



# LOWELL FARMS INC.

2020 ANNUAL REPORT

## TABLE OF CONTENTS

	<b><u>Page</u></b>
DESCRIPTION OF BUSINESS.....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	2
OVERVIEW OF THE COMPANY .....	2
RESULTS OF OPERATIONS .....	5
LIQUIDITY AND CAPITAL RESOURCES .....	8
CHANGES IN OR ADOPTION OF ACCOUNTING PRONOUNCEMENTS .....	11
CRITICAL ACCOUNTING ESTIMATES.....	13
FINANCIAL INSTRUMENTS AND FINANCIAL RISK.....	13
SELECTED FINANCIAL DATA.....	16
MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT’S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.....	17
CONSOLIDATED FINANCIAL STATEMENTS .....	F-1

## DESCRIPTION OF BUSINESS

*Unless the context indicates or suggests otherwise, references to “we,” “our,” “us,” the “Company,” or “Lowell Farms” refer to Lowell Farms Inc., a corporation organized under the laws of British Columbia, Canada, individually, or as the context requires, collectively with its subsidiaries.*

### General

We are a California-based cannabis company with vertically integrated operations, including large-scale cultivation, extraction, processing, manufacturing, branding, packaging, and wholesale distribution to retail dispensaries. We manufacture and distribute proprietary and third-party brands throughout the State of California, the largest cannabis market in the world. We also provide manufacturing, extraction, and distribution services to third-party cannabis and cannabis branding companies.

On February 25, 2021, we acquired the Lowell Herb Co. and Lowell Smokes trademark brands, product portfolio, and production assets from The Hacienda Group, a California limited liability company (“Hacienda”), and its subsidiaries. The acquisition is referred to in this Annual Report as the “Lowell Acquisition.” The Lowell Acquisition expanded our product offerings by adding a highly regarded, mature line of premium branded cannabis pre-rolls, including infused pre-rolls, to our product portfolio under the Lowell Herb Co. and Lowell Smokes brands. The Lowell Acquisition also expanded our offerings of premium packaged flower, concentrates, and vape products. We believe our pre-existing strengths in cultivation and sourcing will enhance the value of the brands and products acquired in the Lowell Acquisition.

The Lowell Acquisition also substantially broadened our customer base by adding highly developed direct-to-consumer channels to complement our pre-existing network of retail dispensary customers. This addition to our customer base has resulted in broader geographic coverage in California by the combined business.

We operate a 225,000 square foot greenhouse cultivation facility and a 40,000 square foot processing facility in Monterey County, a 15,000 square foot manufacturing and laboratory facility in Salinas, California, a separate 20,000 square foot distribution facility in Salinas, California and a warehouse depot and distribution vehicles in Los Angeles, California.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Certain statements in this Annual Report constitute "forward-looking statements." Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. The words "believe," "expect," "anticipate," "intend," and "plan" and similar expressions identify forward-looking statements. Factors that might cause such differences include the legislative framework regarding the licensing of cannabis and related activities; proposed and anticipated changes to applicable laws and regulations regarding the cannabis market, associated fees and taxes and the business impact on the Company; the potential size of the adult and medical-use cannabis markets in the jurisdictions in which the Company currently operates in and may in the future operate; the availability and renewal of requisite licenses and permits on terms acceptable to the Company, including those related to any expansion contemplated by the Company of its operations; the implementation of the Company's remaining construction plans in respect of its cultivation facility, including the timing thereof; anticipated future cultivation, manufacturing and extraction capacity and output, and the resulting anticipated operational and financial benefits to the Company; expectations as to the development and distribution of the Company's brands and products and the distribution of third-party products; expectations as to changes to future strategies regarding the Company's own branded products; estimated future sales and revenue, estimated future operating costs and expenses, estimated future capital expenditures, estimated future cash flows and other prospective financial performance and the resulting effects on the Company's financial position; prospective operational performance; business prospects and objectives and near and long term strategies, including growth strategies; competitive strengths; anticipated trends and challenges in the Company's business and the markets in which it operates; the ability of the Company to satisfy the requirements of its debt obligations, and to repay, renew or refinance such indebtedness upon such indebtedness becoming payable in the event such indebtedness is not converted into equity in accordance with its terms; anticipated cash needs; the Company's ability to raise funds in the capital markets and the resulting effects on the Company's financial position; expectations regarding the schedule for the release of outstanding shares or other securities of the Company or its subsidiaries, which are currently subject to lock-up arrangements, from such arrangements; expectations for other economic, business, regulatory or competitive factors related to the Company or the cannabis industry generally, and other events or conditions that may occur in the future. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.*

*This management's discussion and analysis ("MD&A") of the financial condition and results of operations of the Company is for the years ended December 31, 2020, and 2019. It is supplemental to, and should be read in conjunction with, the Company's consolidated financial statements and the accompanying notes for the years ended December 31, 2020, and 2019. All amounts in this MD&A are expressed in thousands of United States dollars (" \$" or "US\$"), unless otherwise indicated.*

## OVERVIEW OF THE COMPANY

We are a California-based cannabis company with vertically integrated operations including large scale cultivation, extraction, processing, manufacturing, branding, packaging and wholesale distribution to retail dispensaries. We manufacture and distribute proprietary and third-party brands throughout the State of California, the largest cannabis market in the world. We also provide manufacturing, extraction and distribution services to third-party cannabis and cannabis branding companies.

Our present product offerings include flower, vape pens, oils, extracts, chocolate edibles, mints, gummies, topicals, tinctures and pre-rolls. We sell our products under owned and third-party brands. Brands we own include the following: Lowell Herb Co. and Lowell Smokes (premium packaged flower, pre-roll, concentrates, and vape products); Cypress Reserve (a premium flower brand); Flavor Extracts (crumble and terp sugar products); Kaizen (premium brand cannabis concentrates); House Weed (a value driven flower and concentrates offering delivering a flavorful and potent experience); Moon (a range of high-potency, high-quality and high-value edibles); Altai (hand-crafted and award-winning edibles); Humble Flower (a premium brand offering cannabis-infused topical creams, balms and oils); Original Pot Company (baked edibles); CannaStripe (gummy edibles); and Acme Elixirs (high

quality, lab-tested vaporizing pens). We also exclusively manufacture and distribute third party brands in California and provide third party extraction processing and distribution services and bulk extraction concentrates and flower to licensed manufacturers and distributors.

The Company leverages technology, innovation, product quality, and superior service levels to continuously develop its customer and partner networks of top-tier industry retailers and innovators. Our strategy focuses on four core pillars: the quality of our products, national awareness for our brands, distribution capabilities, and expansion of our footprint. The Company is backed by an experienced team that is deeply in tune and integrated with industry partners and the Company's customers. Together, we are building a new American industry, creating products that emphasize consumer safety while advancing changing perceptions of cannabis use.

We conduct cannabis cultivation operations located in Monterey County, California. We operate a cultivation facility which includes four greenhouses totaling approximately 225,000 square feet sited on 10 acres located on Zabala Road. Farming cannabis at this scale enables us to curate specialized strains and maintain greater control over the quantity and quality of cannabis available for our products, preserving the consistency of our flower and cannabis feedstocks for our extraction laboratory and product manufacturing operations. We maintain a strict quality control process which facilitates a predictable output yield of pesticide-free products.

Our manufacturing facility is located in Salinas, California and houses our edible product operations and extraction and distillation operations. The edible product operations utilize internally produced cannabis oil, which can also be supplied from multiple external sources. Our manufacturing operations produce a wide variety of cannabis-infused products in our 15,000 square foot manufacturing facility in Salinas. Our products include chocolate confections, tinctures, baked goods, hard and soft non-chocolate confections, and topical lotions and balms. Lowell Farms utilizes modern commercial production equipment and employs food grade manufacturing protocols, including industry-leading standard operating procedures designed so that its products meet stringent quality standards. We have implemented updated compliance, packaging and labeling standards to meet the requirements of the California Medical and Adult-Use Cannabis Regulation and Safety Act with the advent of adult use legalization in California.

We also operate an automated flower packaging line and a pre-roll assembly line for making finished goods in those respective categories with feedstock grown at our cultivation operations.

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

The Company's corporate office and principal place of business is located at 19 Quail Run Circle, Salinas, California. As of December 31, 2020, the Company had 196 full-time-equivalent employees.

## **Recent Developments**

### ***Acquisitions***

On June 29, 2021, the Company acquired a 10-acre, 40,000 square foot processing facility and related equipment located at 20800 Spence Road, Salinas, California. The facility is being commissioned for the conduct of cannabis drying and midstream processing operations. As part of the acquisition, the Company acquired all of the equity interests in 20800 Spence Rd LLC ("Spence"), which holds the operating permits for the facility. The purchase consideration paid by the Company consisted of \$9,000,000 in cash and 7,997,520 of the Company's subordinate voting shares. The facility will provide drying, bucking, trimming, sorting, grading, and packaging operations for up to 250,000 lbs. of wholesale cannabis flower annually. The facility is centrally located in the Salinas Valley with several million square feet of cultivation canopy within a few miles. The new facility will process nearly all the cannabis grown locally by the Company at our existing cultivation operations. Additionally, the Company is commissioning a new business unit called Lowell Farms Services ("LFS"), to engage in fee-based processing services for regional growers from the Salinas Valley area, one of the largest and fastest growing cannabis cultivation regions in the country. In conjunction with the transaction, the Company entered into a mortgage loan with affiliates of Viridescent Realty Trust, Inc. to finance \$9,360,000 of the cash portion of the acquisition with a five-year fixed rate

loan bearing interest at 12.5%, secured by the facility and the equity interests in Spence, and guaranteed by Indus Holding Company, a subsidiary of the Company that is the direct or indirect owner of all of the Company's operating assets.

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 (the "Lowell Acquisition"). 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.

### **Terminated Acquisition**

On July 17, 2020, the Company announced the termination of the 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. Under the terms of the agreement, the purchase consideration to W Vapes shareholders originally consisted of \$10 million in cash and \$10 million in Subordinate Voting Shares (based on a deemed value of CDN\$15.65 per share) and was subsequently amended whereby the Company advanced \$2 million in non-recourse funds to the seller in exchange for the release of \$10 million of cash held in escrow related to the acquisition and the Company purchased the Las Vegas, Nevada facility for \$4.1 million. 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. As a result, the Company has reflected a \$4.4 million loss in its consolidated financial statements.

### **Corporate History; Reverse Takeover**

The Company 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. ("Mezzotin"). On November 13, 2018, Indus Holding Company entered into a business combination agreement with Mezzotin whereby the parties agreed to combine their respective businesses, which would result in the reverse takeover of Mezzotin by the security holders of Indus Holding Company. On April 26, 2019, the reverse takeover transaction concluded. The Company became the parent of Indus Holding Company in connection with the reverse takeover transaction.

In connection with the reverse takeover transaction, the Company 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 commenced trading on the Canadian Stock Exchange effective at market open on April 30, 2019, under the new symbol "INDS."

In connection with the Lowell Acquisition, the Company changed its corporate name to Lowell Farms Inc. effective March 1, 2021.

### **Operations and Regulatory Overview**

Substantially all our revenue is derived from the U.S. cannabis industry, which is illegal under U.S. federal law. For a regulatory overview of the states in which we operate and information about risks related to U.S. cannabis operations, please refer to the Description of Business section of this Annual Report.

### **Reconciliations of Non-GAAP Financial and Performance Measures**

*The Company has provided certain supplemental non-GAAP financial measures in this MD&A. Where the Company has provided such non-GAAP financial measures, we have also provided a reconciliation below to the most comparable GAAP financial measure, see "Reconciliations of Non-IFRS Financial and Performance Measures" in this MD&A. These supplemental non-GAAP financial measures should not be considered superior to, as a substitute*

for or as an alternative to, and should only be considered in conjunction with, the GAAP financial measures presented herein.

In this MD&A, reference is made to adjusted EBITDA and working capital, which are not measures of financial performance under GAAP. The Company calculates each as follows:

- Adjusted EBITDA is net income (loss), excluding the effects of income taxes (recovery); net interest expense; depreciation and amortization; non-cash fair value adjustments on investments; unrealized foreign currency gains/losses; share-based compensation expense; and other transactional and special expenses, such as acquisition costs and expenses related to our reverse takeover, which are inconsistent in amount and frequency and are not what we consider as typical of our continuing operations. Management believes this measure provides useful information as it is a commonly used measure in the capital markets and as it is a close proxy for repeatable cash generated by operations. We use adjusted EBITDA internally to understand, manage, make operating decisions related to cash flow generated from operations and evaluate our business. In addition, we use adjusted EBITDA to help plan and forecast future periods.
- Working capital is current assets less current liabilities. Management believes the calculation of working capital provides additional information to investors about the Company's liquidity. We use working capital internally to understand, manage, make operating decisions related to cash flow required to fund operational activity and evaluate our business cash flow needs. In addition, we use working capital to help plan and forecast future periods.

