



AMENDED AND RESTATED
AUDITED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
EXPRESSED IN UNITED STATES DOLLARS

The accompanying amended restated audited annual consolidated financial statements of Planet 13 Holdings Inc. have been prepared by and are the responsibility of the company's management.

These amended and restated financial statements for Planet 13 Holdings Inc. are also included in the Form 10-K/A for the year ended December 31, 2022, filed on SEDAR+ on February 20, 2024, in its entirety.

NOTICE TO READER

Planet 13 Holdings Inc. (the "**Company**", or "**Planet 13**") has restated its audited annual consolidated financial statements for the year ended December 31, 2022, which were previously filed on SEDAR+ and EDGAR on March 23, 2023 (the "**Original Annual Financial Statements**"). Subsequent to the issuance of the Original Annual Financial Statements, on January 25, 2024, in connection with the ongoing internal investigation, the Company concluded that its previously issued audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 (the "**2022 Annual Report**") and the Company's previously issued unaudited consolidated financial statements included in the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2023, June 30, 2023 and September 30, 2023 (the "**2023 Quarterly Reports**") and, together with the 2022 Annual Report, the "**Reports**" and all financial statements included in the Reports, collectively, the "**Affected Financials**") should no longer be relied upon due to material errors due to the believed misappropriation of approximately \$22.0 million of the Company's funds held by El Capitan Advisors, Inc. (as reported in press releases issued by the Company on November 17, 2023 and January 23, 2024). The impact of correcting these items was the recognition of a total of \$16,283,225 provision for the misappropriated funds that has been reflected in the Affected Financials in the periods when the misappropriation occurred as reflected in the restated financial statements. See *Note 21 - Restatement of Previously Issued Consolidated Financial Statements* herein for more detail.

PLANET 13 HOLDINGS INC.
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DAVIDSON & COMPANY LLP Chartered Professional Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
Planet 13 Holdings Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Planet 13 Holdings Inc. (the “Company”), as of December 31, 2022 and 2021, and the related consolidated statements of operations and comprehensive loss, changes in shareholders’ equity, and cash flows for the years ended December 31, 2022 and 2021 and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Planet 13 Holdings Inc. as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years ended December 31, 2022 and 2021 in conformity with accounting principles generally accepted in the United States of America.

Restatement of Previously Issued Financial Statements

As discussed in Note 21 to the consolidated financial statements, the Company has restated its 2022 and 2021 financial statements to correct an error.

Basis for Opinion

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

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

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

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

/s/ DAVIDSON & COMPANY LLP

Vancouver, Canada

Chartered Professional Accountants

March 23, 2023, except for the effects of the restatement discussed in Note 21 to the consolidated financial statements, as to which the date is February 16, 2024.



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

| | December 31, 2022 | December 31, 2021 |
|---|-------------------------------|-----------------------|
| | Restated (Note 21) | Restated (Note 21) |
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 38,789,604 | \$ 58,586,952 |
| Accounts Receivable | 1,326,795 | 1,216,128 |
| Inventory | 13,004,839 | 14,225,369 |
| Prepaid Expenses and Other Current Assets | 3,810,394 | 3,977,524 |
| Total Current Assets | 56,931,632 | 78,005,973 |
| Property and Equipment | 71,466,051 | 50,778,277 |
| Intangible Assets and Goodwill | 69,288,007 | 63,398,007 |
| Right of Use Assets - Operating | 21,168,171 | 20,399,965 |
| Long-term Deposits and Other Assets | 862,545 | 1,061,879 |
| Deferred Tax Asset | 346,257 | 162,804 |
| TOTAL ASSETS | \$ 220,062,663 | \$ 213,806,905 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Current: | | |
| Accounts Payable | \$ 3,112,820 | \$ 3,266,783 |
| Accrued Expenses | 8,072,224 | 7,032,620 |
| Income Taxes Payable | 2,826,501 | 1,126,249 |
| Notes Payable - Current Portion | 884,000 | 884,000 |
| Operating Lease Liabilities | 479,161 | 423,573 |
| Total Current Liabilities | 15,374,706 | 12,733,225 |
| Long-Term Liabilities: | | |
| Operating Lease Liabilities | 25,833,071 | 23,134,012 |
| Warranty Liability | 18,127 | 7,206,049 |
| Other Long-term Liabilities | 28,000 | 28,000 |
| Deferred Tax Liability | 1,487,204 | - |
| Total Liabilities | 42,741,108 | 43,101,286 |
| Shareholders' Equity | | |
| Common Shares, no par value, unlimited Common Shares authorized, 220,470,061 issued and outstanding at December 31, 2022 and 198,687,950 at December 31, 2021 | - | - |
| Additional Paid-In Capital | 312,023,359 | 245,861,704 |
| Deficit | (134,701,804) | (75,156,085) |
| Total Shareholders Equity | 177,321,555 | 170,705,619 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 220,062,663 | \$ 213,806,905 |

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

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

| | December 31, 2022 | December 31, 2021 |
|---|-------------------------------|------------------------|
| | Restated (Note 21) | Restated (Note 21) |
| Revenues, net of discounts | \$ 104,574,377 | \$ 119,493,435 |
| Cost of Goods Sold | <u>(56,599,623)</u> | <u>(53,485,458)</u> |
| Gross Profit | 47,974,754 | 66,007,977 |
| Expenses: | | |
| General and Administrative | 49,395,500 | 59,928,356 |
| Sales and Marketing | 3,504,309 | 5,969,792 |
| Lease Expense | 2,744,532 | 2,608,016 |
| Impairment loss | 32,750,466 | - |
| Depreciation and Amortization | <u>8,337,476</u> | <u>5,335,055</u> |
| Total Expenses | 96,732,283 | 73,841,219 |
| Loss From Operations | (48,757,529) | (7,833,242) |
| Other Income (Expense): | | |
| Interest income (expense), net | 189,473 | (18,875) |
| Foreign exchange gain (loss) | (25,528) | 1,662,679 |
| Transaction costs | - | (256,667) |
| Change in fair value of warrant liability | 7,177,805 | 7,520 |
| Gain on Sale-Leaseback | 509,392 | - |
| Provision for misappropriated funds | (10,300,000) | (3,000,000) |
| Other Income, net | <u>413,029</u> | <u>454,300</u> |
| Total Other Income | (2,035,829) | (1,151,043) |
| Loss Before Provision for Income Taxes | (50,793,358) | (8,984,285) |
| Provision For Income Taxes | | |
| Current Tax Expense | (10,672,538) | (13,954,784) |
| Deferred Tax Recovery | <u>1,920,177</u> | <u>476,226</u> |
| | (8,752,361) | (13,478,558) |
| Net Loss and Comprehensive Loss | \$ (59,545,719) | \$ (22,462,843) |
| Loss per Share | | |
| Basic and diluted loss per share | \$ (0.27) | \$ (0.12) |
| Weighted Average Number of Common Shares | | |
| Basic and diluted | 216,586,621 | 195,126,972 |

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

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

| | Common Shares | Number of Class A Restricted Shares | Warrants | Additional Paid-in Capital | Accumulated Deficit | Total Shareholders' Equity |
|--|--------------------|--|----------------|----------------------------------|------------------------|----------------------------------|
| Balance, December 31, 2020 | 126,573,250 | 55,232,940 | 150,963 | \$159,399,056 | \$ (52,693,242) | \$ 106,705,814 |
| Shares Issued on Settlement of RSUs | 3,126,534 | - | - | - | - | - |
| Share based Compensation - RSUs | - | - | - | 15,573,539 | - | 15,573,539 |
| Shares Issued on Exercise of Broker Warrants | 446,801 | - | (446,801) | 2,163,065 | - | 2,163,065 |
| Shares Issued on Exercise of Other Warrants | 3,325,839 | - | - | 20,906,989 | - | 20,906,989 |
| Shares Issued on Exercise of Options | 121,336 | - | - | 86,216 | - | 86,216 |
| Share Based Compensation - Options | - | - | - | 3,104 | - | 3,104 |
| Shares Issued on Bought Deal Financings, net | 9,861,250 | - | 591,676 | 47,729,735 | - | 47,729,735 |
| Shares Issued on Conversion of Class A Shares | 55,232,940 | (55,232,940) | - | - | - | - |
| Net Loss for the Year | - | - | - | - | (22,462,843) | (22,462,843) |
| Balance, December 31, 2021 - Restated (Note 21) | 198,687,950 | - | 295,838 | \$245,861,704 | \$ (75,156,085) | \$ 170,705,619 |
| Shares Issued on Settlement of RSUs | 81,084 | - | - | - | - | - |
| Share based Compensation - RSUs | - | - | - | 7,459,267 | - | 7,459,267 |
| Shares Issued on Acquisition | 21,361,002 | - | - | 56,320,332 | - | 56,320,332 |
| Replacement Options Issued on Acquisition | - | - | - | 1,239,818 | - | 1,239,818 |
| Shares Issued on Exercise of Other Warrants | 242,700 | - | - | 1,044,258 | - | 1,044,258 |
| Shares Issued on Exercise of Options | 97,325 | - | - | 97,980 | - | 97,980 |
| Net Loss for the Year | - | - | - | - | (59,545,719) | (59,545,719) |
| Balance, December 31, 2022 - Restated (Note 21) | 220,470,061 | - | 295,838 | \$312,023,359 | \$(134,701,804) | \$ 177,321,555 |

