



**MANAGEMENT DISCUSSION AND ANALYSIS
OF THE FINANCIAL POSITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2020**

Stated in United States Dollars

Dated: June 1, 2020



FOR THE THREE MONTHS ENDED MARCH 31, 2020

REPORT TO SHAREHOLDERS AND MANAGEMENT DISCUSSION AND ANALYSIS

Expressed in United States Dollars

TO OUR SHAREHOLDERS

This management's discussion and analysis of the financial condition and results of operation ("MD&A") of Planet 13 Holdings Inc. ("P13" or the "Company") should be read in conjunction with P13's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2020 and the audited annual financial statements for the year ended December 31, 2019 and related notes therein.

Except as otherwise indicated, all financial data in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

All dollar amounts in this MD&A are reported in United States Dollars except where otherwise indicated. As at March 31, 2020, the Company had a working capital surplus of \$10,234,141 and had reported a net loss of (\$1,409,062) for the three months ended March 31, 2020.

Further information about the Company, its operations and other continuous disclosure documents, including the Company's annual information form, press releases and management information circular are available through filings with the securities regulatory authorities in Canada under the Company's profile (Planet 13 Holdings Inc.) at www.sedar.com.

A CAUTIONARY NOTE

This document contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, its subsidiaries and its projects, the future supply, demand, inventory, production and price of raw cannabis, the timing and amount of estimated future production, costs of production, capital, operating costs, requirements for additional capital, government regulation operations, environmental risks, , limitations of insurance coverage and access to the US Banking system and the timing and possible outcome of pending litigation and regulatory matters.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, the Company's business model; U.S. regulatory landscape and enforcement related to cannabis, including political risks; risks related to capital raising due to heightened regulatory scrutiny; risks related to quantifying the Company's target market; risks related to access to banks and credit card payment processors; risks related to lack of U.S. federal trademark and patent protection; risks related to the enforceability of contracts; risks related to potential violation of laws by banks and other financial institutions; risks related to service providers withdrawing or suspending services under threat of prosecution; risks related to tax liabilities; and heightened scrutiny by Canadian regulatory authorities. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.



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The following table outlines certain significant forward-looking statements contained in this MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

Forward-Looking Information	Key Assumptions	Most Relevant Risk Factors
Future funding for strategic business initiatives	The Company will continue to be able to operate its businesses in the state of Nevada and raise the necessary funds to advance its strategic growth objectives.	Cannabis-Related Practices or Activities are Illegal Under U.S. Federal Laws The concepts of “medical cannabis” and “recreational cannabis” do not exist under U.S. federal law. The U.S. <i>Federal Controlled Substances Act</i> classifies “marijuana” as a Schedule I drug. Accordingly, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under U.S. federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under U.S. federal law, nor will it provide a defence to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company’s operations and financial performance.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company’s ability to predict or control. Please also refer to those risk factors in the “Risk Factors” section below. Readers are cautioned that the preceding table does not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially from those expressed or implied by the forward-looking statements contained in this MD&A.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company’s actual results, performance or achievements to be materially different from any of its anticipated results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by



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law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

CORPORATE OVERVIEW

The Company is a Corporation continued on June 26, 2019 under the jurisdiction and laws of British Columbia which holds MM Development Company, Inc. (“**MMDC**”), a vertically integrated US subsidiary corporation active in the cultivation, production, distribution, and retail sale of both medical and recreational cannabis which at the date of this MD&A is restricted to the state of Nevada. For purposes of this MD&A, reference to the Company may also include MMDC as a wholly owned and controlled subsidiary of Company. The Company holds four cultivation licenses operating at two licensed cultivation facilities, each location operating jointly under a medical and adult-use cultivation license. One cultivation license is located in Clark County Nevada (Las Vegas) in an approximately 15,000 square foot facility with indoor cultivation and a perpetual harvest cycle. This facility has a current production capacity of approximately 2,100 lbs/year (950 kg/year) of dried cannabis. The Company is in the process of adding an additional 2,500 square feet of capacity to its indoor cultivation facility that was previously occupied by the Company’s production operation that was transferred to the Superstore on completion of the Phase II build-out. The second cultivation license is located near the town of Beatty in Nye County, Nevada. The facility currently houses approximately 500 square feet of research and development and genetics testing. The Beatty site has the potential for over 2,300,000 square feet of greenhouse production capacity on 80 acres of owned land with municipal water and abundant electrical power already at the edge of the property. The Company also has four production licenses operating at two licensed production facilities, each location operating jointly under a medical and adult-use cultivation license, one in Clark County that was previously co-located within the cultivation facility and was approximately 2,300 square feet has been relocated to the newly commissioned 14,000 square foot customer facing production facility that opened inside the Planet 13 Superstore cannabis entertainment complex. This facility incorporates butane hash oil extraction (BHO extraction), distillation equipment and microwave assisted extraction equipment as well as a state-of-the-art bottling and infused beverage line and an edibles line able to produce infused chocolates, infused gummies and other edible products. The second production facility is co-located at the Beatty facility. The Company also has two dispensary licenses operating at one licensed dispensary facility, one license is medical and the other is for adult-use retail sales. The licenses operate out of the same joint location and presently occupy approximately 16,000 square feet of retail space located adjacent to the Las Vegas Strip where the Company opened, on November 1, 2018, a cannabis entertainment complex (the “**Planet 13 Superstore**”). The Planet 13 Superstore is open 24 hours/day, seven days per week. Prior to November 1, 2018, the licenses operated out of a 2,300 square feet facility located approximately six miles off the Las Vegas Strip. The licenses were transferred to the Planet 13 Superstore location on October 31, 2018. The Planet 13 Superstore opened on schedule to the public on November 1, 2018. The Planet 13 Superstore has the capacity to serve up to 5,000 customers per day through its new, enhanced dispensary. The Company recently opened the second phase of the Planet 13 Superstore location with ancillary offerings that include a coffee shop, bistro/pizzeria and event space. The Company also plans to build out a merchandise store and CBD store selling the Company’s Planet M branded CBD products inside the Planet 13 Cannabis entertainment complex. The Company plans to build a potential cannabis lounge in a segregated area of the facility where patrons will be able to consume products that have been purchased at the dispensary should the state and county pass the necessary legislation that legalizes consumption lounges and the Company is successful in obtaining a license for such activity. The Planet 13 Superstore also houses the Company’s corporate offices. In addition, the newly opened production facility, described above, enables the Company to expand its vertical integration and increase the amount of its own branded products that are sold in the Planet 13 Superstore as well as re-entering the wholesale market selling concentrates, edibles and infused beverages. The Company intends to acquire two additional licenses (medical and recreational) either through its litigation of the prior application process which closed on December 5, 2018 or through an acquisition of existing licenses and transfer them to the Company’s Medizin dispensary that was closed when the licenses were transferred to the Planet 13 Superstore. This will allow the Company to re-start operations out of the Medizin location, which remains approved under a special use permit



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with Clark County, Nevada for dispensary operations. The Company has also been granted a distribution license and launched a distribution and delivery service in Nevada to augment its retail locations and be able to deliver product to customers throughout the state of Nevada.

The Company was incorporated on March 20, 2014, as a domestic limited liability company (LLC). On March 14, 2018, MMDC underwent a statutory conversion to a Nevada domestic corporation named MM Development Company, Inc. On June 11, 2018, the Company then completed a reverse-take-over (“RTO”) transaction of Carpincho, and the resulting entity was renamed Planet 13 Holdings Inc. MMDC continues to exist and conducts licensed Nevada state cannabis operations and is owned 100% by the Company.

The Company opened its Medizin medical cannabis dispensary on April 1, 2016, and released its own Medizin branded strains/products into the market on July 1, 2017. Recreational cannabis became legal in the state of Nevada for any one over the age of 21 on July 1, 2017, and the Company began selling recreational cannabis products under the Planet 13 brand under its recreational dispensary license co-located with the Medizin dispensary located at 4850 W Sunset Road, Suite 130, Las Vegas Nevada. On October 31, 2018, the Company closed this dispensary and transferred the licences to the Planet 13 Superstore, which opened for business on November 1, 2018, and is located at 2548 W. Desert Inn Road, Las Vegas, Nevada

The focus of activity during the three months ended March 31, 2020, was to continue to grow and provide cannabis and cannabis related products to the Company’s medical cannabis and adult recreational customers as well as selling branded recreational and medical cannabis products and related cannabis products to its growing customer base. In addition, the Company has been focused on the continued build out of Phase II of the Superstore as described above and the initial planning phases of the proposed cannabis operation in Santa Ana California. The legalization of the sale and consumption of recreational cannabis came into effect in the State of Nevada on July 1, 2017.

The Company experienced record revenue in the months of January and February 2020 and was on track to experience similar growth levels during the month of March 2020 up to March 17, 2020. On March 19, 2020 the Company announced that it would continue to provide core dispensary services during the Coronavirus pandemic and encouraged all local Nevada resident customers to utilize the Company’s express pick-up and/or delivery services so as to limit personal interactions and practice social distancing as recommended by the Centre for Disease Control. On March 17, 2020 Nevada State Governor, Steve Sisolak announced the closure of all non-essential business starting at noon on March 18, 2020 for 30 days as part of the State’s response to curb the threat of the spread of the Covid19 virus. This shutdown was extended until June 1, 2020. On April 30, 2020 all retail cannabis dispensaries in Nevada were allowed to offer online ordering with curbside pick-up in addition to delivery and on May 7, 2020, as part of the State of Nevada’s COVID 19 reopening plan, all dispensaries were allowed to reopen to the general public at significantly reduced number of customers allowed in the facility at the same time. All dispensaries are allowed to have a maximum of 50% of the dispensary location’s fire rated occupancy level or 10 customers, which ever is less. Company anticipates that the shutdown will continue to have a material impact on its business in Q2 2020 from the business closures and lack of tourist traffic in Las Vegas coupled with the reduction in allowed customer traffic during the shutdown period.

The Company cautions that current global uncertainty with respect to the spread of the COVID-19 virus (the “coronavirus”) and its effect on the broader global economy may have a significant negative effect on the Company. While the precise impact of the COVID-19 virus on the Company remain unknown, rapid spread of the COVID-19 virus may have a material adverse effect on global economic activity, and can result in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to the Company.



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DESCRIPTION OF THE U.S. LEGAL CANNABIS INDUSTRY

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) dated February 8, 2018 – Issuers with U.S. Marijuana-Related Activities ("**CSA Notice 51-352**"), below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly involved. In accordance with CSA Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

Use of Cannabis

Marijuana is a preparation of the leaves and flowering tops of cannabis sativa, the hemp plant which contains several pharmacologically active principles (cannabinoids).

Medical cannabis refers to the use of cannabis and its constituent cannabinoids, such as tetrahydrocannabinol ("**THC**") and cannabidiol ("**CBD**"), as medical therapy to treat disease or alleviate symptoms. The cannabis plant has a history of medicinal use dating back thousands of years across many cultures.

