

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period ended March 31, 2023

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-56254

**LOWELL FARMS INC.**

(Exact name of Registrant as Specified in its Charter)

British Columbia, Canada

(State or Other Jurisdiction of  
Incorporation or Organization)

87-3037317

(I.R.S. Employer  
Identification No.)

19 Quail Run Circle - Suite B, Salinas, California

(Address of Principal Executive Offices)

93907

(Zip Code)

(831) 998-8214

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class registered	Trading Symbol(s)	Name of each exchange on which registered
NONE	NONE	NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 112,761,904 shares of the Registrant's Subordinate Voting Shares outstanding as of May 11, 2023.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

**LOWELL FARMS INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(unaudited)  
(in thousands)

	March 31, 2023	December 31, 2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,294	\$ 1,098
Accounts Receivable - net of allowance for doubtful accounts of \$953 and \$1,053 at March 31, 2023 and December 31, 2022, respectively.	2,838	4,163
Inventory	10,084	10,779
Prepaid expenses and other current assets	1,207	1,522
<b>Total current assets</b>	<b>15,423</b>	<b>17,562</b>
Property and equipment, net	30,792	31,284
Right of use assets, net	25,367	27,362
Other intangibles, net	42,101	42,202
Other assets	412	413
<b>Total assets</b>	<b>\$ 114,095</b>	<b>\$ 118,823</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,442	\$ 2,307
Accrued payroll and benefits	432	350
Notes payable, current portion	273	282
Lease obligation, current portion	2,464	2,659
Convertible debentures	21,626	21,398
Other current liabilities	3,550	3,654
<b>Total current liabilities</b>	<b>31,787</b>	<b>30,650</b>
Notes payable	2	3
Lease obligation	29,505	31,340
Convertible debentures	-	-
Mortgage obligation	8,664	8,713
<b>Total liabilities</b>	<b>69,958</b>	<b>70,706</b>
COMMITMENTS AND CONTINGENCIES		
<b>STOCKHOLDERS' EQUITY</b>		
Share capital	191,802	191,742
Accumulated deficit	(147,665)	(143,625)
<b>Total stockholders' equity</b>	<b>44,137</b>	<b>48,117</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 114,095</b>	<b>\$ 118,823</b>

*See Accompanying Notes to Condensed Consolidated Financial Statements (unaudited)*

**LOWELL FARMS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)**  
**(unaudited)**  
**(in thousands, except per share amounts)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2023</b>	<b>2022</b>
Net revenue	\$ 7,526	\$ 12,409
Cost of goods sold	7,394	10,835
Gross profit	132	1,574
Operating expenses		
General and administrative	1,624	2,164
Sales and marketing	735	1,761
Depreciation and amortization	106	108
Total operating expenses	2,465	4,033
Loss from operations	(2,333)	(2,459)
Other income/(expense)		
Other income (expense)	1	(143)
Unrealized change in fair value of investment	-	(70)
Interest expense	(1,659)	(1,310)
Total other income (expense)	(1,658)	(1,523)
Loss before provision for income taxes	(3,991)	(3,982)
Provision for income taxes	49	75
<b>Net loss</b>	<b>\$ (4,040)</b>	<b>\$ (4,057)</b>
Net loss per share:		
Basic	\$ (0.03)	\$ (0.04)
Diluted	\$ (0.03)	\$ (0.04)
Weighted average shares outstanding:		
Basic	121,770	100,118
Diluted	121,770	100,118

*See Accompanying Notes to Condensed Consolidated Financial Statements (unaudited)*

**LOWELL FARMS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**  
**(unaudited) (in thousands)**

(in thousands)	Three Months Ended March 31, 2023				
	Subordinate Voting Shares	Super Voting Shares	Share Capital	Accumulated Deficit	Total Stockholders' Equity
<b>Balance-December 31, 2022</b>	121,770	203	\$ 191,742	\$ (143,625)	\$ 48,117
Net loss	-	-	-	(4,040)	(4,040)
Share-based compensation expense	-	-	60	-	60
<b>Balance-March 31, 2023</b>	<u>121,770</u>	<u>203</u>	<u>\$ 191,802</u>	<u>\$ (147,665)</u>	<u>\$ 44,137</u>
	Three Months Ended March 31, 2022				
	Subordinate Voting Shares	Super Voting Shares	Share Capital	Accumulated Deficit	Total Stockholders' Equity
<b>Balance-December 31, 2021</b>	111,806	203	\$ 189,368	\$ (119,061)	\$ 70,307
Net income	-	-	-	(4,057)	(4,057)
Share-based compensation expense	220	-	161	-	161
<b>Balance-March 31, 2022</b>	<u>112,026</u>	<u>203</u>	<u>\$ 189,529</u>	<u>\$ (123,118)</u>	<u>\$ 66,411</u>

*See Accompanying Notes to Condensed Consolidated Financial Statements (unaudited)*

**LOWELL FARMS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited) (in thousands)**

	<b>Three Months Ended</b>	
	<b>March 31, 2023</b>	<b>March 31, 2022</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (4,040)	\$ (4,057)
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>		
Depreciation and amortization	1,196	1,511
Amortization of debt issuance costs	249	226
Share-based compensation expense	60	161
Provision for doubtful accounts	88	243
Unrealized loss on change in fair value of investments	-	70
Changes in operating assets and liabilities:		
Accounts receivable	1,237	2,335
Inventory	695	(2,464)
Prepaid expenses and other current assets	315	(726)
Other assets	1	-
Accounts payable and accrued expenses	1,111	1,827
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 912</b>	<b>\$ (874)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(29)	(483)
<b>Net cash used in investing activities</b>	<b>\$ (29)</b>	<b>\$ (483)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Principal payments on lease obligations	(608)	(586)
Payments on notes payable	(79)	(58)
<b>Net cash used in financing activities</b>	<b>\$ (687)</b>	<b>\$ (644)</b>
Change in cash and cash equivalents	196	(2,001)
Cash and cash equivalents-beginning of year	1,098	7,887
<b>Cash, cash equivalents -end of period</b>	<b>\$ 1,294</b>	<b>\$ 5,886</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for interest	\$ 821	\$ 1,018
Cash paid during the period for income taxes	\$ -	\$ 268
<b>OTHER NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Purchase of property and equipment not yet paid for	\$ 8	\$ 79

*See Accompanying Notes to Condensed Consolidated Financial Statements (unaudited)*

**LOWELL FARMS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The interim unaudited condensed consolidated financial statements included herein have been prepared by Lowell Farms Inc. (the “Company” or “Lowell”) pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”), including the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) have been condensed or omitted. The interim unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments necessary (consisting only of normal recurring adjustments), to present a fair statement of results for the interim periods presented. The operating results for any interim period are not necessarily indicative of the results that may be expected for other interim periods or the full fiscal year. The accompanying interim unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Company’s Form 10-K filed for the year ended December 31, 2022. There have been no material changes to our significant accounting policies as of and for the three months ended March 31, 2023.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after the elimination of all intercompany balances and transactions.

