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# INDUS

## HOLDING

### GROUP OF COMPANIES

**CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR  
THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

*(Expressed in United States Dollars)*

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# INDUS HOLDING GROUP OF COMPANIES

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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To the Board of Directors of Indus Holding Group of Companies:

The accompanying consolidated financial statements and other financial information in this annual report were prepared by management of Indus Holding Group of Companies (collectively, “the Company” of “Indus”), reviewed and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company’s financial condition and results of operations in conformity with International Financial Reporting Standards. Management has included in the Company’s consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These financial statements have been audited by the Company’s auditors, GreenGrowth CPAs, and their report is presented herein.

/s/ Robert Weakley  
Robert Weakley  
Chief Executive Officer

/s/ Tina Maloney  
Tina Maloney  
Chief Financial Officer

May 21, 2019

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To the Board of Directors of  
Indus Holding Company  
Salinas, California

We have audited the accompanying consolidated financial statements of Indus Holding Company (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2018 and December 31, 2017, and the consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Indus Holding Company as of December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*GreenGrowthCPAs*

May 21, 2019  
Los Angeles, California

# INDUS HOLDING GROUP OF COMPANIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

(in thousands, except per share amounts, \$US)

	2018	2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,310	\$ 2,229
Accounts receivable—net of allowance for doubtful accounts of \$250 at December 31, 2018 and \$165 at December 31, 2017	2,965	1,448
Subscription Receivable	Note 9 3,200	-
Inventory	Note 4 13,608	3,305
Biological assets	Note 5 576	1,126
Prepaid expenses and other current assets	2,086	766
<b>Total current assets</b>	<b>32,745</b>	<b>8,874</b>
Long-term investments	Note 8 1,148	650
Property and equipment, net	Note 6 4,063	1,649
Goodwill	Note 7 357	-
Other intangibles, net	Note 7 190	207
Other assets	454	857
<b>Total assets</b>	<b>\$ 38,957</b>	<b>\$ 12,236</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,191	\$ 2,966
Accrued payroll and benefits	259	292
Current portion of long-term debt	Note 10 147	3,708
Other current liabilities	1,838	786
<b>Total current liabilities</b>	<b>4,436</b>	<b>7,753</b>
Long-term debt, net	Note 10 389	8,568
<b>Total liabilities</b>	<b>4,824</b>	<b>16,732</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.001 par value—35,000.0 shares authorized, 10,762 and 8,805 shares issued and outstanding at December 31, 2018 and 2017, respectively	Note 9 11	9
Series A preferred stock, \$0.001 par value—5,467 shares authorized, 5,467 issued and outstanding at December 31, 2018 and 2017, respectively	Note 9 5	5
Series A2 preferred stock, \$0.001 par value—2,359 shares authorized, 2,359 issued and outstanding at December 31, 2018 and 2017, respectively	Note 9 2	2
Series B preferred stock, \$0.001 par value—10,096 shares authorized, 9,910 and zero issued and outstanding at December 31, 2018 and 2017, respectively	Note 9 10	-
Additional paid-in capital	54,305	7,755
Accumulated deficit	(20,201)	(12,917)
<b>Total stockholders' equity</b>	<b>34,133</b>	<b>(5,146)</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 38,957</b>	<b>\$ 11,586</b>

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

/s/ Robert Weakley  
Robert Weakley, Chief Executive Officer

/s/ Tina Maloney  
Tina Maloney, Chief Financial Officer

See accompanying notes to consolidated financial statements.

# INDUS HOLDING GROUP OF COMPANIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, (in thousands, \$US)		2018	2017
Net revenue		\$ 17,199	\$ 15,468
Cost of goods sold		14,612	13,640
Gross profit before biological asset adjustments		2,587	1,828
Net effect of change in fair value of biological assets	Note 5	(2,903)	(65)
Gross profit		5,490	1,893
Operating expenses			
General and administrative	Note 15	8,779	5,309
Sales and marketing		2,513	2,430
Depreciation and amortization	Note 6	101	64
Total operating expenses		11,393	7,803
Loss from operations		(5,902)	(5,911)
Other income/(expense)			
Other income/(expense)		(106)	(98)
Interest expense	Note 10	(1,178)	(1,184)
Total other income/(expense)		(1,284)	(1,282)
Loss before provision for income taxes		(7,186)	(7,193)
Provision for income taxes	Note 12	97	22
Net loss		\$ (7,283)	\$ (7,215)

See accompanying notes to consolidated financial statements.

# INDUS HOLDING GROUP OF COMPANIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, \$US)	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
<b>Balance—December 31, 2016</b>	<b>7,826</b>	<b>\$ 7</b>	<b>8,480</b>	<b>8</b>	<b>\$ 7,014</b>	<b>(5,703)</b>	<b>\$ 1,327</b>
Net loss	-	-	-	-	-	(7,215)	(7,215)
Issuance of common stock	-	-	325	-	650	-	650
Share-based compensation expense	-	-	-	-	92	-	92
<b>Balance—December 31, 2017</b>	<b>7,826</b>	<b>\$ 7</b>	<b>8,805</b>	<b>\$ 9</b>	<b>\$ 7,755</b>	<b>\$ (12,917)</b>	<b>\$ (5,146)</b>
Net loss	-	-	-	-	-	(7,283)	(7,283)
Issuance of common stock on conversion of convertible notes	-	-	1,947	2	3,959	-	3,961
Issuance of common stock for Acme acquisition	-	-	10	-	20	-	20
Issuance of Series B preferred stock Dametra JV consideration	78	-	-	-	350	-	350
Issuance of Series B preferred stock - net of issuance cost of \$157	9,831	10	-	-	41,863	-	41,873
Issuance of warrants in exchange for services	-	-	-	-	87	-	87
Share-based compensation expense	-	-	-	-	270	-	270
<b>Balance—December 31, 2018</b>	<b>17,735</b>	<b>\$ 17</b>	<b>10,762</b>	<b>\$ 11</b>	<b>\$ 54,305</b>	<b>\$ (20,201)</b>	<b>\$ 34,133</b>

See accompanying notes to consolidated financial statements.

