



**Consolidated Financial Statements (Amended)**  
**As of December 31, 2019 and 2018 and for the**  
**Years then Ended**

*(Expressed in United States Dollars)*

*Notice to Reader: The attached financial statements have been amended to include the Consolidated Statements of Cash Flows.*

## **INDUS HOLDINGS, INC. AND AFFILIATES**

### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

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To the Board of Directors of Indus Holdings, Inc.:

The accompanying consolidated financial statements and other financial information in this annual report were prepared by management of Indus Holdings, Inc. (collectively, "the Company" or "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/ Mark Ainsworth

Mark Ainsworth  
Chief Executive Officer

/s/ Steve Neil

Steve  
Chief Financial Officer

April 29, 2020

# **INDUS HOLDINGS, INC. AND AFFILIATES**

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To the Board of Directors and Shareholders  
of Indus Holdings, Inc.

## **Opinion**

We have audited the accompanying consolidated financial statements of Indus Holdings, Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

## **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

## **Other Information**

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Marko Glisic.

*GreenGrowthCPAs*

April 29, 2020

Los Angeles, California

# INDUS HOLDINGS, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands)		December 31,	
	Note	2019	2018
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents		\$ 1,344	\$ 10,310
Accounts Receivable—net of allowance for doubtful accounts of \$2,595 at December 31, 2019 and \$250 at December 31, 2018		6,890	2,965
Subscription Receivable		-	3,200
Inventory	6	9,376	13,608
Biological assets	7	1,716	576
Prepaid expenses and other current assets		2,729	2,086
<b>Total current assets</b>		<b>22,055</b>	<b>32,745</b>
Long-term investments	10	397	1,148
Property and equipment, net	8	42,972	4,063
Goodwill	9	357	357
Other intangibles, net	9	1,153	190
Other assets		2,274	454
<b>Total assets</b>		<b>\$ 69,208</b>	<b>\$ 38,957</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable		\$ 7,127	\$ 2,191
Accrued payroll and benefits		531	259
Notes payable, current portion	12	135	147
Lease obligation, current portion	3, 13	2,325	-
Other current liabilities		1,933	1,838
<b>Total current liabilities</b>		<b>12,051</b>	<b>4,436</b>
Notes payable	12	371	389
Lease obligation	3, 13	31,480	-
Other long-term liabilities		946	-
<b>Total liabilities</b>		<b>44,848</b>	<b>4,824</b>
<b>STOCKHOLDERS' EQUITY</b>			
Share capital		96,160	54,333
Accumulated deficit		(71,800)	(20,201)
Shareholders' equity - parent		24,360	34,133
<b>Total stockholders' equity</b>		<b>24,360</b>	<b>34,133</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$ 69,208</b>	<b>\$ 38,957</b>

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

/s/ Mark Ainsworth  
Mark Ainsworth, Chief Executive Officer

/s/ Steve Neil  
Steve Neil, Chief Financial Officer

See accompanying notes to consolidated financial statements.

# INDUS HOLDING COMPANY AND AFFILIATES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)	Note	Years Ended December 31,	
		2019	2018
Net revenue		\$ 37,045	\$ 17,199
Cost of goods sold		45,641	14,612
Gross profit before biological asset adjustments		(8,596)	2,587
Net effect of change in fair value of biological assets	7	638	(2,903)
Gross profit		(9,234)	5,490
Operating expenses			
General and administrative	18	25,814	8,779
Sales and marketing		8,029	2,513
Depreciation and amortization	8,9	3,322	101
Total operating expenses		37,165	11,393
Loss from operations		(46,399)	(5,902)
Other income/(expense)			
Other income/(expense)		95	(106)
Unrealized loss on change in fair value of investment		(2,250)	-
Gain/(Loss) on foreign currency		159	-
Interest expense	12	(2,152)	(1,178)
Total other income/(expense)		(4,148)	(1,284)
Loss before provision for income taxes		(50,547)	(7,186)
Provision for income taxes	15	205	97
<b>Net loss</b>		<b>\$ (50,752)</b>	<b>\$ (7,283)</b>
<b>Net loss per share - basic and diluted</b>	16	<b>\$ (1.62)</b>	
Weighted average shares outstanding - basic and diluted	16	31,379	

See accompanying notes to consolidated financial statements.