Smoking cannabis is the most traditional form of ingestion and consists of smoking the dried flowers or leaves of the cannabis plant. Cannabis can be smoked through a pipe, rolled into a joint (or cigarette), or smoked using a water pipe (bong). Vaporizing involves using a vaporizer, which is a device that is able to extract the therapeutic ingredients in the cannabis plant material at a much lower temperature than required for burning. This allows users to inhale the active ingredients as a vapor instead of smoke. Many medical marijuana patients find that vaporizing offers an improved medical effectiveness, compared to smoking.

Topical cannabis encompasses herbal medicines that are applied directly to the skin or muscles. They include lotions, salves, balms, sprays, oils, and creams. Some patients report they are effective for skin conditions like psoriasis, joint diseases like rheumatoid arthritis, migraines, restless leg syndrome, some spasms, and everyday muscle stress and soreness. Unlike smoking, vaporizing or eating cannabis, topical products which are typically low in THC and higher in CBD are generally non-psychoactive.

Nevada

Despite legal, regulatory and political obstacles, the U.S. cannabis industry continues to experience substantial growth. Nevada was one of the first states to legalize adult-use cannabis and is projected to remain a significant market in the U.S., largely due to the tourism industry. As reported by the Nevada Department of Taxation, medical and adult-use sales totalled \$252,076,486 in the first six months following legalisation on July 1, 2017, and totalled \$580,113,455 for the year ended December 31, 2018. Sales for the 12 months ended December 31, 2019, totalled \$701,700,416 and sales during January 2020 was \$64,118,478, the month February 2020 totalled \$58,287,574, and, during the month of March 2020 was \$43,372,730. (https://tax.nv.gov/Publications/Marijuana_Statistics_and_Reports/).

LEGAL AND REGULATORY MATTERS

United States Federal Overview

In the U.S. thirty-three states and Washington D.C. have legalized medical marijuana, which includes nine states and Washington D.C. that have also legalized adult-use marijuana. In addition to the thirty-three states which have legalized marijuana, twelve states have legalized CBD oil, of which Georgia and Virginia allow THC concentrations under 5% in the CBD oil. At the federal level, however, cannabis currently remains a Schedule I controlled substance under the U.S. Controlled Substance Act of 1970 (the "CSA"). Under U.S. federal law, a Schedule I drug or substance



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has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, the manufacture, importation, possession, use or distribution of cannabis remains illegal under U.S. federal law. This has created a dichotomy between state and federal law, whereby many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level.

While technically illegal, the U.S. federal government's approach to enforcement of such laws has, at least until recently, trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice ("DOJ") issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly regulated medical or adult-use cannabis programs. The Cole Memorandum, while not legally binding, assisted in managing the tension between state and federal laws concerning state-regulated marijuana businesses.

However, on January 4, 2018, the Cole Memorandum was revoked by former Attorney General Jeff Sessions. While this did not create a change in federal law - as the Cole Memorandum was not itself law - the revocation added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is regulated. Sessions also issued a one-page memorandum known as the "Sessions Memorandum." This confirmed the rescission of the Cole Memorandum and explained that the Cole Memorandum was "unnecessary" due to existing general enforcement guidance as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum does emphasize that marijuana is a Schedule I controlled substance and states the statutory view that it is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise guide U.S. Attorneys that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether to prosecute marijuana-related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that displayed under the Cole Memorandum's guidance. Dozens of U.S. Attorneys across the country have affirmed their commitment to proceeding in this manner, or otherwise affirming that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence. On November 7, 2018, Mr. Sessions tendered his resignation as Attorney General at the request of President Donald Trump. Following Mr. Sessions' resignation, and Matthew Whitaker serving as Acting United States Attorney General, William Barr was appointed as US Attorney General on January 15, 2019. William Barr stated at his confirmation hearing to the Senate Judiciary Committee that he would "not go after companies" that had relied upon the Obama-era guidance (the Cole Memorandum) that former Attorney General Jeff Sessions had rescinded in states where cannabis has been legalized. It is unclear what impact, if any, Attorney General William Barr's comments will have on the enforcement of federal regulation of marijuana in the United States. In Nevada, the U.S. Attorney has yet to make any comments regarding the revocation of the Cole Memorandum or indicate any changes to enforcement priorities.

While it is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memorandum, a nationwide "crackdown" is unlikely. The sheer size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale enforcement operation would more than likely create unwanted political backlash for the DOJ and the Trump administration. It is also possible that the rescission of the Cole Memorandum could motivate Congress to finally reconcile federal and state laws. Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission has altered that fact. The federal government of the U.S. has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or adult-use marijuana, even if state law sanctioned such sale and disbursement. From a



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purely legal perspective, the criminal risk today remains identical to the risk on January 3, 2018, prior to the Cole Memorandum being rescinded. It remains unclear whether the risk of enforcement has been altered.

Additionally, under U.S. federal law, it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of marijuana or any other Schedule I controlled substance. Canadian banks are likewise hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions, particularly those that are federally chartered in the U.S., could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses.

Despite these laws, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("**FinCEN**") issued a memorandum on February 14, 2014 (the "**FinCEN Memorandum**") outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses in compliance with federal enforcement priorities. The FinCEN Memorandum echoed the enforcement priorities of the Cole Memorandum. Under these guidelines, financial institutions must submit a Suspicious Activity Report ("SAR") in connection with all marijuana-related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These marijuana-related SARs are divided into three categories – marijuana limited, marijuana priority, and marijuana terminated – based on the financial institution's belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively. On the same day as the FinCEN Memorandum was published, the DOJ issued a memorandum (the "**2014 Cole Memo**") directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a DOJ priority.

However, former Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to be a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance. However, in the United States, it is difficult for cannabis-based businesses to open and maintain a bank account with any bank or other financial institution. Furthermore, on January 15, 2019, US Attorney General William Barr stated during his confirmation hearings and to the Senate Judiciary panel that, "I do not intend to go after parties who have complied with state law in reliance on the Cole Memorandum."

In the U.S., the SAFE Banking Act of 2019, H.R. 1595, passed a vote on September 25, 2019, through a vote by the Committee of the Whole Congress, and is now awaiting action in the U.S. Senate. Generally, the act would let banks offer services to cannabis-related businesses. They could also offer services to those businesses' employees. There can be no assurance with that H.R. 1595 will be passed in its current form or at all. In both Canada and the U.S., transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape. Legislative changes could help to reduce or eliminate these challenges for companies in the cannabis space and would improve the efficiency of both significant and minor financial transactions.

Although the Cole Memorandum and 2014 Cole Memo have been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016, 2017 and 2018 Consolidated Appropriations Acts (currently the "**Rohrabacher-Leahy Amendment**") to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The Leahy Amendment expired with the 2018 Fiscal Year on September 30, 2018, however, on May 17, 2018, the United States House of Representatives Appropriations Committee approved inclusion of the Rohrabacher-Farr amendment in the Commerce, Justice, Science, and Related Agencies ("**CJS**") appropriations bill for fiscal year 2019 (H.R. 5952), in a voice vote led by



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sponsor Rep. David Joyce, which adds a provision to prohibit the U.S. Department of Justice from using funding to prevent states from implementing medical marijuana laws through the end of fiscal year 2019 (September 30, 2019), (the "Joyce Amendment"). The United States Senate Appropriations Committee followed on June 12, 2018, by approving a base CJS appropriations bill with the Joyce Amendment included (S. 3072). On December 20, 2019, the amendment was renewed through the signing of the FY 2020 omnibus spending bill, effective through September 30, 2020.

Despite the legal, regulatory, and political obstacles the marijuana industry currently faces, the industry has continued to grow. It was anticipated that the federal government would eventually repeal the federal prohibition on cannabis and thereby leave the states to decide for themselves whether to permit regulated cannabis cultivation, production and sale, just as states are free today to decide policies governing the distribution of alcohol or tobacco.

Given current political trends, however, these developments are considered unlikely in the near-term. As an industry best practice, despite the recent rescission of the Cole Memorandum, the Company intends to abide by the following to ensure compliance with the guidance provided by the Cole Memorandum:

- ensure that its operations are compliant with all licensing requirements as established by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions;
- ensure that its cannabis related activities adhere to the scope of the licensing obtained (for example: in the states where cannabis is permitted for adult-use, the products are only sold to individuals who meet the requisite age requirements);
- implement policies and procedures to ensure that cannabis products are not distributed to minors;
- implement policies and procedures to ensure that revenue is not distributed to criminal enterprises, gangs or cartels;
- implement adequate inventory tracking system and necessary procedures to ensure that such compliance system is effective in tracking inventory and preventing diversion of cannabis or cannabis products into those states where cannabis is not permitted by state law, or cross any state lines in general;
- ensure that its state-authorized cannabis business activity is not used as a cover or pretence for trafficking of other illegal drugs, is engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes;
- ensure that its products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

In addition, the Company may (and frequently does) conduct background checks to ensure that the principals and management of its operating subsidiaries are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing or distribution of cannabis. The Company will also conduct ongoing reviews of the activities of its cannabis businesses, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products outside of the licensed premises, including the cases where such possession is permitted by regulation.

Nevada State Level Overview

Nevada has a medical marijuana program and passed adult-use legalization through the ballot box in November 2016. In 2000, Nevada voters passed a medical marijuana initiative allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a limited non-commercial medical marijuana patient/caregiver system. Senate Bill 374, which passed the legislature and was signed by the Governor in 2013, expanded this program and established a for-profit regulated medical marijuana industry.



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The Nevada Division of Public and Behavioural Health (the "**Division**") licensed medical marijuana establishments until July 1, 2017, when the state's medical marijuana program merged with adult-use marijuana enforcement under the Nevada Department of Taxation ("**DoT**"). In 2014, Nevada accepted medical marijuana business applications and a few months later the Division approved 182 cultivation licenses, 118 licenses for the production of edibles and infused products, 17 independent testing laboratories, and 55 medical marijuana dispensary licenses. The number of dispensary licenses was then increased to 66 by legislative action in 2015. The application process was merit-based, competitive, and is currently closed.

Residency is not required to own or invest in a Nevada medical cannabis business. In addition, vertical integration is neither required nor prohibited. Nevada's medical law includes patient reciprocity, which permits medical patients from other states to purchase marijuana from Nevada dispensaries. Nevada also allows for dispensaries to deliver medical marijuana to patients.

Under Nevada's adult-use marijuana law, the DoT licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. After merging medical and adult-use marijuana regulation and enforcement, the single regulatory agency is now known as the "Marijuana Enforcement Division of the Department of Taxation." For the first 18 months after legalization, applications to the Department for adult-use establishment licenses can only be accepted from existing medical marijuana establishments and existing liquor distributors for the adult-use distribution license.

