

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 June 30, 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

Accelerated filer

Non-accelerated Filer

Smaller reporting company

Emerging growth company

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 August 9, 2023.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	3
	<u>Condensed Consolidated Balance Sheets as of June 30, 2023 and December 31, 2022</u>	3
	<u>Condensed Consolidated Statements of Income (Loss) for the Three and Six Months Ended June 30, 2023 and 2022</u>	4
	<u>Condensed Consolidated Statements of Stockholders' Equity (Deficit) for the Three and Six Months Ended June 30, 2023 and 2022</u>	5
	<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2023 and 2022</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	31
<u>Item 4.</u>	<u>Controls and Procedures</u>	31

PART II - OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	32
<u>Item 1A.</u>	<u>Risk Factors</u>	32
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
<u>Item 6.</u>	<u>Exhibits</u>	32
	<u>Exhibit Index</u>	32
	<u>Signatures</u>	33

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,422	\$ 1,098
Accounts receivable - net of allowance for doubtful accounts of \$959 and \$1,053 at June 30, 2023 and December 31, 2022, respectively.	2,683	4,163
Inventory	9,509	10,779
Prepaid expenses and other current assets	736	1,522
Total current assets	21,350	17,562
Property and equipment, net	14,772	31,284
Right of use assets, net	54,142	27,362
Other intangibles, net	41,999	42,202
Other assets	672	413
Total assets	\$ 132,935	\$ 118,823
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,074	\$ 2,307
Accrued payroll and benefits	298	350
Notes payable, current portion	8	282
Lease obligation, current portion	1,592	2,659
Convertible debentures	21,854	21,398
Other current liabilities	3,770	3,654
Total current liabilities	30,596	30,650
Notes payable	1	3
Lease obligation	58,233	31,340
Mortgage obligation	-	8,713
Total liabilities	88,830	70,706
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Share capital	191,843	191,742
Accumulated deficit	(147,738)	(143,625)
Total stockholders' equity	44,105	48,117
Total liabilities and stockholders' equity	\$ 132,935	\$ 118,823

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)

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net revenue	\$ 7,032	\$ 13,181	\$ 14,558	\$ 25,589
Cost of goods sold	7,373	11,687	14,767	22,522
Gross profit (loss)	(341)	1,494	(209)	3,067
Operating expenses				
General and administrative	1,561	2,649	3,184	4,813
Sales and marketing	638	1,747	1,373	3,508
Depreciation and amortization	108	123	215	231
Total operating expenses	2,307	4,519	4,772	8,552
Loss from operations	(2,648)	(3,025)	(4,981)	(5,485)
Other income/(expense)				
Other income (expense)	3,803	(156)	3,805	(295)
Unrealized change in fair value of investment	(27)	(36)	(28)	(107)
Interest expense	(1,151)	(1,337)	(2,810)	(2,649)
Total other income (expense)	2,625	(1,529)	967	(3,051)
Loss before provision for income taxes	(23)	(4,554)	(4,014)	(8,536)
Provision for income taxes	50	60	99	135
Net loss	\$ (73)	\$ (4,614)	\$ (4,113)	\$ (8,671)
Net loss per share:				
Basic	\$ (0.01)	\$ (0.04)	\$ (0.03)	\$ (0.08)
Diluted	\$ (0.01)	\$ (0.04)	\$ (0.03)	\$ (0.08)
Weighted average shares outstanding:				
Basic	121,770	112,026	121,770	111,981
Diluted	121,770	112,026	121,770	111,981

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 June 30, 2023				
	Subordinate Voting Shares	Super Voting Shares	Share Capital	Accumulated Deficit	Total Stockholders' Equity
Balance-March 31, 2023	121,770	203	\$ 191,802	\$ (147,665)	\$ 44,137
Net loss	-	-	-	(73)	(73)
Share-based compensation expense	-	-	41	-	41
Balance-June 30, 2023	121,770	203	\$ 191,843	\$ (147,738)	\$ 44,105
	Three Months Ended June 30, 2022				
	Subordinate Voting Shares	Super Voting Shares	Share Capital	Accumulated Deficit	Total Stockholders' Equity
Balance-March 31, 2022	112,026	203	\$ 189,529	\$ (123,118)	\$ 66,411
Net income	-	-	-	(4,614)	(4,614)
Share-based compensation expense	-	-	157	-	157
Balance-June 30, 2022	112,026	203	\$ 189,686	\$ (127,732)	\$ 61,954
	Six Months Ended June 30, 2023				
	Subordinate Voting Shares	Super Voting Shares	Share Capital	Accumulated Deficit	Stockholders' Equity
Balance-December 31, 2022	121,770	203	\$ 191,742	\$ (143,625)	\$ 48,117
Net loss	-	-	-	(4,113)	(4,113)
Share-based compensation expense	-	-	101	-	101
Balance-June 30, 2023	121,770	203	\$ 191,843	\$ (147,738)	\$ 44,105
	Six Months Ended June 30, 2022				
	Subordinate Voting Shares	Super Voting Shares	Share Capital	Accumulated Deficit	Stockholders' Equity
Balance-December 31, 2021	111,806	203	\$ 189,368	\$ (119,061)	\$ 70,307
Net loss	-	-	-	(8,671)	(8,671)
Share-based compensation expense	220	-	318	-	318
Balance-June 30, 2022	112,026	203	\$ 189,686	\$ (127,732)	\$ 61,954

See Accompanying Notes to Condensed Consolidated Financial Statements (unaudited)

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

	Six Months Ended	
	June 30, 2023	June 30, 2022
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	\$ (4,113)	\$ (8,671)
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>		
Depreciation and amortization	2,644	3,433
Amortization of debt issuance costs	484	451
Share-based compensation expense	101	318
Provision for doubtful accounts	116	459
Gain on sale leaseback	(3,004)	-
Gain on lease settlement	(880)	-
Loss on sale of assets	-	8
Unrealized loss on change in fair value of investments	28	107
Changes in operating assets and liabilities:		
Accounts receivable	1,364	1,723
Inventory	1,270	(1,587)
Prepaid expenses and other current assets	466	(904)
Other assets	(387)	-
Accounts payable and accrued expenses	1,488	1,277
Net cash used in operating activities	\$ (423)	\$ (3,386)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from asset sales	-	5
Purchases of property and equipment	(19)	(1,030)
Net cash used in investing activities	\$ (19)	\$ (1,025)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from sale leaseback	8,991	-
Principal payments on lease obligations	(1,142)	(1,196)
Payments on notes payable	(83)	(75)
Net cash used in financing activities	\$ 7,766	\$ (1,271)
Change in cash and cash equivalents	7,324	(5,682)
Cash and cash equivalents-beginning of year	1,098	7,887
Cash, cash equivalents -end of period	\$ 8,422	\$ 2,205
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	\$ 1,821	\$ 2,655
Cash paid during the period for income taxes	\$ 87	\$ 60
OTHER NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase of property and equipment not yet paid for	\$ -	\$ 58

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 and six months ended June 30, 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.

In October 2021, the FASB issued ASU 2021-08-Business Combinations ("Topic 805"): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The amendments in ASU 2021-08 require that an entity recognizes and measures contract assets and contract liabilities acquired in a business combination in accordance with ASC 606, Revenue from Contracts with Customers ("Topic 606"). At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. The amendments improve comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination. This standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2022. We evaluated the impact of ASU 2021-08 on our consolidated financial statements and it did not have a material impact.

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)	June 30, 2023	December 31, 2022
Deposits	\$ 92	\$ 595
Insurance	206	235
Supplier advances	120	375
Interest and taxes	-	69
Licenses and payments	292	146
Other	26	102
Total prepaid and other current assets	\$ 736	\$ 1,522

3. INVENTORY

Inventory was comprised of the following items:

(in thousands)	June 30, 2023	December 31, 2022
Raw materials	\$ 6,278	\$ 7,431
Work in process	461	940
Finished goods	2,770	2,408
Total inventory	\$ 9,509	\$ 10,779

4. Other current liabilities

Other current liabilities were comprised of the following items:

(in thousands)	June 30, 2023	December 31, 2022
Interest and tax accrual	\$ 1,241	\$ 921
Equipment purchase accrual	724	724
ERC commission accrual	441	441
Excise and cannabis tax	238	948
Accrued discounts and promotions	133	97
Insurance and professional fee accrual	196	158
Third-party brand distribution accrual	274	17
Accrued rent	184	-
Other	339	348
Total other current liabilities	\$ 3,770	\$ 3,654

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 six months ended June 30, 2023 and property and equipment, net as of December 31, 2022, are as follows:

(in thousands)	Land and Buildings	Leasehold Improvements	Furniture and Fixtures	Equipment	Vehicles	Construction in Process	Right of Use Assets	Total
Costs								
Balance-December 31, 2022	\$ 15,719	\$ 12,437	\$ 50	\$ 6,499	\$ 830	\$ 35	\$ 37,081	\$ 72,651
Additions	-	29	-	(10)	-	-	29,647	29,666
Disposals	(15,719)	(203)	-	-	-	-	-	(15,922)
Lease remeasurement	-	-	-	-	-	-	(1,477)	(1,477)
Balance - June 30, 2023	\$ -	\$ 12,263	\$ 50	\$ 6,489	\$ 830	\$ 35	\$ 65,251	\$ 84,918
Accumulated Depreciation								
Balance - December 31, 2022	\$ (315)	\$ (1,815)	\$ (49)	\$ (1,498)	\$ (608)	\$ -	\$ (9,719)	\$ (14,004)
Depreciation	(71)	(426)	-	(481)	(73)	-	(1,390)	(2,441)
Disposals	386	55	-	-	-	-	-	441
Balance - June 30, 2023	\$ -	\$ (2,186)	\$ (49)	\$ (1,979)	\$ (681)	\$ -	\$ (11,109)	\$ (16,004)
Net Book Value - June 30, 2023	\$ -	\$ 10,077	\$ 1	\$ 4,510	\$ 149	\$ 35	\$ 54,142	\$ 68,914
Net Book Value - December 31, 2022	\$ 15,404	\$ 10,621	\$ 1	\$ 5,001	\$ 222	\$ 35	\$ 27,362	\$ 58,646

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 \$1,346 and \$1,841 were recorded for the three months ended June 30, 2023 and 2022, respectively, of which \$1,318 and \$1,456 respectively, were included in cost of goods sold. Depreciation expense of \$0 and \$171 was also recorded in other income (expense) for the three months ended June 30, 2023 and 2022, respectively.

