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 September 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	**87-3037317**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
19 Quail Run Circle - Suite B, Salinas, California	**93907**
(Address of Principal Executive Offices)	(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 18,125,764 shares of the Registrant's Subordinate Voting Shares outstanding as of November 13, 2023.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,498	$ 1,098
Accounts receivable - net of allowance for doubtful accounts of $959 and $1,053 at September 30, 2023 and December 31, 2022, respectively.	2,634	4,163
Inventory	8,835	10,779
Prepaid expenses and other current assets	1,083	1,522
Total current assets	**18,050**	**17,562**
Property and equipment, net	14,342	31,284
Right of use assets, net	53,206	27,362
Other intangibles, net	28,104	42,202
Other assets	672	413
Total assets	**$ 114,374**	**$ 118,823**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,035	$ 2,307
Accrued payroll and benefits	463	350
Notes payable, current portion	6	282
Lease obligation, current portion	1,523	2,659
Convertible debentures	22,081	21,398
Other current liabilities	4,346	3,654
Total current liabilities	**32,454**	**30,650**
Notes payable	-	3
Lease obligation	57,893	31,340
Mortgage obligation	-	8,713
Total liabilities	**90,347**	**70,706**
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Share capital	191,935	191,742
Accumulated deficit	(167,908)	(143,625)
Total stockholders' equity	**24,027**	**48,117**
Total liabilities and stockholders' equity	**$ 114,374**	**$ 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		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net revenue	$ 6,212	$ 8,657	$ 20,770	$ 34,247
Cost of goods sold	6,656	10,553	21,423	33,075
Gross profit (loss)	(444)	(1,896)	(653)	1,172
Operating expenses				
General and administrative	1,805	2,620	4,990	7,433
Sales and marketing	456	601	1,827	4,109
Depreciation and amortization	102	109	317	340
Total operating expenses	2,363	3,330	7,134	11,882
Loss from operations	(2,807)	(5,226)	(7,787)	(10,710)
Other income/(expense)				
Other income (expense)	(1,916)	2,771	1,889	2,472
Impairment expense	(13,793)	-	(13,793)	-
Unrealized change in fair value of investment	-	(16)	(28)	(122)
Interest expense	(1,594)	(2,218)	(4,404)	(4,865)
Total other income (expense)	(17,303)	537	(16,336)	(2,515)
Loss before provision for income taxes	(20,110)	(4,689)	(24,123)	(13,225)
Provision for income taxes	60	90	160	225
Net loss	**$ (20,170)**	**$ (4,779)**	**$ (24,283)**	**$ (13,450)**
Net loss per share:				
Basic	$ (1.66)	$ (0.43)	$ (1.99)	$ (1.20)
Diluted	$ (1.66)	$ (0.43)	$ (1.99)	$ (1.20)
Weighted average shares outstanding:				
Basic	12,177	11,203	12,177	11,200
Diluted	12,177	11,203	12,177	11,200

See Accompanying Notes to Condensed Consolidated Financial Statements (unaudited)

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

(in thousands)	Three Months Ended September 30, 2023				
	Subordinate Voting Shares	**Super Voting Shares**	**Share Capital**	**Accumulated Deficit**	**Total Stockholders' Equity**
Balance-June 30, 2023	**12,177**	**20**	**$ 191,843**	**$ (147,738)**	**$ 44,105**
Net loss	-	-	-	(20,170)	(20,170)
Share-based compensation expense	-	-	92	-	92
Balance- September 30, 2023	**12,177**	**20**	**$ 191,935**	**$ (167,908)**	**$ 24,027**

	Three Months Ended September 30, 2022				
	Subordinate Voting Shares	**Super Voting Shares**	**Share Capital**	**Accumulated Deficit**	**Total Stockholders' Equity**
Balance-June 30, 2022	**11,203**	**20**	**$ 189,686**	**$ (127,732)**	**$ 61,954**
Net income	-	-	-	(4,779)	(4,779)
Share-based compensation expense	-	-	109	-	109
Balance- September 30, 2022	**11,203**	**20**	**$ 189,785**	**$ (132,511)**	**$ 57,284**

	Nine Months Ended September 30, 2023				
	Subordinate Voting Shares	**Super Voting Shares**	**Share Capital**	**Accumulated Deficit**	**Stockholders' Equity**
Balance-December 31, 2022	**12,177**	**20**	**$ 191,742**	**$ (143,625)**	**$ 48,117**
Net loss	-	-	-	(24,283)	(24,283)
Share-based compensation expense	-	-	193	-	193
Balance- September 30, 2023	**12,177**	**20**	**$ 191,935**	**$ (167,908)**	**$ 24,027**

