The Management's Discussion and Analysis of Financial Condition and Results of Operations for Planet 13 Holdings Inc. is also included in the Form 10-K for the year ended December 31, 2021 filed on SEDAR on March 28, 2022 in its entirety.

During the year ended December 31, 2021, we had the following issuances of unregistered securities:

- On January 4, 2021, we issued 852,154 Common Shares to holders of RSUs that had vested. We did not receive any cash proceeds from the issuance.

- On February 2, 2021, we completed the February 2021 Bought Deal for aggregate gross proceeds of $53,852,980 (C$69,028,750) at a price of C$7.00 per unit. The principal underwriters were Beacon Securities Limited ("Beacon") and Canaccord Genuity Corp ("Canaccord"). We issued 9,861,250 units of the Company. Each unit was comprised of one Common Share in the capital of the Company and one-half of one Common Share purchase warrant. Each whole warrant entitles the holder to acquire one Common Share at an exercise price of C$9.00 per Common Share for a period of 24 months. We also issued 591,676 broker warrants that entitle the holder to purchase one Common Share for a period of 24 months from the closing of the offering at a price of C$7.00 per Common Share.

- On June 10, 2021, we issued 3,704 Common Shares to holders of RSUs that vested. We did not receive any cash proceeds from the issuance.

- On July 9, 2021, we issued 59,945 Common Shares to holders of RSUs that had vested. We did not receive any cash proceeds from the issuance.

- On December 13, 2021, we issued 2,210,731 Common Shares to holders of RSUs that had vested. We did not receive any cash proceeds from the issuance.

- During the year ended December 31, 2021, we issued 121,336 common shares on the exercise of options that had strike prices in the range of CAD$0.75 to CAD$1.55 per common share resulting in cash proceeds of USD$86,216.

- During the year ended December 31, 2021, we issued 3,772,640 Common Shares to warrant holders who exercised warrants during the period. We received $14,093,793 in cash proceeds from the exercises.

- We issued 55,232,940 Common Shares to holders of Restricted Voting Shares who exercised their right to exchange Restricted Voting Shares into Common Shares. We did not receive any cash proceeds from the issuance.

Item 6. [Reserved].

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Planet 13 is for the years ended December 31, 2021, 2020 and 2019. It is supplemental to, and should be read in conjunction with, our audited annual consolidated financial statements for the years ended December 31, 2021, 2020 and 2019 and the accompanying notes for each respective periods. Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("**GAAP**"). Financial information presented in this MD&A is presented in United States dollars ("$" or "US$"), unless otherwise indicated.

This MD&A contains certain "forward-looking statements" and certain "forward-looking information" as defined under applicable United States securities laws. Please refer to the discussion of forward-looking statements and information set out under the heading "Disclosure Regarding Forward-Looking Statements," identified in this Annual Report on Form 10-K. As a result of many factors, our actual results may differ materially from those anticipated in these forward-looking statements and information.

Overview of the Company

Our predecessor, MMDC, was incorporated on March 20, 2014, as a Nevada limited liability company. On March 14, 2018, MMDC underwent a statutory conversion to a Nevada domestic corporation named MM Development Company, Inc. On June 11, 2018, MMDC then completed a reverse-take-over of Carpincho, and the resulting entity was renamed Planet 13 Holdings Inc.

We continued on June 26, 2019, under the jurisdiction and laws of British Columbia and hold 100% ownership in 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 Annual Report on Form 10-K is restricted to the State of Nevada. For purposes of this Annual Report on Form 10-K, reference to the Company may also include MMDC as a wholly owned and controlled subsidiary of Company. We hold six cultivation licenses operating at three 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 16,100 square foot facility with indoor cultivation and a perpetual harvest cycle. The second cultivation license is located in Nye County, Nevada (Beatty). 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 third cultivation license is located in Clark County, Nevada (Las Vegas) in a 25,000 square foot facility with indoor cultivation and a perpetual harvest cycle in Las Vegas, Nevada. This facility is in the process of being expanded to 45,000 square feet.

We also have six production licenses operating at three licensed production facilities, each location operating jointly under a medical and adult-use cultivation license, four of which are located in Clark County, Nevada. Two of the four were previously co-located within the 16,100 square foot cultivation facility and were approximately 2,300 square feet. These two licenses were relocated to the 18,500 square foot customer facing production facility that opened inside the Planet 13 Las Vegas Superstore cannabis entertainment complex in November 2019. 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 and was expanded to 18,500 square feet in September 2021. The second production facility is co-located at the Beatty facility and the third facility is co-located in the 25,000 square foot cultivation facility (currently undergoing an expansion to 45,000 square feet) but is not active at present.

We also have three dispensary licenses. Two licenses are 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 24,000 square feet of retail space (expanded from 16,000 square feet in September 2021) located adjacent to the Las Vegas Strip where we opened, on November 1, 2018, the Planet 13 Las Vegas Superstore. Prior to November 1, 2018, the licenses operated out of the 2,300 square feet Medizin Facility located approximately six miles off the Las Vegas Strip. The licenses were transferred to the Planet 13 Las Vegas Superstore location on October 31, 2018.

We were successful in our litigation (for additional discussion regarding this litigation refer to the heading *Medizin Re-opening*) and were awarded an additional Clark County recreational license and have transferred the license to our Medizin dispensary that was closed when the licenses were transferred to the Planet 13 Las Vegas Superstore. We reopened the Medizin dispensary on November 20, 2020. We have also been granted a distribution license and launched a distribution and delivery service in Nevada to augment our retail locations and be able to deliver product to both wholesale customers and local Nevada state residents throughout the State of Nevada.