# INDUS HOLDING COMPANY AND AFFILIATES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands)	Note	Class A/B Shares	Subordinate Voting Shares	Super Voting Shares	Attributable to Shareholders of the Parent		
					Share Capital	Accumulated Deficit	Stockholders' Equity
<b>Balance—December 31, 2017</b>		<b>16,631</b>	-	-	<b>\$ 7,772</b>	<b>\$ (12,918)</b>	<b>\$ (5,146)</b>
Net loss		-	-	-	-	(7,283)	(7,283)
Issuance of common stock on conversion of convertible notes		1,947	-	-	3,961	-	3,961
Issuance of common stock for Acme acquisition	5	10	-	-	20	-	20
Issuance of Series B preferred stock, net of issuance costs	14	9,831	-	-	41,873	-	41,873
Issuance of Series B preferred stock for Dametra JV consideration		78	-	-	350	-	350
Issuance of warrants in exchange for services	11				87		87
Share-based compensation expense	11, 14				270		270
<b>Balance—December 31, 2018</b>		<b>28,497</b>	-	-	<b>\$ 54,333</b>	<b>\$ (20,201)</b>	<b>\$ 34,132</b>
Net loss		-	-	-	-	(50,752)	(50,752)
Adoption of lease accounting standard	3	-	-	-	-	(847)	(847)
Issuance of subordinate voting shares in exchange for Class A/B shares, net	4, 11	(28,497)	28,497	-	-	-	-
Private placement in connection with reverse takeover, net	4, 11	-	3,433	-	36,762	-	36,762
Shares issued to acquiree in connection with reverse takeover	4, 11	-	130	-	1,513	-	1,513
Issuance of supervoting shares	4, 11	-	-	203	40	-	40
Exercise of options	11	-	125	-	127	-	127
Share-based compensation expense	14, 11	-	658	-	3,385	-	3,385
<b>Balance—December 31, 2019</b>		<b>-</b>	<b>32,844</b>	<b>203</b>	<b>\$ 96,160</b>	<b>\$ (71,800)</b>	<b>\$ 24,360</b>

See accompanying notes to consolidated financial statements.

**INDUS HOLDING COMPANY AND AFFILIATES**
**STATEMENTS OF CASH FLOWS**

(in thousands)	Year Ended December 31,	
	2019	2018
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (50,752)	\$ (3,738)
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>		
Depreciation and amortization	3,914	312
Amortization of debt issuance costs	-	289
Share-based compensation expense	3,385	140
Provision for doubtful accounts	2,345	175
Allowance for inventory obsolescence	700	-
Warrants issued in exchange for services	-	87
Loss on sale of assets	446	-
Unrealized gain on change in fair value of investments	1,713	(1,659)
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	(6,230)	(810)
Inventory	3,538	(3,322)
Biological assets	(1,140)	(631)
Prepaid expenses and other current assets	(463)	(357)
Other assets	(2,000)	-
Accounts payable and accrued expenses	5,207	(779)
Other long-term liabilities	13	718
<b>Net cash used in operating activities</b>	<b>(39,323)</b>	<b>(9,574)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from asset sales	1,455	-
Purchases of property and equipment	(9,991)	(726)
Investment in corporate interests	(1,525)	-
<b>Net cash used in investing activities</b>	<b>(10,061)</b>	<b>(726)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Principal payments on lease obligations	(1,155)	(32)
Payments on notes payable	(106)	(600)
Proceeds from notes payable	76	500
Proceeds from brokered private placement	40,195	-
Fees on public brokered private placement	(1,919)	-
Proceeds from exercise of options	127	-
Issuance of subordinate voting shares	3,200	-
Proceeds from issuance of series B preferred stock, net of issuance costs	-	8,850
<b>Net cash provided by financing activities</b>	<b>40,418</b>	<b>8,718</b>
Change in cash and cash equivalents and restricted cash	(8,966)	(1,582)
Cash and cash equivalents—beginning of year	10,310	2,229
<b>Cash, cash equivalents and restricted cash—end of period</b>	<b>\$ 1,344</b>	<b>\$ 646</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for interest	\$ 2,147	\$ 97
Cash paid during the period for income taxes	\$ 105	\$ -
<b>OTHER NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Property and equipment acquired via capital lease	\$ -	\$ 42
Debt and associated accrued interest converted to series B preferred shares	\$ -	\$ 12,441
Issuance of warrants	\$ 2,291	\$ -
Shares issued to acquiree in connection with reverse takeover	\$ 1,513	\$ -
Issuance of supervoting shares	\$ 40	\$ -
Acquisition of private entities	\$ 1,028	\$ 571

See accompanying notes to consolidated financial statements.

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

## **1. NATURE OF OPERATIONS**

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 year ended December 31, 2018 are those of IHC.

Indus Holdings, Inc., through its licensed subsidiaries, is a vertically-integrated cannabis company that owns, manages and operates cultivation, extraction, distribution and manufacturing facilities in California; and presently directs and funds operations in Nevada and Oregon, which will become Indus operations upon license transfer in those states (refer to Note 5 *Pending Acquisitions*).

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 Company’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 29, 2020.

### **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 subsidiaries' 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.