Depreciation expense of \$2,441 and \$3,270 were recorded for the six months ended June 30, 2023 and 2022, respectively, of which \$2,387 and \$2,888 respectively, were included in cost of goods sold. Depreciation expense of \$0 and \$314 was also recorded in other income (expense) for the six months ended June 30, 2023 and 2022, respectively.

During the six months ended June 30, 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 \$1,477.

During the three months ended June 30, 2023, the Company completed a sale leaseback of the Company's drying and midstream processing facility. As a result of the transaction, the Company disposed of buildings, land and leasehold improvements with a net book value of \$15,481. The Company additionally recorded a right of use asset and liability of \$29,647 to reflect the value of the leased property.

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 six months ended June 30, 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		
Costs				
Balance-December 31, 2022	\$ 3,258	\$ 1,800	\$ 37,707	\$ 42,765
Business acquisition	-	-	-	-
Agreement termination	-	-	-	-
Balance-June 30, 2023	<u>\$ 3,258</u>	<u>\$ 1,800</u>	<u>\$ 37,707</u>	<u>\$ 42,765</u>
Accumulated Amortization				
Balance-December 31, 2022	\$ (535)	\$ (28)	\$ -	\$ (563)
Amortization	(162)	(41)	-	(203)
Balance-June 30, 2023	<u>\$ (697)</u>	<u>\$ (69)</u>	<u>\$ -</u>	<u>\$ (766)</u>
Net Book Value				
December 31, 2022	<u>\$ 2,723</u>	<u>\$ 1,772</u>	<u>\$ 37,707</u>	<u>\$ 42,202</u>
June 30, 2023	<u>\$ 2,561</u>	<u>\$ 1,731</u>	<u>\$ 37,707</u>	<u>\$ 41,999</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 \$203 and \$163 for the six months ended June 30, 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 six months ended June 30, 2023:

<i>(in thousands)</i>	Subordinate Voting Shares	Super Voting Shares
Balance-December 31, 2022	121,770	203
Balance-June 30, 2023	121,770	203

Warrants

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

<i>(in thousands)</i>	
Balance-December 31, 2022	173,435
Balance-June 30, 2023	173,435

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

8. DEBT

Debt at June 30, 2023 and December 31, 2022, was comprised of the following:

(in thousands)	June 30, 2023	December 31, 2022
Current portion of long-term debt		
Vehicle loans ⁽¹⁾	\$ 8	\$ 15
Mortgage payable ⁽²⁾	-	257
Note payable	-	10
Convertible debenture ⁽³⁾	21,854	21,398
Total short-term debt	21,862	21,680
Long-term debt, net		
Vehicle loans ⁽¹⁾	1	3
Mortgage payable ⁽²⁾	-	8,713
Total long-term debt	1	8,716
Total Indebtedness	\$ 21,863	\$ 30,396

(1) Primarily fixed term loans on transportation vehicles. Weighted average interest rate at June 30, 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 December 31, 2022 was 12.5%. Net of deferred financing costs as of December 31, 2022 \$296.

(3) Net of deferred financing costs at June 30, 2023 and December 31, 2022 of \$03 and \$759, respectively.

Stated maturities of debt obligations are as follows as of June 30, 2023:

(in thousands)	June 30, 2023
Balance of 2023	\$ 22,166
2024	1
Total debt obligations	\$ 22,167

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

9. LEASES

A reconciliation of lease obligations for the six months ended June 30, 2023, is as follows:

(in thousands)	
Lease obligation	
December 31, 2022	\$ 33,999
Sale leaseback additions	29,647
Lease principal payments	(1,142)
Lease remeasurement	(1,477)
Lease settlement	(1,202)
June 30, 2023	\$ 59,825

During the three months ended June 30, 2023, the Company completed a sale leaseback of the Company's drying and midstream processing facility. As a result of the transaction, the Company recorded a lease liability of \$29,647.

During the three months ended June 30, 2023, the Company disposed of \$1,202 of lease liabilities related to its Los Angeles distribution facility. In conjunction with the settlement, net of closing entries, the Company negotiated a \$300 payment and recognized a \$880 gain in other income on the consolidated statement of income.

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 June 30, 2023 and December 31, 2022, are as follows:

(in thousands)	June 30, 2023	December 31, 2022
Lease obligation, current portion	\$ 1,592	\$ 2,659
Lease obligation, long-term portion	58,233	31,340
Total	\$ 59,825	\$ 33,999

The key assumptions used in accounting for leases as of June 30, 2023 were a weighted average remaining lease term of 7.8 years and a weighted average discount rate of 7.0%.

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 and six months ended June 30, 2023 and 2022, are as follows:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Amortization of leased assets ⁽¹⁾	\$ 817	\$ 840	\$ 1,390	\$ 1,657
Interest on lease liabilities ⁽²⁾	482	561	982	1,134
Total	\$ 1,299	\$ 1,401	\$ 2,372	\$ 2,791

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 June 30, 2023 were as follows:

(in thousands)	June 30, 2023
Balance of 2023	\$ 2,923
2024	5,541
2025	5,559
2026	5,587
2027 and beyond	90,806
Total lease payments	110,416
Less imputed interest	(50,591)
Total	\$ 59,825

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, February 2021 and June 2023. The Plan permits the issuance of stock options, stock appreciation rights, stock awards, share units, performance shares, performance units and other stock-based awards. On June 22, 2023 at the Annual General Meeting of the Shareholders, the total number of shares was increased to 23.2 million shares from 13.2 million shares authorized to be issued under the Plan and as of June 30, 2023, 16.2 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 and six months ended June 30, 2023. During the six months ended June 30, 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 and six months ended June 30, 2023 and 2022, share-based compensation expense was as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
(in thousands)				
Cost of goods sold	\$ -	\$ -	\$ -	\$ -
General and administrative expense	41	157	101	318
Total share-based compensation	\$ 41	\$ 157	\$ 101	\$ 318

The following table summarizes the status of stock option grants and unvested awards at and for the six months ended June 30, 2023:

	Stock	Weighted- Average	Weighted Average Remaining Contractual	Aggregate
	Options	Exercise Price	Life	Intrinsic Value
(in thousands except per share amounts)				
Outstanding-December 31, 2022	10,069	\$ 0.47	4.6	\$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled	(2,663)	0.44	-	-
Outstanding-June 30, 2023	7,406	\$ 0.48	4.1	\$ -
Exercisable-June 30, 2023	3,761	\$ 0.67	3.4	\$ -
Vested and expected to vest-June 30, 2023	7,406	\$ 0.48	4.1	\$ -

The weighted-average fair value of options granted during the three and six months ended June 30, 2022, estimated as of the grant date were \$0.31. As of June 30, 2023, there was \$287 of total unrecognized compensation cost related to non-vested options, which is expected to be recognized over a remaining weighted-average vesting period of 1.2 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 six months ended June 30, 2023:

(in thousands)	RSUs	Weighted-Average Fair Value
Outstanding-December 31, 2022	208	\$ 1.1
Granted	-	-
Vested	-	-
Cancelled	(87)	1.02
Outstanding-June 30, 2023	121	\$ 1.1

As of June 30, 2023, there was \$37 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 4.5 months.

For the three and six months ended June 30, 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 and six months ended June 30, 2023. No RSUs were granted for the three and six months ended June 30, 2023 or June 30, 2022.

Stock Options

	Six Months Ended June 30, 2022
Expected volatility	50%
Dividend yield	0%
Risk-free interest rate	1.0%
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 June 30, 2023, was \$0, representing an effective tax rate of 217%, compared to an income tax expense of \$60 for the three months ended June 30, 2022, representing an effective tax rate of 1.32%. The provision for income tax expense for the six months ended June 30, 2023, was \$99, representing an effective tax rate of 2.47%, compared to an income tax expense of \$135 for the six months ended June 30, 2022, representing an effective tax rate of -1.58%.

