MANAGEMENT DISCUSSION AND ANALYSIS

OF THE FINANCIAL POSITION AND RESULTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2022

Expressed in United States Dollars

Dated: March 23, 2023

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, 2022, filed on SEDAR on March 23, 2023, in its entirety.

[redacted]

[redacted]

[redacted] [redacted]

[redacted]

[redacted] [redacted]

[redacted]

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, 2022 and 2021. It is supplemental to, and should be read in conjunction with, our audited annual consolidated financial statements for the years ended December 31, 2022 and 2021, and the accompanying notes presented herein. Our consolidated 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 ("$", "USD" or "US$"), 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

We are a multi-state cannabis operator with licenses to operate in Nevada, California, and Florida, and a conditional dispensing license in Illinois. We are headquartered in Las Vegas, Nevada, at our superstore dispensary located adjacent to the Las Vegas Strip. A detailed description of our corporate history and our business can be found above in Item 1.

As of December 31, 2022, we employed approximately 600 people and remain focused on providing our customers with the best products, best services, and an experiential shopping experience at our superstore-themed dispensaries, while expanding our products and sales through neighborhood stores. Each of our state operations is held in state-focused subsidiaries: (a) Newtonian Principles, Inc. for California licensed cannabis dispensing and distribution activities, (b) Next Green Wave, LLC for California licensed cannabis cultivation and production activities, (c) MM Development Company, Inc. for all licensed Nevada cannabis cultivation, production, distribution, and dispensing, (d) Planet 13 Florida, Inc. ("**Planet 13 Florida**") which holds our Florida Medical Marijuana Treatment Center ("**MMTC**") license, and (e) a 49% minority interest in Planet 13 Illinois, LLC ("**Planet 13 Illinois**") which, as of July 22, 2022, holds a conditional Illinois social-equity justice impaired dispensing license and which, as of February 7, 2023, is now owned 100% by us. We have focused on our large-store dispensing stores as superstores which offer an experiential approach to our customers, including drones, robotics, 3-D mapping projection, cannabis-culture inspired social-media backdrops for customer interaction, customer facing production, one-on-one sales staffing and customer education, and other interactive marketing elements to differentiate from more traditional dispensing locations, which we refer to herein as "neighborhood stores". Each of our cannabis facilities is state-licensed as an adult-use cannabis facility, a medical cannabis facility, or a dual-use facility allowing for both adult-use and medical cannabis licensed activity, as designated below in the state-by-state breakdown.

Nevada

As of December 31, 2022, we held the following licensed operations in Nevada: (a) one dual-licensed dispensary superstore adjacent to the Las Vegas Strip with 24,000 square feet of licensed dispensary (the “**Planet 13 Las Vegas Superstore**”), (b) one adult-use “neighborhood store” at 2,300 square feet of licensed dispensary (the “**Medizin dispensary**”), (c) three dual-licensed production facilities, one of which is co-located and customer-facing at the superstore in Las Vegas with 18,500 square feet of licensed production, (d) three dual-licensed cultivation facilities, one with approximately 16,100 square foot indoor cultivation facility under perpetual harvest cycle, a second with 45,000 square feet co-located with our production license at that facility, and a small-indoor rural site in Beatty, Nevada that is expandable up to 2,300,000 square feet of greenhouse located on 80-acres owned by us, also co-located with our production license at that facility, and (e) one cannabis distribution license.

At the Planet 13 Las Vegas Superstore, we also offer ancillary services to our customers, including a restaurant with a liquor license, a retail store, and our online cannabidiol (“**CBD**”) store which also sells products in our facility.

California

As of December 31, 2022, we held the following licensed operations in California: (a) an adult-use dispensary superstore co-located with a distribution license at our 33,000 square foot facility in Santa Ana which we built and opened on July 1, 2021 (the “**Planet 13 OC Superstore**”), (b) following the closing of our Plan of Arrangement with Next Green Wave Holdings Inc. (“**NGW**”**)** on March 2, 2022, as more fully discussed in Acquisitions below, one dual-use and two adult-use cultivation licenses along with a nursery license and distribution license at our 35,000 square foot cultivation facility, and one Type P production license at a 4,000 square foot facility. As of May 5, 2022, we received notification that our application to enhance the Type P production license to Type 6 non-volatile extraction license had been approved by the California Department of Cannabis Control (“**DCC**”), to produce our existing product lines, including gummies, concentrates, chocolates, and beverages and distribute them for wholesale sales in California. Further, on July 12, 2022, the DCC granted to NGW a cultivation processing license to trim, cure, dry, grade, package, and label the cannabis grown at NGW facilities.