# INDUS HOLDING GROUP OF COMPANIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,  
(in thousands, \$US)

	2018	2017
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (7,283)	\$ (7,215)
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>		
Depreciation and amortization	455	330
Amortization of debt issuance costs	321	385
Share-based compensation expense	270	92
Provision for doubtful accounts	175	146
Disposals of property and equipment	-	183
Warrants issued in exchange for services	87	-
Change in fair value of biological assets	(2,392)	65
Changes in operating assets and liabilities:		
Accounts receivable	(1,693)	(1,177)
Inventory	(7,713)	(2,545)
Biological assets	550	(1,126)
Prepaid expenses and other current assets	(1,568)	216
Other assets	(7)	(207)
Accounts payable and accrued expenses	(651)	3,130
Other liabilities	1,217	306
<b>Net cash used in operating activities</b>	<b>(18,233)</b>	<b>(7,418)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(2,628)	(982)
Investments in private entities	(148)	-
<b>Net cash used in investing activities</b>	<b>(2,776)</b>	<b>(982)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Principal payments on capital lease obligations	(40)	(189)
Payments of notes payable	(850)	-
Proceeds from notes payable	500	4,050
Proceeds from senior secured notes	-	250
Proceeds from convertible notes	-	3,712
Proceeds from issuance of series B preferred stock, net of issuance costs	29,479	-
<b>Net cash provided by financing activities</b>	<b>29,089</b>	<b>7,823</b>
Change in cash and cash equivalents	8,081	(578)
Cash and cash equivalents—beginning of year	2,229	2,807
<b>Cash and cash equivalents—end of year</b>	<b>\$ 10,310</b>	<b>\$ 2,229</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 114	\$ 540
Cash paid during the year for income taxes	\$ 33	\$ 21
<b>OTHER NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Purchase of property and equipment not yet paid for	\$ -	\$ -
Property and equipment acquired via capital lease	\$ 207	\$ 202
Issuance of common stock in exchange for investment in private entity	\$ 350	\$ 650
Debt and associated accrued interest converted to series B preferred shares	\$ 13,006	\$ -
Acquisition of private entity	\$ 571	\$ -

See accompanying notes to consolidated financial statements.



# INDUS HOLDING GROUP OF COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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*All amounts in these Notes are expressed in thousands of United States dollars (“\$” or “US\$”), unless otherwise indicated.*

#### 1. NATURE OF OPERATIONS

Indus is a vertically integrated cannabis company with production capabilities, including cultivation, extraction, manufacturing, brand sales & marketing, and distribution, operating across the State of California in the United States (“U.S.”). The consolidated financial statements of the Indus Holding Group of Companies (“Indus” or the “Company”) consist of Indus Holding Company and its wholly owned subsidiaries:

- Indus Holding Company is engaged in owning intellectual property, including brands, and is associated with offering cannabis products to dispensaries in California.
- Cypress Manufacturing is engaged in the cultivation, sourcing, processing, and distribution of high-quality cannabis products in California, and prior to January 2018 was organized as a mutual benefit, non-profit entity as required under California cannabis regulations. In January 2018, Cypress Manufacturing converted into a corporation, wholly owned by Indus Holding Company.
- Cypress Holding is engaged in the ownership and leasing of real and personal property to Cypress Manufacturing.

The Company’s corporate office and principal place of business is located at 19 Quail Run Circle, Salinas, California.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of Preparation**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”) in effect for the years ended December 31, 2018 and December 31, 2017.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on May 21, 2019.

##### **Basis of Measurement**

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention, except for biological assets and certain financial instruments, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

##### **Functional Currency**

The Company and its subsidiary and affiliate’s functional currency, as determined by management, is the United States (“U.S.”) dollar. These consolidated financial statements are presented in U.S. dollars. Financial and other metrics, such as shares outstanding, are presented in thousands unless otherwise noted.

# INDUS HOLDING GROUP OF COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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### Classification of Expenses

The expenses within the statements of operations are presented by function. Refer to Note 15 for details of expenses by nature.

### Basis of Consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

- Indus Holding Company, a Delaware corporation
- Cypress Holding Company, a Delaware limited liability company
- Cypress Manufacturing Company, a California corporation

Intercompany balances, and any unrealized gains and losses or income and expenses arising from transactions with the subsidiaries, are eliminated.

### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash deposits in financial institutions, and other deposits that are readily convertible into cash. The Company considers all short-term, highly liquid investments purchased with maturities of three months or less to be cash equivalents. These investments are carried at cost, which approximates fair value.

### Accounts Receivable

Accounts receivables are classified as loans and receivable financial assets. Accounts receivables are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for impairment. When an accounts receivable is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the consolidated statements of operations.

### Biological Assets

The Company measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. The Company capitalizes the direct and indirect costs incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest. These costs are subsequently classified within Cost of Goods Sold on the consolidated statements of operations in the period in which the related product is sold. The unrealized fair value adjustments on growth of biological assets and the realized fair value amounts included in inventory sold are recorded in a separate line on the consolidated statements of operations.

# INDUS HOLDING GROUP OF COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

### Inventories

Inventories are valued at the lower of cost and net realizable value. Costs related to raw materials and finished goods are determined on the first-in, first-out basis. Specific identification and average cost methods are also used primarily for certain packing materials and operating supplies. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory is written-down to net realizable value.

### Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

Category	Useful Life
Leasehold improvements	The lesser of the estimated useful life or length of the lease
Office equipment	3 – 5 years
Furniture and fixtures	3 – 7 years
Vehicles	4 – 5 years
Machinery and equipment	3 – 6 years
Construction in progress	Not depreciated

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively if appropriate. An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statements of operations in the year the asset is derecognized.

### Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill that has an indefinite useful life is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that goodwill might be impaired. Any goodwill impairment loss is recognized in the consolidated statements of operations in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

### Intangible Assets

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. The estimated useful lives, residual values, and amortization methods are reviewed at each year-end, and any changes in estimates are accounted for prospectively.

Branding rights are measured at fair value at the time of acquisition and are amortized on a straight-line basis over a period of 15 years.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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### Impairment of Long-lived Assets

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss equal to the amount by which the carrying amount exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of the recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously. As of December 31, 2018, and December 31, 2017, the Company did not recognize any impairment losses.

### Leased Assets

A lease of property and equipment is classified as a capital lease if it transfers substantially all the risks and rewards incidental to ownership to the Company. A lease of property and equipment is classified as an operating lease whenever the terms of the lease do not transfer substantially all the risks and rewards of ownership to the lessee. Lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

### Income Taxes

The Company is a United States C corporation for income tax purposes. Income tax expense consisting of current and deferred tax expense is recognized in the consolidated statements of operations. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

### Revenue Recognition

The IASB's new revenue recognition standard IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") was adopted by the Company on January 1, 2018. The new standard replaces IAS 18, *Revenue* and provides for a single model that applies to all contracts with customers with two types of recognition: at a point in time or over time. The Company has

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of adoption. The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

- Identify the contract with a customer;
- Identify the performance obligation(s);
- Determine the transaction price;
- Allocate the transaction price to the performance obligation(s);
- Recognize revenue when/as performance obligation(s) are satisfied.

Revenue is recognized at the fair value consideration received or receivable. Revenue from the sale of goods is recognized when the Company has transferred control to the buyer, and it is probable that the Company will receive the previously agreed upon payment. Control is generally considered to be transferred when the Company has delivered the product to customers.

Amounts disclosed as revenue are net of allowances, discounts and rebates.

### **Research and Development**

Research costs are expensed as incurred. For the years ended December 31, 2018 and December 31, 2017, research costs are immaterial.

Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete the development to use or sell the asset. To date, no development costs have been capitalized.

### **Share-Based Compensation**

The Company has a share-based compensation plan. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest.

For shares granted to non-employees, the compensation expense is measured at the fair value of the goods and services received, except where the fair value cannot be estimated, in which case, it is measured at the fair value of the equity instruments granted. The fair value of share-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments.

### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized in the consolidated statements of financial position at the time the Company becomes a party to the contractual provisions of the financial instrument.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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*Initial Measurement of Financial Assets and Financial Liabilities* – Financial assets and liabilities are recognized at fair value upon initial recognition plus any directly attributable transaction costs when not subsequently measured at fair value through profit or loss (“FVTPL”).