The condensed consolidated balance sheet at December 31, 2022, has been derived from the audited consolidated financial statements but does not include all disclosures required by U.S. GAAP.

All dollar amounts in the notes to condensed consolidated financial statements are expressed in thousands of United States dollars (“\$” or “US\$”), unless otherwise indicated.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates in these financial statements include allowance for doubtful accounts and credit losses, carrying value of inventory, revenue recognition, accounting for stock-based compensation expense, and income taxes. Actual results could differ from those estimates.

The global COVID-19 pandemic impacted the operations and purchasing decisions of companies worldwide. It also created significant uncertainty in the global economy. The Company has undertaken measures to protect its employees, partners, customers, and vendors. To date, the Company has been able to provide uninterrupted access to its products and services, including certain employees that are working remotely, and its pre-existing infrastructure that supports secure access to the Company’s internal systems. If the COVID-19 pandemic were to have an increased forward-looking impact on the productivity of the Company’s employees or its partners’ or customers’ decision to use the Company’s products and services, the results of the Company’s operations and overall financial performance may be adversely impacted. As of the date of issuance of the financial statements, the Company is not aware of any specific event or circumstance that would require updates to the Company’s estimates and judgments or revisions to the carrying value of its assets or liabilities. These estimates may change, as new events occur and additional information is obtained, and are recognized in the condensed consolidated financial statements as soon as they become known. Actual results could differ from those estimates and any such differences may be material to the financial statements.

**LOWELL FARMS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

***Recently Adopted Accounting Standards***

In August 2020, the FASB issued ASU 2020-06, 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. We evaluated the impact of ASU 2020-06, which was effective for the Company in our fiscal year and interim periods beginning on January 1, 2022 and it did not have a material impact on our consolidated financial statements.

No other recently issued accounting pronouncements had or are expected to have a material impact on our condensed consolidated financial statements.



**LOWELL FARMS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**2. PREPAID AND OTHER CURRENT ASSETS**

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

(in thousands)	March 31, 2023	December 31, 2022
Deposits	\$ 612	\$ 595
Insurance	163	235
Supplier advances	155	375
Interest and taxes	34	69
Licenses and payments	203	146
Other	40	102
<b>Total prepaid and other current assets</b>	<b>\$ 1,207</b>	<b>\$ 1,522</b>

**3. INVENTORY**

Inventory was comprised of the following items:

(in thousands)	March 31, 2023	December 31, 2022
Raw materials	\$ 7,430	\$ 7,431
Work in process	654	940
Finished goods	2,000	2,408
<b>Total inventory</b>	<b>\$ 10,084</b>	<b>\$ 10,779</b>

**4. Other current liabilities**

Other current liabilities were comprised of the following items:

(in thousands)	March 31, 2023	December 31, 2022
Interest and tax accrual	\$ 1,448	\$ 921
Equipment Purchase Accrual	724	724
ERC Commission Accrual	441	441
Excise and cannabis tax	278	948
Accrued Discounts and Promotions	125	97
Insurance and professional fee accrual	77	158
Third-party brand distribution accrual	46	17
Other	411	348
<b>Total other current liabilities</b>	<b>\$ 3,550</b>	<b>\$ 3,654</b>

On July 26, 2022, subsidiaries of the Company entered into an agreement with an institutional investor pursuant to which the investor purchased a participation ("Transferred Interests") in all rights to payment from the United States Internal Revenue Service in respect of the Company's employee retention credits for the first and second quarters of 2021 (the "ERC Claim"). The purchase price paid for the derivative payment rights was \$2.45 million, which was paid in immediately available funds. For the year ended December 31, 2022, the Company recorded net other income of \$2,014 and an accrued other liability of \$441 to be paid to facilitate the sale of the ERC Claim.

**LOWELL FARMS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**5. PROPERTY AND EQUIPMENT**

A reconciliation of the beginning and ending balances of property and equipment and accumulated depreciation during the three months ended March 31, 2023 and property and equipment, net as of December 31, 2022, are as follows:

(in thousands)	<b>Land and Buildings</b>	<b>Leasehold Improvements</b>	<b>Furniture and Fixtures</b>	<b>Equipment</b>	<b>Vehicles</b>	<b>Construction in Process</b>	<b>Right of Use Assets</b>	<b>Total</b>
<b>Costs</b>								
<b>Balance-December 31, 2022</b>	\$ 15,719	\$ 12,437	\$ 50	\$ 6,499	\$ 830	\$ 35	\$ 37,081	\$ 72,651
Additions	-	29	-	-	-	-	-	29
Disposals	-	-	-	-	-	-	-	-
Lease remeasurement	-	-	-	-	-	-	(1,422)	(1,422)
<b>Balance - March 31, 2023</b>	<b>\$ 15,719</b>	<b>\$ 12,466</b>	<b>\$ 50</b>	<b>\$ 6,499</b>	<b>\$ 830</b>	<b>\$ 35</b>	<b>\$ 35,659</b>	<b>\$ 71,258</b>
<b>Accumulated Depreciation</b>								
<b>Balance - December 31, 2022</b>	\$ (315)	\$ (1,815)	\$ (49)	\$ (1,498)	\$ (608)	\$ -	\$ (9,719)	\$ (14,004)
Depreciation	(53)	(216)	-	(217)	(36)	-	(573)	(1,095)
<b>Balance - March 31, 2023</b>	<b>\$ (368)</b>	<b>\$ (2,031)</b>	<b>\$ (49)</b>	<b>\$ (1,715)</b>	<b>\$ (644)</b>	<b>\$ -</b>	<b>\$ (10,292)</b>	<b>\$ (15,099)</b>
<b>Net Book Value - March 31, 2023</b>	<b>\$ 15,351</b>	<b>\$ 10,435</b>	<b>\$ 1</b>	<b>\$ 4,784</b>	<b>\$ 186</b>	<b>\$ 35</b>	<b>\$ 25,367</b>	<b>\$ 56,159</b>
<b>Net Book Value - December 31, 2022</b>	<b>\$ 15,404</b>	<b>\$ 10,621</b>	<b>\$ 1</b>	<b>\$ 5,001</b>	<b>\$ 222</b>	<b>\$ 35</b>	<b>\$ 27,362</b>	<b>\$ 58,646</b>

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

Depreciation expense of \$1,095 and \$1,429 were recorded for the three months ended March 31, 2023 and 2022, respectively, of which \$1,069 and \$1,260 respectively, were included in cost of goods sold. Depreciation expense of \$0 and \$143 was also recorded in other income (expense) for the three months ended March 31, 2023 and 2022, respectively.

During the three months ended March 31, 2023, the Company renegotiated the monthly payments on certain leases for its facilities. These revised leases resulted in a remeasurement of both the right of use asset and lease liability of \$1,422.

