

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND JUNE 30, 2018

This management discussion and analysis ("MD&A") of the financial condition and results of operations of Indus Holdings, Inc. (the "Company", "we", "our", "us" or "Indus"), formerly known as Mezzotin Minerals Inc., is for the three and six months ended June 30, 2019 and 2018. It is supplemental to, and should be read in conjunction with, the Company's unaudited condensed interim consolidated financial statements and the accompanying notes for the three and six months ended June 30, 2019 and 2018. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in this MD&A are expressed in thousands of United States dollars (" \$" or "US\$"), unless otherwise indicated.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators.

This MD&A contains certain "forward-looking statements" and "forward-looking information" as defined under applicable Canadian and United States securities laws. Please refer to the discussion of forward-looking statements and information set out under the heading "Cautionary Note Regarding Forward-Looking Information", located at the beginning of the Company's Listing Statement filed on SEDAR. As a result of many factors, the Company's actual results may differ materially from those anticipated in these forward-looking statements and information.

Non-IFRS Financial Measures

The Company has provided certain supplemental non-IFRS financial measures in this MD&A. Where the Company has provided such non-IFRS financial measures, we have also provided a reconciliation to the most comparable IFRS financial measure. These supplemental non-IFRS financial measures should not be considered superior to, as a substitute for or as an alternative to, and should only be considered in conjunction with, the IFRS financial measures presented herein.

In this MD&A, reference is made to gross profit before fair value adjustments or adjusted gross profit, adjusted gross margin, adjusted EBITDA, and working capital which are not measures of financial performance under IFRS. The Company calculates each as follows:

- Gross profit before fair value adjustments (adjusted gross profit) is equal to gross profit less the non-cash increase (plus the non-cash decrease) in the fair value adjustments on sale of inventory and on growth of biological assets, if any. Management believes this measure provides useful information as it removes fair value metrics tied to increasing stock levels (decreasing stock levels) required by IFRS.*
- Adjusted gross margin is gross profit before fair value adjustments divided by net revenue. Management believes this measure provides useful information as it represents the gross profit based on the Company's cost to produce inventory sold and removes fair value metrics tied to increasing stock levels (decreasing stock levels) required by IFRS.*
- Adjusted EBITDA is net income (loss), excluding the effects of income taxes (recovery); net interest expense; depreciation and amortization; non-cash fair value adjustments on investments; unrealized foreign currency gains/losses; non-cash fair value adjustments on sale of inventory and on growth of biological assets; and other*

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

transactional and special expenses, such as acquisition costs and expenses related to our reverse takeover, which are inconsistent in amount and frequency and are not what we consider as typical of our continuing operations. Management believes this measure provides useful information as it is a commonly used measure in the capital markets and as it is a close proxy for repeatable cash generated by operations.

- *Working capital is current assets less current liabilities. Management believes the calculation of working capital provides additional information to investors about the Company's liquidity.*

These measures are not necessarily comparable to similarly titled measures used by other companies.

This MD&A is prepared as of August 28, 2019.

1. OVERVIEW OF THE COMPANY

Indus is a California-based cannabis company with vertically integrated operations including large scale cultivation, extraction, processing, manufacturing, branding, packaging and wholesale distribution to licensed retail dispensaries statewide. Indus offers services supporting every step of the supply chain from seed to sale and an extensive portfolio of award-winning brands, including owned brands, such as Altai, Acme, and Moon, and agency brands, such as Dixie, Beboe and Legal.

The Company was founded by Robert Weakley who has played a pioneering role in the emergence of the regulated cannabis market in California. Together with co-founder Mark Ainsworth and the management team, he brought the vision for Indus to the industry in 2014 by developing Altai as its first brand of edibles. The Company leverages cutting-edge technology and is continuously developing its customer and partner networks of top-tier industry retailers and innovators. Indus is backed by an experienced team that is deeply in tune and integrated with industry partners and the Company's customers. Together, we are building a new American Industry, creating products that emphasize consumer safety while advancing changing perceptions of cannabis use.

