Consolidated Financial Statements

As of December 31, 2020 and 2019 and for the Year then Ended

(Expressed in United States Dollars)

LOWELL FARMS INC. AND AFFILIATES

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Board of Directors of Lowell Farms Inc.:

The accompanying consolidated financial statements and other financial information in this annual report were prepared by management of Lowell Farms Inc. (collectively, "the Company" of "Indus"), reviewed and approved by the Board of Directors.

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

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

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

/s/ Mark Ainsworth
Mark Ainsworth
Chief Executive Officer

/s/ Brian Shure
Brian Shure
Chief Financial Officer

April 27, 2021

LOWELL FARMS INC. AND AFFILIATES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CPA | GREEN GROWTH

To the Board of Directors and Shareholders of Lowell Farms Inc.

Opinion

We have audited the accompanying consolidated financial statements of Lowell Farms Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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 27, 2021

Los Angeles, California

LOWELL FARMS INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands)	Note	December 31, 2020	December 31, 2019
ASSETS			
Current assets:			
Cash and cash equivalents		$ 25,751	$ 1,344
Accounts Receivable—net of allowance for doubtful accounts of $1,389 and $2,595 at December 31, 2020 and 2019, respectively		4,529	6,890
Inventory	7	13,613	9,376
Biological assets	8	11,288	1,716
Prepaid expenses and other current assets	6	6,391	2,729
Total current assets		**61,573**	**22,055**
Long-term investments	12	202	397
Property and equipment, net	10	49,243	42,972
Goodwill	11	357	357
Other intangibles, net	11	736	1,153
Other assets		274	2,274
Total assets		**$ 112,384**	**$ 69,208**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable		$ 2,137	$ 4,704
Accrued payroll and benefits		1,212	531
Notes payable, current portion	14	1,213	135
Lease obligation, current portion	15	2,301	2,325
Other current liabilities	9	8,860	4,356
Total current liabilities		**15,723**	**12,051**
Notes payable	14	303	371
Lease obligation	15	36,533	31,480
Convertible debentures	14	13,701	-
Other long-term liabilities		-	946
Total liabilities		**66,260**	**44,848**
STOCKHOLDERS' EQUITY			
Share capital		125,540	96,160
Accumulated deficit		(79,416)	(71,800)
Total stockholders' equity		**46,124**	**24,360**
Total liabilities and stockholders' equity		**$ 112,384**	**$ 69,208**

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/ Brian Shure
Brian Shure, Chief Financial Officer

See accompanying notes to consolidated financial statements.

LOWELL FARMS INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)	Note	Years Ended December 31, 2020	2019
Net revenue		$ 42,618	$ 37,045
Cost of goods sold		38,085	45,641
Gross profit/(loss) before biological asset adjustments		4,533	(8,596)
Net effect of change in fair value of biological assets	*8*	(14,555)	638
Gross profit/(loss)		19,088	(9,234)
Operating expenses			
General and administrative	*20*	11,762	25,814
Sales and marketing		5,169	8,029
Depreciation and amortization	*10, 11*	3,671	3,322
Total operating expenses		20,602	37,165
Loss from operations		(1,514)	(46,399)
Other income/(expense)			
Other income/(expense)		1,486	95
Loss on termination of investments, net		(4,201)	-
Unrealized gain/(loss) on change in fair value of investment		168	(2,250)
Gain/(Loss) on foreign currency		-	159
Interest expense	*14*	(3,331)	(2,152)
Total other income/(expense)		(5,878)	(4,148)
Loss before provision for income taxes		(7,392)	(50,547)
Provision for income taxes	*17*	224	205
Net loss		**$ (7,616)**	**$ (50,752)**
Net loss per share - basic and diluted	*18*	**$ (0.22)**	**$ (1.62)**
Weighted average shares outstanding - basic and diluted	*18*	33,940	31,379

See accompanying notes to consolidated financial statements.