We opened the second phase of the Planet 13 Las Vegas Superstore location with ancillary offerings that include a coffee shop, restaurant and event space in November 2019. The build out of a merchandise store and CBD store selling our Planet M branded CBD products inside the Planet 13 Las Vegas Superstore entertainment complex was completed in September 2021. The recent expansion of the Planet 13 Las Vegas Superstore dispensary floor space to 24,000 square added new entertainment features, a second entrance and an additional 40 point-of-sale terminals, all designed to reduce wait times for customers and improve on the already fantastic customer experience was completed in September 2021 We also plan 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. The state and county have passed the necessary legislation that legalizes consumption lounges, and we are scheduled to obtain a license for such an activity and are waiting on final approval of local regulations prior to determining the final design of the planned lounge. The Planet 13 Las Vegas Superstore also houses our corporate offices. In addition, the production facility housed within the superstore complex, described above, has enabled us to expand our vertical integration and increase the amount of our own branded products that are sold in the Planet 13 Las Vegas Superstore as well as re-entering the wholesale market selling concentrates, edibles and infused beverages.

On July 17, 2020, we expanded our premium indoor cultivation capacity and added additional production and distribution capabilities with the purchase of the inventory, equipment and tenant improvements and cannabis cultivation, production and distribution licenses located in a 25,000 square foot facility with indoor cultivation and a perpetual harvest cycle in Las Vegas, Nevada, which is currently being expanded to 45,000 square feet (the "**WCDN Acquisition** "). The WCDN Acquisition has allowed us to expand our vertically integrated product offerings in Nevada.

The Santa Ana Acquisition occurred on May 20, 2020, whereby we acquired all of the issued and outstanding common stock of Newtonian, resulting in our acquiring the California License and the Santa Ana Permit, which were both held by Newtonian, and a 30-year lease for the Santa Ana Premises along with the Warner Assets. Newtonian had no operations at the time of the Santa Ana Acquisition. On July 1, 2021, we opened the Planet 13 OC Superstore dispensary to the public. Upon application made, on September 25, 2020, our subsidiary Newtonian received a City of Santa Ana Regulatory Safety Permit Phase 1 for distribution at the Santa Ana Premise, and plans to open a distribution facility upon completion of construction and receipt of the Regulatory Safety Permit Phase 2 from the City of Santa Ana. The construction budget for the 33,000 square foot adult-use retail facility and distribution at the Santa Ana Premise was US$7.5 to $8.5 million. Although there have been minor delays due to temporary staffing shutdowns at the City of Santa Ana related primarily to COVID-19, and the City of Santa Ana not allowing in-person plan submissions, we managed to open the facility on time and within budget. Total buildout costs, including the costs associated with the buildout of our wholesale distribution license was $9.2 million.

The focus of activity during the year ended December 31, 2021 was to continue to grow and provide cannabis and cannabis related products to our medical cannabis and adult recreational customers as well as selling branded recreational and medical cannabis products and related cannabis products to our growing wholesale customer base in the State of Nevada. In addition, in the State of California, we were focused on the opening of the Planet 13 OC Superstore on July 1, 2021 and growing revenue from the sale of recreational cannabis through both the retail store and home delivery, and on continuing the integration and optimization of the WCDN Acquisition.

On March 19, 2020, we announced that we would continue to provide core dispensary services during the COVID-19 pandemic and encouraged all local Nevada resident customers to utilize our 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 COVID-19 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. The shutdown due to COVID-19 during the months of April, May and June 2020 had a material impact on our 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 partial reopening of resorts, hotels and casinos resulted in increased tourist traffic to Las Vegas and an increase of customers to the Planet 13 Las Vegas Superstore in July to October 2020 and coincided with a return of in-store retail sales, with the store operating at 50% capacity under COVID-19 social distancing safety measure and protocols, coupled with continued online ordering with home delivery and curbside pick-up. This saw operations return to, and surpass, pre-COVID-19 revenue in the months of July to October 2020. The State of Nevada initiated renewed COVID-19 restrictions in November 2020, and, coupled with the lockdowns in California that drastically reduced the amount of tourist traffic to Las Vegas during November and December 2020, caused a significant reduction in tourist traffic to the Planet 13 Las Vegas Superstore during the final two months of 2020 and through to the end of February 2021. The easing of restrictions in Nevada and surrounding states in January 2021 and the move to further open the State of Nevada on February 15, 2021, resulted in an increase in tourist traffic to the Planet 13 Las Vegas Superstore during the first three months of 2021, with us reporting record revenues for the months of March and April 2021. On May 1, 2021, the State of Nevada allowed businesses to operate at 80% of their fire rated occupancy limits and on June 1, 2021, further eased its COVID-19 restrictions to allow all businesses to fully open. Starting on February 10, 2022, COVID--19 protocols in Nevada no longer include mask mandates in Clark and Nye County, where we have operations, for all individuals within public indoor settings.

On March 1, 2022, the State of California changed mask requirements arising under the general industry safety order by Cal/OSHA, with a strong recommendation that masks were required statewide for unvaccinated individuals in indoor public settings and workplaces, as opposed to the previous requirement for mask use by unvaccinated individuals.

We caution that current global uncertainty with respect to the spread of COVID-19 or its variants and its effect on the broader global economy may have a significant negative effect on us. While the precise impact of COVID-19 on us remains unknown, rapid spread of COVID-19 or its variants 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 us.

We are also subject to Section 280E of the Code, which prohibits businesses from taking deductions or credits in carrying on any trade or business consisting of trafficking in certain controlled substances that are prohibited by federal law. We, to the extent of our “trafficking” activities, and/or key contract counterparties directly engaged in trafficking in cannabis, have incurred significant tax liabilities from the application of Section 280E. Our income tax obligations under Section 280E of the Code are typically substantially higher as compared to companies to which Section 280E does not apply. Section 280E essentially requires us to pay federal, and as applicable, state income taxes on gross profit, which presents a significant financial burden that increases our net loss and may make it more difficult for us to generate net profit and cash flow from operations in future periods. In addition, to the extent that the application of Section 280E creates a financial burden on contract counterparties, such burdens may impact the ability of such counterparties to make full or timely payment to us, which would also have a material adverse effect on our business.

