

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

**FORM 10-Q**

(mark one)

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

For the Quarterly Period ended September 30, 2024

or

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

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

Commission File Number 000-56254

**LOWELL FARMS INC.**

(Exact name of Registrant as Specified in its Charter)

British Columbia, Canada

(State or Other Jurisdiction of  
Incorporation or Organization)

87-3037317

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

19 Quail Run Circle - Suite B, Salinas, California

(Address of Principal Executive Offices)

93907

(Zip Code)

(831) 998-8214

(Registrant's Telephone Number, Including Area Code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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   
Non-accelerated Filer

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 18,149,651 shares of the Registrant's Subordinate Voting Shares outstanding as of November 13, 2024.

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	<b>September 30,</b>	<b>December 31,</b>
	<b>2024</b>	<b>2023</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 320	\$ 2,311
Accounts receivable - net of allowance for doubtful accounts of \$1,050 and \$959 at September 30, 2024 and December 31, 2023, respectively.	2,256	2,620
Inventory	1,935	4,760
Prepaid expenses and other current assets	1,128	2,397
<b>Total current assets</b>	<b>5,639</b>	<b>12,088</b>
Property and equipment, net	2,890	4,099
Right of use assets, net	17,188	18,327
Other intangibles, net	2,256	2,544
Other assets	465	555
<b>Total assets</b>	<b>\$ 28,438</b>	<b>\$ 37,613</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,647	\$ 4,314
Accrued payroll and benefits	301	363
Notes payable, current portion	-	3
Lease obligation, current portion	1,780	1,990
Other current liabilities	2,838	1,943
<b>Total current liabilities</b>	<b>7,566</b>	<b>8,613</b>
Lease obligation	16,667	17,522
<b>Total liabilities</b>	<b>24,293</b>	<b>26,135</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Share capital	192,488	192,445
Accumulated deficit	(188,283)	(180,967)
<b>Total stockholders' equity</b>	<b>4,205</b>	<b>11,478</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 28,438</b>	<b>\$ 37,613</b>

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

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u> <u>2024</u>	<u>September 30,</u> <u>2023</u>	<u>September 30,</u> <u>2024</u>	<u>September 30,</u> <u>2023</u>
Net revenue	\$ 3,244	\$ 6,212	\$ 11,656	\$ 20,770
Cost of goods sold	4,184	6,656	13,977	21,423
Gross profit (loss)	(940)	(444)	(2,321)	(653)
Operating expenses				
General and administrative	1,440	1,865	4,081	5,150
Sales and marketing	236	456	1,096	1,827
Depreciation and amortization	160	102	355	317
Total operating expenses	1,836	2,423	5,532	7,294
Loss from operations	(2,776)	(2,867)	(7,853)	(7,947)
Other income (expense)				
Other income	(448)	(1,916)	957	1,889
Impairment expense	-	(13,793)	-	(13,793)
Unrealized change in fair value of investment	-	-	-	(28)
Interest expense	(2)	(1,594)	(17)	(4,404)
Total other income (expense)	(450)	(17,303)	940	(16,336)
Loss before provision for income taxes	(3,226)	(20,170)	(6,913)	(24,283)
Provision for income taxes	403	-	403	-
<b>Net loss</b>	<b>\$ (3,629)</b>	<b>\$ (20,170)</b>	<b>\$ (7,316)</b>	<b>\$ (24,283)</b>
Net loss per share:				
Basic	\$ (0.19)	\$ (1.66)	\$ (0.38)	\$ (1.99)
Diluted	\$ (0.19)	\$ (1.66)	\$ (0.38)	\$ (1.99)
Weighted average shares outstanding:				
Basic	19,031	12,177	19,031	12,177
Diluted	19,031	12,177	19,031	12,177

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

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

	Three Months Ended September 30, 2024				
	Subordinate Voting Shares	Super Voting Shares	Share Capital	Accumulated Deficit	Total Stockholders' Equity
<b>Balance-June 30, 2024</b>	19,031	20	\$ 192,481	\$ (184,654)	\$ 7,827
Net loss	-	-	-	(3,629)	(3,629)
Share-based compensation expense	-	-	7	-	7
<b>Balance- September 30, 2024</b>	<u>19,031</u>	<u>20</u>	<u>\$ 192,488</u>	<u>\$ (188,283)</u>	<u>\$ 4,205</u>
	Three Months Ended September 30, 2023				
	Subordinate Voting Shares	Super Voting Shares	Share Capital	Accumulated Deficit	Total Stockholders' Equity
<b>Balance-June 30, 2023</b>	12,177	20	\$ 191,843	\$ (147,738)	\$ 44,105
Net loss	-	-	-	(20,170)	(20,170)
Share-based compensation expense	-	-	92	-	92
<b>Balance-September 30, 2023</b>	<u>12,177</u>	<u>20</u>	<u>\$ 191,935</u>	<u>\$ (167,908)</u>	<u>\$ 24,027</u>
	Nine Months Ended September 30, 2024				
	Subordinate Voting Shares	Super Voting Shares	Share Capital	Accumulated Deficit	Stockholders' Equity
<b>Balance-December 31, 2023</b>	19,031	20	\$ 192,445	\$ (180,967)	\$ 11,478
Net loss	-	-	-	(7,316)	(7,316)
Share-based compensation expense	-	-	43	-	43
<b>Balance-September 30, 2024</b>	<u>19,031</u>	<u>20</u>	<u>\$ 192,488</u>	<u>\$ (188,283)</u>	<u>\$ 4,205</u>
	Nine Months Ended September 30, 2023				
	Subordinate Voting Shares	Super Voting Shares	Share Capital	Accumulated Deficit	Stockholders' Equity
<b>Balance-December 31, 2022</b>	12,177	20	\$ 191,742	\$ (143,625)	\$ 48,117
Net loss	-	-	-	(24,283)	(24,283)
Share-based compensation expense	-	-	193	-	193
<b>Balance-September 30, 2023</b>	<u>12,177</u>	<u>20</u>	<u>\$ 191,935</u>	<u>\$ (167,908)</u>	<u>\$ 24,027</u>

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

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

	<b>Nine Months Ended</b>	
	<b>September 30, 2024</b>	<b>September 30, 2023</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (7,316)	\$ (24,283)
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>		
Depreciation and amortization	2,274	4,151
Amortization of debt issuance costs	-	712
Share-based compensation expense	43	193
Provision for doubtful accounts	807	328
Gain on sale leaseback	-	(3,004)
Gain on lease settlement	-	(880)
Gain on sale of asset	(185)	-
Unrealized loss on change in fair value of investments	-	28
Impairment expense	-	13,793
Reversal of cultivation lease accrual	(2,332)	-
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(443)	1,201
Inventory	2,825	1,944
Prepaid expenses and other current assets	1,221	119
Other assets	90	(387)
Accounts payable and accrued expenses	1,498	3,190
Operating lease payments	(955)	-
<b>Net cash used in operating activities</b>	<b>\$ (2,473)</b>	<b>\$ (2,895)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	-	(58)
Proceeds from asset sale	595	-
<b>Net provided by (cash used) in investing activities</b>	<b>\$ 595</b>	<b>\$ (58)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from sale leaseback	-	8,991
Principal payments on lease obligations	(110)	(1,551)
Payments on notes payable	(3)	(87)
<b>Net cash provided by (used in) financing activities</b>	<b>\$ (113)</b>	<b>\$ 7,353</b>
Change in cash and cash equivalents	(1,991)	4,400
Cash and cash equivalents-beginning of year	2,311	1,098
<b>Cash and cash equivalents -end of period</b>	<b>\$ 320</b>	<b>\$ 5,498</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for interest	\$ 17	\$ 2,780
<b>OTHER NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Purchase of property and equipment not yet paid for	\$ -	\$ 26

*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, 2023. There have been no material changes to our significant accounting policies as of and for the nine months ended September 30, 2024.