LOWELL FARMS INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

					Attributable to Shareholders of the Parent		
(in thousands)	Note	Class A/B Shares	Subordinate Voting Shares	Super Voting Shares	Share Capital	Accumulated Deficit	Stockholders' Equity
Balance—December 31, 2018		**28,497**	**-**	**-**	**$ 54,333**	**$ (20,201)**	**$ 34,132**
Net loss		-	-	-	-	(50,752)	(50,752)
Adoption of lease accounting standard		-	-	-	-	(847)	(847)
Issuance of subordinate voting shares in exchange for Class A/B shares, net	*4, 13*	(28,497)	28,497	-	-	-	-
Private placement in connection with reverse takeover, net	*4, 13*	-	3,433	-	36,762	-	36,762
Shares issued to acquiree in connection with reverse takeover	*4, 13*	-	130	-	1,513	-	1,513
Issuance of supervoting shares	*4, 13*	-	-	203	40	-	40
Exercise of options	*13*	-	125	-	127	-	127
Share-based compensation expense	*13, 16*	-	659	-	3,385	-	3,385
Balance—December 31, 2019		**-**	**32,844**	**203**	**$ 96,160**	**$ (71,800)**	**$ 24,360**
Net loss		-	-	-	-	(7,616)	(7,616)
Issuance of stock warrants	*13*	-	-	-	1,556	-	1,556
Shares issued in connection with convertible debenture offering	*14*	-	250	-	62	-	62
Shares issued in connection with subordinate voting share offering		-	23,000	-	25,021	-	25,021
Shares issued in connection with conversion of convertible debentures	*14*	-	375	-	75	-	75
Issuance of stock options associated with acquisitions	*5*	-	-	-	116	-	116
Issuance of shares associated with acquisitions		-	150	-	179		179
Reduction in supervoting share purchase price					(39)		(39)
Exercise of warrants	*13*	-	750	-	210	-	210
Share-based compensation expense	*13, 15*	-	248	-	2,200	-	2,200
Balance—December 31, 2020		**-**	**57,617**	**203**	**$ 125,540**	**$ (79,416)**	**$ 46,124**

See accompanying notes to interim consolidated financial statements.

LOWELL FARMS INC. AND AFFILIATES

STATEMENTS OF CASH FLOWS

(in thousands)	Year Ended December 31, 2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	$ (7,616)	$ (50,752)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,912	3,914
Amortization of debt issuance costs	481	-
Share-based compensation expense	2,200	3,385
Provision for doubtful accounts	1,195	2,346
Allowance for inventory obsolescence	-	700
Loss on termination of investment	4,359	-
Loss on sale of assets	-	446
Unrealized (gain) loss on change in fair value of investments	(548)	1,713
Changes in operating assets and liabilities:		
Accounts receivable	966	(6,230)
Inventory	(4,237)	3,538
Biological assets	(9,572)	(1,140)
Prepaid expenses and other current assets	(1,043)	(463)
Other assets	18	(2,000)
Accounts payable and accrued expenses	2,222	5,207
Other long-term liabilities	(90)	13
Net cash used in operating activities	**(7,751)**	**(39,323)**
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from asset sales	743	1,455
Net cash received from disposition of business interest	500	-
Purchases of property and equipment	(6,850)	(9,991)
Investment in corporate interests	-	(1,525)
Net cash used in investing activities	**(5,607)**	**(10,061)**
CASH FLOW FROM FINANCING ACTIVITIES		
Principal payments on lease obligations	(2,951)	(1,155)
Payments on notes payable	(4,267)	(106)
Proceeds from notes payable	3,800	76
Proceeds from lease financing	671	-
Proceeds from convertible debentures, net of financing costs	15,281	-
Proceeds from subordinate voting share offering	26,930	-
Fees on subordinate voting share offering	(1,909)	-
Proceeds from brokered private placement	-	40,195
Fees on public brokered private placement	-	(1,919)
Proceeds from exercise of options	-	127
Proceeds from exercise of warrants	210	-
Issuance of subordinate voting shares	-	3,200
Net cash provided by financing activities	**37,765**	**40,418**
Change in cash, cash equivalents and restricted cash	24,407	(8,966)
Cash and cash equivalents—beginning of year	1,344	10,310
Cash, cash equivalents and restricted cash—end of period	**$ 25,751**	**$ 1,344**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$ 3,332	$ 2,147
Cash paid during the period for income taxes	$ 262	$ 105
OTHER NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase of property and equipment not yet paid for	$ 362	$ -
Property and equipment acquired via capital lease	$ 7,416	$ -
Shares Issued in exchange for asset investment	$ 179	$ -
Issuance of warrants	$ 1,620	$ 2,291
Shares issued to acquiree in connection with reverse takeover	$ -	$ 1,513
Issuance of supervoting shares	$ (39)	$ 40
Acquisition of private entities	$ -	$ 1,028
Shares issued in connection with convertible debenture conversion	$ 75	$ -
Stock options issued associated with an acquisition	$ 116	$ -