On August 5, 2021, our subsidiary, Planet 13 Illinois won a Conditional Adult Use Dispensing Organization License in the Chicago-Naperville-Elgin region from the Illinois Department of Financial and Professional Regulation. We are evaluating potential locations for a dispensary. We own 49% of Planet 13 Illinois and 51% is owned by Frank Cowan.

On October 1, 2021, we, through our wholly owned subsidiary, Planet 13 Florida Inc., completed the purchase of a license issued by the Florida Department of Health to operate as a MMTC in the state of Florida for $55.0 million in cash. Licensed MMTCs are vertically integrated and the only businesses in Florida authorized to dispense medical marijuana cannabis to qualified patients and caregivers. MMTCs are authorized to cultivate, process, transport and dispense medical marijuana. As of December 31, 2021, there were 22 companies with MMTC licenses with 370 dispensing locations across Florida. License holders are not subject to restrictions on the number of dispensaries that may be opened or on the number or size of cultivation and processing facilities they may operate.

Recent Developments

The following are recent developments after the year ended December 31, 2021:

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

Pursuant to the Plan of Arrangement, at 12:01 a.m. (Vancouver time) (the “**Effective Time**”) on the Closing Date, we acquired all of the NGW Shares for a total consideration of approximately C$71,791,700 (based on the closing price of our Common Shares (the “**Planet 13 Shares**”) on the Canadian Securities Exchange on February 28, 2022), and NGW then amalgamated with us. The NGW Shareholders received 0.1145 of one Planet 13 Share (the “**Exchange Ratio**”) and a nominal cash payment of C$0.0001 for each NGW Share held immediately prior to the Effective Time. As a result, 21,361,002 Planet 13 Shares and C$18,656 in cash were issued in exchange for the NGW Shares. In addition, the number of Planet 13 Shares issued to any person pursuant to the Arrangement was rounded down to the nearest whole Planet 13 Share, with a cash consideration paid in lieu of the issuance of such fractional Planet 13 Share of C$3.379 per share, resulting in an aggregate cash-in-lieu consideration of C$77.61.

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

We, since the closing of the Arrangement on March 2, 2022, through our wholly-owned subsidiary, NGW, LLC, are licensed by the State of California to produce, distribute and sell cannabis products throughout the State. We currently cultivate cannabis in Facility A our 35,000 square foot facility on one of the four properties owned by us and zoned for cannabis production in the City of Coalinga, California. Facility A enables us to cultivate medicinal and recreational cannabis and distribute cannabis products in accordance with the requirements under the Medicinal and Adult Use Cannabis Regulation and Safety Act in the State of California.

We, since the closing of the Arrangement on March 2, 2022, through our wholly-owned subsidiary, NGW, LLC, are licensed by the State of California to produce, distribute and sell cannabis products throughout the State. We currently cultivate cannabis in Facility A, our 35,000 square foot facility on one of the four properties owned by us and zoned for cannabis production in the City of Coalinga, California. Facility A enables us to cultivate medicinal and recreational cannabis and distribute cannabis products in accordance with the requirements under the Medicinal and Adult Use Cannabis Regulation and Safety Act in the State of California.

See “Item 1 – Business” of this Form 10-K for updates to our business, including our licenses, after the Closing Date of the Arrangement.

Results of Operations

Expressed in USD$	Year Ended Dec-31-2021	Year Ended Dec-31-2020	Percentage Change
Revenue			
Net revenue	119,493,435	70,491,280	69.5%
Cost of Goods Sold	(53,485,458)	(35,394,019)	51.1%
Gross Profit	66,007,977	35,097,261	88.1%
Gross Profit Margin %	55.2%	49.8%	
Expenses			
General and Administrative	59,928,356	27,416,166	118.6%
Sales and Marketing	5,969,792	3,305,639	80.6%
Lease expense	2,608,016	2,114,743	23.3%
Depreciation and Amortization	5,335,055	3,674,907	45.2%
Total Expenses	73,841,219	36,511,455	102.2%
Income (Loss) From Operations	(7,833,242)	(1,414,194)	453.9%
Other Income (Expense):			
Interest expense, net	(16,984)	(22,202)	(23.5)%
Foreign exchange gain (loss)	1,662,679	398,525	317.2%
Transaction costs	(256,667)	(275,250)	(6.8)%
Change in fair value of warrants	7,520	(16,805,941)	(100.0)%
Other income	454,300	216,850	109.5%
Total Other Income (Expense)	1,850,848	(16,488,019)	(111.2)%
Loss for the year before tax	(5,982,394)	(17,902,213)	(66.6)%
Provision for income tax (current and deferred)	13,478,558	7,106,516	89.7%
Loss for the year	(19,460,952)	(25,008,729)	(22.2)%
Loss per share for the period			
Basic and fully diluted income (loss) per share	$ (0.10)	$ (0.16)	
Weighted Average Number of Shares Outstanding			
Basic and diluted	195,126,972	151,825,439	

We experienced a 69.5% increase in net revenue during the year ended December 31, 2021, when compared to the year ended December 31, 2020. The increase is directly attributable to an increase in the number of customers and an increase in average spend per customer at our Planet 13 Las Vegas Superstore dispensary during the year ended December 31, 2021 when compared to the year ended December 31, 2020. The increase in wholesale transactions during the period, the re-opening of the Medizin Dispensary in late November 2020 and the addition of revenue from the recently opened Planet 13 OC Superstore in Santa Ana, also contributed to the increase in overall revenue when compared to the year ended December 31, 2020 that was negatively impacted by the COVID-19-related shutdowns. The Medizin dispensary was effectively open for one month (December 2020) and the Planet 13 OC Superstore was not open during the year ended December 31, 2020, and, and we had limited wholesale business during the prior year. Curb-side pick-up and home delivery revenue decreased in the year ended December 31, 2021, when compared to the year ended December 31, 2020 because of the easing of COVID-19 operating protocols during 2021 that lead to more customers opting for an in-person shopping experience. While the COVID-19 shutdown impacted our tourist customer base due to the partial shutdown of hotels and resorts in the State of Nevada during April 2021, the increase in average spend per customer in 2021 more than off-set the decline in curb-side pick-up and home delivery revenue. The reopening of the Medizin dispensary and the addition of a robust wholesale business and the opening of the Planet 13 OC Superstore drove an overall 69.5% increase in revenue during the year ended December 31, 2021, when compared to revenue during the year ended December 31, 2020.

