These financial statements for Charlotte's Web Holdings, Inc. are also included in the Form 10-Q for the quarter ended September 30, 2023 filed on SEDAR+ on November 9, 2023 in its entirety. Amounts are presented in thousands of United States dollars, unless otherwise indicated.

CHARLOTTE'S WEB HOLDINGS, INC.
FORM 10-Q
For the Quarter Ended September 30, 2023

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PART I

Item 1. Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	September 30, 2023 (unaudited)	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51,016	$ 66,963
Accounts receivable, net	2,492	1,847
Inventories, net	22,631	26,953
Prepaid expenses and other current assets	7,605	7,998
Total current assets	83,744	103,761
Property and equipment, net	28,057	29,330
License and media rights	20,019	26,871
Operating lease right-of-use assets, net	15,066	16,519
Investment in unconsolidated entity	11,100	—
SBH purchase option and other derivative assets	3,110	3,620
Intangible assets, net	1,382	1,771
Other long-term assets	1,389	5,770
Total assets	$ 163,867	$ 187,642
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,577	$ 4,018
License and media rights payable - current	11,734	7,759
Accrued and other current liabilities	7,221	7,344
Lease obligations – current	2,249	2,306
Total current liabilities	24,781	21,427
Convertible debenture	40,394	37,421
Lease obligations	16,240	17,905
License and media rights payable	11,222	20,383
Derivatives and other long-term liabilities	7,492	13,001
Total liabilities	100,129	110,137
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common shares, nil par value; unlimited shares authorized; 153,779,856 and 152,135,026 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	1	1
Additional paid-in capital	326,875	325,431
Accumulated deficit	(263,138)	(247,927)
Total shareholders' equity	63,738	77,505
Total liabilities and shareholders' equity	$ 163,867	$ 187,642

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	Three Months Ended September 30, (unaudited)		Nine Months Ended September 30, (unaudited)	
	2023	**2022**	**2023**	**2022**
Revenue	$ 14,294	$ 17,037	$ 47,310	$ 55,271
Cost of goods sold	6,365	8,092	20,546	25,291
Gross profit	7,929	8,945	26,764	29,980
Selling, general and administrative expenses	19,889	11,032	57,029	48,646
Asset Impairment	—	1,822	—	1,822
Operating loss	(11,960)	(3,909)	(30,265)	(20,488)
Gain on initial investment in unconsolidated entity	—	—	10,700	—
Change in fair value of financial instruments	(4,024)	(4,000)	5,588	(3,900)
Other income (expense), net	841	321	(1,234)	304
Loss before provision for income taxes	(15,143)	(7,588)	(15,211)	(24,084)
Income tax expense	—	—	—	—
Net loss	$ (15,143)	$ (7,588)	$ (15,211)	$ (24,084)
Per common share amounts (Note 10)				
Net loss per common share, basic and diluted	$ (0.10)	$ (0.05)	$ (0.10)	$ (0.17)

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except share amounts)

(unaudited)

	Common Shares		Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount			
Balance—December 31, 2022	152,135,026	$ 1	$ 325,431	$ (247,927)	$ 77,505
Common shares issued upon vesting of restricted share units, net of withholding .	297,888	—	(69)	—	(69)
Share-based compensation	—	—	375	—	375
Net income (loss)		—		(2,912)	(2,912)
Balance— March 31, 2023	152,432,914	$ 1	$ 325,737	$ (250,839)	$ 74,899
Common shares issued upon vesting of restricted share units, net of withholding .	392,204	—	(6)	—	(6)
Share-based compensation	—	—	624	—	624
Net income (loss)	—	—	—	2,844	2,844
Balance— June 30, 2023	152,825,118	$ 1	$ 326,355	$ (247,995)	$ 78,361
Common shares issued upon vesting of restricted share units, net of withholding .	954,738	—	(127)	—	(127)
Share-based compensation	—	—	647	—	647
Net income (loss)	—	—	—	(15,143)	(15,143)
Balance— September 30, 2023	**153,779,856**	**$ 1**	**$ 326,875**	**$ (263,138)**	**$ 63,738**
Balance—December 31, 2021	144,659,964	$ 1	$ 319,059	$ (188,614)	$ 130,446
Common shares issued upon vesting of restricted share units, net of withholding .	77,193	—	(45)	—	(45)
Harmony Hemp contingent equity compensation	169,045	—	165	—	165
ATM program issuance costs	239,500	—	(2)	—	(2)
Share-based compensation	—	—	1,214	—	1,214
Net income (loss)	—	—	—	(8,626)	(8,626)
Balance—March 31, 2022	145,145,702	$ 1	$ 320,391	$ (197,240)	$ 123,152
Common shares issued upon vesting of restricted share units, net of withholding .	132,463	—	(13)	—	(13)
Share-based compensation	—	—	643	—	643
Net income (loss)	—	—	—	(7,870)	(7,870)
Balance—June 30, 2022	145,278,165	$ 1	$ 321,021	$ (205,110)	$ 115,912
Common shares issued upon vesting of restricted share units, net of withholding .	231,207	—	(67)	—	(67)
ATM program issuance costs	—	—	(59)	—	(59)
Share-based compensation	—	—	664	—	664
Net income (loss)	—	—	—	(7,588)	(7,588)
Balance—September 30, 2022	**145,509,372**	**$ 1**	**$ 321,559**	**$ (212,698)**	**$ 108,862**