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., which effective March 5, 2021 changed its name to Lowell Farms 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", "Indus", or "Lowell"). 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". Effective at market open on March 5, 2021 the Company's symbol was changed to "LOWL".

Indus Holding Company ("IHC"), a Delaware corporation, was formed in 2014. Indus Holdings, Inc., and subsequently, Lowell Farms Inc. became the indirect parent of IHC in connection with the reverse takeover transaction.

Lowell Farms Inc., through its licensed subsidiaries, is a vertically integrated cannabis company that owns, manages and operates cultivation, extraction, distribution and manufacturing facilities in California.

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 27, 2021.

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 20 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, a Delaware corporation, 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
- Wellness Innovation Group Incorporated, a California 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 revenue recognition standard IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") was adopted by the Company on January 1, 2018. The standard 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'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, 2020 and December 31, 2019, 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.

The Company adopted IFRS 7, *Financial instruments: Disclosure*, on January 1, 2018. The adoption of the standard had no impact on the Company's consolidated financial statements on the date of initial application.

The Company adopted IFRS 9 *Financial Instruments*, on January 1, 2018. The standard provides 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.

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 them 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)	As filed December 31, 2018	Effects of adoption of lease accounting standard update related to: Recognition of Operating Leases	Total Effects of Adoption	With effect of least accounting standard update January 1, 2019
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.

Uncertainty over Income Tax Treatments

The Company adopted the following accounting policy in the current fiscal year:

IFRIC 23 Uncertainty over income tax treatments - clarifies the application of recognition and measurement requirement in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for the Company's current annual period retrospectively and the adoption did not have a significant impact on the Company's consolidated financial statements.

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. (which effective March 5, 2021 changed its name to Lowell Farms 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 Securities Exchange effective at market open on April 30, 2019, under the new symbol "INDS". Effective at market open on March 5, 2021 Lowell commenced trading under the new symbol "LOWL".

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

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 2019, the Company completed the following acquisitions, and allocated the purchase price as follows:

(in thousands)	(1) Kaizen Inc.	(2) The Humble Flower Co.	Total
CONSIDERATION			
Contingent Payment	$ 50	$ 44	$ 94
Note Payable	200	65	265
Fair value of subordinate voting shares	62	55	117
Total consideration	**$ 312**	**$ 164**	**$ 476**
PURCHASE PRICE ALLOCATION			
Assets Acquired			
Inventories	$ -	$ 6	$ 6
Intangible assets - brands and trademarks	104	80	184
Intangible assets - technology and know-how	208	78	286
Liabilities assumed			
Notes payable	-	-	-
Total identifiable net assets	312	164	476
Noncontrolling interest	-	-	-
Fair value of net assets acquired	**$ 312**	**$ 164**	**$ 476**

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 were finalized in the year ended December 31, 2020.

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.

- *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. Effective July 15, 2020 the asset purchase agreement was modified, eliminating payments associated with meeting financial performance targets in exchange for the issuance of 225 thousand options to purchase Subordinate Voting Shares and a note payable of $200, with payments over two years. Had the modifications been reflected as of the date of acquisition, net assets would have decreased $223 at December 31, 2019 and net loss in 2019 would have been reduced by $21.

- *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. Effective June 1, 2020 the asset purchase agreement was modified, eliminating payments associated with meeting financial performance targets in exchange for the issuance of 225 thousand options to purchase Subordinate Voting Shares and a note payable of $65, with payments commencing on January 1, 2021 for 24 months. Had the modifications been reflected as of the date of acquisition, net assets would have decreased $308 at December 31, 2019 and net loss in 2019 would have been reduced by $34.