**LOWELL FARMS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**6. Other Intangible Assets**

A reconciliation of the beginning and ending balances of intangible assets and accumulated amortization during the three months ended March 31, 2023 and intangible assets, net as of December 31, 2022, are as follows:

(in thousands)	Definite Life Intangibles		Indefinite Life Intangibles Brands & Tradenames	Total
	Technology/ Know How	Acquired Purchase Rights		
<b>Costs</b>				
<b>Balance-December 31, 2022</b>	\$ 3,258	\$ 1,800	\$ 37,707	\$ 42,765
Business acquisition	-	-	-	-
Agreement termination	-	-	-	-
<b>Balance-March 31, 2023</b>	<u>\$ 3,258</u>	<u>\$ 1,800</u>	<u>\$ 37,707</u>	<u>\$ 42,765</u>
<b>Accumulated Amortization</b>				
<b>Balance-December 31, 2022</b>	\$ (535)	\$ (28)	\$ -	\$ (563)
Amortization	(80)	(21)	-	(101)
<b>Balance-March 31, 2023</b>	<u>\$ (615)</u>	<u>\$ (49)</u>	<u>\$ -</u>	<u>\$ (664)</u>
<b>Net Book Value</b>				
<b>December 31, 2022</b>	<u>\$ 2,723</u>	<u>\$ 1,772</u>	<u>\$ 37,707</u>	<u>\$ 42,202</u>
<b>March 31, 2023</b>	<u>\$ 2,643</u>	<u>\$ 1,751</u>	<u>\$ 37,707</u>	<u>\$ 42,101</u>

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 \$101 and \$82 for the three months ended March 31, 2023, and 2022, respectively.

The Company estimates that amortization expense for our existing other intangible assets will average \$99 annually for 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.

**LOWELL FARMS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**7. SHAREHOLDERS' EQUITY**

***Shares Outstanding***

The table below details the change in Company shares outstanding by class during the three months ended March 31, 2023:

<i>(in thousands)</i>	<b>Subordinate Voting Shares</b>	<b>Super Voting Shares</b>
<b>Balance-December 31, 2022</b>	<b>121,770</b>	<b>203</b>
<b>Balance-March 31, 2023</b>	<b>121,770</b>	<b>203</b>

***Warrants***

A reconciliation of the beginning and ending balances of warrants outstanding is as follows:

<i>(in thousands)</i>	
<b>Balance-December 31, 2022</b>	<b>173,435</b>
<b>Balance-March 31, 2023</b>	<b>173,435</b>

**LOWELL FARMS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**8. DEBT**

Debt at March 31, 2023 and December 31, 2022, was comprised of the following:

(in thousands)	March 31, 2023	December 31, 2022
<b>Current portion of long-term debt</b>		
Vehicle loans <sup>(1)</sup>	\$ 11	\$ 15
Mortgage payable <sup>(2)</sup>	262	257
Note payable	-	10
Convertible debenture <sup>(3)</sup>	21,626	21,398
<b>Total short-term debt</b>	<b>21,899</b>	<b>21,680</b>
<b>Long-term debt, net</b>		
Vehicle loans <sup>(1)</sup>	2	3
Mortgage payable <sup>(2)</sup>	8,664	8,713
<b>Total long-term debt</b>	<b>8,666</b>	<b>8,716</b>
<b>Total Indebtedness</b>	<b>\$ 30,565</b>	<b>\$ 30,396</b>

(1) Primarily fixed term loans on transportation vehicles. Weighted average interest rate at March 31, 2023 and December 31, 2022 was 6.3% and 6.4%, respectively.

(2) Mortgage payable associated with the acquired processing facility. Weighted average interest rate at March 31, 2023 and December 31, 2022 was 2.5%. Net of deferred financing costs as of March 31, 2023 and December 31, 2022 of \$274 and \$296, respectively.

(3) Net of deferred financing costs at March 31, 2023 and December 31, 2022 of \$32 and \$759, respectively.

Stated maturities of debt obligations are as follows as of March 31, 2023:

(in thousands)	March 31, 2023
Balance of 2023	\$ 22,361
2024	290
2025	330
2026	8,390
<b>Total debt obligations</b>	<b>\$ 31,371</b>

**LOWELL FARMS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**9. LEASES**

A reconciliation of lease obligations for the three months ended March 31, 2023, is as follows:

(in thousands)	
<b>Lease obligation</b>	
<b>December 31, 2022</b>	<b>\$ 33,999</b>
Lease principal payments	(608)
Lease remeasurement	(1,422)
<b>March 31, 2023</b>	<b>\$ 31,969</b>

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.

Current and long-term portions of lease obligations at March 31, 2023 and December 31, 2022, are as follows:

(in thousands)	March 31, 2023	December 31, 2022
Lease obligation, current portion	\$ 2,464	\$ 2,659
Lease obligation, long-term portion	29,505	31,340
<b>Total</b>	<b>\$ 31,969</b>	<b>\$ 33,999</b>

The key assumptions used in accounting for leases as of March 31, 2023 were a weighted average remaining lease term of 4.9 years and a weighted average discount rate of 6.0%.

The key assumptions used in accounting for leases as of December 31, 2022 were a weighted average remaining lease term of 4.6 years and a weighted average discount rate of 6.0%.

The components of lease expense for the three months ended March 31, 2023 and 2022, are as follows:

(in thousands)	Three Months Ended	
	March 31, 2023	March 31, 2022
Amortization of leased assets <sup>(1)</sup>	\$ 573	\$ 817
Interest on lease liabilities <sup>(2)</sup>	500	573
<b>Total</b>	<b>\$ 1,073</b>	<b>\$ 1,390</b>

1) Included in cost of goods sold, general and administrative and other income/expense in the Condensed Consolidated Statements of Income (Loss).

2) Included in interest expense in the Condensed Consolidated Statements of Income (Loss).

The future lease payments with initial remaining terms in excess of one year as of March 31, 2023 were as follows:

(in thousands)	March 31, 2023
Balance of 2023	\$ 3,298
2024	3,800
2025	2,993
2026	2,938
2027 and beyond	36,621
Total lease payments	<b>49,650</b>
Less imputed interest	(17,680)
<b>Total</b>	<b>\$ 31,970</b>

**LOWELL FARMS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**10. SHARE-BASED COMPENSATION**

During 2019 the Company's Board of Directors (the "Board"), adopted the 2019 Stock and Incentive Plan (the "Plan"), which was amended in April 2020 and March 2021. 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 March 31, 2023, 13.2 million shares have been authorized to be issued under the Plan and 5 million shares are available for future grants. 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.