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended September 30, (unaudited)	
	2023	**2022**
Cash flows from operating activities:		
Net loss	$ (15,211)	$ (24,084)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	11,509	5,762
Change in fair value of financial instruments	(5,588)	3,900
Gain on initial investment in unconsolidated entity	(10,700)	—
Convertible debenture and other accrued interest	2,916	—
Asset impairment	—	1,822
Share-based compensation	1,646	2,686
Changes in right-of-use assets	1,453	1,877
Allowance for credit losses	1,187	(89)
Inventory provision	730	1,857
Other	1,594	(679)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,151)	2,928
Inventories, net	3,593	112
Prepaid expenses and other current assets	(589)	3,086
Accounts payable, accrued and other liabilities	(328)	(4,238)
Operating lease obligations	(1,722)	(1,665)
License and media rights payable	(6,000)	—
Income taxes and other receivable	4,261	6,575
Other operating assets and liabilities, net	(449)	(2,449)
Net cash used in operating activities	(12,849)	(2,599)
Cash flows from investing activities:		
Purchases of property and equipment and intangible assets	(3,015)	(411)
Proceeds from sale of assets	119	354
Net cash used in investing activities	(2,896)	(57)
Cash flows from financing activities:		
Other financing activities	(202)	(325)
Net cash used in financing activities	(202)	(325)
Net decrease in cash and cash equivalents	(15,947)	(2,981)
Cash and cash equivalents —beginning of period	66,963	19,494
Cash and cash equivalents —end of period	$ 51,016	$ 16,513
Non-cash activities:		
Non-cash purchase of property and equipment and intangible asset	(81)	—
Non-cash issuance of note receivable	(142)	—

See Notes to Unaudited Condensed Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND PRESENTATION OF FINANCIAL STATEMENTS

Description of the Business

Charlotte's Web Holdings, Inc. together with its subsidiaries (collectively "Charlotte's Web" or the "Company") is a public company incorporated pursuant to the laws of the Province of British Columbia and a Certified B Corp. The Company's common shares are publicly listed on the Toronto Stock Exchange ("TSX") under the symbol "CWEB" and quoted on the OTCQX under the symbol "CWBHF." The Company's corporate headquarters is located in Louisville, Colorado, in the United States of America. The majority of the Company's business is conducted in the United States of America.

The Company's primary products are made from proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, terpenes, flavonoids, and other hemp compounds. Hemp extracts are produced from the plant *Cannabis sativa L.* ("Cannabis"), and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol ("THC") concentration of not more than 0.3% on a dry weight basis ("Hemp"). The Company is engaged in research involving the effectiveness of a broad variety of compounds derived from Hemp. The Company does not currently produce or sell medical or recreational marijuana or products derived from high THC Cannabis plants. The Company does not currently have any plans to expand into such high THC products in the near future.

The Company's current product categories include human ingestible products, such as, tinctures (liquid product), capsules, and gummies, as well as, topicals and pet products. The Company's products are distributed through its e-commerce website, third-party e-commerce websites, select distributors, health practitioners, and a variety of brick-and-mortar specialty retailers.

The Company grows its proprietary hemp domestically in the United States on farms leased in northeastern Colorado and sources hemp through contract farming operations in Arizona, Kentucky, Oregon, and Canada. The Hemp grown in Canada is utilized exclusively in the Canadian markets or for research purposes and not in products sold in the United States.

In furtherance of the Company's research and development ("R&D") efforts, the Company established CW Labs, an internal division for R&D, to expand the Company's efforts around the science of hemp derived compounds. CW Labs is currently engaged in clinical trials addressing Hemp-based health solutions. CW Labs is located in Louisville, Colorado at the Company's current good manufacturing practice ("cGMP") production and distribution facility.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Any reference in these notes to applicable guidance is meant to refer to GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Updates ("ASU") of the Financial Accounting Standards Board ("FASB").

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements include all normal and recurring adjustments (which consist primarily of accruals, estimates and assumptions that impact the financial statements) considered necessary to present fairly the Company's financial position as of September 30, 2023 and its results of operations for the three and nine months ended September 30, 2023 and 2022,

cash flows for the nine months ended September 30, 2023 and 2022, and stockholders' equity for the three and nine months ended September 30, 2023 and 2022. Operating results for the three and nine months ended September 30, 2023, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2023. The unaudited interim condensed consolidated financial statements presented herein do not contain the required disclosures under GAAP for annual consolidated financial statements. Certain amounts presented in prior periods have been reclassified to conform with the current period presentation. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes as of and for the year ended December 31, 2022, included in the Company's Annual Report on Form 10-K filed with the SEC on March 23, 2023.

