019, the changes in the carrying value of biological assets are shown below:

**Harvest in Process**

	December 31, 2019	December 31, 2018
Beginning balance	\$ 915,177	\$ 1,067,305
Production costs capitalized	2,437,980	3,135,478
Net change in fair value less costs to sell due to biological transformation	1,020,784	1,919,593
Transferred to inventory upon harvest	(3,859,415)	(5,207,199)
Ending balance	\$ 514,526	\$ 915,177

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

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

- Growth cycle - the average growing cycle is 110 days from propagation to harvest for both 2019 and 2018;
- Stage of growth – represents the weighted average number of days out of the 110-day growing cycle that biological assets have reached as at the measurement date;
- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant. The average harvest yield of whole flower used is 140 grams per plant for 2019 (2018 – 195 grams)
- Survival rate – the estimated survival rate of cannabis plants as they move from one stage of growth to the next (from germination to vegetative to flowering) based on the Company’s historical results. As plants mature at each stage, their survival rate increases;
- Wholesale selling price – the average price used is \$5.29 per gram in 2019 (2018- \$5.08)

## PLANET 13 HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

*Expressed in United States Dollars*

- Post harvest costs – calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants after harvest, consisting of the cost of direct and indirect materials and labor related to labelling and packaging. The Company expenses such subsequent expenditures directly to cost of goods sold.

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

	December 31, 2019	December 31, 2018	10% change as at	
			December 31, 2019	December 31, 2018
Stage of growth	31.10%	32.90%	\$ 54,523	\$ 91,518
Yield by plant	140 grams	195 grams	175,448	257,853
Survival rate	83.60%	80.00%	146,676	183,943
Wholesale Selling price	\$5.29	\$5.08	55,590	91,518

## PLANET 13 HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Expressed in United States Dollars

#### 9) Property and Equipment

	Land and Land Improvements	Buildings and Structures	Equipment	Leasehold Improvements	Construction in Progress	Total Capital Assets
<b>Cost</b>						
At December 31, 2017	\$ 366,676	\$ 1,698,077	\$ 980,444	\$ 2,459,356	\$ -	\$ 5,504,553
Additions	258,470	-	1,439,951	11,092,879	1,112,037	13,903,337
At December 31, 2018	625,146	1,698,077	2,420,395	13,552,235	1,112,037	19,407,890
Additions	-	-	704,155	8,395,988	6,909,303	16,009,446
Transfers & disposals	-	-	950,535	5,146,336	(6,243,057)	(146,186)
At December 31, 2019	\$ 625,146	\$ 1,698,077	\$ 4,075,085	\$ 27,094,559	\$ 1,778,283	\$ 35,271,150
<b>Accumulated Depreciation</b>						
At December 31, 2017	\$ -	\$ 76,350	\$ 441,834	\$ 644,453	\$ -	\$ 1,162,637
Additions	25,543	42,456	309,873	610,897	-	988,769
At December 31, 2018	25,543	118,806	751,707	1,255,350	-	2,151,406
Additions	51,194	42,452	554,542	2,323,706	-	2,971,894
Transfers & disposals	-	-	(63,304)	-	-	(63,304)
At December 31, 2019	\$ 76,737	\$ 161,258	\$ 1,242,945	\$ 3,579,056	\$ -	\$ 5,059,996
<b>Net book value</b>						
At December 31, 2018	\$ 599,603	\$ 1,579,271	\$ 1,668,688	\$ 12,296,885	\$ 1,112,037	\$ 17,256,484
At December 31, 2019	\$ 548,409	\$ 1,536,819	\$ 2,832,140	\$ 23,515,503	\$ 1,778,283	\$ 30,211,154

As at December 31, 2019, costs related to the construction of facilities were capitalized as construction in progress and not amortized. Amortization will commence when construction is completed, and the facility is available for its intended use. The contractual construction commitment as at December 31, 2019 was \$4,516,513 (2018 – \$281,150).

For the year ended December 31, 2019 depreciation expense was \$2,971,894 (2018- \$988,769) of which \$695,388 (2018 - \$588,653) was included in cost of goods sold.