	Nine Months Ended September 30, 2022				
	Subordinate Voting Shares	**Super Voting Shares**	**Share Capital**	**Accumulated Deficit**	**Stockholders' Equity**
Balance-December 31, 2021	**11,181**	**20**	**$ 189,368**	**$ (119,061)**	**$ 70,307**
Net loss	-	-	-	(13,450)	(13,450)
Share-based compensation expense	22	-	427	-	427
Balance- September 30, 2022	**11,203**	**20**	**$ 189,795**	**$ (132,511)**	**$ 57,284**

See Accompanying Notes to Condensed Consolidated Financial Statements (unaudited)

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

	Nine Months Ended	
	September 30, 2023	September 30, 2022
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	$ (24,283)	$ (13,450)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,151	5,161
Amortization of debt issuance costs	712	688
Share-based compensation expense	193	427
Provision for doubtful accounts	328	551
Gain on sale leaseback	(3,004)	-
Loss (gain) on lease settlement	(880)	-
Loss on sale of assets	-	41
Unrealized loss on change in fair value of investments	28	122
Impairment expense	13,793	-
Changes in operating assets and liabilities:		
Accounts receivable	1,201	1,847
Inventory	1,944	(900)
Prepaid expenses and other current assets	119	(132)
Other assets	(387)	(621)
Accounts payable and accrued expenses	3,190	(48)
Net cash used in operating activities	**$ (2,895)**	**$ (6,314)**
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from asset sales	-	19
Purchases of property and equipment	(58)	(2,920)
Net cash used in investing activities	**$ (58)**	**$ (2,901)**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from sale leaseback	8,991	-
Principal payments on lease obligations	(1,551)	(1,818)
Payments on notes payable	(87)	(120)
Proceeds from convertible notes, net of financing costs	-	6,558
Net cash used in financing activities	**$ 7,353**	**$ 4,620**
Change in cash and cash equivalents	4,400	(4,595)
Cash and cash equivalents-beginning of year	1,098	7,887
Cash, cash equivalents -end of period	**$ 5,498**	**$ 3,292**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$ 2,780	$ 3,276
Cash paid during the period for income taxes	$ 87	$ 182
OTHER NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase of property and equipment not yet paid for	$ 26	$ 47

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 (the “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 nine months ended September 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 the unaudited condensed consolidated financial statements are expressed in thousands of United States dollars (“$” or “US$”), unless otherwise indicated.

In August 2023, the Company effected reverse stock split consolidating all of its subordinate voting shares (“Subordinate Voting Shares”) on the basis of one post-consolidation Subordinate Voting Share for every ten pre-consolidation Subordinate Voting Shares, effective August 31, 2023 (the “Effective Date”). The Company’s outstanding super voting shares will also be consolidated on the same basis as of the Effective Date. All share and per share data presented in the Company’s consolidated financial statements have been retroactively adjusted to reflect the reverse stock split.

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 unaudited 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 unaudited financial statements.

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)	September 30, 2023	December 31, 2022
Deposits	$ 190	$ 595
Insurance	251	235
Supplier advances	245	375
Interest and taxes	126	69
Licenses and payments	252	146
Other	19	102
Total prepaid and other current assets	**$ 1,083**	**$ 1,522**

3. INVENTORY

Inventory was comprised of the following items:

(in thousands)	September 30, 2023	December 31, 2022
Raw materials	$ 4,904	$ 7,431
Work in process	381	940
Finished goods	3,550	2,408
Total inventory	**$ 8,835**	**$ 10,779**

4. Other current liabilities

Other current liabilities were comprised of the following items:

(in thousands)	September 30, 2023	December 31, 2022
Interest and tax accrual	$ 1,633	$ 921
Equipment purchase accrual	724	724
ERC commission accrual	441	441
Excise and cannabis tax	180	948
Accrued discounts and promotions	133	97
Insurance and professional fee accrual	216	158
Third-party brand distribution accrual	360	17
Accrued rent	184	-
Other	475	348
Total other current liabilities	**$ 4,346**	**$ 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 September 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	-	29	-	-	29,647	29,705
Disposals	(15,719)	(203)	-	-	-	-	-	(15,922)
Lease remeasurement	-	-	-	-	-	-	(1,477)	(1,477)
Balance – September 30, 2023	**$ -**	**$ 12,263**	**$ 50**	**$ 6,528**	**$ 830**	**$ 35**	**$ 65,251**	**$ 84,957**
Accumulated Depreciation								
Balance - December 31, 2022	**$ (315)**	**$ (1,815)**	**$ (49)**	**$ (1,498)**	**$ (608)**	**$ -**	**$ (9,719)**	**$ (14,004)**
Depreciation	(71)	(632)	-	(708)	(109)	-	(2,326)	(3,846)
Disposals	386	55	-	-	-	-	-	441
Balance - September 30, 2023	**$ -**	**$ (2,392)**	**$ (49)**	**$ (2,206)**	**$ (717)**	**$ -**	**$ (12,045)**	**$ (17,409)**
Net Book Value - September 30, 2023	**$ -**	**$ 9,871**	**$ 1**	**$ 4,322**	**$ 113**	**$ 35**	**$ 53,206**	**$ 67,548**
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 $1,405 and $1,647 were recorded for the three months ended September 30, 2023 and 2022, respectively, of which $1,385 and $584 respectively, were included in cost of goods sold. Depreciation expense of $0 and $104 was also recorded in other income (expense) for the three months ended September 30, 2023 and 2022, respectively.