### **Classification of Expenses**

The expenses within the statements of operations are presented by function. Refer to Note 18 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 subsidiaries:

- Indus Holding Company, wholly owned by Indus Holdings, Inc.
- Cypress Holding Company, a Delaware limited liability company, wholly owned by Indus Holding Company
- Cypress Manufacturing Company, a California corporation, wholly owned by Indus Holding Company
- Indus Nevada LLC, a Nevada limited liability corporation, wholly owned by Indus Holding Company
- Indus Oregon LLC, an Oregon limited liability corporation, wholly owned by Indus Holding Company
- Indus Brand Management LLC, a Delaware limited liability corporation, wholly owned by Indus Holding Company
- Wellness Innovation Group LLC, a California limited liability corporation, wholly owned by Indus Holding Company

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

### **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
Buildings	35 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. In addition, the Company has certain brand and tradenames with indefinite lives, which are evaluated for impairment on an annual basis.

### **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.

### **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.

## **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 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, 2019 and December 31, 2018, 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.

*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 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.

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.

### **3. CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES**

The Company implemented the following 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 ("ROU") 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 their 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.

Leases accounted for under the new standard have initial remaining lease terms of one to seven 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 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)	Effects of adoption of lease accounting standard update related to:			With effect of least accounting standard update January 1, 2019
	As filed December 31, 2018	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	\$ -	\$ -	\$ 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.

#### 4. REVERSE TAKEOVER AND PRIVATE PLACEMENT

##### Reverse Takeover

As discussed in Note 1, on November 13, 2018, Indus Holding Company (“IHC”), 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, IHC 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 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.

In accordance with IFRS 3, the substance of the transaction was a reverse takeover of a non-operating company. The transaction does not constitute a business combination since Mezzotin does not meet the definition of a business under IFRS 3. As a result, the transaction is accounted for as an asset acquisition.

In consideration for the acquisition of Mezzotin, Indus is deemed to have issued 130 shares of Indus subordinate voting shares representing \$1,513 total value based on the concurrent financing subscription price of CAD\$15.65 (US\$11.60). The excess of the purchase price over net assets acquired was charged to the consolidated statements of operations as RTO expense. Mezzotin equity was eliminated.

There were no identifiable assets of Mezzotin on the date of acquisition. The acquisition costs have been allocated as follows:

(in thousands)

<b>CONSIDERATION</b>	
Fair value of subordinate voting shares issued	\$ 1,513
Transaction costs	191
<b>Total consideration</b>	<b>1,704</b>
<b>ASSETS ACQUIRED</b>	
Total identifiable net assets acquired	-
Listing expenses	1,704
<b>Total purchase price</b>	<b>\$ 1,704</b>

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.

### **Private Placement**

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.

## 5. ACQUISITIONS

### Completed Acquisitions

During the year ended December 31, 2019, the Company completed the following acquisitions, and allocated the purchase price as follows.

(in thousands)	(1) <b>Shredibles LLC</b>	(2) <b>Kaizen Inc.</b>	(3) <b>The Humble Flower Co.</b>	<b>Total</b>
<b>CONSIDERATION</b>				
Contingent Payment	\$ -	\$ 556	\$ 472	\$ 1,028
Fair value of subordinate voting shares	240	-	-	240
<b>Total consideration</b>	<b>240</b>	<b>556</b>	<b>472</b>	<b>1,268</b>
<b>PURCHASE PRICE ALLOCATION</b>				
<i>Assets Acquired</i>				
Cash and cash equivalents	4	-	-	4
Accounts receivable	6	-	-	6
Inventories	10	-	6	16
Prepaid expenses and other current assets	10	-	-	10
Property and equipment, net	25	-	-	25
Intangible assets - brands and trademarks	148	206	316	670
Intangible assets - customer relationships	-	-	40	40
Intangible assets - technology and know-how	190	350	71	611
Intangible assets - other	-	-	40	40
<i>Liabilities assumed</i>				
Notes payable	(50)	-	-	(50)
<b>Total identifiable net assets</b>	<b>343</b>	<b>556</b>	<b>472</b>	<b>1,422</b>
Noncontrolling interest	(103)	-	-	(103)
<b>Fair value of net assets acquired</b>	<b>\$ 240</b>	<b>\$ 556</b>	<b>\$ 472</b>	<b>\$ 1,422</b>

These acquisitions qualified as a business combination under IFRS 3 and the consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. No goodwill was recognized. The purchases have been accounted for by the acquisition method, with the results included in the Company's net earnings from the date of acquisition.