The Company operates a 225,000 square foot cultivation facility in Monterey County and a manufacturing and laboratory facility in Salinas, California for production of extracts and distillates and branded and packaged cannabis flower, concentrates and edible products. The Company also distributes proprietary and third-party brands throughout the State of California and maintains warehouses and distribution vehicles in Central and Southern California.

In addition to owning cultivation, manufacturing and distribution cannabis licenses and operations, the Company also provides manufacturing, extraction and distribution services to third-party cannabis manufacturers and cannabis branding companies.

Indus' operations are comprised of the following companies:

- Indus Holding Company, wholly owned by Indus Holdings, Inc.
- Cypress Holding Company, wholly owned by Indus Holding Company
- Cypress Manufacturing Company, wholly owned by Indus Holding Company
- Shredibles LLC, of which the Indus Holding Company has a 70% ownership interest
- Indus Nevada LLC, wholly owned by Indus Holding Company

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

- Indus Oregon LLC, wholly owned by Indus Holding Company
- Indus Brand Management LLC, wholly owned by Indus Holding Company

The Company's corporate office and principal place of business is located at 19 Quail Run Circle, Salinas, California. As of June 30, 2019, the Company had 285 fulltime-equivalent employees.

Reverse Takeover

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. Mezzotin Minerals was originally incorporated under the Business Corporations Act (Ontario) on October 27, 2005 as Zoolander Corporation. On September 10, 2013, Zoolander changed its name to Mezzotin Minerals Inc. On April 26, 2019 the reverse takeover transaction concluded. In connection with the agreement, Mezzotin changed its name from Mezzotin Minerals Inc. to Indus Holdings, Inc. (the "Company", "Pubco", or "Indus"). 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 subordinate voting shares of the Company commenced trading on the Canadian Stock Exchange effective at market open on April 30, 2019, under the new symbol "INDS".

Indus Holding Company ("IHC"), a Delaware corporation, was formed in 2014. Indus Holdings, Inc. became the indirect parent of IHC in connection with the reverse takeover transaction. The comparative amounts presented for the three and six months ended June 30, 2018 are those of IHC.

Recent Developments

On June 12, 2019, the Company completed the acquisition of 70% of the outstanding capital stock of Shredibles LLC, a manufacturer of CBD infused health products. The Company transferred an aggregate consideration of \$240 comprised of 42.6 thousand subordinate voting shares with an acquisition-date fair value of \$5.64 per share. The acquisition is a strategic investment that expands the Company's brand portfolio into the CBD protein bar market and provides development opportunities for products with crossover offerings in CBD and THC versions.

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. When completed, the acquisition will enable Indus to expand our brand offerings to new customers in Nevada and Oregon. 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 management agreement provides Indus brands and services immediate access to the highly coveted Nevada market, which services more than 43 million tourists each year, and represents another significant step in Indus' national expansion plans. The completion of the acquisition is subject to regulatory approvals including the successful transfer of the Nevada and Oregon cannabis licenses to Indus.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

On May 1, 2019, the Company acquired all of the assets, global rights and business interests of Kaizen Inc. for a purchase price of \$556 that will be paid as and if financial performance targets are met during the period beginning on May 1, 2019 and ending on April 30, 2023. Kaizen is a premium brand offering a full spectrum of cannabis concentrates.

On April 18, 2019, the Company acquired all of the assets, global rights and business interests associated with the brand Humble Flower Co. for a purchase price of \$472 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.

The Company entered into an exclusive sales and distribution partnership with Platinum Vape. Created and distributed exclusively in California, the Platinum Vape portfolio includes high quality cannabis edibles, vape cartridges, flower, and pre-roll products.

In the first quarter, the Company entered into a strategic partnership with Orchid Ventures ("Orchid"), securing the exclusive sales and distribution rights to Orchid's line of vape devices in California. In addition, Indus acquired an interest in Orchid for \$1.5 million during Orchid's RTO financing round.

In recognition of its ongoing commitment to Monterey County and its contributions to the Northern California economy, Indus was awarded Monterey County Business Council's 2019 Agriculture Award.

On June 17, 2019, the Company announced that the executive officers and directors of the company agreed to enter into extended lock-up agreements. The voluntary lock-up agreements stipulate that these shareholders shall not assign, deal in, pledge, sell, trade or transfer in any manner whatsoever, or agree to do so in the future, any of the shares or any beneficial interest in them, before December 1, 2019.