12. NET LOSS PER SHARE

Net 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 as follows:

(in thousands except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net loss	\$ (73)	\$ (4,614)	\$ (4,113)	\$ (8,671)
Net loss per share:				
Basic	\$ (0.01)	\$ (0.04)	\$ (0.03)	\$ (0.08)
Diluted	\$ (0.01)	\$ (0.04)	\$ (0.03)	\$ (0.08)
Weighted average shares outstanding:				
Basic	121,770	112,026	121,770	111,981
Diluted	121,770	112,026	121,770	111,981
Weighted average potentially diluted shares (1):				
Basic shares	121,770	112,026	121,770	111,981
Total weighted average potentially diluted shares:	121,770	112,026	121,770	111,981

(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 June 30, 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 June 30, 2023, the Company has entered into purchase commitments for additional manufacturing equipment. Of the total remaining purchase commitment of \$2.9 million, approximately \$0.7 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 June 30, 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 June 30, 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 six months ended June 30, 2023 and 2022, general and administrative expenses were comprised of:

(in thousands)	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2023</u>	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2023</u>	<u>June 30,</u> <u>2022</u>
Salaries and benefits	\$ 757	\$ 1,488	\$ 1,686	\$ 2,458
Professional fees	364	263	527	522
Share-based compensation	41	157	101	318
Insurance	253	357	524	704
Administrative	146	384	346	810
Total general and administrative expenses	<u>\$ 1,561</u>	<u>\$ 2,649</u>	<u>\$ 3,184</u>	<u>\$ 4,813</u>

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 six months ended June 30, 2023 and 2022 were \$180 and \$36, respectively. For the six months ended June 30, 2023 and 2022, cash collected from Cannaco Research Corporation was \$216 and \$81, 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 \$30 in the six months ended June 30, 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 August 10, 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 AND SIX MONTHS ENDED JUNE 30, 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 and six months ended June 30, 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 other third-party brands in California and provide third-party extraction processing and distribution services and bulk extraction concentrates and flower to licensed manufacturers and distributors.

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.

Sale Leaseback Transaction

On May 23, 2023 we announced the closing of a sale leaseback transaction of the drying and midstream processing facility in Monterey, California. Total consideration of the purchase was \$19.4 million. In conjunction with the transaction, the mortgage on the property as assumed by the buyer and the Company received approximately \$9.0 million, net of transaction costs. The Company assigned a mortgage of \$9.4 million, net of previously paid deposits and unpaid liabilities and leased backed property with a net book value of \$15.5 million. In conjunction with the transaction, the Company recognized a \$3.0 million gain on the condensed consolidated statement of income (loss).

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 production 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 28,000 pounds in 2023 after factoring in lower than expected yields throughout the first half of 2023. We have invested approximately \$8.1 million in our greenhouse renovations to date. These renovations and improvements to the greenhouses were to reduce unit costs of cultivation and we are focusing on additional labor saving mechanisms and reducing nutrient inputs.

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 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. As noted above, on May 23, 2023, we announced the closing of a sale leaseback transaction associated with this facility.

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:

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
(in thousands)				
Net loss	\$ (73)	\$ (4,614)	\$ (4,113)	\$ (8,671)
Interest expense	1,151	1,339	2,810	2,649
Provision for income taxes	50	60	99	135
Depreciation and amortization in cost of goods sold	1,340	1,628	2,430	2,888
Depreciation and amortization in operating expenses	108	123	214	231
Depreciation and amortization in other income (expense)	-	171	-	314
EBITDA⁽¹⁾	2,576	(1,293)	1,440	(2,454)
Investment and currency (gains)/ losses	28	37	28	107
Goodwill impairment	-	-	-	-
Share-based compensation	41	157	101	318
Transaction and other charges	(3,884)	-	(3,884)	30
Adjusted EBITDA⁽¹⁾	\$ (1,239)	\$ (1,099)	\$ (2,315)	\$ (1,999)

(1) Non-GAAP measure

RESULTS OF OPERATIONS

Three Months Ended June 30, 2023 Compared to Three Months Ended June 30, 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 June 30, 2023 Compared to Three Months Ended June 30, 2022:

(in thousands)	Three Months Ended		\$ Change	% Change
	June 30, 2023	June 30, 2022		
CPG	\$ 4,438	\$ 7,444	\$ (3,006)	-40%
Bulk	2,263	3,415	(1,152)	-34%
Lowell Farm Services	94	2,048	(1,954)	-95%
Licensing	237	274	(37)	-14%
Net revenue	\$ 7,032	\$ 13,181	\$ (6,149)	-47%

CPG revenues decreased \$3.0 million for the three months ended June 30, 2023, compared to the same period of the prior year, primarily as a result of reduced sales volumes of packaged flower, and pre-rolls. The reduction in revenue is driven by reduced flower availability due to lower than expected yields and additional procedures to manage credit risk by only selling to credit worthy customers as the excise tax burden has been shifted to customers. Lowell brand revenues for the three months ended June 30, 2023 were \$3.5 million and represented 79% of CPG revenues compared to \$4.9 million in revenue and 66% of CPG sales in the same period in the prior year. Included in Lowell brand revenues was \$0.8 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 \$1.5 million in the three months ended June 30, 2023 compared to the same period last year.

Bulk sales decreased \$1.2 million in the three months ended June 30, 2023 compared to the same period in the prior year. The decrease in revenue in the current period was driven by a 54% decrease in total pounds sold but a 28% increase in price per pound, reflecting both favorable market conditions and the change in product mix during the two compared periods. Comparing premium quality bulk flower sales, price per pound is up 37% in the three months ended June 30, 2023 compared to the same period in the prior year while pounds sold declined 66% over the same period, partially driven by the impact of adverse weather that impacted harvests during the period.

LFS and licensing revenues generated \$0.1 million and \$0.2 million in the three months ended June 30, 2023, respectively, compared to generating \$2.0 million and \$0.3 million in the same period of the prior year, respectively. The decline in LFS revenue was driven by a reduction in third-party bulk processing and bulk sales while the decline in licensing revenue was driven by lower sales volume with out of state partners.

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 has been on growing the Lowell 35s brand, including infused Lowell 35s, and on selling and processing owned and third-party products and flower. The Company is continuing to focus on expanding with more distributed brand agreements with favorable economic terms.

Three Months Ended June 30, 2023, Compared to Three Months Ended June 30, 2022:

(in thousands)	Three Months Ended		Change	
	June 30, 2023	June 30, 2022	\$	%
Net revenue	\$ 7,032	\$ 13,181	\$ (6,149)	-47%
Cost of goods sold	7,373	11,687	(4,314)	-37%
Gross profit	\$ (341)	\$ 1,494	\$ (1,835)	-123%
Gross margin	-4.8%	11.3%		

Gross margin was (4.8%) and 11.3% in the three months ended June 30, 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 and increased depreciation expense related to the sale leaseback transaction.

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 June 30, 2023 Compared to Three Months Ended June 30, 2022:

(in thousands)	Three Months Ended		Change	
	June 30, 2023	June 30, 2022	\$	%
Total operating expenses	\$ 2,307	\$ 4,519	\$ (2,212)	-49%
% of net revenue	33%	34%		

Total operating expenses decreased \$2.2 million for the three months ended June 30, 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 June 30, 2023 and 34% for the three months ended June 30, 2022.

Other Income (Expense)

Three Months Ended June 30, 2023 Compared to Three Months Ended June 30, 2022:

(in thousands)	Three Months Ended		Change	
	June 30, 2023	June 30, 2022	\$	%
Total other income (expense)	\$ 2,625	\$ (1,529)	\$ 4,154	272%
% of net revenue	37%	-12%		

Other income (expense) increased \$4.2 million for the three months ended June 30, 2023 compared to the same period of the prior year. This was driven by an increase of \$3.0 million from the gain recognized on the sale leaseback transaction and a \$0.9 million gain recognized on the settlement of a lease liability.

Net Loss

Three Months Ended June 30, 2023 Compared to Three Months Ended June 30, 2022:

(in thousands)	Three Months Ended		Change	
	June 30, 2023	June 30, 2022	\$	%
Net loss	\$ (73)	\$ (4,614)	\$ 4,541	98%

Net loss was \$0.1 million in the quarter ended June 30, 2023, compared to net loss of \$4.6 million for the same period of the prior year as a result of the factors noted above.

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

Revenue by Category

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022:

(in thousands)	Six Months Ended		\$ Change	% Change
	June 30, 2023	June 30, 2022		
CPG	\$ 9,097	\$ 16,521	\$ (7,424)	-45%
Bulk	4,793	5,174	(381)	-7%
Lowell Farm Services	209	2,897	(2,688)	-93%
Licensing	459	997	(538)	-54%
Net revenue	\$ 14,558	\$ 25,589	\$ (11,031)	-43%

CPG revenues decreased \$7.4 million for the six months ended June 30, 2023, compared to the same period of the prior year, primarily as a result of lower packaged flower sales of both Lowell brand sales and House Weed sales. The reduction in revenue is driven by reduced flower availability due to lower than expected yields and additional procedures to manage credit risk by only selling to credit worthy customers as the excise tax burden has been shifted to customers. Lowell brand revenues for the six months ended June 30, 2023 were \$7.4 million and represented 82% of CPG revenues compared to \$9.9 million in revenue and 60% of CPG sales in the same period in the prior year. Included in Lowell brand revenues was \$1.7 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 \$3.9 million in the six months ended June 30, 2023 compared to the same period last year. The remaining decline in sales was the result of lower sales volume across the portfolio of products.

