

CHARLOTTE'S WEB HOLDINGS, INC.

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 and 2018
(Expressed in United States Dollars)

UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL
STATEMENTS
For the Three and Six Months Ended June 30, 2019 and 2018

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CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of United States dollars)

	June 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash	\$ 51,431	\$ 73,404
Trade and other receivables (note 4)	7,430	4,874
Note receivable (note 5)	1,400	-
Inventories (note 7)	34,534	23,969
Prepaid expenses and other current assets (note 10)	9,528	3,917
Income taxes receivable	6,642	1,787
	<u>110,965</u>	<u>107,951</u>
Non-current assets:		
Property and equipment, net (note 8)	18,264	6,806
Intangibles (note 9)	665	619
Deferred tax assets (note 16)	26,221	23,449
Loan due from related parties (note 6)	114	128
Other long-term assets	993	181
	<u>\$ 157,222</u>	<u>\$ 139,134</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 2,077	\$ 3,379
Accrued liabilities	9,108	10,014
Deferred revenue	638	467
Current portion of notes payable (note 12)	9	9
Current portion of lease obligations (note 11)	2,161	283
	<u>13,993</u>	<u>14,152</u>
Non-current liabilities:		
Long-term note payable (note 12)	7	12
Long-term lease obligations (note 11)	6,495	113
Deferred rent	-	73
Other long-term liabilities (note 13)	1,819	3,286
	<u>22,314</u>	<u>17,636</u>
Shareholders' equity:		
Share capital	111,411	101,175
Contributed surplus (note 14b)	1,147	2,498
Retained earnings	22,350	17,825
	<u>134,908</u>	<u>121,498</u>
Commitments (note 12)		
	<u>\$ 157,222</u>	<u>\$ 139,134</u>

Approved by the Board of Directors

/s/ "William West"

Director (signed)

/s/ "John Held"

Director (signed)

CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

(In thousands of United States dollars, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue	\$ 25,020	\$ 17,217	\$ 46,720	\$ 30,309
Cost of sales (note 15)	6,526	4,277	12,431	7,021
Gross profit before loss on fair value of biological assets	18,494	12,940	34,289	23,288
Realized fair value amounts included in inventory sold (note 7)	(354)	(264)	(496)	(453)
Unrealized fair value loss on growth of biological assets (note 7)	-	-	-	-
Gross profit	18,848	13,204	34,785	23,741
Expenses:				
General and administrative (note 15)	9,060	4,915	17,519	8,981
Sales and marketing (note 15)	6,527	2,411	11,087	4,474
Research and development	654	129	845	255
Initial public offering related costs	-	752	-	859
	16,241	8,207	29,451	14,569
Operating income	2,607	4,997	5,334	9,172
Financing costs	(77)	(66)	(134)	(130)
Interest income	310	33	666	54
Other income	(4)	-	(7)	-
Income before taxes	2,836	4,964	5,859	9,096
Income taxes (note 16)	(648)	(1,234)	(1,334)	(2,263)
Net income and comprehensive income	\$ 2,188	\$ 3,730	\$ 4,525	\$ 6,833
Weighted average number of common shares - basic (note 14c)	94,986,784	79,307,281	94,105,280	79,430,438
Weighted average number of common shares - diluted (note 14c)	106,272,945	84,495,194	106,245,283	84,618,351
Earnings per share - basic (note 14c)	\$ 0.02	\$ 0.05	\$ 0.05	\$ 0.09
Earnings per share - diluted (note 14c)	\$ 0.02	\$ 0.04	\$ 0.04	\$ 0.08

CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of United States dollars)

Six months ended June 30, 2018	Share capital	Contributed surplus	Retained earnings	Total
Balance - December 31, 2017	\$ 5,835	\$ 787	\$ 6,017	\$ 12,639
Exercise of common stock options (note 14d)	42	-	-	42
Share-based compensation expense (note 14d)	-	421	-	421
Share issuance costs	(104)	-	-	(104)
Net income	-	-	6,833	6,833
Balance - June 30, 2018	\$ 5,773	\$ 1,208	\$ 12,850	\$ 19,831