Florida

As of December 31, 2022, we are continuing capital outlays to utilize our Florida MMTC license issued by the Florida Department of Health that was acquired by our wholly owned subsidiary, Planet 13 Florida Inc., on October 1, 2021 for $55 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, 2022 there were 22 companies with MMTC licenses in Florida, many of which are not yet operational. 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.

On July 1, 2022, we, through our subsidiary Planet 13 Florida, Inc., closed on a $3,300,000 USD purchase of a 23-acre parcel of real property, inclusive of a 10,500 square foot building, near Ocala, Florida. The property was previously leased by Planet 13 Florida, Inc., and has received Florida OMMU approvals for cultivation, processing, and dispensing activities.

As part of our Florida expansion, as of the date of this report, we have entered into four leases for dispensing locations in Florida, which remain subject to completion of tenant improvements and regulatory inspection prior to sales to customers.

Illinois

On August 5, 2021, Planet 13 Illinois, in which entity we hold a minority interest, won a Conditional Adult Use Dispensing Organization License in the Chicago-Naperville-Elgin region from the Illinois Department of Financial and Professional Regulation. The conditional license was issued to Planet 13 Illinois on July 22, 2022. We own 49% of Planet 13 Illinois and 51% is owned by Frank Cowan.

On August 5, 2022, we entered into an option purchase agreement that gives us the option to purchase 51% of Planet 13 Illinois that it does not already own from Frank Cowan for $866,250 in cash and 1,063,377 common shares of the Company. The option is exercisable at our discretion for a period of two years.

On October 14, 2022, the Company, through its wholly owned subsidiary Planet 13 Chicago, LLC, entered into a $2,500,000 real property purchase agreement for a proposed dispensing location in Waukegan, Illinois, for an approximately 8,000 square foot building on 1.9 acres, previously occupied by a financial institution tenant. The Company’s obligation to close on the transaction is conditioned upon obtaining local jurisdiction zoning and land-use approvals, completion of customary due diligence, and that the current non-occupying tenant terminate their lease at the property. On November 1, 2022, the Company provided notice of this site selection to the Illinois cannabis regulator.

On February 7, 2023, we exercised and closed our option to purchase Mr. Cowan's 51% interest in Planet 13 Illinois. On February 3, 2023, we closed on the purchase of a dispensary location in the town of Waukegan, a suburb of the greater Chicago area, and anticipate that it will be operational in mid to late 2023.

COVID-19 Pandemic Update for 2022

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.

On May 3, 2021, Governor DeSantis signed an executive order stating, "all local COVID-19 restrictions and mandates on individuals and businesses are hereby ending all mask mandates in Florida from that time forward."

These policies have continued through the date of this report.

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 continued impact of COVID-19 on us remains unknown, continued spread of COVID-19 or its variants may have a material adverse effect on global economic activity and can, and in some cases, has resulted in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could and may continue to affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to us. Long-term economic impacts relating to COVID-19 and state and national fiscal policy related to combatting the economic impacts of COVID-19 may have a long-term detrimental impact on customer spending, costs of customer acquisition, and may be a driver for rapid inflation which could negatively affect our customers' discretionary spending capability or increase our materials and labor costs in future periods.

Acquisitions

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$71,345,747 (based on the closing price of our Common Shares (the "**Planet 13 Shares**") on the Canadian Securities Exchange on March 2, 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 $14,788 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.

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.