During the year ended December 31, 2019 on completion of Construction in Progress, the Company transferred \$5,156,336 to Leasehold Improvements and transferred \$950,535 to Equipment.

## PLANET 13 HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Expressed in United States Dollars

#### 10) Right of use assets

	Buildings	Vehicles	Total
<b>Cost</b>			
Balance at December 31, 2018 and 2017	\$ -	\$ -	\$ -
IFRS 16 Adoption	7,933,903	148,736	8,082,639
Additions	2,031,486	-	2,031,486
Balance at December 31, 2019	\$ 9,965,389	\$ 148,736	\$ 10,114,125
<b>Accumulated Depreciation</b>			
Balance at December 31, 2018	\$ -	\$ -	\$ -
IFRS 16 Adoption	-	-	-
Depreciation	583,919	51,473	635,392
Balance at December 31, 2019	\$ 583,919	\$ 51,473	\$ 635,392
<b>Net book value</b>			
At December 31, 2018	\$ -	\$ -	\$ -
At December 31, 2019	\$ 9,381,470	\$ 97,263	\$ 9,478,733

For the year ended December 31, 2019, depreciation expense was \$653,392 (2018 - \$nil) of which \$66,434 (2018 - \$nil) was included in cost of goods sold.

## PLANET 13 HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Expressed in United States Dollars

#### 11) Prepaid expenses and other current assets

	December 31, 2019	December 31, 2018
Advertising and marketing	\$ 63,808	\$ 79,584
Security deposits	2,210,249	156,795
Merchandise	3,268	116,820
Lease obligation	-	81,951
Taxes receivable	81,948	53,402
D&O Insurance	138,400	111,374
Health insurance	218,131	42,458
Licenses	121,752	256,806
Funds awaiting clearing from payment processors	696,178	-
Miscellaneous	160,538	492,088
<b>Total</b>	<b>\$ 3,694,272</b>	<b>\$ 1,391,278</b>

#### 12) Notes Payable

Notes payable consist of the following:

Non-related parties

	December 31, 2019	December 31, 2018
Promissory note dated November 4, 2015, with semi-annual interest at 5.0%, secured by deed of trust, due December 1, 2019	\$ 884,000	\$ 884,000
Less current portion	(884,000)	(884,000)
Long-term portion of Promissory Notes	\$ -	\$ -

Stated maturities of debt obligations are as follows:

Next 12 months Promissory Note	\$ 884,000
--------------------------------	------------

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

#### 13) Lease liabilities

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

	December 31, 2019	January 1, 2019
Total lease liabilities	\$ 10,522,377	\$ 8,494,971

## PLANET 13 HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Expressed in United States Dollars

The following table summarizes undiscounted future lease payments:

	December 31, 2019	December 31, 2018
Less than one year	\$ 1,362,139	\$ 1,162,210
One to five years	7,879,190	7,991,090
Greater than five years	27,009,732	-
Total undiscounted future lease payments	<u>\$ 36,251,061</u>	<u>\$ 9,153,300</u>

The following table summarizes lease-related cash flows for the year ended December 31, 2019:

Principal repayment	\$ (117,792)
Interest	1,369,200
Non-lease components	232,471
Short-term leases	6,080
Total cash outflows	<u>\$ 1,489,959</u>

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

#### 14) Deferred Rent

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

# PLANET 13 HOLDINGS INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Expressed in United States Dollars

### 15) Share Capital

#### a) Authorized

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

	Number of Shares	
	2019	2018
<b>Common shares</b>		
Balance at January 1	73,324,460	25,300,000
Shares issued to former Carpincho Capital Corp shareholders	-	5,250,000
Shares issued on private placement	-	31,458,400
Shares issued on prospectus offering	-	8,735,250
Shares issued on exercise of RSUs	3,954,518	-
Shares issued on exercise of options	258,994	-
Shares issued on exercise of warrants	4,889,647	2,580,810
Total Common shares outstanding December 31,	82,427,619	73,324,460
<b>Class A shares</b>		
Balance at January 1	55,232,940	49,700,000
Class A Shares issued on exchange of note payable	-	5,532,940
Total Class A Shares outstanding December 31,	55,232,940	55,232,940
<b>Balance December 31</b>	<b>137,660,559</b>	<b>128,557,400</b>

Former shareholders of MMDC exchanged their 75,000,000 common shares of MMDC into 25,300,000 common shares and 49,700,000 Class A restricted shares on closing of the RTO (Note 7).