Bulk sales decreased \$0.4 million in the six months ended June 30, 2023 compared to the same period in the prior year. The decrease in revenue in the current period was driven by a 24% decrease in total pounds sold but a 7% increase in price per pound, reflecting both favorable market conditions and the change in product mix during the two compared periods. Comparing premium quality bulk flower sales, price per pound is up 24% in the six months ended June 30, 2023 compared to the same period in the prior year while pounds sold declined 24% over the same period, partially driven by the impact of adverse weather that impacted harvests during the year.

LFS and licensing revenues generated \$0.2 million and \$0.5 million in the six months ended June 30, 2023, respectively, compared to generating \$2.9 million and \$1.0 million in the same period of the prior year, respectively. The decline in LFS revenue was driven by a reduction in third-party processing and bulk sales while the decline in licensing revenue was driven by lower sales volume with out of state partners and a reduction in packaging sales as out of state partners directly work with vendors.

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.

Six Months Ended June 30, 2023, Compared to Six Months Ended June 30, 2022:

(in thousands)	Six Months Ended		Change	
	June 30, 2023	June 30, 2022	\$	%
Net revenue	\$ 14,558	\$ 25,589	\$ (11,031)	-43%
Cost of goods sold	14,767	22,522	(7,755)	-34%
Gross profit	\$ (209)	\$ 3,067	\$ (3,276)	-107%
Gross margin	-1.4%	12.0%		

Gross margin was (1.4%) and 12.0% in the six months ended June 30, 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, declines in non-Lowell brand revenues, and increased depreciation expense related to the sale leaseback transaction.

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.

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022:

(in thousands)	Six Months Ended		Change	
	June 30, 2023	June 30, 2022	\$	%
Total operating expenses	\$ 4,772	\$ 8,552	\$ (3,780)	-44%
% of net revenue	33%	33%		

Total operating expenses decreased \$3.8 million for the six months ended June 30, 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 six months ended June 30, 2023 and 2022.

Other Income (Expense)

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022:

(in thousands)	Six Months Ended		Change	
	June 30, 2023	June 30, 2022	\$	%
Total other income (expense)	\$ 967	\$ (3,051)	\$ 4,018	132%
% of net revenue	7%	-12%		

Other income (expense) increased \$4.0 million for the six months ended June 30, 2023 compared to the same period of the prior year. This was driven by an increase of \$3.0 million from the gain recognized on sale leaseback transactions, and a \$0.9 million gain recognized on the settlement of a lease liability.

Net Loss

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022:

(in thousands)	Six Months Ended		Change	
	June 30, 2023	June 30, 2022	\$	%
Net loss	\$ (4,113)	\$ (8,671)	\$ 4,558	-53%

Net loss was \$4.1 million in the six months ended June 30, 2023, compared to net loss of \$8.7 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, and an additional \$9.0 million from a sale leaseback transaction during the quarter ending June 30, 2023.

At June 30, 2023, we had \$8.4 million in cash and cash equivalents and (\$9.2) 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 June 30, 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:

- 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;
- 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 and 2023 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;
- Sold and leased back buildings and land to generate cash flow to fund operations; 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 six months ended June 30, 2023 and 2022:

(in thousands)	Six Months Ended		Change	
	June 30, 2023	June 30, 2022	\$	%
Net cash used in investing activities	\$ (423)	\$ (3,386)	\$ 2,963	88%
	(19)	(1,025)	1,006	98%
Change in cash and cash equivalents	\$ 7,766	\$ (1,271)	\$ 9,037	711%
	\$ 7,324	\$ (5,682)	\$ 13,006	229%

(in thousands)	Six Months Ended		Change	
	June 30, 2023	June 30, 2022	\$	%
Net cash used in operating activities	\$ (423)	\$ (3,386)	\$ 2,963	88%
Net cash used in investing activities	(19)	(1,025)	1,006	98%
Net cash provided by (used in) financing activities	7,766	(1,271)	9,037	711%
Change in cash and cash equivalents	\$ 7,324	\$ (5,682)	\$ 13,006	229%

Cash used in operating activities

Net cash used in operating activities was \$0.4 million for the six months ended June 30, 2023, a \$3.0 million improvement, or 88%, compared to the six months ended June 30, 2022. The change was primarily driven by a \$1.2 million reduction in inventory in the six months ended June 30, 2023, compared to a \$1.6 million increase in the same period in the prior year. Other factors include a \$0.1 million increase in net loss after adjusted for lease transaction gains and depreciation and amortization, and a \$0.1 million reduction in prepaid expenses and other assets compared to a \$0.9 million increase in the same period in the prior year. Accounts receivable also decreased \$0.4 million less in the current period. The reduction in inventory is the result of improved management of inventory levels to support the current period.

Cash used in investing activities

Net cash used in investing activities was \$0.02 million for the six months ended June 30, 2023, a favorable decrease in cash used of \$1.0 million or 98%, 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 provided by financing activities was \$7.8 million for the six months ended June 30, 2023, an increase over cash used in financing activities of \$9.0 million compared to the same period of the prior year. The change was due to funding received from the sale leaseback transaction.

Working Capital and Cash on Hand

The following table presents the Company’s cash on hand and working capital position as of June 30, 2023 and December 31, 2022:

(in thousands)	June 30, 2023	December 31, 2022	Change	
			\$	%
Working capital ⁽¹⁾	\$ (9,246)	\$ (13,088)	\$ 3,842	29%
Cash and cash equivalents	\$ 8,422	\$ 1,098	\$ 7,324	667%

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

At June 30, 2023, we had \$8.4 million in cash and cash equivalents and (\$9.2) 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 June 30, 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.

[Table of Contents](#)

- In addition to the commitments outlined in Note 14, the Company has the following contractual obligations at June 30, 2023 and December 31, 2022:

(in thousands)	Maturity: < 1 Year	
	June 30, 2023	December 31, 2022
Accounts payable and Other accrued liabilities	\$ 6,844	\$ 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.

OUTSTANDING SHARE DATA

As of August 9, 2023, the Company had the following securities issued and outstanding:

(in thousands)	Number of Shares (on an as converted basis)
Issued and Outstanding	
Subordinate voting shares	112,762
Class B shares (1)	9,008
Super voting shares	203
Reserved for Issuance	
Options	7,082
Restricted Stock Units	122
Warrants	22,912
Convertible debenture shares	106,275
Convertible debenture warrants	150,523
	408,887

(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 Interim 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 Interim Chief Financial Officer concluded that, as of June 30, 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 June 30, 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 June 30, 2023 there were no unregistered sales of equity related securities identified, outside of those already reported.

Item 6. Exhibits

Exhibit No.	Exhibit Description
10.1	Indus Holdings, Inc 2019 Stock and Incentive Plan (1)
31.1	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.
31.2	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.
32.1	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.*
32.2	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.*

(1) Filed herewith.

* 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: August 10, 2023

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

Date: August 10, 2023

By: /s/ Tessa O'Dowd
Tessa O'Dowd
Interim Chief Financial Officer (principal financial and
accounting officer)

INDUS HOLDINGS, INC.
2019 STOCK AND INCENTIVE PLAN

APPROVED BY THE COMPANY'S SHAREHOLDERS: JANUARY 16, 2019
AMENDED BY THE HOLDER OF SUPER VOTING SHARES: APRIL 13, 2020
AMENDED BY THE HOLDER OF SUPER VOTING SHARES: FEBRUARY 17, 2021
AMENDED BY THE COMPANY'S SHAREHOLDERS: JUNE 22, 2023

Section 1. Purpose

The purpose of the Plan is to promote the interests of the Company and its shareholders by aiding the Company in attracting and retaining employees, officers, consultants, advisors and Non-Employee Directors capable of assuring the future success of the Company, to offer such persons incentives to put forth maximum efforts for the success of the Company's business and to compensate such persons through various stock and cash-based arrangements and provide them with opportunities for stock ownership in the Company, thereby aligning the interests of such persons with the Company's shareholders.

Section 2. Definitions

As used in the Plan, the following terms shall have the meanings set forth below:

- (a) "*Affiliate*" shall mean any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company.
 - (b) "*Award*" shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Award, Dividend Equivalent or Other Stock-Based Award granted under the Plan.
 - (c) "*Award Agreement*" shall mean any written agreement, contract or other instrument or document evidencing an Award granted under the Plan (including a document in an electronic medium) executed in accordance with the requirements of Section 10(b).
 - (d) "*Board*" shall mean the Board of Directors of the Company.
 - (e) "*Code*" shall mean the U.S. Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.
 - (f) "*Committee*" shall mean the Compensation Committee of the Board or such other committee designated by the Board to administer the Plan. At any time that the Company is an SEC registrant and is not a "foreign private issuer" for purposes of the Securities Act and the Exchange Act, the Committee shall be comprised of not less than such number of Directors as shall be required to permit Awards granted under the Plan to qualify under Rule 16b-3, and each member of the Committee shall be a "non-employee director" within the meaning of Rule 16b-3.
 - (g) "*Company*" shall mean Indus Holdings, Inc., a British Columbia corporation, and any successor corporation.
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(h) “Convertible Shares” means the non-voting redeemable common shares of Indus Holding Company.