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

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

**Year Ended December 31,**

(in thousands)

	<u>2020</u>	<u>2019</u>
Net loss attributable to the Company (GAAP)	\$ (21,910)	\$ (49,934)
Interest expense	3,331	2,152
Provision (benefit) for income taxes	224	205
Depreciation in cost of goods sold	2,830	2,921
Depreciation and amortization in operating expenses	1,082	993
Investment and currency losses	(168)	2,091
Share-based compensation	2,200	3,385
Transaction and other special charges	4,201	2,341
<b>Adjusted EBITDA (non-GAAP)(1)</b>	<b><u>\$ (8,210)</u></b>	<b><u>\$ (35,846)</u></b>

(1) Non-GAAP measure

**RESULTS OF OPERATIONS**

**Year Ended December 31, 2020, Compared to Year Ended December 31, 2019**

*Revenue*

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

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

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

#### *Revenue by Category*



#### **Year Ended December 31,**

(in thousands)

Owned

Agency

Distributed

Net revenue

	2020	2019	2020 v 2019 % Change
Owned	\$ 31,955	\$ 15,366	108%
Agency	7,778	13,470	-42%
Distributed	2,885	8,209	-65%
Net revenue	<u>\$ 42,618</u>	<u>\$ 37,045</u>	<u>15%</u>

In the year ended December 31, 2020:

- Revenue increases compared to the prior year were driven by expanded cultivation capacity, resulting in flower brand sales increasing 167% over 2019 and expansion of owned brand product offerings resulting in concentrates brand sales increasing 154% over 2019 and edible brand sales increasing 103% over 2019. Customer onboarding and targeted marketing initiatives also favorably impacted owned brand sales.
- Revenues in 2020 were adversely impacted by a strategic decision to focus on agency and distributed brands that realize a higher per order sales level. As a result, the number of agency brands carried by the Company in 2020 declined by approximately 60% and no new agency brands were onboarded, and, the number of distributed brands carried by the Company declined by approximately 85%, and only two new distributed brands were onboarded in 2020.

Lowell Farms expects to continue its focus on profitable sales growth in 2021 primarily through increased cultivation yields as a result of completing greenhouse renovations in 2020, including installation of environmental monitoring equipment designed to significantly reduce plant stress should the Company encounter severe temperature and atmospheric conditions as occurred at the end of the summer in 2020. Flower capacity in 2021 is expected to increase to over 40,000 pounds harvested, more than twice the harvest in 2020. The increased output will also increase internally sourced materials for distillation and concentrate products. Revenues are also expected to increase, although at a lesser pace, through improved penetration of edible products and selective new product introductions including pre-rolls, vapes, and gummies. Our focus on agency and distributed brand sales will continue to be on those brands that realize a higher per order sales level that will enable profitable growth. As a result, we expect agency and distributed brand sales to decline from 2020 levels.

### *Cost of Sales, Gross Profit and Gross Margin*

Cost of goods sold consists of direct and indirect costs of production and distribution, and includes amounts paid for direct labor, raw materials, packaging, operating supplies, and allocated overhead, which includes allocations of rent, insurance, managerial salaries, utilities, and other expenses, such as employee training and product testing. The Company manufactures products for certain brands that do not have the capability, licensing, or capacity to manufacture their own products. The fees earned for these activities absorb fixed overhead in manufacturing. Our focus in 2021 is on flower, pre-rolls, and concentrates from our expanded cultivation operations, and on increased vertical integration utilizing greater internally sourced biomass for edible and vape products. We are focusing on executing smaller, more frequent production runs to lower inventory working capital, optimize efficiencies and expedite product getting to the market faster, while continuing to decrease third-party manufacturing activities.

#### **Year Ended December 31,**

(in thousands)

	<b>2020</b>	<b>2019</b>
Net revenue	\$ 42,618	\$ 37,045
Cost of goods sold	\$ 40,413	\$ 47,790
Gross profit (loss)	\$ 2,205	\$ (10,745)
Gross margin	5.2%	-29.0%

Gross margin was 5.2% and (29.0)% in the year ended December 31, 2020, and 2019, respectively. The improvement between periods in gross profit and gross margin is primarily due to efficiencies from the \$16.6 million, 108% increase in owned brand revenue, reflecting increased cultivation output of flower and biomass which more than doubled in 2020 over 2019 on a similar cost base. Additionally, the \$11.0 million, or 51% reduction in revenue from lower margin agency and distributed brands had an unfavorable impact on gross profit of approximately \$0.7 million while having a favorable year-to-year impact on gross margin.

In 2020, as a result of the change in brand product mix and cost efficiencies related to the increased yields in cultivation, the Company incurred approximately \$2.9 million in additional cost of goods sold related to the \$16.6 million increase in owned brand product sales when compared to 2019. Additionally, cost of goods sold in 2020 declined approximately \$10.3 million from 2019 as a result of the \$11.0 million reduction in agency and distributed brand product sales.

### *Total Operating Expenses*

Total operating expenses consist primarily of costs incurred at our corporate offices; personnel costs; selling, marketing, and other professional service costs, including legal and accounting; and licensing costs. Sales and marketing expenses consist of selling costs to support our customer relationships, including investments in marketing and brand activities and the corporate infrastructure required to support our ongoing business. We expect selling costs as a percentage of revenue to decrease as our business continues to grow due to efficiencies associated with scaling the business, and reduced focus on non-core brands. We expect to incur periodic acquisition and transaction costs related to expansion efforts and to continue to invest where appropriate in the general and administrative functions to support the increasing complexity of the cannabis business.

#### **Year Ended December 31,**

(in thousands)

	<b>2020</b>	<b>2019</b>
Total operating expenses	\$ 18,013	\$ 34,836

Total operating expenses decreased by \$16,823 for the year ended December 31, 2020, compared to the prior year. The decrease is primarily attributable to the reduction in general and administrative salaries and expenses through cost-cutting initiatives and fully burdening distribution operations in the cost of goods sold. Stock-based compensation expense in 2020 decreased \$1,185 as restricted stock unit grants associated with the reverse takeover fully vested at the end of the first quarter in 2020. In addition, operating expenses in 2019 include \$2,251 of transaction costs related to the reverse takeover and acquisition-related costs. Operating expenses declined as a percentage of sales from 100% in 2019 to 48% in 2020. While operating expenses are expected to increase as owned brand

marketing and infrastructure expenditures are incurred in support of revenue increases, operating expenses as a percentage of sales are expected to continue to decline.

*Total other income (expense), net*

**Year Ended December 31,**

(in thousands)

	<b>2020</b>	<b>2019</b>
Total other income/(expense)	\$ (5,878)	\$ (4,148)

Other expenses in 2020 included a loss of \$4,367 on the termination of the agreement to purchase the Nevada and Oregon operations of W Vapes and the sale of the Las Vegas facility, while 2019 included \$2,250 in unrealized losses from investments. Interest expense increased by \$1,179 in 2020 due to bridge financing and convertible debentures entered into in the current year.

*Net Loss*

**Year Ended December 31,**

(in thousands, except per share amounts)

	<b>2020</b>	<b>2019</b>
Net loss	\$ (21,910)	\$ (49,934)
Net loss per share:		
Basic and Diluted	\$ (0.65)	\$ (1.59)
Shares used in per share calculation:		
Basic and Diluted	33,940	31,379

Net loss reduced \$37,920, or 75%, in 2020 as a result of the factors noted above.

**Summary of Quarterly Results**

The table below presents selected financial information for each of the eight most recently completed quarters

(in thousands, except per share amounts)	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
<b>2020</b>				
Revenue	\$ 9,442	\$ 9,894	\$ 14,131	\$ 9,151
Gross profit (loss)	\$ (1,729)	\$ (1,263)	\$ 4,979	\$ 218
Operating income (loss)	\$ (7,109)	\$ (4,788)	\$ 772	\$ (4,683)
Income(loss) before income taxes	\$ (7,849)	\$ (8,732)	\$ (1,052)	\$ (4,053)
Net income (loss)	\$ (7,874)	\$ (8,757)	\$ (1,171)	\$ (4,108)
Loss per share – basic and diluted	\$ (0.24)	\$ (0.26)	\$ (0.04)	\$ (0.11)
<b>2019</b>				
Revenue	\$ 6,434	\$ 9,689	\$ 10,119	\$ 10,803
Gross profit (loss)	\$ 2,487	\$ (1,021)	\$ (7,524)	\$ (4,687)
Operating loss	\$ (1,500)	\$ (8,923)	\$ (19,139)	\$ (16,019)
Income before income taxes	\$ (2,676)	\$ (8,176)	\$ (21,343)	\$ (17,534)
Net loss	\$ (2,676)	\$ (8,679)	\$ (20,884)	\$ (17,965)
Loss per share - basic and diluted		\$ (0.27)	\$ (0.65)	\$ (0.55)

**LIQUIDITY AND CAPITAL RESOURCES**

Our primary need for liquidity is to fund the working capital requirements of our business, capital expenditures, general corporate purposes, and to a lesser extent debt service. Our primary source of liquidity is funds generated by financing activities. Our ability to fund our operations, to make planned capital expenditures, to make scheduled debt payments and to repay or refinance indebtedness depends on our future operating performance and cash flows, and ability to obtain equity or debt financing, which are subject to prevailing economic conditions, as well as financial, business and other factors, some of which are beyond our control. Cash generated from ongoing operations in 2020

were not sufficient to fund operations and, in particular, to fund the Company's cultivation capital expenditures in the short term and growth initiatives in the long term. The Company raised additional funds from a \$16.1 million convertible debt financing which was initially funded in April 2020 and finalized in May 2020 and a \$25.0 million equity financing in December 2020.

As of December 31, 2020, the Company had \$25.8 million of cash and cash equivalents and \$30.9 million of working capital, compared to \$1.3 million of cash and cash equivalents and \$9.3 million of working capital as of December 31, 2019.

The Company is focused on improving its balance sheet by improving accounts receivable collections, right-sizing inventories, and increasing gross profits. We have taken a number of steps to improve our cash position and to continue to fund operations and capital expenditures including:

- Entered into a \$16.1 million senior secured convertible debenture and warrant purchase agreement in April 2020. The debentures bear interest at 5.5% per annum and will mature in October 2023. See Note 14 in the consolidated financial statements.
- Accelerated cultivation facility renovations, which are expected to result in an increase in flower and trim output by over two times in 2021 and over four times compared to 2019.
- Completed a 23 million subordinate voting share offering in December 2020, which generated \$25.0 million in net proceeds.
- Terminated the technology agreement with our e-commerce partner to reduce distribution expenses.
- Scaled back our investment in and support for non-core brands.
- Reduced accounts receivable in excess of \$2.3 million in 2020.
- Restructured our organization and identified operating, selling, and administrative expense cost reductions, which includes component cost reductions, reorganization of our sales and commission structure and realignment of our discount programs.

The Company realized considerable margin improvement in 2020 as greenhouse renovations were substantially completed, low-profit agency and distributed brands were eliminated and operational efficiencies improved.

### **Private Placement**

In connection with the RTO, on April 2, 2019, we completed a private placement offering (the "Private Placement"), in which 3,436 subscription receipts ("Subscription Receipts") of a special purpose finance vehicle ("Finance Co") were issued at a price of CDN\$15.65 per Subscription Receipt for gross proceeds of approximately US\$40 million. The gross proceeds of the Private Placement, less certain associated expenses, were deposited into escrow (the "Escrowed Proceeds") pending satisfaction of certain specified release conditions (the "Escrow Release Conditions"), all of which were satisfied immediately prior to the completion of the RTO. As a result, the Escrowed Proceeds were released to FinanceCo prior to the closing of the RTO, 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 RTO, the Company acquired all of the issued and outstanding FinanceCo shares pursuant to a three-cornered amalgamation, and the former holders thereof (including the former holders of FinanceCo Shares acquired upon conversion of the Subscription Receipts) each received one Subordinate Voting Share in exchange for each FinanceCo share held.

## **Cash Flows**

The following table presents the Company's net cash inflows and outflows from the condensed interim consolidated financial statements of the Company for the years ended December 31, 2020, and 2019.

### **Year Ended December 31,**

(in thousands)

	<b>December 31,</b>		<b>Change</b>	
	<b>2020</b>	<b>2019</b>	<b>\$</b>	<b>%</b>
Net cash used in operating activities	\$ (7,752)	\$ (39,323)	\$ 31,571	80%
Net cash used in investing activities	(5,607)	(10,061)	4,454	44%
Net cash provided by financing activities	37,765	40,418	(2,653)	-7%
Change in cash and cash equivalents and restricted cash	<u>\$ 24,406</u>	<u>\$ (8,966)</u>	<u>\$ 33,372</u>	<u>372%</u>

### *Cash used in operating activities*

Net cash used in operating activities was \$7,752 for the year ended December 31, 2020, a decrease of \$31.6 million or 80%, compared to the year ended December 31, 2019. The reduction was primarily driven by the \$28.0 million reduction in net loss. Inventory decreased by \$0.5 million in the current year compared to a reduction of \$1.6 million in 2019, reflecting a continuing focus on reducing inventory days on hand for manufactured product. Accounts receivable decreased by \$1.0 million in 2020 compared to an increase of \$6.2 million in 2019, reflecting significant collections focus in the current year.

### *Cash used in investing activities*

Net cash used in investing activities was \$5,607 for the year ended December 31, 2020, a decrease of \$4.5 million compared to the prior year. Capital expenditures of \$6.9 million, principally associated with greenhouse renovations, were comparable to \$10.0 million in capital expenditures in the same period last year. Capital expenditures in 2019 included a \$4.1 million purchase of a building in Nevada which was sold in 2020, and the Company received \$0.5 million of proceeds in the current year and an additional \$2.8 million in January 2021. Greenhouse renovations were substantially completed at the end of the third quarter in 2020. The remaining construction at the cultivation facility consists primarily of the construction of a head house for drying and processing of flower and biomass, which is expected to be completed around the end of the first quarter in 2021.