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

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

| | December 31, 2022 | December 31, 2021 |
|--|-------------------------------|-----------------------|
| | Restated (Note 21) | Restated (Note 21) |
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| Net loss | \$ (59,545,719) | \$ (22,462,843) |
| Adjustments for items not involving cash: | | |
| Shared based compensation expense | 7,459,267 | 15,576,643 |
| Non-cash lease expense | 4,737,162 | 4,485,919 |
| Depreciation | 11,258,697 | 7,213,096 |
| Amortization of intangibles | 372,222 | - |
| Change in fair value of warrant liability | (7,177,805) | (7,520) |
| (Gain) loss on translation of warrant liability | (10,117) | 100,637 |
| Transaction costs | - | 256,667 |
| Deferred tax recovery | (1,736,724) | (410,359) |
| Proceeds from lease incentive | 1,100,000 | - |
| Lease incentive amortization | (239,133) | - |
| Unrealized (gain) loss on foreign currency exchange | - | (185,916) |
| Impairment of goodwill | 25,802,688 | - |
| Impairment of intangible assets | 6,947,778 | - |
| Gain on sale leaseback | (509,392) | - |
| Loss on disposal of property and equipment | 70,601 | - |
| | <u>(11,470,475)</u> | <u>4,566,324</u> |
| Net Changes in Non-cash Working Capital Items | 8,273,643 | (4,589,077) |
| Repayment of lease liabilities | (3,566,817) | (3,359,021) |
| Total Operating | (6,763,649) | (3,381,774) |
| FINANCING ACTIVITIES | | |
| Proceeds from private placements | - | 53,852,980 |
| Proceeds from exercise of warrants and options | 1,142,238 | 14,180,009 |
| Financing issuance expenses | - | (3,494,930) |
| Total Financing | 1,142,238 | 64,538,059 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (16,674,704) | (25,909,880) |
| Net cash acquired through NGW acquisition | 1,479,134 | - |
| Purchase of licenses | - | (55,846,866) |
| Proceeds from sale/lease back | 1,049,633 | - |
| Purchase of domain name | (30,000) | - |
| Total Investing | (14,175,937) | (81,756,746) |
| Effect of foreign exchange on cash | - | 186,563 |
| NET CHANGE IN CASH DURING THE YEAR | (19,797,348) | (20,413,898) |
| CASH | | |
| Beginning of Year | <u>58,586,952</u> | <u>79,000,850</u> |
| End of Year | <u>\$ 38,789,604</u> | <u>\$ 58,586,952</u> |

Supplemental cash flow information (Note 16)

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

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

1. Nature of operations

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

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

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

The Company’s registered office is located at Bentall 5, 550 Burrard Street, Suite 2501, Vancouver, BC V6C 2R5, and the head office address is 2548 W. Desert Inn Road, Las Vegas, NV 89109.

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

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

2. Basis of presentation

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

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 16, 2024.

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

i) Basis of consolidation

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

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

| <u>Subsidiaries as at December 31, 2022</u> | <u>Jurisdiction of Incorporation</u> | <u>Ownership Interest 2022</u> | <u>Ownership Interest 2021</u> | <u>Nature of Business</u> |
|---|--------------------------------------|--------------------------------|--------------------------------|---|
| MM Development Company, Inc. ("MMDC") | Nevada, USA | 100% | 100% | Nevada license holding company; vertically integrated cannabis operations |
| BLC Management Company LLC | Nevada, USA | 100% | 100% | Management/holding company |
| LBC CBD LLC ("LBC") | Nevada, USA | 100% | 100% | CBD retail sales and marketing |
| Newtonian Principles Inc. | California, USA | 100% | 100% | California license holding company; cannabis retail sales |
| Crossgate Capital U.S. Holdings Corp. | Nevada, USA | 100% | 0% | Holding company |
| Next Green Wave, LLC | California, USA | 100% | 0% | California license holding company; cannabis cultivation and processing |
| Planet 13 Illinois, LLC | Illinois, USA | 49% | 49% | Illinois license holding company |
| BLC NV Food, LLC | Nevada, USA | 100% | 100% | Holding company for By The Slice LLC |
| By The Slice, LLC | Nevada, USA | 100% | 100% | Subsidiary of BLC NV Food, LLC; restaurant and retail operations |
| Planet 13 Chicago, LLC | Illinois, USA | 100% | 100% | Holding company |
| Planet 13 Florida, Inc. | Florida, USA | 100% | 100% | Florida license holding company |
| Club One Three, LLC | Nevada, USA | 100% | N/A | Inactive |

ii) Variable interest entities

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

iii) Functional currency

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

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

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

iv) Emerging growth company

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

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

3. Significant accounting policies

(a) Cash

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

(b) Inventory

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

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

(c) Property and equipment

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

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

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

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

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

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

(d) Intangible assets

Intangible assets include licenses acquired as part of business combinations, asset acquisitions and other business transactions. The Company records intangible assets at cost, net of accumulated amortization and accumulated impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value on the acquisition date.

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

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The Company's intangible assets have an indefinite life.

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

(e) Goodwill impairment test

In accordance with the accounting standards, an entity has the option first to assess qualitative factors to determine whether events and circumstances indicate that it is more likely than not that goodwill or an indefinite-lived intangible asset is impaired. If after such assessment an entity concludes that the asset is not impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the asset using a quantitative impairment test, and if impaired, the associated assets must be written down to fair value. The quantitative impairment test for goodwill compares the fair value of a reporting unit with the carrying value of its net assets, including goodwill. If the fair value of the reporting unit is less than the carrying value of the reporting unit, an impairment charge would be recorded to the Company's operations, for the amount in which the carrying amount exceeds the reporting unit's fair value. The estimate of fair value requires the use of significant unobservable inputs, representative of a Level 3 fair value measurement. The Company determines fair values for each reporting unit using the income approach, when available and appropriate, the market approach, or a combination of both. The income approach involves forecasting projected financial information (such as revenue growth rates, profit margins, tax rates, working capital and capital expenditures) and selecting a discount rate that reflects the risk inherent in estimated future cash flows. Under the market approach, the fair value is based on observed market data. If multiple valuation methodologies are used, the results are weighted appropriately.

The Company performs an annual assessment of its goodwill as of December 31, or more frequently, to determine if any events or circumstances exist, such as an adverse change in business climate or a decline in overall industry demand, that would indicate that it would more likely than not reduce the fair value of a reporting unit below its carrying amount, including goodwill.

(f) Impairment of long-lived assets

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

(g) Share-based compensation

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

The Company measures and recognizes compensation expense for stock options and RSUs to employees and non-employees on a straight-line basis over the vesting period based on their grant date fair values. Prior to the adoption of ASU 2018 07 on January 1, 2019, the fair value of stock options to non-employees were re-measured at each reporting date until one of either of the counterparty's commitment to perform is established or until the performance is complete. After adopting ASU 2018-07 which made amendments to ASC Topic 718, Stock Compensation, an acquirer measures share-based compensation to non-employees in exchange for goods and services in the same manner as share-based payments to employees, using a fair-value based approach measured at the grant date. This guidance is followed if the acquirer considers the assets and goods to be used or consumed in its own operation. If not, the Company has elected to account for the equity interests issued in accordance with ASC 805, Business Combinations, based on the fair value of the equity interests issued.