(i) “CSE” means the Canadian Securities Exchange.

(j) “Director” shall mean a member of the Board.

(k) “Dividend Equivalent” shall mean any right granted under Section 6(e) of the Plan.

(l) “Effective Date” shall mean the date the Plan is adopted by the Board, as set forth in Section 11.

(m) “Eligible Person” shall mean any employee, officer, Non-Employee Director, consultant, independent contractor or advisor providing services to the Company or any Affiliate, or any such person to whom an offer of employment or engagement with the Company or any Affiliate is extended.

(n) “Exchange Act” shall mean the U.S. Securities Exchange Act of 1934, as amended.

(o) “Fair Market Value” with respect to one Share as of any date shall mean (a) if the Shares are listed on the CSE or any established stock exchange, the price of one Share at the close of the regular trading session of such market or exchange on the last trading day prior to such date, and if no sale of Shares shall have occurred on such date, on the next preceding date on which there was a sale of Shares. Notwithstanding the foregoing, in the event that the Shares are listed on the CSE, for the purposes of establishing the exercise price of any Options, the Fair Market Value shall not be lower than the greater of the closing market price of the Shares on the CSE on (i) the trading day prior to the date of grant of the Options, and (ii) the date of grant of the Options; (b) if the Shares are not so listed on the CSE or any established stock exchange, the average of the closing “bid” and “asked” prices quoted by the OTC Bulletin Board, the National Quotation Bureau, or any comparable reporting service on such date or, if there are no quoted “bid” and “asked” prices on such date, on the next preceding date for which there are such quotes for a Share; or (c) if the Shares are not publicly traded as of such date, the per share value of one Share, as determined by the Board, or any duly authorized Committee of the Board, in its sole discretion, by applying principles of valuation with respect thereto.

(p) “Incentive Stock Option” shall mean an option granted under Section 6(a) of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision.

(q) “Listed Security” means any security of the Company that is listed or approved for listing on a U.S. national securities exchange or designated or approved for designation as a national market system security on an interdealer quotation system by the U.S. Financial Industry Regulatory Authority (or any successor thereto).

(r) “Non-Employee Director” shall mean a Director who is not also an employee of the Company or any Affiliate.

(s) “Non-Qualified Stock Option” shall mean an option granted under Section 6(a) of the Plan that is not intended to be an Incentive Stock Option.

(t) “*Option*” shall mean an Incentive Stock Option or a Non-Qualified Stock Option to purchase shares of the Company.

(u) “*Other Stock-Based Award*” shall mean any right granted under Section 6(f) of the Plan.

(v) “*Participant*” shall mean an Eligible Person designated to be granted an Award under the Plan.

(w) “*Performance Award*” shall mean any right granted under Section 6(d) of the Plan.

(x) “*Person*” shall mean any individual or entity, including a corporation, partnership, limited liability company, association, joint venture or trust.

(y) “*Plan*” shall mean the Company’s 2019 Stock and Incentive Plan, as amended from time to time.

(z) “*Restricted Stock*” shall mean any Share granted under Section 6(c) of the Plan.

(aa) “*Restricted Stock Unit*” shall mean any unit granted under Section 6(c) of the Plan evidencing the right to receive a Share (or a cash payment equal to the Fair Market Value of a Share) at some future date, provided that in the case of Participants who are liable to taxation under the Tax Act in respect of amounts payable under this Plan, that such date shall not be later than December 31 of the third calendar year following the year services were performed in respect of the corresponding Restricted Stock Unit awarded.

(bb) “*Section 409A*” shall mean Section 409A of the Code, or any successor provision, and applicable Treasury Regulations and other applicable guidance thereunder.

(cc) “*Securities Act*” shall mean the U.S. Securities Act of 1933, as amended.

(dd) “*Share*” or “*Shares*” shall mean Subordinate Voting Shares of the Company (or such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 4(c) of the Plan).

(ee) “*Specified Employee*” shall mean a specified employee as defined in Section 409A(a)(2)(B) of the Code or applicable proposed or final regulations under Section 409A, determined in accordance with procedures established by the Company and applied uniformly with respect to all plans maintained by the Company that are subject to Section 409A.

(ff) “*Stock Appreciation Right*” shall mean any right granted under Section 6(b) of the Plan.

(gg) “*Tax Act*” means the *Income Tax Act*(Canada).

(hh) “*U.S. Award Holder*” shall mean any holder of an Award who is a “U.S. person” (as defined in Rule 902(k) of Regulation S under the Securities Act) or who is holding or exercising Awards in the United States.

Section 3. Administration

(a) Power and Authority of the Committee. The Plan shall be administered by the Committee. Subject to the express provisions of the Plan and to applicable law, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by (or the method by which payments or other rights are to be calculated in connection with) each Award; (iv) determine the terms and conditions of any Award or Award Agreement, including any terms relating to vesting, the forfeiture of any Award and the forfeiture, recapture or disgorgement of any cash, Shares or other amounts payable with respect to any Award; (v) amend the terms and conditions of any Award or Award Agreement, subject to the limitations under Section 7; (vi) accelerate the exercisability of any Award or the lapse of any restrictions relating to any Award, subject to the limitations in Section 7; (vii) determine whether, to what extent and under what circumstances Awards may be exercised in cash, Shares, other securities, other Awards or other property (excluding promissory notes), or canceled, forfeited or suspended, subject to the limitations in Section 7; (viii) determine whether, to what extent and under what circumstances amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder thereof or the Committee, subject to the requirements of Section 409A; (ix) interpret and administer the Plan and any instrument or agreement, including an Award Agreement, relating to the Plan; (x) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (xi) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan; and (xii) adopt such modifications, rules, procedures and subplans as may be necessary or desirable to comply with provisions of the laws of the jurisdictions in which the Company or an Affiliate may operate, including, without limitation, establishing any special rules for Affiliates, Eligible Persons or Participants located in any particular country, in order to meet the objectives of the Plan and to ensure the viability of the intended benefits of Awards granted to Participants located in such non-United States jurisdictions. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award or Award Agreement shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon any Participant, any holder or beneficiary of any Award or Award Agreement, and any employee of the Company or any Affiliate.

(b) Delegation. The Committee may delegate to one or more officers or Directors of the Company, subject to such terms, conditions and limitations as the Committee may establish in its sole discretion, the authority to grant Awards; *provided, however*, that the Committee shall not delegate such authority in such a manner as would cause the Plan not to comply with applicable exchange rules or applicable corporate law.

(c) Power and Authority of the Board. Notwithstanding anything to the contrary contained herein, (i) the Board may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan, unless the exercise of such powers and duties by the Board would cause the Plan not to comply with the requirements of all applicable securities rules and (ii) only the Committee (or another committee of the Board comprised of directors who qualify as independent directors within the meaning of the independence rules of any applicable securities exchange where the Shares are then listed) may grant Awards to Directors who are not also employees of the Company or an Affiliate.

(d) Indemnification. To the full extent permitted by law, (i) no member of the Board, the Committee or any person to whom the Committee delegates authority under the Plan shall be liable for any action or determination taken or made in good faith with respect to the Plan or any Award made under the Plan, and (ii) the members of the Board, the Committee and each person to whom the Committee delegates authority under the Plan shall be entitled to indemnification by the Company with regard to such actions and determinations. The provisions of this paragraph shall be in addition to such other rights of indemnification as a member of the Board, the Committee or any other person may have by virtue of such person's position with the Company.

Section 4. Shares Available for Awards

(a) Shares Available. Subject to adjustment as provided in Section 4(c) of the Plan, the aggregate number of Shares that may be issued under all Awards under the Plan shall be 23,205,932 Shares. The aggregate number of Shares that may be issued under all Awards under the Plan shall be reduced by Shares subject to Awards issued under the Plan in accordance with the Share counting rules described in Section 4(b) below.

(b) Counting Shares. For purposes of this Section 4, if an Award entitles the holder thereof to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan.

- (i) Shares Added Back to Reserve. If any Shares covered by an Award or to which an Award relates are not purchased or are forfeited or are reacquired by the Company (including any Shares withheld by the Company or Shares tendered to satisfy any tax withholding obligation on Awards or Shares covered by an Award that are settled in cash), or if an Award otherwise terminates or is cancelled without delivery of any Shares, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such forfeiture, reacquisition by the Company, termination or cancellation, shall again be available for granting Awards under the Plan.
 - (ii) Cash-Only Awards. Awards that do not entitle the holder thereof to receive or purchase Shares shall not be counted against the aggregate number of Shares available for Awards under the Plan.
 - (iii) Substitute Awards Relating to Acquired Entities. Shares issued under Awards granted in substitution for awards previously granted by an entity that is acquired by or merged with the Company or an Affiliate shall not be counted against the aggregate number of Shares available for Awards under the Plan.
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(c) Adjustments. In the event that any dividend (other than a regular cash dividend) or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company or other similar corporate transaction or event affects the Shares such that an adjustment is necessary in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or other property) that thereafter may be made the subject of Awards, (ii) the number and type of Shares (or other securities or other property) subject to outstanding Awards, (iii) the purchase price or exercise price with respect to any Award and (iv) the limitation contained in Section 4(d) below; *provided, however*, that the number of Shares covered by any Award or to which such Award relates shall always be a whole number. Such adjustment shall be made by the Committee or the Board, whose determination in that respect shall be final, binding and conclusive.