No grants were made to employees during the three months ended March 31, 2023. During the three months ended March 31, 2022, 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 three months ended March 31, 2023 and 2022, share-based compensation expense was as follows:

	Three Months Ended	
	March 31, 2023	March 31, 2022
(in thousands)		
Cost of goods sold	\$ -	\$ -
General and administrative expense	60	161
<b>Total share-based compensation</b>	<b>\$ 60</b>	<b>\$ 161</b>

The following table summarizes the status of stock option grants and unvested awards at and for the three months ended March 31, 2023:

	Stock	Weighted- Average	Weighted Average Remaining Contractual	Aggregate
	Options	Exercise Price	Life	Intrinsic Value
(in thousands except per share amounts)				
<b>Outstanding-December 31, 2022</b>	<b>10,069</b>	<b>\$ 0.47</b>	<b>4.6</b>	<b>\$ -</b>
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled	(1,462)	0.37	-	-
<b>Outstanding-March 31, 2023</b>	<b>8,607</b>	<b>\$ 0.49</b>	<b>4.6</b>	<b>\$ -</b>
<b>Exercisable-March 31, 2023</b>	<b>4,164</b>	<b>\$ 0.68</b>	<b>3.8</b>	<b>\$ -</b>
<b>Vested and expected to vest-March 31, 2023</b>	<b>8,607</b>	<b>\$ 0.49</b>	<b>4.6</b>	<b>\$ -</b>

The weighted-average fair value of options granted during the three months ended March 31, 2022, estimated as of the grant date were \$0.31. As of March 31, 2023, there was \$437 of total unrecognized compensation cost related to non-vested options, which is expected to be recognized over a remaining weighted-average vesting period of 1.3 years.

**LOWELL FARMS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

The following table summarizes the status of restricted stock unit (“RSU”) grants and unvested awards at and for the three months ended March 31, 2023:

(in thousands)	RSUs	Weighted-Average Fair Value
<b>Outstanding-December 31, 2022</b>	<b>208</b>	<b>\$ 1.1</b>
Granted	-	-
Vested	-	-
Cancelled	(80)	1.1
<b>Outstanding-March 31, 2023</b>	<b>128</b>	<b>\$ 1.1</b>

As of March 31, 2023, there was \$63 of total unrecognized compensation cost related to non-vested restricted stock units, which is expected to be recognized over a remaining weighted-average vesting period of 6 months.

For the three months ended March 31, 2022, the fair value of the stock options granted were determined using the Black-Scholes option-pricing model with the following weighted average assumptions at the time of grant. No options were granted for the three months ended March 31, 2023. No RSUs were granted for the three months ended March 31, 2023 or March 31, 2022.

**Stock Options**

	Three Months Ended March 31, 2022
Expected volatility	50%
Dividend yield	0%
Risk-free interest rate	1.01%
Expected term in years	4.50



**LOWELL FARMS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**11. 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 implication 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 three months ended March 31, 2023, was \$9, representing an effective tax rate of 1.24%, compared to an income tax expense of \$75 for the three months ended March 31, 2022, representing an effective tax rate of 1.88%.

**12. NET INCOME (LOSS) PER SHARE**

Net income (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 was as follows:

(in thousands except per share amounts)	<b>Three Months Ended</b>	
	<b>March 31, 2023</b>	<b>March 31, 2022</b>
Net loss	\$ (4,040)	\$ (4,057)
Net loss per share:		
Basic	\$ (0.03)	\$ (0.04)
Diluted	\$ (0.03)	\$ (0.04)
Weighted average shares outstanding:		
Basic	121,770	100,118
Diluted	121,770	100,118
Weighted average potentially diluted shares (1):		
Basic shares	121,770	100,118
Diluted shares	121,770	100,118

*(1) For the above net loss periods, 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.*

**LOWELL FARMS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**13. 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 March 31, 2023 and December 31, 2022 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 above in the Notes to Condensed Consolidated Financial Statements, which are considered a Level 3 measurement.

**14. COMMITMENTS AND CONTINGENCIES**

***Commitments***

As of March 31, 2023, the Company has entered into purchase commitments for additional manufacturing equipment. Of the total remaining purchase commitment of \$2.9 million, approximately \$0.8 million is accrued but unpaid within Other Current Liabilities on the Consolidated Balance Sheet and the remaining purchase commitment of \$2.2 million is due in 2023 as the equipment is manufactured and delivered.

***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 March 31, 2023, 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.

The Company is being audited by the IRS for years 2019 and 2020 and may be subject to additional taxes, penalties and interest.

***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 March 31, 2023, 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.

**LOWELL FARMS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**15. GENERAL AND ADMINISTRATIVE EXPENSES**

For the three months ended March 31, 2023 and 2022, general and administrative expenses were comprised of:

(in thousands)	<b>Three Months Ended</b>	
	<b>March 31, 2023</b>	<b>March 31, 2022</b>
Salaries and benefits	\$ 929	\$ 970
Professional fees	163	259
Share-based compensation	60	161
Insurance	271	345
Administrative	201	429
<b>Total general and administrative expenses</b>	<b>\$ 1,624</b>	<b>\$ 2,164</b>

**16. 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.

During October 2022, Cannaco Research Corporation, an existing customer, became a related party when a new member joined the Board of Directors. Total sales recognized for Cannaco Research Corporation for the three months ended March 31, 2023 and 2022 were \$93 and \$36, respectively. For the three months ended March 31, 2023 and 2022, cash collected from Cannaco Research Corporation was \$139 and \$26, respectively. In December, 2022, the Company entered into an agreement with Cannaco Research Corporation to lease approximately 2,000 square feet of warehouse space in Los Angeles to facilitate distribution services in the area. The lease is a 12 month storage agreement for the warehouse space. Total payments to Cannaco Research Corporation for the lease were \$0 in the three months ended March 31, 2023.

**17. SEGMENT INFORMATION**

The Company's operations are comprised of a single reporting 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.

**18. SUBSEQUENT EVENTS**

The Company has evaluated other potential subsequent events through May 11, 2023, the date the financial statements were available to be issued. No material subsequent events were identified.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022

*This management’s discussion and analysis (“MD&A”) of the financial condition and results of operations of the Company is for the three months ended March 31, 2023 and 2022. It is supplemental to, and should be read in conjunction with, the Company’s consolidated financial statements and the accompanying notes for the year ended December 31, 2022. All dollar amounts in this MD&A are expressed in thousands of United States dollars (“\$” or “US\$”), unless otherwise indicated.*

#### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. In some cases, you can identify these statements by forward-looking words such as “may”, “will”, “would”, “could”, “should”, “believes”, “estimates”, “projects”, “potential”, “expects”, “plans”, “intends”, “anticipates”, “targeted”, “continues”, “forecasts”, “designed”, “goal”, or the negative of those words or other similar or comparable words. Any statements contained in this Quarterly Report on Form 10-Q that are not statements of historical facts may be deemed to be forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition, results of operations and future growth prospects. The forward-looking statements contained herein are based on certain key expectations and assumptions, including, but not limited to, with respect to expectations and assumptions concerning receipt and/or maintenance of required licenses and third party consents and the success of our operations, are based on estimates prepared by us using data from publicly available governmental sources, as well as from market research and industry analysis, and on assumptions based on data and knowledge of this industry that we believe to be reasonable. These forward-looking statements are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. As a result, any or all of our forward- looking statements in this Quarterly Report on Form 10-Q may turn out to be inaccurate. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under “Risk Factors” in our Form 10-K for the year ended December 31, 2022, (the “Form 10-K”). Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available after the date of this Quarterly Report on Form 10-Q. You should, however, review the factors and risks we describe in the reports we will file from time to time with the SEC after the date of this Quarterly Report on Form 10-Q.