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

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

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

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

On June 11, 2018 the Company closed the RTO transaction, and it issued 5,250,000 common shares to former shareholders of Carpincho Capital Corp. (Note 6) at fair value. The Company recorded Share capital in the amount of \$4,040,637 and recorded a share-based payment expense of \$4,040,637 associated with the issuance of shares to the former shareholders of Carpincho (see Note 6).

The RTO closing also triggered the closing of a private placement that was being held in escrow pending the closing of the RTO. The Company closed the private placement by issuing 31,458,400 units at a price of CAD\$0.80 per unit for gross proceeds of \$19,508,445. Each unit was comprised of one common share and one-half of common share purchase

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

warrant. Each whole warrant entitles the holder to purchase one common share for a period of 24 months from the closing of the offering at a price of CAD\$1.40 per common share. The Company also issued 1,485,645 broker warrants that entitled the holder to purchase one common share for a period of 24 months from the closing of the offering at a price of CAD\$0.80 per common share. The warrants and broker warrants were estimated to have a fair value of \$4,212,768 at the time of the closing of the RTO transaction. Share issuance costs recorded on the private placement were \$1,943,556. Total share issuance costs were \$2,309,453, of which \$365,897 was allocated to the issuance of warrants and \$1,943,556 to the issuance of common shares and restricted shares. The broker warrants were measured based on the fair market value of the warrants using a Black Scholes valuation model as the fair market value of the services received cannot be reliably measured.

On December 4, 2018, the Company issued 8,735,250 common shares and 4,792,625 common share purchase warrants at a price of CAD\$3.00 per unit with each unit consisting of one common share and ½ of a common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of CAD\$3.75 for a period of 36 months following the closing. The warrants may be accelerated by the Company in its sole discretion at any time in the event that the volume-weighted average closing price of the common shares on the Canadian Securities Exchange is greater than or equal to CAD\$5.00 per share for a period of 20 consecutive trading days by giving notice to the warrant holders. In such a case the warrants will expire at 4:00pm eastern time on the earlier of the 30<sup>th</sup> day after the date on which notice is given and the actual expiry date of the warrants. The Company also issued 524,115 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\$3.00 per common share. The broker warrants were measured based on the fair market value of the warrants using a Black Scholes valuation model as the fair market value of the services received cannot be reliably measured. Total aggregate gross proceeds on the financing were \$19,965,769 (CAD\$26,392,750) and the Company recorded share issuance costs of \$1,722,572, of which \$1,275,515 was allocated to the common shares and \$447,057 was allocated to the warrants and broker warrants.

During the year ended December 31, 2018, the Company issued 2,580,810 common shares to warrant holders who exercised 2,580,810 warrants resulting in cash proceeds of \$2,374,253.

The Company issued 5,532,940 Class A restricted shares at a price of CAD\$0.80 per share for total equity of \$3,409,476 on the settlement of notes held by related parties that were converted to equity on closing of the RTO at the option of the note holder.

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

On March 20, 2019 the Company issued 15,002 common shares on the exercise of options that had a strike price of CAD\$0.80 per common share resulting in cash proceeds of CAD\$12,002. The share price on March 20, 2019 was CAD\$1.80.

On July 9, 2019 the Company issued 205,660 common shares on the exercise of options that had a strike price of CAD\$0.80 per common share resulting in cash proceeds of CAD\$164,528. The Company issued 5,000 common shares on the exercise of options that had a strike price of CAD\$0.75 per common share resulting in cash proceeds of CAD\$3,750. The Company also issued 33,332 common shares on the exercise of options with a strike price of CAD\$1.55 resulting in cash proceeds of CAD\$51,665. The share price on July 9, 2019 was CAD\$2.50

On July 9, 2019 the Company issued 1,833,732 common shares on the exercise of Restricted Share Units that had vested during the period.