(d) Director Award Limitations. The limitation contained in this Section 4(d) shall apply only with respect to any Award or Awards granted under this Plan, and limitations on awards granted under any other shareholder-approved incentive plan maintained by the Company will be governed solely by the terms of such other plan.

(e) Additional Award Limitations. If, and so long as, the Company is listed on the CSE, the aggregate number of Shares issued or issuable to persons providing investor relations activities (as defined in CSE policies) as compensation within a one-year period, shall not exceed 1% of the total number of Shares then outstanding.

Section 5. Eligibility

Any Eligible Person shall be eligible to be designated as a Participant. In determining which Eligible Persons shall receive an Award and the terms of any Award, the Committee may take into account the nature of the services rendered by the respective Eligible Persons, their present and potential contributions to the success of the Company and/or such other factors as the Committee, in its discretion, shall deem relevant. Notwithstanding the foregoing, an Incentive Stock Option may only be granted to full-time or part-time employees (which term, as used herein, includes, without limitation, officers and Directors who are also employees), and an Incentive Stock Option shall not be granted to an employee of an Affiliate unless such Affiliate is also a "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code or any successor provision.

Section 6. Awards

(a) Options. The Committee is hereby authorized to grant Options to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan, as the Committee shall determine:

- (i) Exercise Price. The purchase price per Share purchasable under an Option shall be determined by the Committee and shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option; provided, however, that for Eligible Persons who are not residents of Canada for purposes of the Tax Act and not subject to taxation under the Tax Act with respect to such Option, the Committee may designate a purchase price below Fair Market Value on the date of grant if the Option is granted in substitution for a stock option previously granted by an entity that is acquired by or merged with the Company or an Affiliate, and further provided, however, that any adjustments to purchase price must be made in accordance with Code Section 409A and any adjustments with respect to Incentive Stock Options must be made in accordance with Code Section 424.
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- (ii) Option Term. The term of each Option shall be fixed by the Committee at the date of grant and shall not be longer than 10 years from the date of grant). Notwithstanding the foregoing, in the event that the expiry date of an Option held by an Eligible Person falls within a trading blackout period imposed by the Company (a “**Blackout Period**”), and neither the Company nor the individual in possession of the Options is subject to a cease trade order in respect of the Company’s securities, then the expiry date of such Option shall be automatically extended to the 10th business day following the end of the Blackout Period.
- (iii) Time and Method of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms, including, but not limited to, cash, Shares (actually or by attestation), other securities, other Awards or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the applicable exercise price, in which payment of the exercise price with respect thereto may be made or deemed to have been made.
- (A) Promissory Notes. Notwithstanding the foregoing, the Committee may not permit payment of the exercise price, either in whole or in part, with a promissory note.
- (B) Net Exercises. The Committee may, in its discretion, permit an Option to be exercised by delivering to the Participant a number of Shares having an aggregate Fair Market Value (determined as of the date of exercise) equal to the excess, if positive, of the Fair Market Value of the Shares underlying the Option being exercised on the date of exercise, over the exercise price of the Option for such Shares.
- (iv) Incentive Stock Options. Notwithstanding anything in the Plan to the contrary, the following additional provisions shall apply to the grant of stock options which are intended to qualify as Incentive Stock Options:
- (A) The Committee will not grant Incentive Stock Options in which the aggregate Fair Market Value (determined as of the time the Option is granted) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under this Plan and all other plans of the Company and its Affiliates) shall exceed \$100,000.
- (B) Subject to adjustment pursuant to Section 4(c), the maximum number of Shares that may be issued pursuant to Incentive Stock Options shall not exceed 6,000,000 Shares.
- (C) All Incentive Stock Options must be granted within ten years from the earlier of the date on which this Plan was adopted by the Board or the date this Plan was approved by the shareholders of the Company.
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- (D) Unless sooner exercised and subject to Section 6(a)(ii), all Incentive Stock Options shall expire and no longer be exercisable no later than ten years after the date of grant.
- (E) The purchase price per Share for an Incentive Stock Option shall be not less than 100% of the Fair Market Value of a Share on the date of grant of the Incentive Stock Option; provided, however, that, in the case of the grant of an Incentive Stock Option to a Participant who, at the time such Option is granted, owns (within the meaning of Section 422 of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its Affiliates, the purchase price per Share purchasable under an Incentive Stock Option shall be not less than 110% of the Fair Market Value of a Share on the date of grant of the Incentive Stock Option.
- (F) Any Incentive Stock Option authorized under the Plan shall contain such other provisions as the Committee shall deem advisable, but shall in all events be consistent with and contain all provisions required in order to qualify the Option as an Incentive Stock Option.

(b) Stock Appreciation Rights. The Committee is hereby authorized to grant Stock Appreciation Rights to Eligible Persons subject to the terms of the Plan and any applicable Award Agreement. A Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive upon exercise thereof the excess of (i) the Fair Market Value of one Share on the date of exercise over

(ii) the grant price of the Stock Appreciation Right as specified by the Committee, which price shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right; *provided, however*, that, subject to applicable law and stock exchange rules, the Committee may designate a grant price below Fair Market Value on the date of grant if the Stock Appreciation Right is granted in substitution for a stock appreciation right previously granted by an entity that is acquired by or merged with the Company or an Affiliate; *and further provided, however*, that any adjustments to purchase price with respect to any Incentive Stock Options must be made in accordance with Code Section 409A. Subject to the terms of the Plan and any applicable Award Agreement, the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions of any Stock Appreciation Right shall be as determined by the Committee (except that the term of each Stock Appreciation Right shall be subject to the same limitations in Section 6(a)(ii) applicable to Options). The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it may deem appropriate.

(c) Restricted Stock and Restricted Stock Units. The Committee is hereby authorized to grant an Award of Restricted Stock and Restricted Stock Units to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

- (i) Restrictions. Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to vote a Share of Restricted Stock or the right to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the Committee may deem appropriate. Notwithstanding the foregoing, rights to dividend or Dividend Equivalent payments shall be subject to the limitations described in Section 6(e).
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- (ii) Issuance and Delivery of Shares. Any Restricted Stock granted under the Plan shall be issued at the time such Awards are granted and may be evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company or held in nominee name by the stock transfer agent or brokerage service selected by the Company to provide such services for the Plan. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the restrictions applicable to such Restricted Stock. Shares representing Restricted Stock that are no longer subject to restrictions shall be delivered (including by updating the book-entry registration) to the Participant promptly after the applicable restrictions lapse or are waived. Unless otherwise provided for in an Award Agreement, in the case of Restricted Stock Units, no Shares shall be issued at the time such Awards are granted. Unless otherwise provided in any Award Agreement, upon the lapse or waiver of restrictions and the restricted period relating to Restricted Stock Units evidencing the right to receive Shares, such Shares shall be issued and delivered to the holder of the Restricted Stock Units.
- (iii) Forfeiture. Except as otherwise determined by the Committee or as provided in an Award Agreement, upon a Participant's termination of employment or service or resignation or removal as a Director (in either case, as determined under criteria established by the Committee) during the applicable restriction period, all Shares of Restricted Stock and all Restricted Stock Units held by such Participant at such time shall be forfeited and reacquired by the Company for cancellation at no cost to the Company; provided, however, that the Committee may waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock or Restricted Stock Units.

(d) Performance Awards. The Committee is hereby authorized to grant Performance Awards to Eligible Persons. A Performance Award granted under the Plan (i) may be denominated or payable in cash, Shares (including, without limitation, Restricted Stock and Restricted Stock Units), other securities, other Awards or other property and (ii) shall confer on the holder thereof the right to receive payments, in whole or in part, upon the achievement of one or more objective performance goals during such performance periods as the Committee shall establish. Subject to the terms of the Plan, the performance goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award granted, the amount of any payment or transfer to be made pursuant to any Performance Award and any other terms and conditions of any Performance Award shall be determined by the Committee.

(e) Dividend Equivalents. The Committee is hereby authorized to grant Dividend Equivalents to Eligible Persons under which the Participant shall be entitled to receive payments (in cash, Shares, other securities, other Awards or other property as determined in the discretion of the Committee) equivalent to the amount of cash dividends paid by the Company to holders of Shares with respect to a number of Shares determined by the Committee. Subject to the terms of the Plan and any applicable Award Agreement, such Dividend Equivalents may have such terms and conditions as the Committee shall determine. Notwithstanding the foregoing, (i) the Committee may not grant Dividend Equivalents to Eligible Persons in connection with grants of Options, Stock Appreciation Rights or other Awards the value of which is based solely on an increase in the value of the Shares after the date of grant of such Award, and (ii) dividend and Dividend Equivalent amounts may be accrued but shall not be paid unless and until the date on which all conditions or restrictions relating to such Award have been satisfied, waived or lapsed.

(f) Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Persons such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as are deemed by the Committee to be consistent with the purpose of the Plan. The Committee shall determine the terms and conditions of such Awards, subject to the terms of the Plan and any applicable Award Agreement. No Award issued under this Section 6(f) shall contain a purchase right or an option-like exercise feature.