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used to make the measurements. The hierarchy is summarized as follows:

- Level 1 — Quoted prices (unadjusted) that are in active markets for identical assets or liabilities
- Level 2 — Inputs that are observable for the asset or liability, either directly (prices) for similar assets or liabilities in active markets or indirectly (derived from prices) for identical assets or liabilities in markets with insufficient volume or infrequent transactions
- Level 3 — Inputs for assets or liabilities that are not based upon observable market data

*Subsequent Measurement* – Measurement in subsequent periods is dependent on the classification of the financial instrument. The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held to maturity, available for sale, and other financial liabilities.

Effective January 1, 2018, the Company adopted IFRS 7, *Financial instruments: Disclosure*, which was amended to require additional disclosures on transition from IAS 39 to IFRS 9. The adoption of the standard had no impact on the Company’s consolidated financial statements on the date of initial application.

Effective January 1, 2018, the Company adopted IFRS 9 *Financial Instruments*, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The adoption of IFRS 9 had no impact on the Company’s consolidated financial statements on the date of initial application. There was no change in the carrying amounts on the basis of allocation from original measurement under IAS 39, *Financial Instruments: Recognition and Measurement*, to the new measurement categories under IFRS 9.

### **Financial Assets**

*Loans* – Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value and subsequently on an amortized cost basis using the effective interest method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

*Impairment of Financial Assets* – A financial asset not carried at FVTPL is reviewed at each reporting date to determine whether there is any indication of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss with a corresponding reduction in the financial asset, or, in the case

# INDUS HOLDING GROUP OF COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

of amounts receivable, are reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

### ***Financial Liabilities***

All financial liabilities (including liabilities designated at FVTPL) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

The Company classifies its financial liabilities as either financial liabilities at FVTPL or other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in the consolidated statements of operations.

*Classification* – The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Financial Instrument	Classification	Fair value Hierarchy
Cash and Cash Equivalents	Amortized Cost	N/A
Deposits	Amortized Cost	N/A
Accounts Payable and Accrued Liabilities	Amortized Cost	N/A
Investments in Private Entities	FVTPL	Level 3
Promissory Notes Receivable	Amortized Cost	N/A
Convertible Notes Payable	Amortized Cost	N/A
Loans Payable	Amortized Cost	N/A

### **Business Combinations**

A business combination is defined as an acquisition of assets and liabilities that constitute a business. A business consists of inputs, including non-current assets and processes, including operational processes, that when applied to those inputs have the ability to create outputs that provide a return to the Company. Business combinations are accounted for using the acquisition method of accounting. The consideration of each acquisition is measured at the aggregate of the fair values of tangible and intangible assets obtained, liabilities and contingent liabilities incurred or assumed, and equity instruments issued by the Company at the date of acquisition. Key assumptions routinely utilized in allocation of purchase price to intangible assets include projected financial information such as revenue projections for companies acquired. As of the acquisition date, goodwill is measured as the excess of consideration given, generally measured at fair value, and the net of the acquisition date fair values of the identifiable assets acquired and the liabilities assumed.

### **Significant Accounting, Judgments, Estimates and Assumptions**

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

- **Estimated Useful Lives and Depreciation of Property and Equipment** – Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.
- **Estimated Useful Lives and Amortization of Intangible Assets** – Amortization of intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any.
- **Fair Value of Biological Assets and Inventory** – In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, expected yields for the cannabis plants. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compare the inventory cost to estimated net realizable value.
- **Fair Value of Investments in Private Entities** – The Company uses discounted cash flow model to determine fair value of its investment in private entities. In estimating fair value, management is required to make certain assumptions and estimates such as discount rate, long term growth rate, estimated free cash flows.
- **Share-Based Compensation** – The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options and warrants granted. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of units, volatility of the Company's future share price, risk free rates, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.
- **Deferred Tax Asset and Valuation Allowance** – Deferred tax assets, including those arising from tax loss carry-forwards, requires management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

### **Recent Accounting Pronouncements Not Yet Adopted**

The following IFRS standard has been recently issued by the IASB. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3, *Business Combinations*. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments included the addition of an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is a business or not. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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identifiable asset or group of similar identifiable assets. If the test is met, the Corporation can elect to not account for the acquisition as a business and instead it will account for the acquisition as an asset acquisition. IFRS 3 is effective for annual periods beginning on or after January 1, 2020 with early adoption permitted. The Company expects to adopt this standard effective January 1, 2019.

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for the Company's annual periods beginning on or after January 1, 2019. IFRS 16 will be applied by the Company using the cumulative catch-up approach for annual periods beginning on January 1, 2019. Under this approach, the Company will not restate its comparative figures and will recognize a right-of-use asset.

The Company has several leases in place as disclosed in Note 14. On transition to IFRS 16, the Company will elect to apply the practical expedient to only transition contracts which were previously identified as leases. The Company will also elect to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low value assets. The Company will account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. The Company is currently finalizing the quantitative assessment of the impact of the adoption of this new standard.

### 3. ACQUISITIONS AND JOINT VENTURES

In October 2018, the Company contributed 77,689 shares of Series B preferred shares at a value of \$350, to a joint venture arrangement with Dametra LLC, in which each partner has 50% ownership. Under the arrangement Indus will be the exclusive manufacturer and distributor of Canna Stripe branded products in the state of California. The investment is accounted for in accordance with IFRS 11 *Joint Arrangements*.

In July 2018, the Company acquired all the assets of Acme Inc. for total consideration of \$571, which includes (i) \$243 in seller's notes, (ii) \$308 in assumed debt, and (iii) \$20 in common shares. Acme is a leading name in cannabis extraction using the latest extraction technology to create oil derived from organically grown cannabis without harmful solvents or additives. The acquisition broadens and strengthens Indus' brand portfolio and product offerings.

The Company accounted for the acquisition as a business combination in accordance with IFRS 3 *Business Combinations* and purchase consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The relative fair values of net assets acquired and liabilities assumed was \$198 for inventories, \$16 for property and equipment, and \$357 for goodwill. The Company has completed the purchase price allocation for this acquisition.

### 4. INVENTORY

Inventory was comprised of the following items:

# INDUS HOLDING GROUP OF COMPANIES

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Years Ended December 31,  
(in thousands, \$US)

	2018	2017
Raw materials	\$ 9,362	\$ 3,005
Work in process	224	140
Finished goods	4,022	161
<b>Total inventory</b>	<b>\$ 13,608</b>	<b>\$ 3,305</b>

## 5. BIOLOGICAL ASSETS

The Company's biological assets consists of cannabis plants. A reconciliation of the beginning and ending balances of biological assets for the years ended December 31, 2018 and 2017 are as follows:

Years Ended December 31,  
(in thousands, \$US)

	2018	2017
Beginning balance	\$ 1,126	\$ -
Net change in fair value less costs to sell due to biological transformation	(5,304)	2,781
Transferred to inventory upon harvest	4,755	(1,656)
<b>Ending balance</b>	<b>\$ 576</b>	<b>\$ 1,126</b>

The Company cultivates its plants within greenhouses that utilize natural light and those that use supplemental lighting. On average the full harvest growing cycle for natural light is 18 weeks and for supplemental lighting is 11 weeks.