During the period July 31 to December 31, 2019 the Company issued 198,000 common shares on the exercise of Restricted Share Units that had vested at a rate of 33,000 per month from June 30 to December 31, 2019

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 CAD\$6,480,875.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

**b) Stock options**

The Company has established an incentive stock option plan (the “Plan”) for employees, management, directors, and consultants of the Company, as designated and administered by a committee of the Company’s Board of Directors. Under the Plan, the Company may grant options for up to 10% of the issued and outstanding common shares of the Company. The maximum term of all options outstanding is 5 years and the options vest ranging from immediately on the date of grant to three years depending on the incentive scheme.

On June 11, 2018 the Company granted 625,000 incentive stock options to employees of the Company. These options are exercisable at a price of CAD\$0.80 per common share for a period of five years from the grant date.

On June 11, 2018 the Company granted 175,000 incentive stock options to consultants of the Company. These options are exercisable at a price of CAD\$0.80 per common share for a period of three years from the grant date. The incentive options granted to consultants were measured based on the fair market value of the options at the date of granting using a Black Scholes valuation model as the fair market value of the services received cannot be reliably measured.

On July 31, 2018 the Company granted 25,000 incentive stock options to an employee of the Company. These options are exercisable at a price of CAD\$0.75 per common share for a period of 5 years from the grant date.

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

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

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 as at December 31, 2019:

Expiry date	Exercise Price CAD\$	December-31 2019 Outstanding	December-31 2019 Exercisable
June 11, 2021	\$0.80	175,000	175,000
June 11, 2023	\$0.80	282,674	139,332
July 31, 2023	\$0.75	20,000	11,667
January 7, 2024	\$1.55	66,668	33,334
June 30, 2024	\$2.60	22,500	7,500
July 4, 2022	\$2.65	100,000	50,000
		<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 \$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:

Assumption	July 4, 2019	June 30, 2019	January 7, 2019	June 11, 2018	June 11, 2018	July 31, 2018
Closing share price in CAD\$ the day prior to granting	\$2.65	\$2.60	\$1.55	\$1.00	\$1.00	\$0.75
Risk-free rate	1.62%	1.40%	1.87%	2.14%	1.99%	2.21%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected volatility	98.29%	98.86%	110.41%	98.10%	98.10%	98.10%
Option life in years	3.00	5.00	5.00	5.00	3.00	5.00

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.

## PLANET 13 HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Expressed in United States Dollars

Share based compensation expense attributable to employee options was \$258,620 for the year ended December 31, 2019 (\$295,528 for the year ended December 31, 2018).

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

	December 31, 2019	Weighted Average CAD\$ Exercise price	December 31, 2018	Weighted Average CAD\$ Exercise price
<b>Stock option activity</b>				
Balance – beginning of year	790,002	\$0.80	-	-
Granted	222,500	\$2.15	820,000	\$0.80
Exercised	(258,994)	\$0.88	-	-
Expired	-	-	-	-
Forfeited	(86,666)	\$0.80	(29,998)	\$0.80
<b>Balance – end of year</b>	<b>666,842</b>	<b>\$1.22</b>	<b>790,002</b>	<b>\$0.80</b>

	December 31, 2019
The outstanding options have a weighted-average CAD\$ exercise price of:	\$1.22
The weighted average remaining life in years of the outstanding options is:	2.88

#### c) Warrants

The following table summarizes warrants outstanding at December 31, 2019:

Date of Issuance	Date of Expiry	CAD\$ Exercise Price	December 31, 2019 Outstanding
June 11, 2018	June 11, 2020	\$0.80	63,600
June 11, 2018	June 11, 2020	\$1.40	9,680,838
December 4, 2018	December 4, 2020	\$3.00	524,115
December 4, 2018	December 4, 2021	\$3.75	4,792,525
			<b>15,061,078</b>

	December 31, 2019
The outstanding warrants have a weighted-average CAD\$ exercise price of:	\$2.20
The weighted average remaining life in years of the outstanding warrants is:	0.93