Depreciation expense of $3,846 and $4,917 were recorded for the nine months ended September 30, 2023 and 2022, respectively, of which $3,772 and $4,416 respectively, were included in cost of goods sold. Depreciation expense of $0 and $419 was also recorded in other income (expense) for the nine months ended September 30, 2023 and 2022, respectively.

During the nine months ended September 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.

In May 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.

6. Other Intangible Assets

A reconciliation of the beginning and ending balances of intangible assets and accumulated amortization during the nine months ended September 30, 2023 and intangible assets, net as of December 31, 2022, are as follows:

(in thousands)	Definite Life Intangibles: Technology/ Know How	Definite Life Intangibles: Acquired Purchase Rights	Indefinite Life Intangibles Brands & Tradenames	Total
Costs				
Balance-December 31, 2022	**$ 3,258**	**$ 1,800**	**$ 37,707**	**$ 42,765**
Business acquisition	-	-	-	-
Impairment	-	-	(13,793)	(13,793)
Balance-September 30, 2023	**$ 3,258**	**$ 1,800**	**$ 23,914**	**$ 28,972**
Accumulated Amortization				
Balance-December 31, 2022	**$ (535)**	**$ (28)**	**$ -**	**$ (563)**
Amortization	(243)	(62)	-	(305)
Balance-September 30, 2023	**$ (778)**	**$ (90)**	**$ -**	**$ (868)**
Net Book Value				
December 31, 2022	**$ 2,723**	**$ 1,772**	**$ 37,707**	**$ 42,202**
Net Book Value				
September 30, 2023	**$ 2,480**	**$ 1,710**	**$ 23,914**	**$ 28,104**

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 $305 and $244 for the nine months ended September 30, 2023, and 2022, respectively.

The Company estimates that amortization expense for our existing other intangible assets will average $399 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.

During the three months ending September 30, 2023, the Company recorded impairment expense of $13,793 on the Lowell Brands intangible assets that were sold in October, 2023. The Company recorded the impairment to recognize the fair market value of the assets as of the end of the current period. Refer to Note 18 *Subsequent Events* for further details of the transaction.

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 nine months ended September 30, 2023:

(in thousands)	Subordinate Voting Shares	Super Voting Shares
Balance-December 31, 2022	**12,177**	**20**
Balance-September 30, 2023	**12,177**	**20**

Warrants

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

(in thousands)	
Balance-December 31, 2022	**17,343**
Balance-September 30, 2023	**17,343**

In October 2023, the Company repurchased its outstanding Convertible Debentures and 15,052 warrants were cancelled. Refer to Note 18 *Subsequent Events* for further details of the transaction.

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

8. DEBT

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

(in thousands)	September 30, 2023	December 31, 2022
Current portion of long-term debt		
Vehicle loans(1)	$ 6	$ 15
Mortgage payable(2)	-	257
Note payable	-	10
Convertible debenture(3)	22,081	21,398
Total short-term debt	22,087	21,680
Long-term debt, net		
Vehicle loans(1)	-	3
Mortgage payable(2)	-	8,713
Total long-term debt	-	8,716
Total Indebtedness	**$ 22,087**	**$ 30,396**

(1) Primarily fixed term loans on transportation vehicles. Weighted average interest rate at September 30, 2023 and December 31, 2022 was 6.4%,.
(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 September 30, 2023 and December 31, 2022 of $75 and $759, respectively.

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

(in thousands)	September 30, 2023
Balance of 2023	$ 22,164
2024	-
Total debt obligations	**$ 22,164**

In October 2023, the Company repurchased its outstanding Convertible Debentures. Refer to Note 18 *Subsequent Events* for further details of the transaction.

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

9. LEASES

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

(in thousands)	
Lease obligation	
December 31, 2022	**$ 33,999**
Sale leaseback additions	29,647
Lease principal payments	(1,551)
Lease remeasurement	(1,477)
Lease settlement	(1,202)
September 30, 2023	**$ 59,416**

In May 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.