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, 2023, 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 a 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 were also consolidated on the same basis as of the Effective Date. All share and per share data presented in the Company’s condensed 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***

No 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, 2024	December 31, 2023
Deposits	\$ 64	\$ 1,134
Insurance	113	237
Supplier advances	250	26
Interest and taxes	51	26
Licenses and payments	34	106
Royalty advance	589	853
Other	27	15
<b>Total prepaid and other current assets</b>	<b>\$ 1,128</b>	<b>\$ 2,397</b>

**3. INVENTORY**

Inventory was comprised of the following items:

(in thousands)	September 30, 2024	December 31, 2023
Raw materials	\$ 1,208	\$ 1,400
Work in process	176	307
Finished goods	551	3,053
<b>Total inventory</b>	<b>\$ 1,935</b>	<b>\$ 4,760</b>

**4. OTHER CURRENT LIABILITIES**

Other current liabilities were comprised of the following items:

(in thousands)	September 30, 2024	December 31, 2023
Interest and tax accrual	\$ 571	\$ 109
Employee Retention Credit financing accrual	441	441
Accrued price promotions	133	133
Excise tax payments	291	289
Insurance and professional fee accrual	301	287
Third-party brand distribution accrual	1,024	558
Other	77	126
<b>Total other current liabilities</b>	<b>\$ 2,838</b>	<b>\$ 1,943</b>



**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 nine months ended September 30, 2024 and property and equipment, net as of December 31, 2023, are as follows:

(in thousands)	<b>Leasehold Improvements</b>	<b>Furniture and Fixtures</b>	<b>Equipment</b>	<b>Vehicles</b>	<b>Construction in Process</b>	<b>Right of Use Assets</b>	<b>Total</b>
<b>Costs</b>							
<b>Balance-December 31, 2023</b>	\$ 2,116	\$ 50	\$ 5,295	\$ 830	\$ 35	\$ 21,317	\$ 29,643
Additions	-	-	-	-	-	-	-
Disposals	-	-	(362)	-	-	-	(362)
Transfer	-	-	35	-	(35)	-	-
Lease remeasurement	-	-	-	-	-	-	-
<b>Balance – September 30, 2024</b>	<b>\$ 2,116</b>	<b>\$ 50</b>	<b>\$ 4,968</b>	<b>\$ 830</b>	<b>\$ -</b>	<b>\$ 21,317</b>	<b>\$ 29,281</b>
<b>Accumulated Depreciation</b>							
<b>Balance - December 31, 2023</b>	\$ (1,081)	\$ (49)	\$ (2,353)	\$ (744)	\$ -	\$ (2,990)	\$ (7,217)
Depreciation	(168)	-	(631)	(48)	-	(1,139)	(1,986)
Disposals	-	-	-	-	-	-	-
<b>Balance - September 30, 2024</b>	<b>\$ (1,249)</b>	<b>\$ (49)</b>	<b>\$ (2,984)</b>	<b>\$ (792)</b>	<b>\$ -</b>	<b>\$ (4,129)</b>	<b>\$ (9,203)</b>
<b>Net Book Value - September 30, 2024</b>	<b>\$ 867</b>	<b>\$ 1</b>	<b>\$ 1,984</b>	<b>\$ 38</b>	<b>\$ -</b>	<b>\$ 17,188</b>	<b>\$ 20,078</b>
<b>Net Book Value - December 31, 2023</b>	<b>\$ 1,035</b>	<b>\$ 1</b>	<b>\$ 2,942</b>	<b>\$ 86</b>	<b>\$ 35</b>	<b>\$ 18,327</b>	<b>\$ 22,426</b>

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

Depreciation expense of \$605 and \$1,405 were recorded for the three months ended September 30, 2024 and 2023, respectively, of which \$337 and \$1,385 respectively, were included in cost of goods sold.

Depreciation expense of \$1,986 and \$3,846 were recorded for the nine months ended September 30, 2024 and 2023, respectively, of which \$1,355 and \$3,772 respectively, were included in cost of goods sold.

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

**6. Other Intangible Assets**

A reconciliation of the beginning and ending balances of intangible assets and accumulated amortization during the nine months ended September 30, 2024 and intangible assets, net as of December 31, 2023, are as follows:

(in thousands)	Definite Life Intangibles		Total
	Technology/ Know How	Acquired Purchase Rights	
<b>Costs</b>			
<b>Balance-December 31, 2023</b>	\$ 3,000	\$ 416	\$ 3,416
Additions	-	-	-
<b>Balance-September 30, 2024</b>	\$ 3,000	\$ 416	\$ 3,416
<b>Accumulated Amortization</b>			
<b>Balance-December 31, 2023</b>	\$ (761)	\$ (111)	\$ (872)
Amortization	(225)	(63)	(288)
<b>Balance-September 30, 2024</b>	\$ (986)	\$ (174)	\$ (1,160)
<b>Net Book Value</b>			
<b>December 31, 2023</b>	\$ 2,239	\$ 305	\$ 2,544
<b>Net Book Value</b>			
<b>September 30, 2024</b>	\$ 2,014	\$ 242	\$ 2,256

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 \$288 and \$305 for the nine months ended September 30, 2024 and 2023, respectively.

The Company estimates that amortization expense for our existing other intangible assets will average \$84 annually for the next five fiscal years. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives or other relevant factors or changes.

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

**7. SHAREHOLDERS' EQUITY**

***Shares Outstanding***

The table below details the change in Company shares outstanding by class during the nine months ended September 30, 2024:

(in thousands)	<b>Subordinate Voting Shares</b>	<b>Super Voting Shares</b>
<b>Balance-December 31, 2023</b>	<b>19,031</b>	<b>20</b>
<b>Balance-September 30, 2024</b>	<b>19,031</b>	<b>20</b>

The Super Voting Shares carry 1,000 votes per share. The Subordinate Voting Shares carry 1 vote per share.