The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on selling prices less the costs to sell at harvest. For in process biological assets, the fair value at point of harvest is adjusted based on the stage of growth. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions:

- The selling price, which is based on the average market price in California where the Company operated during the years ended December 31, 2018 and 2017;
- The cost to complete the cannabis production process post-harvest and the cost to sell based on the Company's historical results;
- The average number of weeks in the growing cycle based on the Company's historical results;
- The stage of plant growth; and
- Expected yields from each cannabis plant based on the Company's historical results.

These inputs are level 3 on the fair value hierarchy, and are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Company has quantified the sensitivity of the inputs in relation to biological assets as of December 31, 2018 and 2017.

# INDUS HOLDING GROUP OF COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

- Selling price per pound – a decrease in the selling price per pound by 5% would result in the biological asset value decreasing by approximately \$49 at December 31, 2018 and \$93 at December 31, 2017.
- Estimated yield per plant – a decrease in the yield per plant of 5% would result in the biological asset value decreasing by approximately \$29 at December 31, 2018 and \$59 at December 31, 2017.

As of December 31, 2018, on average, the biological assets were 49.7% complete as to the next expected harvest date, and it is expected that the Company's biological assets will ultimately yield approximately 1,648 pounds of cannabis.

## 6. PROPERTY AND EQUIPMENT

As of December 31, 2018, and December 31, 2017, property and equipment consists of:

December 31, (in thousands, \$US)	2018	2017
Leasehold improvements	\$ 1,509	\$ 713
Office equipment	134	30
Furniture and fixtures	49	47
Vehicles	516	224
Machinery and equipment	1,928	1,165
Construction in process	895	-
Property and equipment, at cost	5,031	2,180
Accumulated depreciation	(969)	(531)
<b>Property and equipment, net</b>	<b>\$ 4,063</b>	<b>\$ 1,649</b>

Construction in progress represent assets under construction related to cultivation, manufacturing, and distribution facilities not yet completed or otherwise not placed in service.

A reconciliation of the beginning and ending balances of property and equipment for years ended December 31, 2018 and 2017 are as follows:

(in thousands, \$US)	Property and Equipment, at Cost	Accumulated Depreciation	Property and Equipment, Net
<b>Balance—December 31, 2016</b>	<b>\$ 1,237</b>	<b>\$ (277)</b>	<b>\$ 960</b>
Additions	1,186	-	1,186
Disposals	(243)	60	(183)
Depreciation		(314)	(314)
<b>Balance—December 31, 2017</b>	<b>\$ 2,180</b>	<b>\$ (531)</b>	<b>\$ 1,649</b>
Additions	2,851	-	2,851
Disposals	-	-	-
Depreciation	-	(438)	(438)
<b>Balance—December 31, 2018</b>	<b>\$ 5,031</b>	<b>\$ (969)</b>	<b>\$ 4,063</b>

# INDUS HOLDING GROUP OF COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Depreciation expense for the years ended December 31, 2018, and December 31, 2017 totaled \$438 and \$314, respectively, of which \$354 and \$249 is included in cost of goods sold.

## 7. GOODWILL AND INTANGIBLE ASSETS

As of December 31, 2018, and December 31, 2017 goodwill and intangible assets consisted of the following:

Years Ended December 31, (in thousands, \$US)	2018	2017	Weighted Average Amortization Period (in years)
Goodwill	\$ 357	\$	
Intangibles:			
Branding rights	\$ 250	\$ 250	15
Accumulated amortization	(60)	(43)	
<b>Total other intangibles, net</b>	<b>\$ 190</b>	<b>\$ 207</b>	

Intangible assets with finite lives are amortized over their estimated useful lives. Amortization periods of assets with finite lives are based on management's estimates at the date of acquisition. The Company recorded amortization expense of \$17 and \$17 for the years ended December 31, 2018 and December 31, 2017, respectively.

Based on the amortizable intangible assets recorded at December 31, 2018, the Company estimates that amortization expense for our existing other intangible assets will be approximately \$17 for each of the fiscal years ending December 31, 2019 through 2024. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives or other relevant factors or changes.

## 8. INVESTMENTS

The Company from time to time acquires interest in various corporate entities for investment purposes. The investments are measured at FVTPL and are classified as Level 3 in the fair value hierarchy in accordance with IFRS 9 *Financial Instruments*.

In the fourth quarter of 2018, the Company acquired an interest for \$148 in a long-standing business partner who creates and markets cannabis brands. As of December 31, 2018, the initial cost of the investment approximates its fair value. As such, no change in value has been recognized in the statement of operations for the year ended December 31, 2018.

In October 2017, the Company issued 325 shares of common stock valued at \$650 in exchange for shares in Haight & Ashbury Corp, a technology company developing an e-commerce platform. During the third quarter of 2018, the Company made an assessment of the fair value of the investment using a discounted cash flow model. The critical assumptions in the discounted cash flow model included revenues, working capital and a discount rate (developed using a weighted average cost of capital analysis). Management exercises judgment in developing these assumptions. Certain of these assumptions are based upon industry projections, facts specific to the investee, and consideration of our long-term view for the investment. As of December 31, 2018, the Company determined that the carrying value of the

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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investment approximates its fair value. As such, no change in value has been recognized in the statement of operations for the year ended December 31, 2018.

**9. CAPITALIZATION AND EQUITY TRANSACTIONS****Series B Convertible Preferred Stock**

In March 2018, the Company initiated a \$15.0 million Series B Preferred Stock Agreement, which was subsequently increased to \$46.0 million, whereby the preferred shares could be purchased for approximately \$4.5057 per share, or existing debt could be exchanged at a 20% discount from the offering price, or approximately \$3.6046 per share. As a result of the stock offering, the Company's convertible notes automatically converted to common shares in May 2018.

On October 25, 2018, the Company completed its \$46.3 million Series B Preferred Stock Offering. The Company issued 9.8 million shares of Series B preferred stock and 1.9 million shares of common stock. Proceeds from the offering consisted of the conversion of \$13.0 million in outstanding debt and accrued interest into Series B preferred shares, including \$4.0 million of convertible debt and accrued interest into common shares; and the receipt of \$29.8 million in cash, \$0.3 M investment in affiliate, and \$3.2 in subscription receivable. The weighted average issue price of the Series B shares was \$4.2775 and of the common shares was \$2.0348.

Equity issuance costs associated with the financing round have been applied as a reduction of the preferred stock balance for the applicable financing round.