### *Cash provided by financing activities*

Net cash provided by financing activities was \$37,765 for the year ended December 31, 2020, compared to \$40,418 in the prior year. The inflow consisted primarily of \$15.2 million in net proceeds from the convertible debenture financing in the second quarter and \$25.0 million in net proceeds from the subordinate voting share offering in the fourth quarter. The inflow in 2019 was the result of the \$40 million Private Placement financing.

We expect that our cash on hand and cash flows from operations will be adequate to meet our capital requirements and operational needs for the next 12 months.

### *Working Capital and Cash on Hand*

The following table presents the Company's cash on hand and working capital position as of December 31, 2020, and 2019.

	<b>December 31,</b>		<b>Change</b>	
(in thousands)	<b>2020</b>	<b>2019</b>	<b>\$</b>	<b>%</b>
Working capital(1)	\$ 30,883	\$ 9,330	\$ 21,553	231%
Cash on hand	<u>\$ 25,751</u>	<u>\$ 1,344</u>	<u>\$ 24,407</u>	<u>1816%</u>

(1) Non-GAAP measure - see Non-GAAP Financial Measures in this MD&A.

At December 31, 2020, we had \$25,751 of cash and \$30,883 of working capital, compared with \$1,344 of cash and \$9,330 of working capital at December 31, 2019. The increase in cash was primarily due to the convertible debenture financing and subordinate voting share offering, offset by capital expenditures and increases in inventories and biological assets.

The Company's working capital is expected to be significantly impacted by the growth in operations, increased cultivation output, and continuing margin improvement.

## CHANGES IN OR ADOPTION OF ACCOUNTING PRONOUNCEMENTS

This MD&A should be read in conjunction with the audited financial statements of the Company for the years ended December 31, 2020, and 2019. The Company implemented the following additional policies beginning January 1, 2019:

In May 2020, the SEC adopted the final rule under SEC Release No. 33-10786, *Amendments to Financial Disclosures about Acquired and Disposed Businesses*, amending Rule 1-02(w)(2), which includes amendments to certain of its rules and forms related to the disclosure of financial information regarding acquired or disposed businesses. Among other changes, the amendments impact SEC rules relating to (1) the definition of "significant" subsidiaries, (2) requirements to provide financial statements for "significant" acquisitions, and (3) revisions to the formulation and usage of pro forma financial information. The final rule becomes effective on January 1, 2021; however, voluntary early adoption is permitted. The Company early adopted the provisions of the final rule in 2020. The guidance did not have a material impact on the Company's consolidated financial statements and disclosures.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use (ROU) asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11, *Leases Topic 842 Target improvements*, which provides an additional (and optional) transition method whereby the new lease standard is applied at the adoption date and recognized as an adjustment to retained earnings. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which further clarifies the determination of the fair value of the underlying asset by lessors that are not manufacturers or dealers and modifies transition disclosure requirements for changes in accounting principles and other technical updates. 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 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 the 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 the lease term, as of January 1, 2019, to

determine the present value of lease payments. Operating lease ROU assets are adjusted for any lease payments made prior to January 1, 2019, and any lease incentives. Certain of our leases may include options to extend or terminate the original lease term. The Company generally concluded that it is not reasonably certain to exercise these options due primarily to the length of the original lease term and its assessment that economic incentives are not reasonably certain to be realized. Operating lease expense under the new standard is recognized on a straight-line basis over the lease term. Current finance lease obligations consist primarily of cultivation, manufacturing, and distribution facility leases.

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

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)	<b>Effects of adoption of lease accounting standard update related to:</b>			<b>With effect of least accounting standard update January 1, 2019</b>
	<b>As filed December 31, 2018</b>	<b>Recognition of Operating Leases</b>	<b>Total Effects of Adoption</b>	
<b>Assets</b>				
Property and equipment, net	\$ 4,063	\$ 23,594	\$ 23,594	\$ 27,656
<b>Liabilities</b>				
Current portion of long-term debt	147	1,492	1,492	1,639
Long-term debt, net	389	22,948	22,948	23,337
<b>Equity</b>				
Accumulated Deficit	(20,201)	(847)	(847)	(21,047)
<b>Total</b>	<b>\$ 23,728</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 23,728</b>

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" and subsequent amendments to the initial guidance: ASU 2018-19 "Codification Improvements to Topic 326, Financial Instruments-Credit Losses", ASU 2019-04 "Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments", ASU 2019-05 "Financial Instruments-Credit Losses", ASU 2019-11 "Codification Improvements to Topic 326, Financial Instruments - Credit Losses" (collectively, Topic 326), ASU 2020-02 Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842) and ASU 2020-03 Codification Improvements to Financial Instruments. Topic 326 requires measurement and recognition of expected credit losses for financial assets held. This guidance is effective for the year ended December 31, 2020. The Company believes that the most notable impact of this ASU will relate to its processes around the assessment of the adequacy of its allowance for doubtful accounts on trade accounts receivable and the recognition of credit losses. We continue to monitor the economic implications of the COVID-19 pandemic, however, based on current market conditions, the adoption of the ASU did not have a material impact on the consolidated financial statements.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606*. This guidance amended Topic 808 and Topic 606 to clarify that transactions in a collaborative arrangement should be accounted for under Topic 606 when the counterparty is a customer for a distinct good or service (i.e., unit of account). The amendments preclude an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. This guidance is effective for the year ended December 31, 2020. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are 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 Investments in Private Entities** – The Company uses discounted cash flow model to determine the 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.

## **FINANCIAL INSTRUMENTS AND FINANCIAL RISK**

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

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

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

The Company has exposure to the following risks from its use of financial instruments and other risks to which it is exposed and assesses 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:

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

#### Market Risk

- Strategic and operational risks arise if the Company fails to carry out business operations or to raise sufficient equity 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 that 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 Lowell Farms 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.

## SELECTED FINANCIAL DATA

Years Ended December 31,  
(in thousands, except per share amounts)

	2020	2019	2018	2017	2016
<b>Consolidated Operations</b>					
Net revenue	\$ 42,618	\$ 37,045	\$ 17,199	\$ 15,468	\$ 4,676
Gross profit/(loss)	\$ 2,205	\$ (10,745)	\$ 4,063	\$ 1,763	\$ 692
Operating loss	\$ (15,808)	\$ (45,581)	\$ (7,330)	\$ (5,976)	\$ (3,358)
Loss before income taxes	\$ (21,686)	\$ (49,729)	\$ (8,614)	\$ (7,258)	\$ (3,439)
Net loss	\$ (21,910)	\$ (49,934)	\$ (8,711)	\$ (7,280)	\$ (3,439)
Net loss per share - basic and diluted	\$ (0.65)	\$ (1.59)			
Weighted average shares outstanding - basic and diluted	\$ 33,940	\$ 31,379			
<b>Consolidated Financial Position</b>					
Cash	\$ 25,751	\$ 1,344	\$ 10,310	\$ 2,229	\$ 2,807
Current assets	\$ 46,605	\$ 21,381	\$ 31,253	\$ 8,809	\$ 4,949
Property, plant and equipment, net	\$ 49,243	\$ 42,972	\$ 4,063	\$ 1,649	\$ 960
Total assets	\$ 97,416	\$ 68,534	\$ 37,465	\$ 12,171	\$ 6,133
Current liabilities	\$ 15,723	\$ 12,051	\$ 4,436	\$ 7,753	\$ 1,126
Working capital	\$ 30,883	\$ 9,330	\$ 26,817	\$ 1,056	\$ 3,823
Long-term notes payable including current portion	\$ 15,217	\$ 506	\$ 536	\$ 12,276	\$ 4,524
Capital lease obligations including current portion	\$ 45,393	\$ 35,836	\$ -	\$ -	\$ -
Total stockholders' equity	\$ 31,156	\$ 23,686	\$ 32,640	\$ (5,211)	\$ 541

### *Quantitative and Qualitative Disclosures About Market Risk*

Not applicable.

## MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

**Market Information.** The Subordinate Voting Shares are listed for trading on the CSE under the symbol “LOWL” and the Warrants are listed on the CSE under the symbol “LOWL.WT.” The Subordinate Voting Shares commenced trading on the CSE effective April 30, 2019. Our shares are also traded over-the-counter in the United States on the OTCQX under the symbol “LOWLF.” Any over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions. The following table sets forth trading information for the Subordinate Voting Shares for the periods indicated, as quoted on the CSE.

Period	High Trading Price C (\$)	Low Trading Price C(\$)
Q2 2021 thru 5/3/21	\$ 2.00	\$ 1.40
Q1 2021	\$ 2.73	\$ 1.31
Q4 2020	\$ 2.33	\$ 1.17
Q3 2020	\$ 1.99	\$ 0.64
Q2 2020	\$ 1.06	\$ 0.295
Q1 2020	\$ 1.15	\$ 0.24
Q4 2019	\$ 3.84	\$ 0.51
Q3 2019	\$ 9.15	\$ 2.80
4/30/19 - 6/30/19	\$ 15.95	\$ 5.80

The following table sets forth trading information for the Subordinate Voting Shares for the periods indicated, as quoted on the OTCQX.

Period	High Trading Price US (\$)	Low Trading Price US(\$)
Q2 2021 thru 5/3/21	\$ 1.56	\$ 1.11
Q1 2021	\$ 2.15	\$ 1.01
Q4 2020	\$ 1.78	\$ 0.95
Q3 2020	\$ 1.53	\$ 0.50
Q2 2020 starting 5/7/20	\$ 0.79	\$ 0.29

**Shareholders.** We had approximately 170 shareholders of record as of March 5, 2021. This does not include shares held in the name of a broker, bank, or other nominees (typically referred to as being held in “street name”).

**Dividends.** The Company has not paid dividends and currently intends to reinvest any future earnings to finance the development and growth of its business. As a result, the Company does not intend to pay dividends on the Subordinate Voting Shares in the foreseeable future. Any future determination to pay distributions will be at the discretion of the Board and will depend on the financial condition, business environment, operating results, capital requirements, any contractual restrictions on the payment of distributions and any other factors that the Board deems relevant. Apart from the requirement to comply with applicable corporate law in connection with the declaration of any dividend, Lowell Farms is restricted from declaring any dividends or other distributions pursuant to the terms and conditions of the Convertible Debenture Purchase Agreement.



## **CONSOLIDATED FINANCIAL STATEMENTS**

**As of December 31, 2020 and 2019 and for the  
Years Ended December 31, 2020, 2019 and 2018**

*(Expressed in United States Dollars)*

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

---

### **LOWELL FARMS INC.**

<a href="#"><u>INDEPENDENT AUDITORS' REPORT</u></a>	F-3
CONSOLIDATED FINANCIAL STATEMENTS:	
<a href="#"><u>Consolidated Statements of Financial Position</u></a>	F-5
<a href="#"><u>Consolidated Statements of Operations</u></a>	F-6
<a href="#"><u>Consolidated Statements of Changes in Stockholders' Equity</u></a>	F-7
<a href="#"><u>Consolidated Statements of Cash Flows</u></a>	F-8
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	F-10

### **THE HACIENDA COMPANY, LLC**

<a href="#"><u>INDEPENDENT AUDITORS' REPORT</u></a>	F-38
CONSOLIDATED FINANCIAL STATEMENTS:	
<a href="#"><u>Consolidated Statements of Financial Position</u></a>	F-40
<a href="#"><u>Consolidated Statements of Operations</u></a>	F-41
<a href="#"><u>Consolidated Statements of Changes in Stockholders' Equity (Deficit)</u></a>	F-42
<a href="#"><u>Consolidated Statements of Cash Flows</u></a>	F-43
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	F-44



## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders  
of Lowell Farms Inc., formerly known as Indus Holdings, Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Lowell Farms Inc., formerly known as Indus Holdings, Inc. as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes collectively referred to as the financial statements. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

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

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

### **Emphasis of Matter Regarding Restatement**

As discussed in Note 2 to the consolidated financial statements, the 2020, 2019 and 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

### **Critical Audit Matters**

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Description of the Matter    ***Allowance for Doubtful Accounts***

As described in the Balance Sheet and Note 2 to the consolidated financial statements, the Company has established an allowance for doubtful accounts of \$1.389 million as of December 31, 2020. Auditing management's evaluation of allowance was challenging due to the level of subjectivity and significant judgment associated with collectability of accounts receivable.

How We Addressed the  
Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the implementation of controls over the Company's accounting process for allowance of doubtful accounts. Our procedures consisted of performing retrospective review of the allowance by comparing historical reserve to historical write-offs, analyzing accounts receivable aging buckets, and sending confirmations. Based on the audit procedures performed, we found the reserve levels to be reasonable.

*GreenGrowthCPAs*

We have served as the Company's auditor since 2018.