Inventories

Inventories are stated at the lower of cost or net realizable value. The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions. The Company's inventory production process for cannabinoid products includes the cultivation of botanical raw material. Due to the duration of the cultivation process, a portion of the inventory will not be sold within one year. Consistent with the practice in other industries that cultivate botanical raw materials, all inventory is classified as a current asset.

Revenue Recognition

The majority of the Company's revenue is derived from sales of branded products to consumers via the Company's direct-to-consumer e-commerce website, and distributors, retail, and wholesale business-to-business customers. The following table sets forth the disaggregation of the Company's revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Direct-to-consumer	$ 9,428	$ 11,759	$ 31,430	$ 38,174
Business-to-business	4,866	5,278	15,880	17,097
Total	$ 14,294	$ 17,037	$ 47,310	$ 55,271

Substantially all of the Company's revenue is earned in the United States.

Recently Adopted Accounting Pronouncements

There are no new accounting pronouncements adopted or issued by the FASB that had or may have a material impact on the accompanying unaudited interim condensed consolidated financial statements.

3. FAIR VALUE MEASUREMENT

The following table sets forth the Company's financial instruments that were measured at fair value on a recurring basis at September 30, 2023 and December 31, 2022, by level within the fair value hierarchy:

	September 30, 2023			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Stanley Brothers USA Holdings Purchase Option	$ —	$ —	$ 2,332	$ 2,332
Debt interest rate conversion feature	—	—	778	778
Total financial assets	$ —	$ —	$ 3,110	$ 3,110
Investment in unconsolidated entity:	$ —	$ —	$ 11,100	$ 11,100
Financial liabilities:				
Debt conversion option	$ —	$ 7,407	$ —	$ 7,407

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Stanley Brothers USA Holdings Purchase Option	$ —	$ —	$ 2,300	$ 2,300
Debt interest rate conversion feature	—	—	1,320	1,320
Total financial assets	$ —	$ —	$ 3,620	$ 3,620
Financial liabilities:				
Debt conversion option	$ —	$ 12,995	$ —	$ 12,995

There were no transfers between levels of the hierarchy during the three and nine month periods ended September 30, 2023 and the year ended December 31, 2022.

Investment in Unconsolidated Entity

On April 6, 2023, the Company jointly formed an entity, DeFloria LLC ("DeFloria"), with AJNA BioSciences PBC ("AJNA"), and a subsidiary of British American Tobacco PLC (LSE: BATS and NYSE: BTI) ("BAT"). AJNA is a botanical drug development company. AJNA is partially owned and was co-founded by a co-founder of Charlotte's Web. The entity was established to pursue FDA-approval for a botanical drug to target a neurological condition.

BAT holds an equity interest in DeFloria in the form of 200,000 or 100% preferred units following its $10 million investment and has the right to participate in future equity issuances to maintain its pro rata equity position. The Company and AJNA each hold 400,000 or 50%, respectively, of DeFloria's voting common units. The Company's contribution to DeFloria is a license permitting the use of certain proprietary hemp intellectual property, including clinical and consumer data. Additionally, the Company has a Supply Agreement with DeFloria, under which the

Company supplies the oils at cost used to produce and develop the new drug. AJNA's contribution to the entity is laboratory and regulatory services, clinical expertise, and the provision of clinical services. DeFloria is expected to use the initial $10 million cash investment for the clinical development of a hemp botanical Investigational New Drug application and has commenced Phase I clinical development.

Concurrently with the formation of DeFloria, the Company was issued a warrant to purchase 865,052 shares of Class A Common Stock of AJNA for an exercise price of $2.89 per share. Management determined the warrant should be accounted for in accordance with ASC 321, which requires the warrant to be measured at fair value at issuance and subsequently remeasured at fair value each reporting period. All changes from the remeasurement of the warrant will be recorded as a change in fair value of financial instruments in the statements of operations. The Company determined the fair value of the AJNA warrants to be de minimis and as such no value was recorded as of September 30, 2023.

The Company determined that it has a variable interest in the investment in DeFloria. However, the Company is not the primary beneficiary of DeFloria as it lacks the power to direct DeFloria's key activities. Therefore, the Company concluded that the investment in DeFloria should not be consolidated. The maximum exposure to loss in the investment in DeFloria is limited to the Company's investment, which is represented by the financial statement carrying amount of its retained interest.

In accordance with ASC 825-10, equity method investments are eligible for the fair value option as they represent recognized financial assets. As the Company is not required to consolidate the investment and does not meet any of the other scope exceptions, the Company has the ability to adopt the fair value option for the investment at inception. Upon formation of the entity, the Company elected the fair value option because it allows the investment to be valued based on current market conditions. As such, the investment is remeasured at fair value at each reporting date, with changes recognized in consolidated statements of operations as changes in fair value of financial instruments for the period. For the three and nine months ended September 30, 2023, a gain of $400, respectively, related to the investment in DeFloria was recognized as a change in fair value of financial instruments in the statements of operations. As of September 30, 2023, the DeFloria investment represents an investment of $11,100 within the condensed consolidated balance sheets.