The rights, preferences, and privileges of the preferred stock as of December 31, 2018 are listed below:

- **Conversion Rights** — Each share of preferred stock, at the option of its holder, is convertible into shares of common stock on a one-for-one basis, subject to adjustment. For convertible preferred stock other than Series A convertible preferred stock, conversion will occur automatically upon either (a) the closing of a registered public offering of the Company's common stock in the United States or Canada that yields aggregate gross proceeds to the Company of at least \$50.0 million, before underwriting discounts and commissions, or (b) upon a majority vote of the outstanding shares of convertible preferred stock.
- **Dividend Rights** — Holders of the preferred shares, in preference to common shares, are entitled to cash dividends at the rate of six percent (6%) of the applicable original issue price per annum on each outstanding share. Dividends are noncumulative and will be payable only when declared by the Company's Board of Directors ("Board"). In the event dividends are paid on any share of common stock, an additional dividend will be paid on all outstanding shares of Series B preferred stock in a per share amount equal (on an as-if-converted to Common Stock basis) to the amount paid or set aside for each share of common stock.
- **Liquidation Preference** — In the event of a liquidation, dissolution, or winding-up of the Company or any deemed liquidation event set forth in the restated certificate of incorporation, holders of the preferred stock are entitled to a per share liquidation preference equal to the greater of (a) the original issue price, as adjusted for stock splits, stock dividends reclassification and the like, for such series of preferred stock, plus any declared, but unpaid dividends and (b) the amount that would have been payable had all shares of such series of preferred stock converted into common stock. Thereafter, proceeds will be distributed pro rata to the holders of the outstanding common stock.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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- Voting Rights — Holders of preferred stock are generally entitled to vote together with holders of common stock on matters presented for stockholder action, in addition to any other votes as provided by law or other provisions of the restated certificate of incorporation.

In October 2018, the Company issued 77 shares of common stock valued at \$350 as consideration for its 50% contribution to the Dametra joint venture. Refer to *Note 3 Acquisitions and Joint Ventures* for further discussion.

### Series A and A2 Convertible Preferred Stock

As of December 31, 2018, the Company has issued Series A and Series A2 convertible preferred stock through various rounds of financing. Equity issuance costs associated with each of the financing rounds have been applied as a reduction of the preferred stock balances for the applicable financing round. During the year ended December 31, 2016, the Company issued 2,359 shares of Series A2 convertible preferred stock at an issue price of approximately \$1.0174 in exchange for \$2.4 million of cash.

The rights, preferences, and privileges of the convertible preferred stock as of December 31, 2017 and 2016, are listed below:

- Conversion Rights — Each share of convertible preferred stock, at the option of its holder, is convertible into shares of common stock on a one-for-one basis, subject to adjustment. For convertible preferred stock other than Series A convertible preferred stock, conversion will occur automatically upon either (a) the closing of a registered public offering of the Company's common stock in the United States or Canada that yields aggregate gross proceeds to the Company of at least \$50.0 million, before underwriting discounts and commissions, or (b) upon a majority vote of the outstanding shares of convertible preferred stock.
- Dividend Rights — Dividends are noncumulative and are participating, in that after preferred stockholders receive dividends in the full preferential amount for the preferred stock, if the Company's Board of Directors ("Board") declares additional dividends, then such additional dividends will be paid out pro rata on the common stock and preferred stock on a pari passu basis. No dividend can be paid to common stockholders unless and until a per share dividend of at least 6% of the original issue price for a given series of preferred stock is first paid to the holders of such preferred stock.
- Liquidation Preference — In the event of a liquidation, dissolution, or winding-up of the Company or any deemed liquidation event set forth in the restated certificate of incorporation, holders of the preferred stock are entitled to a per share liquidation preference equal to the greater of (a) the original issue price, as adjusted for stock splits, stock dividends reclassification and the like, for such series of preferred stock, plus any declared, but unpaid dividends and (b) the amount that would have been payable had all shares of such series of preferred stock converted into common stock. Thereafter, proceeds will be distributed pro rata to the holders of the outstanding common stock.
- Voting Rights — Holders of preferred stock are generally entitled to vote together with holders of common stock on matters presented for stockholder action, in addition to any other votes as provided by law or other provisions of the restated certificate of incorporation.

# INDUS HOLDING GROUP OF COMPANIES

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### Common Stock

During the year ended December 31, 2018, the Company issued 10 shares of common stock valued at \$20 as partial consideration for the acquisition of Acme assets. Refer to *Note 3 Acquisitions* for further detail.

During the year ended December 31, 2018, \$4.0 million of the Company's convertible notes and accrued interest converted to 1,947 shares of common stock as a result of the series B convertible preferred share offering discussed above.

During the year ended December 31, 2017, the Company issued 325 shares of common stock valued at \$650 in exchange for shares in Haight & Ashbury Corp, a technology company developing an e-commerce platform.

### Common Stock Warrants

During 2018, the Company issued 155 compensatory warrants at \$2.0348 per share to a director of the company in exchange for services rendered. Consulting fees charged to operations were \$87. As the fair market value of these services was not readily determinable, these services were valued based on the fair market value determined using the Black-Scholes option pricing model. As of December 31, 2018, none of the warrants outstanding have been exercised.

During 2016 and 2017, the Company issued warrants to purchase a total of 2.3 million shares of common stock at \$1.0174 price per share in connection with entering into a senior secured loan commitment agreement. These warrants expire 10 years after the issuance date and are fully vested upon issuance. The grant date fair value of the warrants was \$770 amortizable over the two-year contractual term of the senior notes. At December 2018 the unamortized balance was classified within current liabilities. The fair value of the warrants was estimated using the Black-Scholes option-pricing model with the following assumptions: exercise price \$1.0174, volatility 25%, 10-year life, 0% dividend yield, and a risk-free interest rate of 1.84%. As of December 31, 2018, none of the warrants outstanding have been exercised.

## 10. DEBT

### Convertible Notes

In 2017 the Company entered into a \$3.7 million Convertible Note Purchase Agreement. The notes bear interest at 8% per annum, compounded annually. During May 2018, the entire principal amount and accrued interest on the notes were automatically converted into shares issued by the Company in its Series B convertible preferred stock offering. Refer to *Note 9 Capitalization and Equity Transactions* for further information.

For the years ended December 31, 2018 and 2017, the Company recorded accrued interest of \$106 and \$148 which has been included in interest expense (income) in the accompanying statements of operations.

### Notes Payable

The Company has the following notes payable outstanding as of December 31, 2018.

*Senior Secured Notes* – In 2017 and 2016 the Company issued \$250 thousand and \$4.25 million, respectively, in senior secured notes bearing interest at 12% annually. The notes had a maturity date of October 2018 and were secured by

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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certain assets of the company. Interest was paid monthly. For the year ended December 31, 2018, \$4.4 million of the notes were converted into Series B convertible preferred shares and \$0.1 million were paid at maturity.

*Promissory Notes Payable* – In 2017 and first quarter 2018 the Company issued \$3.5 million in promissory notes payable bearing interest at 18% annually maturing in December 2018. Interest was paid at the maturity of the notes. For the year ended December 31, 2018, \$3.25 million of the notes and accrued interest were converted into Series B convertible preferred shares. The remaining balance, \$250 was paid at maturity.

*Bridge Financing* – In 2017 the Company issued \$1.1 million in bridge financing notes to directors bearing interest of 16% until February 10, 2018 at which time the interest rate increases to 18%. In 2018, \$450 of the notes and accrued were converted to Series B convertible preferred shares and \$600 were paid.