***Warrants***

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

(in thousands)		
<b>Balance-December 31, 2023</b>		<b>1,126</b>
Less expirations		(900)
<b>Balance-September 30, 2024</b>		<b>226</b>

At September 30, 2024, on a weighted average basis, warrants outstanding have an exercise price of \$20.15 and expire by December, 2026. Warrants convert into subordinate voting shares.

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

**8. DEBT**

Debt at September 30, 2024 and December 31, 2023, was comprised of the following:

(in thousands)	September 30, 2024	December 31, 2023
<b>Current portion of long-term debt</b>		
Vehicle loans <sup>(1)</sup>	\$ -	\$ 3
Total short-term debt	-	3
<b>Long-term debt, net</b>		
Total long-term debt	-	-
<b>Total Indebtedness</b>	<u>\$ -</u>	<u>\$ 3</u>

*(1) Primarily fixed term loans on transportation vehicles. Weighted average interest rate at December 31, 2023 was 6.4%*

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

**9. LEASES**

A reconciliation of lease obligations for the nine months ended September 30, 2024, is as follows:

(in thousands)	Operating Leases	Finance Leases	Total
<b>Lease obligation</b>			
<b>December 31, 2023</b>	\$ 19,402	110	19,512
Lease principal payments	(955)	(110)	(1,065)
<b>September 30, 2024</b>	<u>\$ 18,447</u>	<u>-</u>	<u>18,447</u>

All extension options that are reasonably certain to be exercised have been included in the measurement of lease obligations. The Company reassesses the likelihood of extension option exercise if there is a significant event or change in circumstances within its control.

The components of lease expense for the three and nine months ended September 30, 2024 and 2023, are as follows:

Finance Leases (in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Amortization of leased assets <sup>(1)</sup>	\$ -	\$ 939	\$ 41	\$ 2,329
Interest on lease liabilities <sup>(2)</sup>	-	459	2	1,441
<b>Total</b>	<u>\$ -</u>	<u>\$ 1,398</u>	<u>\$ 43</u>	<u>\$ 3,770</u>

*(1) Included in cost of goods sold, general and administrative expenses and other expenses in the consolidated statement of operations.*

*(2) Included in interest expense in the consolidated statement of operations.*

Operating Leases (in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Amortization of leased assets <sup>(1)</sup>	\$ 361	\$ -	\$ 1,140	\$ -
Interest on lease liabilities <sup>(1)</sup>	396	-	1,165	-
<b>Total</b>	<u>\$ 757</u>	<u>\$ -</u>	<u>\$ 2,305</u>	<u>\$ -</u>

*(1) Included in cost of goods sold, general and administrative expenses and other expenses in the consolidated statement of operations.*

The key assumptions used in accounting for leases as of September 30, 2024, were a weighted average remaining lease term of 8.2 years and a weighted average discount rate of 10%. The key assumptions used in accounting for leases as of December 31, 2023 were a weighted average remaining lease term of 8.9 years and a weighted average discount rate of 10%.

The future lease payments with initial remaining terms in excess of one year as of September 30, 2024 were as follows:

(in thousands)	September 30, 2024
Balance of 2024	\$ 828
2025	3,258
2026	3,240
2027	3,324
2028 and beyond	16,847
Total lease payments	27,497
Less imputed interest	(9,050)
<b>Total</b>	<u>\$ 18,447</u>

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

**10. SHARE-BASED COMPENSATION**

During 2019, the Company’s Board of Directors adopted the 2019 Stock and Incentive Plan (the “Plan”), which was amended in April 2020, March 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, and, as of September 30, 2024, 2.3 million shares have been authorized to be issued under the Plan and 1.0 million are available for future grant. The Plan provides for the grant of options as either non-statutory stock options or incentive stock options and restricted stock units to employees, officers, directors, and consultants of the Company to attract and retain persons of ability to perform services for the Company and to reward such individuals who contribute to the achievement by the Company of its economic objectives. The awards granted generally vest in 25% increments over a four-year period and option awards expire 6 years from grant date

The Plan is administered by the Board or a committee appointed by the Board, which determines the persons to whom the awards will be granted, the type of awards to be granted, the number of awards to be granted, and the specific terms of each grant, including the vesting thereof, subject to the provisions of the Plan.

During the nine months ended September 30, 2024 and 2023, 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, 2024 and 2023, share-based compensation expense was as follows:

(in thousands)	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2024</u>	<u>September 30, 2023</u>	<u>September 30, 2024</u>	<u>September 30, 2023</u>
Cost of goods sold	\$ -	\$ -	\$ -	\$ -
General and administrative expense	7	92	43	193
<b>Total share-based compensation</b>	<b>\$ 7</b>	<b>\$ 92</b>	<b>\$ 43</b>	<b>\$ 193</b>

The following table summarizes the status of stock option grants and unvested awards at and for the nine months ended September 30, 2024:

(in thousands except per share amounts)	<u>Stock Options</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Aggregate Intrinsic Value</u>
<b>Outstanding-December 31, 2023</b>	<b>1,453</b>	<b>\$ 1.9</b>	<b>5.3</b>	<b>\$ -</b>
Granted	250	0.16	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Cancelled	(499)	2.14	-	-
<b>Outstanding-September 30, 2024</b>	<b>1,204</b>	<b>\$ 1.40</b>	<b>3.53</b>	<b>\$ -</b>
<b>Exercisable-September 30, 2024</b>	<b>1,108</b>	<b>\$ 1.37</b>	<b>4.20</b>	<b>\$ -</b>
<b>Vested and expected to vest-September 30, 2024</b>	<b>1,204</b>	<b>\$ 1.40</b>	<b>3.53</b>	<b>\$ -</b>

The weighted-average fair value of options granted during the three and nine months ended September 30, 2024, estimated as of the grant date were \$0.16. As of September 30, 2024, there was \$51 of total unrecognized compensation cost related to non-vested options, which is expected to be recognized over a remaining weighted-average vesting period of 0.8 years.

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

For the three and nine months ended September 30, 2024 and 2023, 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.

	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Expected volatility	50%	50%
Dividend yield	0%	0%
Risk-free interest rate	4.15%	1.0%
Expected term in years	4.25%	4.50%

**11. INCOME TAXES**

A tax provision of \$403 was recorded for the three and nine months ended September 30, 2024 reflecting taxes due with the filing of the 2023 tax return. The Company realized taxable income on the 2023 tax return due to the taxable gain on the sale of the Lowell brands. Tax regulations allow only 80% of taxable income to be offset by net operating loss carryforwards. There was no provision for income tax expense for the three and nine months ended September 30, 2023 due to operating losses incurred in both periods.