The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option pricing model. Determining the estimated fair value of at the grant date requires judgment in determining the appropriate valuation model and assumptions, including the fair value of shares on the grant date, risk-free rate, volatility rate, annual dividend yield and the expected term. The volatility rate is based on historical volatilities of public companies operating in a similar industry to the Company, as well as the Company's historical volatility. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the Government of Canada Bond yields on the date of the option grant with a remaining term equal to the expected life of the options. The Company estimates the fair value of RSUs to be the closing market price of the Company's stock on the grant date.

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For stock options granted, the Company uses the fair value of common stock at the date of grant. The Company does not estimate forfeiture rates when calculating compensation expense for stock options or RSUs. The Company records forfeitures as they occur.

Fully vested, non-forfeitable equity instruments issued to parties other than employees are measured on the date they are issued where there is no specific performance required by the grantee to retain those equity instruments. Share-based compensation transactions with non-employees are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. Where fully vested, non-forfeitable equity instruments are granted to parties other than employees in exchange for notes or financing receivable, the note or receivable is presented in additional paid-in capital on the balance sheets.

(h) Warrant liability

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

(i) Revenue recognition

The Company earns revenue primarily from the sale of cannabis to eligible retail customers at the Company-owned dispensaries, in addition to the wholesale of cannabis products to dispensary locations. The Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for the performance obligations.

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

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

Revenue is recognized when control of the promised goods or services, through performance obligations by the Company, is transferred to the customer in an amount that reflects the consideration it expects to be entitled to in exchange for the performance obligations. More specifically, wholesale revenues are recognized upon delivery and acceptance by wholesale customers. Retail revenues are recognized at the point of sale. Discounts are recorded at the time of revenue recognition. Returns were not material during the years ended December 31, 2022, and 2021, but are recognized when the customer is refunded. Revenues are presented net of discounts and returns. At one of the Company’s entities, sales are made on consignment and revenue is not recognized until title passes upon delivery of the product by that distributor to their dispensary customers. Revenue on these sales is recognized upon shipment to the customer.

Sales taxes collected from customers are remitted to the appropriate taxing jurisdictions and are excluded from sales revenue as the Company considers itself a pass-through conduit for collecting and remitting sales taxes. Excise duties that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer are included in revenue. Freight revenues on all product sales, when applicable, are also recognized, on a consistent manner, at a point in time. The term between invoicing and when payment is due is not significant and the period between when the entity transfers the promised good or service to the customer and when the customer pays for that good or service is one year or less.

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

| | <u>December 31,</u> <u>2022</u> | <u>December 31,</u> <u>2021</u> |
|--------------|------------------------------------|------------------------------------|
| Retail | \$ 90,363,557 | \$ 114,792,191 |
| Wholesale | <u>14,210,820</u> | <u>4,701,244</u> |
| Net revenues | <u>\$ 104,574,377</u> | <u>\$ 119,493,435</u> |

Loyalty Points Reward Programs

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

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

Deferred Income

Deferred income represents cash payments received in advance of the Company's transfer of control of products or services to its customers and generally consists of unearned revenue from the Company's loyalty programs. The Company's deferred income balances were \$1,047,781 and \$759,060 as of December 31, 2022 and 2021, respectively, and were recorded within accrued expenses in the consolidated balance sheets. During the years ended December 31, 2022 and 2021, the Company recognized \$1,082,994 and \$1,136,135, respectively, of net revenues from amounts recorded as deferred income. The deferred income balance as of December 31, 2022 is expected to be recognized as revenue within the next twelve months.

The Company determined that no provision for returns or refunds was necessary as at December 31, 2022 or 2021.

(j) Cost of Sales

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

(k) Leases

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

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

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

For finance leases, lease expenses are the sum of interest on the lease obligations and amortization of the ROU assets, resulting in a front-loaded expense pattern. ROU assets are amortized based on the lesser of the lease term and the useful life of the leased asset according to the property and equipment accounting policy. If ownership of the ROU assets transfers to the Company at the end of the lease term or if the Company is reasonably certain to exercise a purchase option, amortization is calculated using the estimated useful life of the leased asset, according to the property and equipment accounting policy. For operating leases, the lease expenses are generally recognized on a straight-line basis over the lease term and recorded to lease expenses or, in the case of leases directly related to the cultivation of cannabis, in cost of goods sold in the statements of operations and comprehensive loss.

The Company has elected to apply the practical expedient, for each class of underlying asset, except real estate leases, to not separate non-lease components from the associated lease components of the lessee's contract and account for both components as a single lease component.

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

(l) Income taxes

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

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

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

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

(m) Sales and marketing expenses

The Company expenses sales and marketing costs when incurred. Sales and marketing expense was \$3,504,309 for the year ended December 31, 2022 (2021 - \$5,969,792).

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(n) Fair value measurements

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

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

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

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

(o) Loss per share

Basic net loss per share is computed by dividing reported net loss by the weighted average number of common shares outstanding for the reported period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock of the Company during the reporting period. Diluted earnings per share is computed by dividing net loss by the sum of the weighted average number of common shares and the number of potentially dilutive common share equivalents outstanding during the period. Potential dilutive common share equivalents consist of the incremental common shares issuable upon the exercise of vested share options. When the Company is incurring losses, basic and diluted loss per share are the same since including the exercise of outstanding options and warrants in the diluted loss per share calculation would be antidilutive.

(p) Operating segments

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

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.

As at December 31, 2022 and 2021, all the Company's non-current assets were located in the United States and 100% of the Company's revenue was generated in the United States.

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(q) Critical accounting estimates and judgements

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

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

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.

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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.

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(r) Accounting standards issued but not yet effective

Business Combinations

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

(s) Sale-leaseback transactions

From time to time, the Company may enter into sale-leaseback transactions to finance certain property acquisitions and capital expenditures, pursuant to which the Company sells the property to a third party and agrees to lease the property back for a certain period of time. To determine whether the transfer of the property should be accounted for as a sale, the Company evaluates whether it has transferred control to the third party in accordance with the revenue recognition guidance set forth in ASC 606.

If the transfer of the asset is deemed to be a sale at market terms, the Company recognizes the transaction price for the sale based on the cash proceeds received, derecognizes the carrying amount of the underlying asset and recognizes a gain or loss in the consolidated statements of operations and comprehensive loss for any difference between the carrying value of the asset and the transaction price. The Company then accounts for the leaseback in accordance with its lease accounting policy.

If the transfer of the asset is determined not to be a sale at market terms, the Company accounts for the transaction as a financing arrangement, and accordingly no asset sale is recognized. The Company retains the historical costs of the property and the related accumulated depreciation on its books and continues to depreciate the property over the lesser of its remaining useful life or its initial lease term. The asset is presented within property and equipment, net on the consolidated balance sheets. All proceeds from these transactions are accounted for as finance obligations and presented as non-current obligations on the consolidated balance sheets. A portion of the lease payments is recognized as a reduction of the financing obligation and a portion is recognized as interest expense based on an imputed interest rate.

4. Inventory

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

| | December 31, 2022 | December 31, 2021 |
|-----------------------------|------------------------------|----------------------|
| Raw materials | \$ 5,209,667 | \$ 3,093,646 |
| Packaging and miscellaneous | 1,584,659 | 1,825,514 |
| Work in progress | 1,965,052 | 2,883,955 |
| Finished goods | 4,245,461 | 6,422,254 |
| | \$ 13,004,839 | \$ 14,225,369 |

Cost of Inventory is recognized as an expense when sold and included in cost of goods sold. During the year ended December 31, 2022, the Company recognized \$56,599,623 (2021 - \$53,485,458) of inventory expensed to cost of goods sold.