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Results of Operations

Expressed in USD$	For the Years ended December 31, 2022	2021	Percentage Change
Revenue			
Net revenue	104,574,377	119,493,435	(12.5)%
Cost of Goods Sold	(56,599,623)	(53,485,458)	5.8%
Gross Profit	47,974,754	66,007,977	(27.3)%
Gross Profit Margin %	45.9%	55.2%	
Expenses			
General and Administrative	49,395,500	59,928,356	(17.6)%
Sales and Marketing	3,504,309	5,969,792	(41.3)%
Lease expense	2,744,532	2,608,016	5.2%
Impairment loss	32,750,466	—	
Depreciation and Amortization	8,337,476	5,335,055	56.3%
Total Expenses	96,732,283	73,841,219	31.0%
Loss From Operations	(48,757,529)	(7,833,242)	522.4%
Other Income (Expense):			
Interest income (expense), net	454,892	(16,984)	(2778.4)%
Foreign exchange gain (loss)	(25,528)	1,662,679	(101.5)%
Transaction costs	—	(256,667)	(100.0)%
Change in fair value of warrants	7,177,805	7,520	95349.5%
Gain on sale-leaseback	509,392	—	
Other income	413,029	454,300	(9.1)%
Total Other Income (Expense)	8,529,590	1,850,848	360.8%
Loss for the year before tax	(40,227,939)	(5,982,394)	572.4%
Provision for income tax (current and deferred)	8,752,361	13,478,558	(35.1)%
Loss for the year	(48,980,300)	(19,460,952)	151.7%
Loss per share for the period			
Basic and fully diluted income (loss) per share	$ (0.23)	$ (0.10)	
Weighted Average Number of Shares Outstanding			
Basic and diluted	216,586,621	195,126,972	

We experienced a 12.5% decrease in net revenue during the year ended December 31, 2022, when compared to the year ended December 31, 2021. The decrease is attributable to a reduction in the number of customers at our Planet 13 Las Vegas Superstore location compared to the prior year, partially offset by an increase of revenue from the Planet 13 OC Superstore and the addition of wholesale revenue from the NGW cultivation operations in California, and an increase in net wholesale revenue in Nevada. Overall, net revenue decreased by $14,919,058 during the year ended December 31, 2022, when compared to the year ended December 31, 2021. We believe that the potential economic downturn and increase in inflation, including the increase in the price of gasoline and the increase in interest rates, combined to reduce the disposable income of our customers during the year ended December 31, 2022, and also had an impact on the number of customers and tourists visiting the Planet 13 Las Vegas Superstore and our other retail locations.

Details of net revenue by product category are as follows:

	For the Years ended December 31, 2022	For the Years ended December 31, 2021	Percentage Change
Flower	$ 35,783,973	$ 59,018,342	(39.4)%
Concentrates	29,477,433	30,967,288	(4.8)%
Edibles	18,302,976	17,810,736	2.8%
Topicals and Other Revenue	6,823,175	7,024,496	(2.9)%
Wholesale	14,186,820	4,672,573	203.6%
Net revenue	$ 104,574,377	$ 119,493,435	(12.5)%

Gross profit margin for the year ended December 31, 2022, was 45.9% compared to 55.2% for the year ended December 31, 2021. The decrease in gross profit margin for the year ended December 31, 2022 was a result of increased sales incentives during the year coupled with the increase in wholesale revenue, both from our Nevada wholesale business and from the recently acquired NGW cultivation assets in California, which has an inherently lower gross margin than retail sales revenue.

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, continued to have a positive impact on gross margins during the year ended December 31, 2022, helping offset the lower margins received on the sale of wholesale product and 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 and through our ability to produce our award-winning brands in California and introduce those brands into our Planet 13 OC Superstore along with the recent introduction of NGW premium flower to the Planet 13 OC Superstore.

Our premium cultivation facilities were operating near capacity during the years ended December 31, 2022, and December 31, 2021, respectively. The amount of cannabis grown during the year increased significantly when compared to the prior year due to the addition of the 35,000 square feet of cultivation capacity that was added as part of the NGW acquisition on March 2, 2022, and the September 26, 2022 initial planting in, and subsequent harvest from, our 22,000 square foot cultivation facility expansion in Nevada. The wholesale flower market in California came under pressure due to an excess supply of flower and biomass from the harvest of outdoor crops during the November 2021 to March 2022 period. Wholesale flower prices experienced significant decline during this period, impacting gross margins and revenue at our NGW cultivation facility during the year ended December 31, 2022 as a result. The supply of wholesale flower in California appears to be stabilizing and we have seen increases in both demand and the price received for premium indoor grown flower from late April through the end of December 2022.