**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	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
(in thousands except per share amounts)				
Net loss	\$ (3,629)	\$ (20,170)	\$ (7,316)	\$ (24,283)
Net loss per share:				
Basic	\$ (0.19)	\$ (1.66)	\$ (0.38)	\$ (1.99)
Diluted	\$ (0.19)	\$ (1.66)	\$ (0.38)	\$ (1.99)
Weighted average shares outstanding:				
Basic	19,031	12,177	19,031	12,177
Diluted	19,031	12,177	19,031	12,177
Weighted average potentially diluted shares <sup>(1)</sup> :				
Basic shares	19,031	12,177	19,031	12,177
Total weighted average potentially diluted shares:	19,031	12,177	19,031	12,177

*(1) For the above net loss periods, the inclusion of options, warrants, convertible debentures and restricted stock units in the calculation of diluted earnings per share would be anti-dilutive, and accordingly, were excluded from the diluted loss per share calculation.*

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

**13. FAIR VALUE MEASUREMENTS**

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

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

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

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

At September 30, 2024 and December 31, 2023 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**

***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, 2024, 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.

On January 12, 2024, Cypress Holding Company, LLC ("Cypress"), a wholly owned subsidiary of the Company, surrendered possession of approximately 10 acres of real property at 139 Zabala Road, Salinas, California (the "Zabala Road Property") leased by Cypress pursuant to a Lease Agreement dated April 1, 2017 (the "Zabala Road Lease") with Tinhouse, LLC, dba Tinhouse Partners, LLC, as landlord (the "Landlord"). Prior to vacating the premises on January 12, 2024, the Company had operated a cultivation facility, which included four greenhouses totaling approximately 255,000 square feet, on the Zabala Road Property.



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

In January 2023, the Company's Board of Directors formed a strategic alternatives special committee of independent directors to explore, review and evaluate strategic and financial alternatives. As part of these efforts, Cypress entered into negotiations with Landlord of the Zabala Road Property leased by Cypress pursuant to the Zabala Road Lease to restructure the terms of the Zabala Road Lease, which provided for an expiry date of December 31, 2027, subject to five 5-year extension options exercisable by Cypress.

Later in 2023, the Company and the Landlord reached a settlement amending the terms of the Zabala Road Lease and reaching agreement on all rent-related issues. However, the Landlord declined to finalize the settlement agreement or honor the settlement terms related to rent. Then, on October 9, 2023, the Landlord terminated the Zabala Road Lease via a letter, which was served by its counsel on the Company. In October 2023, the Company filed a lawsuit for breach of contract and specific performance of the settlement agreement against the Landlord in order to enforce the settlement terms. The Landlord filed counterclaims against the Company, claiming damages of more than \$36 million, which the Landlord claims are based on an analysis of accelerated rent due through the end of the term of the Zabala Road Lease, along with attorney's fees, improvements, and other undefined costs. In a separate lawsuit, the Landlord filed an unlawful detainer action, seeking possession of the Zabala Road property, one year of back rent, attorney's fees, and other damages. The unlawful detainer action concluded in January 2024 when the Company surrendered possession of the Zabala Road property to the Landlord. In July 2024, the court in the unlawful detainer action declined to award any monetary damages to the Landlord in connection with the unlawful detainer lawsuit, instead indicating that any damages related to the unlawful detainer claims would be decided in the lawsuit filed by the Company against the Landlord.

The breach of contract litigation, along with the landlord's counterclaims, is continuing.

The Company intends to vigorously defend itself against the claims made by the Landlord. However, no assurance can be provided as to whether or not the Company will prevail, and it may be required to pay significant monetary damages. It is difficult to evaluate the likely outcome of a trial at such an early stage and with competing claims and cross-claims. In addition, due to the early nature of the case, an estimate on a loss is not reasonably estimable.

A putative class action was filed on behalf of all California consumers who purchased products made by Lowell Farms, Inc. in California. The case alleges that Lowell failed to accurately label its products with the THC% identified by its testing laboratories, and that California consumers were thereby deceived into paying higher prices for Lowell's products than they otherwise would have.

No trial has been scheduled in this matter. In addition, Plaintiff has not yet filed a motion for certification of a class despite a previous schedule to do so. Based on comments at the last court hearing, it is uncertain whether Plaintiff intends to bring a motion seeking certification of a class or proceed only on his individual claims, meaning Plaintiff would be relegated to his own damages, which is likely just a few hundred dollars and any applicable attorney's fees. Plaintiff served discovery requests limited to class certification issues to which Lowell responded, but the parties have not engaged in any merits discovery to date. It is difficult to evaluate any potential outcome before knowing whether Plaintiff intends to pursue class action certification and before any merits discovery. The Company is prepared to vigorously defend itself at the trial if a settlement is not reached. It is difficult to evaluate the likely outcome of a trial because Plaintiff has not articulated a theory of damages. In addition, because it is uncertain whether Plaintiff will pursue class-wide or only individual damages, it is not possible to reasonably estimate any loss.

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

**15. GENERAL AND ADMINISTRATIVE EXPENSES**

For the three and nine months ended September 30, 2024 and 2023, general and administrative expenses were comprised of:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Salaries and benefits	\$ 436	\$ 799	\$ 1,487	\$ 2,485
Professional fees	99	271	690	798
Share-based compensation	7	92	43	193
Insurance	153	228	560	752
Bad debt expense	619	212	807	328
Administrative	126	263	494	594
<b>Total general and administrative expenses</b>	<b>\$ 1,440</b>	<b>\$ 1,865</b>	<b>\$ 4,081</b>	<b>\$ 5,150</b>

**16. RELATED-PARTY TRANSACTIONS**

Transactions with related parties are entered into in the normal course of business and are measured at the amount established and agreed to by the parties.

During October 2022, Cannaco Research Corporation, an existing customer, became a related party when a new member joined the Board of Directors. Total sales recognized for Cannaco Research Corporation for the three months ended September 30, 2024 and 2023 were \$83 and \$87, respectively, and for the nine months ended September 30, 2024 and 2023 were \$319 and \$180, 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 \$nil and \$20 in the three months ended September 30, 2024 and 2023, respectively and for the nine months ended September 30, 2024 and 2023 were \$nil and \$30, respectively.

**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 9, 2024, the Company announced that it entered into management services agreements with two cannabis retail dispensaries located in Los Angeles, California. Under the terms of the agreements, Lowell Farms will assume operational management of the retail stores, with an option to acquire equity ownership through a non-binding letter of intent. The management services agreements commenced as of October 1, 2024, and terminate upon the earlier to occur of (i) the Company's acquisition of the equity interests of the retail dispensaries, (ii) by mutual agreement of the applicable parties, or (iii) upon the occurrence of certain other customary circumstances specified in the management services agreements. There can be no assurance that the Company will enter into definitive agreements to acquire the equity ownership of the retail stores in a timely fashion, or at all.

Concurrently with entering into the management services agreements, the Company appointed Ms. Ann Lawrence, a current director, as the Executive Chairperson of the Company. Ms. Lawrence joined the board of directors of the Company in 2022.