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5. Prepaid expenses and other current assets

| | December 31, 2022 | December 31, 2021 |
|---------------------------|----------------------|----------------------|
| Security deposits | \$ 1,399,424 | \$ 2,287,596 |
| Advertising and Marketing | - | 306,415 |
| Prepaid rent | 348,433 | 218,599 |
| Insurance | 678,402 | 804,608 |
| License fees | 776,717 | 36,008 |
| Miscellaneous | 607,418 | 324,298 |
| | <u>\$ 3,810,394</u> | <u>\$ 3,977,524</u> |

6. Property and equipment

| | Land and Improvements | Buildings | Equipment | Leasehold Improvements | Construction in Progress | Total |
|------------------------------|--------------------------|----------------------|----------------------|---------------------------|-----------------------------|-----------------------|
| Gross carrying amount | | | | | | |
| At December 31, 2020 | \$ 625,146 | \$ 1,707,894 | \$ 6,237,256 | \$ 30,448,042 | \$ 3,367,255 | \$ 42,385,593 |
| Additions | 5,153 | - | 3,057,631 | 10,663,811 | 12,368,056 | 26,094,651 |
| Transfers | - | - | 1,927,109 | 13,680,522 | (15,607,631) | - |
| Disposals | - | - | (116,755) | (74,004) | - | (190,759) |
| At December 31, 2021 | <u>630,299</u> | <u>1,707,894</u> | <u>11,105,241</u> | <u>54,718,371</u> | <u>127,680</u> | <u>68,289,485</u> |
| Additions | 5,843,295 | 12,756,048 | 1,703,190 | 2,722,710 | 9,515,734 | 32,540,977 |
| Transfers | - | - | - | 6,114,711 | (6,114,711) | - |
| Disposals | (99,083) | (500,917) | (8,786) | - | - | (608,786) |
| At December 31, 2022 | <u>\$ 6,374,511</u> | <u>\$ 13,963,025</u> | <u>\$ 12,799,645</u> | <u>\$ 63,555,792</u> | <u>\$ 3,528,703</u> | <u>\$ 100,221,676</u> |

Depreciation

| | | | | | | |
|-----------------------|-------------------|-------------------|---------------------|----------------------|-------------|----------------------|
| At December 31, 2020 | \$ 127,931 | \$ 203,750 | \$ 2,259,925 | \$ 7,720,062 | \$ - | \$ 10,311,668 |
| Additions | 51,366 | 42,697 | 1,542,438 | 5,576,595 | - | 7,213,096 |
| Transfers & disposals | - | - | (1,197) | (12,359) | - | (13,556) |
| At December 31, 2021 | <u>179,297</u> | <u>246,447</u> | <u>3,801,166</u> | <u>13,284,298</u> | <u>-</u> | <u>17,511,208</u> |
| Additions | 52,225 | 303,593 | 2,537,587 | 8,365,292 | - | 11,258,697 |
| Transfers & disposals | - | (9,392) | (4,888) | - | - | (14,280) |
| At December 31, 2022 | <u>\$ 231,522</u> | <u>\$ 540,648</u> | <u>\$ 6,333,865</u> | <u>\$ 21,649,590</u> | <u>\$ -</u> | <u>\$ 28,755,625</u> |

Carrying amount

| | | | | | | |
|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
| At December 31, 2021 | <u>\$ 451,002</u> | <u>\$ 1,461,447</u> | <u>\$ 7,304,075</u> | <u>\$ 41,434,073</u> | <u>\$ 127,680</u> | <u>\$ 50,778,277</u> |
| At December 31, 2022 | <u>\$ 6,142,989</u> | <u>\$ 13,422,377</u> | <u>\$ 6,465,780</u> | <u>\$ 41,906,202</u> | <u>\$ 3,528,703</u> | <u>\$ 71,466,051</u> |

For the year ended December 31, 2022 depreciation expense was \$11,258,697 (2021 - \$7,213,096) of which \$3,293,443 (2021 - \$1,922,713) was included in cost of goods sold.

During the year ended December 31, 2022 the Company transferred \$6,114,711 (2021 - \$13,680,522) and \$nil (2021 - \$1,927,109) of costs from Construction in Progress to Leasehold Improvements and Equipment, respectively, upon completion of the related projects.

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7. Intangible assets and goodwill

| | Retail Dispensary Santa Ana | Retail Dispensary Clark County | Cultivation and Production Clark County | Master License Florida | Cultivation Coalinga CA Other Intangibles | Cultivation Coalinga CA Goodwill | Other | Total |
|------------------------------|-----------------------------------|---|---|------------------------------|--|---|------------------|----------------------|
| Gross carrying amount | | | | | | | | |
| Balance, December 31, 2020 | \$ 6,151,343 | \$ 690,000 | \$ 709,798 | \$ - | \$ - | \$ - | \$ - | \$ 7,551,141 |
| Additions | - | - | - | 55,846,866 | - | - | - | 55,846,866 |
| Balance at December 31, 2021 | 6,151,343 | 690,000 | 709,798 | 55,846,866 | - | - | - | 63,398,007 |
| Additions | - | - | - | - | 13,180,000 | 25,802,688 | 30,000 | 39,012,688 |
| Impairment loss | - | - | - | - | (6,947,778) | (25,802,688) | - | (32,750,466) |
| Balance at December 31, 2022 | <u>\$ 6,151,343</u> | <u>\$ 690,000</u> | <u>\$ 709,798</u> | <u>\$ 55,846,866</u> | <u>\$ 6,232,222</u> | <u>\$ -</u> | <u>\$ 30,000</u> | <u>\$ 69,660,229</u> |

Amortization

| | | | | | | | | |
|-----------------------|-------------|-------------|-------------|-------------|-------------------|-------------|-------------|-------------------|
| At December 31, 2020 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Transfers & disposals | - | - | - | - | - | - | - | - |
| At December 31, 2021 | - | - | - | - | - | - | - | - |
| Additions | - | - | - | - | 372,222 | - | - | 372,222 |
| At December 31, 2022 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 372,222</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 372,222</u> |

Carrying amount

| | | | | | | | | |
|------------------------------|---------------------|-------------------|-------------------|----------------------|---------------------|-------------|------------------|----------------------|
| Balance at December 31, 2021 | <u>\$ 6,151,343</u> | <u>\$ 690,000</u> | <u>\$ 709,798</u> | <u>\$ 55,846,866</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 63,398,007</u> |
| Balance at December 31, 2022 | <u>\$ 6,151,343</u> | <u>\$ 690,000</u> | <u>\$ 709,798</u> | <u>\$ 55,846,866</u> | <u>\$ 5,860,000</u> | <u>\$ -</u> | <u>\$ 30,000</u> | <u>\$ 69,288,007</u> |

NGW Acquisition

On March 2, 2022, the Company acquired 100% ownership interest of Next Green Wave Holdings, Inc. (“NGW”) and accounted for the transaction as a business combination pursuant to ASC 805.

NGW was incorporated in 2011 and was formed for the purpose of cultivating and selling cannabis products in the state of California, where it owns and operates a cultivation and manufacturing facility. The Company executed the NGW transaction in order to introduce certain of its brands to the California market; complement its dispensary operations in Santa Ana, California; and expand its California revenue base.

The aggregate purchase price for the NGW transaction was \$57,574,938 and consisted of \$14,788 in cash consideration, \$1,239,818 in replacement options and \$56,320,332 in share consideration. The share consideration was comprised of 21,361,002 common shares of the Company at a fair value of \$3.34 per common share, which were issued on March 2, 2022.

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

Consideration paid:

| | | |
|---|----|-------------------|
| Cash | \$ | 14,788 |
| Issuance of 21,361,002 Class A Shares | | 56,320,332 |
| Issuance of 1,106,925 replacement options | | 1,239,818 |
| | \$ | <u>57,574,938</u> |

Fair value of net assets acquired:

| | | |
|--|----|-------------------|
| Cash | \$ | 1,493,922 |
| Inventory | | 3,077,367 |
| Accounts Receivable | | 1,374,142 |
| Property, plant and equipment | | 16,229,350 |
| Intangible assets | | 13,180,000 |
| Goodwill | | 25,802,688 |
| Accounts Payable and Accrued Liabilities | | (233,158) |
| Income taxes payable | | (125,445) |
| Deferred tax liability | | (3,223,928) |
| | \$ | <u>57,574,938</u> |

The purchase price allocations for the NGW transaction reflect various fair value estimates and analyses relating to the determination of fair value of certain tangible and intangible assets acquired and residual goodwill. The Company determined the estimated fair value of the acquired working capital, and identifiable intangible assets and goodwill after review and consideration of relevant information including discounted cash flow analyses, market data and management's estimates, prepared by an independent valuation firm. The estimated fair value of acquired working capital was determined to approximate carrying value.

The goodwill arising from the NGW transaction consists of expected synergies from combining operations of the Company and NGW, and intangible assets not qualifying for separate recognition such as formulations, proprietary technologies and acquired know-how. None of the goodwill is deductible for tax purposes.

NGW's state cannabis licenses and brands represented identifiable intangible assets acquired in the amounts of \$11,840,000 and \$1,340,000, respectively. The NGW cannabis licenses acquired have an indefinite life and as such will not be subject to amortization while the brands have a definite useful life of three years. 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 the brands and licenses were impaired, resulting in the Company recording an impairment charge of \$6,947,778.