## PLANET 13 HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Expressed in United States Dollars

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

Warrant activity	December 31,	Weighted	December 31,	Weighted
	2019	Average CAD\$	2018	Average CAD\$
	Number	Exercise price	Number	Exercise price
<b>Balance – beginning of year</b>	19,950,725	\$1.99	-	-
Issued on private placements	-	-	15,729,150	\$1.40
Issued to brokers on private placement	-	-	1,485,645	\$0.80
Issued on prospectus financing	-	-	4,792,625	\$3.75
Issued to brokers on prospectus financing	-	-	524,115	\$3.00
Exercised	(4,889,647)	\$1.33	(2,580,810)	\$1.21
Expired	-	-	-	-
<b>Balance – end of year</b>	<b>15,061,078</b>	<b>\$2.20</b>	<b>19,950,725</b>	<b>\$1.99</b>

The Company received cash proceeds of \$4,835,319 (CAD\$6,480,875) from the exercise of warrants during the year ended December 31, 2019. The Company reduced the carrying value of warrants by \$1,085,752 that was associated with the warrants that were exercised and reallocated this amount to common share capital.

The Company received cash proceeds of \$2,374,253 (CAD\$3,124,773) from the exercise of warrants during the year ended December 31, 2018. The Company reduced the carrying value of warrants by \$932,828 that was associated with the warrants that were exercised and reallocated this amount to common share capital.

The following assumptions were used to arrive at the value ascribed to the Warrants issued using a Black Scholes Option Pricing model:

Assumption	June 11, 2018
Share price - CAD\$	\$1.00
Risk-free rate	1.90%
Expected dividend yield	0.00%
Expected volatility	98.15%
Warrant life in years	2.00

The following assumptions were used to arrive at the value ascribed to the Warrants issued using a Monte Carlo Valuation Model:

Assumption	December 4, 2018
Share price - CAD\$	\$3.23
Risk-free rate	2.37%
Expected dividend yield	0.00%
Expected volatility	109.00%
Warrant life in years	3.00
Acceleration Threshold	\$5.00
Acceleration right	The Expiry Date is accelerated upon the share price of the Company being equal to or greater than the Acceleration Threshold for a period of 20 consecutive trading days

#### d) Restricted Share Units

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

## PLANET 13 HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

*Expressed in United States Dollars*

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

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

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

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

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.

The Company issued 3,954,518 common shares on the exercise of 3,954,518 RSUs during the year ended December 31, 2019 (nil for the year ended December 31, 2018). The following table summarizes the RSUs that are outstanding as at December 31, 2019:

Restricted Share Units (RSUs)	Share Price on Grant Date	December 31,	December 31,
		2019 Outstanding	2019 Vested
June 11, 2018	CAD \$1.00	1,549,395	-
July 31, 2018	CAD\$0.75	8,334	-
June 30, 2019	CAD\$2.60	2,798,013	-
		<b>4,355,742</b>	-
		December 31,	December 31,
		2019	2018
<b>RSU Activity</b>	<b>Number</b>	<b>Number</b>	
<b>Balance – beginning of year</b>	5,367,691	-	
Granted to participants	3,259,624	5,663,358	
Exercised	(3,954,518)	-	
Cancelled	(317,055)	(295,667)	
<b>Balance – end of year</b>	<b>4,355,742</b>	<b>5,367,691</b>	

The Company recognized \$4,564,167 in share-based compensation expense attributable to RSUs vesting during the year ended December 31, 2019 (\$2,800,335 for the year ended December 31, 2018).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

**16) General and Administrative Expenses**

	For the year ended		Percentage Change
	December, 31		
	2019	2018	
Salaries and wages	\$ 6,941,111	\$ 3,151,509	120.2%
Executive compensation	874,598	553,814	57.9%
Licenses and permits	1,704,755	589,178	189.3%
Payroll taxes and benefits	1,531,261	641,906	138.5%
Supplies and office expenses	1,184,401	1,222,053	(3.1%)
Subcontractors	1,272,414	1,024,175	24.2%
Professional fees (legal, audit and other)	2,723,555	600,877	353.3%
Miscellaneous general and administrative expenses	4,037,744	1,799,864	124.3%
	<u>\$ 20,269,839</u>	<u>\$ 9,583,376</u>	111.5%

**17) Loss per share**

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

The weighted average number of fully dilutive common shares outstanding is derived by adding the effect of all dilutive securities (using the treasury method) to the weighted average number of common shares outstanding. As at December 31, 2019 the Company was in a loss position, such that the exercise of options and warrants and the issuance of RSUs would have been anti-dilutive. As such, the diluted loss per share calculation excludes and potential conversion of options, warrants and RSUs that would decrease the loss per share.