Overall gross profit was $47,974,754 and $66,007,977 for the years ended December 31, 2022, and 2021 respectively, a decrease of 27.3%.

General and Administrative ("**G&A**") expenses (which includes non-cash share-based compensation expenses), decreased by 17.6% during the year ended December 31, 2022, when compared to the year ended December 31 2021. The decrease in G&A expenses incurred during the year ended December 31, 2022, was a result of focused cost cutting initiatives undertaken by the Company and a reduction in share-based compensation expense recorded during the year, partially offset by the addition of G&A expenses from the recently acquired NGW cultivation assets in California, a full year of operations at our Planet 13 OC Superstore compared with only six months in the prior year, as well as 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 incurred on the closing of the NGW acquisition) that were expensed during the year ended December 31, 2022 when compared to the year ended December 31, 2021. Overall, excluding non-cash share-based compensation expenses, G&A expenses as a percentage of revenue equaled 39.9% for the year ended December 31, 2022, compared to 37.1% for the year ended December 31, 2021. The increase in G&A as a percentage of revenue for the year ended December 31, 2022, was a direct result of the addition of one time legal and other professional fees associated with the acquisition of NGW and the Company becoming a US domestic issuer upon effectiveness of a Form 10 registration statement in February 2022 as well as a decrease of 12.5% in net revenue during the year ended December 31, 2022.

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

	For the Years ended December 31, 2022	For the Years ended December 31, 2021	Percentage Change
Salaries and wages	$ 15,231,997	$ 21,902,505	(30.5)%
Executive compensation	3,008,508	2,039,174	47.5%
Licenses and permits	2,900,282	3,217,834	(9.9)%
Payroll taxes and benefits	4,124,049	3,953,034	4.3%
Supplies and office expenses	1,480,108	3,638,097	(59.3)%
Subcontractors	2,589,933	3,500,330	(26.0)%
Professional fees (legal, audit and other)	6,524,583	5,015,903	30.1%
Miscellaneous general and administrative expenses	6,076,773	1,084,836	460.2%
Share-based compensation expense	7,459,267	15,576,643	(52.1)%
	$ 49,395,500	$ 59,928,356	(17.6)%

Non-cash, share based compensation of $7,459,267 was recognized during the year ended December 31, 2022, decreasing from $15,576,643 incurred during the year ended December 31, 2021. The decrease can be attributable to the vesting schedule for both Restricted Share Units ("**RSUs**") and incentive stock options that were previously granted, particularly the net 3,954,213 RSUs that were granted on April 18, 2021, that vested 1/3 on December 1, 2021, and 1/3 on December 1, 2022, and that will vest 1/3 on December 1, 2023. 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 to our audited consolidated financial statements 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 decreased by 41.3% during the year ended December 31, 2022, when compared to the year ended December 31, 2021. The decrease was a result of us continuing to refine our marketing efforts to optimize marketing spend on initiatives that drive increased customer traffic to the Planet 13 Las Vegas Superstore and the Planet 13 OC Superstore and our Medizin dispensary in Nevada.

Lease expense increased by 5.2% during the year ended December 31, 2022, when compared to the year ended December 31, 2021, due to increases in contracted lease rates on the Company's leased properties during the year as well as a financial incentive from the landlord of the Planet 13 OC Superstore received during the period which offset increases in contractual lease rates. We are amortizing the financial incentive benefit received over the remaining life of the lease.

Depreciation and Amortization increased 56.3% during the year ended December 31, 2022, when compared to the prior year because of the recording of depreciation on the NGW cultivation facility during the year as well as depreciation from the Planet 13 OC Superstore location, both of which were not owned/open during the prior year.