The fair value of the assets acquired and the liabilities assumed have been determined on a provisional basis utilizing information available at the time of the acquisition. Additional information is being gathered to finalize these provisional measurements, particularly with respect to the valuation of intangible assets acquired, deferred income taxes, and residual goodwill. Accordingly, the measurement of assets acquired and liabilities assumed may change upon finalization of the Company's valuation and completion of the purchase price allocation, both of which are expected to occur no later than one year from the acquisition date. Adjustments to the provisional amounts that the Company determines to be material will be applied retrospectively to the period of acquisition in the Company's consolidated financial statements.

The Company also incurred \$47 in transactional costs related to the above acquisitions which were recorded in general and administrative expenses in the Consolidated Statements of Operations.

- *Shredibles LLC*

On June 12, 2019, the Company completed the acquisition of 70% of the outstanding capital stock of Shredibles LLC ("Shredibles"), a manufacturer of CBD infused health products, from its shareholders. 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.

In February 2020, the Company determined that Shredibles was not a strategic fit for the Company at this time and reached an agreement with the Shredibles co-founders to nullify the investment and the investment consideration of 42.6 thousand subordinate voting shares were returned to the Company. The termination has been reflected as being effective as of December 31, 2019 in the consolidated financial statements. The operations of Shredibles, and the termination of the agreement, did not have a material impact on the results of operations of the Company in 2019.

- *Kaizen Inc.*

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.

- *The Humble Flower Co.*

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.

### *Fiscal Year 2018 Acquisitions*

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 is the exclusive manufacturer and distributor of Canna Stripe branded products in the state of California. The investment was 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 included (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 relative fair values of net assets acquired and liabilities assumed was \$198 for inventories, \$16 for property and equipment, and \$357 for goodwill.

### **Pending 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. When completed, the acquisition will enable us 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 have entered into a management services agreement that terminates upon completion of the acquisition. In November 2019, the definitive agreement was amended whereby the Company advanced \$2 million in non-recourse funds to the seller in exchange for release of \$10 million of cash held in escrow related to the acquisition. Additionally, in December 2019, the Company purchased the Las Vegas, Nevada facility for \$4.1 million. The completion of the acquisition is subject to regulatory approvals including the successful transfer of the Nevada and Oregon cannabis licenses to Indus.

Nevada has implemented a state-mandated moratorium on the licensing and change of ownership processes for marijuana-related businesses. As a result, the Company is now targeting the second half of 2020 for the completion of the acquisition.

The Company incurred \$251 in transactional costs related to the above acquisition for the year ended December 31, 2019, which were recorded in general and administrative expenses in the Consolidated Statements of Operations.

## 6. INVENTORY

Inventory was comprised of the following items:

(in thousands)	December 31, 2019	December 31, 2018
Raw materials	\$ 6,603	\$ 9,362
Work in process	34	224
Finished goods	2,739	4,022
<b>Total inventory</b>	<b>\$ 9,376</b>	<b>\$ 13,608</b>

## 7. 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, 2019 and 2018 are as follows:

Years Ended December 31, (in thousands)	2019	2018
Beginning balance	\$ 576	\$ 1,126
Net change in fair value less costs to sell due to biological transformation	145	(5,304)
Transferred to inventory upon harvest	995	4,755
<b>Ending balance</b>	<b>\$ 1,716</b>	<b>\$ 576</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, 2019 and 2018;
- 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, 2019 and 2018.

- Selling price per pound – a decrease in the selling price per pound by 5% would result in the biological asset value decreasing by approximately \$72 and \$49 at December 31, 2019 and 2018, respectively.
- Estimated yield per plant – a decrease in the yield per plant of 5% would result in the biological asset value decreasing by approximately \$27 and \$29 at December 31, 2019 and 2018, respectively.

As of December 31, 2019, on average, the biological assets were 45.4% complete as to the next expected harvest date, and it is expected that the Company's biological assets will ultimately yield approximately 4,261 pounds of cannabis.

## 8. PROPERTY AND EQUIPMENT

A reconciliation of the beginning and ending balances of property and equipment and accumulated depreciation during the year ended December 31, 2019 is as follows:

(in thousands)	Land and Buildings	Leasehold Improvements	Furniture and Fixtures	Equipment	Vehicles	Construction in Process	Right of Use Assets	Total
<b>Costs</b>								
Balance—December 31, 2018	\$ -	\$ 1,509	\$ 49	\$ 2,062	\$ 516	\$ 895	\$ -	\$ 5,031
Additions	4,098	2,766	-	1,192	297	1,638	10,520	\$ 20,511
IFRS 16 Adoption <sup>(1)</sup>	-	-	-	-	-	-	23,594	\$ 23,594
Business Acquisitions	-	-	-	25	-	-	-	\$ 25
Disposals	-	-	-	(2,179)	-	-	-	\$ (2,179)
<b>Balance—December 31, 2019</b>	<b>\$ 4,098</b>	<b>\$ 4,275</b>	<b>\$ 49</b>	<b>\$ 1,100</b>	<b>\$ 813</b>	<b>\$ 2,533</b>	<b>\$ 34,114</b>	<b>\$ 46,982</b>
<b>Accumulated Depreciation</b>								
Balance—December 31, 2018	\$ -	\$ (260)	\$ (44)	\$ (570)	\$ (95)	\$ -	\$ -	\$ (969)
Depreciation	(8)	(186)	(3)	(478)	(155)	-	(3,025)	\$ (3,854)
Disposals	-	24	-	786	2	-	-	\$ 812
<b>Balance—December 31, 2019</b>	<b>\$ (8)</b>	<b>\$ (422)</b>	<b>\$ (46)</b>	<b>\$ (261)</b>	<b>\$ (249)</b>	<b>\$ -</b>	<b>\$ (3,025)</b>	<b>\$ (4,011)</b>
<b>Net Book Value</b>								
December 31, 2018	\$ -	\$ 1,249	\$ 5	\$ 1,492	\$ 421	\$ 895	\$ -	\$ 4,063
<b>Balance—December 31, 2019</b>	<b>\$ 4,090</b>	<b>\$ 3,853</b>	<b>\$ 3</b>	<b>\$ 839</b>	<b>\$ 565</b>	<b>\$ 2,533</b>	<b>\$ 31,089</b>	<b>\$ 42,972</b>

<sup>(1)</sup> A right-of-use asset of \$23,594 was recognized at January 1, 2019 in connection with the adoption of IFRS 16. Refer to Notes 3 and 13 for further information.

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

## 9. GOODWILL AND INTANGIBLE ASSETS

### Goodwill

A reconciliation of the beginning and ending balances of goodwill during the year ended December 31, 2019 is as follows:

(in thousands)	Goodwill
<b>Costs</b>	
Balance—December 31, 2018	\$ 357
Additions	-
Business Acquisitions	-
Impairment	-
<b>Net book value—December 31, 2019</b>	<b>\$ 357</b>

The Company evaluates goodwill for impairment annually during the fiscal third quarter and when an event occurs, or circumstances change such that it is reasonably possible that impairment may exist. The Company accounts for goodwill and evaluates its goodwill balances and tests them for impairment in accordance with related accounting standards. The Company performed its annual impairment assessment in its third quarter of fiscal 2019, and its analysis indicated that the Company had no impairment of goodwill.

### **Other Intangible Assets**

A reconciliation of the beginning and ending balances of intangible assets and accumulated amortization during the nine months ended December 31, 2019 is as follows:

(in thousands)	Definite Life Intangibles				Indefinite Life Intangibles	Total
	Branding Rights	Customer Relationships	Technology/ KnowHow	Other Intangibles	Brands & Tradenames	
<b>Costs</b>						
Balance—December 31, 2018	\$ 250	\$ -	\$ -	\$ -	\$ -	\$ 250
Additions	-	-	-	-	-	-
Business Acquisitions	-	40	611	40	670	1,361
Disposals	-	-	(190)	-	(148)	(338)
<b>Balance—December 31, 2019</b>	<b>\$ 250</b>	<b>\$ 40</b>	<b>\$ 421</b>	<b>\$ 40</b>	<b>\$ 522</b>	<b>\$ 1,273</b>
<b>Accumulated Amortization</b>						
Balance—December 31, 2018	\$ (60)	\$ -	\$ -	\$ -	\$ -	\$ (60)
Amortization	(16)	(8)	(39)	(8)	-	(71)
Disposals	-	-	11	-	-	11
<b>Balance—December 31, 2019</b>	<b>\$ (76)</b>	<b>\$ (8)</b>	<b>\$ (28)</b>	<b>\$ (8)</b>	<b>\$ -</b>	<b>\$ (120)</b>
<b>Net Book Value</b>						
December 31, 2018	\$ 190	\$ -	\$ -	\$ -	\$ -	\$ 190
<b>December 31, 2019</b>	<b>\$ 174</b>	<b>\$ 32</b>	<b>\$ 393</b>	<b>\$ 32</b>	<b>\$ 522</b>	<b>\$ 1,153</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 \$71 for the year ended December 31, 2019.

The Company estimates that amortization expense for our existing other intangible assets will be approximately \$81 for each of the next five fiscal years. 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.

## 10. INVESTMENTS

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

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 \$1,500 during Orchid's RTO financing round. The Company's investment in Orchid is classified as Level 1 in the fair value hierarchy. The Company adjusted its carrying value based on the share price at the balance sheet date, recognizing a (\$1,320) loss in its Statements of Operations for the year ended December 31, 2019.