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

(in thousands)	September 30, 2023	December 31, 2022
Lease obligation, current portion	$ 1,523	$ 2,659
Lease obligation, long-term portion	57,893	31,340
Total	**$ 59,416**	**$ 33,999**

The key assumptions used in accounting for leases as of September 30, 2023 were a weighted average remaining lease term of17.6 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 of14.6 years and a weighted average discount rate of 6.0%.

The components of lease expense for the three and nine months ended September 30, 2023 and 2022, are as follows:

	Three Months Ended		Nine Months Ended	
(in thousands)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Amortization of leased assets (1)	$ 939	$ 818	$ 2,329	$ 2,475
Interest on lease liabilities (2)	459	549	1,441	1,683
Total	$ 1,398	$ 1,367	$ 3,770	$ 4,158

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 September 30, 2023 were as follows:

(in thousands)	September 30, 2023
Balance of 2023	$ 1,461
2024	5,541
2025	5,559
2026	5,587
2027 and beyond	90,806
Total lease payments	**108,954**
Less imputed interest	(49,538)
Total	**$ 59,416**

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 2.3 million shares from 1.3 million shares authorized to be issued under the Plan and as of September 30, 2023, 1.6 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.

In August 2023, the Company effected reverse stock split consolidating all of its subordinate voting shares ("Subordinate Voting Shares") on the basis of one post-consolidation Subordinate Voting Share for every ten pre-consolidation Subordinate Voting Shares, effective August 31, 2023 (the "Effective Date"). The Company's outstanding super voting shares will also be consolidated on the same basis as of the Effective Date. All share and per share data presented in the Company's consolidated financial statements have been retroactively adjusted to reflect the reverse stock split.

During the nine months ended September 30, 2023 and 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 nine months ended September 30, 2023 and 2022, share-based compensation expense was as follows:

	Three Months Ended		Nine Months Ended	
(in thousands)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Cost of goods sold	$ -	$ -	$ -	$ -
General and administrative expense	92	109	193	427
Total share-based compensation	**$ 92**	**$ 109**	**$ 193**	**$ 427**

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

(in thousands except per share amounts)	Stock Options	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding-December 31, 2022	**1,007**	**$ 4.67**	**4.6**	**$ -**
Granted	828	0.30	-	-
Exercised	-	-	-	-
Expired	(15)	20.35		
Cancelled	(335)	4.80	-	-
Outstanding-September 30, 2023	**1,485**	**$ 2.06**	**5.3**	**-**
Exercisable-September 30, 2023	**944**	**$ 2.37**	**4.91**	**$ -**
Vested and expected to vest-September 30, 2023	**1,485**	**$ 2.06**	**5.3**	**$ -**

The weighted-average fair value of options granted during the three and nine months ended September 30, 2023, estimated as of the grant date were $0.30. As of September 30, 2023, there was $269 of total unrecognized compensation cost related to non-vested options, which is expected to be recognized over a remaining weighted-average vesting period of 1.1 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 nine months ended September 30, 2023:

(in thousands)	RSUs	Weighted-Average Fair Value
Outstanding-December 31, 2022	**21**	**$ 11.04**
Granted	-	-
Vested	-	-
Cancelled	(9)	10.19
Outstanding-September 30, 2023	**12**	**$ 11.04**

As of September 30, 2023, there was $45 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 nine months ended September 30, 2023 and 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..

Stock Options

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Expected volatility	50%	50%
Dividend yield	0%	0%
Risk-free interest rate	4.12%	1.0%
Expected term in years	4.50	4.50

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

11. INCOME TAXES

The provision for income tax expense for the three months ended September 30, 2023, was $60, representing an effective tax rate of -0.30%, compared to an income tax expense of $90 for the three months ended September 30, 2022, representing an effective tax rate of -1.92%. The provision for income tax expense for the nine months ended September 30, 2023, was $160, representing an effective tax rate of -0.66%, compared to an income tax expense of $225 for the nine months ended September 30, 2022, representing an effective tax rate of -1.70%.

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:

	Three Months Ended		Nine Months Ended	
(in thousands except per share amounts)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net loss	$ (20,170)	$ (4,779)	$ (24,283)	$ (13,450)
Net loss per share:				
Basic	$ (1.66)	$ (0.43)	$ (1.99)	$ (1.20)
Diluted	$ (1.66)	$ (0.43)	$ (1.99)	$ (1.20)
Weighted average shares outstanding:				
Basic	12,177	11,203	12,177	11,200
Diluted	12,177	11,203	12,177	11,200
Weighted average potentially diluted shares (1):				
Basic shares	12,177	11,203	12,177	11,200
Total weighted average potentially diluted shares:	12,177	11,203	12,177	11,200

(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.