Six months ended June 30, 2019	Share capital	Contributed surplus	Retained earnings	Total
Balance - December 31, 2018	\$ 101,175	\$ 2,498	\$ 17,825	\$ 121,498
Exercise of common stock options (note 14d)	1,663	(1,266)	-	397
Exercise of broker stock warrants (note 14e)	1,295	(834)	-	461
Income tax benefit from stock options (note 16)	7,278	-	-	7,278
Share-based compensation expense (note 14d)	-	749	-	749
Net income	-	-	4,525	4,525
Balance - June 30, 2019	\$ 111,411	\$ 1,147	\$ 22,350	\$ 134,908

CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of United States dollars)

	Six months ended June 30,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 4,525	\$ 6,833
Items not involving cash:		
Depreciation and amortization	1,406	576
Change in fair value of biological assets	(496)	(453)
Accretion on convertible note	-	71
Change in fair value of convertible note	-	(66)
Allowance for doubtful accounts	136	152
Inventory reserve	953	115
Deferred rent	(73)	(11)
Share-based compensation	749	421
(Gain)/Loss on disposal of fixed assets	8	(28)
Deferred income taxes	(182)	(184)
Changes in working capital:		
Trade and other receivables	(2,693)	(827)
Inventories	(10,296)	(1,118)
Prepaid expenses and other current assets	(5,611)	(829)
Accounts payable	(1,302)	465
Accrued liabilities	(2,373)	1,909
Income taxes	(166)	(844)
Deferred revenue	171	(87)
	(15,244)	6,095
Cash flows from investing activities:		
Funding of note receivable	(1,400)	-
Purchases of property and equipment and intangibles	(4,059)	(1,324)
Proceeds from sale of assets	53	38
Proceeds from related party	14	-
Other long-term assets	(812)	197
	(6,204)	(1,089)
Cash flows from financing activities:		
Proceeds from common stock option exercise	397	42
Proceeds from stock warrant exercise	461	-
Payments on notes payable	(5)	(18)
Payments on lease obligations	(1,378)	(153)
	(525)	(1,278)
Increase (decrease) in cash	(21,973)	3,728
Cash, beginning of year	73,404	7,056
Cash, end of period	\$ 51,431	\$ 10,784
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 134	\$ 130

1. Company overview

Charlotte's Web Holdings, Inc. and its subsidiary, Charlotte's Web, Inc., (collectively the "Company") is a public company incorporated pursuant to the laws of the Province of British Columbia. The Company is publicly listed on the Toronto Stock Exchange (TSX) under the symbol "CWEB."

The Company's head office is located at 1600 Pearl Street, Suite 300, Boulder, Colorado, 80302, United States and its registered and records office is located at 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia V6C 2Z7, Canada.

2. Basis of preparation

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS 34), Interim Financial Reporting on a basis consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These unaudited interim condensed consolidated financial statements include only significant events and transactions occurring since the Company's last fiscal year-end. They do not include all the information and notes required by IFRS for annual financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements and notes for the Company's fiscal year ended December 31, 2018.

The unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2019 and 2018 were approved and authorized for issue by the board of directors on August 12, 2019.

(b) Measurement basis

The unaudited interim condensed consolidated financial statements have been prepared mainly on a historical cost basis. Other measurement bases used are described in the applicable notes.

(c) Basis of consolidation

The Company's unaudited interim condensed consolidated financial statements consolidate those of the parent company Charlotte's Web Holdings, Inc. and its wholly owned subsidiary, Charlotte's Web, Inc. In addition, the Company's unaudited interim condensed consolidated financial statements consolidate the Company and its wholly owned subsidiary, Stanley Brothers Social Enterprises, LLC, through its dissolution date of April 17, 2018.