In connection with the NGW transaction, the Company expensed \$1,238,379 of acquisition-related costs, which have been included in general and administrative expenses on the Company's consolidated statement of operations and comprehensive loss for the year ended December 31, 2022.

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NGW's post-acquisition revenues, gross profit and net income included in the Company's results for the period since the closing of the transaction were \$7,557,860, \$373,025 and (\$37,555). The following tables reflects the revenue, gross profit and comprehensive income (loss) that would have been reported if the acquisition had occurred at the beginning of the years indicated:

| | Year Ended December 31, 2022 | | | Year Ended December 31, 2021 | | |
|---|------------------------------|------------|---------------|------------------------------|---------------|---------------|
| | As Reported | NGW | Pro Forma | As Reported | NGW | Pro Forma |
| Revenue, net of discounts | \$104,574,377 | \$ 870,651 | \$105,445,028 | \$119,493,435 | \$ 15,931,107 | \$135,424,542 |
| Gross Profit | 47,974,754 | (131,700) | 47,843,054 | 66,007,977 | 6,330,381 | 72,338,358 |
| Comprehensive income (loss) for the year - Restated (Note 21) | (59,545,719) | (868,125) | (60,413,844) | (22,462,843) | 1,254,529 | (21,208,314) |

The carrying value of goodwill in each reporting unit is indicative of the expected growth and development of the business. In the fourth quarter of fiscal 2022, the Company identified qualitative indicators of impairment as a result of a downturn in the wholesale pricing of cannabis. The reduction in the price of wholesale cannabis resulted in a downward adjustment of the future financial forecasts for the Company's NGW business, which indicated that impairment of the goodwill asset was a more-likely-than-not outcome. A qualitative step zero impairment test was performed on the NGW business which indicated a potential impairment. The Company conducted a quantitative impairment analysis of its NGW reporting unit using the income approach as at December 31, 2022.

The recoverable amount of the reporting unit to which goodwill is allocated and the asset group to which indefinite life intangibles are allocated were determined based on fair value using Level 3 inputs in a discounted cash flow analysis. Management tested the NGW asset group for the definite lived assets impairment. The result was impairment for the definite lived assets of the NGW asset group. Where applicable, the Company uses its market capitalization and comparative market multiples to corroborate discounted cash flow results. The significant assumptions applied in the determination of the recoverable amount are described below:

- Cash flows: Estimated cash flows were projected based on actual operating results from internal sources as well as industry and market trends. Estimated cash flows are primarily driven by sales volumes, selling prices and operating costs. The forecasts are extended to a total of six years (and a terminal year thereafter);
- Terminal value growth rate: The terminal growth rate was based on historical and projected consumer price inflation, historical and projected economic indicators and projected industry growth;
- Post-tax discount rate: The post-tax discount rate is reflective of the reporting unit's Weighted Average Cost of Capital ("WACC"). The WACC was estimated based on the risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a direct comparison approach, an unsystematic risk premium, and after-tax cost of debt based on corporate bond yields; and
- Tax rate: The tax rates used in determining the future cash flows were those substantively enacted at the respective valuation date.

The following table outlines the key assumptions used in calculating the recoverable amount for each CGU and operating segment tested for impairment as at December 31, 2022:

| Significant estimates used by management | Goodwill impairment testing |
|---|-----------------------------|
| | NGW |
| Years of cash flows before terminal value | 6 |
| Discount rate | 19.25% |
| Terminal value multiple | 5.8x |

Based on the results of the goodwill impairment test, the carrying value of the NGW reporting unit exceeded the fair value and the Company recognized a pre-tax impairment loss of \$25,802,688 during the year ended December 31, 2022, relating to the NGW reporting unit.

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Florida License Acquisition

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

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

8. Leases

The Company’s lease agreements are for cultivation, manufacturing, retail, and office premises and for vehicles. The property lease terms range between 7 years and 21 years depending on the facility and are subject to an average of 2 renewal periods of equal length as the original lease. Certain leases include escalation clauses or payment of executory costs such as property taxes, utilities, or insurance and maintenance. Rent expense for leases with escalation clauses is accounted for on a straight-line basis over the lease term. The Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The following table provides the components of lease cost recognized in the consolidated statement of operations and comprehensive loss for 2022 and 2021:

| | <u>December 31,</u> <u>2022</u> | <u>December 31,</u> <u>2021</u> |
|-------------------------------|------------------------------------|------------------------------------|
| Operating lease costs | \$ 4,584,550 | \$ 4,437,816 |
| Finance lease costs: | | |
| Amortization of lease assets | - | 44,672 |
| Interest on lease liabilities | - | 3,431 |
| Finance lease costs | - | 48,103 |
| Short term lease expense | 12,406 | 19,917 |
| Total lease costs | <u>\$ 4,596,956</u> | <u>\$ 4,505,836</u> |

Other information related to operating and finance leases as of and for the year end December 31, 2022 and 2021 are as follows:

| | <u>December 31, 2022</u> | | <u>December 31, 2021</u> | |
|---------------------------------------|--------------------------------|----------------------------------|--------------------------------|----------------------------------|
| | <u>Finance</u> <u>Lease</u> | <u>Operating</u> <u>Lease</u> | <u>Finance</u> <u>Lease</u> | <u>Operating</u> <u>Lease</u> |
| Weighted average discount rate | 15.00% | 15.00% | 15.00% | 15.00% |
| Weighted average remaining lease term | - | 14.43 | - | 11.87 |

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The maturity of the contractual undiscounted lease liabilities as of December 31, 2022 and 2021 is:

| | <u>2022</u> | <u>2021</u> |
|---|----------------------|----------------------|
| | <u>Operating</u> | <u>Operating</u> |
| | <u>Lease</u> | <u>Lease</u> |
| 2022 | \$ - | \$ 3,595,030 |
| 2023 | 4,052,167 | 3,729,936 |
| 2024 | 4,214,502 | 3,870,217 |
| 2025 | 4,302,534 | 3,956,923 |
| 2026 | 4,303,434 | 3,880,082 |
| 2027 | 4,389,610 | 3,903,423 |
| 2028 | 4,566,581 | 4,054,970 |
| Thereafter | <u>53,708,289</u> | <u>46,179,762</u> |
| Total undiscounted lease liabilities | 79,537,117 | 73,170,343 |
| Interest on lease liabilities | <u>(53,224,885)</u> | <u>(49,612,758)</u> |
| Total present value of minimum lease payments | 26,312,232 | 23,557,585 |
| Lease liability - current portion | <u>(479,161)</u> | <u>(423,573)</u> |
| Lease liability | <u>\$ 25,833,071</u> | <u>\$ 23,134,012</u> |

Principally, all leases relate to real estate.

For the year ended December 31, 2022 the Company incurred \$4,584,550 of operating lease costs (2021 - \$4,437,816), of which \$1,840,018 (2021 - \$1,829,800) was allocated to cost of goods sold.

On December 22, 2022, the Company entered into a sale-leaseback transaction with an unrelated third-party related to certain real property acquired in connection with the NGW acquisition. The Company received cash proceeds of \$1,049,633 and recorded a gain on sale-leaseback of \$509,392. The following are the key terms of the related lease agreement:

- Initial term: 15 years
- Renewal options: 3 additional terms of five years each
- Monthly payment: \$7,847
- Other: Triple net

See Note 16 for additional supplemental cash flow information related to leases.

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9. Notes payable

Non-related parties

| | December 31, 2022 | December 31, 2021 |
|---|------------------------------|----------------------|
| Promissory note dated November 4, 2015, with semi-annual interest at 5.0%, secured by deed of trust, due December 1, 2019 | 884,000 | 884,000 |
| | \$ 884,000 | \$ 884,000 |
| Less current portion | (884,000) | (884,000) |
| | \$ - | \$ - |

Stated maturities of debt obligations are as follow:

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

10. Share capital

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

| | Number of Common Shares | |
|---|--------------------------------|----------------------|
| | December 31, 2022 | December 31, 2021 |
| Common Shares | | |
| Balance at January 1 | 198,687,950 | 126,573,250 |
| Shares issued on settlement of RSUs | i. 81,084 | 3,126,534 |
| Shares issued on exercise of options | ii. 97,325 | 121,336 |
| Shares issued on exercise of warrants | iii. 242,700 | 3,772,640 |
| Shares issued on financing - February 2021 | iv. - | 9,861,250 |
| Shares issued on conversion of Class A shares | v. - | 55,232,940 |
| Shares issued on acquisition (Note 7) | 21,361,002 | - |
| Total common shares outstanding on December 31 | 220,470,061 | 198,687,950 |

i. Shares issued for Restricted Share Units

During the year ended December 31, 2022, the Company issued 81,084 common shares on the settlement of RSUs that had vested during the year. The Company did not receive any cash proceeds on the settlement.