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 is the exclusive manufacturer and distributor of Canna Stripe branded products in the state of California. The investment was accounted for in accordance with IFRS 11. The Company's investment in Dametra is classified as Level 3 in the fair value hierarchy. Due to the highly competitive gummy product market and the limited success to the launching of the Canna Stripe brand, the Company determined that the carrying value of the investment was nominal. As such, a (\$350) loss has been recognized in its Statement of Operations for the year ended December 31, 2019.

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. The business partner was acquired by Green Thumb Industries in February 2019. The Company's investment in Green Thumb Industries is classified as Level 1 in the fair value hierarchy. The Company sold approximately 65.7% of its interests in 2019, recognizing a realized gain of \$476 as well as an unrealized gain of \$243 in its Statement of Operations for the year ended December 31, 2019.

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. Due to the lack of extensive roll out of the e-commerce platform with brands and dispensaries within California and in other states, the Company determined that the carrying value of the investment was nominal. As such, a (\$650) loss has been recognized in its Statement of Operations for the year ended December 31, 2019.

## 11. SHAREHOLDERS' EQUITY

### **Shares Outstanding**

The table below details the change in Company shares outstanding by class during the year ended December 31, 2019.

(in thousands)	Class A/B Shares	Subordinate Voting Shares	Super Voting Shares
<b>Balance—December 31, 2018</b>	<b>28,497</b>	<b>-</b>	<b>-</b>
Net	(28,497)	28,497	-
Private placement in connection with reverse takeover, net	-	3,433	-
Shares issued to acquiree in connection with reverse takeover	-	130	-
Issuance of supervoting shares	-	-	203
Issuance of vested restricted stock units	-	658	-
Exercise of options	-	125	-
<b>Balance—December 31, 2019</b>	<b>-</b>	<b>32,844</b>	<b>203</b>

As discussed in Note 4, in consideration for the acquisition of Mezzotin in connection with the reverse takeover, Indus issued 130 shares of Indus subordinate voting shares representing \$1,513 total value based on the concurrent financing subscription price of CAD\$15.65 (US\$11.60). The excess of the purchase price over net assets acquired was charged to the consolidated statements of operations as RTO expense in general and administrative expenses.

### **Warrants**

A reconciliation of the beginning and ending balance of warrants outstanding is as follows.

(in thousands)	
<b>Balance—December 31, 2018</b>	<b>2,571</b>
Granted	198
<b>Balance—December 31, 2019</b>	<b>2,769</b>

During the year ended December 31, 2019, the Company issued 198 warrants with a weighted-average grant date fair of CAD\$15.65 (US\$11.60), and an issuance cost of \$2,291 in the Consolidated Statement of Position. The weighted average exercise price of all warrants outstanding is \$2.03 per share, and the weighted average remaining contractual life of the warrants outstanding is approximately 4.5 years.

The fair value of warrants exercisable was determined using the Black-Scholes option-pricing model with the following assumptions on the date of issuance:

Expected volatility	25.0%
Dividend yield	0%
Risk-free interest rate	2.9%
Expected term in years	2.0

## **12. DEBT**

Debt at December 31, 2019 and December 31, 2018 was comprised of the following:



(in thousands)	December 31,	
	2019	2018
<b>Current portion of long-term debt</b>		
Vehicle loans <sup>(1)</sup>	\$ 135	\$ 147
Total short-term debt	135	147
<b>Long-term debt, net</b>		
Vehicle loans <sup>(1)</sup>	233	207
Note payable <sup>(2)</sup>	138	182
Total long-term debt	371	389
<b>Total indebtedness</b>	<b>\$ 506</b>	<b>\$ 536</b>

<sup>(1)</sup> Primarily fixed term loans on transportation vehicles.

<sup>(2)</sup> Note payable in connection with Acme acquisition to be paid as and if financial performance targets are met over the earnout period. Refer to Note 5.

Stated maturities of debt obligations are as follows:

(in thousands)	December 31, 2019
2020	\$ 146
2021	146
2022	49
2023	21
2024	6
<b>Total debt obligations</b>	<b>\$ 368</b>

### 13. LEASES

Lease obligations at December 31, 2019 were comprised of the following:

(in thousands)	December 31, 2019
<b>Lease Liability</b>	
Beginning balance (Note 3)	\$ 24,976
Additions	10,415
Lease payments and interest	(1,586)
<b>Balance at end of period</b>	<b>\$ 33,805</b>
Lease obligation, current portion	\$ 2,325
Lease obligation	\$ 31,480

All extension options that are reasonably certain to be exercised have been included in the measurement of lease obligations. The Company reassesses the likelihood of extension option exercise if there is a significant event or change in circumstances within its control.