The issuance of retail marijuana distribution licenses has been subject to an ongoing legal battle after the DoT opened distribution licenses to existing medical marijuana establishments based on the premise that there was an insufficient number of applications from existing liquor distributors to service the new adult-use cannabis market. There are currently 24 licensed distributors that are medical marijuana establishments and six licensed distributors that are liquor distributors.

In February 2017, the DoT announced plans to issue "early start" recreational marijuana establishment licenses in the summer of 2017. These licenses expire at the end of the year and, beginning on July 1, 2017, allowed marijuana establishments holding both a retail marijuana store and dispensary license to sell their existing medical marijuana inventory as either medical or adult-use marijuana. All cannabis cultivated, and infused products produced under the adult-use program that were not existing inventory at a medical marijuana dispensary must be transported to retail marijuana stores utilizing a licensed retail marijuana distributor. Starting on July 1, 2017, medical and adult-use marijuana became subject to a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis is subject to an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

The DoT is responsible for licensing and regulating retail marijuana businesses and medical marijuana programs in Nevada. There are five types of retail marijuana establishment licenses:

- *Cultivation Facility* – Licenses to cultivate (grow), process, and package marijuana; to have marijuana tested by a testing facility; and to sell marijuana to retail marijuana stores, to marijuana product manufacturing facilities, and to other cultivation facilities, but not to consumers.
- *Distributor* - Licenses to transport marijuana from a marijuana establishment to another marijuana establishment.
- *Product Manufacturing Facility* - Licenses to purchase marijuana; manufacture, process, and package marijuana and marijuana products; and sell marijuana and marijuana products to other product manufacturing facilities and to retail marijuana stores, but not to consumers.
- *Testing Facility* - Licenses to test marijuana and marijuana products, including for potency and contaminants.
- *Retail Store* - Licenses to purchase marijuana from cultivation facilities, marijuana and marijuana products from product manufacturing facilities, and marijuana from other retail stores; can sell



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marijuana and marijuana products to consumers.

The regular retail marijuana program began in early 2018. The *Regulation and Taxation of Marijuana Act* specifies that, for the first 18 months of the program, only existing medical marijuana establishment certificate holders can apply for a retail marijuana establishment license. As that restriction expired in November 2018, on December 5, 2018, DOT expanded the application process and awarded an additional 61 licenses for retail marijuana dispensaries in Nevada. The regular program is governed by permanent regulations found in Nevada Administrative Code Sections 453A and 453D.

As of August 23, 2019, as a result of discrepancies discovered in the application process by the State of Nevada, a court issued a partial preliminary injunction against the State of Nevada from moving forward with the numerous holders of provisional licenses awarded under the December 5, 2018, provisional license awards. In addition to the preliminary injunction, the State of Nevada and various intervenors remain subject to ongoing litigation. The Company is a plaintiff in this matter and stands by the strength of its application and operations as being highly deserving of a license award, either in the application process or resulting from the litigation.

In early 2019, Nevada legislature passed Nevada Assembly Bill 533, which authorized the formation of the Cannabis Compliance Board (the “CCB”) to be vested with the authority to license and regulate persons and establishments engaged in cannabis activities within Nevada. The executive director of the CCB was appointed on September 30, 2019, by Nevada Governor Steve Sisolak. As of March 1, 2020, three of the five members of the CCB had been appointed. Under AB533, in addition to their general authority and oversight of cannabis operations in Nevada, the CCB is mandated with studying the feasibility and safe implementation of licensing for lounges.

U.S. Legal Advice

The Company is in compliance with U.S. state law and the related licensing framework. The Company uses reasonable commercial efforts to confirm, through the advice of its U.S. counsel, through the monitoring and review of its business practices, and through regular monitoring of changes to U.S. Federal enforcement priorities, that its businesses are in compliance with applicable licensing requirements and the regulatory frameworks enacted by Nevada. The Company is not aware of the receipt by any of its subsidiaries of noncompliance orders, citations or notices of violation, that may have an impact on such entities’ licences, business activities or operations.

Regulatory Risks

The U.S. cannabis industry is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may impact on actual results.

Participants in the U.S. cannabis industry will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Further, the Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect its ability to conduct its business. The litigation and other claims are subject to inherent uncertainties, and management’s view of these matters may change in the future. A material adverse impact on the Company’s financial statements also could occur for the period in which the effect of an unfavorable outcome becomes probable and reasonably estimable.

The U.S. cannabis industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies,



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including taxes, could reduce the Company's earnings and could make future growth uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of the Company and which cannot be reliably predicted.

The Company expects to derive the majority of its revenues from the U.S. cannabis industry, which industry is illegal under U.S. federal law. As a result of the conflicting views between state legislatures and the federal government regarding cannabis, cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. The Company remains focused in the state of Nevada, which has legalized the medical and recreational adult-use of cannabis, but the Company is moving forward with plans to expand in other states with licensed marijuana opportunities. The U.S. federal government has not enacted similar legislation, and the cultivation, sale and use of cannabis remains illegal under federal law pursuant to the CSA. The federal government of the U.S. has specifically reserved the right to enforce federal law in regard to the sale and disbursement of medical or recreational adult-use marijuana even if state law sanctioned such sale and disbursement. It is presently unclear whether the U.S. federal government intends to enforce federal laws relating to cannabis where the conduct at issue is legal under applicable state law. This risk was further heightened by the revocation of the Cole Memorandum in January 2018.

Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local government authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry. If the U.S. federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, then the Company's business would be materially and adversely affected. U.S. federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company. The Company's involvement in the medical and recreational adult-use cannabis industry is illegal under the applicable federal laws of the United States and may be illegal under other applicable law. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against the Company. The consequences of such enforcement would be materially adverse to the Company and the Company's business and could result in the forfeiture or seizure of all or substantially all of the Company's assets.

Nature of the Company's Involvement in the U.S. Cannabis Industry

The Company has a material direct involvement in the cannabis industry in Nevada. Currently, the Company is directly engaged in the cultivation, manufacture and production, possession, use, sale and distribution of cannabis in the medical and adult-use recreational cannabis marketplace in Nevada. Approximately 100% of the Company's assets and revenues are directly attributable to the medical and recreational adult-use cannabis market in Nevada. The Company holds cultivation, production and retail distribution licenses for the State of Nevada.

As previously stated, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, the listing of its securities on any stock exchange, its financial position, operating results and profitability. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined.

The Company's involvement in the U.S. cannabis industry is presently only in the state of Nevada. The Company may, in future periods, expand its operations outside of Nevada and intends to restrict such future expansion to (i)



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only in those states that have enacted laws legalizing cannabis; and (ii) only in those state's where the Company can comply with state (and local) laws and regulations and has the licenses, permits or authorizations to properly carry on each element of its business.

In addition, the Company will continue to ensure it is in compliance with applicable licensing requirements and the regulatory framework enacted in Nevada by continuous review of its licenses and affirmation certifications from management.

The Company will continue to monitor, evaluate and re-assess the regulatory framework in the state of Nevada and any state that it may look to expand its operations to in the future, and the federal laws applicable thereto, on an ongoing basis; and will update its continuous disclosure regarding government policy changes or new or amended guidance, laws or regulations regarding cannabis in the U.S.

Anti-Money Laundering Laws and Regulations

The Company is subject to a variety of laws and regulations in the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act) and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S.. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

The Company's activities, and any proceeds thereof, may be considered proceeds of crime due to the fact that cannabis remains illegal federally in the U.S. This may restrict the ability of the Company to declare or pay dividends or effect other distributions. Furthermore, while the Company has no current intention to declare or pay dividends on its common shares (the "**Common Shares**") in the foreseeable future, the Company may decide to, or be required to, suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Ability to Access Private and Public Capital

Prior to the RTO, the Company relied entirely on access to private capital in order to support its continuing operations and capital expenditure requirements. The Company expects to rely on both private and public capital markets to finance its growth plans in the U.S. legal cannabis industry. Although such business carries a higher degree of risk, and despite the legal standing of cannabis businesses pursuant to U.S. federal laws, the Company has been successful and believes it will continue to be successful in raising private and public financing in the future. However, there is no assurance the Company will be successful, in whole or in part, in raising funds, particularly if the U.S. federal authorities change their position toward enforcing the CSA. Further, access to funding from U.S. residents may be limited due to their unwillingness to be associated with activities which violate U.S. federal laws.

Compliance with Nevada State Law

The Company complies with applicable Nevada state licensing requirements as follows: (i) MMDC is licensed pursuant to applicable Nevada state law to cultivate, possess, distribute, and make medical and adult-use retail sales of marijuana in Nevada; (ii) renewal dates for such licenses are docketed by legal counsel and/or other advisors; (iii) random internal audits of the Company's business activities are conducted by the applicable Nevada state regulator and by the Company to ensure compliance with applicable Nevada state law; (iv) each employee of the Company is provided with an employee handbook that outlines internal standard operating procedures in connection with the cultivation, possession and distribution of marijuana to ensure that all marijuana inventory and proceeds from the sale of such marijuana are properly accounted for and tracked and using scanners to confirm each customer's legal age and the validity of each customer's drivers' license; (v) each room that marijuana inventory and/or proceeds from the sale of such inventory enter is monitored by video surveillance; (vi) software is used to track marijuana inventory from



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seed-to-sale (as defined herein); and (vii) the Company is obligated to comply with applicable Nevada state law in the United States in connection with the cultivation, possession and/or distribution of marijuana in Nevada.

The Company has a full time General Counsel, Leighton Koehler, on staff in Nevada, who is a licensed attorney under the State Bar of Nevada, in good standing, whose responsibilities include monitoring the day to day activities of staff, including ensuring that the established standard operating procedures are being adhered to at each stage of the cultivation, processing and distribution cycle, to identify any non-compliance matters and to put in place the necessary modifications to ensure compliance. Mr. Koehler, in his capacity as General Counsel, performs monthly, unannounced audits against the Company's established standard operating procedures and State of Nevada regulations. Each employee is provided with an employee handbook outlining the standard operating procedures and state regulations upon hiring and is then provided with one on one quality and regulatory training by the General Counsel.

The Company's licenses are in good standing to cultivate, possess and/or wholesale marijuana in the State of Nevada and the Company, through MMDC, is following a regulatory program. MMDC has regular inspections by the State of Nevada, and has properly responded to and obtained State approval for corrections to items noted by State auditors.

The Company is in compliance with U.S. state law and the related licensing framework. The Company uses reasonable commercial efforts to confirm, through the advice of its General Counsel, Leighton Koehler, through the monitoring and review of its business practices, and through regular monitoring of changes to U.S. Federal enforcement priorities, that its businesses are in compliance with applicable licensing requirements and the regulatory frameworks enacted by Nevada. The Company's General Counsel also works with external legal advisors in Nevada to ensure that the Company and MMDC are in on-going compliance with applicable Nevada state law, including:

- quarterly independent regulatory consultant inspections and reviews with written findings and recommendations,
- weekly correspondence and updates with advisors;
- development of standard operating procedures with respect to cultivation, processing and distribution;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management;
- appropriate employee training for all standard operating procedures; and
- subscription to monitoring programs to ensure compliance with the FinCEN Memorandum.