- *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. In February 2020, the Company determined that Shredibles was not a strategic fit for the Company and reached an agreement with the Shredibles co-founders to nullify the investment. 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.

Terminated Acquisition

On May 14, 2019, the Company entered into a definitive agreement to acquire the assets of W The Brand ("W Vapes"), a manufacturer and distributor in Nevada and Oregon of cannabis concentrates, cartridges and disposable pens, in a cash and stock transaction. Under the terms of the agreement, the purchase consideration to W Vapes shareholders consisted of $10 million in cash and $10 million in Subordinate Voting Shares (based on a deemed value of CDN$15.65 per share). 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 and in December 2019, the Company purchased the Las Vegas, Nevada facility for $4.1 million.

On July 17, 2020, the Company announced the termination of the definitive agreement with W Vapes and is no longer obligated to acquire the assets of W Vapes. The termination of the agreement coincided with an asset acquisition announcement between W Vapes and Planet 13 Holdings Inc. ("Planet 13"). Additionally, the Company sold the Las Vegas facility to certain affiliates of Planet 13 for a cash payment of approximately $500, and an additional cash payment of approximately $2.8 million upon regulatory approval of the W Vapes and Planet 13 transaction which was received in January 2021, and in the third quarter the Company finalized a note payable of $843 to the owners of W Vapes, payable coinciding with the receipt of the $2.8 million payment from the facility sale, which was paid in January 2021. As a result, the Company has reflected a $4.4 million loss in loss on termination of investments, net on its consolidated statement of operations.

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. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets were comprised of the following items:

	December 31,	
(in thousands)	2020	2019
Deposits	$ 572	$ 542
Insurance	593	854
Supplier advances	504	742
Nevada building sale proceeds	2,800	-
Other	1,922	591
Total Prepaid Expenses and Other Current Assets	**$ 6,391**	**$ 2,729**

7. INVENTORY

Inventory was comprised of the following items:

	December 31,	
(in thousands)	2020	2019
Raw materials	$ 11,630	$ 6,603
Work in process	-	34
Finished goods	1,983	2,739
Total Inventory	**$ 13,613**	**$ 9,376**

8. 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, 2020 and 2019 are as follows:

Years Ended December 31,		
(in thousands)	**2020**	**2019**
Beginning balance	$ 1,716	$ 576
Net change in fair value less costs to sell due to biological transformation	30,272	7,728
Transferred to inventory upon harvest	(20,700)	(6,588)
Ending balance	**$ 11,288**	**$ 1,716**

The Company cultivates its plants within greenhouses that utilize natural light and use supplemental lighting. On average the growing cycle for supplemental lighting is 11 weeks. Commencing in the quarter ended March 31, 2020, supplemental lighting is being used for all harvests.

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, 2020 and 2019;
- 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, 2020 and 2019.

- Selling price per pound – a decrease in the selling price per pound by 5% would result in the biological asset value decreasing by approximately $751 and $72 on December 31, 2020 and 2019, respectively.
- Estimated yield per plant – a decrease in the yield per plant of 5% would result in the biological asset value decreasing by approximately $564 and $27 on December 31, 2020 and 2019, respectively.

As of December 31, 2020, on average, the biological assets were 58.5% complete as to the next expected harvest date, and it is expected that the Company's biological assets will ultimately yield approximately 14,847 pounds of cannabis and cannabis biomass.

9. OTHER CURRENT LIABILITIES

Other current liabilities were comprised of the following items:

(in thousands)	December 31, 2020	December 31, 2019
Excise and cannabis tax	$ 5,780	$ 2,903
Third party brand distribution accrual	584	80
Insurance and professional accrual	746	576
Other	1,750	797
Total Accrued Liabilities	**$ 8,860**	**$ 4,356**

10. PROPERTY AND EQUIPMENT

A reconciliation of the beginning and ending balances of property and equipment and accumulated depreciation during the year ended December 31, 2020 is as follows:

(in thousands)	Land and Buildings	Leasehold Improvements	Furniture and Fixtures	Equipment	Vehicles	Construction in Process	Right of Use Assets	Total
Costs								
Balance—December 31, 2019	$ 4,098	$ 4,275	$ 49	$ 1,100	$ 813	$ 2,533	$ 34,114	$ 46,982
Additions	8	1,937	1	154	41	4,604	106	6,851
Lease Option Reassessment	-	-	-	-	-	-	7,310	7,310
Disposals/Transfers	(4,106)	4,587	-	22	-	(4,609)	-	(4,106)
Balance—December 31, 2020	**$ -**	**$ 10,799**	**$ 50**	**$ 1,276**	**$ 854**	**$ 2,528**	**$ 41,530**	**$ 57,037**
Accumulated Depreciation								
Balance—December 31, 2019	$ (8)	$ (422)	$ (46)	$ (261)	$ (249)	$ -	$ (3,025)	$ (4,011)
Depreciation	(57)	(212)	(1)	(166)	(162)	-	(3,250)	(3,848)
Disposals	65	-	-	-	-	-	-	65
Balance—December 31, 2020	**$ -**	**$ (634)**	**$ (47)**	**$ (427)**	**$ (411)**	**$ -**	**$ (6,275)**	**$ (7,794)**
Net Book Value								
December 31, 2019	$ 4,090	$ 3,853	$ 3	$ 839	$ 565	$ 2,533	$ 31,089	$ 42,972
Balance—December 31, 2020	**$ -**	**$ 10,165**	**$ 3**	**$ 849**	**$ 443**	**$ 2,528**	**$ 35,255**	**$ 49,243**

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

Depreciation expense of $3,848 and $3,854 were recorded for the years ended December 31, 2020 and 2019, respectively, of which $241 and $592, respectively, were included in cost of goods sold.

11. GOODWILL AND INTANGIBLE ASSETS

Goodwill

A reconciliation of the beginning and ending balances of goodwill during the year ended December 31, 2020 is as follows:

(in thousands)	
Costs	
Balance—December 31, 2019	$ 357
Additions	-
Business Acquisitions	-
Impairment	-
Balance—December 31, 2020	**$ 357**

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 2020, and its analysis indicated that the Company had no impairment of goodwill.

<u>Other Intangible Assets</u>

A reconciliation of the beginning and ending balances of intangible assets and accumulated amortization during the year ended December 31, 2020 is as follows:

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

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 $64 for the year ended December 31, 2020. As described in Note 5, during the quarter ended June 30, 2020, the Company modified certain purchase agreements resulting in adjustments to certain intangible assets.

The Company estimates that amortization expense for our existing other intangible assets will be approximately $40 annually 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.

12. 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 an unrecognized gain of $73 in its Statements of Operations for the year ended December 31, 2020.

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. In 2019, due to the highly competitive gummy product market, the Company determined that the carrying value of the investment was nominal and a ($350) loss was recognized. In November 2020, the Company acquired the Dametra LLC 50% ownership through the issuance of 150 thousand subordinate voting shares with a market value of $179 and has reflected this purchase as a brand name intangible on the consolidated statement of financial position.

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 66% and the remaining 34% of its interests in 2019 and 2020, respectively, recognizing a realized gain of $476 and $656 in 2019 and 2020, respectively.

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 was recognized in 2019. In 2020, the Company terminated this relationship and return the shares to the company.

13. SHAREHOLDERS' EQUITY

Shares Outstanding

The table below details the change in Company shares outstanding by class during the year ended December 31, 2020:

(in thousands)	Subordinate Voting Shares	Super Voting Shares
Balance—December 31, 2019	32,844	203
Shares issued in connection with convertible debenture offering	250	-
Shares issued in connection with subordinate voting share offering	23,000	-
Shares issued in connection with exercise of warrants	750	-
Shares issued in connection with conversion of convertible debentures	375	-
Shares issued in connection with asset purchase	150	-
Issuance of vested restricted stock units	248	-
Balance—December 31, 2020	**57,617**	**203**

In December 2020, the Company complete a CAD$34.5 million share offering resulting in the issuance of 11.5 million subordinate voting shares priced at CAD$1.50 per share. The offering resulting in approximately $25 million in proceeds, net of offering expenses. The use of proceeds were for the development of a cultivation and production facility and working capital and other corporate purposes.