The easing of restrictions in Nevada and surrounding states in January 2021 and the move to further open the State of Nevada on February 15, 2021, resulted in an increase in tourist traffic to the Planet 13 Las Vegas Superstore during the first three months of 2021, with us reporting record revenues for the months of March and April 2021. On May 1, 2021, the State of Nevada allowed businesses to operate at 80% of their fire rated occupancy limits and on June 1, 2021, the State further eased its COVID-19 restrictions and allowed all businesses to fully open. Starting on February 10, 2022, COVID--19 protocols in Nevada no longer include mask mandates in Clark and Nye County, where we have operations, for all individuals within public indoor settings.

Details of net revenue by product category are as follows:

	Year Ended 31-Dec-21	Year Ended 31-Dec-20	Percentage Change
Flower	$ 59,018,342	$ 38,628,628	52.8%
Concentrates	30,967,288	15,315,769	102.2%
Edibles	17,810,736	11,019,130	61.6%
Topicals and Other Revenue	7,024,496	3,812,053	84.6%
Wholesale	4,672,573	1,715,059	154.4%
Net revenue	$ 119,493,435	$ 70,491,280	69.5%

Gross Profit margin for the year ended December 31, 2021 increased to 55.2% from 49.8% when compared to the year ended December 31, 2020. The increase in gross profit for the year ended December 31, 2021 was a result of greater revenue contribution from in-store sales at the Planet 13 Las Vegas Superstore when compared to the prior year. Revenue from the Medizin dispensary, the Santa Ana dispensary, wholesale revenue and revenue from curb side pick-up and home delivery all have lower gross margin profitability when compared to in-store retail sales at our Planet 13 Las Vegas Superstore.

The costs of internal cultivation have continued to trend down as we continue to improve our yields and cultivation efficiency across all of our cultivation facilities. In addition, margin enhancement through the creation of internally generated brands, such as TRENDI, Leaf & Vine, HaHa Gummies, Dreamland Chocolate, HaHa Beverages and Medizin, continue to have a positive impact on gross margins during the year ended December 30, 2021, helping offset the lower margins received on the sale of wholesale product and the sales to local customers in the State of Nevada. We anticipate that margins will trend upward as tourist customers return to Las Vegas and the Planet 13 Las Vegas Superstore in greater numbers.

Our premium cultivation facilities were operating near capacity during the year ended December 31, 2021, and 2020, respectively. The amount of cannabis grown during the year increased significantly when compared to the prior year due to the addition of the 25,000 square feet of cultivation capacity that was added as part of the WVapes acquisition that closed in November 2020.

Overall gross margin was $66,007,977 and $35,097,261 for the years ended December 31, 2021 and 2020 respectively, an increase of 88.1%.

General and Administrative ("**G&A**") expenses (which includes non-cash share-based compensation expenses, sales and marketing expenses and depreciation and amortization expenses) increased by 118.6% in 2021 when compared to 2020. The large increase in G&A expenses incurred during the year ended December 31, 2021, was a result of increased costs incurred as a result of COVID-19 operating procedures, Medizin dispensary G&A expense for the full year period, pre-operating labor and expenses for the Planet 13 OC Superstore location as well as operating costs post-opening July 1, 2021, and the expansion of our wholesale and delivery sales channels, and increased expenditures related to corporate initiatives (registration of the class of our Common Shares through filing a Form 10 registration statement with the SEC and merger and acquisition related fees) during the year ended December 31, 2021 when compared to the prior year. Overall, excluding non-cash share-based compensation expenses, G&A expenses as a percentage of revenue equaled 37.1% for the year ended December 31, 2021, compared to 35.3% for the year ended December 31, 2020.

A detailed breakdown of G&A expenses is as follows:

	For the year ended December 31,		Percentage change
	2021	**2020**	
Salaries and wages	$ 21,902,505	$ 9,611,047	127.9%
Executive compensation	2,039,174	1,204,925	69.2%
Licenses and permits	3,217,834	1,957,183	64.4%
Payroll taxes and benefits	3,953,034	1,971,215	100.5%
Supplies and office expenses	3,638,097	960,456	278.8%
Subcontractors	3,500,330	1,569,921	123.0%
Professional fees (legal, audit and other)	5,015,903	2,944,706	70.3%
Miscellaneous general and administrative expenses	1,084,836	4,684,145	(76.8)%
Share-based compensation expense	15,576,643	2,512,568	520.0%
	$ 59,928,356	$ 27,416,166	118.6%

Non-cash, share based compensation of $15,576,643 was recognized during the year ended December 31, 2021, increasing from $2,512,568 incurred in the year ended December 31, 2020. The increase can be attributable to the vesting schedule for both RSUs and incentive stock options that were previously granted, particularly the net 3,954,213 RSUs that were granted on April 18, 2021, that vest 1/3 on December 1, 2021, and 1/3 on the first and second anniversary of the first vesting date. During the year ended December 31, 2020, we also granted 50,000 RSUs to an employee on January 1, 2020, that vest 1/3 on the grant date and 1/3 on the first and second anniversary of the grant date. 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 12 in our audited consolidated financial statements for the year ended December 31, 2021, 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).