Operations and Regulatory Overview

We believe Indus' operations are in full compliance with all applicable state and local laws, regulations and licensing requirements in the states in which we operate. Substantially all our revenue is derived from the U.S. cannabis industry, which is illegal under U.S. federal law. For a regulatory overview of the states in which we operate and information about risks related to U.S. cannabis operations, please refer to the Company's Listing Statement filed under the Company's profile on SEDAR.

Reconciliations of Non-IFRS Financial and Performance Measures

The table below reconciles Net Loss to Adjusted EBITDA for the periods indicated.

INDUS HOLDINGS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

Periods Ended June 30, (in thousands)	Three Months		Six Months	
	2019	2018	2019	2018
Net loss attributable to Indus Holdings, Inc. (IFRS)	\$ (7,841)	\$ (2,115)	\$ (12,776)	\$ (2,886)
Interest expense	378	438	1,161	947
Provision for income taxes	503	28	503	64
Depreciation in cost of goods sold	105	81	250	161
Depreciation and amortization in operating expenses	764	22	1,459	41
Investment and currency gains	(1,024)	-	(1,024)	-
Share-based compensation	379	43	510	77
Transaction and other special charges	1,751	-	1,751	-
Net effect of change in fair value of biological assets	1,217	568	1,862	(953)
Adjusted EBITDA (non-IFRS)	\$ (3,769)	\$ (935)	\$ (6,302)	\$ (2,548)

The table below reconciles Gross Profit and Gross Margin to Adjusted Gross Profit and Adjusted Gross Margin for the periods indicated.

Periods Ended June 30, (in thousands)	Three Months		Six Months	
	2019	2018	2019	2018
Gross Profit (IFRS)	291	516	994	2,299
<i>Adjustments</i>				
Net effect of change in fair value of biological assets	1,217	568	1,862	(953)
Adjusted gross profit (non-IFRS)	1,508	1,083	2,856	1,346
Adjusted gross margin (non-IFRS)	16%	32%	18%	24%

2. SELECTED FINANCIAL DATA

The following table presents selected financial data derived from the unaudited consolidated interim financial statements of the Company as at and for the three and six months ended June 30, 2019 and June 30, 2018. The selected consolidated financial information set out below may not be indicative of the Company's future performance.

INDUS HOLDINGS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

Period Ended June 30, (in thousands, except per share amounts)	Three Months		Six Months	
	2019	2018	2019	2018
Statement of Operations Data:				
Net revenue	\$ 9,689	\$ 3,423	\$ 16,122	\$ 5,723
Cost of goods sold	\$ 8,181	\$ 2,339	\$ 13,266	\$ 4,377
Net effect of change in fair value of biological assets	\$ 1,217	\$ 568	\$ 1,862	\$ (953)
Gross profit	\$ 291	\$ 516	\$ 994	\$ 2,299
Adjusted gross profit ⁽¹⁾	\$ 1,508	\$ 1,083	\$ 2,856	\$ 1,346
Adjusted gross margin ⁽¹⁾	15.6%	31.6%	17.7%	23.5%
Total operating expenses ⁽²⁾	\$ 8,376	\$ 2,157	\$ 12,837	\$ 4,179
Total other income/(expense) ⁽³⁾	\$ 747	\$ (445)	\$ (429)	\$ (943)
Provision for income taxes	\$ (503)	\$ (28)	\$ (503)	\$ (64)
Net loss attributable to Indus Holdings Inc. ⁽²⁾⁽³⁾	\$ (7,841)	\$ (2,115)	\$ (12,776)	\$ (2,886)
Per Share Data:				
Net loss attributable to Indus Holdings Inc. per share:				
Basic ⁽²⁾⁽³⁾	\$ (0.24)		\$ (0.40)	
Diluted ⁽²⁾⁽³⁾	\$ -		\$ -	
Shares used in per share calculation:				
Basic	32,194		32,190	
Diluted	32,194		32,190	

⁽¹⁾ Non-IFRS measure

⁽²⁾ Results include charges associated with acquisitions and the Company's reverse takeover of \$1,751 recorded in the second quarter of fiscal 2019, an after tax impact of (\$.05) per share.