#### 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 a limited number of third-party brands throughout the State of California, the largest cannabis market in the world. We also provide manufacturing, extraction and distribution services to several third-party cannabis and cannabis branding companies. We operate a 255,000 square foot greenhouse cultivation and warehouse 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 21,000 square foot distribution and flower packing facility in Salinas, California and a warehouse depot in Los Angeles, California.

#### Product Offerings

Our product offerings include flower, vape pens, oils, extracts, chocolate edibles, mints, gummies, tinctures and pre-rolls. We sell our products under owned and third-party brands.

Brands we own include the following:

- o Lowell Herb Co. and Lowell Smokes - a premium brand of packaged flower, pre-roll, concentrates, and vape products.
- o Lowell 35s - a premium branded product line of pre-rolls produced from an automated machine.
- o House Weed - a value driven flower, vape and concentrates offering, delivering a flavorful and potent experience with dependable quality.
- o Kaizen - a premium brand offering a full spectrum of cannabis concentrates.
- o Moon - offers a range of cannabis bars, bites and fruit chews in a variety of flavors, focusing on high-quality and high-value.
- o Original Pot Company - infuses its quality baked edibles with cannabis extract.
- o Cypress Cannabis - a premium flower brand reserved for the Company’s highest potency harvests from its greenhouses.
- o Humble Flower - a product line of topicals, pre-rolls and functional pressed sublingual tablets.
- o Flavor Extracts - provides a value line of concentrates like crumble and terp sugar (which is a cannabis product with isolated and enhanced flavor and aromas) products that are hand-selected for optimum flavor and premium color.

The Lowell Herb Co. and Lowell Smokes brands were acquired in a business acquisition during 2021. Our remaining brands were developed prior to such acquisition.

We exclusively manufacture and distribute Dr. May tinctures and topicals and distribute Nfuzed gummies in California and provide third-party extraction processing and distribution services and bulk extraction concentrates and flower to licensed manufacturers and distributors.

### **Proposed Debt Settlement, Asset Sale and Financing**

On March 15, 2023, we announced entering into a binding letter of intent (the "LOI") with the Company's existing noteholders of the Company's convertible debentures for the sale of the Lowell Smokes and 35s brands and associated intellectual property to BrandCo, a newly formed Delaware limited liability company, and the assignment of the related license agreements and material contracts to BrandCo and in return the noteholders have agreed to forgive all indebtedness owing under the debentures, and cancel the related warrants to acquire an aggregate of approximately 212 million subordinate voting shares of the Company and the Company will issue approximately 100 million shares of the Company's subordinate voting shares to BrandCo representing no more than 49% of the issued and outstanding number of subordinate voting shares.

The Company will receive a 15% royalty on net revenue received by Lowell brands in connection with the assigned contracts. The Company will receive a 42 month exclusive license agreement to use the "Lowell Smokes" and "35s" brands within California and will retain license revenue in Illinois, Massachusetts, Colorado, New Mexico and Arizona for six months following the closing of the sale. As of the date of this report, the deal has not been closed. The closing of the proposed transaction is subject to the negotiation and execution of the definitive deal documentation and the satisfaction of all applicable closing conditions.

### **Cultivation**

We conduct cannabis cultivation operations located in Monterey County, California. We currently operate a cultivation facility which includes four greenhouses totaling approximately 255,000 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.

The first harvest was in the third quarter of calendar year 2017. In 2021 we completed a series of facility upgrades to our greenhouses and supporting infrastructure, which increased facility output approximately four times from that generated in 2019. These facility improvements include separate grow rooms configured with drop-shades, supplemental lighting, upgraded electrical capability with environmental controls and automated fertigation, and raised gutter height in two of the greenhouses. We harvested approximately 17,000, 32,000 and 34,000 pounds of flower in 2020, 2021 and 2022, respectively, and are currently projecting to harvest roughly 33,000 pounds in 2023 as a result of these facility upgrades and improvements. We have invested approximately \$8.1 million in our greenhouse renovations to date. Ongoing renovations and improvements to the greenhouses are expected to further reduce unit costs of cultivation and make available additional cannabis flower and feedstocks for our extraction and processing, packaging and distribution operations. We are also focusing on labor saving mechanisms and reducing nutrient inputs in the cultivation process.

We maintain a strict quality control process which facilitates a predictable output yield of pesticide-free products.

### **Extraction**

Extraction operations were first launched by us in the third quarter of 2017 with the commissioning of our 5,000 square foot licensed laboratory within our Salinas manufacturing facility. The hydrocarbon lab contains six separate rooms that can each house one independent closed loop volatile extraction machine (meaning that the machine does not expose the products to open air), which are designed to process the cannabis through the application of hydrocarbon or ethanol solvents, to extract certain concentrated resins and oils from the dried cannabis. This process is known as volatile extraction, which is an efficient and rapid method of extracting cannabis. These resins, oils and concentrates are sold as inhalable products known as "shatter," "rosin," "wax," "sugar," "diamonds," "caviar," and "crumble".

We currently own and operate five closed loop volatile extraction machines, each housed in a separate room, and each having the capacity to process approximately 100 pounds of dry product per day yielding approximately 5 kilograms of cannabis concentrates. We also currently own and operate 14 purge ovens to work in conjunction with the 5 extraction units in the laboratory. Purge ovens, also known as vacuum ovens, are used after the processing by the extraction units to remove the solvents from the end-product in a low pressure and high heat environment.

In 2021 we commenced solventless extraction activities with the capacity to process approximately 120 pounds of biomass daily yielding approximately 4 kilograms of cannabis concentrates. We currently own and operate one extraction unit which works in conjunction with 5 freeze dryers, 2 ice machines, 3 water filtration systems, 1 UV sterilizer, 2 rosin presses and an 80 square foot walk-in freezer. The solventless process yields a superior product to the volatile extraction process and is the fastest growing category in concentrates.

The extraction operations utilize cannabis feedstocks from our cultivation site, supplemented with feedstock acquired from multiple third-party cultivations. Concentrate production is packaged as branded extracts, such as crumble, shatter, wax and sugar for distribution, incorporated into its manufactured edible products and sold in bulk to other licensed enterprises. In addition, extraction is provided on a fee-based service on third-party material.

## **Manufacturing**

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 and occupies 10,000 square feet in our 15,000 square foot manufacturing facility in Salinas. Our production capabilities include chocolate confections, 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 all regulatory requirements, including the California Medicinal and Adult-Use Cannabis Regulation and Safety Act.

In 2022 we acquired advanced automated pre-roll production equipment to launch our automated pre-roll line, Lowell 35s. The equipment consists of an automated filler that is capable and producing 180 pre-rolls per minute and an automated packaging machine capable of packaging 50 packs of pre-rolls per minute, with each pack containing 10 pre-rolls per pack. Production began during the third quarter of 2022 with pre-rolls hitting retail shelves on September 29, 2022.

We also operate an automated flower filling and packaging line and two automated pre-roll assembly lines for making finished goods in those respective categories with cannabis grown by the Lowell Farms cultivation operations.