Sales and marketing expenses increased by 80.6% during the year ended December 31, 2021, when compared to the prior year. The large increase was a result of the State of Nevada easing COVID-19 operating restrictions resulting in a return of the tourist customer to Las Vegas with sales and marketing expenditures ramping up to promote the Planet 13 Las Vegas Superstore location to potential tourist customers. We continue to refine our marketing efforts to optimize marketing spend on initiatives that drive increased customer traffic to the Superstore complex. In addition, we ramped up our sales and marketing spend at the Planet 13 OC Superstore location, which opened on July 1, 2021, in order to drive awareness and traffic to the new location.

Lease expense increased by 23.3% during the year ended December 31, 2021, when compared to the prior year because of our recording lease expense on the Planet 13 OC retail dispensary during the year resulting from the Planet 13 OC Superstore location that opened July 1, 2021.

Depreciation and Amortization increased 45.2% during the year ended December 31, 2021, when compared to the prior year because of our recording depreciation on the WCDN cultivation facility during the period as well as additional depreciation resulting from the Planet 13 OC Superstore location that opened July 1, 2021.

Interest expense recorded of $16,984 during the year ended December 31, 2021, and $22,202 during the year ended December 31, 2020, relates to accrued interest on our long-term debt that is due and payable on demand. The balance of long-term debt as of December 31, 2021, was $884,000 compared to $884,000 as of December 31, 2020.

We conduct our 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, 2020, the value of the USD was USD$1.00=CAD$1.2732 compared to the value of the USD of USD$1.00=CAD$1.2678 as at December 31, 2021 and averaged USD$1.00=CAD$1.2535 during the year, resulting in our realizing a foreign exchange gain of $1,662,679 during the year compared to a foreign exchange gain of $398,524 during the prior year. It is our policy to not hedge our CAD$ exposure.

Warrants are accounted for in accordance with the applicable authoritative accounting guidance in ASC Topic 815, Derivatives and Hedging - Contracts in Entity's Own Equity (" **ASC 815**"), as derivative liabilities based on the specific terms of the warrant agreements. Liability-classified instruments are recorded at fair value at each reporting period with any change in fair value recognized as a component of change in fair value of derivative liabilities in the consolidated statements of operations and comprehensive loss. Transaction costs allocated to warrants that are presented as a liability are expensed immediately within other expenses (income) in the statements of net loss and comprehensive loss. During the year ended December 31, 2021 the change in fair value of the warrants resulted in a gain of $7,520 compared to a loss of ($16,805,941) during the prior year.

Other income, consisting of Automated Teller Machine ("**ATM**") fees, interest and other miscellaneous income was $454,300 for the year ended December 31, 2021, compared to $216,850 for the year ended December 31, 2020.

Transaction costs related to the issuance of warrants of $256,667 for the year ended December 31, 2021, compared to transaction costs on the issuance of warrants during the year ended December 31, 2020 of $275, 250. The transaction costs represent a portion of the issuance costs that were allocated to the issuance of warrants as part of the bought deal equity financings that were completed during the years ended December 31, 2021 and 2020.

The income tax expense for the year ended December 31, 2021, was $13,478,558 compared to $7,106,516 for the prior year. The tax expense increased due to the increase in taxable profitability during the year. We are 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 our being subject to a higher overall tax rate on net income.

The overall net loss for the year ended December 31, 2021, was $19,460,952 (($0.10) per share) compared to an overall net loss of $25,008,729 (($0.16) per share) for the year ended December 31, 2020.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Expressed in USD$

	Dec-31-2020	Dec-31-2019	Change
Revenue			
Net revenue	70,491,280	63,595,036	10.8%
Cost of Goods Sold	(35,394,019)	(27,086,453)	30.7%
Gross Profit	35,097,261	36,508,583	(3.9)%
Gross Profit Margin %	49.8%	57.4%	
Expenses			
General and Administrative	27,416,166	25,230,274	8.7%
Sales and Marketing	3,305,639	6,539,483	(49.5)%
Lease expense	2,114,743	1,912,984	10.5%
Depreciation and Amortization	3,674,907	2,287,249	60.7%
Total Expenses	36,511,455	35,969,990	1.5%
Income (Loss) From Operations	(1,414,194)	538,593	(362.6)%
Other Income (Expense):			
Interest expense, net	(22,202)	(27,073)	(18.0)%
Realized foreign exchange gain (loss)	398,525	(271,240)	(246.9)%
Transaction costs	(275,250)	-	na
Change in fair value of warrants	(16,805,941)	(5,541,590)	203.3%
Other income	216,850	350,775	(38.2)%
Total Other Income (Expense)	(16,488,019)	(5,489,128)	200.4%
Income (loss) for the year before tax	(17,902,213)	(4,950,535)	261.6%
Provision for income tax (current and deferred)	(7,106,516)	(7,352,808)	(3.3)%
Loss for the year	(25,008,729)	(12,303,343)	103.3%
Loss per share for the year			
Basic and fully diluted income (loss) per share	$ (0.16)	$ (0.09)	
Weighted Average Number of Shares Outstanding			
Basic and diluted	151,825,439	134,074,476	

We experienced a 10.8% increase in net revenue during the year ended December 31, 2020, when compared to the year ended December 31, 2019. The increase is directly attributable to an increase in average spend per customer at our Planet 13 Las Vegas Superstore dispensary as well as the addition of curb-side pickup and home delivery transactions during the period offset by the impact of COVID-19 on revenue and customer traffic during Q2 2020 when a full lock-down was in place in Nevada, and we were only able to offer on-line ordering/home delivery followed by a partial reopening towards the end of Q2 2020. Curb-side pick-up was not available during the prior year period and home delivery volumes represented an immaterial amount of our revenue during the year ended December 31, 2019. The large increase in both home delivery and curb-side pick-up during the period was the result of the impact of the COVID-19 pandemic and the change in consumer buying habits that it has caused. While the COVID-19 shutdown impacted our tourist customer base due to the full lock-down and partial reopening of hotels and resorts in the State of Nevada during the year ended December 31, 2020, the increase in average spend per customer during the period, coupled with the addition of increased home delivery volume and curb-side pick-up volumes and revenue from our wholesale business and recently opened Medizin dispensary in November 2020 more than offset the reduction in customer traffic when compared to the year ended December 31, 2019.