(g) General

- (i) Consideration for Awards. Awards may be granted for no cash consideration or for any cash or other consideration as may be determined by the Committee or required by applicable law.
 - (ii) Limits on Transfer of Awards. Except as otherwise provided by the Committee in its discretion and subject to such additional terms and conditions as it determines, no Award (other than fully vested and unrestricted Shares issued pursuant to any Award) and no right under any such Award shall be transferable by a Participant other than by will or by the laws of descent and distribution, and no Award (other than fully vested and unrestricted Shares issued pursuant to any Award) or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate. Where the Committee does permit the transfer of an Award other than a fully vested and unrestricted Share, such permitted transfer shall be for no value and in accordance with all applicable securities rules. The Committee may also establish procedures as it deems appropriate for a Participant to designate a person or persons, as beneficiary or beneficiaries, to exercise the rights of the Participant and receive any property distributable with respect to any Award in the event of the Participant's death.
 - (iii) Restrictions; Securities Exchange Listing. All Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such restrictions as the Committee may deem advisable under the Plan, applicable federal or state securities laws and regulatory requirements, and the Committee may cause appropriate entries to be made with respect to, or legends to be placed on the certificates for, such Shares or other securities to reflect such restrictions. The Company shall not be required to deliver any Shares or other securities covered by an Award unless and until the requirements of any federal or state securities or other laws, rules or regulations (including the rules of any securities exchange) as may be determined by the Company to be applicable are satisfied.
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- (iv) Prohibition on Option and Stock Appreciation Right Repricing. Except as provided in Section 4(c) hereof, the Committee may not, without prior approval of the Company's shareholders and applicable stock exchange approval, seek to effect any repricing of any previously granted, "underwater" Option or Stock Appreciation Right by: (i) amending or modifying the terms of the Option or Stock Appreciation Right to lower the exercise price; (ii) canceling the underwater Option or Stock Appreciation Right and granting either (A) replacement Options or Stock Appreciation Rights having a lower exercise price; or (B) Restricted Stock, Restricted Stock Units, Performance Award or Other Stock-Based Award in exchange; or (iii) cancelling or repurchasing the underwater Option or Stock Appreciation Right for cash or other securities. An Option or Stock Appreciation Right will be deemed to be "underwater" at any time when the Fair Market Value of the Shares covered by such Award is less than the exercise price of the Award.
- (v) Section 409A Provisions. Notwithstanding anything in the Plan or any Award Agreement to the contrary, to the extent that any amount or benefit that constitutes "deferred compensation" to a Participant under Section 409A and applicable guidance thereunder is otherwise payable or distributable to a Participant under the Plan or any Award Agreement solely by reason of the occurrence of a change in control or due to the Participant's disability or "separation from service" (as such term is defined under Section 409A), such amount or benefit will not be payable or distributable to the Participant by reason of such circumstance unless the Committee determines in good faith that (i) the circumstances giving rise to such change in control event, disability or separation from service meet the definition of a change in control event, disability, or separation from service, as the case may be, in Section 409A(a)(2)(A) of the Code and applicable proposed or final regulations, or (ii) the payment or distribution of such amount or benefit would be exempt from the application of Section 409A by reason of the short-term deferral exemption or otherwise. Any payment or distribution that otherwise would be made to a Participant who is a Specified Employee (as determined by the Committee in good faith) on account of separation from service may not be made before the date which is six months after the date of the Specified Employee's separation from service (or if earlier, upon the Specified Employee's death) unless the payment or distribution is exempt from the application of Section 409A by reason of the short-term deferral exemption or otherwise.
- (vi) Acceleration of Vesting or Exercisability. No Award Agreement shall accelerate the exercisability of any Award or the lapse of restrictions relating to any Award in connection with a change-in-control event, unless such acceleration occurs upon the consummation of (or effective immediately prior to the consummation of, provided that the consummation subsequently occurs) such change-in-control event.
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Section 7. Amendment and Termination; Corrections

(a) Amendments to the Plan and Awards The Board may from time to time amend, suspend or terminate this Plan, and the Committee may amend the terms of any previously granted Award, provided that no amendment to the terms of any previously granted Award may (except as expressly provided in the Plan) materially and adversely alter or impair the terms or conditions of the Award previously granted to a Participant under this Plan without the written consent of the Participant or holder thereof. Any amendment to this Plan, or to the terms of any Award previously granted, is subject to compliance with all applicable laws, rules, regulations and policies of any applicable governmental entity or securities exchange, including receipt of any required approval from the governmental entity or stock exchange, and any such amendment, alteration, suspension, discontinuation or termination of an Award will be in compliance with CSE Policies. For greater certainty and without limiting the foregoing, the Board may amend, suspend, terminate or discontinue the Plan, and the Committee may amend or alter any previously granted Award, as applicable, without obtaining the approval of shareholders of the Company in order to:

- (i) amend the eligibility for, and limitations or conditions imposed upon, participation in the Plan;
- (ii) amend any terms relating to the granting or exercise of Awards, including but not limited to terms relating to the amount and payment of the exercise price, or the vesting, expiry, assignment or adjustment of Awards, or otherwise waive any conditions of or rights of the Company under any outstanding Award, prospectively or retroactively;
- (iii) make changes that are necessary or desirable to comply with applicable laws, rules, regulations and policies of any applicable governmental entity or stock exchange (including amendments to Awards necessary or desirable to avoid any adverse tax results under Section 409A or the Tax Act), and no action taken to comply shall be deemed to impair or otherwise adversely alter or impair the rights of any holder of an Award or beneficiary thereof; or
- (iv) amend any terms relating to the administration of the Plan, including the terms of any administrative guidelines or other rules related to the Plan.

Notwithstanding the foregoing and for greater certainty, prior approval of the shareholders of the Company shall be required for any amendment to the Plan or an Award that would:

- (i) require shareholder approval under the rules or regulations of securities exchange that is applicable to the Company;
 - (ii) increase the number of shares authorized under the Plan as specified in Section 4 of the Plan;
 - (iii) increase the maximum number of Shares that may be issued pursuant to Incentive Stock Options;
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- (iv) permit repricing of Options or Stock Appreciation Rights, which is currently prohibited by Section 6(g)(iv) of the Plan;
- (v) permit the award of Options or Stock Appreciation Rights at a price less than 100% of the Fair Market Value of a Share on the date of grant of such Option or Stock Appreciation Right, contrary to the provisions of Section 6(a)(i) and Section 6(b) of the Plan;
- (vi) permit Options to be transferable other than as provided in Section 6(g)(ii);
- (vii) amend this Section 7(a); or
- (viii) increase the maximum term permitted for Options and Stock Appreciation Rights as specified in Section 6(a) and Section 6(b) or extend the terms of any Options beyond their original expiry date.

(b) Corporate Transactions. In the event of any reorganization, merger, consolidation, split-up, spin-off, combination, plan of arrangement, take-over bid or tender offer, repurchase or exchange of Shares or other securities of the Company or any other similar corporate transaction or event involving the Company (or the Company shall enter into a written agreement to undergo such a transaction or event), the Committee or the Board may, in its sole discretion, provide for any of the following to be effective upon the consummation of the event (or effective immediately prior to the consummation of the event, provided that the consummation of the event subsequently occurs), and no action taken under this Section 7(b) shall be deemed to impair or otherwise adversely alter the rights of any holder of an Award or beneficiary thereof:

- (i) either (A) termination of the Award, whether or not vested, in exchange for an amount of cash and/or other property, if any, equal to the amount that would have been attained upon the exercise of the vested portion of the Award or realization of the Participant's vested rights (and, for the avoidance of doubt, if, as of the date of the occurrence of the transaction or event described in this Section 7(b)(i)(A), the Committee or the Board determines in good faith that no amount would have been attained upon the exercise of the Award or realization of the Participant's rights, then the Award may be terminated by the Company without any payment) or (B) the replacement of the Award with other rights or property selected by the Committee or the Board, in its sole discretion;
 - (ii) that the Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices;
 - (iii) that, subject to Section 6(g)(vi), the Award shall be exercisable or payable or fully vested with respect to all Shares covered thereby, notwithstanding anything to the contrary in the applicable Award Agreement; or
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(iv) that the Award cannot vest, be exercised or become payable after a date certain in the future, which may be the effective date of the event.

(c) Correction of Defects, Omissions and Inconsistencies. The Committee may, without prior approval of the shareholders of the Company, correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award or Award Agreement in the manner and to the extent it shall deem desirable to implement or maintain the effectiveness of the Plan.

Section 8. Income Tax Withholding

In order to comply with all applicable federal, state, local or foreign income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal, state, local or foreign payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant arising from the grant, vesting, exercise or payment of any Award and payment is to be made in a manner satisfactory to the Company. Without limiting the foregoing, in order to assist a Participant in paying all or a portion of the applicable taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Award, the Committee, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the Participant to satisfy such tax obligation by (a) electing to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes (subject to any applicable limitations under ASC Topic 718 to avoid adverse accounting treatment) or (b) delivering to the Company Shares other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes. The election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

Section 9. U.S. Securities Laws

Neither the Awards nor the securities which may be acquired pursuant to the exercise of the Awards have been registered under the Securities Act or under any securities law of any state of the United States of America and are considered "restricted securities" (as such term is defined in Rule 144(a)(3) under the U.S. Securities Act and any Shares shall be affixed with an applicable restrictive legend as set forth in the Award Agreement. The Awards may not be offered or sold, directly or indirectly, in the United States except pursuant to registration under the U.S. Securities Act and the securities laws of all applicable states or available exemptions therefrom, and the Company has no obligation or present intention of filing a registration statement under the U.S. Securities Act in respect of any of the Awards or the securities underlying the Awards, which could result in such U.S. Award Holder not being able to dispose of any Shares issued on exercise of Awards for a considerable length of time. Each U.S. Award Holder or anyone who becomes a U.S. Award Holder, who is granted an Award in the United States, who is a resident of the United States or who is otherwise subject to the Securities Act or the securities laws of any state of the United States will be required to complete an Award Agreement which sets out the applicable United States restrictions.