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)	
Balance—December 31, 2019	**2,769**
Warrants issued in conjunction with convertible debenture offering	80,379
Warrants issued in conjunction with equity offering[1]	11,500
Warrants converted into subordinate voting shares	(750)
Balance—December 31, 2020	**93,898**

(1) Excludes 553 warrants issuable should underwriter options be exercised.

14. DEBT

Debt at December 31, 2020 and 2019 was comprised of the following:

(in thousands)	December 31, 2020	December 31, 2019
Current portion of long-term debt		
Vehicle loans[1]	$ 170	$ 135
Note payable[3]	793	-
Total short-term debt	963	135
Long-term debt, net		
Vehicle loans[1]	233	233
Note payable[2]	65	138
Note payable[3]	265	-
Convertible debenture[4]	13,701	-
Total long-term debt	14,264	371
Total Indebtedness	**$ 15,227**	**$ 506**

[1] *Primarily fixed term loans on transportation vehicles.*

[2] *Note payable in connection with Acme acquisition to be paid as and if financial performance targets are met over the earnout period.*

[3] *Note payable in connection with Humble Flower and Kaizen acquisitions and termination of the W Vapes acquisition.*

[4] *Net of deferred financing costs of $2,300.*

Stated maturities of debt obligations, excluding Acme acquisition debt which has no maturity and excluding deferred financing costs, are as follows:

(in thousands)	December 31, 2020
2020	$ 35
2021	1,122
2022	228
2023	16,050
2024	21
2025 and thereafter	6
Total debt obligations	**$ 17,462**

On April 13, 2020, the Company entered into a $15.1 million senior secured convertible debenture and warrant purchase agreement. In late April and May 2020 an additional $1 million was funded to bring the total convertible debenture amount to $16.1 million. The convertible debentures are convertible, at a conversion price of $0.20 per share, into an aggregate of 80.4 million subordinate voting shares of the Company, and the Company issued warrants to purchase an aggregate of 80.4 million subordinate voting shares at an exercise price of $.28 per share. The financing yielded the Company approximately $11.5 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 expire in October 2023. During 2020, $75 of convertible debentures were converted into 375 thousand subordinate voting shares.

15. LEASES

The Company adopted IFRS 16 - *Leases* 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.

A reconciliation of lease obligations for the year ended December 31, 2020 was comprised of the following:

(in thousands)		
Lease Liability		
December 31, 2019	$	33,805
Additions		120
Lease reassessment		7,310
Lease principal payments		(2,401)
December 31, 2020	**$**	**38,834**
Lease obligation, current portion	$	2,301
Lease obligation, long-term portion	$	36,533

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, 2020 were as follows:

Year Ended December 31, (in thousands)		**2020**
Amortization of leased assets[1]	$	3,250
Interest on lease liabilities[2]		1,866
Total	**$**	**5,116**

[1] *Included in cost of goods sold and general and administrative in the consolidated statement of operations.*

[2] *Included in interest expense in the consolidated statement of operations.*

The key assumptions used in accounting for leases as of December 31, 2020 were a weighted average remaining lease term of 18.1 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, 2020 were as follows:

(in thousands)		**December 31, 2020**
1 - 3 years	$	14,138
4 - 5 Years		7,361
Greater than 5 years		17,335
Total	**$**	**38,834**

16. SHARE-BASED COMPENSATION

During 2019 the Company's Board of Directors adopted the *2019 Stock and Incentive Plan* (the "Plan"), which was amended in April 2020. The Plan permits the issuance of stock options, stock appreciation rights, stock awards, share units, performance shares, performance units and other stock-based awards, and, as of December 31, 2020, 8.2 million shares have been authorized to be issued under the Plan and 1.85 million are available for future grant. 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 6 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, 2020, the Company granted shares to certain employees as compensation for services. These shares were accounted for in accordance with IFRS 2 - *Share-based Payment*s. The Company amortizes awards over the service period and until awards are fully vested.