Details of net revenue by product category are as follows:

	Year Ended 31-Dec-20	Year Ended 31-Dec-19	Percentage Change
Flower	$ 38,628,628	$ 26,145,413	47.7%
Concentrates	15,315,769	19,018,607	(19.5)%
Edibles	11,019,130	13,470,082	(18.2)%
Topicals and Other Revenue	3,812,053	4,960,934	(23.2)%
Wholesale	1,715,059	-	n/a
Net revenue	$ 70,491,280	$ 63,595,036	10.8%

Gross Profit margin decreased to 49.8% for the year ended December 31, 2020, when compared to the Gross Profit margin of 57.4% experienced during the ended December 31, 2019. Gross profit margin for the year ended December 31, 2020, was affected by the revenue mix and the addition of lower margin home delivery and wholesale revenue during the year when compared to the year ended December 31, 2019. Wholesale revenue has lower gross margin profitability while the home delivery and curb-side pick-up revenue is heavily skewed to the local Nevada customer that receives a set discount from the listed price for being a Nevada state resident. The costs of internal cultivation have continued to trend down as we continue to improve our yields and cultivation efficiency. In addition, margin enhancement through the creation of internally generated brands, such as TRENDI, Leaf & Vine, HaHa Gummies, Dreamland Chocolate, HaHa Beverages and Medizin, continue to have a positive impact on gross margins during the three months and year ended December 31, 2020, helping offset the lower margins received on the sale of wholesale product and the sales to local customers.

Overall gross margin was $35,097,261 for the year ended December 31, 2020, compared to $36,508,583 for the year ended December 30, 2019, a decrease of 3.9% for the year ended December 31, 2020.

G&A expenses (which includes non-cash share-based compensation expenses) increased by 8.7% in the year ended December 31, 2020 when compared to the year ended December 31, 2019. The large increase in G&A expenses was a result of increased costs incurred as a result of COVID-19 operating procedures and the expansion of our wholesale and delivery sales channels.

	For the Years ended December 31,		Percentage
	2020	**2019**	**Change**
Salaries and wages	$ 9,611,047	$ 6,941,111	38.5%
Executive compensation	1,204,925	874,598	37.8%
Licenses and permits	1,957,183	1,704,755	14.8%
Payroll taxes and benefits	1,971,215	1,531,261	28.7%
Supplies and office expenses	960,456	1,184,401	(18.9)%
Subcontractors	1,569,921	1,272,414	23.4%
Professional fees (legal, audit and other)	2,944,706	2,723,555	8.1%
Miscellaneous general and administrative expenses	4,684,145	4,175,392	12.2%
Share-based compensation expense	2,512,568	4,822,787	(47.9)%
	$ 27,416,166	$ 25,230,274	8.7%

Non-cash, share based payments of $2,512,568 were recognized during the year ended December 31, 2020, a decrease from the $4,822,787 for the year ended December 31, 2019. The decrease 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 vested 1/3 on January 1, 2020 and 1/3 on the first and second anniversary of the grant date. We also granted 50,000 RSUs to an employee on January 1, 2020 that vest 1/3 on the grant date and 1/3 on the first and second anniversary of the grant date. We 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. We granted 100,000 options to one of our consultants on July 4, 2019, that vested 1/4 on the grant date and 1/4 every three months from the grant date to April 4, 2020 and granted 50,518 RSUs to a consultant on July 3, 2020 for services rendered that vested immediately. The expense represents the recognition over time of the fair market value of incentive options and RSUs that were granted to our employees, consultants, officers and directors. These amounts are non-cash and the expense is recognized in accordance with the vesting schedule of the underlying stock options and RSUs.

Sales and marketing expenses decreased by 49.5% during the year ended December 31, 2020, when compared to the year ended December 31, 2019. The large decrease was a result of the COVID-19 shutdown of the Las Vegas strip resulting in the curtailment of our sales and marketing activities geared towards the tourist customer and a switch to less costly sales and marketing activity that focused on the local customer when compared to the prior year periods. We continued to refine our marketing efforts to optimize marketing spend on initiatives that drive increased customer traffic to the Planet 13 Las Vegas Superstore complex, in light of the phased reopening of the Las Vegas Strip and the Planet 13 Las Vegas Superstore since June 1, 2020, the reopening of the Medizin dispensary in November 2020 and the opening of the Santa Ana dispensary in July 2021.

Lease expense increased by $201,759 or 10.5% for the year ended December 31, 2020, when compared to the prior year as a result of the additional lease expense associated with the acquired WCDN cultivation facility during the in July 2020.

Depreciation and Amortization increased by $1,387,658 or 60.7% for the year ended December 31, 2020, when compared to the prior year as a result of our completing the buildout of Phase II of the Planet 13 Las Vegas Superstore entertainment complex during Q4 2019 and the recording depreciation on the Phase II assets during the year ended December 31, 2020. In addition, we also began recording depreciation on the acquired WCDN cultivation facility during the three months and year ended December 31, 2020.

We conduct our 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 of USD$1.00=CAD$1.2732 as at December 31, 2020, resulting in our recording realized foreign exchange gains of $398,525 for the year ended December 31, 2020 and a realized foreign exchange loss of $271,240 for the year ended December 31, 2019. It is our policy to not hedge our CAD$ or USD$ exposure.

The large swing in the CAD$/USD$ exchange rate during the year combined with changes in volatility and the trading prices of the listed warrants had a significant impact on the fair market value of the warrant liability recognized by us. The change in the fair market value of the warrants resulted in our recognizing a loss of $16,805,941 during the year ended December 31, 2020, when compared to the loss of $5,541,590 recognized in the year ended December 31, 2019.