Section 10. General Provisions

(a) No Rights to Awards. No Eligible Person, Participant or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons, Participants or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Participant or with respect to different Participants.

(b) Award Agreements. No Participant shall have rights under an Award granted to such Participant unless and until an Award Agreement shall have been signed by the Participant (if requested by the Company), or until such Award Agreement is delivered and accepted through an electronic medium in accordance with procedures established by the Company. An Award Agreement need not be signed by a representative of the Company unless required by the Committee. Each Award Agreement shall be subject to the applicable terms and conditions of the Plan and any other terms and conditions (not inconsistent with the Plan) determined by the Committee.

(c) Income Tax. With respect to any Award granted to a Participant who is subject to taxation under the provisions of the Tax Act in respect of such Award, the Committee shall have the right, but not the obligation, to take account of Canadian income tax considerations in determining the terms and conditions of the Award or any other amendment thereto.

(d) Provision of Information. At least annually, copies of the Company's balance sheet and income statement for the just completed fiscal year shall be made available to each Participant and purchaser of shares upon the exercise of an Award; provided, however, that this requirement shall not apply if all offers and sales of securities pursuant to the Plan comply with all applicable conditions of Rule 701 under the Securities Act. The Company shall not be required to provide such information to key persons whose duties in connection with the Company assure them access to equivalent information

(e) Plan Provisions Control. In the event that any provision of an Award Agreement conflicts with or is inconsistent in any respect with the terms of the Plan as set forth herein or subsequently amended, the terms of the Plan shall control.

(f) No Rights of Shareholders. Except with respect to Shares issued under Awards (and subject to such conditions as the Committee may impose on such Awards pursuant to Section 6(c)(i) or Section 6(e)), neither a Participant nor the Participant's legal representative shall be, or have any of the rights and privileges of, a shareholder of the Company with respect to any Shares issuable upon the exercise or payment of any Award, in whole or in part, unless and until such Shares have been issued.

(g) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation plans or arrangements, and such plans or arrangements may be either generally applicable or applicable only in specific cases.

(h) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained as an employee of the Company or any Affiliate, nor will it affect in any way the right of the Company or an Affiliate to terminate a Participant's employment at any time, with or without cause, in accordance with applicable law. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment free from any liability or any claim under the Plan or any Award, unless otherwise expressly provided in the Plan or in any Award Agreement. Nothing in this Plan shall confer on any person any legal or equitable right against the Company or any Affiliate, directly or indirectly, or give rise to any cause of action at law or in equity against the Company or an Affiliate. Under no circumstances shall any person ceasing to be an employee of the Company or any Affiliate be entitled to any compensation for any loss of any right or benefit under the Plan which such employee might otherwise have enjoyed but for termination of employment, whether such compensation is claimed by way of damages for wrongful or unfair dismissal, breach of contract or otherwise. By participating in the Plan, each Participant shall be deemed to have accepted all the conditions of the Plan and the terms and conditions of any rules and regulations adopted by the Committee and shall be fully bound thereby.

(i) Governing Law. The laws of the Province of British Columbia shall govern all questions concerning the validity, construction and effect of the Plan or any Award, and any rules and regulations relating to the Plan or any Award.

(j) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

(k) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(l) Other Benefits. No compensation or benefit awarded to or realized by any Participant under the Plan shall be included for the purpose of computing such Participant's compensation or benefits under any pension, retirement, savings, profit sharing, group insurance, disability, severance, termination pay, welfare or other benefit plan of the Company, unless required by law or otherwise provided by such other plan.

(m) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Share or whether such fractional Share or any rights thereto shall be canceled, terminated or otherwise eliminated.

(n) Headings. Headings are given to the sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

Section 11. Clawback or Recoupment

All Awards under this Plan shall be subject to recovery or other penalties pursuant to (i) any Company clawback policy, as may be adopted or amended from time to time, or (ii) any applicable law, rule or regulation or applicable stock exchange rule.

Section 12. Effective Date of the Plan

The Plan was adopted by the Board on [DATE], 2028 and approved by shareholders of the Company on January 16, 2019. The Plan was amended by the holder of the super voting shares on April 13, 2020 and February 17, 2021 and by the holders of the Shares on June 22, 2023.

Section 13. Term of the Plan

No Award shall be granted under the Plan, and the Plan shall terminate, on the earlier of (i) [DATE], 2028 or the tenth anniversary of the date the Plan is approved by the shareholders of the Company, or any earlier date of discontinuation or termination established pursuant to Section 7(a) of the Plan. Unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may extend beyond such dates, and the authority of the Committee provided for hereunder with respect to the Plan and any Awards, and the authority of the Board to amend the Plan, shall extend beyond the termination of the Plan.

ADDENDUM A

Indus Holdings, Inc. 2019 Stock and Incentive Plan

(California Participants)

Prior to the date, if ever, on which the Shares becomes a Listed Security and/or the Company is subject to the reporting requirements of the Exchange Act, the terms set forth herein shall apply to Awards issued to California Participants. "California Participant" means a Participant whose Award is issued in reliance on Section 25102(o) of the California Corporations Code. All capitalized terms used herein but not otherwise defined shall have the respective meanings set forth in the Plan.

1. The following rules shall apply to any Option in the event of termination of the Participant's service to the Company or an Affiliate:

(a) If such termination was for reasons other than death, "Permanent Disability" (as defined below), or cause, the Participant shall have at least 30 days after the date of such termination to exercise his or her Option to the extent the Participant is entitled to exercise on his or her termination date, provided that in no event shall the Option be exercisable after the expiration of the term as set forth in the Option Agreement.

(b) If such termination was due to death or Permanent Disability, the Participant shall have at least 6 months after the date of such termination to exercise his or her Option to the extent the Participant is entitled to exercise on his or her termination date, provided that in no event shall the Option be exercisable after the expiration of the term as set forth in the Option Agreement.

"Permanent Disability" for purposes of this Addendum shall mean the inability of the Participant, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of the Participant's position with the Company or any Affiliate because of the sickness or injury of the Participant.

2. Notwithstanding anything to the contrary in Section 4(c) of the Plan, the Committee shall in any event make such adjustments as may be required by Section 25102(o) of the California Corporations Code.

3. Notwithstanding anything stated herein to the contrary, no Option shall be exercisable on or after the 10th anniversary of the date of grant and any Award Agreement shall terminate on or before the 10th anniversary of the date of grant.

4. The Company shall furnish summary financial information (audited or unaudited) of the Company's financial condition and results of operations, consistent with the requirements of applicable law, at least annually to each California Participant during the period such Participant has one or more Awards outstanding, and in the case of an individual who acquired Shares pursuant to the Plan, during the period such Participant owns such Shares; provided, however, the Company shall not be required to provide such information if (i) the issuance is limited to key persons whose duties in connection with the Company assure their access to equivalent information or (ii) the Plan or any agreement complies with all conditions of Rule 701 of the Securities Act; provided that for purposes of determining such compliance, any registered domestic partner shall be considered a "family member" as that term is defined in Rule 701.

5. The Plan or any increase in the maximum aggregate number of Shares issuable thereunder as provided in Section 4(a) (the "Authorized Shares") shall be approved by a majority of the outstanding securities of the Company entitled to vote by the later of (a) a period beginning twelve (12) months before and ending twelve (12) months after the date of adoption thereof by the Board or (b) the first issuance of any security pursuant to the Plan in the State of California (within the meaning of Section 25008 of the California Corporations Code). Awards granted prior to security holder approval of the Plan or in excess of the Authorized Shares previously approved by the security holders shall become exercisable no earlier than the date of shareholder approval of the Plan or such increase in the Authorized Shares, as the case may be, and such Awards shall be rescinded if such security holder approval is not received in the manner described in the preceding sentence. Notwithstanding the foregoing, a foreign private issuer, as defined by Rule 3b-4 of the Exchange Act of 1934 shall not be required to comply with this paragraph provided that the aggregate number of persons in California granted options under all option plans and agreements and issued securities under all purchase and bonus plans and agreements does not exceed 35.

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: August 10, 2023

/s/ Mark Ainsworth
Mark Ainsworth
Chief Executive Officer

LOWELL FARMS INC.

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Tessa O'Dowd, 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: August 10, 2023

/s/ Tessa O'Dowd

Tessa O'Dowd
Interim 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 June 30, 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

Mark Ainsworth
Chief Executive Officer

Date: August 10, 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 June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tessa O'Dowd, Interim 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/ Tessa O'Dowd

Tessa O'Dowd
Interim Chief Financial Officer

Date: August 10, 2023