## **Processing**

In June 2021 we acquired real property and related assets of a cannabis drying and midstream processing facility located in Monterey County, nearby our flagship cultivation operation. The 40,000 square foot processing facility provides drying, bucking, trimming, sorting, grading, and packaging operations for up to 250,000 pounds of wholesale cannabis flower annually. The new facility processes nearly all the cannabis that we grow at our existing cultivation operations. Additionally, in the third quarter of 2021 we launched our business unit named Lowell Farm Services (“LFS”), which provides fee-based processing services for regional growers from primarily the Salinas Valley area, one of the largest and fastest growing cannabis cultivation regions in the country, as well as throughout California.

## **Distribution and Distribution Services**

We have a primary distribution center, warehouse and packing facility located in Salinas, California and a warehouse depot in Los Angeles, California. We provide physical warehousing and delivery to retail dispensary customers throughout the State of California for our manufactured products as well as third-party branded products distributed on behalf of other licensed product manufacturers. Deliveries are made daily to over 80% of the licensed dispensaries in California utilizing a fleet of 20 owned and leased vehicles. We provide warehousing, delivery, customer service and collection services for select third-party brands.

## **Technology Platform**

We maintain an automated, on-demand supply chain logistics platform, utilizing e-commerce, enterprise resource planning and other technology to manage product movement, order taking and logistics needs.

## **Inventory Management**

We have comprehensive inventory management procedures, which we believe are compliant with the rules set forth by the California Department of Cannabis Control (formerly the California Department of Consumer Affairs’ Bureau of Cannabis Control) and all other applicable state and local laws, regulations, ordinances, and other requirements. These procedures ensure strict control over Lowell Farms’ cannabis and cannabis product inventory from cultivation or manufacture to sale and delivery to a licensed dispensary, distributor or manufacturer, or disposal as cannabis waste. Such inventory management procedures also include measures to prevent contamination and maintain the quality of the products cultivated, manufactured or distributed.

## **Sources, Pricing and Availability of Raw Materials, Component Parts or Finished Products**

We presently source flower for sale primarily from our cultivation facility. We have developed relationships with local cannabis growers whereby flower quantities are readily available at competitive prices should the sourcing need arise. We source our biomass needs in extraction from our cultivation facility and from third-party suppliers. Additional biomass material is readily available from multiple sources at competitive prices. Lowell Farms manufactures substantially all cannabis oil and distillate needs from its internal extraction operations. A small amount of specialized cannabis oil is procured from multiple external sources at competitive prices. Lowell Farms manufactures all finished goods for its proprietary brands. Third-party distributed brand product is sourced directly from third-party partners.

**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. 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:*

*EBITDA is net income (loss), excluding the effects of income taxes (recovery); net interest expense; depreciation and amortization; and adjusted EBITDA also includes unrealized foreign currency gains/losses; share-based compensation expense; and other transactional and special expenses, such as out-of-period insurance and tax recoveries and acquisition costs and expenses related to the markup of acquired finished goods inventory, 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:

	<b>Three Months Ended</b>	
	<b>March 31, 2023</b>	<b>March 31, 2022</b>
(in thousands)		
<b>Net loss</b>	<b>\$ (4,040)</b>	<b>\$ (4,057)</b>
Interest expense	1,659	1,310
Provision for income taxes	49	75
Depreciation and amortization in cost of goods sold	1,090	1,260
Depreciation and amortization in operating expenses	106	108
Depreciation and amortization in other income (expense)	-	143
<b>EBITDA<sup>(1)</sup></b>	<b>(1,136)</b>	<b>(1,161)</b>
Investment and currency (gains)/ losses	-	70
Share-based compensation	60	161
Transaction and other special charges	-	30
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$ (1,076)</b>	<b>\$ (900)</b>

*(1) Non-GAAP measure*

**RESULTS OF OPERATIONS**

**Three Months Ended March 31, 2023 Compared to Three Months Ended March 31, 2022**

**Revenue**

We derive our revenue from sales of extracts, distillates, branded and packaged cannabis flower, pre-rolls, concentrates and edible products to retail licensed dispensaries and bulk flower, biomass and concentrates to licensed manufacturers and distributors in the State of California. In addition, we distribute proprietary and several third-party brands throughout the State of California, and commencing in the quarter ended September 30, 2021, we began providing fee services for drying and processing third-party product for licensed cultivators in the State of California and as well as licensing the Lowell Smokes brand in Illinois and Massachusetts. The Company recognizes revenue upon delivery of goods to customers since at this time performance obligations are satisfied.

The Company classifies its revenues into the following major categories: Consumer Packaged Goods (“CPG”) revenue, Bulk revenue, LFS revenue, and Licensing revenue.

- CPG products are primarily sales of proprietary brands of the Company.
- Bulk product includes revenue from flower, biomass and distillates sales.
- LFS revenue is related to our processing facility that provides drying, bucking, trimming, sorting, grading, packaging services and third-party bulk flower sales.
- Licensing revenue includes fees from licensing the Lowell Smokes brand and sales of packaging and support services associated with non-California based activities.

Previously the Company categorized its revenues as owned, agency and distributed brands and has reclassified the prior period categorization to conform with current period presentation.

**Revenue by Category**

Three Months Ended March 31, 2023 Compared to Three Months Ended March 31, 2022:

(in thousands)	Three Months Ended		\$ Change	% Change
	March 31, 2023	March 31, 2022		
CPG	\$ 4,659	\$ 9,077	\$ (4,418)	-49%
Bulk	2,530	1,758	772	44%
Lowell Farm Services	115	851	(736)	-86%
Licensing	222	723	(501)	-69%
<b>Net revenue</b>	<b>\$ 7,526</b>	<b>\$ 12,409</b>	<b>\$ (4,883)</b>	<b>-39%</b>

CPG revenues decreased \$4.4 million for the three months ended March 31, 2023, compared to the same period of the prior year, primarily as a result of lower packaged flower, concentrates and edible sales. Lowell brand revenues for the three months ended March 31, 2023 were \$3.9 million and represented 84% of CPG revenues compared to \$5.0 million in revenue and 55% of CPG sales in the same period in the prior year. Included in Lowell brand revenues was \$0.9 million of Lowell 35s revenues which launched during the third quarter of 2022. The decline in CPG revenues from the prior year was primarily driven by declines in the sales of House Weed which decreased \$2.4 million in the three months ended March 31, 2023 compared to the same period last year. The drop in House Weed sales was driven by declines across packaged flower, vapes and concentrates.

Bulk sales increased \$0.8 million in the three months ended March 31, 2023 compared to the same period in the prior year. The increase in revenue in the current period reflects a 28% increase in total pounds sold but a 4% decrease in price per pound from the change in product mix during the two compared periods. Comparing premium quality bulk flower sales, price per pound is up 14% in the three months ended March 31, 2023 compared to the same period in the prior year while pounds sold declined 22% over the same period, partially driven by adverse weather that impacted harvests in the current period. During the previously reported financial results for the period ended March 31, 2022, approximately \$0.5 million of third-party bulk flower sales was included in bulk sales. In the currently presented comparisons of the two periods, third-party bulk flower sales are presented within LFS revenue, which is consistent with how the Company analyzes bulk and LFS sales.