The Company has evaluated potential subsequent events through November 12, 2024, the date the unaudited financial statements were available to be issued. No other 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, 2024 AND 2023

*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, 2024 and 2023. It is supplemental to, and should be read in conjunction with, the Company’s consolidated audited financial statements (the “financial statements”) and the accompanying notes for the year ended December 31, 2023. 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, 2023, (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 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, one of the largest cannabis markets in the world. We also provide manufacturing, extraction and distribution services to several third-party cannabis and cannabis branding companies. We operate 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. On January 12, 2024, we surrendered possession of a 255,000 square foot greenhouse cultivation and warehouse facility. See “Recent Developments.” *Effective October 1, 2024, we assumed operational management responsibilities for two retail cannabis dispensaries in Los Angeles, California. See “Recent Developments.”*

#### Product Offerings

Our present product offerings include flower, pre-rolls, vape pens, oils, extracts, chocolate edibles, mints, gummies, topicals and tinctures. We sell our products under owned and third-party brands. Brands we own include the following: Cypress Cannabis (a premium flower brand); Flavor Extracts (crumble and terp sugar products); House Weed (a value driven flower, vapes and concentrates offering delivering a flavorful and potent experience); Moon (a range of high-potency, high-quality and high-value edibles); Humble Flower (a premium brand offering cannabis-infused topicals, pre-rolls, sublingual tablets); and Original Pot Company (baked edibles). We also exclusively manufacture and distribute Lowell Herb Co. and Lowell Smokes (premium packaged flower, pre-roll, concentrates, and vape products); 35s (a line of automated pre-rolls) and products for several 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.

## **Processing and Manufacturing Operations**

We operate a 40,000 square foot processing facility in Monterey County in close proximity to our cultivation operations that provides drying, bucking, trimming, sorting, grading, and packaging operations for up to 250,000 pounds of wholesale cannabis flower annually. The facility processed nearly all the cannabis that we grew at our cultivation operations until we exited the cultivation facility as well as providing processing services for regional growers from primarily the Salinas Valley area. See the discussion below under “Recent Developments.”

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

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

## **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).

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.

## **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 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 source flower for sale from multiple high quality and reliable growers. 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 from third-party suppliers. 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.

## **Recent Developments**

### **Surrender of Cultivation Facility**

On January 12, 2024, Cypress surrendered possession of the Zabala Road Property leased by Cypress pursuant to the Zabala Road Lease with the Landlord. Prior to vacating the premises on January 12, 2024, the Company had operated a cultivation facility, which included four greenhouses totaling approximately 255,000 square feet, on the Zabala Road Property.

In January 2023, the Company's Board of Directors formed a strategic alternatives special committee of independent directors to explore, review and evaluate strategic and financial alternatives. As part of these efforts, Cypress entered into negotiations with the Landlord of the Zabala Road Property leased by Cypress pursuant to the Zabala Road Lease to restructure the terms of the Zabala Road Lease, which provided for an expiry date of December 31, 2027, subject to five 5-year extension options exercisable by Cypress.

Later in 2023, the Company and the Landlord reached a settlement amending the terms of the Zabala Road Lease and reaching agreement on all rent-related issues. However, the Landlord declined to finalize the settlement agreement or honor the settlement terms related to rent. Then, on October 9, 2023, the Landlord terminated the Zabala Road Lease via a letter, which was served by its counsel on the Company. In October 2023, the Company filed a lawsuit for breach of contract and specific performance of the settlement agreement against the Landlord in order to enforce the settlement terms. The Landlord filed counterclaims against the Company, claiming damages of more than \$36 million, which the Landlord claims are based on an analysis of accelerated rent due through the end of the term of the Zabala Road Lease, along with attorney's fees, improvements, and other undefined costs. In a separate lawsuit, the Landlord filed an unlawful detainer action, seeking possession of the Zabala Road property, one year of back rent, attorney's fees, and other damages. The unlawful detainer action concluded in January 2024, the court in the unlawful detainer action declined to award any monetary damages to the Landlord in connection with the unlawful detainer lawsuit, instead indicating that any damages related to the unlawful detainer claims would be decided in the lawsuit filed by the Company against the Landlord.

The breach of contract litigation, along with the landlord's counterclaims, is continuing.

The Company intends to vigorously defend itself against the claims made by the Landlord. However, no assurance can be provided as to whether or not the Company will prevail, and it may be required to pay significant monetary damages. It is difficult to evaluate the likely outcome of a trial at such an early stage and with competing claims and cross-claims. In addition, due to the early nature of the case, an estimate on a loss is not reasonable estimable.

### **Retail Dispensaries Management Services Agreements**

On October 9, 2024, the Company announced that it entered into management services agreements with two cannabis retail dispensaries located in Los Angeles, California. Under the terms of the agreements, Lowell Farms will assume operational management of the retail stores, with an option to acquire equity ownership through a non-binding letter of intent. The management services agreements commenced as of October 1, 2024, and terminate upon the earlier to occur of (i) the Company's acquisition of the equity interests of the retail dispensaries, (ii) by mutual agreement of the applicable parties, or (iii) upon the occurrence of certain other customary circumstances specified in the management services agreements. There can be no assurance that the Company will enter into definitive agreements to acquire the equity ownership of the retail stores in a timely fashion, or at all.

## **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.

## Table of Contents

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:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
<b>Net loss</b>	<b>\$ (3,629)</b>	<b>\$ (20,170)</b>	<b>\$ (7,316)</b>	<b>\$ (24,283)</b>
Interest expense	2	1,594	17	4,404
Provision for income taxes	403	-	403	-
Depreciation and amortization in cost of goods sold <sup>(2)</sup>	416	1,405	2,012	3,834
Depreciation and amortization in operating expenses <sup>(2)</sup>	98	102	293	317
Depreciation and amortization in other income (expense) <sup>(2)</sup>	691	-	1,381	-
<b>EBITDA<sup>(1)</sup></b>	<b>(2,019)</b>	<b>(17,069)</b>	<b>(3,210)</b>	<b>(15,728)</b>
Investment and currency (gains)/ losses	-	2	-	30
Goodwill impairment	-	92	-	193
Share-based compensation	7	(157)	43	(157)
Debt repurchase charges <sup>(4)</sup>	-	14,025	-	14,025
Other charges <sup>(3)</sup>	(69)	1,723	(1,905)	(2,161)
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$ (2,081)</b>	<b>\$ (1,384)</b>	<b>\$ (5,072)</b>	<b>\$ (3,798)</b>

(1) Non-GAAP measure

(2) For the three and nine months ended September 30, 2024, includes \$58 and \$595, respectively related to interest charges on operating leases recorded in cost of goods sold, \$4 and \$12, respectively related to interest charges on operating leases recorded in operating expenses and \$407 and \$819, respectively related to interest charges on operating leases recorded in other income (expense).

(3) For the three and nine months ended September 30, 2024, includes \$116 and \$612, respectively related to expenses incurred in exiting the cultivation facility and for the three and nine months ended September 30, 2024, \$(2,332) related to the reversal of a cultivation rent accrual as a result of a judicial ruling on the litigation associated with the cultivation landlord for the nine months ended September 30, 2024 and \$(185) related to a gain on the sale of assets for the three and nine months ended September 30, 2024.

(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).