The Company, through MMDC, has not received any noncompliance orders, citations or notices of violation, that may have an impact on MMDC's licenses, business activities or operations.

In addition, the Company will continue to ensure it is in compliance with applicable licensing requirements and the regulatory framework enacted in Nevada by continuous review of its licenses and affirmation certifications from management. While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. See "Risk Factors".

Reporting Requirements

The State of Nevada has selected Franwell Inc.'s METRC solution ("METRC") as the state's track-and-trace system used to track commercial cannabis activity and movement across the distribution chain ("seed-to-sale"). Individual licensees, whether directly or through third-party integration systems are required to push data to the state to meet all reporting requirements. For all Nevada licensed facilities, the Company has designated an in-house computerized seed-to-sale software that integrates with METRC via an application programming interface. BioTrackTHC, the Company's chosen seed-to-sale system, captures the required data points for cultivation, manufacturing and retail as required in Nevada Revised Statutes sections 453A and 453D.



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Storage and Security

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, the Company does the following in full compliance with Nevada statutes and regulations:

- have an enclosed, locked facility.
- have a single secure entrance.
- train employees in security measures and controls, emergency response protocol, confidentiality requirements, safe handling of equipment, procedures for handling products, as well as the differences in strains, methods of consumption, methods of cultivation, methods of fertilization and methods for health monitoring.
- install security equipment to deter and prevent unauthorized entrances, which includes:
- have devices that detect unauthorized intrusion which may include a signal system;
- have exterior lighting to facilitate surveillance;
- have electronic monitoring including, without limitation:
 - at least one call-up monitor that is 19 inches or more;
 - a video printer capable of immediately producing a clear still photo from any video camera image;
 - video cameras with a recording resolution of at least 704 x 480 which provide coverage of all entrances to and exits from limited access areas and all entrances to and exits from the building and which can identify any activity occurring in or adjacent to the building;
 - a video camera at each point-of-sale location which allows for the identification of any person who holds a valid registry identification card, including, without limitation, a designated primary caregiver, purchasing medical marijuana;
 - a video camera in each grow room which can identify any activity occurring within the grow room in low light conditions;
 - a method for storing video recordings from the video cameras for at least 30 calendar days;
 - a failure notification system that provides an audible and visual notification of any failure in the electronic monitoring system; and
 - sufficient battery backup for video cameras and recording equipment to support at least five (5) minutes of recording in the event of a power outage.
- install a security alarm to alert local law enforcement of unauthorized breach of security; and
- implement security procedures that:
 - restrict access of the establishment to only those persons/employees authorized to be there;
 - deter and prevent theft;
 - provide identification (badge) for those persons/employees authorized to be in the establishment;
 - prevent loitering;
 - require and explain electronic monitoring; and



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- require and explain the use of automatic or electronic notification to alert local law enforcement of an unauthorized breach of security.

SIGNIFICANT EVENTS AND TRANSACTIONS IN THE PERIOD

The Planet 13 Superstore is open 24 hours, seven days a week, 365 days per year. The Company has organically grown its customer database and has introduced a customer loyalty program to help continue to drive both customer visits and product demand. The Company experienced the following average daily customer traffic and spending for 2019 and the first 3 months of 2020:

	31-Jan-19	28-Feb-19	31-Mar-19	30-Apr-19	31-May-19	30-Jun-19
Total Tickets	48,119	48,052	61,602	58,869	64,930	60,323
# of Days	31	28	31	30	31	30
Average Customers/Day	1,552	1,716	1,987	1,962	2,095	2,011
Avg Ticket	\$84.69	\$89.57	\$88.58	\$89.62	\$90.63	\$88.87
Total Visitors	70,133	67,900	98,659	96,659	108,174	102,145
Avg Visitors/Day	2,262	2,425	3,183	3,222	3,489	3,405
Visitor Conversion Rate	69%	71%	62%	61%	60%	59%
State of Nevada Sales	\$52,749,856	\$49,479,204	\$59,748,815	\$54,674,578	\$62,019,961	\$57,948,330
% of sState's Sales	7.7%	8.7%	9.1%	9.6%	9.5%	9.3%

	31-Jul-19	31-Aug-19	30-Sep-19	31-Oct-19	30-Nov-19	31-Dec-19
Total Tickets	60,044	62,833	59,091	59,605	57,037	54,464
# of Days	31	31	30	31	30	31
Average Customers/Day	1,937	2,027	1,970	1,923	1,901	1,757
Avg Ticket	\$90.41	\$90.25	\$94.73	\$94.50	\$95.29	\$100.48
Total Visitors	110,813	115,246	101,228	102,304	99,263	98,030
Avg Visitors/Day	3,575	3,718	3,374	3,300	3,309	3,162
Visitor Conversion Rate	54%	55%	58%	58%	57%	56%
State of Nevada Sales	\$59,933,851	\$62,303,103	\$57,823,154	\$62,580,961	\$60,837,194	\$60,494,485
% of State's Sales	9.1%	9.1%	9.7%	9.0%	8.9%	9.0%

	Online Order Only			Total	
	31-Jan-20	29-Feb-20	17-Mar-20	31-Mar-20	31-Mar-20
Revenue	\$6,033,335	\$6,375,674	\$3,427,237	\$742,174	\$4,169,411
MoM Growth	10.2%	5.7%	n/a	n/a	(34.6%)
Total Tickets	60,365	64,038	34,982	6,838	41,820
# of Days	31	29	17	14	31
Average Customers/Day	1,947	2,208	2,058	488	1,349
Avg Ticket	\$99.95	\$99.56	\$97.97	\$108.54	\$99.70
Total Visitors	101,696	108,027	56,141	n/a	n/a
Avg Visitors/Day	3,281	3,725	3,302	n/a	n/a
Visitor Conversion Rate	59%	59%	62%	n/a	n/a
State of Nevada Sales	\$64,118,478	\$58,287,574	n/a	n/a	\$43,372,730
% of State's Sales	9.4%	10.9%	n/a	n/a	9.6%

The Company was on track to experience record revenue in the month of March prior to the COVID-19 shutdown. On March 19, 2020 the Company announced that it would continue to provide core dispensary services during the



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Coronavirus pandemic and encouraged all local Nevada resident customers to utilize the Company's express pick-up and/or delivery services to limit personal interactions and practice social distancing as recommended by the Centre for Disease Control. On March 20, 2020 Nevada State Governor, Steve Sisolak announced the closure of all non-essential business starting at noon on March 18, 2020 for 30 days as part of the State's response to curb the threat of the spread of the COVID-19 virus. On April 30, 2020, the State of Nevada announced that all licensed dispensaries could offer online ordering and curbside pickup in addition to online ordering and delivery. On May 7, 2020, as part of the State of Nevada's COVID-19 reopening plan, all dispensaries were allowed to reopen under certain conditions, mainly the requirement that the number of customers allowed in any dispensary be limited to a maximum of 50% of the fire-rated capacity of the premises or 10 customers, whichever is less. The Company now offers its customers the option of ordering online with home delivery, ordering online for curbside pickup as well as the ability for a limited number of customers to purchase products inside the dispensary.

The Company has a total of 29 delivery vehicles in its fleet and, during the month of April 2020, prior to the introduction of curbside pickup on April 30, 2020, the company was making approximately 1,000 deliveries per day. With the introduction of curbside pickup, the overall daily number of customers served has remained similar but the shift in customer preference has resulted in approximately 2/3s of orders being fulfilled through home delivery and 1/3 through curbside pickup. The introduction of instore purchasing has led to a modest increase in the overall number of customers with online delivery still representing approximately 2/3 of total customer orders. The company intends to shift a portion of its delivery vehicles to its Santa Ana location once it is open as the demand for delivery in California is greater than it is in Nevada and the Company anticipates that the added delivery component at its planned Santa Ana location will enhance the number of customers that it is able to serve.

The State of Nevada has announced plans to enable the reopening of the economy and several of the resort properties have announced plans to reopen portions of their operations on June 1, 2020

While it is too early to forecast what customer demand will be as the Las Vegas economy reopens, or predict the timing and number of tourist customers that will return once the economy is open, the Company is confident that it will be able to generate in excess of \$100,000 per day in revenue at gross margins in excess of 50% delivering product to local customers throughout southern Nevada while it readies its operations for the eventual return of its tourist customers.

The Company cautions that current global uncertainty with respect to the spread of the COVID-19 virus (the "coronavirus") and its effect on the broader global economy may have a significant negative effect on the Company. While the precise impact of the COVID-19 virus on the Company remain unknown, the rapid spread of the COVID-19 virus may have a material adverse effect on global economic activity, and can result in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to the Company.

The Company currently operates one licensed indoor grow facility housed in a 15,000 square feet industrial building in Las Vegas (Clark County) with a perpetual harvest cycle and the capacity to produce approximately 2,100 lbs/year (approximately 950 kg/year) of finished product. The significant increase in demand for product, as evidenced by the revenue growth during fiscal 2019, caused the Company to have to purchase products from other licensed producers in Nevada to meet customer demand. The Company's original intention was to remain a fully integrated operator and was in the process of embarking on the expansion of its production capabilities through its cultivation license (both medical and recreational cultivation licenses) on 80 acres of owned land, with access to both municipal water and power, near the town of Beatty (in Nye County, Nevada). The total potential expansion capacity of the Beatty site is approximately 2,300,000 square feet of greenhouse capacity. The current state of the wholesale cannabis market in the state of Nevada has caused the Company to re-evaluate the timing of its planned build out of the Beatty facility. The Company has been able to enter into a series of cannabis supply agreements with licensed producers of quality cannabis product in the state of Nevada that is expected to enable the Company to ensure that it has sufficient inventory on hand to meet the on-going demand at the Planet 13 Superstore. The Company intends to continue to progress with the planning of the phase 1 buildout of the Beatty site, which, subject to final inspections, was approved for up to



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600,000 square feet of cultivation facility expansion by the State of Nevada on September 18, 2018, such that it would be able to aggressively expand its production capacity should there be material changes to the quality and quantity of cannabis and related products that are currently available in the wholesale market. The Company intends to continue to purchase finished product from other third-party licensed producers to complement its own high quality Medizin and Company branded products in order to maintain product variety and to ensure that it has an adequate supply of product on hand to meet anticipated demand.

During the year ended December 31, 2019, the Company completed its Phase II expansion of the SuperStore, adjacent to the famed Las Vegas Strip. The coffee shop and bistro opened to the public in October 2019 and have added to the unique customer experience that has already made the Planet 13 Superstore the number one rated dispensary in Nevada. (<https://www.leafy.com/news/strains-products/best-in-state-2018-nevada-cannabis>). The bistro and event space are dedicated to capturing revenue from non-cannabis consumers and driving cross-over revenue from cannabis customers as well as increasing visitor traffic to the Superstore complex and is only the first of several planned expansions for the 112,000 square foot site. The combined footprint of the coffee shop and bistro is 4,500 square feet and can seat between 130 and 150 patrons. The Company is continuing to evaluate the balance of the Phase II build-out had been targeted to the build out of other related, and ancillary activities at the Planet 13 Superstore location, including the build-out with respect to the planned premium retail and merchandise store, of which the Company is in the process of finalizing the design of the space along with other potential third party uses of additional portions of the as yet to be built out floor space at the Superstore complex..