*Edibles Management Payable* – In March 2015, the Company entered into an agreement to pay Edibles Management, a partnership owned by the co-founders of the Company, a fee equal to 2% of gross revenues up to \$2.0 million per year. The management fee is accrued at 2% per month and compensates the co-founders for their providing acquisition, management, product development, and advisory services. The agreement was terminated effective June 30, 2018 and a life-to-date fee of \$576 was paid in the fourth quarter of 2018.

## 11. SHARE-BASED COMPENSATION

At December 31, 2018, the Company had the following share-based plan:

### 2016 Indus Holding Company Stock Incentive Plan

In 2016, the Company adopted the Indus Holding Company Stock Incentive Plan (the “Plan”). The Plan provides for the grant of options as either non-statutory stock options or incentive stock options and restricted stock units to employees, officers, directors, and consultants of the Company to attract and retain persons of ability to perform services for the Company and to reward such individuals who contribute to the achievement by the Company of its economic objectives. The Plan provides for the grant and issuance of up to 2,278 shares of Company common stock.

The Plan is administered by the Board or a committee appointed by the Board, which determines the persons to whom the awards will be granted, the type of awards to be granted, the number of awards to be granted, and the specific terms of each grant, including the vesting thereof, subject to the provisions of the Plan.

### Share-based Compensation

During the years ended December 31, 2018 and 2017, share-based compensation expense was \$270 and \$92, respectively, and is included as a component of operating expenses in the accompanying statements of operations.

### Stock Options

The fair value of stock options granted was measured on the grant date. The grant date for these awards is equal to the measurement date. The fair value of each award is recognized as an expense over the requisite vesting period. Stock options granted generally have a contractual term of 10 years and vest over a 4-year period, with 25% of the stock options vesting annually on the anniversary of the date of grant. The Plan allows for early exercise of options prior to full vesting as determined by the Board and set forth in the stock option agreements governing such options. For the years ended December 31, 2018 and 2017, the amount of shares subject to repurchase was not material.



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### AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

The Company uses the Black-Scholes option-pricing model to value stock options. The Black-Scholes model requires specified inputs to determine the fair value of share-based awards, consisting of (i) the expected volatility of the Company's common stock over the expected option life, (ii) the risk-free interest rate, (iii) the expected dividend yield, and (iv) the expected option life. Stock option grants during the years ended December 31, 2018 and 2017, were valued using the following weighted-average assumptions:

Year Ended December 31,	2018	2017
Expected volatility	50%	50%
Dividend yield	0%	0%
Risk-free interest rate	2.62%	2.04%
Expected term in years	6.24	6.25

- Expected Volatility — The expected volatility is based on an analysis of comparable public company volatilities.
- Dividend Yield — The Company has not, and does not, intend to pay dividends.
- Risk-Free Interest Rate — The Company applies the risk-free interest rate based on the US Treasury yield in effect at the time of the grant.
- Expected Term in Years — The expected term represents the average time that options that vest are expected to be outstanding. The Company does not have sufficient history of exercise of stock options to estimate the expected term for employee stock options and, thus, calculates expected term using the simplified method, based on the average of the vesting term and the original contract term of the options.

The fair value of the common stock at the grant date was determined by the Board based upon numerous objective and subjective factors including valuations, preferred stock transactions with third parties, current operating and financial performance, management estimates, and future expectations.

Compensation expense for non-employee stock options is calculated using the Black-Scholes option valuation model and is recorded as the options vest. Non-employee options subject to vesting are required to be periodically revalued over their service period, which is generally the same as the vesting period.

A summary of the stock option activity for employees and non-employees for the years ended December 31, 2018 and 2017, was as follows:

(in thousands except per share amounts, \$US)	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
<b>Outstanding—December 31, 2017</b>	<b>842</b>	<b>\$1.45</b>	<b>7.7</b>	
Granted	815	2.17		
Exercised	(19)	1.02		
Cancelled	(213)	1.55		
<b>Outstanding—December 31, 2018</b>	<b>1,425</b>	<b>\$1.87</b>	<b>9.0</b>	
<b>Vested and exercisable—December 31, 2018</b>	<b>301</b>	<b>\$1.33</b>	<b>8.4</b>	<b>\$ 1,357</b>
<b>Vested and expected to vest—December 31, 2018</b>	<b>1,425</b>	<b>\$1.87</b>	<b>9.0</b>	<b>\$ 6,421</b>

The weighted-average grant-date fair value for stock options granted during the years ended December 31, 2018 and

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2017, was \$2.17 and \$2.03 per share, respectively. As of December 31, 2018 and 2017, the amount of unrecognized compensation expense related to non-vested stock options was \$943 and \$316, respectively. The unrecognized compensation expense is expected to be recognized over a weighted-average period of 3.2 years.

*Restricted Stock Units* — As of December 31, 2018, and December 31, 2017, there were no restricted stock units outstanding and to date no restricted stock units have been granted.

## 12. INCOME TAXES

The provision for income taxes for the years ended December 31, 2018 and 2017, consists of the following:

Years Ended December 31, (in thousands, \$US)	2018	2017
<b>Current</b>		
Federal	\$ -	\$ -
State	97	22
<b>Total Current</b>	<b>97</b>	<b>22</b>
<b>Deferred tax expense (benefit)</b>		
Federal	(601)	(1,438)
State	(646)	(1,118)
<b>Total deferred tax benefit</b>	<b>(1,247)</b>	<b>(2,556)</b>
Valuation allowance	1,247	2,556
<b>Income tax expense</b>	<b>\$ 97</b>	<b>\$ 22</b>

As the Company operates in the cannabis industry, it is subject to the limitations of IRC Section 280E, under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E. Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss.

In December 2017, the United States (“U.S.”) Congress passed and the President signed legislation commonly referred to as the Tax Cuts and Jobs Act, which contains many significant changes to the U.S. tax laws, including, but not limited to, reducing the U.S. federal corporate tax rate from 35% to 21% and utilization limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017 to 80% of taxable income with an indefinite carryforward period. As the Company has a full valuation allowance against its U.S. deferred tax assets, the revaluation of net deferred tax assets resulting from the reduction in the U.S. federal corporate income tax rate did not impact the Company’s effective tax rate. Additional guidance may be issued by the U.S. Treasury Department, the Internal Revenue Service (“IRS”), or other standard-setting bodies, which may result in adjustments to the amounts recorded, including the valuation allowance. Significant components of the Company’s deferred tax assets and liabilities at December 31, 2018 and 2017, are as follows:

# INDUS HOLDING GROUP OF COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Years Ended December 31,

(in thousands)

	2018	2017
<b>Deferred tax assets</b>		
Net operating loss carryforwards	\$ 2,553	\$ 2,553
Accruals and reserves	-	-
Depreciation	106	68
Other	-	-
Valuation allowance	(1,247)	(2,556)
<b>Total deferred tax assets</b>	<b>1,412</b>	<b>64</b>
Accruals and reserves	-	37
Share-based compensation	-	27
<b>Total deferred tax liabilities</b>	<b>-</b>	<b>64</b>
<b>Net deferred tax liabilities</b>	<b>\$ 1,412</b>	<b>\$ -</b>