For the years ended December 30, 2020 and 2019, share-based compensation expense recorded to the Company' s consolidated statements of operations were:

Years Ended December 31,

(in thousands)	2020	2019
Cost of goods sold	$ -	$ -
General and administrative expense	2,200	3,385
Total share based compensation	**$ 2,200**	**$ 3,385**

The following table summarizes the status of grants and unvested awards as at and for the year ended December 31, 2020:

(in thousands except per share amounts)	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding—December 31, 2019	**1,543**	**$2.53**	**4.3**	**$ -**
Granted	5,315	0.62		
Exercised	-	-		
Cancelled	(598)	1.67		
Outstanding—December 31, 2020	**6,260**	**$0.97**	**4.7**	**$ 3,162**
Exercisable—December 31, 2020	**739**	**$2.10**	**3.2**	**$ 25**
Vested and expected to vest—December 31, 2020	**6,260**	**$0.97**	**4.7**	**$ 3,162**

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.

Year Ended December 31,	2020
Expected volatility	50.0%
Dividend yield	0%
Risk-free interest rate	0.95%
Expected term in years	6.0

Restricted Stock Units (RSU) —On June 7, 2019, in connection with the reverse takeover discussed in Note 3, 729 RSUs were awarded in total to executive employees and independent board members, and 235 RSUs were awarded to other key employees under the Plan. The RSUs vested in 25% increments over a period of ten months. In 2020, 220 RSUs under the Plan were awarded to executive employees and independent board members vesting on December 31, 2020, 68 RSUs under the Plan to other employees, vesting periodically in 2020, and 450 RSU's were awarded to an independent advisor of the Company, vesting in October 2021. The fair value for RSUs is based on the Company's share price on the date of the grant. The Company recorded $1,841 as compensation expense and 248 net shares vested and were issued during the year ended December 31, 2020 in connection with these awards. At December 31, 2020 there were 450 restricted stock units outstanding.

17. INCOME TAXES

The provision for income tax expense for the years ended December 31, 2020 and 2019 consisted of the following:

Years Ended December 31, (in thousands)	2020	2019
Current		
Federal	$ -	$ -
State	224	205
Total Current	**224**	**205**
Deferred tax expense (benefit)		
Federal	(1,454)	(2,406)
State	(10,406)	(7,329)
Total deferred tax benefit	**(11,860)**	**(9,735)**
Valuation allowance	11,860	9,735
Income tax expense	**$ 224**	**$ 205**

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, 2020 and 2019, are as follows:

Years Ended December 31, (in thousands)	**2020**	**2019**
Deferred tax assets		
Net operating loss carryforwards	$ 12,737	$ 10,836
Accruals and reserves	-	-
Depreciation	-	-
Other	-	-
Valuation allowance	(12,737)	(10,836)
Total deferred tax assets	-	-
Accruals and reserves	-	-
Share-based compensation	-	-
Total deferred tax liabilities	**-**	**-**
Net deferred tax liabilities	**$ -**	**$ -**

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, 2020. 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 $12.7 million and $10.8 million has been recorded against its net deferred tax assets as of December 31, 2020 and 2019. 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, 2020 and 2019, the Company had federal net operating loss ("NOL") carryforwards of approximately $17.1 million and $9.2 million respectively. The Company had state NOL carryforwards of approximately $86.6 million and $50.4 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, 2020 and 2019, 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, 2020 and 2019, 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 2019 forward and by tax authorities in various US states from 2015 forward.

18. 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.

Years Ended December 31, (in thousands except per share amounts)	2020	2019
Net earnings/(loss)	$ (7,616)	$ (50,752)
Basic		
Weighted average subordinate voting shares[1]	33,940	31,379
Basic earnings (loss) per share	**$ (0.22)**	**$ (1.62)**
Diluted		
Weighted average subordinate voting shares[1]	33,940	31,379
Effects of Potential Dilutive Shares		
Options	-	-
Warrants	-	-
Restricted stock units	-	-
Diluted weighted average subordinate voting shares	33,940	31,379
Diluted earnings (loss) per share	**$ (0.22)**	**$ (1.62)**

(1) On an as converted basis.

As the Company is in a loss position for the years ended December 31, 2020 and 2019, the inclusion of options, warrants, convertible debentures and restricted stock units in the calculation of diluted earnings per share would be anti-dilutive, and accordingly, were excluded from the diluted loss per share calculation.