We incurred transaction costs of $275,250 during the year ended December 31, 2020, that relates to the issuance of warrants as part of unit financings that were completed during the year. There were no transaction costs incurred during the year ended December 31, 2019.

The income tax provision (combined current and deferred tax provisions) for the year ended December 31, 2020, was $7,106,516 compared to $7,352,808 for the year ended December 31, 2019. The tax provision decreased due to the decrease in taxable profitability during the year. We are subject to U.S. 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 our being subject to a higher overall tax rate on net income.

Overall net loss after tax for the year ended December 31, 2020, was $25,008,729 compared to a net loss of $12,303,343 for the year ended December 30, 2019.

Segmented Disclosure

We operate in a single reportable operating segment as a vertically integrated cannabis company with cultivation, production and distribution operations in Nevada, and retail dispensary and distribution operations in California since July 2021.

Financial Position and Liquidity

As at December 31, 2021, our financial instruments consist of cash, deposits, accounts payable and accrued liabilities, and note payable. We have no speculative financial instruments, derivatives, forward contracts, or hedges.

As at December 31, 2021, we had working capital of $68,274,639 compared to working capital of $81,492,200 as at December 31, 2020.

The following table relates to the years ended December 31, 2021, 2020 and 2019:

	Years Ended December 31,		
	2021	2020	2019
Cash flows provided by operating activities	(379,883)	(3,688,853)	4,701,020
Cash flows used in investing activities	(81,756,746)	(8,031,458)	(16,061,582)
Cash flows provided by financing activities	64,538,059	77,335,979	5,030,185

Cash Flow from Operating Activities

Net cash provided by (used in) operating activities was ($379,883) for the year ended December 31, 2021, compared to cash used in operating activities of ($3,688,853) for the year ended December 31, 2020. The increase is primarily due to the net changes in non-cash working capital items, included income tax liability, that decreased as a result of cash payments for income taxes during the year ended December 31, 2021, when compared to the year ended December 31, 2020.

Net cash provided by (used in) operating activities was ($3,688,853) for the year ended December 31, 2020, a decrease of $8,389,873 compared to cash provided by operating activities of $4,701,020 for the year ended December 31, 2019. This is primarily due to changes in non-cash working capital during the period, including a growth in inventory levels, as we ramped the business to support the revenue growth experienced during the year.

Net cash provided by operating activities was $4,701,020 for the year ended December 31, 2019, an increase of $10,890,576, compared to ($6,189,556) used in operations during the year ended December 31, 2018. This is primarily due to the impact of changes in inventory and accounts payable and accrued liabilities related to our growth and expanded product mix, partially offset by our increase in gross profit from operations as a result of the increase in organic growth from a large increase in customers served.

Cash Flow from Investing Activities

Net cash used in investing activities was $81,756,746 for the year ended December 31, 2021, compared to net cash used in investing activities of $8,031,458 for the year ended December 31, 2020. The increase is due to the build-out of the Planet 13 OC Superstore location and the expansion of the Planet 13 Las Vegas Superstore dispensary floor space and production facility during the year ended December 31, 2021.

Net cash used in investing activities was $8,031,458 for the year ended December 31, 2020, a decrease of $8,030,124, compared to the $16,061,582 net cash used in investing activities for the year ended December31, 2019. The decrease is due a smaller number of expansion projects undertaken during the year ended December 31, 2020, when compared to the prior year.

Net cash used in investing activities was $16,061,582 for the year ended December 31, 2019, an increase of $2,748,181, compared to the $13,313,401 net cash used in investing activities for the year ended December 31, 2018. The increase is due to the additional enhancements made to the Planet 13 Las Vegas Superstore location during the Phase II and III buildouts compared to the Phase I buildout that occurred in the year ended December 31, 2018.

Cash Flow from Financing Activities

Net cash provided by financing activities was $64,538,059 for the year ended December 31, 2021, compared to net cash provided by financing activities of $77,335,979 for the year ended December 31, 2020. The decrease was primarily related to a decrease in proceeds for the issuance of units (each unit comprised of one common share and one half of a common share purchase warrant) offerings that occurred in the year ended December 31, 2021, as well as a decrease in cash proceeds received from the exercise of common share purchase warrants during the period, when compared to the year ended December 31, 2020.

Net cash provided by financing activities was $77,335,979 for the year ended December 31, 2020, an increase of $72,305,794, compared to the $5,030,185 net cash provided by financing activities for the year ended December 31, 2019. The increase was primarily related to $48,125,129 in gross proceeds from the issuance of units (each unit comprised of one common share and one half of a common share purchase warrant) that occurred for the year ended December 31, 2020, compared to $0 during the year ended December 31, 2019. In addition, we received cash proceeds of $32,871,439 from the exercise of common share purchase warrants during the year ended December 31, 2020, compared to cash proceeds of $5,030,185 during the year ended December 31, 2019, an increase of $27,841,254.

Net cash provided by financing activities was $5,030,185 for the year ended December 31, 2019, a decrease of $33,693,064 compared to the $38,723,249 net cash provided by financing activities for the year ended December 31, 2018. The decrease was primarily related to the $40,381,022 net proceeds received from the issuance of units (each unit comprised of one common share and one half of a common share purchase warrant) that occurred in the year ended December 31, 2018, compared to $0 during the year ended December 31, 2019. This was partially offset by the $5,030,185 in cash proceeds received from the exercise of common share purchase warrants during the year ended December 31, 2019, compared to cash proceeds of $2,374,253 during the year ended December 31, 2019, an increase of $2,655,932.

Capital Resources

We have a recent history of operating losses. It may be necessary for us to arrange for additional financing to meet our 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 favorable.