Los Angeles, California

April 12, 2021

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands)	Note	December 31,	
		2020	2019
		(restated)	(restated)
<b>ASSETS</b>			
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	9,933	10,418
Prepaid expenses and other current assets	6	6,391	2,729
<b>Total current assets</b>		<b>46,605</b>	<b>21,381</b>
Long-term investments	11	202	397
Property and equipment, net	9	49,243	42,972
Goodwill	10	357	357
Other intangibles, net	10	736	1,153
Other assets		274	2,274
<b>Total assets</b>		<b>\$ 97,416</b>	<b>\$ 68,534</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable		\$ 2,137	\$ 4,704
Accrued payroll and benefits		1,212	531
Notes payable, current portion	13	1,213	135
Lease obligation, current portion	14	2,301	2,325
Other current liabilities	8	8,860	4,356
<b>Total current liabilities</b>		<b>15,723</b>	<b>12,051</b>
Notes payable	13	303	371
Lease obligation	14	36,533	31,480
Convertible debentures	13	13,701	-
Other long-term liabilities		-	946
<b>Total liabilities</b>		<b>66,260</b>	<b>44,848</b>
<b>STOCKHOLDERS' EQUITY</b>			
Share capital		125,540	96,160
Accumulated deficit		(94,384)	(72,474)
<b>Total stockholders' equity</b>		<b>31,156</b>	<b>23,686</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$ 97,416</b>	<b>\$ 68,534</b>

*See accompanying notes to consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)	Note	Years Ended December 31,		
		2020	2019	2018
		(restated)	(restated)	(restated)
Net revenue		\$ 42,618	\$ 37,045	\$ 17,199
Cost of goods sold		40,413	47,790	13,136
Gross profit/(loss)		2,205	(10,745)	4,063
Operating expenses				
General and administrative	19	11,762	25,814	8,779
Sales and marketing		5,169	8,029	2,513
Depreciation and amortization	9,10	1,082	993	101
Total operating expenses		18,013	34,836	11,393
Loss from operations		(15,808)	(45,581)	(7,330)
Other income/(expense)				
Other income/(expense)		1,486	95	(106)
Loss on termination of investment, net		(4,201)	-	-
Unrealized gain/(loss) on change in fair value of investment		168	(2,250)	-
Gain/(Loss) on foreign currency		-	159	-
Interest expense	13	(3,331)	(2,152)	(1,178)
Total other income/(expense)		(5,878)	(4,148)	(1,284)
Loss before provision for income taxes		(21,686)	(49,729)	(8,614)
Provision for income taxes	16	224	205	97
<b>Net loss</b>		<b>\$ (21,910)</b>	<b>\$ (49,934)</b>	<b>\$ (8,711)</b>
<b>Net loss per share - basic and diluted</b>	17	<b>\$ (0.65)</b>	<b>\$ (1.59)</b>	
Weighted average shares outstanding - basic and diluted	17	33,940	31,379	

*See accompanying notes to consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands)	Class A/B Shares	Subordinate Voting Shares	Super Voting Shares	Attributable to Shareholders of the Parent		
				Share Capital	Accumulated Deficit	Stockholders' Equity
					(restated)	(restated)
<b>Balance—December 31, 2017</b>	<b>16,631</b>	-	-	<b>\$ 7,772</b>	<b>\$ (12,982)</b>	<b>\$ (5,211)</b>
Net loss	-	-	-	-	(8,711)	(8,711)
Shares issued in connection with conversion of convertible debentures	1,947	-	-	3,961	-	3,961
Issuance of shares associated with acquisitions	88	-	-	370	-	370
Issuance of Series B preferred stock, net of issuance costs	9,831	-	-	41,873	-	41,873
Issuance of warrants in exchange for services	-	-	-	87	-	87
Share-based compensation expense	-	-	-	270	-	270
<b>Balance—December 31, 2018</b>	<b>28,497</b>	-	-	<b>\$ 54,333</b>	<b>\$ (21,693)</b>	<b>\$ 32,640</b>
Net loss	-	-	-	-	(49,934)	(49,934)
Adoption of lease accounting standard	-	-	-	-	(847)	(847)
Issuance of subordinate voting shares in exchange for Class A/B shares, net	(28,497)	28,497	-	-	-	-
Private placement in connection with reverse takeover, net	-	3,433	-	36,762	-	36,762
Shares issued to acquiree in connection with reverse takeover	-	130	-	1,513	-	1,513
Issuance of supervoting shares	-	-	203	40	-	40
Exercise of options	-	125	-	127	-	127
Share-based compensation expense	-	659	-	3,385	-	3,385
<b>Balance—December 31, 2019</b>	<b>-</b>	<b>32,844</b>	<b>203</b>	<b>\$ 96,160</b>	<b>\$ (72,474)</b>	<b>\$ 23,686</b>
Net loss	-	-	-	-	(21,910)	(21,910)
Issuance of stock warrants	-	-	-	1,556	-	1,556
Shares issued in connection with convertible debenture offering	-	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	-	375	-	75	-	75
Issuance of stock options associated with acquisitions	-	-	-	116	-	116
Issuance of shares associated with acquisitions	-	150	-	179	-	179
Reduction in supervoting share purchase price	-	-	-	(39)	-	(39)
Exercise of warrants	-	750	-	210	-	210
Share-based compensation expense	-	248	-	2,200	-	2,200
<b>Balance—December 31, 2020</b>	<b>-</b>	<b>57,617</b>	<b>203</b>	<b>\$ 125,540</b>	<b>\$ (94,384)</b>	<b>\$ 31,156</b>

*See accompanying notes to consolidated financial statements.*

## STATEMENTS OF CASH FLOWS

(in thousands)

### CASH FLOW FROM OPERATING ACTIVITIES

Net loss

*Adjustments to reconcile net loss to net cash used in operating activities:*

Depreciation and amortization

Amortization of debt issuance costs

Share-based compensation expense

Provision for doubtful accounts

Allowance for inventory obsolescence

Loss on termination of investment

Loss on sale of assets

Warrants issued in exchange for services

Unrealized (gain) loss on change in fair value of investments

*Changes in operating assets and liabilities:*

Accounts receivable

Inventory

Prepaid expenses and other current assets

Other assets

Accounts payable and accrued expenses

Other long-term liabilities

**Net cash used in operating activities**

### CASH FLOW FROM INVESTING ACTIVITIES

Proceeds from asset sales

Net cash received from disposition of business interest

Purchases of property and equipment

Investment in corporate interests

**Net cash used in investing activities**

### CASH FLOW FROM FINANCING ACTIVITIES

Principal payments on lease obligations

Payments on notes payable

Proceeds from notes payable

Proceeds from lease financing

Proceeds from convertible debentures, net of financing costs

Proceeds from subordinate voting share offering

Fees on subordinate voting share offering

Proceeds from share offering

Proceeds from brokered private placement

Fees on public brokered private placement

Proceeds from exercise of options

Proceeds from exercise of warrants

Issuance of subordinate voting shares

**Net cash provided by financing activities**

Year Ended December 31,		
2020	2019	2018
(restated)	(restated)	(restated)
\$ (21,910)	\$ (49,934)	\$ (8,711)
3,912	3,914	455
481	-	321
2,200	3,385	270
1,195	2,346	175
-	700	-
4,359	-	-
-	446	-
-	-	87
(548)	1,713	-
966	(6,230)	(1,693)
485	1,580	(8,127)
(1,043)	(463)	(1,568)
18	(2,000)	(7)
2,222	5,207	(651)
(90)	13	1,217
<b>(7,752)</b>	<b>(39,323)</b>	<b>(18,232)</b>
743	1,455	-
500	-	-
(6,850)	(9,991)	(2,628)
-	(1,525)	(148)
<b>(5,607)</b>	<b>(10,061)</b>	<b>(2,776)</b>
(2,951)	(1,155)	(40)
(4,267)	(106)	(850)
3,800	76	500
671	-	-
15,281	-	-
26,930	-	-
(1,909)	-	-
-	-	29,479
-	40,195	-
-	(1,919)	-
-	127	-
210	-	-
-	3,200	-
<b>37,765</b>	<b>40,418</b>	<b>29,089</b>

Change in cash and cash equivalents and restricted cash	24,407	(8,966)	8,081
Cash and cash equivalents—beginning of year	1,344	10,310	2,229
<b>Cash, cash equivalents and restricted cash—end of period</b>	<b>\$ 25,751</b>	<b>\$ 1,344</b>	<b>\$ 10,310</b>

#### **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash paid during the period for interest	\$ 3,332	\$ 2,147	\$ 114
Cash paid during the period for income taxes	\$ 262	\$ 105	\$ 33

#### **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	\$ -	\$ 207
Shares Issued in exchange for asset investment	\$ 179	\$ -	\$ 350
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	\$ 571
Shares issued in connection with convertible debenture conversion	\$ 75	\$ -	\$ -
Shares issued in connection with debt and accrued interest conversion	\$ -	\$ -	\$ 13,006
Stock options issued associated with an acquisition	\$ 116	\$ -	\$ -

*See accompanying notes to consolidated financial statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### YEARS ENDED DECEMBER 31, 2020 AND 2019

---

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

#### 1. NATURE OF OPERATIONS

On November 13, 2018, Indus Holding Company (a wholly owned subsidiary of Indus Holdings, Inc.) and Mezzotin Minerals Inc. (“Mezzotin”) entered into a combination agreement whereby the parties agreed to combine their respective businesses, which would result in the reverse takeover of Mezzotin by the security holders of Indus. Mezzotin Minerals was originally incorporated under the Business Corporations Act (Ontario) on October 27, 2005 as Zoolander Corporation. On September 10, 2013, Zoolander changed its name to Mezzotin Minerals Inc. On April 26, 2019, the reverse takeover transaction concluded. In connection with the agreement, Mezzotin changed its name from Mezzotin Minerals Inc. to Indus Holdings, Inc. (the “Company”, “Pubco”, or “Indus”). Effective at the close of markets on April 29, 2019, the common shares of the Company (“Existing Mezzotin Shares”) were delisted from the NEX board of the TSX Venture Exchange, and the subordinate voting shares of the Company commenced trading on the Canadian Stock Exchange effective at market open on April 30, 2019, under the new symbol “INDS.”

Indus Holding Company (“IHC”), a Delaware corporation, was formed in 2014. Indus Holdings, Inc. became the indirect parent of IHC in connection with the reverse takeover transaction.

Indus Holdings, Inc., through its licensed subsidiaries, is a vertically integrated cannabis company that owns, manages and operates cultivation, extraction, distribution and manufacturing facilities in California. Effective March 1, 2021, Indus Holdings, Inc. changed its name to Lowell Farms Inc. See Note 23.

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

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### Estimates

The World Health Organization categorized the Coronavirus disease 2019 (COVID-19) as a pandemic. The COVID-19 pandemic has caused a severe global health crisis, along with economic and societal disruptions and uncertainties, which have negatively impacted business and healthcare activity globally. As a result of healthcare systems responding to the demands of managing the pandemic, governments around the world imposing measures designed to reduce the transmission of the COVID-19 virus, and individuals responding to the concerns of contracting the COVID-19 virus, many optical practitioners & retailers, hospitals, medical offices and fertility clinics closed their facilities, restricted access, or delayed or canceled patient visits, exams and elective medical procedures, and many customers that have reopened are experiencing reduced patient visits. This has had, and we believe will continue to have, an adverse effect on our sales, operating results and cash flows.

The preparation of Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates particularly as it relates to estimates reliant on forecasts and other assumptions reasonably available to the Company and the uncertain future impacts of the COVID-19 pandemic and related economic disruptions. The extent to which the COVID-19 pandemic and related economic disruptions impact our business and financial results will depend on future developments including, but not limited to, the continued spread, duration and severity of the COVID-19 pandemic; the occurrence, spread, duration and severity of any subsequent wave or waves of outbreaks; the actions taken by the U.S. and foreign governments to contain the COVID-19 pandemic, address its impact or respond to the reduction in global and local economic activity; the occurrence, duration and severity of a global, regional or national recession, depression or other sustained adverse market event; the impact of the developments described above on our customers and suppliers; and how quickly and to what extent normal economic and operating conditions can resume. The accounting matters assessed included, but were not limited to:

- allowance for doubtful accounts and credit losses
- carrying value of inventory
- the carrying value of goodwill and other long-lived assets.

There was not a material impact to the above estimates in the Company's Consolidated Financial Statements for fiscal 2020. The Company continually monitors and evaluates the estimates used as additional information becomes available. Adjustments will be made to these provisions periodically to reflect new facts and circumstances that may indicate that historical experience may not be indicative of current or future results. The Company's future assessment of the magnitude and duration of COVID-19, as well as other factors, could result in material changes to the estimates and material impacts to the Company's Consolidated Financial Statements in future reporting periods.

### **Basis of Preparation**

Management's significant accounting policies include estimates and judgments which are an integral part of financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP). We believe that the accounting policies described in this section address the more significant policies utilized by management when preparing our consolidated financial statements in accordance with GAAP. We believe that the accounting policies and estimates employed are appropriate and resulting balances are reasonable; however, actual results could differ from the original estimates, requiring adjustment to these balances in future periods. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most important to aid in fully understanding and evaluating our reported financial results are:

### **Basis of Measurement**

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention, except for 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.