Inter-company balances and transactions are eliminated in preparing the consolidated financial statements. The accounting policies of the subsidiary are consistent with the Company's policies.

(d) Use of estimates

The preparation of unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated

financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 16, which are described in note 3.

(e) Functional and presentation currency

The unaudited interim condensed consolidated financial statements are presented in United States dollars (unless otherwise noted), which is the functional currency of the Company and its subsidiary. All financial information is presented in United States dollars and has been rounded to the nearest thousand, except for earnings per share amounts.

3. Summary of significant accounting policies

The Company's significant accounting policies are described in Note 3, "Summary of significant accounting policies," in the Company's annual consolidated financial statements for the year ended December 31, 2018. The following discussion is intended to describe those judgments and key assumptions concerning major sources of estimation uncertainty at the end of the current reporting period that have the most significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

(a) Adoption of new accounting standards and policies

The Company has adopted the following new accounting standards which became effective as of January 1, 2019.

IFRS 16, "Leases"

In January 2016, the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard (IFRS) on lease accounting which was incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in June 2016. IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 introduces a single lessee accounting model that requires a lessee to recognize Right-of-use (RoU) assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. RoU assets are initially recognized on a present value basis and subsequently, at cost less depreciation. Lease liabilities are initially recognized on a present value basis and subsequently, at amortized cost. The lessor accounting requirements are substantially unchanged and, accordingly, continue to require classification and measurement as either operating or finance leases. The new standard also introduces detailed disclosure requirements for both the lessee and lessor. The Company's date of initial application was January 1, 2019.

The Company adopted IFRS 16 using the modified retrospective transition approach. Accordingly, comparative figures at and for the year ended December 31, 2018 and the three and six months ended June 30, 2018 have not been restated and continue to be reported under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*.

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The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Excluded initial direct costs from measuring the RoU assets at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- Elected not to reassess whether a contract is, or contains, a lease at the date of initial application.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

The Company recognizes a RoU asset and a lease liability at the lease commencement date. The RoU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The RoU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the RoU asset or the end of the lease term. The lease term includes consideration of an option to renew or to terminate if the Company is reasonably certain to exercise that option. Lease terms range from 1 to 10 years for manufacturing, distribution, and administrative facilities. In addition, the RoU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Depreciation for the RoU assets is calculated on the straight-line basis over the following estimated useful lives of the assets:

<u>Assets</u>	<u>Useful Life</u>
RoU - Buildings	Shorter of useful life or term of lease (1-5 years)
RoU - Cultivation Equipment	Shorter of useful life or term of lease (1-10 years)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Lease payments mainly include fixed, or in substance fixed, payments and variable lease payments that depend on an index or a rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

Some office leases include an option to renew the lease for an additional period after the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. Extension options are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses its portfolio of leases to determine whether

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it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control. The Company considers all facts and circumstances when making this decision. The Company examines whether there is an economic incentive or penalty that would affect the decision to exercise the option, for example, whether the lease option is below market value or whether the Company has made significant investments in leasehold improvements. Where it is not reasonably certain that the lease will be extended or terminated the Company will not recognize these options.

Impacts on financial statements

On transition to IFRS 16, the Company recognized an additional \$3,806 of RoU assets and corresponding lease liabilities related to the discounted amount of commitments and extension options.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 4.85%.

Operating lease commitment as disclosed in the Company's Consolidated Financial Statements for the Year ended December 31, 2018	\$ 2,901
Operating lease commitment for the Year ended December 31, 2018, discounted using incremental borrowing rate	\$ 2,630
Finance lease commitment for the Year ended December 31, 2018	396
Extension options reasonably certain to be exercised	1,204
Transition adjustment to IFRS 16 - deferred rent	(73)
<u>Lease liabilities recognized at January 1, 2019</u>	<u>\$ 4,157</u>

Leases in which a significant portion of the risks and rewards of ownership are not assumed by the Company are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to net earnings on a straight-line basis over the lease term.