## RESULTS OF OPERATIONS

### Three Months Ended September 30, 2024 Compared to Three Months Ended September 30, 2023

#### 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 we provide fee services for drying and processing third-party product for licensed cultivators in the State of California. In October 2023, the Company sold the rights to the Lowell Smokes brand. 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, Lowell Farm Services revenue, and Licensing revenue.

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

**Revenue by Category**

Three Months Ended September 30, 2024 Compared to Three Months Ended September 30, 2023:

(in thousands)	Three Months Ended		\$ Change	% Change
	September 30, 2024	September 30, 2023		
CPG	\$ 3,244	\$ 4,369	\$ (1,125)	-26%
Bulk	-	1,196	(1,196)	-100%
Lowell Farm Services	-	455	(455)	-100%
Licensing	-	192	(192)	-100%
<b>Net revenue</b>	<b>\$ 3,244</b>	<b>\$ 6,212</b>	<b>\$ (2,968)</b>	<b>-48%</b>

CPG revenues decreased \$1.1 million for the three months ended September 30, 2024, 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 partially driven by additional procedures to manage credit risk by only selling to credit worthy customers as well as managing the business as it shifts to procuring cannabis raw material from suppliers as the Company shifts away from self-grown cannabis raw material. This change in strategy temporarily reduced available inventory as the Company transitioned to new suppliers. Lowell brand revenues for the three months ended September 30, 2024 were \$2.0 million and represented 63% of CPG revenues compared to \$3.1 million in revenue and 72% of CPG sales in the same period in the prior year. The Company continues to expand its portfolio of distributed brands which generated \$0.8 million in revenue during the current period, compared to \$0.9 million in the same period of the prior year.

There were no bulk sales in the three months ended September 30, 2024 compared to \$1.2 million in the same period in the prior year. The decline during the year was the result of the Company shifting to procuring cannabis raw material from suppliers, as opposed to utilizing self-grown flower. This decision has enabled the Company to strategically purchase cannabis raw material to match demand for the CPG market but has limited the available cannabis raw material for bulk sales.

During the current period, the Company was focused on managing the procurement of third party flower for CPG products, as opposed to third party processing. No licensing revenues were generated in 2024 reflecting the sale of the Lowell Smokes brand in October 2023.

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

Cost of goods sold consists 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 several 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 2024 is expected to be on flower, pre-rolls and on processing third party product at our processing facility. With the exit from the cultivation facility during early 2024, we will be able to react quickly to the demands of the market to better source our production needs and better control spending on third party purchased flower to manage cash outflows on flower and CPG manufacturing. We are focusing on improving our technology workflow to enable us to match production more closely with demand, executing smaller, more frequent production runs to lower inventory working capital, optimize efficiencies and expedite product getting to the market faster.

Three Months Ended September 30, 2024 Compared to Three Months Ended September 30, 2023:

(in thousands)	Three Months Ended		Change	
	September 30, 2024	September 30, 2023	\$	%
Net revenue	\$ 3,244	\$ 6,212	\$ (2,968)	-48%
Cost of goods sold	4,184	6,656	(2,472)	-37%
Gross profit (loss)	\$ (940)	\$ (444)	\$ (496)	-112%
Gross margin	-29.0%	-7.1	-4.8%	

Gross margin was (29.0%) and (4.8%) in the three months ended September 30, 2024 and 2023, respectively. Gross profit was adversely affected during the period by expenses incurred as a result of the transition away from the cultivation facility in early 2024. As the Company finalizes recording the exit from the cultivation facility, these expenses are not expected to recur and the non-revenue generating expenses have unfavorably impacted gross profit and margin in the current period. Further impacting gross margin is a reduction in CPG volumes generating high fixed costs per unit and increased depreciation expense related to operating lease classification of existing leases.

**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. We expect to incur periodic transaction costs related to expansion efforts and to continue to invest where appropriate in the general and administrative function to support the increasing complexity of the cannabis business.

Three Months Ended September 30, 2024 Compared to Three Months Ended September 30, 2023:

(in thousands)	Three Months Ended		Change	
	September 30, 2024	September 30, 2023	\$	%
Total operating expenses	\$ 1,836	\$ 2,423	\$ (587)	-24%
% of net revenue	57%	39%		

Total operating expenses decreased \$0.6 million for the three months ended September 30, 2024 compared to the same period of the prior year, primarily reflecting headcount reductions between years and operating efficiencies, despite bad debt expenses increasing \$0.4 million in the current period compared to the same period in the prior year. Operating expenses increased as a percentage of net revenue to 57% for the three months ended September 30, 2024 compared to 39% for the three months ended September 30, 2023.

**Other Income (Expense)**

Three Months Ended September 30, 2024 Compared to Three Months Ended September 30, 2023:

(in thousands)	Three Months Ended		Change	
	September 30, 2024	September 30, 2023	\$	%
Total other income (expense)	\$ (450)	\$ (17,303)	\$ 16,853	97%
% of net revenue	-14%	-279%		

Other income (expense) decreased \$16.9 million for the three months ended September 30, 2024 compared to the same period of the prior year. The current year reflects a \$0.2 million gain on the sale of assets and processing facility expenses of \$0.7 million, offset by sublease income of \$0.1 million, since the facility was unused due to the exit from cultivation activities in the previous quarter. During the current period, the Company classifies leases as operating leases, with interest expense reflected in cost of goods sold and in other expense for the unused processing facility. Other income in the prior year primarily reflects 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.

**Net Loss**

Three Months Ended September 30, 2024 Compared to Three Months Ended September 30, 2023:

(in thousands)	Three Months Ended		Change	
	September 30, 2024	September 30, 2023	\$	%
Net loss	\$ (3,629)	\$ (20,170)	\$ 16,541	82%

Net loss was \$3.6 million in the quarter ended September 30, 2024, compared to net loss of \$20.2 million for the same period of the prior year as a result of the factors noted above.



**Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023**

**Revenue by Category**

Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023:

(in thousands)	Nine Months Ended		\$ Change	% Change
	September 30, 2024	September 30, 2023		
CPG	\$ 10,858	\$ 13,466	\$ (2,608)	-19%
Bulk	730	5,989	(5,259)	-88%
Lowell Farm Services	68	664	(596)	-90%
Licensing	-	651	(651)	-100%
<b>Net revenue</b>	<b>\$ 11,656</b>	<b>\$ 20,770</b>	<b>\$ (9,114)</b>	<b>-44%</b>

CPG revenues decreased \$2.6 million for the nine months ended September 30, 2024, 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 partially driven by additional procedures to manage credit risk by only selling to credit worthy customers as well as managing the business as it shifts to procuring cannabis raw material from suppliers as the Company shifts away from self-grown cannabis raw material. This change in strategy temporarily reduced available inventory as the Company transitioned to new suppliers. Lowell brand revenues for the nine months ended September 30, 2024 were \$7.4 million and represented 68% of CPG revenues compared to \$10.6 million in revenue and 78% of CPG sales in the same period in the prior year. The Company continues to expand its portfolio of distributed brands which has grown to \$2.6 million in revenue during the current period, compared to \$1.7 million in the same period of the prior year.