⁽³⁾ Results include an \$841 unrealized gain on investment in equity securities and \$182 in unrealized foreign currency gains recorded in the second quarter 2019, on a before and after tax basis equal to \$.03 per share.

(in thousands)	June 30,	
	2019	2018
Balance Sheet Data:		
Cash and cash equivalents	\$ 14,809	\$ 10,310
Restricted cash	\$ 10,000	\$ -
Working capital	\$ 47,626	\$ 28,310
Total assets ⁽¹⁾	\$ 89,718	\$ 38,957
Long-term notes payable including current portion	\$ 569	\$ 535
Capital lease obligations including current portion ⁽¹⁾	\$ 23,731	\$ -
Total liabilities ⁽¹⁾	\$ 29,912	\$ 4,824
Total shareholder's equity	\$ 59,806	\$ 34,133

⁽¹⁾ In fiscal 2019 the Company adopted IFRS 16 Leases retrospectively, but did not restate comparative financials for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules were recognized in the opening balance sheet on January 1, 2019. Refer to Note 13.

INDUS HOLDINGS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

Three and Six Months Ended June 30, 2019 Compared to Three and Six Months Ended June 30, 2018

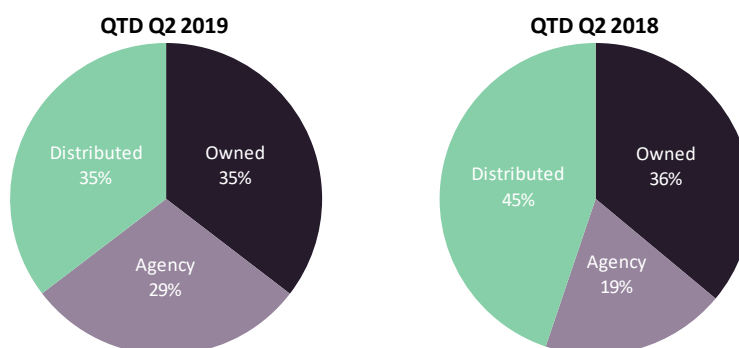
Revenue

We derive our revenue from sales of extracts, distillates, branded and packaged cannabis flower, concentrates and edible products to retail dispensaries in the state of California. In addition, we distribute proprietary and third-party brands throughout the state of California. The Company recognizes revenue upon delivery of goods to customers since at this time performance obligations are satisfied.

The Company classifies its revenues into three major categories: Owned, Agency and Distributed brands.

- Owned are the proprietary brands of the Company.
- Agency brands are third-party brands that the Company manufactures and/or sells utilizing our in-house sales team and distributes on behalf of the third-party.
- Distributed brands are brands in which the Company provides distribution services to retail dispensaries. Distributed brands also include third-party sourced bulk product sales.

Revenue by Category

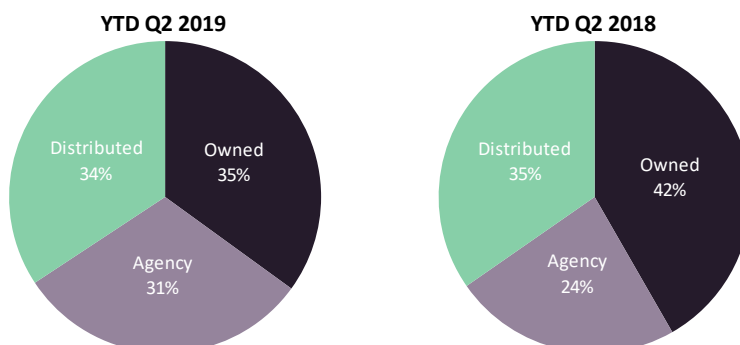


Three Months Ended June 30, (in thousands)

	2019	2018	2019 v 2018 % Change
Owned	\$ 3,431	\$ 1,234	178%
Agency	2,830	655	332%
Distributed	3,427	1,534	123%
Net revenue	<u>\$ 9,689</u>	<u>\$ 3,423</u>	<u>183%</u>

INDUS HOLDINGS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018



Six Months Ended June 30,
(in thousands)