LFS and licensing revenues generated \$0.1 million and \$0.2 million in the three months ended March 31, 2023, respectively, compared to generating \$0.9 million and \$0.7 million in the same period of the prior year, respectively. The decline in LFS revenue was driven by a reduction in third-party bulk sales while the decline in licensing revenue was driven by lower packaging sales to licensees.

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

Cost of goods sold consist of direct and indirect costs of production processing and distribution, and includes amounts paid for direct labor, raw materials, packaging, operating supplies, and allocated overhead, which includes allocations of right of use asset depreciation, insurance, managerial salaries, utilities, and other expenses, such as employee training, cultivation taxes and product testing. The Company manufactures for a few brands and processes for cultivators that do not have the capability, licensing or capacity to process their own products. The fees earned for these activities absorb fixed overhead in manufacturing and generates service revenue. Our focus in 2023 is on Lowell 35s, flower and on processing owned and third-party product and on identifying new distributed brand agreements with favorable economic terms.

Three Months Ended March 31, 2023, Compared to Three Months Ended March 31, 2022:

(in thousands)	Three Months Ended		Change	
	March 31, 2023	March 31, 2022	\$	%
Net revenue	\$ 7,526	\$ 12,409	\$ (4,883)	-39%
Cost of goods sold	7,394	10,835	(3,441)	-32%
Gross profit	\$ 132	\$ 1,574	\$ (1,442)	-92%
Gross margin	1.8%	12.7%		

Gross margin was 1.8% and 12.7% in the three months ended March 31, 2023 and 2022, respectively. The change between periods in gross profit and gross margin is primarily due to lower CPG volumes generating high fixed costs per unit including declines in non-Lowell brand revenues.

We expect to realize improved gross margin throughout the remainder of 2023 as we continue to sell Lowell 35s to new and existing customers and as we continue to capitalize on operating efficiencies implemented at the end of 2022 and during the three months ended March 31, 2023.



**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 corporate infrastructure required to support our ongoing business. Selling costs as a percentage of retail revenue are expected to decrease as our business continues to grow, due to efficiencies associated with scaling the business, and reduced focus on non-core brands.

Three Months Ended March 31, 2023 Compared to Three Months Ended March 31, 2022:

(in thousands)	<b>Three Months Ended</b>		<b>Change</b>	
	<b>March 31, 2023</b>	<b>March 31, 2022</b>	<b>\$</b>	<b>%</b>
Total operating expenses	\$ 2,465	\$ 4,033	\$ (1,568)	-39%
% of net revenue	33%	33%		

Total operating expenses decreased \$1.6 million for the three months ended March 31, 2023 compared to the same period of the prior year, primarily reflecting headcount reductions between years, operating efficiencies and fewer professional fees incurred. Operating expenses were consistent as a percentage of net revenue at 33% for the three months ended March 31, 2023 and 2022.

**Other Income (Expense)**

Three Months Ended March 31, 2023 Compared to Three Months Ended March 31, 2022:

(in thousands)	<b>Three Months Ended</b>		<b>Change</b>	
	<b>March 31, 2023</b>	<b>March 31, 2022</b>	<b>\$</b>	<b>%</b>
Total other income (expense)	\$ (1,658)	\$ (1,523)	\$ (135)	9%
% of net revenue	-22%	-12%		

Other expense increased \$0.1 million for the three months ended March 31, 2023 compared to the same period of the prior year from a reduction in unrealized investment and currency losses.

**Net Loss**

Three Months Ended March 31, 2023 Compared to Three Months Ended March 31, 2022:

(in thousands)	<b>Three Months Ended</b>		<b>Change</b>	
	<b>March 31, 2023</b>	<b>March 31, 2022</b>	<b>\$</b>	<b>%</b>
Net loss	\$ (4,040)	\$ (4,057)	\$ 17	0%

Net loss was \$4.0 million in the quarter ended March 31, 2023, compared to net loss of \$4.1 million for the same period of the prior year as a result of the factors noted above.

## 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 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 were not sufficient to fund operations and, in particular, to fund the Company's short term capital investments into manufacturing and cultivation expansions or to fund growth initiatives in the long-term. The Company raised additional funds from a \$6.6 million convertible debenture and warrant financing in the third quarter of the year ended December 31, 2022.

At March 31, 2023, we had \$1.3 million in cash and cash equivalents and (\$16.3) million of working capital, compared to \$1.1 million of cash and cash equivalents and (\$13.1) million of working capital at December 31, 2022. For both March 31, 2023 and December 31, 2022, included in working capital is \$22.2 million of convertible debentures that mature on October 12, 2023. Refer to "*Proposed Debt Settlement, Asset Sale and Financing*" for further discussion on the convertible debentures.

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:

- Accelerated cultivation facility renovations which resulted in an increase in flower and trim output;
- Focusing on collection of principal balances only. Effective in 2023, excise tax is assessed to retailers which will simplify accounts receivable management;
- Developed new cultivation genetics focused on increasing yields and potency;
- Scaled back our investment in and support for non-core brands;
- Focused marketing and brand development activities on significantly growing the Lowell brands;
- Restructured our organization and identified operating, selling and administrative expense cost efficiencies;
- Developed LFS, which commenced operations in the third quarter of 2021 to add revenue and cash flow generation;
- Licensed the Lowell Smokes brand through affiliations with Ascend Wellness LLC in Illinois and Massachusetts, with Schwazze in Colorado and New Mexico, and with The Pharm in Arizona;
- In 2022 we reduced headcount and significantly decreased our seasonal workforce as we focus on necessary infrastructure to support our current operations;
- Actively evaluating and re-negotiating leases on facility space, including leasing more economically feasible facilities in Los Angeles; and
- Signed a letter of intent for asset sales and financing. Refer to "*Proposed Debt Settlement, Asset Sale and Financing*."

**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 three months ended March 31, 2023 and 2022:

(in thousands)	Three Months Ended		Change	
	March 31, 2023	March 31, 2022	\$	%
Net cash provided by (used in) operating activities	\$ 912	\$ (874)	\$ 1,786	204%
Net cash used in investing activities	(29)	(483)	454	94%
Net cash used in financing activities	(687)	(644)	(43)	-7%
Change in cash and cash equivalents	\$ 196	\$ (2,001)	\$ 2,197	110%

**Cash used in operating activities**

Net cash provided by operating activities was \$0.9 million for the three months ended March 31, 2023, a \$1.7 million improvement, or 204%, compared to the three months ended March 31, 2022. The change was primarily driven by a reduction in depreciation and amortization expense of \$0.3 million and inventory decreasing by \$0.7 million in the three months ended March 31, 2023 compared to increasing \$2.5 million in the same period of the prior year, reflecting improved management of inventory levels to support the current period.