During the year ended December 31, 2021, the Company issued 3,126,534 common shares on the settlement of RSUs that had vested during the year. The Company did not receive any cash proceeds on the settlement.

ii. Shares issued for Stock Options

During the year ended December 31, 2022, the Company issued 97,325 common shares on the exercise of options that had a strike price of CAD\$1.31 per common share resulting in cash proceeds of \$97,980 (CAD\$127,496).

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

iii. Shares issued on the exercise of Warrants

During the year ended December 31, 2022, the Company issued 242,700 common shares to warrant holders who exercised 242,700 warrants resulting in cash proceeds of \$1,044,258 (CAD\$1,407,660).

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

iv. Shares issued on Financing – February 2021

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

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

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

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

v. Shares issued on conversion of Class A Shares

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

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

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

On May 6, 2021, the Company issued 55,232,940 common shares on the conversion of 55,232,940 Class A Shares. As of December 31, 2022, there were no longer any Class A Shares outstanding.

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| | Number of Class A Shares | |
|---|---------------------------------|------------------------------|
| | December 31, 2022 | December 31, 2021 |
| Class A Shares | | |
| Balance at January 1 | - | 55,232,940 |
| Conversion of Class A Shares to Common | - | (55,232,940) |
| Total Class A Shares Outstanding | - | - |

11. Warrants

The following table summarizes the fair value of the warrant liability at December 31, 2022 and 2021:

| | 2022 | 2021 |
|-----------------------------------|--------------|---------------|
| Opening balance as at January 1 | \$ 7,206,049 | \$ 13,204,211 |
| Additions | - | 2,884,981 |
| Exercises | - | (8,976,258) |
| Foreign exchange | (10,117) | 100,635 |
| Change in fair value | (7,177,805) | (7,520) |
| Closing balance as at December 31 | \$ 18,127 | \$ 7,206,049 |

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

The following table summarizes the number of warrants outstanding at December 31, 2022 and 2021:

| | December 31, 2022 | Weighted Average Exercise Price - CAD | December 31, 2021 | Weighted Average Exercise Price - CAD |
|-----------------------------|------------------------------|--|------------------------------|--|
| Balance - beginning of year | 8,861,951 | \$ 7.46 | 7,158,337 | \$ 4.98 |
| Issued | - | \$ - | 5,522,301 | \$ 8.79 |
| Exercised | (242,700) | \$ 5.80 | (3,772,640) | \$ 4.73 |
| Expired | (3,412,788) | \$ 5.41 | (46,047) | \$ 3.75 |
| Balance - end of year | 5,206,463 | \$ 8.88 | 8,861,951 | \$ 7.46 |

Fair values

The Company complies with ASC 820, Fair Value Measurement, for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. Financial instruments recorded at fair value in the consolidated balance sheet are classified using a fair value hierarchy that reflects the observability of significant inputs used in making the measurements.

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The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2022 and 2021:

| | Quoted prices in active markets for identical asset (Level 1) | Significant unobservable inputs (Level 3) | Total |
|--------------------------|---|---|----------------|
| December 31, 2022 | | | |
| Warrant liability | \$ (18,127) | \$ - | \$ (18,127) |
| December 31, 2021 | | | |
| Warrant liability | \$ (7,206,049) | \$ - | \$ (7,206,049) |

12. Share based compensation

(a) Stock options

The Company has established an incentive stock option plan (the "Plan") for employees, management, directors, and consultants of the Company, as designated and administered by a committee of the Company's Board of Directors. Under the Plan, the Company may grant options for up to 10% of the issued and outstanding common shares of the Company. The maximum term of an option is five years and the related vesting period runs from immediate to the life of the grant.

During the years ended December 31, 2022 and 2021

No incentive stock options were granted during the years ended December 31, 2022 and 2021, and 1,106,925 replacement options were issued in connection with the NGW acquisition (see Note 7). The replacement options were fully vested upon issuance.

The following table summarizes information about stock options outstanding at December 31, 2022 and 2021:

| Expiry Date | Exercise price CAD\$ | December 31, 2022 Outstanding | December 31, 2022 Exercisable | December 31, 2021 Outstanding | December 31, 2021 Exercisable |
|--------------------|----------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| November 21, 2024 | \$ 1.31 | 185,203 | 185,203 | - | - |
| February 27, 2025 | \$ 1.31 | 51,525 | 51,525 | - | - |
| December 15, 2025 | \$ 3.06 | 269,075 | 269,075 | - | - |
| September 30, 2026 | \$ 4.37 | 120,222 | 120,222 | - | - |
| July 6, 2025 | \$ 1.31 | 97,325 | 97,325 | | |
| July 4, 2022 | \$ 2.65 | - | - | 100,000 | 100,000 |
| June 11, 2023 | \$ 0.80 | 61,668 | 61,668 | 61,668 | 61,668 |
| June 30, 2024 | \$ 2.60 | 7,500 | 7,500 | 7,500 | 7,500 |
| | | <u>792,518</u> | <u>792,518</u> | <u>169,168</u> | <u>169,168</u> |

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

| | December 31, | |
|-------------------------|---------------------|-------------|
| | 2022 | 2021 |
| Share price | \$ 3.34 | \$ - |
| Risk-free rate | 1.12% | - |
| Expected dividend yield | 0.00% | - |
| Expected volatility | 69.67% | - |
| Option life in years | 1.20 | - |

Share based compensation expense attributable to employee options was \$nil for the year ended December 31, 2022, (2021: \$3,104). The fair value of the replacement options issued during the year of \$1,239,818 was recognized as part of the consideration paid related to the business combination of NGW (Note 7).

| | December 31, | |
|--|---------------------|-------------|
| | 2022 | 2021 |
| The outstanding options have a weighted average CAD\$ exercise price of: | \$ 2.34 | \$ 2.01 |
| Weighted average remaining life in years of outstanding options: | 2.51 | 0.94 |

| | December 31, 2022 | Weighted Average Exercise Price - CAD | December 31, 2021 | Weighted Average Exercise Price - CAD |
|-----------------------------|------------------------------|--|------------------------------|--|
| Balance - beginning of year | 169,168 | \$ 2.01 | 293,838 | \$ 1.52 |
| Issued | 1,106,925 | 2.58 | - | - |
| Exercised | (97,325) | 1.31 | (121,336) | 0.91 |
| Expired | (386,250) | 3.11 | (3,334) | 0.80 |
| Forfeited | - | - | - | - |
| Balance - end of year | <u>792,518</u> | <u>\$ 2.34</u> | <u>169,168</u> | <u>\$ 2.01</u> |

The total intrinsic value of stock options exercised, outstanding and exercisable as of December 31, 2022, was \$nil.

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

(b) Restricted Share Units

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

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The following table summarizes the RSUs that are outstanding as at December 31, 2022 and 2021:

| | December 31, 2022 | December 31, 2021 |
|-----------------------------|------------------------------|----------------------|
| Balance - beginning of year | 2,591,929 | 1,764,250 |
| Issued | - | 4,086,178 |
| Exercised | (81,084) | (3,126,534) |
| Expired | (45,917) | (131,965) |
| Balance - end of year | 2,464,928 | 2,591,929 |

The Company recognized \$7,459,267 in share-based compensation expense attributable to RSUs vesting during the year ended December 31, 2022 (\$15,573,539 for the year ended December 31, 2021).

During the year ended December 31, 2022

No RSUs were granted during the year ended December 31, 2022.

The Company issued 81,084 common shares on the exercise of 81,084 RSUs during the year ended December 31, 2022.

During the year ended December 31, 2022, 45,917 RSUs were forfeited.

During the year ended December 31, 2021

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

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

The Company issued 3,126,534 common shares on the exercise of 3,126,534 RSUs during the year ended December 31, 2021.