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 September 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 September 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 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 September 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 September 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.

15. GENERAL AND ADMINISTRATIVE EXPENSES

For the nine months ended September 30, 2023 and 2022, general and administrative expenses were comprised of:

	Three Months Ended		Nine Months Ended	
(in thousands)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Salaries and benefits	$ 799	$ 1,338	$ 2,485	$ 3,984
Professional fees	271	212	798	734
Share-based compensation	92	109	193	427
Insurance	228	338	752	1,043
Administrative	415	623	762	1,245
Total general and administrative expenses	**$ 1,805**	**$ 2,620**	**$ 4,990**	**$ 7,433**

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 nine months ended September 30, 2023 and 2022 were $284 and $129, 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 $100 in the nine months ended September 30, 2023.

In October 2023, the Company repurchased its outstanding Convertible Debentures. Refer to Note 18*Subsequent Events* for further details of the transaction.

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

On October 6th, 2023 the Company repurchased all of the $22,157 aggregate principal amount of outstanding Senior Secured Convertible Debentures ("Debentures") together with the related warrants to purchase 10,627,483 subordinate voting shares of the Company and 4,324,845 common shares of Indus which have been cancelled. Share amounts reflect the 1 for 10 reverse stock split effective August 31, 2023. A total of 6,849,572 shares of the Company were issued to holders based on the proportion of the outstanding Debentures held by such holder, of (x) membership interests in LF Brandco LLC ("Brandco"), an entity formed to hold the Company's intellectual property relating to its "Lowell Smokes" and "Lowell Herb Co." brands (including trademarks, logos and additional identifying marks, domain names and social media accounts). During the three months ended September 30, 2023, the Company recognized $13,743 of impairment on the intangible brand assets. The Company will continue to evaluate the Company's long lived assets for indicators of future impairment as a result of the transaction.

The Company has entered into a license agreement with Brandco for the "Lowell" trademarks, logos, and related intellectual property on an exclusive basis in the State of California for a five-year license term, with up to three five-year extensions. The Company's exercise of the extension terms is subject to mutual agreement on certain sales performance criteria for each extension term.

The transaction is considered to be a "related party transaction" because insiders of the Company hold Debentures and Warrants.

The Company has evaluated other potential subsequent events through November 13, 2023, the date the unaudited 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 NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 30, 2023 and 2022. It is supplemental to, and should be read in conjunction with, the Company's consolidated unaudited financial statements (the "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 or license include the following:

- Lowell Herb Co. and Lowell Smokes - a premium brand of packaged flower, pre-roll, concentrates, and vape products.
- Lowell 35s - a premium branded product line of pre-rolls produced from an automated machine.
- House Weed - a value driven flower, vape and concentrates offering, delivering a flavorful and potent experience with dependable quality.
- Kaizen - a premium brand offering a full spectrum of cannabis concentrates.
- Moon - offers a range of cannabis bars, bites and fruit chews in a variety of flavors, focusing on high-quality and high-value.
- Original Pot Company - infuses its quality baked edibles with cannabis extract.
- Cypress Cannabis - a premium flower brand reserved for the Company's highest potency harvests from its greenhouses.
- Humble Flower - a product line of topicals, pre-rolls and functional pressed sublingual tablets.
- 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.

Debt Settlement, Asset Sale and Licensing

On October 6, 2023 the Company repurchased all of the $22,157 aggregate principal amount of outstanding Senior Secured Convertible Debentures together with the related warrants to purchase 10,627,483 subordinate voting shares of the Company and 4,324,845 common shares of Indus. Share amounts reflect the 1 for 10 reverse stock split effective August 31, 2023. A total of 6,849,572 shares of the Company were issued to holders based on the proportion of the outstanding Debentures held by such holder, of (x) membership interests in LF Brandco LLC ("Brandco"), an entity formed to hold the Company's intellectual property relating to its "Lowell Smokes" and "Lowell Herb Co." brands (including trademarks, logos and additional identifying marks, domain names and social media accounts). During the three months ended September 30, 2023, the Company recognized $13,743 of impairment on the intangible brand assets.

The Company has entered into a license agreement with Brandco for the "Lowell" trademarks, logos, and related intellectual property on an exclusive basis in the State of California for a five-year license term, with up to three five-year extensions. The Company's exercise of the extension terms is subject to mutual agreement on certain sales performance criteria for each extension term.

The transaction closed in October, 2023 and is considered a subsequent event as of the date of the financial statements.

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 product manufacturing operations.