The Company is working with Nevada State CCB and regulators to provide information regarding the safety and feasibility of consumption lounges. Upon Nevada State authorizing lounges in Nevada, the Company is well-positioned, operationally and by virtue of the Superstore location, to apply for a lounge license(s).

The Company completed the construction of a 14,000 sq. ft. production facility (the “**Production Facility**”), co-located within the Planet 13 Superstore. The Production Facility was completed on November 1, 2019, and now offers customers and visitors to the Planet 13 Superstore entertainment complex an immersive experience, consisting of 115 feet of windows where visitors can watch and learn what goes into the creation of individual products. Interactive kiosks are also available near the production viewing area to teach customers what goes into making their favorite products and offers Planet 13 a unique and powerful branding opportunity. The Production Facility enables the Company to meet the rapidly growing demand for its TRENDI concentrate and vape lines, which it launched in November. It also enables the Company to address the overwhelming demand for its Medizin line and to launch additional brands and product lines. The highly automated Production Facility utilizes robotics to lower costs and will be capable of processing 600 lbs of plant biomass per day once in full production, a throughput increase of approximately 1,300% from the Company’s former production facility. The expansion has allowed the Company to create new brands and product lines and expand the existing Leaf & Vine, TRENDI and its premium Medizin branded product lines (which includes disposable and reusable vape pens, oils, concentrates and other paraphernalia) and the recently launched HaHa Gummies, Dreamland Chocolate and Elysium Beverages brands, both for the Planet 13 Superstore and for the wholesale market. During the month of February 2020, the Company’s in-house brands – Haha Gummies, Dreamland Chocolates, Trendi, Leaf & Vine and Medizin vape products set a record ~\$1.0 million in combined revenue in the month of February. Prior to the COVID shutdown on March 18, 2020 the Company had begun selling its house brands on the wholesale market in Nevada and had its products in 7 local dispensaries. The expansion of the Company’s wholesale initiatives have been put on hold during the current COVID-19 shutdown, however the Company continues to run its production facility, building inventory to meet anticipated demand form wholesale sales once the market reopens as well as to ensure adequate supply of product to meet the needs of its delivery, curb side and limited instore retail customers.

The Company applied for six additional licenses in the State of Nevada but was unsuccessful in obtaining any additional licenses when the State of Nevada awarded licenses on December 5, 2018. The Company, along with other industry participants who were also unsuccessful in their applications for new licenses, have launched a lawsuit against the state seeking to overturn the licensing process. While there can be no certainty with respect to the ultimate outcome of such



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a lawsuit, the Company was successful, along with other litigants, in obtaining a preliminary injunction against the State of Nevada related to the State's December 5, 2018, provisional license determinations. Should the Company not be successful with its lawsuit in obtaining a license in this round of grants then it may seek to purchase a license in the open market to re-open the Medizin location.

On June 6, 2019 the Company announced that it had entered into a binding letter of intent (the "LOI") to acquire a cannabis sales license and lease for a dispensary in Santa Ana California from Newtonian Principles, Inc. Under the terms of that LOI, Planet 13 was to pay Newtonian \$6.0 million in cash and issue 2,039,808 Class A Restricted Shares (valued at \$4.0 million at the time of entering into the LOI) upon receiving final state and local regulatory approvals to transfer the operating entity after Newtonian opens its dispensary, as well as a transfer of a valid lease for the licensed premises. On December 20, 2019 the Company executed a definitive acquisition agreement with Newtonian confirming the terms of the LOI and was working diligently towards the license transfer, transfer of a valid lease, and the closing of the transaction. Prior to the conditions being met in order to effect the license transfer between the parties, the Company, on March 24, 2020, due to the current shutdown of the Company's Las Vegas retail dispensary operations as a result of the COVID-19 pandemic (the Company is still operating its online ordering/home delivery, cultivation, edible and concentrate production operations), entered into discussion with Newtonian regarding renegotiating the terms contained in the definitive agreement. As of April 10, 2020, the parties were unsuccessful in renegotiating the terms, and the Company terminated the transaction citing certain unmet conditions in the definitive agreement. The Company and Newtonian continued negotiations and on April 17, 2020 announced the parties had renegotiated the terms of the acquisition and entered into an amendment to the initial definitive agreement. The new terms call for Planet 13 to pay cash consideration of \$1,000,000 and issue 3,940,932 Class A Restricted Shares in the capital of the Company that were valued at \$4,000,000. The transaction closed May 20, 2020. The Company is continuing to evaluate the impact that the COVID-19 shutdown is having on its Las Vegas operations and may alter the planned timeline with respect to the buildout of the Santa Ana location depending on market circumstances in order to preserve as much capital as possible in the near-term.

Common shares issued on warrant exercise

During the three months ended March 31, 2020, the Company issued 964,726 Common Shares to warrant holders who exercised 964,726 warrants resulting in cash proceeds of \$942,452 (CAD\$1,312,455). Details as follows:



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Date	Number of warrants exercised	CAD\$ Exercise price	CAD\$ Share price
07-Jan-20	63,601	\$0.80	\$2.36
08-Jan-20	25,000	\$1.40	\$2.02
16-Jan-20	115,000	\$1.40	\$2.37
29-Jan-20	250	\$1.40	\$2.13
30-Jan-20	250	\$1.40	\$2.03
07-Feb-20	115,000	\$1.40	\$2.03
13-Feb-20	25,000	\$1.40	\$2.00
25-Feb-20	12,500	\$1.40	\$2.30
27-Feb-20	162,500	\$1.40	\$2.05
28-Feb-20	25,000	\$1.40	\$2.18
03-Mar-20	128,125	\$1.40	\$2.14
05-Mar-20	81,250	\$1.40	\$2.09
10-Mar-20	187,500	\$1.40	\$1.92
12-Mar-20	16,250	\$1.40	\$1.50
13-Mar-20	7,500	\$1.40	\$1.47

Total number of warrants exercised **964,726**

Common shares issued on RSU exercise

During the three months ended March 31, 2020, the Company issued 951,153 Common Shares to RSU holders who exercised 951,153 RSUs. The Company did not receive any cash proceeds on the exercise of the RSUs. The RSU's are a form of compensation issued to employees, officers, directors and consultants of the Company. The Company also granted 50,000 RSUs to an employee of the Company on January 1, 2020. The RSUs granted vested 1/3 on the date of the grant and 1/3 on January 1, 2021 and 1/3 on January 1, 2022. The Company recognizes compensation expense on a quarterly basis, based on the vesting schedule of the RSUs that have been granted. During the three months ended March 31, 2020, the Company recognized share-based compensation expense in the amount of \$780,686 on the vesting of RSUs during the three months ended March 31, 2020.

Common shares issued on the exercise of options

During the three months ended March 31, 2020, the Company issued 108,334 Common Shares to option holders who exercised 108,334 common share purchase options and realized cash proceeds in the amount of \$83,030 (CAD\$111,668). The options had the following strike prices:

Date	Number of options exercised	CAD\$ Exercise price	CAD\$ Share price
17-Jan-20	75,000	\$0.80	\$2.32
17-Jan-20	33,334	\$1.55	\$2.32
Total	108,334		



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SIGNIFICANT EVENTS AND TRANSACTIONS SUBSEQUENT TO THE PERIOD

On April 30, 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 May 29, 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 May 20, 2020, the Company closed on its acquisition of Newtonian Principles, Inc. resulting in the Company acquiring a California cannabis sales license held by Newtonian Principles, Inc and a 30-year lease for a dispensary in Santa Ana, California and certain other assets. The Company paid a total of \$1,000,000 in cash and issued 3,940,932 Class A shares to the vendors on closing.

Between April 1, 2020, and June 1, 2020, the Company issued 2,480,700 common shares on the exercise of common share purchase warrants with a strike price of CAD\$1.40. The Company realized cash proceeds of \$2,497,625 (CAD\$3,472,980).



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RESULTS OF OPERATIONS

<i>Expressed in USD\$</i>	Three Months Ended Mar-31-2020	Three Months Ended Mar-31-2019	Percentage Change
Revenue			
Revenues, net of discounts	16,793,002	13,836,063	21.4%
Cost of Goods Sold	(7,746,922)	(6,393,446)	21.2%
Gross Profit, Before Biological Asset Adjustment	9,046,080	7,442,617	21.5%
Gross Profit Margin %	53.9%	53.8%	
Realized fair value amounts included in COGS	(193,196)	(346,062)	(44.2%)
Unrealized fair value gain on growth of biological assets	427,615	358,771	19.2%
Gross profit	9,280,499	7,455,326	24.5%
Gross Profit Margin %	55.3%	53.9%	
Expenses			
General and Administrative	5,522,514	4,540,220	21.6%
Sales and Marketing	1,446,606	1,402,129	3.2%
Depreciation and Amortization	987,010	597,089	65.3%
Share based payments	810,823	572,352	41.7%
Total Expenses	8,766,953	7,111,790	23.3%
Income (Loss) From Operations	513,546	343,536	49.5%
Other (Income) Expense:			
Interest Expense, net	281,005	215,699	30.3%
Realized Foreign Exchange gain (loss)	-	2,725	(100.0%)
RTO acquisition costs	-	-	na
Other expense (income)	(71,956)	(17,163)	319.3%
Loss on settlement of accounts payable (Note 13(d))	-	-	na
Total Other Expense (Income)	209,049	201,261	3.9%
Income (loss) for the period before tax	304,497	142,275	114.0%
Provision for income tax (current and deferred)	1,713,559	1,565,619	9.4%
(Loss) for the period	(1,409,062)	(1,423,344)	(1.0%)
Other Comprehensive Income (Loss)			
<i>Items that may be reclassified subsequently to profit/loss</i>			
Foreign exchange translation adjustment	31,069	273,205	
Net Comprehensive (Loss) for the period	(1,377,993)	(1,150,139)	
(Loss) per share for the period			
Basic and fully diluted loss per share	(\$0.01)	(\$0.01)	
Weighted Average Number of Shares Outstanding			
Basic and fully diluted	138,915,955	129,467,108	



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The Company experienced a 21.4% increase in revenue during the three months ended March 31, 2020 when compared to the three months ended March 31, 2019. This growth rate would have been even higher were it not for the COVID-19 shutdown that negatively impacted the Company's operations during the last two weeks of March 2020. The Company experienced revenue growth across the majority of its cannabis product categories (Flower sales, Concentrates, Edibles, Topicals and Other revenue) for the three months ended March 31, 2020 when compared to March 31, 2019. The slight decline in concentrate revenue was a result of the reduction in tourist customers during the last two weeks of March 2020 when compared to March 2019. Tourist customers have a tendency to consume a cannabis in more discrete forms than do local customers. The increase in the sale of Flower is also a result of an increase in local Nevada customers during the last two weeks of March as a result of the COVID-19 shutdown when compared to the prior year period.