13. Loss per share

| | December 31, 2022 | December 31, 2022 |
|--|-------------------------------|-----------------------|
| | Restated (Note 21) | Restated (Note 21) |
| Loss available to common shareholders | \$ (59,545,719) | \$ (22,462,843) |
| Weighted average number of shares outstanding, basic and diluted | 216,586,621 | 195,126,972 |
| Basic and diluted loss per share | \$ (0.27) | \$ (0.12) |

Approximately 8,463,909 and 11,623,051 of potentially dilutive securities for the years ended December 31, 2022 and December 31, 2021 respectively were excluded in the calculation of diluted EPS as their impact would have been anti-dilutive due to net loss in such years.

PLANET 13 HOLDINGS INC.
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14. Income taxes

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

| | December 31, 2022 | December 31, 2021 |
|--|------------------------------|----------------------|
| Current tax expense (recovery) | | |
| Current period | \$ 10,672,538 | \$ 13,954,784 |
| Deferred tax expense (recovery) | | |
| Origination and reversal of timing differences | (5,492,926) | (4,376,359) |
| Change in unrecognized temporary differences | 3,572,749 | 3,900,133 |
| | <u>\$ 8,752,361</u> | <u>\$ 13,478,558</u> |

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

| | December 31, 2022 Restated (Note 21) | December 31, 2022 Restated (Note 21) |
|--|---|---|
| Loss before income tax | \$ (50,793,358) | \$ (8,984,285) |
| Statutory income tax rate | 21.0% | 21.0% |
| Income tax expense at statutory rate | (10,666,605) | (1,886,700) |
| Increase (reduction) in income taxes resulting from: | | |
| Change in fair value of warrant liability | (1,507,339) | (1,579) |
| Other non-taxable amounts | 16,761,004 | 12,650,117 |
| Change in valuation allowance | 3,572,749 | 3,900,133 |
| Difference in rates | (362,832) | (1,159,859) |
| Other | 955,384 | (23,554) |
| Income tax expense (benefit) | <u>\$ 8,752,361</u> | <u>\$ 13,478,558</u> |

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

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

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| | December 31, 2022 | December 31, 2021 |
|---|------------------------------|----------------------|
| Loss carryforwards | \$ 11,769,754 | \$ 9,094,791 |
| Share issue costs | 834,063 | 1,489,956 |
| Stock compensation | 2,203,368 | 657,647 |
| Exchange rate difference on monetary assets | 709,938 | 715,299 |
| Accrued expenses | 343,416 | 139,999 |
| Property and equipment | (1,842,051) | (1,578,803) |
| Licenses | (1,774,379) | (543,779) |
| Deferred tax assets (liabilities) | 12,244,109 | 9,975,111 |
| Valuation allowance | (13,385,056) | (9,812,307) |
| Net deferred tax liability | <u>\$ (1,140,947)</u> | <u>\$ 162,804</u> |

As at December 31, 2022, the Company has \$29,518,011 (December 31, 2021 - \$19,139,273) in Canadian non-capital loss carryforwards that expire between 2037 and 2042. In addition, as at December 31, 2022, the Company has U.S. federal Net Operating Losses of \$60,454,476 (December 31, 2021 - \$49,079,058). The US federal Net Operating Losses attributable to 2020 onward will have an indefinite carry forward. As at December 31, 2022, the Company has California State Net Operating Losses of \$10,626,327 (December 31, 2021 - \$6,529,220). The California state Net Operating Losses will expire in 2040.

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

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

15. General and administrative

| | December 31, | |
|---|----------------------|----------------------|
| | 2022 | 2021 |
| Salaries and wages | \$ 15,231,997 | \$ 21,902,505 |
| Share based compensation | 7,459,267 | 15,576,643 |
| Executive compensation | 3,008,508 | 2,039,174 |
| Licenses and permits | 2,900,282 | 3,217,834 |
| Payroll taxes and benefits | 4,124,049 | 3,953,034 |
| Supplies and office expenses | 1,480,108 | 3,638,097 |
| Subcontractors | 2,589,933 | 3,500,330 |
| Professional fees (legal, audit and other) | 6,524,583 | 5,015,903 |
| Miscellaneous general and administrative expenses | 6,076,773 | 1,084,836 |
| | <u>\$ 49,395,500</u> | <u>\$ 59,928,356</u> |

PLANET 13 HOLDINGS INC.
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16. Supplemental cash flow information

| Change in Working Capital | December 31, | |
|--|---------------------|-----------------------|
| | 2022 | 2021 |
| HST Receivable | \$ (79,012) | \$ (56,787) |
| Accounts Receivable | 1,342,487 | (722,467) |
| Inventory | 4,297,897 | (7,305,529) |
| Prepaid Expenses and Other Assets | 167,130 | (1,780,041) |
| Long-term Deposits and Other Assets | 199,334 | (7,436) |
| Deferred Tax Assets | (183,453) | (162,804) |
| Accounts Payable | 127,789 | 1,578,349 |
| Accrued Expenses | 826,664 | 4,187,906 |
| Income Taxes Payable | 1,574,807 | (320,268) |
| | <u>\$ 8,273,643</u> | <u>\$ (4,589,077)</u> |
| Cash Paid | | |
| Interest | \$ 3,720,587 | \$ 4,485,447 |
| Income Taxes | \$ 7,925,000 | \$ 13,000,000 |
| Non-cash Financing and Investing Activities | | |
| Shares issued in business combination | \$ 56,320,332 | \$ - |
| Issuance of NGW replacement options on acquisition | \$ 1,239,818 | \$ - |
| Lease additions | \$ 2,972,252 | \$ 867,559 |
| Lease terminations | \$ 371,381 | \$ - |
| Fixed Asset Amounts in Accounts Payable | \$ - | \$ 363,077 |
| Warrant liability reclassified to APIC on settlement | \$ - | \$ 6,347,946 |
| Reclassification of long term lease liabilities to current | \$ 55,588 | \$ 216,180 |

17. Related Party Transactions and Balances

Related party transactions are summarized as follows:

a) Building Lease

The Company is the sub-lessee of approximately 2,000 square feet of office space and purchases certain printed marketing collateral and stationery items from a company owned by one of the Company's Co-CEOs. Amounts paid for rent for each of the years ended December 31, 2022 and 2021 was \$6,010 and \$16,027, respectively. Amounts paid for printed marketing collateral and stationery items to the same company were \$183,914 and \$450,692 for the years ended December 31, 2022 and 2021 respectively.

The Company leased a cultivation facility from an entity owned by the Company's co-CEOs. Rent paid for this facility for the years ended December 31, 2022 and 2021 was \$nil, and \$301,894, respectively. On April 30, 2021, the Company's Co-CEOs sold this building to an arm's length third party who assumed the lease.

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(b) Other

A company owned by one of the Company's executives pays the Company for storage space. Amounts paid to the Company for storage space were \$5,968 and \$171,895 for the years ended December 31, 2022 and 2021, respectively, and is recorded in Other Income.

For the years ended December 31, 2022 and 2021, no amounts were due to or from related parties.

18. Commitments and contingencies

(a) Construction Commitments

The Company had no outstanding construction commitments as of December 31, 2022.

(b) Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulations at December 31, 2022, medical and adult use cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

(c) Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At December 31, 2022 and 2021, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

(d) Operating Licenses

Although the possession, cultivation, and distribution of marijuana for medical and adult use is permitted in Nevada, California, Florida and Illinois, marijuana is a Schedule-I controlled substance and its use remains a violation of federal law. Since federal law criminalizing the use of marijuana pre-empts state laws that legalize its use, strict enforcement of federal law regarding marijuana would likely result in the Company's inability to proceed with our business plans. In addition, the Company's assets, including real property, cash, equipment, and other goods, could be subject to asset forfeiture because marijuana is still federally illegal.

19. Risks

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.

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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.

Price 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.

Liquidity risk

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

Concentration risk

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

Banking Risk

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

Asset Forfeiture Risk

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

Currency rate 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.

20. Subsequent events

On February 3, 2023, the Company purchased land and a building in Waukegan, IL for \$2,183,000 for its planned Illinois dispensary.

On February 7, 2023, the Company purchased the remaining 51% ownership interest in Planet 13 Illinois from a third party for \$866,250 cash and the issuance of 1,063,377 common shares of the Company pursuant to an option purchase agreement that was entered into between Frank Cowan, an individual, and the Company on August 4, 2022.