The components of lease expense for the year ended December 31, 2019 were as follows:

**Year Ended December 31,**

(in thousands)	2019
Amortization of leased assets <sup>(1)</sup>	\$ 3,025
Interest on lease liabilities <sup>(2)</sup>	1,775
<b>Total</b>	<b>\$ 4,799</b>

<sup>(1)</sup> Included in cost of goods sold and general and administrative in the consolidated statement of operations.

<sup>(2)</sup> Included in interest expense in the consolidated statement of operations.

The key assumptions used in accounting for our leases as of December 31, 2019 were a weighted average remaining lease term of 10.5 years and a weighted average discount rate of 6.0%.

The future lease payments with initial remaining terms in excess of one year as of December 31, 2019 were as follows:

(in thousands)	December 31, 2019
1 - 3 years	11,214
4 - 5 Years	7,387
Greater than 5 years	26,389
<b>Total</b>	<b>44,989</b>

#### 14. SHARE-BASED COMPENSATION

During 2019 the Company's Board of Directors adopted the *2019 Stock and Incentive Plan* (the "Plan"), which permits the issuance of stock options, stock appreciation rights, stock awards, share units, performance shares, performance units and other stock-based awards up to an amount equal to 10% of the issued and outstanding Subordinate Voting Shares of the Company. 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 awards granted generally vest in 25% increments over a four-year period and option awards expire 10 years from grant date.

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.

During the year ended December 31, 2019, the Company granted shares to certain employees as compensation for services. These shares were accounted for in accordance with IFRS 2 - *Share-based Payments*. The Company amortizes awards over the service period and until awards are fully vested.

For the years ended December 31, 2019 and 2018, share-based compensation expense recorded to the Company's consolidated statements of operations was:

(in thousands)	December 31,	
	2019	2018
Cost of goods sold	\$ -	\$ -
General and administrative expense	3,385	270
<b>Total share based compensation</b>	<b>\$ 3,385</b>	<b>\$ 270</b>

The following table summarizes the status of grants and unvested awards as at and for the year ended December 31, 2019.

(in thousands except per share amounts)	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
<b>Outstanding—December 31, 2018</b>	<b>1,425</b>	<b>\$1.87</b>	<b>9.0</b>	<b>\$ 6,421</b>
Granted	996	4.02		
Exercised	(144)	1.02		
Cancelled	(734)	3.57		
<b>Outstanding—December 31, 2019</b>	<b>1,543</b>	<b>\$2.53</b>	<b>8.3</b>	
<b>Exercisable—December 31, 2019</b>	<b>461</b>	<b>\$1.96</b>	<b>4.8</b>	<b>\$ -</b>
<b>Vested and Expected to Vest—December 31, 2019</b>	<b>1,543</b>	<b>\$2.53</b>	<b>8.3</b>	<b>\$ 30</b>

The fair value of the stock options granted was determined using the Black-Scholes option-pricing model with the following weighted average assumptions at the time of grant.

<b>Year Ended December 31,</b>	<b>2019</b>
Expected volatility	50.0%
Dividend yield	0%
Risk-free interest rate	2.2%
Expected term in years	10.0

**Restricted Stock Units (RSU)** —On June 7, 2019, in connection with the reverse takeover discussed in Note 4, 729 RSUs were awarded in total to five executive employees and three board members, and 235 RSUs were awarded to other key employees under the Plan. The RSUs vest in 25% increments over a period of ten months. The fair value for RSUs is based on the Company's share price on the date of the grant. The Company recorded \$2,440 as compensation expense and 658 shares vested for the year ended December 31, 2019 in connection with these awards. At December 31, 2018 there were no restricted stock units outstanding and no restricted stock units had been granted.

## 15. INCOME TAXES

The provision for income tax expense for the years ended December 31, 2019 and 2018 consisted of the following:

<b>Years Ended December 31,</b>	<b>2019</b>	<b>2018</b>
(in thousands)		
<b>Current</b>		
Federal	\$ -	\$ -
State	205	97
<b>Total Current</b>	<b>205</b>	<b>97</b>
<b>Deferred tax expense (benefit)</b>		
Federal	(2,406)	(601)
State	(7,329)	(646)
<b>Total deferred tax benefit</b>	<b>(9,735)</b>	<b>(1,247)</b>
Valuation allowance	9,735	1,247
<b>Income tax expense</b>	<b>\$ 205</b>	<b>\$ 97</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, 2019 and 2018, are as follows:

**Years Ended December 31,**

(in thousands)