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

IFRIC 23, "Uncertainty over Income Tax Treatments"

IFRIC 23, Uncertainty over Income Tax Treatments clarifies how to apply the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty regarding income tax treatments. The Interpretation addresses whether an entity needs to consider uncertain tax treatments separately, the assumptions an entity should make about the examination of tax treatments by taxation authorities, and how an entity considers changes in facts and circumstances in

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such determinations. The adoption of IFRIC 23 did not have an impact on the Company's consolidated financial statements as at the effective date of adoption.

(b) Future accounting standards issued but not yet effective

In October 2018, the IASB issued amendments to IFRS 3, Business Combinations. The amendments clarify the definition of a business, with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and apply prospectively.

4. Trade and other receivables

Trade and other receivables consist of the following:

	June 30, 2019	December 31, 2018
Trade	\$ 7,627	\$ 4,690
Other miscellaneous receivables	59	303
Expected credit losses (ECLs, note 17)	(256)	(119)

The Company provides for ECLs based on its assessment of probability of specific losses, estimates of future individual exposures and provisions based on historical experience.

The aging of receivables is as follows:

	June 30, 2019	December 31, 2018
Current	\$ 4,500	\$ 3,057
Aged 1-30 days past due	1,428	1,245
Aged 31-60 days past due	463	76
Aged >60 days past due	1,295	615
Expected credit losses	(256)	(119)
	\$ 7,430	\$ 4,874

5. Note receivable

Effective May 2019, the Company entered into a secured promissory note agreement with one of the Company's third-party farming suppliers totaling \$2,800, \$1,400 of which was funded as of June 30, 2019. The note bears interest at 2.52% per annum for twelve months and requires the unpaid principal and unpaid interest balances to be paid on or before the maturity date of May 30, 2020. The borrower may pay the principal and accrued interest in the form of an applied discount to the Company's purchases of extracted hemp. The note is carried at amortized cost, with an outstanding balance of \$1,400 as of June 30, 2019.

As of June 30, 2019, the credit risk related to the note receivable has not increased significantly since initial recognition and is deemed to be in Stage 1 of expected credit losses (ECLs). The Company assessed the note receivable as fully collectible with no related ECLs.

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6. Loan due from related parties

At June 30, 2019 and December 31, 2018, the Company had non-interest bearing, unsecured, receivables with no specified terms of repayment, due from certain founders of the Company in the amount of \$114 and \$128, respectively. The Company has assessed the receivables as fully collectible. There was no change in credit risk of these receivables during the period.

7. Inventories

Inventories consist of the following:

	June 30, 2019	December 31, 2018
Harvested hemp	\$ 6,860	\$ 10,463
Raw materials	12,695	7,765
Finished goods	12,784	6,140
Biological assets	3,547	-
	35,886	24,368
Less: inventory reserve	(1,352)	(399)
	\$ 34,534	\$ 23,969

An inventory provision is estimated by management and is included in cost of sales. For the three and six months ended June 30, 2019, inventory reserves of \$580 and \$953, respectively, were expensed through the cost of sales. For the three and six months ended June 30, 2018, inventory reserves of \$115 were expensed through the cost of sales. For the periods ended June 30, 2019 and 2018, the Company had no inventory write offs. The amount of inventory expensed during the three months ended June 30, 2019 and 2018 is \$5,237 and \$3,104, respectively. The amount of inventory expensed during the six-month period ended June 30, 2019 and 2018 is \$9,562 and \$5,172, respectively.

The Company grows its industrial hemp (i) on leased farms operated entirely by Company personnel, and (ii) through third-party farming operations with oversight by the Company. The grow season for the Company's hemp products is generally from May through early October of each year. All harvesting of plants is complete prior to year-end. 100% of the Company's hemp is currently consumed internally for its finished goods products and is not sold in its raw or processed form.