21. Restatement of Previously Issued Consolidated Financial Statements

As reported in a press release issued by the Company on November 17, 2023, on June 20, 2021, the Company engaged El Capitan Advisors, Inc. (“**El Capitan**”), an investment advisor registered with the Securities and Exchange Commission (the “**SEC**”), for cash management services. One of the Company’s accounts managed by El Capitan was held at Bridge Bank, a division of Western Alliance Bank (collectively “**WAB**”). Pursuant to a dispute unrelated to the Company, Casa Verde Capital, L.P. and Casa Verde Capital EF, L.P. (collectively “**Casa Verde**”) obtained a \$35.0 million default judgment against El Capitan, which is a portfolio company of Casa Verde. Casa Verde then levied that judgment causing approximately \$5.4 million of the Company’s funds held at WAB (the “**WAB Funds**”) and managed by El Capitan to be directed to the Orange County, California Sheriff’s Office (the “**Sheriff’s Office**”) on September 21, 2023.

On or around October 24, 2023, the Company became aware of the levy against the WAB Funds and thereafter filed a third-party claim (the “**WAB Claim**”) of exemption asserting rightful ownership over the WAB Funds.

The Company has secured a partial settlement with Casa Verde for the release of \$3.4 million of the WAB Funds, which the Company received on January 31, 2024. The remaining approximately \$2 million of the WAB Funds (the “**Remaining Levied Funds**”) are still in the possession of the Sheriff’s Office while litigation is ongoing. The Company has not relinquished any right to the Remaining Levied Funds and continues to pursue their return. A hearing on the ultimate disposition of the Remaining Levied Funds is scheduled for April 29, 2024.

After filing the WAB Claim in November 2023, the Company also took immediate action to withdraw the remaining approximately \$16.5 million that the Company held in two additional Company accounts managed by El Capitan (the “**Additional Funds**”). El Capitan has refused to honor the Company’s further withdrawal requests with respect to the Additional Funds and at this time it is unclear whether the Additional Funds will be returned. Based on discussions with El Capitan to secure the withdrawal of the Additional Funds and purported bank statements provided by El Capitan, the Company has reason to believe that the Additional Funds were misappropriated by El Capitan.

On January 22, 2024, the Company initiated a lawsuit in Santa Monica, California against El Capitan, El Capitan’s founder and Chief Executive Officer—Andrew Nash, Casa Verde, Casa Verde’s Managing Member—Karan Wadhwa, and Jamie Nash, the spouse of Andrew Nash (collectively, the “**Defendants**”) seeking approximately \$16.5 million in compensatory damages and other relief. The Company alleges that each Defendant is liable for their involvement in a scheme to defraud the Company of funds managed by El Capitan in its capacity as the Company’s fiduciary. The Company is vigorously pursuing its rights against the Defendants and intends to act quickly to enact all necessary remedies available.

On January 25, 2024, in connection with the ongoing internal investigation, the Company concluded that its previously issued audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 (the “**2022 Annual Report**”) and the Company’s previously issued unaudited consolidated financial statements included in the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2023, June 30, 2023 and September 30, 2023 (the “**2023 Quarterly Reports**”) and, together with the 2022 Annual Report, the “**Reports**” and all financial statements included in the Reports, collectively, the “**Affected Financials**”) should no longer be relied upon due to material errors due to the believed misappropriation of approximately \$22.0 million of the Company’s funds held by El Capitan. The impact of correcting these items was the recognition of a total of \$16,283,225 provision for the misappropriated cash that has been reflected in the Affected Financials in the periods when the misappropriation occurred as reflected in the restated financial statements.

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The impact on the 2021 and 2022 audited financial statements is as follows:

| 2021 | As Filed | Restatement Adjustments | As Restated |
|--|-----------------|------------------------------------|--------------------|
| Consolidated Balance Sheet | | | |
| Cash | \$ 61,588,843 | \$ (3,001,891) | \$ 58,586,952 |
| Current Assets | \$ 81,007,864 | \$ (3,001,891) | \$ 78,005,973 |
| Total Assets | \$ 216,808,796 | \$ (3,001,891) | \$ 213,806,905 |
| Deficit | \$ (72,154,194) | \$ (3,001,891) | \$ (75,156,085) |
| Total Shareholders' Equity | \$ 173,707,510 | \$ (3,001,891) | \$ 170,705,619 |
| Total Liabilities and Shareholders' Equity | \$ 216,808,796 | \$ (3,001,891) | \$ 213,806,905 |

| 2021 | As Filed | Restatement Adjustments | As Restated |
|--|-----------------|------------------------------------|--------------------|
| Consolidated Statement of Operations and Comprehensive Loss | | | |
| Interest Income (Expense), Net | \$ (16,984) | \$ (1,891) | \$ (18,875) |
| Provision for Misappropriated Funds | \$ - | \$ (3,000,000) | \$ (3,000,000) |
| Total Other Income (Expense) | \$ 1,850,848 | \$ (3,001,891) | \$ (1,151,043) |
| Loss Before Provision for Income Taxes | \$ (5,982,394) | \$ (3,001,891) | \$ (8,984,285) |
| Net Loss and Comprehensive Loss | \$ (19,460,952) | \$ (3,001,891) | \$ (22,462,843) |
| Basic and diluted loss per share | \$ (0.10) | \$ (0.02) | \$ (0.12) |

| 2021 | As Filed | Restatement Adjustments | As Restated |
|---|-----------------|------------------------------------|--------------------|
| Consolidated Statement of Cash Flows | | | |
| Net loss | \$ (19,460,952) | \$ (3,001,891) | \$ (22,462,843) |
| Total Operating | \$ (379,883) | \$ (3,001,891) | \$ (3,381,774) |
| Net Change in Cash During the Year | \$ (17,412,007) | \$ (3,001,891) | \$ (20,413,898) |
| Cash End of Year | \$ 61,588,843 | \$ (3,001,891) | \$ 58,586,952 |

| 2022 | As Filed | Restatement Adjustments | As Restated |
|--|------------------|------------------------------------|--------------------|
| Consolidated Balance Sheet | | | |
| Cash | \$ 52,356,914 | \$ (13,567,310) | \$ 38,789,604 |
| Current Assets | \$ 70,498,942 | \$ (13,567,310) | \$ 56,931,632 |
| Total Assets | \$ 233,629,973 | \$ (13,567,310) | \$ 220,062,663 |
| Deficit | \$ (121,134,494) | \$ (13,567,310) | \$ (134,701,804) |
| Total Shareholders' Equity | \$ 190,888,865 | \$ (13,567,310) | \$ 177,321,555 |
| Total Liabilities and Shareholders' Equity | \$ 233,629,973 | \$ (13,567,310) | \$ 220,062,663 |

| 2022 | As Filed | Restatement Adjustments | As Restated |
|--|-----------------|------------------------------------|--------------------|
| Consolidated Statement of Operations and Comprehensive Loss | | | |
| Interest Income (Expense), Net | \$ 454,892 | \$ (265,419) | \$ 189,473 |
| Provision for Misappropriated Funds | \$ - | \$ (10,300,000) | \$ (10,300,000) |
| Total Other Income (Expense) | \$ 8,529,590 | \$ (10,565,419) | \$ (2,035,829) |
| Loss Before Provision for Income Taxes | \$ (40,227,939) | \$ (10,565,419) | \$ (50,793,358) |
| Net Loss and Comprehensive Loss | \$ (48,980,300) | \$ (10,565,419) | \$ (59,545,719) |
| Basic and diluted loss per share | \$ (0.23) | \$ (0.04) | \$ (0.27) |

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| 2022 | As Filed | Restatement Adjustments | As Restated |
|---|-----------------|------------------------------------|--------------------|
| Consolidated Statement of Cash Flows | | | |
| Net loss | \$ (48,980,300) | \$ (10,565,419) | \$ (59,545,719) |
| Total Operating | \$ 3,801,770 | \$ (10,565,419) | \$ (6,763,649) |
| Net Change in Cash During the Year | \$ (9,231,929) | \$ (10,565,419) | \$ (19,797,348) |
| Cash Beginning of Year | \$ 61,588,843 | \$ (3,001,891) | \$ 58,586,952 |
| Cash End of Year | \$ 52,356,914 | \$ (13,567,310) | \$ 38,789,604 |

In addition, amounts were restated in the following:

- Note 7, *Intangible Assets*
- Note 13, *Loss Per Share*
- Note 14, *Income Taxes*