Details of gross revenue, excluding discounts, by product category are as follows:

	Three Months Ended 31-Mar-20	Three Months Ended 31-Mar-19	Percentage Change
Flower	\$7,488,618	\$5,943,544	26.0%
Concentrates	4,790,133	4,798,771	(0.2%)
Edibles	4,119,255	3,024,968	36.2%
Topicals and other revenue	1,403,088	1,255,038	11.8%
Total Revenue	17,801,094	15,022,321	18.5%
Discounts/Loyalty Program Accrual	(1,008,092)	(1,186,258)	(15.0%)
Net Revenue	\$16,793,002	\$13,836,063	21.4%

Overall net revenue during the three months ended March 31, 2020, increased by 21.4% or by \$2,956,939 over the three months ended March 31, 2019. The increase, despite the COVID-19 shutdown during the last two weeks of March 2020, is due to both increased customer traffic during the current period and an increase in the average spend per customer. The large increase in daily customer visits can be attributed to the success of the Phase II expansion and increased sales and marketing campaigns that drove increased customer traffic when compared to the prior year period. The average ticket price per customer increased to \$99.73 during the three months ended March 31, 2020, compared to \$87.65 during the three months ended March 31, 2019.

Gross Profit margin before the impact of biological asset adjustments increased to 53.9% for the three months ended March 31, 2020, when compared to the Gross Profit margin of 53.8% experienced during the three months ended March 31, 2019. Gross profit margin for the three months ended March 31, 2020 was negatively impacted by the COVID-19 shutdown during March 2020. The costs of internal cultivation have continued to trend down as the Company improved its yields and cultivation efficiency. In addition, margin enhancement through the creation of internally generated brands, such as Trendi, Leaf & Vine, HaHa Gummies, Dreamland Chocolate, Elysium Beverages and Medizin, has also had a positive impact on gross margins. The net realized fair value amounts included in the cost of goods sold and the unrealized gain on the growth of biological assets during the three months ended March 31, 2020, improved to 55.3% compared to 53.9% for the three months ended March 31, 2019. The Company's premium cultivation facility was operating near its capacity during the three months and year ended March 31, 2020, as well as the three months ended March 31, 2019. The amount of cannabis grown during each period was similar, the price per gram was also similar. The yield for the three months ended March 31, 2020, was 165 grams/plant while the yield for the three months ended March 31, 2019, was 195 grams per plant. The yield per plant for the three months ended



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March 31, 2020, was negatively impacted by the Company's decision to add additional, movable plant tables to its grow rooms. By adding additional plants, the amount of photo electronic energy each plant received was reduced, thereby reducing yields on a plant by plant basis. Consequently, the Company has explored additional ways to increase the yield, including testing new fertilizers to boost individual plant yields. Recent harvests during the three months ended March 31, 2020, have generated yields in excess of the Company's historic rate and management believes that yields for the balance of 2020 will continue to show improvement (yields for the three months ended December 31, 2019 were approximately 140 grams per plant). The amount of cannabis harvested in each of the three-month periods ended March 31, 2020 and 2019 was similar and resulted in a consistent level of biological assets being transferred to inventory and sold during each year.

Overall gross margin increased to \$9,280,499 in the three months ended March 31, 2020, compared to \$7,455,326 in the three months ended March 31, 2019, an increase of 24.5%.

General and Administrative expenses (which excludes non-cash share-based compensation expenses, sales and marketing expenses and depreciation and amortization expenses) increased by 21.6% for the three months ended March 31, 2020, when compared to the three months ended March 31, 2019. The large increase in General and Administrative expenses incurred during the three months ended March 31, 2020, when compared to the prior period is attributable to the increases in activity at the Company. A detailed breakdown of general and administrative expenses is as follows:

	For the three months ended March 31,		Percentage Change
	2020	2019	
Salaries and wages	\$ 2,103,303	\$ 1,559,717	34.9%
Executive compensation	279,241	184,986	51.0%
Licenses and permits	503,438	279,587	80.1%
Payroll taxes and benefits	441,320	458,723	(3.8%)
Supplies and office expenses	106,114	412,509	(74.3%)
Subcontractors	334,470	299,344	11.7%
Professional fees (legal, audit and other)	797,412	748,725	6.5%
Miscellaneous general and administrative expenses	957,216	596,629	60.4%
	<u>\$ 5,522,514</u>	<u>\$ 4,540,220</u>	21.6%

Sales and marketing expenses increased by 3.2% in the three months ended March 31, 2020 when compared to the respective period in 2019. The Company continues to refine its marketing efforts to optimize marketing spend on initiatives that drive increased customer traffic to the Superstore complex.

Depreciation and Amortization increased by \$389,921 or 65.3% for the three months ended March 31, 2020 when compared to the prior year period as a result of the Company completing the buildout of Phase II during Q4 2019 and began recording depreciation on the Phase II assets. Please refer to Notes 8 and 9 in the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2020, for additional detail.

Non-cash, share based payments of \$810,823 recognized during the three months ended March 31, 2020, increased from the \$572,352 incurred in the three months ended March 31, 2019. The increase can be attributable to the vesting schedule for both RSUs and incentive stock options granted on June 11, 2018 and on June 30, 2019 that vest 1/3 on the initial grant date and 1/3 on the first and second anniversary of the grant date. The Company also granted 100,000 options to employees on January 7, 2019, and 22,500 on June 30, 2019, that vest 1/3 on the grant date and 1/3 on the first and second anniversaries of the grant date. The Company granted 100,000 options to a consultant of the Company on July 4, 2019, that vest 1/4 on the grant date and 1/4 every three months from the grant date to April 4, 2020. The expense represents the recognition over time of the fair market value of incentive options and restricted share units



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("RSU's") that were granted to employees, consultants, officers and directors of the Company on the closing of the RTO on June 11, 2018, as well as incentive RSUs and options granted to Directors, officers, consultants and employees on June 30, 2019, options granted to employees on January 7, 2019, and options granted to a consultant on July 4, 2019. These amounts are non-cash and the expense is recognized in accordance with the vesting schedule of the underlying stock options and RSUs. (See Note 15 in the Company's audited consolidated financial statements for the year ended December 31, 2019, for additional details on the assumptions used to calculate fair value as well as information regarding the vesting of the various components of the non-cash share-based compensation).

Interest expenses recorded in the three months ended March 31, 2020 and 2019, relates to the prorated portion of lease payments split between principal repayments and interest expense from lease liabilities that were recognized with the adoption of IFRS 16 on January 1, 2019. The balance of long-term debt as at March 31, 2020 was \$884,000 compared to \$884,000 as at December 31, 2019.

The Company conducts its operations in both the United States and Canada holding financial assets in both currencies and incurs expenses in both USD and CAD. On December 31, 2019, the value of the USD was USD\$1.00=CAD\$1.2998 compared to the value of the USD increasing to CAD\$1.4187 as at March 31, 2020, resulting in the Company realizing a foreign exchange translation gain of \$304,497 during the period. It is the Company's policy to not hedge its CAD\$ or USD\$ exposure.

The income tax provision for the three months ended March 31, 2020, was \$1,713,559 compared to \$1,565,619 for the three months ended March 31, 2019. The tax provision increased due to the increase in revenue and taxable profitability during the period. The Company is subject to US Federal tax legislation that denies the deduction of certain expenditures for tax purposes that would otherwise be available to non-cannabis-based businesses that results in the Company being subject to a higher overall tax rate on net income. Refer to Note 20 in the Company's audited annual financial statements for the year ended December 31, 2019, for additional details.

Overall net (loss) after tax for the three months ended March 31, 2020, was (\$1,409,062) compared to a net (loss) of (\$1,423,344) for the three months ended March 31, 2019.

SEGMENTED DISCLOSURE

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. The following tables present the results of the Company's cannabis operations in Nevada and its Corporate activities for the three months ended March 31, 2020 and 2019.



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<i>Expressed in USDS</i>	Three Months Ended Mar-31-2020			Three Months Ended Mar-31-2019		
	Nevada Cannabis Operations	Canadian Corporate Overhead	Consolidated Total	Nevada Cannabis Operations	Canadian Corporate Overhead	Consolidated Total
	Revenues, net of discounts	\$ 16,793,002	\$ -	\$ 16,793,002	\$ 13,836,063	\$ -
Gross profit	\$ 9,280,499	\$ -	\$ 9,280,499	\$ 7,455,326	\$ -	\$ 7,455,326
Gross Profit Margin % after fair value asset adjustment	55.3%	na	55.3%	53.9%	na	53.9%
Expenses						
General and Administrative	4,879,021	643,493	5,522,514	4,269,496	270,724	4,540,220
Sales and Marketing	1,446,606	-	1,446,606	1,087,010	315,119	1,402,129
Depreciation and Amortization	987,010	-	987,010	332,925	264,164	597,089
Share based payments	(883,547)	1,694,370	810,823	-	572,352	572,352
Total Expenses	\$ 6,429,090	\$ 2,337,863	\$ 8,766,953	\$ 5,689,431	\$ 1,422,359	\$ 7,111,790
Income (Loss) From Operations	\$ 2,851,409	(\$2,337,863)	\$ 513,546	\$ 1,765,895	(\$1,422,359)	\$ 343,536
Total Other (Income) Expense	\$ 215,254	(\$6,205)	\$ 209,049	(\$20,497)	\$ 221,758	\$ 201,261
Income tax provision	\$ 1,713,559	\$ -	\$ 1,713,559	\$ 1,565,619	\$ -	\$ 1,565,619
Income (Loss) for the period after tax	\$ 912,763	(\$2,321,825)	(\$1,409,062)	(\$2,268,192)	\$ 844,848	(\$1,423,344)
Foreign currency translation adjustment gain (loss)	\$ -	\$ 31,069	\$ 31,069	\$ -	\$ 273,205	\$ 273,205
Net Comprehensive Income (Loss) for the period	\$ 912,763	(\$2,290,756)	(\$1,377,993)	(\$2,268,192)	\$ 1,118,053	(\$1,150,139)

	NV Cannabis Ops	Consolidated	Consolidated	Percentage Change
	Three Months Ended Mar-31-2020	Three Months Ended Mar-31-2020	Three Months Ended Mar-31-2019	
BITDA				
profit (loss) before taxes	912,763	304,497	142,275	114.0%
added back:				
Biological asset adjustments	(234,419)	(234,419)	(12,709)	1744.5%
Non-cash share based payments	-	810,823	572,352	41.7%
Depreciation and amortization	987,008	987,008	597,089	65.3%
Depreciation included in COGS	413,257	413,257	157,297	162.7%
Interest and non-operating expense (income)	209,049	209,049	201,261	3.9%
BITDA Margin	2,287,658 13.6%	2,490,215 14.8%	1,657,565 12.0%	50.2%