	<b>2019</b>	<b>2018</b>
<b>Deferred tax assets</b>		
Net operating loss carryforwards	\$ 10,836	\$ 2,553
Accruals and reserves	-	-
Depreciation	-	106
Other	-	-
Valuation allowance	(10,836)	(2,659)
<b>Total deferred tax assets</b>	<b>-</b>	<b>-</b>
<b>Deferred tax liabilities</b>		
Accruals and reserves	-	-
Share-based compensation	-	-
<b>Total deferred tax liabilities</b>	<b>-</b>	<b>-</b>
<b>Net deferred tax liabilities</b>	<b>\$ -</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, 2019. 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 \$9.7 million and \$1.2 million has been recorded against its net deferred tax assets as of December 31, 2019 and 2018. 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, 2019 and 2018, the Company had federal net operating loss ("NOL") carryforwards of approximately \$9.2 million and \$0.6 million respectively. The Company had state NOL carryforwards of approximately \$50.4 million and \$0.6 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, 2019 and 2018, the Company had no unrecognized tax benefits.

The Company recognizes interest and penalties related to income tax matters in income tax expense. As of December 31, 2019 and 2018, 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 2017 forward and by tax authorities in various US states from 2015 forward.

## 16. EARNINGS/(LOSS) PER SHARE

Net earnings/loss per share represents the net earnings/loss attributable to shareholders divided by the weighted average number of shares outstanding during the period on an as converted basis.

<b>Year Ended December 31,</b>		
(in thousands except per share amounts)		
	<b>2019</b>	<b>2018</b>
<b>Net earnings/(loss)</b>	<b>\$ (50,572)</b>	<b>\$ (7,283)</b>
<b>Basic</b>		
Weighted average subordinate voting shares <sup>(1)</sup>	31,379	
<b>Basic earnings (loss) per share</b>	<b>\$ (1.61)</b>	
<b>Diluted</b>		
Weighted average subordinate voting shares <sup>(1)</sup>	31,379	
<i>Effects of Potential Dilutive Shares</i>		
Options	-	
Warrants	-	
Restricted stock units	-	
Diluted weighted average subordinate voting shares	31,379	
<b>Diluted earnings (loss) per share</b>	<b>\$ (1.61)</b>	

(1) On an as converted basis.

As the Company is in a loss position for the years ended December 31, 2019 and 2018, the inclusion of options and warrants in the calculation of diluted earnings per share would be anti-dilutive, and accordingly, were excluded from the diluted loss per share calculation. As of December 31, 2019, there were 4,896 options, warrants, and restricted stock units that could potentially be dilutive in the future.

## 17. COMMITMENTS AND CONTINGENCIES

### Commitments

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 transaction includes the operating assets; all intellectual property; and cultivation, manufacturing, and distribution licenses and operations in Las Vegas, Nevada and Portland, Oregon. The Company is working to resolve regulatory items outstanding prior to closing the transaction.

### 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, 2019, 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, 2019, 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.

## 18. GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended December 31, 2019, and 2018, general and administrative expenses were comprised of:

<b>Year Ended December 31,</b>			
(in thousands)		<b>2019</b>	<b>2018</b>
Salaries and benefits		\$ 12,697	\$ 3,452
Professional fees		2,229	640
Licensing and supplies		870	556
Share-based compensation		3,385	270
Administrative		4,292	3,861
Transaction and other special charges <sup>(1)</sup>		2,341	-
<b>Total general and administrative expenses</b>		<b>\$ 25,814</b>	<b>\$ 8,779</b>

<sup>(1)</sup> Include charges associated with acquisitions and the Company's reverse takeover.



## 19. 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 years ended December 31, 2019 and 2018 were \$15,858 and \$6,104, 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 of its services. Amounts paid to OMG for the year ended December 31, 2019 and 2018 were \$86 and \$107, respectively.

## 20. 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, 2019 and 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.

### **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 17, the Company has the following contractual obligations:

(in thousands)	Maturity: < 1 Year		Maturity: > 1 Year	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Accounts payable and Other accrued liabilities	\$ 9,060	\$ 4,029	\$ -	\$ -

### **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 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.

## **21. 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 United States. As the operations comprise a single reporting segment, amounts disclosed in the financial statements also represent a single reporting segment.

## **22. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through April 29, 2020, the date the financial statements were available to be issued.

## **Financing**

On April 13, 2020, the Company announced that its subsidiary, Indus Holding Company, entered into a \$15.1 million senior secured convertible debenture and warrant purchase agreement. The convertible debentures are convertible, at a conversion price of \$0.20 per share, into an aggregate of 75.3 million subordinate voting shares of the Company, and the Company issued warrants to purchase an aggregate of 75.3 million subordinate voting shares at an exercise price of \$.28 per share. The financing yielded the Company approximately \$10.5 million after repayment of \$3.8 million in bridge financing received during the first quarter, plus accrued interest thereon, and transaction related expenses of approximately \$600. The debentures bear interest at 5.5% per annum and will mature in October 2023, and the warrants also mature in October 2023.