	2019	2018	2019 v 2018 % Change
Owned	\$ 5,643	\$ 2,387	136%
Agency	4,953	1,352	266%
Distributed	5,527	1,985	178%
Net revenue	<u>\$ 16,122</u>	<u>\$ 5,723</u>	<u>182%</u>

In the three and six months ended June 30, 2019:

- Revenue increases compared to the prior year were driven by continued customer onboarding, expansion of product offerings, targeted marketing initiatives and increased wholesale orders.
- Revenues in 2018 were adversely impacted by delays in dispensary licensing under MAUCRSA as the number of licensed dispensaries dropped by approximately 90% from December 2017 to January 2018 when MAUCRSA regulations became effective and as of June 30, 2018, the number of licensed dispensaries were less than 50% of the number pre-MAUCRSA regulations.

Indus expects to increase proprietary branded product sales through the development of new products as well as sales and marketing efforts at existing and newly opened dispensaries. Revenues are also expected to increase through acquisitions, expansion into new markets and gains in market share in the states where the Company operates.

Cost of Sales, Gross Profit and Gross Margin

Cannabis costs are affected by various state regulations that limits the sourcing and procurement of cannabis product, which may create fluctuations in gross profit over comparative periods as the regulatory environment changes. Cost of goods sold currently consist of two main categories:

- **Product Costs** – Includes all direct and indirect costs of production and all costs associated with acquiring and preparing for sale products purchased for resale. Cost of goods sold includes amounts paid for direct labor, raw materials, packaging, other supplies, allocated overhead which includes allocations of rent, administrative salaries, utilities, and related costs, and other expenses, such as insurance, employee training, and product testing. For product purchased for resale, the costs also include the purchase price, freight, storage, product testing and other related expenses.

INDUS HOLDINGS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

- **Net Effect of the Change in Fair Value of Biological Assets** – These fair value adjustments are part of the Company's cost of sales due to IFRS standards relating to agriculture and biological assets. The fair value adjustment on sale of inventory represents the effect of the non-cash fair value adjustment of inventory sold in the period. The fair value adjustment on growth of biological assets represents the effect of the non-cash fair value adjustment of biological assets (cannabis) produced in the period.

Management believes that the use of non-cash IFRS adjustments in calculating gross profit and gross margin can be confusing due to the large value of non-cash fair value metrics required. Accordingly, management believes the use of gross profit before fair value adjustments and adjusted gross margin provides a better representation of performance by excluding non-cash fair value metrics required by IFRS.

(in thousands)	Three Months		Six Months	
	2019	2018	2019	2018
Net revenue	\$ 9,689	\$ 3,423	\$ 16,122	\$ 5,723
Cost of goods sold	\$ 8,181	\$ 2,339	\$ 13,266	\$ 4,377
Net effect of change in fair value of biological assets	\$ 1,217	\$ 568	\$ 1,862	\$ (953)
Gross profit	\$ 291	\$ 516	\$ 994	\$ 2,299
Adjusted gross profit ⁽¹⁾	\$ 1,508	\$ 1,083	\$ 2,856	\$ 1,346
Adjusted gross margin ⁽¹⁾	15.6%	31.6%	17.7%	23.5%

⁽¹⁾ Non-IFRS measure

Gross margin, excluding fair value items, was 15.6% and 31.6% in the three months ended June 30, 2019 and 2018, respectively, and 17.7% and 23.5% in the six months ended June 30, 2019 and 2018, respectively. The Company recognized a decrease in adjusted gross profit and adjusted gross margin for the three months ended June 30, 2019 primarily attributable to product and category mix, and higher raw material costs as shortages of flower and trim supply in the market have significantly driven up prices.

Total Operating Expenses

Total operating expenses consist primarily of costs incurred at our corporate offices; personnel costs including salaries, benefits and incentive compensation; selling, marketing, and other professional service costs including legal and accounting. Sales and marketing expenses consist of selling costs to support our customer relationships. It also includes a significant investment in marketing and brand activities and corporate infrastructure required to support our ongoing business. We expect selling costs as a percentage of revenue to remain consistent or slightly decrease as our business continues to grow, due to efficiencies associated with scaling the business. We expect to incur acquisition and transaction costs related to our expansion plans and to continue to invest considerably in the general and administrative function to support our expansion plans and the increasing complexity of the cannabis business.