	Year ended	
	December 31, 2019	December 31, 2018
<b>Basic weighted average shares outstanding</b>		
Common shares	78,841,536	45,686,137
Restricted voting shares	55,232,940	50,311,690
<b>Total Basic weighted average shares outstanding</b>	<b>134,074,476</b>	<b>95,997,827</b>
Effect of dilutive securities		
Options	-	-
Warrants	-	-
RSUs	-	-
<b>Diluted weighted average shares outstanding</b>	<b>134,074,476</b>	<b>95,997,827</b>
<b>Net (loss) for the year</b>	<b>\$ (6,658,333)</b>	<b>\$ (10,723,704)</b>
<b>Basic loss per share</b>	<b>\$ (0.05)</b>	<b>\$ (0.11)</b>
<b>Fully diluted loss per share</b>	<b>\$ (0.05)</b>	<b>\$ (0.11)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

**18) Commitments and Contingencies**

**(a) Construction Commitments**

At December 31, 2019 the Company had construction commitments outstanding of \$4,516,513 (2018 – \$281,150) related to the Phase II build-out of the Company's Planet 13 cannabis entertainment complex. These commitments are expected to be fulfilled prior to December 31, 2020.

**(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, 2019, medical and adult use cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

**(c) Claims and Litigation**

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At December 31, 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, 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) Related party transactions**

Related party transactions are summarized as follows:

a) Building Lease

Prior to September 2018, the Company leased approximately 15,000 square feet of office and production space for the Company's Clark County Cultivation facility from a limited partnership controlled by Larry Scheffler, Co-CEO of the Company. On September 26, 2018 the property was acquired by an arm's length third party. Related-party rents paid under this lease for the year ended December 31, 2019 and 2018 equalled *\$nil* and \$384,010, respectively.

(b) Officer Compensation

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and board of directors. The following table summarizes amounts paid to related parties as compensation for the year ended December 31, 2019 and 2018:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

	Year	Remuneration or fees <sup>(1)</sup>	Share based payments <sup>(1)</sup>	Included in accounts payable <sup>(1)</sup>
Management compensation	2019	\$1,526,638	\$3,259,729	\$ -
	2018	1,622,682	1,851,747	4,000
Director compensation	2019	\$ -	\$407,598	\$ -
	2018	-	332,795	-

<sup>(1)</sup> Amounts disclosed were paid or accrued during the year ended December 31, 2019 and 2018.

**(c) Strategic disbursement**

On or around June 28, 2018, the landlord for the Company's Clark County cultivation facility, who is also one of the Company's Co-CEOs, notified that the Company that the mortgage holder of the loan secured by such location was considering foreclosure action against the facility due to the Company's business conducted therein. The landlord further indicated that the building was listed for sale and that it was anticipated that a sale would be completed before December 31, 2018. In connection therewith, and in order to ensure the Company's ability to continue to use the leased premises, the Company made a strategic disbursement of \$1,254,862 to the holder of the note secured by the facility. This disbursement was secured by a promissory note bearing interest at 3.95% from July 18, 2018 to July 17, 2019 and then 8% annually after, a deed of trust and a personal guarantee. The note and accrued interest thereon, was repaid on September 28, 2018. Interest earned on the promissory note is included in Interest expense, net on the Consolidated Statements of Operations and Comprehensive Loss.

**(d) Other**

The Company sub-lets approximately 2,000 square feet of office space and purchases certain printed marketing collateral and stationery items from a company owned by one of the Company's Co-CEO. Amounts paid to such company for rent for the year ended December 31, 2019 and 2018 equaled \$24,040 and \$24,040 respectively, for rent and amounts paid for printed marketing collateral and stationery items equaled \$279,457 and \$8,769 respectively.