As of December 31, 2022, the Company evaluated whether intangible assets and goodwill showed any indicators of impairment, and it was determined that such indicators existed. As a result of the Company's analysis, it was determined that certain of the Company's intangibles were impaired, resulting in the Company recording an impairment charge of $32,750,466. This charge is comprised of an impairment of $6,947,778 on the carrying value of our cultivation license in Coalinga California and an impairment charge of $25,802,688 reducing the carrying value of goodwill associated with our acquisition of Next Green Wave to $0. No such impairment of intangible assets was determined or recorded for the year ended December 31, 2021. See Note 7 of our Audited Annual Consolidated Financial Statements for the year ended December 31, 2022.

Interest income was $454,892 during the year ended December 31, 2022, compared to interest expense of ($16,984) during the year ended December 31, 2021. The interest expense relates to accrued interest on our note payable that is due and payable on demand offset by interest income earned on cash deposits. The balance of notes payable as of December 31, 2022, was $884,000 compared to $884,000 as of December 31, 2021.

We conduct our operations in both United States dollars and Canadian dollars, holding financial assets and incurring expenses in both currencies. On December 31, 2021, the value of the USD was USD$1.00=CAD$1.3544 compared to the value of the USD of USD$1.00=CAD$1.3707 at December 31, 2022 and averaged USD$1.00=CAD$1.3011 during the year ended December 31, 2022, resulting in our realizing a foreign exchange loss of $25,528 during the year ended December 31, 2022 compared to a foreign exchange gain of $1,662,679 during the prior year. It is our policy not to 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, 2022, the change in fair value of the warrants resulted in a gain of $7,177,805 compared to a gain of $7,520 during the year ended December 31, 2021.

During the year ended December 31, 2022, we recognized a gain of $509,392 on the sale-leaseback of one of our buildings in Coalinga, California. We did not enter into any sale leaseback transaction during the year ended December 31, 2021.

Other income (expense), consisting of Automated Teller Machine ("**ATM**") fees, interest and other miscellaneous income/expense was income of $413,029 for the year ended December 31, 2022, compared to other income of $454,300 for the year ended December 31, 2021.

Transaction costs related to the issuance of warrants of $0 were incurred during the year ended December 31, 2022, compared to transaction costs of $256,667 during the year ended December 31, 2021. 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 financing that was completed in February 2021.

The income tax expense for the year ended December 31, 2022, was $8,752,361 compared to $13,478,558 for the prior year. The tax expense decreased due to the decrease in taxable profitability during the year ended December 31, 2022, when compared to the year ended December 31, 2021. We are subject to Section 280E of the Internal Revenue Code (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.

The overall net loss for the year ended December 31, 2022, was $48,980,300 (($0.23) per share) compared to an overall net loss of $19,460,952 (($0.10) per share) for the year ended December 31, 2021.

Segmented Disclosure

The Company determined that each of its locations represents an operating segment. These operating segments have been aggregated into a single reportable segment as the Company operates as a vertically integrated cannabis company with dispensary, cultivation, production and distribution operations in the State of Nevada and dispensary, cultivation and distribution operations in the State of California.

Liquidity and Capital Resources

As of December 31, 2022, our financial instruments consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities, and notes payable. We have no speculative financial instruments, derivatives, forward contracts, or hedges.

As of December 31, 2022, we had working capital of $55,124,236 compared to working capital of $68,274,639 as of December 31, 2021. The Company believes that it has adequate liquidity in the form of cash on hand to fund all its planned capital expenditures and expansion plans as well as to continue to fund its operation over the next 12 months, the planned build-out of its operations in Florida, the further expansion of operations in Nevada and California, the February 3, 2023 Illinois property acquisition, the February 7, 2023 acquisition of Planet 13 Illinois, and continuing build-out of its Illinois retail location.

The following table relates to the years ended December 31, 2022, and 2021:

	Years Ended December 31,	
	2022	**2021**
Cash flows provided by operating activities	3,801,770	(379,883)
Cash flows used in investing activities	(14,175,937)	(81,756,746)
Cash flows provided by financing activities	1,142,238	64,538,059

Cash Flows from Operating Activities

Net cash provided by (used in) operating activities was $3,801,770 for the year ended December 31, 2022, compared to cash used in operating activities of ($379,883) for the year ended December 31, 2021. The increase is primarily due to the receipt of cash proceeds for lease incentives as well as cost saving initiatives implemented during the year ended December 31, 2022, when compared to the year ended December 31, 2021.