### **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.

### **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. Lease right-of-use assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make payments arising from the lease agreement. These assets and liabilities are recognized at the commencement of the lease based upon the present value of the future minimum lease payments over the lease term. The lease term reflects the noncancelable period of the lease together with periods covered by an option to extend or terminate the lease when management is reasonably certain that it will exercise such option. Changes in the lease term assumption could impact the right-of-use assets and lease liabilities recognized on the balance sheet. As our leases typically do not contain a readily determinable implicit rate, we determine the present value of the lease liability using our incremental borrowing rate at the lease commencement date based on the lease term on a collateralized basis.

### **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**

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company enters contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

### **Branded Products**

For the Company's branded products, revenue is recognized when it satisfies a performance obligation by transferring a promised cannabis good to a customer. A contract, whether a verbal or written sales order, is established with customers prior to order fulfillment with agreement upon unit prices, delivery dates, and payment terms. The transaction price is based on market pricing while considering the value of the Company's brand and quality. Transaction price is allocated to each product sold based upon the negotiated unit sales price associated with each product line scheduled for delivery within the order. Performance obligation satisfaction occurs upon delivery to customer premises. These types of revenues accounted for under ASC Topic 606, generally, do not require significant estimates or judgments based on the nature of the Company's revenue stream. The sales prices, including discounts, are fixed at the point of sale and all consideration from contracts is included in the transaction price. The Company's contracts do not include multiple performance obligations or material variable consideration.

### **Third Party Manufactured Products**

The Company has certain licenses to manufacture and distribute third party products to retail dispensaries and deliveries in return for paying royalty payments to the third parties. The Company is a principal in the arrangement, it assumes primary responsibility for fulfilling the customer promise to retail dispensaries and deliveries, and it holds the inventory risk. Revenue is recognized when it satisfies a performance obligation by transferring a promised cannabis good to a retail dispensary or retail delivery. A contract, whether a verbal or written sales order, is established with customers prior to order fulfillment with agreement upon unit prices, delivery dates, and payment terms. The transaction price is based on market pricing while considering the value of the Company's brand and quality. Transaction price is allocated to each product sold based upon the negotiated unit sales price associated with each product line scheduled for delivery within the order. Performance obligation satisfaction occurs upon delivery to customer premises. These types of revenues accounted for under ASC Topic 606, generally, do not require significant estimates or judgments based on the nature of the Company's revenue stream. The sales prices, including discounts, are fixed at the point of sale and all consideration from contracts is included in the transaction price. The Company's contracts do not include multiple performance obligations or material variable consideration.

### **Distribution**

The Company distributes certain third party brands and bulk flower. The Company is a principal in the arrangement, it assumes primary responsibility for fulfilling the customer promise to retail dispensaries and deliveries and other wholesale customers, and it holds the inventory risk. Revenue is recognized when it satisfies a performance obligation by transferring a promised cannabis good to a customer. A contract, whether a verbal or written sales order, is established with customers prior to order fulfillment with agreement upon unit prices, delivery dates, and payment terms. The transaction price is based on market pricing while considering the value of the Company's brand and quality. Transaction price is allocated to each product sold based upon the negotiated unit sales price associated with each product line scheduled for delivery within the order. Performance obligation satisfaction occurs upon delivery to customer premises. These types of revenues accounted for under ASC Topic 606, generally, do not require significant estimates or judgments based on the nature of the Company's revenue stream. The sales prices, including discounts,

are fixed at the point of sale and all consideration from contracts is included in the transaction price. The Company's contracts do not include multiple performance obligations or material variable consideration.

### **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.

### **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, 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 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.

### **Restatement**

The Company previously filed its consolidated financial statements for the periods ended December 31, 2020 and 2019, and for each of the years in the three-year period ended December 31, 2020 with incorrect calculations within the consolidated statements of financial position and consolidated statement of operations related to the conversion from international financial reporting standards to GAAP. The financial statements have been restated to properly reflect inventory and cost of goods sold in accordance with GAAP. The effect of the restatement was to decrease inventory and increase accumulated deficit \$4,765 at December 31, 2020, increase inventory and reduce accumulated deficit by \$6,183 at December 31, 2019 and change cost of goods sold by \$10,498, \$(316) and \$(5,867) for the years ended December 31, 2020, 2019 and 2018, respectively and earnings per share by \$(0.32) and \$0.01 for the years ended December 31, 2020 and 2019, respectively.

Additionally, the Company reclassified certain depreciation expense from operating expense to cost of goods sold to reflect depreciation expense associated with right of use operating assets in cost of goods sold. The effect of the reclassification was to increase cost of goods sold and decrease operating expenses by \$2,589 and \$2,329 for the years ended December 31, 2020 and 2019, respectively.

The consolidated statements of cash flows were impacted by the resulting offsetting changes in net loss and inventory, resulting in no change in net cash used in operating activities for the periods presented. The consolidated statements of change in stockholders’ equity were impacted by the change in net loss for the periods presented.

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

The following accounting pronouncements were recently adopted:

In May 2020, the SEC adopted the final rule under SEC release No. 33-10786, *Amendments to Financial Disclosures about Acquired and Disposed Businesses*, amending Rule 1-02(w)(2) which includes amendments to certain of its rules and forms related to the disclosure of financial information regarding acquired or disposed businesses. Among other changes, the amendments impact SEC rules relating to (1) the definition of “significant” subsidiaries, (2) requirements to provide financial statements for “significant” acquisitions, and (3) revisions to the formulation and usage of pro forma financial information. The final rule becomes effective on January 1, 2021; however, voluntary early adoption is permitted. The Company early adopted the provisions of the final rule in 2020. The guidance did not have a material impact on the Company’s consolidated financial statements and disclosures.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use (ROU) asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11, *Leases Topic 842 Target improvements*, which provides an additional (and optional) transition method whereby the new lease standard is applied at the adoption date and recognized as an adjustment to retained earnings. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which further clarifies the determination of fair value of the underlying asset by lessors that are not manufacturers or dealers and modifies transition disclosure requirements for changes in accounting principles and other technical updates. The Company adopted the standard effective January 1, 2019 using the modified retrospective adoption method which allowed it to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of accumulated deficit. In connection with the adoption of the new lease pronouncement, the Company recorded a charge to accumulated deficit of \$847.

#### *Effects of Adoption*

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

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

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

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:

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

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" and subsequent amendments to the initial guidance: ASU 2018-19 "Codification Improvements to Topic 326, Financial Instruments-Credit Losses", ASU 2019-04 "Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments", ASU 2019-05 "Financial Instruments-Credit Losses", ASU 2019-11 "Codification Improvements to Topic 326, Financial Instruments - Credit Losses" (collectively, Topic 326), ASU 2020-02 Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842) and ASU 2020-03 Codification Improvements to Financial Instruments. Topic 326 requires measurement and recognition of expected credit losses for financial assets held. This guidance is effective for the year ended December 31, 2020. The Company believes that the most notable impact of this ASU will relate to its processes around the assessment of the adequacy of its allowance for doubtful accounts on trade accounts receivable and the recognition of credit losses. We continue to monitor the economic implications of the COVID-19 pandemic, however based on current market conditions, the adoption of the ASU did not have a material impact on the consolidated financial statements.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606*. This guidance amended Topic 808 and Topic 606 to clarify that transactions in a collaborative arrangement should be accounted for under Topic 606 when the counterparty is a customer for a distinct good or service (i.e., unit of account). The amendments preclude an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. This guidance is effective for the year ended December 31, 2020. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

The following accounting pronouncements issued have not yet been adopted:

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This guidance removes certain exceptions to the general principles in Topic 740 and enhances and simplifies various aspects of the income tax accounting guidance, including requirements such as tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. This standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2020. We are currently evaluating the impact of ASU 2019-12 on our Consolidated Financial Statements, which is effective for the Company in our fiscal year and interim periods beginning on January 1, 2021.

In January 2020, the FASB issued ASU 2020-01 *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*. This guidance addresses accounting for the transition into and out of the equity method and provides clarification of the interaction of rules for equity securities, the equity method of accounting, and forward contracts and purchase options on certain types of securities. This standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2020. We are currently evaluating the impact of ASU 2020-01 on our Consolidated Financial Statements, which is effective for the Company in our fiscal year and interim periods beginning on January 1, 2021.

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)*. This update amends the guidance on convertible instruments and the derivatives scope exception for contracts in an entity’s own equity and improves and amends the related EPS guidance for both Subtopics. This standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2021, which means it will be effective for our fiscal year beginning January 1, 2022. Early adoption is permitted. We are currently evaluating the impact of ASU 2020-06 on our Consolidated Financial Statements.

No other recently issued accounting pronouncements had or are expected to have a material impact on our 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., 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.”

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.

The transaction has been accounted for in accordance with ASC 805 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
<b>Total consideration</b>	<b>\$ 1,704</b>

### **ASSETS ACQUIRED**

Total identifiable net assets acquired	-
Listing expenses	1,704
<b>Total purchase price</b>	<b>\$ 1,704</b>

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

### **Private Placement**

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

Also in connection with the Private Placement, FinanceCo issued an aggregate of 198 broker warrants to the agents under the offering as partial consideration for their services in connection with the Private Placement, each of which was exercisable to acquire one FinanceCo share at an exercise price of CDN\$15.65 for a period of two (2) years from the satisfaction of the Escrow Release Conditions. Upon completion of the amalgamation, the Broker Warrants were exchanged for compensation options of the Company which are exercisable to acquire Subordinate Voting Shares in lieu of FinanceCo Shares, otherwise upon the same terms and conditions.

## 5. ACQUISITIONS

### Completed Acquisitions

During 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
<b>CONSIDERATION</b>			
Contingent Payment	\$ 50	\$ 44	\$ 94
Note Payable	200	65	265
Fair value of subordinate voting shares	62	55	117
<b>Total consideration</b>	<b>\$ 312</b>	<b>\$ 164</b>	<b>\$ 476</b>
<b>PURCHASE PRICE ALLOCATION</b>			
<i>Assets Acquired</i>			
Inventories	\$ -	\$ 6	\$ 6
Intangible assets - brands and trademarks	104	80	184
Intangible assets - technology and know-how	208	78	286
<i>Liabilities assumed</i>			
Notes payable	-	-	-
Total identifiable net assets	312	164	476
Noncontrolling interest	-	-	-
<b>Fair value of net assets acquired</b>	<b>\$ 312</b>	<b>\$ 164</b>	<b>\$ 476</b>

These acquisitions qualified as a business combination under ASC 805 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 quarter ended June 30, 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
<b>Total Prepaid Expenses and Other Current Assets</b>	<b>\$ 6,391</b>	<b>\$ 2,729</b>

## 7. INVENTORY

Inventory was comprised of the following items:

	December 31,	
(in thousands)	2020	2019
Raw materials	\$ 7,950	\$ 7,645
Work in process	-	34
Finished goods	1,983	2,739
<b>Total Inventory</b>	<b>\$ 9,933</b>	<b>\$ 10,418</b>

## 8. OTHER CURRENT LIABILITIES

Other current liabilities were comprised of the following items:

	December 31,	
(in thousands)	2020	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
<b>Total Accrued Liabilities</b>	<b>\$ 8,860</b>	<b>\$ 4,356</b>

## 9. PROPERTY AND EQUIPMENT

A reconciliation of the beginning and ending balances of property and equipment and accumulated depreciation during the years ended December 31, 2020 and 2019 is as follows:

	Land and	Leasehold	Furniture			Construction	Right of	
(in thousands)	Buildings	Improvements	and	Equipment	Vehicles	in Process	Use	Total
Costs			Fixtures				Assets	
Balance—December 31, 2018	\$ -	\$ 1,509	\$ 49	\$ 2,062	\$ 516	\$ 895	\$ -	\$ 5,031
Additions	4,098	2,766	-	1,192	297	1,638	10,520	20,511
IFRS 16 Adoption Business	-	-	-	-	-	-	23,594	23,594
Acquisitions	-	-	-	25	-	-	-	25
Disposals	-	-	-	(2,179)	-	-	-	(2,179)
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	-	-	-	-	-	-	7,310	7,310
Reassessment	-	-	-	-	-	-	-	-
Disposals/Transfers	(4,106)	4,587	-	22	-	(4,609)	-	(4,106)
<b>Balance—December 31, 2020</b>	<b>\$ -</b>	<b>\$ 10,799</b>	<b>\$ 50</b>	<b>\$ 1,276</b>	<b>\$ 854</b>	<b>\$ 2,528</b>	<b>\$ 41,530</b>	<b>\$ 57,037</b>

**Accumulated  
Depreciation**

Balance—December 31, 2018	\$	-	\$	(260)	\$	(44)	\$	(570)	\$	(95)	-	\$	-	\$	(969)
Depreciation		(8)		(186)		(3)		(478)		(155)		-		(3,025)	(3,854)
Disposals		-		24		-		786		2		-		-	812
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
<b>Balance—December 31, 2020</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>(634)</b>	<b>\$</b>	<b>(47)</b>	<b>\$</b>	<b>(427)</b>	<b>\$</b>	<b>(411)</b>	<b>-</b>	<b>\$</b>	<b>(6,275)</b>	<b>\$</b>	<b>(7,794)</b>

**Net Book Value**

December 31, 2018	\$	-	\$	1,249	\$	5	\$	1,492	\$	421	\$	895	\$	-	\$	4,063
December 31, 2019	\$	4,090	\$	3,853	\$	3	\$	839	\$	565	\$	2,533	\$	31,089	\$	42,972
<b>Balance—December 31, 2020</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>10,165</b>	<b>\$</b>	<b>3</b>	<b>\$</b>	<b>849</b>	<b>\$</b>	<b>443</b>	<b>\$</b>	<b>2,528</b>	<b>\$</b>	<b>35,255</b>	<b>\$</b>	<b>49,243</b>

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, \$3,854 and \$312 were recorded for the years ended December 31, 2020, 2019 and 2018, respectively, of which \$2,830, \$2,921 and \$211, respectively, were included in cost of goods sold.