Bulk sales decreased \$5.3 million in the nine months ended September 30, 2024 compared to the same period in the prior year. The decline during the year was the result of the Company shifting to procuring cannabis raw material from suppliers, as opposed to utilizing self-grown flower. This decision has enabled the Company to strategically purchase cannabis raw material to match demand for the CPG market but has limited the available cannabis raw material for bulk sales.

LFS and licensing revenues generated \$0.1 million and \$0.7 million in the nine months ended September 30, 2024 and 2023, respectively. During the current period, the Company was primarily focused on managing the procurement of third party flower for CPG products, as opposed to third party processing. No licensing revenues were generated in 2024 reflecting the sale of the Lowell Smokes brand in October 2023.

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

Cost of goods sold consists 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 several 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 2024 is on pre-rolls, packaged flower and on distributing third party product. With the exit from the cultivation facility during early 2024, we will be able to react quickly to the demands of the market to better source our production needs and better control spending on third party purchased flower to manage cash outflows on flower and CPG manufacturing. We are focusing on improving our technology workflow to enable us to match production more closely with demand, executing smaller, more frequent production runs to lower inventory working capital, optimize efficiencies and expedite product getting to the market faster.

Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023:

(in thousands)	Nine Months Ended		Change	
	September 30, 2024	September 30, 2023	\$	%
Net revenue	\$ 11,656	\$ 20,770	\$ (9,114)	-44%
Cost of goods sold	13,977	21,423	(7,446)	-35%
Gross profit	\$ (2,321)	\$ (653)	\$ (1,668)	-255%
Gross margin	-19.9%	-3.1%		

Gross margin was (19.9%) and (3.1%) in the nine months ended September 30, 2024 and 2023, respectively. Gross profit was adversely affected during the period by expenses incurred as a result of the transition away from the cultivation facility in early 2024. As the Company finalizes recording the exit from the cultivation facility, these expenses are not expected to recur and the non-revenue generating expenses have unfavorably impacted gross profit and margin in the current period. Further impacting gross margin is a reduction in CPG volumes generating high fixed costs per unit and increased depreciation expense related to operating lease classification of existing leases.

**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. We expect to incur periodic transaction costs related to expansion efforts and to continue to invest where appropriate in the general and administrative function to support the increasing complexity of the cannabis business.

Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023:

(in thousands)	Nine Months Ended		Change	
	September 30, 2024	September 30, 2023	\$	%
Total operating expenses	\$ 5,532	\$ 7,294	\$ (1,762)	-24%
% of net revenue	47%	35%		

Total operating expenses decreased \$1.8 million for the nine months ended September 30, 2024 compared to the same period of the prior year, primarily reflecting headcount reductions between year and operating efficiencies. Operating expenses increased as a percentage of net revenue to 47% for the nine months ended September 30, 2024 compared to 35% for the nine months ended September 30, 2023.

**Other Income (Expense)**

Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023:

(in thousands)	Nine Months Ended		Change	
	September 30, 2024	September 30, 2023	\$	%
Total other income (expense)	\$ 940	\$ (16,336)	\$ 17,276	106%
% of net revenue	8%	-79%		

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Other income (expense) increased \$17.3 million for the nine months ended September 30, 2024 compared to the same period of the prior year. The current year reflects the reversal of a cultivation rent accrual of \$2.3 million as a result of a judicial ruling on the litigation associated with the cultivation landlord, and a \$0.2 million gain on the sale of assets which were partially offset by net processing facility expenses of \$1.5 million since the facility was unused due to the exit from cultivation activities in the first quarter. During the current period, the Company classifies leases as operating leases, with interest expense reflected in cost of goods sold. Other income in the prior year primarily reflects 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.

**Net Loss**

Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023:

(in thousands)	Nine Months Ended		Change	
	September 30, 2024	September 30, 2023	\$	%
Net loss	\$ (7,316)	\$ (24,283)	\$ 16,967	70%

Net loss was \$7.3 million in the nine months ended September 30, 2024, compared to net loss of \$24.3 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 lease financing service. Our primary source of liquidity has been funds generated by financing activities. Our ability to fund our operations, to make planned capital expenditures, to make scheduled lease payments 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 have not been 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 \$9.0 million sale leaseback transaction during the quarter ended June 30, 2023.

At September 30, 2024, we had \$0.3 million in cash and cash equivalents and \$(1.9) million of working capital, compared to \$2.3 million of cash and cash equivalents and \$3.5 million of working capital at December 31, 2023.

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;
- Scaled back our investment in and support for non-core brands;
- Reduced spending on marketing and brand development activities focusing primarily on growing Lowell and owned brands;
- Restructured our organization and identified operating, selling and administrative expense cost efficiencies;
- Focusing Lowell Farm Services on revenue and cash flow generation, and potential flower sourcing through processing third party flower while reducing labor and overhead expenses;
- We reduced headcount and eliminated our seasonal workforce as we focus on necessary infrastructure to support our current operations;
- In 2023, re-negotiating leases on facility space, including leasing more economically feasible facilities in Los Angeles and selling and leasing back our processing facility; and
- In January 2024, exited our cultivation facility to take advantage of profitably sourcing flower from multiple third party sources. Refer to *'Recent Developments.'*
- Focusing on raising funding to drive revenue growth associated with our retail management services agreements. Refer to *'Recent Developments.'*

**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, 2024 and 2023:

(in thousands)	Nine Months Ended		Change	
	September 30, 2024	September 30, 2023	\$	%
Net cash provided by (used in) operating activities	\$ (2,473)	\$ (2,895)	\$ 422	15%
Net cash provided by (used in) investing activities	595	(58)	653	1,126%
Net cash provided by (used in) financing activities	(113)	7,353	(7,466)	-102%
Change in cash and cash equivalents	<u>\$ (1,991)</u>	<u>\$ 4,400</u>	<u>\$ (6,391)</u>	<u>-145%</u>

**Cash used in operating activities**

Net cash used in operating activities was \$2.5 million for the nine months ended September 30, 2024, a \$0.4 million favorable improvement or 15%, compared to the nine months ended September 30, 2023. The change was primarily driven by the loss from operations improving \$0.1 million in the current year period. A net unfavorable impact of \$1.7 million in net operating assets and liabilities was realized in the current year period compared to the prior year period being offset by non-recurring items in both periods. The Company recorded \$1.0 million of operating lease payments during the current period.

**Cash used in investing activities**

The Company did not make any new investments into long-lived fixed assets during the nine months ended September 30, 2024 but did generate \$0.6 million in proceeds from asset sales in the current period.

**Cash used in financing activities**

Net cash used in financing activities were nominal for the nine months ended September 30, 2024, was associated with principal payments on lease obligations of \$0.1 million which compare to \$1.6 million in principal payments on lease obligations in the prior year period. This change was due to a reduction in lease payments after the Company exited its cultivation facility in 2023, as well as reclassifying existing leases as operating leases. The prior year period also included \$9.0 million in proceeds from a sale and leaseback.