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative losses incurred through the year ended December 31, 2018. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth. On the basis of this evaluation, the Company has determined that it is more likely than not that the Company will not recognize the benefits of the federal and state net deferred tax assets, and, as a result, a full valuation allowance totaling \$1.2 million and \$2.6 million has been recorded against its net deferred tax assets as of December 31, 2018 and 2017. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

As of December 31, 2018 and 2017, the Company had federal net operating loss ("NOL") carryforwards of approximately \$0.6 million and \$1.4 million respectively, portions of which will begin to expire in 2035. The Company had state NOL carryforwards of approximately \$0.6 million and \$1.1 million, respectively, which will begin to expire in 2035. Utilization of some of the federal and state NOL carryforwards to reduce future income taxes will depend on the Company's ability to generate sufficient taxable income prior to the expiration of the carryforwards. Under the provisions of the Internal Revenue Code, the NOLs and tax credit carryforwards are subject to review and possible adjustment by the IRS and state tax authorities. NOLs and tax credit carryforwards may become subject to an annual limitation in the event of certain cumulative changes in the ownership interest of significant stockholders over a three-year period in excess of 50%, as defined under Sections 382 and 383 of the Internal Revenue Code, as well as similar state provisions. This could limit the amount of tax attributes that can be utilized annually to offset future taxable income or tax liabilities. The amount of the annual limitation is determined based on the value of the Company immediately prior to the ownership change. The Company has not performed a comprehensive Section 382 study to determine any potential loss limitation with regard to the NOL carryforwards and tax credits. Any limitations would not impact the results of the Company's operations and cash flows because the Company has recorded a valuation allowance against its net deferred tax assets.

The Company recognizes the impact of a tax position in the financial statements if that position is more likely than not of being sustained on a tax return upon examination by the relevant taxing authority, based on the technical merits of the position. As of December 31, 2018 and 2017, the Company had no unrecognized tax benefits.

# INDUS HOLDING GROUP OF COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

The Company recognizes interest and penalties related to income tax matters in income tax expense. As of December 31, 2018 and 2017, the Company had no accrued interest and penalties related to uncertain tax positions.

The Company is subject to examination for its US federal and state jurisdictions for each year in which a tax return was filed, due to the existence of NOL carryforwards. These tax filings in major U.S. jurisdictions are open to examination by tax authorities, such as the IRS from 2015 forward and by tax authorities in various US states from 2015 forward.

### 13. COMMITMENTS AND CONTINGENCIES

#### Operating Leases

The Company leases facilities and certain equipment under operating lease arrangements expiring in various years through fiscal year 2027. The aggregate minimum annual lease payments under operating leases in effect on December 31, 2018, are as follows:

#### **At December 31, 2018**

(in thousands, \$US)

Less than 1 year	\$ 2,125
1 - 3 years	6,159
4 - 5 Years	4,031
Greater than 5 years	4,362
<b>Total</b>	<b>\$ 16,678</b>

The Company's lease agreements include early termination provisions at the option of the Company. The future obligations table above does not give effect to the exercising of any such provisions.

Rent expense for the years ended December 31, 2018 and 2017, was \$1,823 and \$797, respectively.

#### 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 regulation as of December 31, 2018, 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.

#### Litigation and Claims

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of December 31, 2018, 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.

# INDUS HOLDING GROUP OF COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

### 14. FINANCE LEASES

The Company has finance leases for certain equipment and vehicles used in its operations. Imputed interest ranges from 7% to 16% have been used in determining the minimum lease payments. The aggregate minimum annual lease payments under finance leases in effect on December 31, 2018, are as follows:

At December 31, 2018

(in thousands, \$US)

Less than 1 year	\$	50
1 - 3 years		125
4 - 5 Years		8
Greater than 5 years		-
<b>Total</b>	<b>\$</b>	<b>183</b>

The current portion of finance lease obligations is recorded in other current liabilities and the non-current portion of finance lease obligations is recorded in other long-term liabilities in the accompanying balance sheets.

### 15. GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended December 31, 2018, and December 31, 2017, general and administrative expenses were comprised of:

Years Ended December 31,

(in thousands, \$US)

	2017	2017
Salaries and benefits	\$ 3,452	\$ 2,083
Professional fees	640	605
Rent	526	485
Facility costs	900	351
Insurance	230	262
Travel and entertainment	494	207
Computer, telephone and internet	255	164
Supplies	556	146
Share-based compensation	270	92
Other general and administrative expenses	1,456	914
<b>Total general and administrative expenses</b>	<b>\$ 8,779</b>	<b>\$ 5,309</b>

### 16. RELATED-PARTY TRANSACTIONS

Indus receives certain administrative, operational and consulting services through a Management Services Agreement with Edibles Management, LLC ("EM"). EM is a limited liability company owned by the co-founders of Indus and was formed to provide Indus with certain administrative functions comprising: cultivation, distribution, and production operations support; general administration; corporate development; human resources; finance and accounting; marketing; sales; legal and compliance. The agreement provides for the dollar-for-dollar reimbursement of expenses incurred by EM in performance of its services. Amounts paid to EM for the years ended December 31, 2018 and 2017 were \$6,104 and \$5,217, respectively.

# INDUS HOLDING GROUP OF COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

In April 2015, Indus entered into a services agreement with Olympic Management Group (“OMG”), for advisory and technology support services, including the access and use of software licensed to OMG to perform certain data processing and enterprise resource planning (ERP) operational services. OMG is owned by one of the Company’s co-founders. The agreement provides for the dollar-for-dollar reimbursement of expenses incurred by OMG in performance of its services. Amounts paid to OMG for the years ended December 31, 2018 and 2017 were \$107 and \$78, respectively.

## 17. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments and other risks to which it is exposed and assess the impact and likelihood of those risks. These risks include: market, credit, liquidity, asset forfeiture, banking and interest rate risk.

### Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at December 31, 2018 and December 31, 2017 is the carrying amount of cash and cash equivalents and accounts receivable. All cash and cash equivalents are placed with U.S. financial institutions.

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk but has limited risk as a significant portion of its sales are transacted with cash.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company’s approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

In addition to the commitments outlined in Note 13, the Company has the following contractual obligations:

December 31, (in thousands, \$US)	Maturity: < 1 Year		Maturity: > 1 Year	
	2018	2017	2017	2017
Accounts payable and				
Other accrued liabilities	\$ 4,289	\$ 4,045	\$ -	\$ -

### Market Risk

Strategic and operational risks arise if the Company fails to carry out business operations and/or to raise sufficient equity and/or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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### Interest Rate Risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company's interest-bearing loans and borrowings are all at fixed interest rates; therefore, the Company is not exposed to interest rate risk on these financial liabilities. The Company considers interest rate risk to be immaterial.

### Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. Cannabis is a developing market and likely subject to volatile and possibly declining prices year over year as a result of increased competition. Because adult-use cannabis is a newly commercialized and regulated industry in the State of California, historical price data is either not available or not predictive of future price levels. There may be downward pressure on the average price for cannabis. There can be no assurance that price volatility will be favorable to Indus or in line with expectations. Pricing will depend on general factors including, but not limited to, the number of licenses granted by the local and state governments, the supply such licensees are able to generate and consumer demand for cannabis. An adverse change in cannabis prices, or in investors' beliefs about trends in those prices, could have a material adverse outcome on the Company and its valuation.