(in thousands)	Three Months		Six Months	
	2019	2018	2019	2018
Total operating expenses	\$ 8,376	\$ 2,157	\$ 12,837	\$ 4,179

Total operating expenses increased by \$6,219, or 288%, and \$8,658, or 207%, for the three and six months ended June 30, 2019 compared to the same periods in the prior year. The increases were driven by higher expenses reflecting the increased volume and complexity of services required as the Company's operations increased over the year, higher

INDUS HOLDINGS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

compensation expense driven by an increase in headcount from the scaling up of operations, increased share-based compensation expense, increases in professional fees associated with being a publicly traded company, and increased spending for branding and promotional initiatives. In addition, operating expenses include \$1,751 for acquisition related expenses and transaction costs related to the reverse takeover and acquisitions.

Total other income (expense), net

(in thousands, \$US)	Three Months		Six Months	
	2019	2018	2019	2018
Total other income/(expense)	\$ 747	\$ (445)	\$ (429)	\$ (943)

The increase of other income (loss) in the three and six months ended June 30, 2019 was primarily driven by unrealized gains from investments and foreign currency, which contributed \$1,023. This was partially offset by increased interest expense as a result of adopting IFRS 16, *Leases*.

Net Loss

(in thousands)	Three Months		Six Months	
	2019	2018	2019	2018
Net loss attributable to Indus Holdings, Inc.	\$ (7,841)	\$ (2,115)	\$ (12,776)	\$ (2,886)
Net loss attributable to Indus Holdings, Inc. per share:				
Basic ⁽²⁾⁽³⁾	\$ (0.24)		\$ (0.40)	
Diluted ⁽²⁾⁽³⁾	\$ -		\$ -	
Shares used in per share calculation:				
Basic	32,194		32,190	
Diluted	32,194		32,190	

The increase in net loss was driven by the factors described above.

Summary of Quarterly Results

The following table presents selected financial information, for the most recently prepared quarters.

Three Months Ended	Net	
	Revenue	Net Loss
June 30, 2019	\$ 9,689	\$ (7,841)
March 31, 2019	\$ 6,434	\$ (4,934)
December 31, 2018	\$ 6,259	\$ (3,546)
September 30, 2018	\$ 5,217	\$ (849)
June 30, 2018	\$ 3,423	\$ (2,115)
March 31, 2018	\$ 2,301	\$ (774)
December 31, 2017	\$ 5,813	\$ (1,438)
September 30, 2017	\$ 4,316	\$ (2,402)

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018****3. LIQUIDITY AND CAPITAL RESOURCES**

Our primary need for liquidity is to fund the working capital requirements of our business, capital expenditures, acquisitions, debt service and for general corporate purposes. Our primary source of liquidity is funds generated by financing activities. Our ability to fund our operations, to make planned capital expenditures, to make scheduled debt payments and to repay or refinance indebtedness depends on our future operating performance and cash flows, and ability to obtain equity or debt financing, which are subject to prevailing economic conditions, as well as financial, business and other factors, some of which are beyond our control.

Private Placement

In connection with the Company's Reverse Takeover, on April 2, 2019 Indus completed a private placement offering (the "Private Placement"), in which 3,436 subscription receipts ("Subscription Receipts") were issued at a price of CDN\$15.65 per Subscription Receipt for 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.

Cash Flows

The following table presents the Company's net cash inflows and outflows from the condensed interim consolidated financial statements of the Company for the six-month periods ended June 30, 2019 and 2018.

Six Months Ended June 30, (in thousands)	2019	2018	Change	
			\$	%
Net cash used in operating activities	\$ (20,870)	\$ (2,726)	\$ 18,144	666%
Net cash used in investing activities	(5,512)	(324)	\$ 5,188	1601%
Net cash provided by financing activities	40,881	1,050	\$ 39,831	3793%
Change in cash and cash equivalents and restricted cash	<u>\$ 14,499</u>	<u>\$ (2,000)</u>	<u>\$ 16,499</u>	<u>825%</u>

Cash used in operating activities

Net cash used in operating activities was \$20,870 for the six months ended June 30, 2019, an increase of \$18,144 or 666%, compared to the six months ended December 31, 2018. The increase was primarily driven by higher selling, general and administrative expenses.