The Company capitalizes the direct and indirect costs associated with the production of its biological assets as incurred, less estimated yield losses and fair value adjustments. Any adjustments to capitalized biological asset costs are expensed to cost of sales.

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in pounds for plants currently being cultivated, and then adjusts that amount for the expected selling price per pound and for additional costs to be incurred, such as post-harvest costs.

As little biological transformation has taken place since the beginning of the cultivation process the carrying value approximates the fair value of the biological assets as of June 30, 2019. Measurement of the plant at fair value less costs to sell begins in early September and is recognized evenly until the point of harvest.

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The changes in the carrying value of biological assets are as follows:

	Biological assets
Carrying amount, December 31, 2018	\$ -
Production costs	1,785
Purchases	1,762
Carrying amount, June 30, 2019	\$ 3,547

	Biological assets
Carrying amount, December 31, 2017	\$ -
Production costs	416
Purchases	358
Carrying amount, June 30, 2018	\$ 774

Details of the harvested hemp consists of the following:

	June 30, 2019	December 31, 2018
Balance, beginning of period	\$ 10,463	\$ 1,582
Transferred to hemp upon harvest	178	10,494
Consumed in production*	(3,781)	(1,613)
Balance, end of period	\$ 6,860	\$ 10,463

* Includes hemp that is processed further into finished goods.

The effect of changes in fair value of biological assets and inventory during the three months ended June 30, 2019 and 2018, respectively, include:

	2019	2018
Unrealized change in fair value of biological assets	\$ -	\$ -
Realized fair value increments on inventory sold during the year	(354)	(264)
Net effect of changes in fair value of biological assets and inventory	\$ (354)	\$ (264)

The effect of changes in fair value of biological assets and inventory during the six-month period ended June 30, 2019 and 2018, respectively, include:

	2019	2018
Unrealized change in fair value of biological assets	\$ -	\$ -
Realized fair value increments on inventory sold during the year	(496)	(453)
Net effect of changes in fair value of biological assets and inventory	\$ (496)	\$ (453)

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8. Property and equipment

Details of the Company's property and equipment and their carrying amounts are as follows:

	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU assets - Buildings	RoU assets - Cultivation Equipment	Total
Cost							
At December 31, 2017	\$ 3,357	\$ 307	\$ 407	\$ 142	\$ -	\$ -	\$ 4,213
Additions - purchased assets	2,508	232	2,075	159	-	-	4,974
Additions - right of use assets	-	-	-	-	-	-	-
Transfers	134	(134)	-	-	-	-	-
Disposals	(41)	-	-	-	-	-	(41)
Transfer under construction	-	-	142	(142)	-	-	-
At December 31, 2018	\$ 5,958	\$ 405	\$ 2,624	\$ 159	\$ -	\$ -	\$ 9,146
Transition to IFRS 16	-	-	-	-	3,152	654	3,806
Additions - purchased assets	1,349	-	150	2,416	-	-	3,915
Additions - right of use assets	-	-	-	-	5,283	549	5,832
Transfers	-	-	461	(461)	-	-	-
Disposals	(92)	-	-	-	-	-	(92)
At June 30, 2019	\$ 7,215	\$ 405	\$ 3,235	\$ 2,114	\$ 8,435	\$ 1,203	\$ 22,607

	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU Assets - Buildings	RoU Assets - Cultivation Equipment	Total
Accumulated depreciation							
At December 31, 2017	\$ (828)	\$ (95)	\$ (94)	\$ -	\$ -	\$ -	\$ (1,017)
Depreciation - expensed	(1,122)	(48)	(183)	-	-	-	(1,353)
Disposals	30	-	-	-	-	-	30
At December 31, 2018	\$ (1,920)	\$ (143)	\$ (277)	\$ -	\$ -	\$ -	\$ (2,340)
Depreciation - expensed	(184)	(63)	(377)	-	(684)	-	(1,308)
Depreciation - capitalized to inventory	(633)	-	-	-	-	(93)	(726)
Disposals	31	-	-	-	-	-	31
At June 30, 2019	\$ (2,706)	\$ (206)	\$ (654)	\$ -	\$ (684)	\$ (93)	\$ (4,343)