Cash Flows from Investing Activities

Net cash used in investing activities was $14,175,937 for the year ended December 31, 2022, compared to net cash used in investing activities of $81,756,746 for the year ended December 31, 2021. The decrease is primarily related to the acquisition of our Florida license in the year ended December 31, 2021. The 2022 acquisition of NGW was an all-stock purchase, and the cash acquired in this acquisition was $1,479,134.

Cash Flows from Financing Activities

Net cash provided by financing activities was $1,142,238 during the year ended December 31, 2022, compared to net cash provided by financing activities of $64,538,059 for the year ended December 31, 2021. The decrease was primarily related to no warrants being exercised during the period and no equity financings or private placements being completed during the year ended December 31, 2022, as compared to the year ended December 31, 2021.

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.

Should financing not be available, the Company has adequate liquidity in the form of cash on hand to fund all of its planned capital expenditures and expansion plans as well as to continue to fund its operation over the next 12 months, including the planned build-out of its operations in Florida, the further expansion of operations in Nevada and California, the February 3, 2023 Illinois property acquisition, the February 7, 2023 acquisition of Planet 13 Illinois, and continuing build-out of its Illinois retail location.

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, and 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, 2022, or as of December 31, 2021, or as of the date hereof.

Critical Accounting Estimates

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

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

Financial statement areas that require significant judgments are as follows:

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 an asset group and determining the indicators of impairment, and estimates used to measure impairment losses. Refer to Notes 6, 7 and 8 for further information.

Leases

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

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

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

Definition of a business

Determination of what constitutes a business for purposes of acquisition accounting requires significant judgement. ASC 805 notes that if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not considered a business. However, the exact quantitative threshold is not explicitly defined. During the year ended December 31, 2022, the Company completed one acquisition, further described in Note 7.

Asset Impairment

Asset impairment tests require the allocation of assets to asset groups, where appropriate, which requires significant judgment and interpretation with respect to the integration between the assets and shared resources. Asset impairment tests require the determination of whether there is an indication of impairment. 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.

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.

Key estimates in these consolidated financial statements include:

Share-based compensation

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

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 records 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 expects 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.

Impairment of indefinite life intangible assets and goodwill

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.

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, 2022, or December 31, 2021, 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. On December 31, 2022, 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 a third party might fail to discharge its obligations under the terms of a financial instrument. Credit risk arises from cash with banks and financial institutions. It is management's opinion that the Company is not exposed to significant credit risk arising from these financial instruments. The Company limits credit risk by entering into business arrangements with high credit-quality counterparties.

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

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company currently does not carry variable interest-bearing debt. It is management's opinion that the Company is not exposed to significant interest rate risk.

Currency Risk

As at December 31, 2022, a portion of the Company's financial assets and liabilities held in Canadian dollars consist of cash of $1,172,859 (2021 - $165,943). The Company's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by transacting, to the greatest extent possible, with third parties in the functional currency. The Company does not currently use foreign exchange contracts to hedge its exposure of its foreign currency cash flows as management has determined that this risk is not significant at this point in time.

The Company's exposure to a 10% change in the foreign exchange conversion rate at December 31, 2022 equals $117,286.

Liquidity Risk

The Company's approach to managing risk is to ensure that it will have 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 of December 31, 2022, the Company's financial liabilities consist of accounts payable, accrued liabilities, obligations under operating leases and taxes.

As of December 31, 2022, we had working capital of $55,124,236 (December 31, 2021 - $68,274,639) 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.

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

The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. Historically, the Company's main source of funding has been the public issuance of common shares. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity financing. 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 that the trading price of the Company's shares will fluctuate and result in an increase or decrease in the fair value of the warrant liability. The Company is not exposed to significant price risk.

Concentration Risk

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

Banking Risk

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

Asset Forfeiture Risk

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

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, 2022, 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, 2022.