19. COMMITMENTS AND CONTINGENCIES

Commitments

In January 2021, the company signed a letter of intent to expand its cultivation footprint. The agreement contemplates a land-lease from a developer that has prepared the property for cannabis cultivation. Indus would be responsible for constructions costs of greenhouses using cash raised in the equity offering in December 2020. The transaction is subject to final site due-diligence and negotiation of construction contracts. In the event the transaction contemplated in the letter of intent is pursued, the Company anticipates the site will be ready for operation in the first half of 2022.

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, 2020, 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. In 2020, the Company entered into a payment plan offered by California regulatory authorities to pay certain excise and cultivation taxes over a 12 month period. If such taxes are not paid in accordance to the agreed payment plan the Company could be subject to certain late payment penalties.

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, 2020, 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 are an adverse party or have a material interest adverse to the Company's interest.

Insurance Claims

In September 2020 the Company experienced a small fire at its manufacturing facility which resulted in suspending certain operations until the facility was repaired. As a result, the company filed a business interruption claim which resulted in a payment of $1.3 million from the insurance carrier in March 2021. The proceeds from the claim are reflected in other income on the consolidated statement of operations.

In August 2020 the Company experienced adverse air quality conditions that resulted in the Company closing the air vents in its greenhouse facilities at a time when extreme temperatures existed. As a result, plant health suffered due to the situation. The Company has filed a business interruption claim which is presently being reviewed by the insurance carrier. There is no certainty on the results of the carrier review of the claim, and as a result, the Company has not recorded an estimate of claim proceeds as of December

31, 2020. The Company anticipates the claims process will be completed in the quarter ended June 30, 2021.

20. GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended December 31, 2020, and 2019, general and administrative expenses were comprised of:

Years Ended December 31, (in thousands)	**2020**	**2019**
Salaries and benefits	$ 5,032	$ 12,697
Professional fees	1,650	2,229
Licensing and supplies	267	870
Share-based compensation	2,200	3,385
Administrative	2,613	4,292
Transaction and other special charges (1)	-	2,341
Total general and administrative expenses	$ 11,762	$ 25,814

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

21. 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 cofounders 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, 2020 and 2019 were $11,385 and $15,858, respectively. The Management Services Agreement with EM was terminated as of December 31, 2020.

In April 2015, Indus entered into a services agreement with Olympic Management Group ("OMG"), for advisory and technology support services, including the access and use of software licensed to OMG to perform certain data processing and enterprise resource planning (ERP) operational services. OMG is owned by one of the Company's co-founders. The agreement provides for the dollar-for-dollar reimbursement of expenses incurred by OMG in performance of its services. Amounts paid to OMG for the years ended December 31, 2020 and 2019 were $5 and $86, respectively.

22. 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, 2020 and 2019 is the carrying amount of cash and cash equivalents and accounts receivable. All cash and cash equivalents are placed with U.S. and Canadian 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 19, the Company has the following contractual obligations:

	Maturity: <1 Year		Maturity: >1 Year	
	December 31,		December 31,	
(in thousands)	2020	2019	2020	2019
Accounts payable and Other accrued liabiliities	$ 10,996	$ 9,060	$ -	$ -

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.

23. 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.

24. SUBSEQUENT EVENTS

On February 25, 2021, the Company announced the acquisition of substantially all of the assets of the Lowell Herb Co. and Lowell Smokes trademark brands, product portfolio, and production assets from The Hacienda Group. Lowell Herb Co. is a leading California cannabis brand that manufactures and distributes distinctive and highly regarded premium packaged flower, pre-roll, concentrates, and vape products. The acquisition was valued at approximately $39 million, comprised of $4.1 million in cash and the issuance of 22,643,678 subordinate voting shares. The Hacienda Group has agreed to continue to produce Lowell products for an interim period for the account of the Company pending completion of the transfer of certain regulatory assets. In connection with this acquisition, the Company changed its corporate name to Lowell Farms Inc.

The Company has evaluated subsequent events through April 27, 2021, the date the financial statements were available to be issued.