**10. 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	-
<b>Balance—December 31, 2020</b>	<b>\$ 357</b>

The Company evaluates goodwill for impairment annually during the fiscal third quarter and when an event occurs, or circumstances change such that it is reasonably possible that impairment may exist. The Company accounts for goodwill and evaluates its goodwill balances and tests them for impairment in accordance with related accounting standards. The Company performed its annual impairment assessment in its third quarter of fiscal 2020, and its analysis indicated that the Company had no impairment of goodwill.

**Other Intangible Assets**

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

(in thousands)	Definite Life Intangibles				Indefinite Life Intangibles	Total
	Branding Rights	Customer Relationships	Technology/ KnowHow	Other Intangibles	Brands & Tradenames	
<b>Costs</b>						
Balance—December 31, 2019	\$ 250	\$ 40	\$ 421	\$ 40	\$ 522	\$1,273
Business acquisition	-	-	-	-	179	179
Purchase price adjustment	-	(40)	(213)	(40)	(293)	(586)
<b>Balance—December 31, 2020</b>	<b>\$ 250</b>	<b>\$ -</b>	<b>\$ 208</b>	<b>\$ -</b>	<b>\$ 408</b>	<b>\$ 866</b>
<b>Accumulated Amortization</b>						
Balance—December 31, 2019	\$ (76)	\$ (8)	\$ (28)	\$ (8)	-	\$ (120)
Purchase price adjustment	-	12	30	12	-	54
Amortization	(17)	(4)	(39)	(4)	-	(64)
<b>Balance—December 31, 2020</b>	<b>\$ (93)</b>	<b>\$ -</b>	<b>\$ (37)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (130)</b>
<b>Net Book Value</b>						
December 31, 2019	\$ 174	\$ 32	\$ 393	\$ 32	\$ 522	\$1,153
<b>December 31, 2020</b>	<b>\$ 157</b>	<b>\$ -</b>	<b>\$ 171</b>	<b>\$ -</b>	<b>\$ 408</b>	<b>\$ 736</b>

Intangible assets with finite lives are amortized over their estimated useful lives. Amortization periods of assets with finite lives are based on management's estimates at the date of acquisition. The Company recorded amortization expense of \$64, \$71 and \$17 for the years ended December 31, 2020, 2019 and 2018, respectively. As described in Note 4, 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.

## 11. INVESTMENTS

The Company from time to time acquires interest in various corporate entities for investment purposes.

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 accounted for in accordance with ASC 321 and 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 ASC 323. 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 \$170.

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 accounted for in accordance with ASC 321. 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.

## 12. 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
<b>Balance—December 31, 2019</b>	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	-
<b>Balance—December 31, 2020</b>	<b>57,617</b>	<b>203</b>

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)	
<b>Balance—December 31, 2019</b>	<b>2,769</b>
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)
<b>Balance—December 31, 2020</b>	<b>93,898</b>

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

### 13. DEBT

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

(in thousands)	December 31,	
	2020	2019
<b>Current portion of long-term debt</b>		
Vehicle loans(1)	\$ 170	\$ 135
Note payable(3)	1,043	-
Total short-term debt	<u>1,213</u>	<u>135</u>
<b>Long-term debt, net</b>		
Vehicle loans(1)	233	233
Note payable(2)	65	138
Note payable(3)	5	-
Convertible debenture(4)	13,701	-
Total long-term debt	<u>14,004</u>	<u>371</u>
<b>Total Indebtedness</b>	<b>\$ 15,217</b>	<b>\$ 506</b>

(1) Primarily fixed term loans on transportation vehicles. Weighted average interest rate at December 31, 2020 was 8.8%.

(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. Weighted average interest rate at December 31, 2020 was 4%.

(4) Net of deferred financing costs of \$2,300.

Stated maturities of debt obligations are as follows:

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

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.

### 14. 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)
<b>December 31, 2020</b>	<b>\$ 38,834</b>
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)

	<b>2020</b>
Amortization of leased assets(1)	\$ 3,250
Interest on lease liabilities(2)	1,866
<b>Total</b>	<b>\$ 5,116</b>

(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:

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

## 15. 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 ASC 718 – *Compensation – Stock Compensation*. The Company amortizes awards over the service period and until awards are fully vested.

For the years ended December 31, 2020, 2019 and 2018, share-based compensation expense recorded to the Company's consolidated statements of operations were:

**Years Ended December 31,**

(in thousands)

	2020	2019	2018
Cost of goods sold	\$ -	\$ -	\$ -
General and administrative expense	2,200	3,385	270
<b>Total share based compensation</b>	<b>\$ 2,200</b>	<b>\$ 3,385</b>	<b>\$ 270</b>

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

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

The weighted-average fair value of each option granted during fiscal 2020, estimated as of the grant date, was \$.25. As of December 31, 2020, there was \$1,928 of total unrecognized compensation cost related to nonvested options, which is expected to be recognized over a remaining weighted-average vesting period of 4.7 years.

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

	Restricted Stock Units	Weighted- Average Fair Value
(in thousands except per share amounts)		
<b>Outstanding—December 31, 2019</b>	<b>230</b>	<b>\$ 2.53</b>
Granted	913	0.62
Vested	(634)	1.63
Cancelled	(59)	1.67
<b>Outstanding—December 31, 2020</b>	<b>450</b>	<b>\$ 0.33</b>

As of December 31, 2020, there was \$81 of total unrecognized compensation cost related to nonvested restricted stock units, which is expected to be recognized over a remaining weighted-average vesting period of 10 months.

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

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

## 16. INCOME TAXES

### Coronavirus Aid, Relief and Economic Security Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) was enacted and signed into law in response to the market volatility and instability resulting from the COVID-19 pandemic. It includes a significant number of tax provisions and lifts certain deduction limitations originally imposed by the Tax Cuts and Jobs Act of 2017 (the 2017 Act). The changes are mainly related to: (1) the business interest expense disallowance rules for 2019 and 2020; (2) net operating loss rules; (3) charitable contribution limitations; (4) employee retention credit; and (5) the realization of corporate alternative minimum tax credits.

The Company continues to assess the impact and future implications of these provisions; however, it does not anticipate any amounts that could give rise to a material impact to the overall consolidated financial statements.

The provision for income tax expense for the years ended December 31, 2020, 2019 and 2018 consisted of the following:

<b>Years Ended December 31,</b> (in thousands)	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Current</b>			
Federal	\$ -	\$ -	\$ -
State	224	205	97
<b>Total Current</b>	<b>224</b>	<b>205</b>	<b>97</b>
<b>Deferred tax expense (benefit)</b>			
Federal	900	(2,406)	(601)
State	(9,127)	(7,329)	(646)
<b>Total deferred tax benefit</b>	<b>(8,227)</b>	<b>(9,735)</b>	<b>(1,247)</b>
Valuation allowance	8,227	9,735	1,247

**Income tax expense**

\$	<u>224</u>	\$	<u>205</u>	\$	<u>97</u>
----	------------	----	------------	----	-----------

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 referred to as the 2017 Tax 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)

	<u>2020</u>	<u>2019</u>
<b>Deferred tax assets</b>		
Net operating loss carryforwards	\$ 9,104	\$ 10,836
Accruals and reserves	-	-
Depreciation	-	-
Other	-	-
Valuation allowance	(9,104)	(10,836)
<b>Total deferred tax assets</b>	<u>-</u>	<u>-</u>
Accruals and reserves	-	-
Share-based compensation	-	-
<b>Total deferred tax liabilities</b>	<u>-</u>	<u>-</u>
<b>Net deferred tax liabilities</b>	<u>\$ -</u>	<u>\$ -</u>

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 \$12.0 million and \$9.7 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.

A reconciliation of the provision for income taxes attributable to income from operations and the amount computed by applying the statutory federal income tax rate of 21% to income before income taxes for the years ended December 31, 2020, 2019 and 2018 is as follows:

**Years Ended December 31,**

(in thousands)

	2020	2019	2018
Computed expected provision (benefit) for taxes	\$ (4,554)	\$ (10,443)	\$ (1,809)
Increase (Decrease) in taxes resulting from:			
State taxes	224	205	97
Non-deductible stock compensation	462	711	57
Non-deductible expenses under section 280e	5,099	7,965	2,605
Valuation allowance and other, net	(1,007)	1,767	(853)
Actual provision for income taxes	\$ 224	\$ 205	\$ 97

As of December 31, 2020 and 2019, the Company had federal net operating loss (“NOL”) carryforwards of approximately \$16.8 million and \$9.2 million respectively. The Company had state NOL carryforwards of approximately \$86.3 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.

**17. 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)	\$ (21,910)	\$ (49,934)
<b>Basic</b>		
Weighted average subordinate voting shares(1)	33,940	31,379
<b>Basic earnings (loss) per share</b>	<u>\$ (0.65)</u>	<u>\$ (1.59)</u>
<b>Diluted</b>		
Weighted average subordinate voting shares(1)	33,940	31,379
<i>Effects of Potential Dilutive Shares</i>		

Options	-	-
Warrants	-	-
Restricted stock units	-	-
Diluted weighted average subordinate voting shares	<u>33,940</u>	<u>31,379</u>
<b>Diluted earnings (loss) per share</b>	<b>\$ (0.36)</b>	<b>\$ (1.60)</b>

(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.

## 18. FAIR VALUE MEASUREMENTS

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. An asset's or liability's level is based on the lowest level of input that is significant to the fair value measurement. Assets and liabilities carried at fair value are valued and disclosed in one of the following three levels of the valuation hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

At December 31, 2020 and 2019, the carrying value of cash and cash equivalents, accounts receivable, prepaid expense and other current assets, accounts payable and other current liabilities approximate fair value due to the short-term nature of such instruments.

The carrying value of the Company's debt approximates fair value based on current market rates (Level 2).

### Nonrecurring fair value measurements

The Company uses fair value measures when determining assets and liabilities acquired in an acquisition as described in Note 5 which are considered a Level 3 measurement.

## 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, 2019 and 2018, general and administrative expenses were comprised of:

### **Years Ended December 31,**

(in thousands)

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Salaries and benefits	\$ 5,032	\$ 12,697	\$ 3,452
Professional fees	1,650	2,229	640
Licensing and supplies	267	870	556
Share-based compensation	2,200	3,385	270
Administrative	2,613	4,292	3,861
Transaction and other special charges(1)	-	2,341	-
<b>Total general and administrative expenses</b>	<b>\$ 11,762</b>	<b>\$ 25,814</b>	<b>\$ 8,779</b>

(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. 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.

## **23. 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 completed a change in its corporate name to Lowell Farms Inc effective March 1, 2021.

The Company has evaluated subsequent events through April 12, 2021, the date the financial statements were available to be issued.

**THE HACIENDA COMPANY, LLC**  
**Consolidated Financial Statements**

**As of December 31, 2020 and 2019 and for the  
Years Ended December 31, 2020 and 2019**

*(Expressed in United States Dollars)*

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

---

INDEPENDENT AUDITORS' REPORT	F-38
CONSOLIDATED FINANCIAL STATEMENTS:	
Consolidated Statements of Financial Position	F-40
Consolidated Statements of Operations	F-41
Consolidated Statements of Changes in Stockholders' Equity (Deficit)	F-42
Consolidated Statements of Cash Flows	F-43
Notes to Consolidated Financial Statements	F-44



To the Board of Directors and Shareholders  
of The Hacienda Company, LLC,

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of The Hacienda Company, LLC as of December 31, 2020 and 2019, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2020, and the related notes collectively referred to as the financial statements. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

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

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

### Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Description of the Matter	<b><i>Allowance for Doubtful Accounts</i></b>
---------------------------	---

As described in the Balance Sheet and Note 2 to the consolidated financial statements, the Company has established an allowance for doubtful accounts of \$805 thousand as of December 31, 2020. Auditing management's evaluation of allowance was challenging due to the level of subjectivity and significant judgment associated with collectability of accounts receivable.

How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design, and tested the implementation of controls over the Company's accounting process for allowance of doubtful accounts. Our
--	---

procedures consisted of performing retrospective review of the allowance by comparing historical reserve to historical write-offs, analyzing accounts receivable aging buckets, and sending confirmations. Based on the audit procedures performed, we found the reserve levels to be reasonable.