INDUS HOLDINGS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

Cash used in investing activities

Net cash used in investing activities was \$5,512 for the six months ended June 30, 2019, an increase of \$5,188, compared to the same period in the prior year. The outflow is for funds disbursed for property and equipment additions, which predominantly relate to the improvements to the cultivation greenhouses, renovation of distribution facilities, and manufacturing equipment; and acquisition of an interest in Orchid Essentials as discussed in Note 10 of the Company's condensed interim consolidated financial statements.

Cash provided by financing activities

Net cash provided by financing activities was \$40,881 for the six months ended June 30, 2019, an increase of \$39,831, compared to the six months ended June 30, 2018. The inflow consisted of \$38,275 in net proceeds from the private placement offering (discussed in Note 4 of the condensed interim consolidated financial statements), partially offset by \$760 in capital lease payments.

We expect that our cash on hand and cash flows from operations, along with private and/or public financing, will be adequate to meet our capital requirements and operational needs for the next 12 months.

Working Capital and Cash on Hand

The following table presents the Company's cash on hand and working capital position from the condensed interim consolidated statements of position of the Company for the six-month periods ended June 30, 2019 and 2018.

(in thousands)	June 30, 2019	December 31, 2018	Change	
			\$	%
Working capital	\$ 47,626	\$ 28,310	\$ 19,316	68%
Cash on hand	\$ 24,809	\$ 10,310	\$ 14,499	141%

At June 30, 2019, we had \$24,809 of cash and \$47,626 of working capital surplus, compared with \$10,310 of cash and cash equivalents and \$28,310 of working capital surplus at December 31, 2018. Cash on hand at June 30, 2019 includes \$10,000 in restricted cash which is held in escrow for the pending W Vapes acquisition. The improvement in working capital was primarily due to an increase in the Company's cash resulting from its private placement offering discussed previously, and an increase in accounts receivable.

Contractual Obligations

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 comprised of \$10 million in cash and \$10 million in shares of Indus Holdings, Inc. subordinate voting shares based on a deemed value of CDN\$15.65 per share. The Company is working to resolve regulatory items outstanding prior to closing the transaction.

The Company and its subsidiaries, in the normal course of business, have entered into operating lease agreements for corporate offices, a cultivation facility, a manufacturing facility and distribution centers. As of June 30, 2019, maturities of these lease obligations were:

INDUS HOLDINGS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

(in thousands)	June 30, 2019
Less than 1 year	\$ 3,185
1 - 3 years	6,706
4 - 5 Years	6,765
Greater than 5 years	14,344
Total	\$ 31,000

In addition to the future minimum rentals disclosed above, the Company is responsible for real estate taxes and common operating expenses incurred by the building or facility in which it leases space.

In addition to the commitments described above, the Company has the following contractual obligations at June 30, 2019:

(in thousands)	Maturity: < 1 Year		Maturity: > 1 Year	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Accounts payable and				
Other accrued liabilities	\$ 4,230	\$ 4,029	\$ -	\$ -

Off-Balance Sheet Arrangements

As of the date of this filing, the Company does not have any material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of the operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

4. RELATED PARTY TRANSACTIONS

Transactions with related parties are entered into in the normal course of business and are measured at the amount established and agreed to by the parties.

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 three months ended June 30, 2019 and 2018 were \$3,847 and \$1,282, respectively; and for the six months ended June 30, 2019 and 2018 were \$6,596 and \$2,498, respectively.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

of its services. Amounts paid to OMG for the three months ended June 30, 2019 and 2018 were \$26 and \$23, respectively; and for the six months ended June 30, 2019 and 2018 were \$66 and \$42, respectively.

5. CHANGES IN OR ADOPTION OF ACCOUNTING PRONOUNCEMENTS

This MD&A should be read in conjunction with the audited financial statements of the Company for the years ended December 31, 2018 and 2017. The Company implemented the following additional policies beginning January 1, 2019:

Lease Accounting

In January 2016, the IASB issued IFRS 16 - *Leases*, which replaces 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 Company adopted the standard effective January 1, 2019 using the modified retrospective adoption method which allowed it to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of accumulated deficit. In connection with the adoption of the new lease pronouncement, the Company recorded a charge to accumulated deficit of \$847.