**20) Income Taxes**

**Income tax provision**

	2019	2018
Tax expense applicable to:		
Current	\$7,292,188	\$2,198,295
Deferred	(91,191)	91,908
<b>Income tax provision (recovery)</b>	<b>\$7,200,997</b>	<b>\$2,290,203</b>

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.

**Movement in net deferred tax liabilities:**

	2019	2018
Balance at beginning of year	\$470,856	\$378,948
Recognized in profit/loss	(91,191)	91,908
Impact of change in foreign exchange rates	-	-
<b>Balance at the end of the year</b>	<b>\$379,665</b>	<b>\$470,856</b>

# PLANET 13 HOLDINGS INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Expressed in United States Dollars

The Company's deferred tax assets and liabilities are as follows:

	2019	2018
Net operating losses	\$2,805	\$-
Biological assets	(382,470)	(470,856)
	<b>(\$379,665)</b>	<b>(\$470,856)</b>

### Reconciliation to statutory tax rate:

	2019	2018
<b>Income (loss) before income taxes</b>	\$542,664	(\$8,433,501)
Tax expense at statutory rate:	21.00%	21.00%
Expected income tax expense (recovery) at statutory rates	113,959	(1,771,035)
Difference in foreign tax rates	(433,784)	(91,771)
Prior period adjustments and other	-	11,186
Share based compensation and non-deductible expenses	6,708,706	3,699,653
Share issuance costs recorded through equity	-	(1,068,487)
Change in tax benefits not recognized	812,116	1,510,657
Foreign tax differential	-	-
<b>Income tax provision (recovery)</b>	<b>\$7,200,997</b>	<b>\$2,290,203</b>

### Temporary Differences and non-capital losses not recognized:

	2019	2018
Eligible capital expenditures	\$-	\$-
Biological assets	-	-
Capital losses	-	-
Non-capital losses	4,823,360	1,758,770
	<b>\$4,823,360</b>	<b>\$1,758,770</b>

### Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

Shares issuance costs - 20(1)(e) - Canada  
 Non-capital losses carried forward - Canada

Share issue and financing costs will be fully amortized in 2023.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

**The Company's non-capital income tax losses expire as follows:**

	Canada	Canada
	CAD	USD
2038	2,289,546	1,758,770
2039	3,989,448	3,064,590
Total Non-Capital losses in CAD\$	<b>\$ 6,278,994</b>	
Total Non-Capital losses in USD\$		<b>\$ 4,823,360</b>

**21) Segmented disclosure**

**a) Operating segments**

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

**b) Geographic segments**

As at December 31, 2019, 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.

**22) Capital Management**

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

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

**23) Subsequent Events**

On January 1, 2020 the Company granted 50,000 RSUs to an employee of the Company. The RSU vest 1/3 on the date of grant, 1/3 vest on the first anniversary of the grant date and 1/3 vest on the second anniversary of the grant date.

On January 15, 2020, the Company issued 852,153 common shares on the vesting of RSU that were outstanding. The Company did not receive any cash proceeds from the issuance.

On January 15, 2020, the Company issued 108,333 common shares on the exercise of options that were exercised by employees and consultants of the Company. The Company received cash proceeds of CAD\$111,666 on the exercise.

On January 31, 2020 the Company issued 33,000 common shares on the exercise of RSU that had vested. The Company did not receive any cash proceeds on the exercise of vested RSUs.

On February 28, 2020 the Company issued 33,000 common shares on the exercise of RSUs that had vested. The Company did not receive any cash proceeds on the exercise.

On March 31, 2020 the Company issued 33,000 common shares on the exercise of RSUs that had vested. The Company did not receive any cash proceeds on the exercise.

## PLANET 13 HOLDINGS INC.

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

*Expressed in United States Dollars*

Between January 1, 2020 and April 13, 2020, the Company issued 901,125 common shares on the exercise of common share purchase warrants with a strike price of CAD\$1.40. The Company realized cash proceeds of CAD\$1,261,575

On March 11, 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. 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 at this time.