The first harvest was in the third quarter of calendar year 2017. In 2021 we completed a series of facility upgrades to our greenhouses and supporting infrastructure, which increased facility output approximately four times from that generated in 2019. These facility improvements include separate grow rooms configured with drop-shades, supplemental lighting, upgraded electrical capability with environmental controls and automated fertigation, and raised gutter height in two of the greenhouses. We harvested approximately 17,000, 32,000 and 34,000 pounds of flower in 2020, 2021 and 2022, respectively, and are currently projecting to harvest roughly 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		Nine Months Ended	
(in thousands)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net loss	**$ (20,170)**	**$ (4,779)**	**$ (24,283)**	**$ (13,450)**
Interest expense	1,594	1,355	4,404	4,002
Provision for income taxes	61	90	160	225
Depreciation and amortization in cost of goods sold	1,405	1,528	3,834	4,416
Depreciation and amortization in operating expenses	102	110	317	340
Depreciation and amortization in other income (expense)	-	104	-	419
EBITDA(1)	**(17,008)**	**(1,592)**	**(15,568)**	**(4,048)**
Investment and currency (gains)/ losses	2	16	30	122
Share-based compensation	92	109	193	427
Inventory revaluation	(157)	-	(157)	-
Debt Repurchase charges(4)	14,025	-	14,025	-
Other charges(2)(3)	1,723	(2,014)	(2,161)	(1,984)
Adjusted EBITDA(1)	**$ (1,323)**	**$ (3,481)**	**$ (3,638)**	**$ (5,483)**

(1)Non-GAAP measure
(2) For the three and nine months ended September 30, 2023, reflects a one time, non-recurring adjustment to prior period yield and processing variances on the Company's processing facility, included in other income (expense) on the Condensed Consolidated Statements of Income (Loss).
(3) For the three and nine months ended September 30, 2022, net of $863 of financing charges related to the ERC claim, included in interest expense on the Condensed Consolidated Statements of Income (Loss).
(4) Comprised of $13,793 of impairment charges on intangible assets and $232 of legal expenses incurred in the three and nine month periods ending September 30, 2023 related to the debt settlement and asset sale. All charges were included in other income (expense) on the Condensed Consolidated Statements of Income (Loss). Refer to Note 18 Subsequent Events for further discussion of the transaction.

RESULTS OF OPERATIONS

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

(in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	$ Change	% Change
CPG	$ 4,369	$ 6,137	$ (1,768)	-29%
Bulk	1,196	1,956	(760)	-39%
Lowell Farm Services	455	254	201	79%
Licensing	192	310	(118)	-38%
Net revenue	**$ 6,212**	**$ 8,657**	**$ (6,149)**	**-28%**

CPG revenues decreased $1.8 million for the three months ended September 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 production 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 September 30, 2023 were $3.1 million and represented 72% of CPG revenues compared to $5.0 million in revenue and 82% 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 $0.9 million in the three months ended September 30, 2023 compared to the same period last year. Included in CPG revenues for the three months ended September 30, 2023 and 2022, is $883 and $180, respectively, of revenue previously classified as agency and distributed brand revenue.

Bulk sales decreased $0.8 million in the three months ended September 30, 2023 compared to the same period in the prior year. The decrease in revenue in the current period was driven by a 73% decrease in total pounds sold that was impacted by reduced flower production, but was offset a 97% 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 97% in the three months ended September 30, 2023 compared to the same period in the prior year while pounds sold declined 69% over the same period, partially driven by the adverse weather conditions and reduced yields during 2023.

LFS and licensing revenues generated $0.5 million and $0.2 million in the three months ended September 30, 2023, respectively, compared to generating $0.3 million and $0.3 million in the same period of the prior year, respectively. The increase in LFS revenue was driven by an increase in third-party bulk processing 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 September 30, 2023, Compared to Three Months Ended September 30, 2022:

(in thousands, except percentages)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Change $	Change %
Net revenue	$ 6,212	$ 8,657	$ (2,445)	-28%
Cost of goods sold	6,656	10,553	(3,897)	-37%
Gross profit	$ (444)	$ (1,896)	$ 1,452	77%
Gross margin	-7.1%	-21.9%		

Gross margin was (7.1%) and (21.9%) in the three months ended September 30, 2023 and 2022, respectively. Gross profit was adversely affected during the period by a decline in yields at the Company's cultivation and processing facility as the Company strategically allocated available flower production between CPG and Bulk revenue. As a result, 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.

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

	Three Months Ended		Change	
(in thousands, except percentages)	September 30, 2023	September 30, 2022	$	%
Total operating expenses	$ 2,363	$ 3,330	$ (967)	-29%
% of net revenue	38%	38%		

Total operating expenses decreased $0.9 million for the three months ended September 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 38% for the three months ended September 30, 2023 and 2022.