Effects of Adoption

The Company has elected to use the practical expedient package that allows us to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. The Company additionally elected to use the practical expedients that allow lessees to: (1) treat the lease and non-lease components of leases as a single lease component for all of its leases and (2) not recognize on its balance sheet leases with terms less than twelve months.

The Company determines if an arrangement is a lease at inception. The Company leases certain manufacturing facilities, warehouses, offices, machinery and equipment, vehicles and office equipment under operating leases. Under the new standard, operating leases result in the recognition of ROU assets and lease liabilities on the consolidated balance sheet. ROU assets represent our right to use the leased asset for the lease term and lease liabilities represent our obligation to make lease payments. Under the new standard, operating lease 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, upon adoption of the new standard, we used our estimated incremental borrowing rate based on the information available, including lease term, as of January 1, 2019 to determine the present value of lease payments. Operating lease ROU assets are adjusted for any lease payments made prior to January 1, 2019 and any lease incentives. Certain of our leases may include options to extend or terminate the original lease term. The Company generally concluded that it is not reasonably certain to exercise these options due primarily to the length of the original lease term and its assessment that economic incentives are not reasonably certain to be realized. Operating lease expense under the new standard is recognized on a straight-line basis over the lease term. Current finance lease obligations consist primarily of cultivation, manufacturing and distribution facility leases.

Refer to the *Summary of Effects of Lease Accounting Standard Update Adopted in First Quarter of 2019* below for further details.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

Leases accounted for under the new standard have initial remaining lease terms of one to eight years. Certain of our lease agreements include rental payments adjusted periodically for inflation. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Summary of Effects of Lease Accounting Standard Update Adopted in First Quarter of 2019

The cumulative effects of the changes made to our condensed consolidated balance sheet as of the beginning of the first quarter of 2019 as a result of the adoption of the accounting standard update on leases were as follows:

(in thousands, \$US)	As filed December 31, 2018	Effects of adoption of lease accounting standard update related to:		With effect of least accounting standard update January 1, 2019
		Recognition of Operating Leases	Total Effects of Adoption	
Assets				
Property and equipment, net	\$ 4,063	\$ 23,594	\$ 23,594	\$ 27,656
Liabilities				
Lease obligation, current portion	147	1,492	1,492	1,639
Lease obligation	389	22,948	22,948	23,337
Equity				
Accumulated Deficit	(20,201)	(847)	(847)	(21,047)
Total	\$ 23,728	\$ 0	\$ 0	\$ 23,728

Business Combinations

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 identifiable asset or group of similar identifiable assets. If the test is met, the Company 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 adopted this standard effective January 1, 2019.

6. CRITICAL ACCOUNTING ESTIMATES

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

MANAGEMENT'S DISCUSSION AND ANALYSIS**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

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.

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.
- **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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

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.

- 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.

7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities; current portion of long-term debt; and long-term debt. The carrying values of these financial instruments approximate their fair values.

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

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 June 30, 2019 and June 30, 2018 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

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.

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.

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 state and local 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 and/or adult-use 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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis 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 and its subsidiaries and leaves their cash holdings vulnerable.

8. RISK FACTORS

Risk factors describing the major risks to our business can be found under Section 17 in our Listing Statement filed on April 29, 2019 under the Company's profile on SEDAR. There have been no material changes in our risk factors from those previously discussed in our Listing Statement.

9. OUTSTANDING SHARE DATA

As of August 28, 2019, the Company had the following securities issued and outstanding:

(in thousands)	Number of Shares (on an as converted basis)
Issued and Outstanding	
Subordinate voting shares	32,287
Super voting shares	203
Reserved for Issuance	
Options	1,978
Restricted Stock Units	723
Warrants	2,769

10. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 28, 2019, the date the financial statements were available to be issued and determined that no events or transactions met the definition of a subsequent event for purposes of recognition or disclosure in the accompanying condensed interim consolidated financial statements.