The use of assumptions for the fair value determination includes a high degree of subjectivity and judgment using unobservable inputs (level 3 on the fair value hierarchy), which results in estimation uncertainty. To determine the value of the investment, the Company utilizes an Option Pricing Model (OPM). The OPM considers the various terms of the stockholder agreements, including the level of seniority among the securities, dividend policy, conversion ratios, and cash allocations upon liquidation of the entity. The OPM is appropriate when the range of potential future outcomes is difficult to predict with any certainty.

The following additional assumptions are used in the model:

	September 30, 2023
Expected term (years)	6.52
Volatility	70.0%
Risk-free interest rate	4.6%
Expected dividend yield	—%
Discount for lack of marketability	20.0%

Convertible Debt Derivatives

On November 14, 2022, the Company entered into a subscription agreement (the "Subscription Agreement") with BT DE Investments, Inc. a wholly owned subsidiary of BAT Group (LSE: BATS and NYSE: BTI) (the "Lender"), providing for the issuance of a $56.8 million (C$75.3 million) convertible debenture (the "debenture"). The debenture is convertible into 19.9% ownership of the Company's common shares at a conversion price of C$2.00 per common share of the Company on the TSX. The debenture will accrue interest at a stated annualized rate of 5% until such time that there is federal regulation permitting the use of cannabidiol, a phytocannabinoid derived from the plant Cannabis sativa L. ("CBD") as an ingredient in food products and dietary supplements in the United States. The term "federal regulation" is defined as the date that federal laws in the United States permit, authorize, or do not prohibit the use of CBD as an ingredient in food products and dietary supplements. Following federal regulation of CBD, the annualized rate of interest shall reduce to 1.5%. The maturity date for the debenture is November 14, 2029 (the "Maturity Date").

Debt Interest Rate Conversion Feature

The debt interest rate conversion feature is classified as a financial asset and is remeasured at fair value at each reporting date, with changes recognized in consolidated statements of operations as changes in fair value of financial instruments for the period. The use of assumptions for the fair value determination includes a high degree of subjectivity and judgment using unobservable inputs (level 3 on the fair value hierarchy), which results in estimation uncertainty. The debt interest rate conversion feature, if triggered, reduces the stated interest rate of the debenture to 1.5% upon federal regulation of CBD in the United States.

For the three and nine months ended September 30, 2023, a loss of $38 and $544, respectively, related to the debt interest rate conversion feature was recognized as a change in fair value of financial instruments in the statements of operations. As of September 30, 2023 and December 31, 2022, the debt interest rate conversion feature represents a financial asset of $778 and $1,320, respectively, within SBH purchase option and other derivative assets in the condensed consolidated balance sheets.

To determine the value of the conversion feature, the Company utilizes a probability weighted income approach. This method calculates the present value of the reduced interest accrued on the debenture assuming the feature is triggered at a certain time, after accounting for the probability of federal regulation of CBD. This approach is useful when ultimate valuation is based on an unverifiable outcome, such as an event outside of the Company's influence. The following additional assumptions are used in the model:

	September 30, 2023	December 31, 2022
Stated interest rate	5.0%	5.0%
Adjusted interest rate	1.5%	1.5%
Implied debt yield	12.1%	8.6%
Federal regulation probability	various	15.0%
Year of event	various	2025

Debt Conversion Option

Per the debenture, the Lender has the option, at any time before the Maturity Date at no additional consideration, for all or any part of the principal amount to be converted into fully paid and non-assessable common shares. The Company assessed this conversion feature and determined that the debt conversion option is an embedded derivative that requires bifurcation and is classified as a financial liability. The debt conversion option is initially measured at fair value and is revalued at each reporting period using the Black-Scholes option pricing model based on Level 2

observable inputs. The assumptions used by the Company are the quoted price of the Company's common shares in an active market, risk-free interest rate, volatility and expected life, and assumes no dividends. Volatility is based on the actual historical market activity of the Company's shares. The expected life is based on the remaining contractual term of the debenture and the risk-free interest rate is based on the implied yield available on U.S. Treasury Securities with a maturity equivalent to the expected maturity of the debenture.

For the three and nine months ended September 30, 2023, a $4,661 loss and $5,700 gain, respectively, related to the debt conversion option was recognized as a change in fair value of financial instruments in the statements of operations. As of September 30, 2023 and December 31, 2022, the debt conversion option represents a financial liability of $7,407 and $12,995, respectively, within derivative and other long-term liabilities in the condensed consolidated balance sheets.