Other Income (Expense)

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

	Three Months Ended		Change	
(in thousands, except percentages)	September 30, 2023	September 30, 2022	$	%
Total other income (expense)	$ (17,303)	$ 537	$ (17,840)	-3,322%
% of net revenue	-279%	6%		

Other income (expense) decreased $17.8 million for the three months ended September 30, 2023 compared to the same period of the prior year. This was driven by a $13.8 million impairment charge, a $1.7 million charge related to a one time, non-recurring yield and processing variance on the Company's processing facility and $232 of legal expenses incurred on the debt repurchase transaction. During the three months ending September 30, 2022, the company recorded a $2,800 credit related to the sale of an Employee Retention Credit that was earned during the period, net of financing costs of $862 to facilitate the sale of the credit.

Net Loss

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

	Three Months Ended		Change	
(in thousands)	September 30, 2023	September 30, 2022	$	%
Net loss	$ (20,170)	$ (4,779)	$ (15,391)	-322%

Net loss was $20.2 million in the quarter ended September 30, 2023, compared to net loss of $4.8 million for the same period of the prior year as a result of the factors noted above.

<u>Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022</u>

Revenue by Category

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022:

	Nine Months Ended			
(in thousands)	September 30, 2023	September 30, 2022	$ Change	% Change
CPG	$ 13,466	$ 22,658	$ (9,192)	-41%
Bulk	5,989	7,130	(1,141)	-16%
Lowell Farm Services	664	3,151	(2,487)	-79%
Licensing	651	1,308	(657)	-50%
Net revenue	**$ 20,770**	**$ 34,247**	**$ (13,477)**	**-39%**

CPG revenues decreased $9.2 million for the nine months ended September 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 production in the current year 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 nine months ended September 30, 2023 were $10.6 million and represented 78% of CPG revenues compared to $14.9 million in revenue and 66% of CPG sales in the same period in the prior year. Included in Lowell brand revenues was $2.6 million of Lowell 35s revenues which launched during the third quarter of 2022 with $0.1 million in revenue. The decline in CPG revenues from the prior year was primarily driven by declines in the sales of House Weed which decreased $4.8 million in the nine months ended September 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 $1.1 million in the nine months ended September 30, 2023 compared to the same period in the prior year. The decrease in revenue in the current period was driven by a 41% decrease in total pounds sold that was impacted by reduced flower production throughout the year, which was partially offset by a 26% increase in price per pound, reflecting both favorable market conditions in the current period, and the change in product mix during the two compared periods. Comparing premium quality bulk flower sales, price per pound is up 30% in the nine months ended September 30, 2023 compared to the same period in the prior year while pounds sold declined 55% over the same period, partially driven by the impact of adverse weather and reduced yields that impacted harvests during the year.

LFS and licensing revenues generated $0.7 million and $0.7 million in the nine months ended September 30, 2023, respectively, compared to generating $3.1 million and $1.3 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.

Nine Months Ended September 30, 2023, Compared to Nine Months Ended September 30, 2022:

	Nine Months Ended		Change	
(in thousands, except percentages)	September 30, 2023	September 30, 2022	$	%
Net revenue	$ 20,770	$ 34,247	$ (13,477)	-39%
Cost of goods sold	21,423	33,075	(11,652)	-35%
Gross profit	$ (653)	$ 1,172	$ (1,825)	-156%
Gross margin	-3.1%	3.4%		

Gross margin was (3.1%) and 3.4% in the nine months ended September 30, 2023 and 2022, respectively. Gross profit was adversely affected during the period by a decline in yields at the Company's cultivation and processing facility as the Company strategically allocated available flower production between CPG and Bulk revenue. The decline 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.

Nine Months Ended September 30, 2023, Compared to Nine Months Ended September 30, 2022:

	Nine Months Ended		Change	
(in thousands, except percentages)	September 30, 2023	September 30, 2022	$	%
Total operating expenses	$ 7,134	$ 11,882	$ (4,748)	-40%
% of net revenue	34%	35%		

Total operating expenses decreased $4.8 million for the nine months ended September 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 34% for the nine months ended September 30, 2023 and 35% for the nine months ended September 30, 2022.

Other Income (Expense)

Nine Months Ended September 30, 2023, Compared to Nine Months Ended September 30, 2022:

	Six Months Ended		Change	
(in thousands, except percentages)	September 30, 2023	September 30, 2022	$	%
Total other income (expense)	$ (16,336)	$ (2,515)	$ (13,821)	550%
% of net revenue	-79%	-7%		

Other income (expense) increased $13.8 million for the nine months ended September 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, a $13.8 million impairment charge on intangible assets and a $1.7 million charge related to a one time, non-recurring yield and processing variances at the Company's processing facility.