**Working Capital and Cash on Hand**

The following table presents the Company's cash on hand and working capital position as of September 30, 2024 and December 31, 2023:

(in thousands)	September 30,	December 31,	Change	
	2024	2023	\$	%
Working capital <sup>(1)</sup>	\$ (1,927)	\$ 3,475	\$ (5,402)	-155%
Cash and cash equivalents	\$ 438	\$ 2,311	\$ (1,873)	-81%

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

At September 30, 2024, we had 0.3 million in cash and cash equivalents and \$(1.9) million of working capital, compared to \$2.3 million of cash and cash equivalents and \$3.5 million of working capital at December 31, 2023. The decrease in cash and cash equivalents was primarily due to unfavorable changes in operating assets and liabilities.

The Company's future working capital is expected to be significantly impacted by the growth in operations, continuing margin improvement, net positive cash flows from our new retail management services agreements, ability to manage the growing complexity of the cannabis business and the success of capital raising efforts which are primarily associated with our retail management services activities.

**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, 2023. 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.

## 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, 2024 and December 31, 2023 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, 2024 and December 31, 2023:

(in thousands)	Maturity: < 1 Year	
	September 30, 2024	December 31, 2023
Accounts payable and Other accrued liabilities	\$ 5,481	\$ 6,257

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 12, 2024, the Company had the following securities issued and outstanding:

(in thousands)	<b>Number of Shares</b> (on an as converted basis)
<b>Issued and Outstanding</b>	
Subordinate voting shares	18,150
Class B shares (1)	881
Super voting shares	20
<b>Reserved for Issuance</b>	
Options	1,189
Warrants	226
	<b>20,466</b>

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

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

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

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

As of the end of the period covered by this Quarterly Report on Form 10-Q, we conducted an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and 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 2024, 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, 2024.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

#### **Zabala Road Lease**

On January 12, 2024, Cypress surrendered possession of the Zabala Road Property leased by Cypress pursuant to the Zabala Road Lease with the Landlord. Prior to vacating the premises on January 12, 2024, the Company had operated a cultivation facility, which included four greenhouses totaling approximately 255,000 square feet, on the Zabala Road Property.

In January 2023, the Company's Board of Directors formed a strategic alternatives special committee of independent directors to explore, review and evaluate strategic and financial alternatives. As part of these efforts, Cypress entered into negotiations with the Landlord of the Zabala Road Property leased by Cypress pursuant to the Zabala Road Lease to restructure the terms of the Zabala Road Lease, which provided for an expiry date of December 31, 2027, subject to five 5-year extension options exercisable by Cypress.

Later in 2023, the Company and the Landlord reached a settlement amending the terms of the Zabala Road Lease and reaching agreement on all rent-related issues. However, the Landlord declined to finalize the settlement agreement or honor the settlement terms related to rent. Then, on October 9, 2023, the Landlord terminated the Zabala Road Lease via a letter, which was served by its counsel on the Company. In October 2023, the Company filed a lawsuit for breach of contract and specific performance of the settlement agreement against the Landlord in order to enforce the settlement terms. The Landlord filed counterclaims against the Company, claiming damages of more than \$36 million, which the Landlord claims are based on an analysis of accelerated rent due through the end of the term of the Zabala Road Lease, along with attorney's fees, improvements, and other undefined costs. In a separate lawsuit, the Landlord filed an unlawful detainer action, seeking possession of the Zabala Road property, one year of back rent, attorney's fees, and other damages. The unlawful detainer action concluded in January 2024 when the Company surrendered possession of the Zabala Road property to the Landlord. In July 2024, the court in the unlawful detainer action declined to award any monetary damages to the Landlord in connection with the unlawful detainer lawsuit, instead indicating that any damages related to the unlawful detainer claims would be decided in the lawsuit filed by the Company against the Landlord.

The breach of contract litigation, along with the landlord's counterclaims, is continuing.

The Company intends to vigorously defend itself against the claims made by the Landlord. However, no assurance can be provided as to whether or not the Company will prevail, and it may be required to pay significant monetary damages. It is difficult to evaluate the likely outcome of a trial at such an early stage and with competing claims and cross-claims. In addition, due to the early nature of the case, an estimate on a loss is not reasonably estimable.

#### **Potency and Labeling**

A putative class action was filed on behalf of all California consumers who purchased products made by Lowell Farms, Inc. in California. The case alleges that Lowell failed to accurately label its products with the THC% identified by its testing laboratories, and that California consumers were thereby deceived into paying higher prices for Lowell's products than they otherwise would have.

No trial has been scheduled in this matter. In addition, Plaintiff has not yet filed a motion for certification of a class despite a previous schedule to do so. Based on comments at the last court hearing, it is uncertain whether Plaintiff intends to bring a motion seeking certification of a class or proceed only on his individual claims, meaning Plaintiff would be relegated to his own damages, which is likely just a few hundred dollars and any applicable attorney's fees. Plaintiff served discovery requests limited to class certification issues to which Lowell responded, but the parties have not engaged in any merits discovery to date. It is difficult to evaluate any potential outcome before knowing whether Plaintiff intends to pursue class action certification and before any merits discovery. The Company is prepared to vigorously defend itself at the trial if a settlement is not reached. It is difficult to evaluate the likely outcome of a trial because Plaintiff has not articulated a theory of damages. In addition, because it is uncertain whether Plaintiff will pursue class-wide or only individual damages, it is not possible to reasonably estimate any loss.

There are no other legal proceedings material to the Company to which the Company or a subsidiary thereof is a party or of which any of their respective property is the subject matter, nor are there any such proceedings known to the Company to be contemplated, and there have been no such legal proceedings during the Company's most recently completed financial year or the nine months ended September 30, 2024.

### **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, 2023

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

During the three months ended September 30, 2024 there were no unregistered sales nor repurchases 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, 2024, 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**

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

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

**SIGNATURES**

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

**LOWELL FARMS, INC.**

Date: November 13, 2024

By: /s/ Mark Ainsworth  
Mark Ainsworth  
Chief Executive Officer (principal executive officer) and  
Interim Chief Financial Officer (principal financial and  
accounting officer)

## LOWELL FARMS INC.

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Mark Ainsworth, certify that:

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

Date: November 13, 2024

/s/ Mark Ainsworth  
Mark Ainsworth  
Chief Executive Officer

## LOWELL FARMS INC.

## CERTIFICATION OF CHIEF FINANCIAL 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 13, 2024

/s/ Mark Ainsworth  
\_\_\_\_\_  
Mark Ainsworth  
Interim Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Lowell Farms Inc. (the "Company") for the period ended September 30, 2024 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 13, 2024



**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, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Ainsworth, 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/ Mark Ainsworth

\_\_\_\_\_  
Mark Ainsworth  
Interim Chief Financial Officer

Date: November 13, 2024