	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU Assets - Buildings	RoU Assets - Cultivation Equipment	Total
Net book value							
At December 31, 2018	\$ 4,038	\$ 262	\$ 2,347	\$ 159	\$ -	\$ -	\$ 6,806
At June 30, 2019	\$ 4,509	\$ 199	\$ 2,581	\$ 2,114	\$ 7,751	\$ 1,110	\$ 18,264

Depreciation expensed for the three months ended June 30, 2019 and 2018 was \$428 and \$301, respectively. Depreciation expensed for the six months ended June 30, 2019 and 2018 was \$1,308 and \$556,

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respectively. Depreciation related to the cultivation right-of-use assets for the three and six months ended June 30, 2019, was \$42 and \$93, respectively, and is included in inventories on the statement of financial position. Depreciation related to cultivation machinery and equipment that was capitalized for the six months ended June 30, 2019 was \$633.

Included in machinery and equipment is certain equipment held under lease agreements. As of June 30, 2019, and December 31, 2018, the net carrying amount of these RoU assets, included in machinery and equipment is \$567 and \$799, respectively.

9. Intangible assets

Details of the Company's intangible assets subject to amortization and indefinite-lived and their respective carrying amounts are as follows:

	Software	Internet Domain Name	Under construction	Total
Cost				
At December 31, 2017	\$ 193	\$ -	\$ -	\$ 193
Additions	440	150	-	590
At December 31, 2018	\$ 633	\$ 150	\$ -	\$ 783
Additions	-	-	144	144
Disposals	-	-	-	-
Transfers	48	-	(48)	-
At June 30, 2019	\$ 681	\$ 150	\$ 96	\$ 927

	Software	Internet Domain Name	Under construction	Total
Accumulated Amortization				
At December 31, 2017	\$ (16)	\$ -	\$ -	\$ (16)
Amortization	(148)	-	-	(148)
At December 31, 2018	\$ (164)	\$ -	\$ -	\$ (164)
Amortization	(98)	-	-	(98)
At June 30, 2019	\$ (262)	\$ -	\$ -	\$ (262)

	Software	Internet Domain Name	Under construction	Total
Net Book Value				
At December 31, 2018	\$ 469	\$ 150	\$ -	\$ 619
At June 30, 2019	\$ 419	\$ 150	\$ 96	\$ 665

Amortization expense for the three months ended June 30, 2019 and 2018 was \$52 and \$14, respectively. Amortization expense for the six months ended June 30, 2019 and 2018 was \$98 and \$20, respectively.

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The Company's intangible assets consist of an internet domain name, which is an indefinite-lived intangible asset that is not subject to amortization. No impairment was recorded for the three or six months ended June 30, 2019.

10. Prepaid expenses and other current assets

Details of the Company's prepaid expenses and other current assets are as follows:

	June 30, 2019	December 31, 2018
Prepaid expenses:		
Marketing	\$ 2,940	\$ 233
Insurance	490	1,116
Other	535	392
Deposits:		
Inventory	3,103	1,439
Third-party farming	1,607	-
Other	853	737
	<u>\$ 9,528</u>	<u>\$ 3,917</u>

11. Lease obligations

The Company leases many RoU assets related to office space and land to facilitate agricultural operations. The leases expire on various dates through 2028. Information about leases for which the Company is a lessee is presented below.