The following table provides the assumption regarding Level 2 fair value measurements inputs at their measurement dates:

	September 30, 2023	December 31, 2022
Expected volatility	87.4%	86.7%
Expected term (years)	6.1	6.9
Risk-free interest rate	4.6%	4.0%
Expected dividend yield	—%	—%
Value of underlying share	C$0.49	C$0.73
Exercise price	C$2.00	C$2.00

Stanley Brothers USA Holdings Purchase Option

On March 2, 2021, the Company executed an Option Purchase Agreement pursuant to which the Company has the option to acquire Stanley Brothers USA Holdings, Inc. ("Stanley Brothers USA"), a Cannabis wellness incubator. Until the Stanley Brothers USA Holdings Purchase Option ("SBH Purchase Option") is exercised, both the Company and Stanley Brothers USA will continue to operate as standalone entities in the United States. Internationally, the companies are able to explore opportunities where Cannabis is federally permissible. The Company does not currently have any plans to expand into high THC Cannabis products in the near future.

The SBH Purchase Option was purchased for total consideration of $8,000 and has a term of five years (extendable for an additional two years upon payment of additional consideration). The SBH Purchase Option provides the Company the option to acquire all or substantially all the shares of Stanley Brothers USA on the earlier of February 26, 2025 and federal legalization of cannabis in the United States, or such earlier time as Stanley Brothers USA and the Company agree, at a purchase price to be determined at the time of exercise of the SBH Purchase Option. Upon exercise of the SBH Purchase Option, the purchase price will be determined based on application of predetermined multiples of Stanley Brothers USA revenue and earnings before interest, taxes, depreciation, and amortization ("EBITDA") measures. The Company is not obligated to exercise the SBH Purchase Option. As part of the SBH Purchase Option agreement, Stanley Brothers USA issued the Company a warrant exercisable to purchase 10% of the outstanding Stanley Brothers USA shares and convertible securities that are considered in-the-money, subject to certain conditions and exclusions. The warrant is exercisable at the Company's election for a nominal exercise price in the event the Company elects not to acquire all or substantially all shares of Stanley Brothers USA and expires 60 days after the expiration of the option.

The Company has elected the fair value option in accordance with ASC 825-10 guidance to record its SBH Purchase Option. Under ASC 825-10, a business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The SBH Purchase Option is classified

as a financial asset and is remeasured at fair value at each reporting date, with changes to fair value recognized in the statements of operations for the period. The use of assumptions for the fair value determination includes a high degree of subjectivity and judgment using unobservable inputs (level 3 on the fair value hierarchy), which results in estimation uncertainty. Changes in assumptions that reasonably could have been different at the reporting date may result in a higher or lower determination of fair value. Changes in fair value measurements, if significant, may affect the performance of cash flows. For the three months ended September 30, 2023 and 2022, a gain of $275 and a loss of $4,000, respectively, related to the SBH Purchase Option was recognized as change in fair value of financial instruments in the statements of operations. For the nine months ended September 30, 2023 and 2022, a gain of $32 and a loss of $3,900, respectively, related to the SBH Purchase Option was recognized as change in fair value of financial instruments in the statements of operations. As of September 30, 2023 and December 31, 2022, the SBH Purchase Option represents a financial asset of $2,332 and $2,300, respectively, within SBH purchase option and other derivative assets in the condensed consolidated balance sheets.

The Monte Carlo valuation model considers multiple revenue and Earnings Before Interest Taxes Depreciation and Amortization ("EBITDA") outcomes for Stanley Brothers USA and other probabilities in assigning a fair value. Primary assumptions utilized include financial projections of Stanley Brothers USA and the probability and timing of exercise. The following additional assumptions are used in the model of the SBH Purchase Option:

	September 30, 2023	December 31, 2022
Expected volatility	120.0%	115.0%
Expected term (years)	2.4	2.7
Risk-free interest rate	4.9%	4.3%
Weighted average cost of capital	45.9%	40.0%

4. INVENTORIES

Inventories consist of the following:

	September 30, 2023	December 31, 2022
Harvested hemp and seeds	$ 19,864	$ 34,763
Raw materials	9,491	10,960
Finished goods	7,725	13,237
	37,080	58,960
Less: inventory provision	(14,449)	(32,007)
Total inventory	$ 22,631	$ 26,953

During the current year, the Company sold harvested hemp that had a full inventory provision as of December 31, 2022. The sale of hemp resulted in a $12,854 reduction to the inventory provision as of September 30, 2023.

5. LICENSE AND MEDIA RIGHTS

MLB Promotion Rights Agreement

On October 11, 2022, the Company entered into a Promotional Rights Agreement (the "MLB Promotional Rights Agreement") with MLB Advanced Media L.P., on its own behalf and on behalf of Major League Baseball

Properties, Inc., the Office of the Commissioner of Baseball, The MLB Network, LLC and the Major League Baseball Clubs (collectively, the "MLB"), pursuant to which the Company entered into a strategic partnership with MLB to promote the Company's new NSF-Certified for Sport® product line.