*GreenGrowthCPAs*

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

Los Angeles, California

April 26, 2021

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands)	Note	December 31,	
		2020	2019
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents		\$ 2,602	\$ 12,037
Accounts Receivable		1,190	2,998
Inventory	4	4,993	5,847
Prepaid expenses and other current assets		234	278
<b>Total current assets</b>		<b>9,020</b>	<b>21,160</b>
Long-term investments	6	-	1,083
Property and equipment, net	5	2,597	6,640
Other assets, net		109	144
<b>Total assets</b>		<b>\$ 11,726</b>	<b>\$ 29,027</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable		2,413	4,115
Accrued payroll and benefits		96	285
Notes payable, current portion	7	2,987	131
Lease obligation, current portion	8	145	131
Other current liabilities		166	26
<b>Total current liabilities</b>		<b>5,807</b>	<b>4,688</b>
Notes payable	7	-	2,799
Lease obligation	8	232	377
<b>Total liabilities</b>		<b>6,039</b>	<b>7,864</b>
<b>STOCKHOLDERS' EQUITY</b>			
Share capital		45,728	47,267
Accumulated deficit		(40,041)	(26,104)
<b>Total stockholders' equity</b>		<b>5,687</b>	<b>21,163</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$ 11,726</b>	<b>\$ 29,027</b>

*See accompanying notes to consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands)	Note	Years Ended December 31,	
		2020	2019
Net revenue		\$ 14,895	\$ 20,765
Cost of goods sold		14,626	25,411
Gross profit/(loss)		269	(4,646)
Operating expenses			
General and administrative	12	8,264	9,151
Sales and marketing		1,895	4,008
Distribution		1,800	2,182
Total operating expenses		11,959	15,341
Loss from operations		(11,690)	(19,987)
Other income/(expense)			
Other income/(expense)		(190)	(9)
Loss on termination of investments, net		(1,735)	(1,000)
Interest expense		(322)	(1,044)
Total other income/(expense)		(2,247)	(2,053)
Loss before provision for income taxes		(13,937)	(22,040)
Provision for income taxes	9	-	-
<b>Net loss</b>		<b>\$ (13,937)</b>	<b>\$ (22,040)</b>

*See accompanying notes to consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to Shareholders of the Parent		
	Share Capital	Accumulated Deficit	Stockholders' Equity
(in thousands)			
<b>Balance—December 31, 2018</b>	<b>\$ 6,233</b>	<b>\$ (4,041)</b>	<b>\$ 2,192</b>
Net loss	-	(22,040)	(22,040)
Adoption of lease accounting standard	-	(23)	(23)
Private placements, net	46,734	-	46,734
Share repurchase	(5,000)	-	(5,000)
Capital draws	(700)	-	(700)
<b>Balance—December 31, 2019</b>	<b>\$ 47,267</b>	<b>\$ (26,104)</b>	<b>\$ 21,163</b>
Net loss	-	(13,937)	(13,937)
Capital draws	(1,539)	-	(1,539)
<b>Balance—December 31, 2020</b>	<b>\$ 45,728</b>	<b>\$ (40,041)</b>	<b>\$ 5,686</b>

*See accompanying notes to consolidated financial statements.*

## STATEMENTS OF CASH FLOWS

(in thousands)	Year Ended December 31,	
	2020	2019
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (13,937)	\$ (22,040)
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>		
Depreciation and amortization	1,035	471
Loss on termination of investment	1,083	-
Impairment of investment	-	1,000
Bad debt expense	578	686
Amortization of debt issuance costs	7	-
Loss on sale of assets	671	-
Changes in operating assets and liabilities:		
Accounts receivable	1,231	(2,851)
Inventory	853	(5,078)
Prepaid expenses and other current assets	44	(162)
Other assets	35	(85)
Accounts payable and accrued expenses	(1,751)	3,473
Other current liabilities	-	(410)
<b>Net cash used in operating activities</b>	<b>(10,151)</b>	<b>(24,996)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from asset sales	3,068	-
Purchases of property and equipment	(732)	(2,830)
Investment in café	-	(2,083)
<b>Net cash used in investing activities</b>	<b>2,336</b>	<b>(4,913)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Principal payments on lease obligations	(131)	(117)
Payments on notes payable	(2,863)	(151)
Proceeds from notes payable	2,913	-
Proceeds from share offering	-	46,734
Fees on share offering	(39)	-
Payments for share repurchase	-	(5,000)
Draw on share capital	(1,500)	(700)
<b>Net cash provided by financing activities</b>	<b>(1,620)</b>	<b>40,766</b>
Change in cash and cash equivalents and restricted cash	(9,435)	10,857
Cash and cash equivalents—beginning of year	12,037	1,180
<b>Cash, cash equivalents and restricted cash—end of period</b>	<b>\$ 2,602</b>	<b>\$ 12,037</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for interest	\$ 315	\$ 1,044
Cash paid during the period for income taxes	\$ -	\$ -

*See accompanying notes to consolidated financial statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### YEARS ENDED DECEMBER 31, 2020 AND 2019

---

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

## 1. NATURE OF OPERATIONS

The Hacienda Company, LLC (“THC” or the Company), a California limited liability company, was formed in 2016.

THC, through its licensed subsidiaries, is a cannabis company that owns, manages and operates extraction, distribution and manufacturing operations in California.

The Company’s corporate office and principal place of business is located at 11618 Pendleton Street, Sun Valley, California.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Estimates

The World Health Organization categorized the Coronavirus disease 2019 (COVID-19) as a pandemic. The COVID-19 pandemic has caused a severe global health crisis, along with economic and societal disruptions and uncertainties, which have negatively impacted business and healthcare activity globally. As a result of healthcare systems responding to the demands of managing the pandemic, governments around the world imposing measures designed to reduce the transmission of the COVID-19 virus, and individuals responding to the concerns of contracting the COVID-19 virus, many optical practitioners & retailers, hospitals, medical offices and fertility clinics closed their facilities, restricted access, or delayed or canceled patient visits, exams and elective medical procedures, and many customers that have reopened are experiencing reduced patient visits. This has had, and we believe will continue to have, an adverse effect on our sales, operating results and cash flows.

The preparation of Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates particularly as it relates to estimates reliant on forecasts and other assumptions reasonably available to the Company and the uncertain future impacts of the COVID-19 pandemic and related economic disruptions. The extent to which the COVID-19 pandemic and related economic disruptions impact our business and financial results will depend on future developments including, but not limited to, the continued spread, duration and severity of the COVID-19 pandemic; the occurrence, spread, duration and severity of any subsequent wave or waves of outbreaks; the actions taken by the U.S. and foreign governments to contain the COVID-19 pandemic, address its impact or respond to the reduction in global and local economic activity; the occurrence, duration and severity of a global, regional or national recession, depression or other sustained adverse market event; the impact of the developments described above on our customers and suppliers; and how quickly and to what extent normal economic and operating conditions can resume.

The accounting matters assessed included, but were not limited to:

- allowance for doubtful accounts and credit losses
- carrying value of inventory
- the carrying value of long-lived assets.

There was not a material impact to the above estimates in the Company’s Consolidated Financial Statements for fiscal 2020. The Company continually monitors and evaluates the estimates used as additional information becomes available. Adjustments will be made to these provisions periodically to reflect new facts and circumstances that may indicate that historical experience may not be indicative of current or future results. The Company’s future assessment

of the magnitude and duration of COVID-19, as well as other factors, could result in material changes to the estimates and material impacts to the Company's Consolidated Financial Statements in future reporting periods.

### **Basis of Preparation**

Management's significant accounting policies include estimates and judgments which are an integral part of financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP). We believe that the accounting policies described in this section address the more significant policies utilized by management when preparing our consolidated financial statements in accordance with GAAP. We believe that the accounting policies and estimates employed are appropriate and resulting balances are reasonable; however, actual results could differ from the original estimates, requiring adjustment to these balances in future periods. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most important to aid in fully understanding and evaluating our reported financial results are:

### **Basis of Measurement**

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention, except for 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.

### **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:

- The Hacienda Company, a California limited liability company, the parent company
- Brand New Concepts, LLC, a California limited liability company, wholly owned by The Hacienda Company, holder of manufacturing and distribution licenses
- LFLC, LLC, a California limited liability company, wholly owned by The Hacienda Company, holds vehicle leases
- Lowell Farms, LLC, a California limited liability corporation, wholly owned by The Hacienda Company, operated cultivation site, operations terminated in 2020
- LFHMP, LLC, a California limited liability company, wholly owned by The Hacienda Company, not presently in operation

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. The allowance for doubtful accounts was \$805 and \$581 as of December 31, 2020 and 2019, respectively.

### **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:

<b>Category</b>	<b>Useful Life</b>
	The lesser of the estimated useful life or length of the
Leasehold improvements	lease
Furniture and fixtures	3 – 7 years
Vehicles	4 – 5 years
Machinery and equipment	3 – 6 years
Land	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.

### **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.

### **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. Lease right-of-use assets represent the right to use an underlying asset for

the lease term, and lease liabilities represent the obligation to make payments arising from the lease agreement. These assets and liabilities are recognized at the commencement of the lease based upon the present value of the future minimum lease payments over the lease term. The lease term reflects the noncancelable period of the lease together with periods covered by an option to extend or terminate the lease when management is reasonably certain that it will exercise such option. Changes in the lease term assumption could impact the right-of-use assets and lease liabilities recognized on the balance sheet. As our leases typically do not contain a readily determinable implicit rate, we determine the present value of the lease liability using our incremental borrowing rate at the lease commencement date based on the lease term on a collateralized basis.

### **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**

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company enters contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Revenue is recognized when it satisfies a performance obligation by transferring a promised cannabis good to a customer. A contract, whether a verbal or written sales order, is established with customers prior to order fulfillment with agreement upon unit prices, delivery dates, and payment terms. The transaction price is based on market pricing while considering the value of the Company's brand and quality. Transaction price is allocated to each product sold based upon the negotiated unit sales price associated with each product line scheduled for delivery within the order. Performance obligation satisfaction occurs upon delivery to customer premises. These types of revenues accounted for under ASC Topic 606, generally, do not require significant estimates or judgments based on the nature of the Company's revenue stream. The sales prices, including discounts, are fixed at the point of sale and all consideration from contracts is included in the transaction price. The Company's contracts do not include multiple performance obligations or material variable consideration.

### **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.

## **Significant Accounting, 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.
- 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.

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

The following accounting pronouncements were recently adopted:

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use (ROU) asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases Topic 842 Target improvements*, which provides an additional (and optional) transition method whereby the new lease standard is applied at the adoption date and recognized as an adjustment to retained earnings. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which further clarifies the determination of fair value of the underlying asset by lessors that are not manufacturers or dealers and modifies transition disclosure requirements for changes in accounting principles and other technical updates. 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 \$23.

#### *Effects of Adoption*

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

The Company determines if an arrangement is a lease at inception. The Company leases certain manufacturing facilities, warehouses, offices, machinery and equipment, vehicles and office equipment under operating leases. Under the new standard, operating leases result in the recognition of ROU assets and lease liabilities on the

consolidated balance sheet. ROU assets represent our right to use the leased asset for the lease term and lease liabilities represent our obligation to make lease payments. Under the new standard, operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, upon adoption of the new standard, we used our estimated incremental borrowing rate based on the information available, including lease term, as of January 1, 2019 to determine the present value of lease payments. Operating lease ROU assets are adjusted for any lease payments made prior to January 1, 2019 and any lease incentives. Certain of our leases may include options to extend or terminate the original lease term. The Company generally concluded that it is not reasonably certain to exercise these options due primarily to the length of the original lease term and its assessment that economic incentives are not reasonably certain to be realized. Operating lease expense under the new standard is recognized on a straight-line basis over the lease term. Current finance lease obligation consists primarily of the manufacturing and distribution facility lease.

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

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

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

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

(in thousands, \$US)	Effects of adoption of lease accounting standard update related to:			With effect of least accounting standard update January 1, 2019
	December 31, 2018	Recognition of Operating Leases	Total Effects of Adoption	
<b>Assets</b>				
Property and equipment, net	\$ 3,680	\$ 602	\$ 602	\$ 4,282
<b>Liabilities</b>				
Current portion of long-term debt	127	117	117	\$ 244
Long-term debt, net	2,884	508	508	\$ 3,392
<b>Equity</b>				
Accumulated Deficit	(4,041)	(23)	(23)	\$ (4,064)
<b>Total</b>	<u>\$ 4,710</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,710</u>

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" and subsequent amendments to the initial guidance: ASU 2018-19 "Codification Improvements to Topic 326, Financial Instruments-Credit Losses", ASU 2019-04 "Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments", ASU 2019-05 "Financial Instruments-Credit Losses", ASU 2019-11 "Codification Improvements to Topic 326, Financial Instruments - Credit Losses" (collectively, Topic 326), ASU 2020-02 Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842) and ASU 2020-

03 *Codification Improvements to Financial Instruments*. Topic 326 requires measurement and recognition of expected credit losses for financial assets held. This guidance is effective for the year ended December 31, 2020. The Company believes that the most notable impact of this ASU will relate to its processes around the assessment of the adequacy of its allowance for doubtful accounts on trade accounts receivable and the recognition of credit losses. We continue to monitor the economic implications of the COVID-19 pandemic, however based on current market conditions, the adoption of the ASU did not have a material impact on the consolidated financial statements.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606*. This guidance amended Topic 808 and Topic 606 to clarify that transactions in a collaborative arrangement should be accounted for under Topic 606 when the counterparty is a customer for a distinct good or service (i.e., unit of account). The amendments preclude an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. This guidance is effective for the year ended December 31, 2020. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

The following accounting pronouncements issued have not yet been adopted:

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This guidance removes certain exceptions to the general principles in Topic 740 and enhances and simplifies various aspects of the income tax accounting guidance, including requirements such as tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. This standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2020. We are currently evaluating the impact of ASU 2019-12 on our Consolidated Financial Statements, which is effective for the Company in our fiscal year and interim periods beginning on January 1, 2021.