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SUMMARY OF QUARTERLY RESULTS

Three months ended	Mar-31-2020	Dec-31-2019	Sep-30-2019	Jun-30-2019	Mar-31-2019	Dec-31-2018	Sep-30-2018	Jun-30-2018
US\$								
Total revenue	16,793,002	16,540,324	16,696,932	16,521,717	13,836,063	8,279,698	4,891,591	4,407,924
Net (Loss)	(1,409,062)	(2,577,173)	(1,722,353)	(935,468)	(1,423,344)	(3,105,039)	(826,902)	(6,604,003)
Comprehensive Net (Loss)	(1,377,993)	(2,601,780)	(1,689,720)	(1,021,487)	(1,150,138)	(3,772,008)	(685,610)	(6,881,245)
Net (Loss) per share	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.08)
Total assets	66,885,803	62,898,546	67,117,149	62,872,492	55,510,677	44,945,306	26,854,931	26,942,786
Total liabilities	25,093,860	21,603,954	25,979,599	22,279,348	17,656,059	7,040,566	4,857,506	5,957,754
Working capital	10,234,141	11,840,146	13,627,453	18,815,867	19,539,822	20,982,049	11,757,401	17,236,373
Dividends declared	-	-	-	-	-	-	-	-

Selected Annual Information	Dec-31-2019	Dec-31-2018	Dec-31-2017
US\$			
Total assets	\$62,898,546	\$44,945,306	\$7,657,047
Total liabilities	\$21,603,954	\$7,040,566	\$10,839,575
Net (Loss) for the period	(\$6,658,333)	(\$10,723,704)	(\$602,515)
Comprehensive (Loss)	(\$6,463,120)	(\$11,526,624)	(\$602,515)
Net (Loss) per share	(\$0.05)	(\$0.11)	n/a

In the State of Nevada the sale of recreational cannabis commenced on July 1, 2017. The Company began operations with the legalization of medical cannabis and began participating in the recreational cannabis market on July 1, 2017, when the recreational adult use market was legalized. Revenue has grown consistently quarter over quarter along with an increase in average daily customer and average ticket size during this period. Revenue and average daily traffic grew consistently from July 1, 2017, until October 29, 2018, when the Company closed its Medizin dispensary location in order to transfer its licences to the Superstore, which opened on November 1, 2018. Revenue and average daily traffic increased substantially with the opening of the Superstore with revenue increasing by 237.7% compared to the quarter ended September 30, 2018, the last full quarter of operations of the Company's Medizin dispensary. The large increase in net loss in the quarter ended June 30 2018 was specifically related to the Company's RTO transaction that closed on June 11, 2018, that saw the Company record RTO related expenses of \$4.7 million, including non-cash share based payments of approximately \$4.0 million with respect to shares issued to the former shareholders of Carpincho on the closing of the RTO as well as share based incentive payments of approximately \$1.6 million of RSUs and options issued to Directors, Officers, employees and consultants. The increase in the Net loss that occurred in the quarter ended December 31, 2018, was a result of costs incurred with the opening of the Superstore on November 1, 2018, with significant increases in sales and marketing related costs in order to drive awareness and traffic to the Superstore. The Company has continued to see increases in the number of average daily customers and average ticket size and has been able to adjust its product offering in order to meet customer demand and improve margins. The onset of the COVID-19 shutdown which began in Nevada on March 18, 2020 resulted in a reduction in the number of tourist customers visiting Las Vegas and therefor negatively impacted the number of customers and traffic to the store. The Company began offering online ordering/home delivery during the first 6 weeks of the COVID19 shutdown, expanded with curb side pickup as allowed by the state of Nevada and has begun offering instore purchases under strictly controlled circumstances (no more than 10 customers are allowed in the store at any given time as required under the current restrictions imposed by the State of Nevada as the state begins to reopen its economy.) Gross margin percentages have been negatively impacted by the COVID-19 shutdown and, while the \state of Nevada is beginning to reopen its economy, there is uncertainty as to the timing for, and number of, tourists that will begin to return to Las Vegas. The Company anticipates that Q2 2020 will continue to be negatively impacted by the COVID19 shutdown and is uncertain as to when its operations will return to pre-COVID-19 levels.



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OUTSTANDING SHARES

As of May 31, 2020, the Company had 86,998,532 Common Shares and 59,173,872 Restricted Voting Shares issued and outstanding for a total of 146,139,404 shares outstanding. There were 558,507 options issued and outstanding of which 250,834 have fully vested. There were 11,666,653 warrants outstanding and 3,388,589 RSU's outstanding of which *nil* RSUs had fully vested as at the date of this MD&A.

FINANCIAL POSITION AND LIQUIDITY

As at March 31, 2020, the Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, and shareholder loans. The Company has no speculative financial instruments, derivatives, forward contracts or hedges.

As at March 31, 2020, the Company had working capital of \$10,234,141 compared to working capital of \$11,840,146 as at December 31, 2019.

The following table relates to the three months ended March 31, 2020 and compares that to the three months ended March 31, 2019.

	Three Months Ended Mar 31, 2020	Three Months Ended Mar 31, 2019
Cash flows provided by (used in) operating activities	2,443,414	2,574,441
Cash flows provided by (used in) investing activities	(2,086,591)	(2,202,345)
Cash flows provided by (used in) financing activities	735,276	151,866

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Financial instrument classification and measurement

Financial instruments of the Company carried on the annual audited consolidated statement of financial position are carried at amortized cost with the exception of cash, which is carried at fair value. There are no significant differences between the carrying value of financial instruments and their estimated fair values as at March 31, 2020 or December 31, 2019, due to the immediate or short-term maturities of the financial instruments.

b) Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts payable and accrued expenses. At March 31, 2020, the carrying value of cash is fair value. Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method. Transaction costs are included in the amount initially recognized. Accounts payable and other liabilities, notes payable, and notes payable related parties have been classified as other financial liabilities

c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. It is management's opinion that the Company is not exposed to significant credit risk arising from these financial instruments. A portion of the Company's revenue utilizes third-party payment platforms. These platforms batch process several days' worth of activity before funds are remitted to the Company. A failure of such platforms, or the inability of the platform provider to remit funds in a timely manner to the Company could have a material impact on the Company's financial position. The Company limits credit risk by entering into



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business arrangements with high credit-quality counterparties. Thus, the credit risk associated with other receivables is also considered to be negligible.

d) 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.

e) Currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Company primarily operates in Canada and the United States and incurs certain expenditures and obtains financing in both Canadian and US dollars. 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-US dollar forecast operating costs on a case-by-case basis. The majority of the Company's forecast operating costs are in US dollars and Canadian dollars. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of foreign currency financial assets and liabilities in US dollars as at March 31, 2020, is as follows:

US Dollar amounts of foreign currency assets and liabilities

	Assets	Liabilities
Canadian Dollars	\$1,407,253	\$23,198

Based on the financial instruments held as at March 31, 2020, the Company's other comprehensive income (loss) would have changed by \$125,846 had the US dollar shifted by 10% as a result of foreign exchange effect on translation of non-US dollar denominated financial instruments. At March 31, 2020, 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

f) Liquidity risk

Prudent liquidity risk management implies maintaining at all times sufficient cash and liquid investments 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.

As at March 31, 2020, the Company had working capital of \$10,234,141 (December 31, 2019 - \$11,840,146) and anticipates that revenue from operations will provide sufficient funds to cover all the Company's operating expenditures for the next 12 months. The Company cautions that current global uncertainty with respect to the spread of the COVID-19 virus (the "coronavirus") and its effect on the broader global economy may have a significant negative effect on the Company. While the precise impact of the COVID-19 virus on the Company remain unknown, rapid spread of the COVID-19 virus may have a material adverse effect on global economic activity, and can result in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to the Company.



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Planned expansion of the Company's cultivation facilities, its production and manufacturing facilities and its retail distribution facilities will require it to raise additional capital from outside sources. The Company will consider financing alternatives while contemplating minimal shareholder dilution.

The Company's potential sources of cash flow in the upcoming year will be from the proceeds of the sale of cannabis and cannabis related products and possible equity financings, loans, lease financing and entering into joint venture agreements; or any combination thereof.

g) Pricing risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. See Note 6 in the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2020 for the Company's assessment of certain changes in the fair value assumption used in the calculation of biological asset values.

h) 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.

CAPITAL RESOURCES

The Company has a recent history of operating losses. It may be necessary for the Company to arrange for additional financing to meet its on-going growth initiatives.

Management believes it will be able to raise equity capital as required in the long term, but recognizes the risks attached thereto. There can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing may be favourable.

CAPITAL MANAGEMENT

The Company's capital consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing and incurring debt. Future 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 period. The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital to complete its capital expansion plans and ultimately the development of its business and will need to raise adequate capital by obtaining equity financing and/or incurring debt.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at March 31, 2020 and as at the date hereof.

RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

The following is a summary of the Company's related party transactions during the period:

- (a) Building Lease



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The Company sub-lets approximately 2,000 square feet of office space and purchases certain printed marketing collateral and stationery items from a company owned by one of the Company’s Co-CEO. Amounts paid to such company for rent for the three months ended March 31, 2020 and 2019 equalled \$6,010 and \$6,010 respectively, and amounts paid for printed marketing collateral and stationery items equalled \$42,173 and \$nil 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 three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,	Remuneration or fees ⁽¹⁾	Share based payments ⁽¹⁾	Included in accounts payable ⁽¹⁾
Management compensation	2020	\$384,405	\$482,428	\$ -
	2019	337,655	545,645	-
Director compensation	2020	\$ -	\$69,951	\$ -
	2019	-	106,970	-

⁽¹⁾ Amounts disclosed were paid or accrued during the three months ended March 31, 2020 and 2019.

MANAGEMENT

The Company is dependent upon the personal efforts and commitments of its existing management. To the extent that management’s services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

New Accounting Standards and Interpretations Adopted in the Prior Year

On January 1, 2019, the Company implemented IFRS 16 “Leases”. The impacts on the implementation of IFRS 16 on the Company’s unaudited condensed interim consolidated financial statements is 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



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by the amount of any prepaid or accrued lease payments recognized in the statement of financial position immediately before the date of initial application.

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

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

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

The Company has elected to apply the practical expedient to grandfather the assessment of which transaction are leases on the date of initial application as previously assessed under IAS 17 and IFRIC 4. 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 either a straight-line basis over the term of the lease or another systematic basis, and thus not recognize a lease liability and a right-of-use asset at the date of initial application. Short-term leases are leases with a lease term of 12 months or less.

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:



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

Recent Accounting Pronouncements

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.

(i) *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 condensed interim consolidated financial statements.

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 adoption of this standard did not have a material impact on the condensed interim consolidated financial statements.