As consideration under the MLB promotional rights agreement, the Company has paid and is committed to pay a combination of cash over the license period, along with upfront non-cash consideration in the form of equity, as well as contingent consideration in the form of contingent payments based on revenue.

As of September 30, 2023 and December 31, 2022, the carrying value of the licensed properties was $16,412 and $23,399, respectively, recorded as a license and media rights asset within the condensed consolidated balance sheets. As of September 30, 2023 and December 31, 2022, the carrying value of the media rights was $6,107 and $7,482 recorded as a prepaid asset and a license and media rights asset within the condensed consolidated balance sheets. For the three and nine months ended September 30, 2023, the Company paid MLB $2,000 and $6,000, respectively, as part of the committed cash payments, and recognized $2,949 and $6,846, respectively, in amortization expense related to the license and media right assets. Licensed properties are amortized straight line and media rights are amortized as incurred.

Maturities of the MLB license and media rights payable as of September 30, 2023 are as follows:

Year Ending December 31:		
2023 (3 months remaining)	$	2,000
2024		10,000
2025		12,000
Total payments	$	24,000
Less: Imputed interest		(1,044)
Total license and media rights payable	$	22,956
Less: Current license liabilities		(11,734)
Total non-current license and media rights payable	$	11,222

As of September 30, 2023, expected amortization of licensed properties are as follows:

Year Ending December 31:		
2023 (3 months remaining)	$	1,824
2024		7,294
2025		7,294
Total future amortization	$	16,412

6. DEBT

Convertible Debenture

On November 14, 2022, the Company entered into the Subscription Agreement with BT DE Investments, Inc., providing for the issuance of a $56.8 million (C$75.3 million) convertible debenture. The debenture was denominated in Canadian Dollars ("CAD" or "C$"). The debenture is convertible into 19.9% ownership of the Company's common shares at a conversion price of C$2.00 per common share of the Company. The debenture will accrue interest at a stated annualized rate of 5% until such time that there is federal regulation permitting the use of

CBD as an ingredient in food products and dietary supplements in the United States. Following federal regulation of CBD, the stated annualized rate of interest shall reduce to 1.5%. The maturity date for the debenture is November 14, 2029.

The following is a summary of the Company's convertible debenture as of September 30, 2023:

	As of September 30, 2023		
Convertible Debenture	Principal Amount	Unamortized Debt Discount and Costs	Net Carrying Amount
Convertible debenture due November 2029	$ 57,943	$ (17,549)	$ 40,394

The following is a summary of the Company's convertible debenture as of December 31, 2022:

	As of December 31, 2022		
Convertible Debenture	Principal Amount	Unamortized Debt Discount and Costs	Net Carrying Amount
Convertible debenture due November 2029	$ 56,080	$ (18,659)	$ 37,421

The debenture was C$75.3 million per the subscription agreement and translated to USD on the transaction date. For the three and nine months ended September 30, 2023, the Company recognized a foreign currency gain of $994 and $174, respectively, related to the net carrying value of the debenture within the statement of operations.

Interest is accrued annually and payable on the maturity date or date of earlier conversion. On conversion, accrued interest will either be converted into common shares equal to the amount of accrued interest or will be paid in cash if agreed with the Lender. As of September 30, 2023, the principal amount of the debenture includes $2,479 of accrued interest expense. The following is a summary of the interest expense and amortization expense, recorded within the statement of operation, of the Company's convertible debenture for the three and nine months ended September 30, 2023:

	Three Months Ended September 30,	Nine Months Ended September 30,
Interest and Amortization Expense	**2023**	**2023**
Interest expense	$ 702	$ 2,100
Amortization of debt discounts and costs	378	1,046
Total	$ 1,080	$ 3,146

7. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

From time to time, the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. Although the ultimate aggregate amount of monetary liability or financial impact with respect to these matters is subject to many uncertainties and is therefore not predictable with assurance, management believes that as of September 30, 2023 there is no litigation pending that could have, individually and in the aggregate, a material adverse effect on the Company's financial position, results of operations or cash flows.

8. LEASES

The Company has lease arrangements related to office space, warehouse and production space, and land to facilitate agricultural operations. The leases have remaining lease terms of less than 3 months to 11.42 years, some of which include options to extend the leases for up to 5 years. Generally, the lease agreements do not include options to terminate the lease.

Maturities of operating lease liabilities as of September 30, 2023 are as follows:

	Operating Leases
Year Ending December 31:	
2023 (3 months remaining)	$ 884
2024	3,201
2025	2,892
2026	2,169
2027	1,844
Thereafter	13,647
Total lease obligation	24,637
Less: Imputed interest	(6,148)
Total lease liabilities	18,489
Less: Current lease liabilities	(2,249)
Total non-current lease liabilities	$ 16,240

For the three and nine months ended September 30, 2022, the Company recorded an impairment charge of $1,822 related to the decision to cease utilizing the Denver office space recorded within asset impairment in the consolidated statements of operations. There were no such impairments for the three and nine months ended September 30, 2023.