Capital Management

Our capital consists of shareholders' equity. Our objective when managing capital is to maintain adequate levels of funding to support the development of our 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 we will be able to raise funds in the future. We invest all capital that is surplus to our immediate operational needs in short-term, highly liquid, high-grade financial instruments. There were no changes to our approach to capital management during the year. We are not subject to externally imposed capital requirements.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as of December 31, 2021, and 2020, respectively, or as of the date hereof.

Critical Accounting Estimates

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

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

Leases

We apply judgement in determining whether a contract contains a lease and if a lease is classified as an operating lease or a finance lease.

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

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

Share-based compensation

We use the Black-Scholes valuation model to determine the fair value of options and warrants granted to employees and non-employees under share-based payment arrangements, where appropriate. In instances where equity awards have performance or market conditions, we utilize the Monte Carlo valuation model to simulate the various outcomes that affect the value of the award. In estimating fair value, management is required to make certain assumptions and estimates such as the expected term of the instrument, volatility of our future share price, risk free rates, future dividend yields and estimated forfeitures at the initial grant date, by reference to the underlying terms of the instrument, and our experience with similar instruments. Changes in assumptions used to estimate fair value could result in materially different results. Refer to Note 12 in our audited consolidated annual financial statements for the year ended December 31, 2021, for further information.

Estimated useful lives and depreciation and amortization of property and equipment, right-of-use asset and intangible assets

Depreciation and amortization of property and equipment, right-of-use assets and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets. Refer to Notes 6, 7 and 8 for further information.

Fair value measurement

We use valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. We base our assumptions on observable data as far as possible, but this is not always available. In that case, we use the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Deferred tax assets and uncertain tax positions

We recognize deferred tax assets and liabilities based on the differences between the consolidated financial statement carrying amounts and the respective tax bases of our assets and liabilities. We measure deferred tax assets and liabilities using current enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse. We routinely evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, we determine that some portion of the tax benefit will not be realized.

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

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

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

Impairment of indefinite life intangible assets

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

Valuation of Inventory

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

Warrant Liability

Warrants are accounted for in accordance with the applicable authoritative accounting guidance in ASC 815 as either derivative liabilities or as equity instruments depending on the specific terms of the warrant agreements. Liability-classified instruments are recorded at fair value at each reporting period with any change in fair value recognized as a component of the change in fair value of derivative liabilities in the consolidated statements of operations and comprehensive loss. Transaction costs allocated to warrants that are presented as a liability are expensed immediately within other expenses (income) in the consolidated statements of operations and comprehensive loss. Refer to Note 12 for a discussion on the change in the warrant liability value.

Deferred tax assets and uncertain tax positions

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

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Financial instrument classification and measurement

Our financial instruments 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 of December 31, 2021, or December 31, 2020 due to the immediate or short-term maturities of the financial instruments.

Fair values of financial assets and liabilities

Our financial instruments include cash, deposits, accounts payable and accrued expenses and note payable. At December 31, 2021, 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.

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 we are not exposed to significant credit risk arising from these financial instruments. A portion of our revenue utilizes third-party payment platforms. These platforms batch process several days' worth of activity before funds are remitted to us. A failure of such platforms, or the inability of the platform provider to remit funds in a timely manner to us could have a material impact on our financial position. We limit credit risk by entering into business arrangements with high credit-quality counterparties. Thus, the credit risk associated with other receivables is also considered to be negligible.

Interest Rate Risk

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. We are not exposed to significant interest rate risk.

Currency Risk

We are exposed to foreign exchange risk arising from various currency exposures. We primarily operate in Canada and the United States and incur certain expenditures and obtain 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 the subsidiary that holds the financial asset or liability. Our risk management policy is to review our exposure to non-US dollar forecast operating costs on a case-by-case basis. The majority of our 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 December 31, 2021, is as follows:

US Dollar amounts of foreign currency assets and liabilities

	Assets	Liabilities
Canadian Dollars	$ 355,170	$ 801,335

Based on the financial instruments held as at December 31, 2021, we would have recognized an additional unrealized foreign exchange loss of $56,565 had the US dollar shifted by 10% as a result of foreign exchange effect on translation of non-US dollar denominated financial instruments. As at December 31, 2021, we have no hedging agreements in place with respect to foreign exchange rates. We have not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Liquidity Risk

Prudent liquidity risk management implies maintaining at all times sufficient cash and liquid investments to meet our commitments as they arise. We manage liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Where insufficient liquidity may exist, we may pursue various debt and equity instruments for short or long-term financing of our operations.

As at December 31, 2021, we had working capital of $68,274,639 (December 31, 2020 - $81,492,200) and anticipate that revenue from operations will provide sufficient funds to cover all our operating expenditures for the next 12 months and available cash on hand will be sufficient to fund any and all capital expenditure requirements for the build-out of operations in the State of Florida and carry out other corporate initiatives over the next 12 months.

Planned expansion of our cultivation facilities, production and manufacturing facilities and retail distribution facilities will require us to raise additional capital from outside sources. We will consider financing alternatives while contemplating minimal shareholder dilution.

Our 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.

Pricing Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices.

Concentration Risk

We currently operate exclusively in Southern Nevada and Southern California. Should economic conditions deteriorate within those regions, our results of operations and financial position would be negatively impacted.

Item 8. Financial Statements and Supplementary Data.

The financial information required by Item 8 is located beginning on page F-1 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our co-CEOs and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the risk related to controls and procedures.

In connection with the preparation of this Form 10-K, as of December 31, 2021, an evaluation was performed under the supervision and with the participation of our management, including the co-CEOs and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our management concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of December 31, 2021.

Management's Report on Internal Control Over Financial Reporting

This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our independent registered public accounting firm due to a transition period established by rules of the SEC for newly public companies. In addition, as an emerging growth company, as defined under the terms of the JOBS Act of 2012, our independent registered accounting firm is not required to issue a report on the internal control over financial reporting.

Item 9B. Other Information.

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.