In January 2020, the FASB issued ASU 2020-01 *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*. This guidance addresses accounting for the transition into and out of the equity method and provides clarification of the interaction of rules for equity securities, the equity method of accounting, and forward contracts and purchase options on certain types of securities. This standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2020. We are currently evaluating the impact of ASU 2020-01 on our Consolidated Financial Statements, which is effective for the Company in our fiscal year and interim periods beginning on January 1, 2021.

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)*. This update amends the guidance on convertible instruments and the derivatives scope exception for contracts in an entity’s own equity and improves and amends the related EPS guidance for both Subtopics. This standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2021, which means it will be effective for our fiscal year beginning January 1, 2022. Early adoption is permitted. We are currently evaluating the impact of ASU 2020-06 on our Consolidated Financial Statements.

No other recently issued accounting pronouncements had or are expected to have a material impact on our Consolidated Financial Statements.

#### 4. INVENTORY

Inventory was comprised of the following items:

(in thousands)	December 31,	
	2020	2019
Components and finished goods	\$ 4,407	\$ 5,234
Promotional merchandise for resale	586	613
<b>Total Inventory</b>	<b>\$ 4,993</b>	<b>\$ 5,847</b>

## 5. 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)	<b>Land</b>	<b>Leasehold Improvements</b>	<b>Furniture and Fixtures</b>	<b>Equipment</b>	<b>Vehicles</b>	<b>Right of Use Assets</b>	<b>Total</b>
<b>Costs</b>							
Balance—December 31, 2018	\$ 3,148	\$ 11	\$ 299	\$ -	\$ 255	\$ -	\$ 3,712
Additions	568	510	343	920	489	-	2,830
ASU 2016-02 and 2018-10 adoption	-	-	-	-	-	717	717
Disposals/Transfers	-	-	-	-	-	-	-
Balance—December 31, 2019	\$ 3,716	\$ 521	\$ 641	\$ 920	\$ 744	\$ 717	\$ 7,259
Additions	-	89	2	638	-	-	730
Disposals/Transfers	(3,716)	-	-	-	(37)	-	(3,754)
<b>Balance—December 31, 2020</b>	<b>\$ -</b>	<b>\$ 610</b>	<b>\$ 643</b>	<b>\$ 1,558</b>	<b>\$ 706</b>	<b>\$ 717</b>	<b>\$ 4,235</b>
<b>Accumulated Depreciation</b>							
Balance—December 31, 2018	\$ -	\$ -	\$ (25)	\$ -	\$ (6)	\$ -	\$ (32)
Depreciation	-	(75)	(72)	(94)	(92)	(138)	(471)
ASU 2016-02 and 2018-10 adoption	-	-	-	-	-	(116)	(116)
Disposals	-	-	-	-	-	-	-
Balance—December 31, 2019	\$ -	\$ (75)	\$ (97)	\$ (94)	\$ (98)	\$ (254)	\$ (619)
Depreciation	-	(190)	(92)	(466)	(150)	(138)	(1,035)
Disposals	-	-	-	-	16	-	16
<b>Balance—December 31, 2020</b>	<b>\$ -</b>	<b>\$ (265)</b>	<b>\$ (189)</b>	<b>\$ (561)</b>	<b>\$ (232)</b>	<b>\$ (392)</b>	<b>\$ (1,638)</b>
<b>Net Book Value</b>							
December 31, 2019	\$ 3,716	\$ 446	\$ 544	\$ 825	\$ 645	\$ 463	\$ 6,640
<b>Balance—December 31, 2020</b>	<b>\$ -</b>	<b>\$ 346</b>	<b>\$ 454</b>	<b>\$ 997</b>	<b>\$ 474</b>	<b>\$ 325</b>	<b>\$ 2,597</b>

Depreciation expense of \$1,035 and \$471 were recorded for the years ended December 31, 2020 and 2019, respectively.

## 6. INVESTMENTS

In 2018, utilizing \$2.8 million in loan financing, the Company invested in a cultivation site in Santa Ynez, California to be developed to cultivate cannabis in lieu of purchasing the raw material. Due to limited resources, procedural requirements associated with permitting requirements and the time required to develop the site, in 2020 the site was sold resulting in a loss of \$652 which is included in other expense as loss on investments in the accompanying Statements of Operations.

In 2019, the Company funded a minority investment in a cannabis-centric lounge and café in West Hollywood, California and began initial investments towards opening operations in Oregon and Washington. Due to restriction on capital availability, the viability of these operations was considered at risk and an impairment charge of \$1 million was recorded in 2019 and the investments were abandoned in 2020 resulting in a loss of \$1.1 million. The impairment charge and loss on closing the operations are included in other expense as loss on investments in the accompanying Statement of Operations.

In 2020, the company received stock as compensation for accounts receivable due from a customer and in turn sold the stock and recorded a \$908 gain on the sale. The gain has been reflected in other expense, net in the accompanying Statement of Operations.

## 7. DEBT

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

	December 31,	
	2020	2019
(in thousands)		
<b>Current portion of long-term debt</b>		
Vehicle loans <sup>(1)</sup>	\$ 67	\$ 131
Note payable <sup>(3)</sup>	2,920	-
Total short-term debt	2,987	131
<b>Long-term debt, net</b>		
Vehicle loans <sup>(1)</sup>	-	11
Note payable <sup>(2)</sup>	-	2,788
Total long-term debt	-	2,799
<b>Total Indebtedness</b>	<b>\$ 2,987</b>	<b>\$2,930</b>

*(1) Primarily fixed term loans on transportation vehicles. Weighted average interest rate at December 31, 2020 was 8.3%.*

*(2) Note payable in connection with farm acquisition. Interest rated at December 31, 2019 was 10%.*

*(3) Loan agreement with Worth Capital Holdings, net of \$80 of deferred financing fees. Interest rate at December 31, 2020 was 15%.*

Debt obligations are due in 2021, including the note payable which was paid from proceeds associated with the sale of the Company's assets. See Note 15.

## 8. LEASES

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

(in thousands)	
<b>Lease Liability</b>	
December 31, 2019	\$ 508
Lease principal payments	(131)
<b>December 31, 2020</b>	<b>\$ 377</b>

Lease obligation, current portion	\$ 145
Lease obligation, long-term portion	\$ 232

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:

<b>Year Ended December 31,</b>	<b>2020</b>
(in thousands)	
Amortization of leased assets <sup>(1)</sup>	\$ 139
Interest on lease liabilities <sup>(2)</sup>	27
<b>Total</b>	<b>\$ 166</b>

*(1) Included in general and administrative expenses 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 2.4 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:

	<b>December 31, 2020</b>
(in thousands)	
1 - 3 years	\$ 377

## 9. INCOME TAXES

### Coronavirus Aid, Relief and Economic Security Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) was enacted and signed into law in response to the market volatility and instability resulting from the COVID-19 pandemic. It includes a significant number of tax provisions and lifts certain deduction limitations originally imposed by the Tax Cuts and Jobs Act of 2017 (the 2017 Act). The changes are mainly related to: (1) the business interest expense disallowance rules for 2019 and 2020; (2) net operating loss rules; (3) charitable contribution limitations; (4) employee retention credit; and (5) the realization of corporate alternative minimum tax credits.

The Company continues to assess the impact and future implications of these provisions; however, it does not anticipate any amounts that could give rise to a material impact to the overall consolidated financial statements.

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

<b>Years Ended December 31,</b>	<b>2020</b>	<b>2019</b>
(in thousands)		
<b>Current</b>		
Federal	\$ -	\$ -
State	-	-
<b>Total Current</b>	<b>-</b>	<b>-</b>
<b>Deferred tax expense (benefit)</b>		
Federal	5,275	5,219
State	4,823	3,011

<b>Total deferred tax benefit</b>	<b>10,098</b>	<b>8,229</b>
Valuation allowance	(10,098)	(8,229)
<b>Income tax expense</b>	<b>\$ -</b>	<b>\$ -</b>

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

In December 2017, the United States (“U.S.”) Congress passed and the President signed referred to as the 2017 Tax 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:

<b>Years Ended December 31,</b> (in thousands)	<b>2020</b>	<b>2019</b>
<b>Deferred tax assets</b>		
Net operating loss carryforwards	\$ 9,985	\$ 8,229
Accruals and reserves	-	-
Depreciation	-	-
Other	-	-
Valuation allowance	(9,985)	(8,229)
<b>Total deferred tax assets</b>	<b>-</b>	<b>-</b>
Accruals and reserves	-	-
<b>Total deferred tax liabilities</b>	<b>-</b>	<b>-</b>
<b>Net deferred tax liabilities</b>	<b>\$ -</b>	<b>\$ -</b>

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative losses incurred through the year ended December 31, 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 \$10.0 million and \$8.2 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 \$24.6 million and \$24.9 million respectively. The Company had state NOL carryforwards of approximately \$37.1 million and \$23.2 million. 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 2016 forward and by tax authorities in various US states from 2016 forward.

## 10. FAIR VALUE MEASUREMENTS

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. An asset's or liability's level is based on the lowest level of input that is significant to the fair value measurement. Assets and liabilities carried at fair value are valued and disclosed in one of the following three levels of the valuation hierarchy:

Level	1: Quoted market prices in active markets for identical assets or liabilities.
Level	2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level	3: Unobservable inputs reflecting the reporting entity's own assumptions.

At December 31, 2020 and 2019, the carrying value of cash and cash equivalents, accounts receivable, prepaid expense and other current assets, accounts payable and other current liabilities approximate fair value due to the short-term nature of such instruments.

The carrying value of the Company's debt approximates fair value based on current market rates (Level 2).

### Nonrecurring fair value measurements

The Company uses fair value measures when determining assets and liabilities acquired in an acquisition as described in Note 5 which are considered a Level 3 measurement.

## 11. COMMITMENTS AND CONTINGENCIES

### Commitments

No significant commitments were outstanding at December 31, 2020.

### 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. In 2019, state regulatory agencies filed a complaint against the Company alleging the Company was engaged in unlicensed cannabis activity. While not admitting to any allegations, in 2020 the Company

agreed to a settlement in which it paid \$546 in fees and expenses and agreed to engage a cannabis compliance coordinator for a period of five years to monitor compliance with local and state regulations. The settlement expense is included in other expense, net in the accompanying Statement of 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.

### **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. In 2020, the Company reached a settlement with a landlord over a dispute relating to a facility lease. As a result of the settlement, the lease was terminated and the Company agreed to a payment of fees and expenses amounting to \$518, which has been included in other expense, net in the accompanying Statement of Operations. 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.

## **12. GENERAL AND ADMINISTRATIVE EXPENSES**

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

### **Years Ended December 31,**

<b>(in thousands)</b>	<b>2020</b>	<b>2019</b>
Salaries and benefits	\$ 2,656	\$ 3,169
Professional fees	1,744	1,593
Facility expenses	700	540
Depreciation	239	333
Supplies	252	685
Administrative	2,673	2,830
<b>Total general and administrative expenses</b>	<b>\$ 8,264</b>	<b>\$ 9,151</b>

## **13. 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.

## **14. 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.

## **15. SUBSEQUENT EVENTS**

On February 25, 2021, the Company announced the sale of substantially all of the assets of the Company, including the Lowell Herb Co. and Lowell Smokes trademark brands, product portfolio, and production assets to Indus Holdings, Inc. The transaction was valued at approximately \$39 million, comprised of \$4.1 million in cash and the issuance of 22,643,678 subordinate voting shares of Indus Holdings, Inc. The Company has agreed to continue to produce Lowell products for an interim period for the account of Indus Holdings, Inc. pending completion of the transfer of certain regulatory assets.

The Company has evaluated subsequent events through April 26, 2021, the date the financial statements were available to be issued.

**Directors****George Allen**

Chairman and Founder and Managing Member of  
Geronimo Capital LLC

**Mark Ainsworth**

Chief Executive Officer and Director

**Stephanie Harkness**

Director and Managing General Partner of  
OPES Holdings, LLC

**William Anton**

Director and Chairman and CEO of  
Anton Enterprises, Inc. and Managing Partner of  
Anton Venture Capital Fund LLC

**Kevin McGrath**

Director and Private Investor

**Brian Shure**

Chief Financial Officer and Director

**Bruce Gates**

Director and President of Three Oaks Strategies, LLC

**Executives****Mark Ainsworth**

Chief Executive Officer and Director

**Brian Shure**

Chief Financial Officer and Director

**Jenny Montenegro**

Chief Operating Officer

**Kelly McMillin**

Chief Compliance Officer

**Annual Meeting**

The 2021 annual general meeting of shareholders will be held on September 21, 2021, beginning at 8:30 a.m. (Eastern Time), at Odyssey Trust Company, 67 Yonge St., Suite 702, Toronto, Ontario, M5E 1J8.

**Independent Auditors**

GreenGrowth CPAs

**Transfer Agent**

Odyssey Trust Company  
67 Yonge St.  
Suite 702  
Toronto, Ontario, M5E 1J8

**Stock Information**

Canadian Securities Exchange (CSE): LOWL  
U.S. OTCQX: LOWLF

**Contact Information**

19 Quail Run Circle  
Suite B  
Salinas, California 93907  
Telephone: (831) 998-8214