9. SHAREHOLDERS' EQUITY

As of September 30, 2023 and December 31, 2022, the Company's share capital consists of one class of issued and outstanding shares: common shares. The Company is also authorized to issue preferred shares issuable in series. To date, no shares of preferred shares have been issued or are outstanding.

Common Shares

As of September 30, 2023 and December 31, 2022, the Company was authorized to issue an unlimited number of common shares, which have no par value.

10. LOSS PER SHARE

The Company computes loss per share of common shares. Basic net loss per common share is computed by dividing the net loss by the weighted-average number of common shares outstanding. Diluted loss per common share is computed by dividing the net loss by the weighted-average number of common shares together with the number of additional common shares that would have been outstanding if all potentially dilutive common shares had been issued, unless anti-dilutive.

The following table sets forth the computation of basic and dilutive net loss per share attributable to common shareholders:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net loss	$ (15,143)	$ (7,588)	$ (15,211)	$ (24,084)
Weighted-average number of common shares - basic	153,094,229	145,334,992	152,632,806	145,203,515
Dilutive effect of securities	—	—	—	—
Weighted-average number of common shares - diluted	153,094,229	145,334,992	152,632,806	145,203,515
Loss per common share – basic	$ (0.10)	$ (0.05)	$ (0.10)	$ (0.17)
Loss per common share – diluted	$ (0.10)	$ (0.05)	$ (0.10)	$ (0.17)

As of September 30, 2023 and 2022, potentially dilutive securities include stock options, restricted share units, common share warrants, and convertible debenture conversion. When the Company recognizes a net loss from continuing operations, all potentially dilutive shares are anti-dilutive and are consequently excluded from the calculation of diluted net loss per share. The potentially dilutive awards outstanding for each period are presented in the table below:

	September 30,	
	2023	2022
Outstanding options	6,535,407	4,625,261
Outstanding restricted share units	3,559,769	2,843,470
Total	10,095,176	7,468,731

The Company's debenture is convertible into 19.9% ownership of the Company's common shares at a conversion price of C$2.00 per common share of the Company. The Company can settle the convertible debenture in shares. If the convertible debenture in diluted EPS is anti-dilutive, or if the conversion value of the debenture does not exceed their conversion price for a reporting period, then the shares underlying the notes will not be reflected in the Company's calculation of diluted EPS. For the three and nine months ended September 30, 2023, the price of the Company's shares did not exceed the conversion price and therefore there was no impact to potential common share diluted EPS during those periods.

On October 12, 2023, the Company granted 4.5 million restricted shares to William Morachnick, the new chief executive officer, as part of his employment agreement.

11. SHARE-BASED COMPENSATION

Stock options

Stock options vest over a prescribed service period and are approved by the Company's board of directors on an award-by-award basis. Options have a prescribed service period generally lasting up to four years, with certain options having a shorter vesting period or vesting immediately upon issuance. Upon the exercise of any stock options, the Company issues shares to the award holder from the pool of authorized but unissued common shares.

The fair values of options granted during the period were determined using a Black-Scholes model. The following principal inputs were used in the valuation of awards issued for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30,	
	2023	2022
Expected volatility	88.8%	85.8%
Expected term (years)	5.5-6.5	5.5-6.5
Risk-free interest rate	3.4%	3.3%
Expected dividend yield	0%	0%
Value of underlying share	$0.36	$0.43

Detail of the number of stock options outstanding for the nine months ended September 30, 2023 under the Company's 2015 legacy option plan and the Company's amended 2018 long term incentive plan (collectively, the "Plans") is as follows:

	Number of Options	Weighted-Average Exercise Price per Option	Weighted-Average Remaining Contract Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2022	3,957,027	$ 1.52	8.37	$ 46,800
Granted	3,748,671	0.38		
Exercised	—	—		
Forfeited (and expired)	(1,170,291)	1.38		
Outstanding as of September 30, 2023	6,535,407	$ 0.81	8.76	$ 90,010
Exercisable/vested as of September 30, 2023	2,745,812	$ 1.17	7.49	$ —

The weighted average grant-date fair value of options granted during the nine months ended September 30, 2023 and 2022 was $0.38 and $1.11, respectively.

The weighted average share price at the date of exercise of options exercised during the nine months ended September 30, 2023 and 2022 was $0, respectively.

Restricted share units

The Company has issued time-based restricted share units to certain employees as permitted under the Company's amended 2018 long term incentive plan (the "2018 Plan"). The restricted share units granted vest in accordance with the board-approved agreement, typically over equal installments up to four years. Upon vesting, one share of the Company's common shares is issued for each restricted share unit awarded. The fair value of each restricted share unit granted is equal to the market price of the Company's shares at the date of the grant. The fair value of shares vested during the nine months ended September 30, 2023 and 2022 was $1,150 and $881, respectively.