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 material 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 adoption of this standard did not have a material impact on the condensed interim consolidated financial statements.

Risk Factors

The Company operates in the US medical and recreational adult-use cannabis market, and more specifically in the state of Nevada, and may face many and varied kinds of risks. While risk management cannot eliminate the impact of all potential risks, the Company strives to manage such risks to the extent possible and practical. Following are the risk factors most applicable to the Company:



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- The production and sale of recreational cannabis remain illegal under federal law and it is possible that the Company may be forced to cease activities. The U.S. federal government, through both the Drug Enforcement Agency (“DEA”) and Internal Revenue Service (“IRS”), has the right to actively investigate, audit and shut-down marijuana growing facilities, processors and retailers. The U.S. federal government may also attempt to seize the Company’s property. Any action taken by the DEA and/or the IRS to interfere with, seize, or shut down the Company’s operations will have an adverse effect on the Company’s business, operating results and financial condition.
- Some of the Company’s current and planned business activities, while believed to be compliant with certain applicable U.S. state and local law, are illegal under United States federal law. Although certain states and territories of the U.S. authorize medical or recreational adult-use cannabis production and distribution by licensed or registered entities under applicable state laws, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law under any and all circumstances under the U.S. Controlled Substances Act (“CSA”). A shareholder’s contribution to and involvement in such activities may result in federal civil and/or criminal prosecution, including forfeiture of his, her or its entire investment.
- Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including but not limited to disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.
- The possession and use of cannabis and any related drug paraphernalia is illegal under U.S. federal law and the Company may be deemed to be aiding and abetting illegal activities through the contracts it has entered into and the products that it provides and sells. The Company intends to continue to cultivate cannabis, process and sell cannabis products, operate dispensaries, lease intellectual property and/or real property in Nevada. As a result, U.S. law enforcement authorities, in their attempt to regulate the illegal use of cannabis and any related drug paraphernalia, may seek to bring an action or actions against the Company, including, but not limited to, aiding and abetting another’s criminal activities. The Federal aiding and abetting statute provides that anyone who “commits an offense against the United States or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal.” Because of such an action, the Company may be forced to cease operations and members could lose their entire investment. Such an action would have a material negative effect on the business and operations of the Company.
- Nevada’s regulatory system is relatively new and constantly evolving, so there are

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uncertainties as to how authorities in the state of Nevada will interpret and administer applicable regulatory requirements. Any determination that the Company fails to comply with state cannabis regulations would require the Company either to significantly change or terminate lines of business, or the business as a whole, which could adversely affect the Company's business.

- Regulatory risks are inherent to the Company. The activities of the Company are subject to regulation by governmental authorities. The Company's business objectives are contingent upon, in part, compliance with regulatory requirements enacted by US Federal and the state of Nevada governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products in each jurisdiction in which it operates. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by relevant governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company. Furthermore, although the operations of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to import, distribute or, in the future, produce cannabis. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of cannabis, or more stringent implementation thereof could have a substantial adverse impact on the Company.
- Regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital. The Company's business activities are expected to rely on newly established and/or developing laws and regulations in Nevada. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Company's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the U.S. Food and Drug Administration ("FDA"), Securities and Exchange Commission, the DOJ, the Financial Industry Regulatory Advisory or other federal, Nevada or other applicable state or nongovernmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or nonmedical purposes in the United States. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the Company's industry may adversely affect the business and operations of the Company, including without limitation, the costs to remain compliant with applicable laws and the impairment of its business or the ability to raise additional capital, which could reduce, delay or eliminate any return on investment in the Company.
- The size of the Company's target market is difficult to quantify, and members will be reliant on their own estimates on the accuracy of market data. Because the cannabis industry is in an early stage with uncertain boundaries, there is a lack of information about comparable companies available for shareholders and potential shareholders to review in deciding about whether to invest in the Company and, few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. Accordingly,



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shareholders and potential shareholders will have to rely on their own estimates in deciding about whether to invest in the Company. There can be no assurance that the Company's estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results. The Company regularly purchases and follows market research.

- The Company may have difficulty accessing the service of banks and processing credit card payments in the future, which may make it difficult for the Company to operate. In February 2014, FinCEN issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis business, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the DOJ, FinCEN or other federal regulators. Thus, most banks and other financial institutions do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump Administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, the Company may have limited or no access to banking or other financial services in the United States and may have to operate the Company's U.S. business on an all-cash basis. The inability or limitation in the Company's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned. The Company is actively pursuing alternatives that ensure its operations will continue to be compliant with the FinCEN guidance and existing disclosures around cash management and reporting to the IRS once it moves from development into production.
- U.S. Federal trademark and patent protection may not be available for the intellectual property of the Company due to the current classification of cannabis as a Schedule I controlled substance. As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Company. As a result, the Company's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state or local level.
- The Company's contracts may not be legally enforceable in the United States. Because the Company's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in U.S. federal and certain state courts.
- There is uncertainty surrounding the Trump Administration and Attorney General William Barr and their influence and policies in opposition to the cannabis industry as a whole. As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis business in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013

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when then Deputy Attorney General, James Cole, authored the Cole Memorandum. The Cole Memorandum was addressed to all United States district attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several US states have enacted laws relating to cannabis for medical purposes. The Cole Memorandum outlined certain priorities for the DOJ relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the DOJ has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the DOJ should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority. On January 4, 2018, US former Attorney General Jeff Sessions issued a memorandum to US district attorneys which rescinded the Cole Memorandum. With the Cole Memorandum rescinded, US federal prosecutors can exercise their discretion in determining whether to prosecute compliant state law cannabis-related operations as violations of U.S. federal law throughout the United States. The potential impact of the decision to rescind the Cole Memorandum is unknown and may have a material adverse effect on the Company's business and results of operations.

- The Company's business interests in the United States include the cultivation and provision of cannabis and cannabis-infused and related products. The Company is not aware of any non-compliance with the applicable licensing requirements or regulatory framework enacted by the state of Nevada where the Company's businesses are operating. In February 2017, the Task Force on Crime Reduction and Public Safety was established through an executive order by the President of the United States. Names of those serving on the task force have not been published, and the group was supposed to deliver its recommendations by July 27, 2017. The recommendations of the group were not made public on that date, but the Attorney General issued a public statement which said he had received recommendations "on a rolling basis" and he had already "been acting on the task force's recommendations to set the policy of the department." Based on previous public statements made by the Attorney General, there had been some expectation that the task force may make some recommendations with respect to laws relating to cannabis. However, to date there has been no public announcement in this regard from the Attorney General. Due to the classification of cannabis as a Schedule I controlled substance under the CSA, banks and other financial institutions which service the cannabis industry are at risk of violating certain financial laws, including anti-money laundering statutes. Because the manufacture, distribution, and dispensation of cannabis remains illegal under the CSA, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-remitter statute (18 U.S.C. § 1960) and the U.S. Bank Secrecy Act. These statutes can impose criminal liability for engaging in certain financial and monetary transactions with the proceeds of a "specified unlawful activity" such as distributing controlled substances which are illegal under federal law, including cannabis, and for failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the CSA. The Company may also be exposed to the foregoing risks.



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- In the event that any of the Company's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends in the foreseeable future, in the event that a determination was made that any such investments in the United States could reasonably be shown to constitute proceeds of crime, the Company may decide to, or be required to, suspend declaring or paying dividends without advance notice and for an indefinite period of time.
- Third party service providers to the Company may withdraw or suspend their service under threat of prosecution. Since under U.S. federal law the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts under federal law, companies that provide goods and/or services to companies engaged in cannabis-related activities may, under threat of federal civil and/or criminal prosecution, suspend or withdraw their services. Any suspension of service and inability to procure goods or services from an alternative source, even on a temporary basis, that causes interruptions in the Company's operations could have a material and adverse effect on the Company's business.
- The FDA regulation of medical-use cannabis and the possible registration of facilities where medical-use cannabis is grown could negatively affect the medical-use cannabis industry, which would directly affect the Company's financial condition. Should the federal government legalize cannabis for medical use, it is possible that the FDA would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including certified good manufacturing practices, related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, it is unknown what the impact would be on the medical-use cannabis industry, including what costs, requirements and possible prohibitions may be enforced. If the Company is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Company's business, operating results and financial condition.
- The Company is subject to Section 280E of the Internal Revenue Code of 1986 because of our business activities and the resulting disallowance of tax deductions could cause us to incur more than anticipated U.S. federal income tax. Section 280E of the Internal Revenue Code of 1986 (the "Code") provides that, with respect to any taxpayer, no deduction or credit is allowed for expenses incurred during a taxable year "in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of Schedule I and II of the CSA) which is prohibited by federal law or the law of any state in which such trade or business is conducted." Because cannabis is a Schedule I controlled substance under the CSA, Section



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280E by its terms applies to the purchase and sale of cannabis products and the Company is subject to Section 280E. If the IRS were to take the position that the Company is primarily or vicariously liable under federal law for “trafficking” a Schedule 1 substance (cannabis) under section 280E of the Code or for any other violations of the CSA, the IRS may seek to apply the provisions of Section 280E to the Company and disallow certain ordinary tax deductions. If such tax deductions are disallowed it may increase the Company’s effective tax rate and have an adverse effect on the Company’s operating results and financial condition.

- The approach to the settlement of trades in Canada through CDS Clearing and Depository Services Inc. (“CDS”) of issuers with cannabis-related activities in the United States may be subject to change or may not proceed as previously outlined. On February 8, 2018, CDS announced the signing of a Memorandum of Understanding (“MoU”) with recognized Canadian equities exchanges outlining the parties' understanding of Canada's regulatory framework applicable to the rules and procedures and regulatory oversight of the exchanges and CDS. The MoU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. Accordingly, CDS will not ban the clearing of securities of issuers with marijuana-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented at a time when the Common Shares are listed on a stock exchange, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of the applicable stock exchange. Additionally, although CDS will not implement policies that would result in the refusal to settle trades for cannabis issuers that have investments in the United States, individual stock exchanges in Canada retain the ability under certain circumstances, when applying listing requirements and rules related to issuers' compliance with applicable laws, to halt or delist an issuers' listed securities.
- 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.
- 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.
- The current global uncertainty with respect to the spread of the COVID-19 virus (the



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“coronavirus”) and its effect on the broader global economy may have a significant negative effect on the Company. While the precise impact of the COVID-19 virus on the Company remain unknown, rapid spread of the COVID-19 virus may have a material adverse effect on global economic activity, and can result in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to the Company.

DISCLOSURE OF INTERNAL CONTROLS

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2020 do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented, and (ii) the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2020, fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of and for the three months ended March 31, 2020.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings* (“**NI 52-109**”), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (“**DC&P**”) and internal control over financial reporting (“**ICFR**”), as defined in NI 52-109. In particular, the certifying officers filing the certificate are not making any representations relating to the establishment and maintenance of:

- (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s generally accepted accounting principles.

The issuer’s certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.