**Cash used in investing activities**

Net cash used in investing activities was \$0.03 million for the three months ended March 31, 2023, a favorable decrease in cash used of \$0.4 million or 94%, compared to the same period of the prior year. The decrease was from a reduction in purchases of property and equipment.

**Cash used in financing activities**

Net cash used in financing activities was \$0.7 million for the three months ended March 31, 2023, an increase in cash used in financing activities of \$0.04 million compared to the same period of the prior year. The change was due to increased payments on lease obligations and notes payable in the current period.

**Working Capital and Cash on Hand**

The following table presents the Company’s cash on hand and working capital position as of March 31, 2023 and December 31, 2022:

(in thousands)	March 31,	December 31,	Change	
	2023	2022	\$	%
Working capital <sup>(1)</sup>	\$ (16,364)	\$ (13,088)	\$ (3,276)	-25.0%
Cash and cash equivalents	\$ 1,294	\$ 1,098	\$ 196	17.9%

<sup>(1)</sup> Non-GAAP measure - see Non-GAAP Financial Measures in this MD&A. (Total current assets less total current liabilities)

At March 31, 2023, we had \$1.3 million in cash and cash equivalents and (\$16.4) million of working capital, compared to \$1.1 million of cash and cash equivalents and (\$13.1) million of working capital at December 31, 2022. The increase in cash and cash equivalents was primarily due to favorable changes in operating assets and liabilities.

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

Refer to “Proposed Debt Settlement, Asset Sale and Financing” for further discussion on the LOI and planned financing activities. Upon closing of the planned transaction, the Company believes that cash on hand and cash flows from operations will be adequate to meet our operational needs for the next 12 months. Without the deal closing, or without other financing arrangements if the deal does not close, there is no guarantee that our cash on hand and cash flows from operations will be adequate to meet our operational needs for the next 12 months.

**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 year ended December 31, 2022. Also see Note 1 to our condensed consolidated financial statements included in this Form 10-Q for changes of adoption of accounting pronouncements.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's condensed 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 revision 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 Credit Losses - Accounts receivable are recorded at invoiced amounts and when credit terms are extended to customers, management performs a periodic assessment of whether accounts receivable will be collected. A reserve is booked against doubtful accounts and determined based on factors such as credit worthiness of the customer, past performance with the customer, the age of the receivable and the customer's ability to pay outstanding amounts.
- 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.
- Identifiable assets acquired and liabilities assumed are recognized at the acquisition date fair values as defined by accounting standards related to fair value measurements.
- 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 and, 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 assess the impact and likelihood of those risks.

These risks include: market, credit, liquidity, asset forfeiture, banking and interest rate risk.

### Credit Risk

- Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at March 31, 2023 and December 31, 2022 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.

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In addition to the commitments outlined in Note 14, the Company has the following contractual obligations at March 31, 2023 and December 31, 2022:

(in thousands)	Maturity: < 1 Year	
	March 31, 2023	December 31, 2022
Accounts payable and Other accrued liabilities	\$ 6,992	\$ 5,961

Market Risk

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

Interest Rate Risk

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

Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. Cannabis is a developing market and subject to volatile and possibly declining prices year over year, including volatility in bulk flower pricing, as a result of increased competition and other factors. 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 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, activity by unlicensed producers and sellers 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 are arguments that financial institutions cannot accept for deposit funds from businesses involved with the marijuana industry and legislative efforts to provide greater certainty to financial institutions have not been successful. 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 business of the Company, its subsidiaries and investee companies, and leaves their cash holdings vulnerable.

SELECTED FINANCIAL DATA

Consolidated Financial Position (in thousands)	March 31, 2023	December 31, 2022
Cash	\$ 1,294	\$ 1,098
Current assets	\$ 15,423	\$ 17,562
Property, plant and equipment, right of use assets, net	\$ 56,159	\$ 58,646
Total assets	\$ 114,095	\$ 118,823
Current liabilities	\$ 31,787	\$ 30,650
Working capital	\$ (16,364)	\$ (13,088)
Long-term notes payable including current portion	\$ 275	\$ 285
Capital lease obligations including current portion	\$ 31,969	\$ 33,999
Total stockholders' equity	\$ 44,137	\$ 48,117

**OUTSTANDING SHARE DATA**

As of May 11, 2023, the Company had the following securities issued and outstanding:

	<b>Number of Shares</b> (on an as converted basis)
(in thousands)	
<b>Issued and Outstanding</b>	
Subordinate voting shares	112,762
Class B shares (1)	9,008
Super voting shares	203
<b>Reserved for Issuance</b>	
Options	8,416
Restricted Stock Units	122
Warrants	22,912
Convertible debenture shares	106,275
Convertible debenture warrants	150,523
	<b>410,221</b>

(1) Class B shares reserved for conversion to Subordinate voting shares.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As a smaller reporting company, we are not required to provide the information requested by this Item.

**Item 4. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this Quarterly Report on Form 10-Q, we conducted an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2023, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

**Changes in Internal Control over Financial Reporting**

Our management is responsible to report any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Management believes that there have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. There were no significant changes to our internal control over financial reporting during the three months ended March 31, 2023.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

We periodically become involved in various claims and lawsuits that are incidental to our business. In the opinion of management, after consultation with counsel, there are no matters currently pending that would, in the event of an adverse outcome, have a material impact on our consolidated financial position, results of operations or liquidity.

**Item 1A. Risk Factors**

There were no material changes to the risk factors disclosed in, Item 1A. "Risk Factors" in our Form 10-K for the year ended December 31, 2022

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the three months ended March 31, 2023 there were no unregistered sales of equity related securities identified, outside of those already reported.

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
<a href="#">31.1</a>	<a href="#">Certification of Chief Executive Officer filed pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">31.2</a>	<a href="#">Certification of Chief Financial Officer filed pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">32.1</a>	<a href="#">Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*</a>
<a href="#">32.2</a>	<a href="#">Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*</a>

\* Furnished herewith. This certification is deemed not filed for purpose of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended or the Exchange Act.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**LOWELL FARMS, INC.**

Date: May 11, 2023

By: /s/ Mark Ainsworth  
Mark Ainsworth  
Chief Executive Officer (principal executive officer)

Date: May 11, 2023

By: /s/ Brian Shure  
Brian Shure  
Executive Vice President, Finance and Chief Financial  
Officer (principal financial and accounting officer)



## LOWELL FARMS INC.

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Mark Ainsworth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lowell Farms Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2023

/s/ Mark Ainsworth  
Mark Ainsworth  
Chief Executive Officer

## LOWELL FARMS INC.

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Brian Shure, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lowell Farms Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2023

/s/ Brian Shure  
\_\_\_\_\_  
Brian Shure  
Executive Vice President, Finance and Chief Financial  
Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Lowell Farms Inc. (the "Company") for the period ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Ainsworth, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark Ainsworth

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Mark Ainsworth  
Chief Executive Officer

Date: May 11, 2023

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Lowell Farms Inc. (the "Company") for the period ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian Shure, Executive Vice President, Finance and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian Shure

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Brian Shure  
Executive Vice President, Finance and Chief Financial  
Officer

Date: May 11, 2023