Details of the number of restricted share units outstanding under the 2018 Plan is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of December 31, 2022	2,569,574	$ 0.98
Granted	3,598,076	$ 0.27
Forfeited	(436,785)	$ 1.22
Vested	(1,644,830)	$ 0.70
Shares withheld upon vesting	(526,266)	$ 0.77
Outstanding as of September 30, 2023	3,559,769	$ 0.39

Share-based Compensation Expense

Share-based compensation expense for all equity arrangements for the three months ended September 30, 2023 and 2022 was $647 and $664, respectively, included in Selling, general and administrative expense in the condensed consolidated statements of operations. Share-based compensation expense for all equity arrangements for the nine months ended September 30, 2023 and 2022 was $1,646 and $2,686, respectively, included in Selling, general and administrative expense in the condensed consolidated statements of operations.

As of September 30, 2023, $3,347 of total unrecognized share-based compensation expense related to unvested options and restricted stock units granted to employees is expected to be recognized over a weighted-average period of 2.70 years.

12. INCOME TAXES

The Company's effective tax rate in the three and nine months ended September 30, 2023 and 2022 was 0%. The Company's effective tax rates differ from the U.S. federal statutory rate of 21.0% for the three and nine months end September 30, 2023 and 2022, respectively, primarily due to the valuation allowance. The effective tax rate for the three and nine months ended September 30, 2023 is consistent with the three and nine months ended September 30, 2022, as the Company has been in a full valuation allowance for both periods.

As of December 31, 2022, the Company qualified for federal government assistance through employee retention credit ("ERC") provisions of the Consolidated Appropriations Act of 2021. Management recorded the ERC benefit of $4,106 for the year ended December 31, 2022 as an offset to Selling, general and administrative expense. During the nine months ending September 30, 2023, the company received $4,261, which includes $155 of interest income, related to the ERC.

13. RELATED PARTY TRANSACTIONS

Effective November 2020, the Company issued a secured promissory note, where $1,000 was loaned to one of the Company's founders. The note receivable was secured by equity instruments held by certain founders of the Company, bore interest at 3.25% per annum, and required the unpaid principal and unpaid interest balances to be paid on or before the maturity date of November 13, 2021. On March 22, 2022, the founders requested an extension of the maturity date, as allowed under the terms of the promissory note, resulting in an extension of the maturity date to November 13, 2023. According to the terms of the agreement, no additional interest will accrue through the payment date. As of September 30, 2022, the note receivable of $1,037 consisted of principal and interest. As of December 31, 2022, the Company established a reserve against the note receivable due to decline in collateral and risk associated with collectability and therefore, expensed the outstanding balance of $1,037.

On March 2, 2021, the Company entered into the SBH Purchase Option with Stanley Brothers USA as discussed above (Note 3). The SBH Purchase Option was purchased for total consideration of $8,000. Certain founders of the Company, who are or were employees at the time, are the majority shareholders of Stanley Brothers USA.

Effective January 5, 2023, the Company entered into a Brand License and Option Agreement with JMS Brands LLC (the "Brand License and Option Agreement"), an entity owned by one of the Company's founders. Pursuant to the Brand License and Option Agreement, the Company licenses certain intellectual property from JMS Brands LLC, for an annual license fee of $500. Pursuant to the terms of the agreement, the Company has the option to purchase the intellectual property rights for $2,000.

On April 6, 2023, the Company jointly formed an entity, DeFloria, with AJNA and BAT. AJNA is a botanical drug development company. AJNA is partially owned and was co-founded by a co-founder of Charlotte's Web. BAT holds an equity interest in the entity in the form of 200,000 preferred units following its $10 million investment and has the right to participate in future equity issuances to maintain its pro rata equity position. The Company and AJNA each hold 400,000 of the entity's voting common units (Note 3). Effective May 1, 2023, the Company entered into an 8% interest bearing note receivable with DeFloria for the sale of lab equipment in the amount of $170. The principal and interest of the note receivable will be paid in 36 monthly installments. As of September 30, 2023, the remaining note receivable of $142 is presented in other assets in the condensed consolidated balance sheets.

Pursuant to an amendment to the Name and Likeness and License Agreement between the Company and Leeland & Sig LLC d/b/a Stanley Brothers Brand Company, the agreement was extended to December 31, 2023. The agreement includes the payment of a nominal per diem fee for specifically requested activities as brand ambassadors for the Company. In addition, on April 16, 2021, the Company executed a separate consulting agreement which extended the services agreements of the Stanley Brothers for a period of one year, expiring July 31, 2022. Upon execution of the consulting agreement, the Company paid $2,081 to Leeland & Sig LLC d/b/a Stanley Brothers Brand Company, on behalf of the Stanley Brothers, as consideration for the consulting services to be provided to the Company over the term of the agreement and certain restrictive covenants. For the three and nine months ended September 30, 2022, the Company recognized $150 and $1,025, respectively in sales and marketing expenses in the condensed consolidated statements of operations and net loss related to this agreement.