### Asset forfeiture risk

Because the cannabis industry remains illegal under U.S. 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 were 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.

### Banking risk

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that U.S. 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 U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the Company, its subsidiaries and investee companies, and leaves their cash holdings vulnerable.

## 18. SEGMENT INFORMATION

The Company's operations are comprised of a single reporting operating segment engaged in the production and sale of cannabis products in the state of California in the United States. As the operations comprise a single reporting segment, amounts disclosed in the financial statements also represent a single reporting segment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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### 19. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through May 21, 2019, the date the financial statements were available to be issued.

#### Acquisitions

On May 14, 2019, the Company entered into a definitive agreement to acquire the assets of W The Brand (“W Vapes”), a multi-state manufacturer and distributor of cannabis concentrates, cartridges and disposable pens, in a cash and stock transaction. Under the terms of the agreement, the purchase consideration to W Vapes shareholders consists of \$10 million in cash and \$10 million in shares of Indus Holdings, Inc. common equity (based on a deemed value of CDN\$15.65 per share). The transaction includes the operating assets; all intellectual property; and cultivation, manufacturing, and distribution licenses and operations in Las Vegas, Nevada and Portland, Oregon. In connection with the transaction, Indus and W Vapes entered into a management services agreement that terminates upon completion of the acquisition. The completion of the acquisition is subject to customary closing conditions.

On April 18, 2019, the Company acquired all of the assets and global rights and business interests associated with the brand Humble Flower Co. for a purchase price of \$750 thousand that will be paid as and if financial performance targets are met during the period beginning on April 19, 2019 and ending on April 18, 2023. The acquisition marks the Company’s expansion into cannabis-infused topical creams, balms, and oils.

In respect to the above acquisitions, the Company is in the process of identifying assets acquired and liabilities assumed, and as such, net assets are preliminarily recorded as intangible assets unless otherwise noted until all measurement period adjustments are considered.

#### Investments

In March 2019, the Company entered into a strategic partnership with Orchid Ventures (“Orchid”). Under the terms of the partnership, Indus secured the exclusive sales and distribution rights to Orchid’s line of Orchid Essentials vape devices in California. In addition, Indus acquired an interest in Orchid for \$1.5 million during Orchid’s RTO financing round. The investment is recorded at fair value in the Long-term Investment section of the Company’s Consolidated Statement of Financial Position.

Investments in public entities are measured at FVTPL and are classified as Level 1 in the fair value hierarchy. Refer to Note 2 *Significant Accounting Policies, Financial Instruments* for further discussion.

#### Reverse Takeover and Private Placement

On November 13, 2018, Indus Holding Company (a wholly-owned subsidiary of Indus Holdings Inc.) and Mezzotin Minerals Inc. (“Mezzotin”) entered into a combination agreement whereby the parties agreed to combine their respective businesses, which would result in the reverse takeover of Mezzotin by the security holders of Indus. On March 29, 2019, the Company and Mezzotin signed the Definitive Agreement subject to regulatory approval and on April 26, 2019 concluded the transaction. In connection with the agreement, Mezzotin changed its name from Mezzotin Minerals Inc. to Indus Holdings Inc. Effective at the close of markets on April 29, 2019, the common shares of the Company (“Existing Mezzotin Shares”) were delisted from the NEX board of the TSX Venture Exchange, and the



# INDUS HOLDING GROUP OF COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### AS AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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subordinate voting shares of the Company (“Subordinate Voting Shares”) commenced trading on the Canadian Stock Exchange effective at market open on April 30, 2019, under the new symbol “INDS”.

Pursuant to the Transaction, the Existing Mezzotin Shares were redesignated as a new class of Subordinate Voting Shares on the basis of one Subordinate Voting Shares for every 485.3 Existing Mezzotin Shares. In addition, Indus created a new class of voting common shares and a new class of non-voting redeemable common shares (“Convertible Shares”) and the outstanding shares of Indus (“Indus Shares”) were reclassified as Convertible Shares at a rate of one (1) Convertible Share for every one (1) Indus Share held. The Company also amended its articles in connection with the Transaction to (i) continue from the Province of Ontario to the Province of British Columbia; and (ii) change its name from Mezzotin Minerals Inc. to Indus Holdings, Inc.

Under the Transaction: (i) non-U.S. shareholders of Indus (and such U.S. shareholders of Indus as elected to participate) then contributed their Convertible Shares to the Company in exchange for Subordinate Voting Shares at a rate of one (1) Subordinate Voting Share for every one (1) Convertible Share contributed, and on a going-forward basis, U.S. shareholders of Indus may from time to time elect to redeem their Convertible Shares in exchange for Subordinate Voting Shares at the same rate (or under certain circumstances for the cash value of such shares as provided in the share terms for the Convertible Shares); (ii) a designated founder of Indus subscribed for non-participating, super-voting shares of the Company carrying voting rights that, in the aggregate, represent approximately 85% of the voting rights of the Company upon completion of the Transaction on a fully diluted basis; (iii) all warrants of Indus (including compensation options issued to financial advisors) remained outstanding and will now entitle the holders thereof to acquire Convertible Shares on the same terms and conditions and on an economically equivalent basis; and (iv) all stock options of Indus outstanding under Indus’ existing equity incentive plan were assumed by the Company and will now entitle the holders thereof to acquire Subordinate Voting Shares on the same terms and conditions and on an economically equivalent basis in lieu of securities of Indus.

In connection with the Transaction, Indus completed a private placement offering (the “Private Placement”) through a special purpose finance company (“FinanceCo”) on April 2, 2019, pursuant to which FinanceCo issued an aggregate of 3,436 subscription receipts (“Subscription Receipts”) at a price of CDN\$15.65 per Subscription Receipt to raise aggregate gross proceeds of approximately US\$40 million. The gross proceeds of the Private Placement, less certain associated expenses, were deposited into escrow (the “Escrowed Proceeds”) pending satisfaction of certain specified release conditions (the “Escrow Release Conditions”), all of which were satisfied immediately prior to the completion of the Transaction. As a result, the Escrowed Proceeds were released to FinanceCo prior to the closing of the Transaction, and each Subscription Receipt was automatically converted, for no additional consideration, into one common share of FinanceCo. Following satisfaction of the Escrow Release Conditions, in connection with the Transaction, the Company acquired all of the issued and outstanding FinanceCo shares pursuant to a three-cornered amalgamation, and the former holders thereof (including the former holders of FinanceCo Shares acquired upon conversion of the Subscription Receipts) each received one Subordinate Voting Share in exchange for each FinanceCo share held.

Also in connection with the Private Placement, FinanceCo issued an aggregate of 198 broker warrants to the agents under the offering as partial consideration for their services in connection with the Private Placement, each of which was exercisable to acquire one FinanceCo share at an exercise price of CDN\$15.65 for a period of two (2) years from the satisfaction of the Escrow Release Conditions. Upon completion of the amalgamation, the Broker Warrants were

exchanged for compensation options of the Company which are exercisable to acquire Subordinate Voting Shares in lieu of FinanceCo Shares, otherwise upon the same terms and conditions.