Net Loss

Nine Months Ended September 30, 2023, Compared to Nine Months Ended September 30, 2022:

	Nine Months Ended		Change	
(in thousands)	September 30, 2023	September 30, 2022	$	%
Net loss	$ (24,283)	$ (13,450)	$ (10,833)	-81%

Net loss was $24.3 million in the nine months ended September 30, 2023, compared to net loss of $13.5 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 September 30, 2023, we had $5.5 million in cash and cash equivalents and ($14.5) 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 September 30, 2023 and December 31, 2022, included in working capital is $22.2 million of convertible debentures that were repurchased in October 2023. Refer to "*Debt Settlement, Asset Sale and Licensing"* 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 a more economically feasible facility in Los Angeles;
- Sold and leased back buildings and land to generate cash flow to fund operations; and
- Converted the convertible debt and sold brand assets in October 2023. Refer to "*Debt Settlement, Asset Sale and Licensing*."

Cash Flows

The following table presents the Company's net cash inflows and outflows from the unaudited condensed interim consolidated financial statements of the Company for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended		Change	
(in thousands)	September 30, 2023	September 30, 2022	$	%
Net cash used in operating activities	$ (2,895)	$ (6,314)	$ 3,419	54%
Net cash used in investing activities	(58)	(2,901)	2,843	98%
Net cash provided by financing activities	7,353	4,620	2,733	59%
Change in cash and cash equivalents	$ 4,400	$ (4,595)	$ 8,995	196%

Cash used in operating activities

Net cash used in operating activities was $2.9 million for the nine months ended September 30, 2023, a $3.4 million improvement, or 54%, compared to the nine months ended September 30, 2022. The change was primarily driven by a $1.9 million reduction in inventory in the nine months ended September 30, 2023, compared to a $0.9 million increase in the same period in the prior year. Other factors include a $3.2 million increase in accounts payable during the current period. Accounts receivable also decreased $0.6 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 $0.1 million for the nine months ended September 30, 2023, a favorable decrease in cash used of $2.8 million or 95%, 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 $7.4 million for the nine months ended September 30, 2023, an increase over cash provided by financing activities of $2.7 million compared to the same period of the prior year. The change was due to funding received from the sale leaseback transaction compared to proceeds from convertible debt issuances in the prior year.

Working Capital and Cash on Hand

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

			Change	
(in thousands)	September 30, 2023	December 31, 2022	$	%
Working capital[(1)]	$ (14,404)	$ (13,088)	$ (1,316)	-10%
Cash and cash equivalents	$ 5,498	$ 1,098	$ 4,400	400%

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

At September 30, 2023, we had $5.5 million in cash and cash equivalents and ($14.4) million of working capital, compared to $1.1 million of cash and cash equivalents and ($13.1) million of working capital at December 31, 2022. The increase in cash and cash equivalents was primarily due to favorable changes in operating assets and liabilities.

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

Refer to "*Debt Settlement, Asset Sale and Licensing*" for further discussion on the convertible debtentures. After the transaction closes in October 2023, the Company believes that cash on hand and cash flows from operations is expected to 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 unaudited 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 unaudited 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 unaudited 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.

- Impairment of Intangibles Assets – Intangibles assets are categorized as indefinite life intangibles or defined life intangibles. Amortization of defined life intangibles is recognized over the useful life of the intangible asset. The assessment of any impairment of these intangible 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.

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 September 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.

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

	Maturity: < 1 Year	
(in thousands)	**September 30, 2023**	**December 31, 2022**
Accounts payable and Other accrued liabilities	$ 8,381	$ 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 November 13, 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	18,126
Class B shares (1)	901
Super voting shares	20
Reserved for Issuance	
Options	1,485
Restricted Stock Units	12
Warrants	2,291
	22,835

(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 September 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 September 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 September 30, 2023 there were no unregistered sales of equity related securities identified, outside of those already reported.

Item 5. Other Information

Securities Trading Plans of Directors and Executive Officers

During the quarter ended September 30, 2023, none of our directors or executive officers adopted or terminated a Rule 10b5-1 trading plan or a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K).

Item 6. Exhibits

Exhibit No.	Exhibit Description
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.*

*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: November 14, 2023	By: /s/ Mark Ainsworth Mark Ainsworth Chief Executive Officer (principal executive officer)
Date: November 14, 2023	By: /s/ Tessa O'Dowd Tessa O'Dowd Interim Chief Financial Officer (principal financial and accounting officer)

EXHIBIT 31.1

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: November 14, 2023

/s/ Mark Ainsworth
Mark Ainsworth
Chief Executive Officer

EXHIBIT 31.2

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: November 14, 2023

/s/ Tessa O’Dowd
Tessa O’Dowd
Interim Chief Financial Officer

EXHIBIT 32.1

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 September 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: November 14, 2023

EXHIBIT 32.2

**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 September 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: November 14, 2023