	June 30, 2019
Maturity analysis - contractual undiscounted cash flows	
Less than one year	\$ 2,178
One to five years	7,487
More than five years	249
Total undiscounted lease liabilities at June 30, 2019	\$ 9,914
Lease liabilities recognized at January 1, 2019	
Additions	5,877
Repayments	(1,378)
Lease liabilities includes in the statement of financial position at June 30, 2019	\$ 8,656
Current	\$ 2,161
Non-current	\$ 6,495
Interest on lease liabilities	
Variable lease payments not included in the measurement of lease liabilities	\$ 105
	\$ 95

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12. Notes payable

Details of the Company's notes payable are as follows:

	June 30, 2019	December 31, 2018
Equipment notes payable	\$ 16	\$ 21
Less: current portion	(9)	(9)
	<u>\$ 7</u>	<u>\$ 12</u>

The following table details the changes in the Company's notes payable balances:

	Long-term borrowings	Short-term borrowings	Total
January 1, 2019	\$ 12	\$ 9	\$ 21
Repayment	-	(5)	(5)
Conversion to short-term borrowings	(5)	5	-
June 30, 2019	<u>\$ 7</u>	<u>\$ 9</u>	<u>\$ 16</u>

For the three months ended June 30, 2019 and 2018, total interest paid and expensed related to the notes payable was less than \$1. For the six months ended June 30, 2019 and 2018, total interest paid and expensed, related to the notes payable was \$1 for both periods.

Scheduled maturities of notes payable are as follows:

	Within 1 year	1 to 5 years	Thereafter	Total
June 30, 2019	\$ 9	\$ 7	\$ -	\$ 16

13. Other long-term liabilities

Other long-term liabilities consist of amounts owed to third-party farming operations. The total amount to be paid is based on the potency and yield of the crops. The amounts are paid over multiple years as stated in the contracts with the third-party farming operations. Current obligations are included in accrued liabilities.

Future payments due under contract obligations are as follows:

	Short-term	Long-term	Total
January 1, 2019	\$ 3,531	\$ 3,286	\$ 6,817
Payments	(2,504)	-	(2,504)
Conversion to short-term borrowings	1,467	(1,467)	-
June 30, 2019	<u>\$ 2,494</u>	<u>\$ 1,819</u>	<u>\$ 4,313</u>

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Scheduled maturities of amounts owed are as follows:

	Within 1 year	1 to 5 years	Thereafter	Total
June 30, 2019	\$ 2,494	\$ 1,819	\$ -	\$ 4,313

14. Shareholders' equity

(a) Issued and outstanding

Changes for the six months ended June 30, 2019 are as follows:

	Proportional voting shares	Common shares outstanding*	Treasury shares	Number of common shares issued
January 1, 2019	177,978	23,817,171	(1,835,370)	21,981,801
Exercise of stock options	-	4,099,665	-	4,099,665
Exercise of broker stock warrants	-	87,873	-	87,873
Conversion to common voting shares	(43,202)	17,280,695	-	17,280,695
June 30, 2019	134,776	45,285,404	(1,835,370)	43,450,034

*Includes converted proportional voting shares.

During the six-month period ending June 30, 2019 certain existing shareholders' proportional voting shares were cancelled and converted to common shares.

(b) Contributed surplus

	June 30, 2019	December 31, 2018
Balance, beginning of period	\$ 2,498	\$ 787
Share-based compensation expense	749	866
Stock options exercised	(1,266)	-
Broker stock warrants issuance	-	845
Broker stock warrants exercised	(834)	-
Balance, end of period	\$ 1,147	\$ 2,498

(c) Earnings per share

Basic and diluted earnings per share have been calculated using net income. Prior periods have been converted into post stock split shares for comparability.

The reconciliation of the weighted average number of shares for the purpose of diluted earnings per share to the weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

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	Three months ended June 30,	
	2019	2018
Weighted average number of common shares - basic	94,986,784	79,307,281
Shares deemed to be issued in respect to share-based payments and warrants	11,286,161	5,187,913
Weighted average number of common shares - diluted	106,272,945	84,495,194
Earnings per share - basic	\$ 0.02	\$ 0.05
Earnings per share - diluted	\$ 0.02	\$ 0.04

	Six months ended June 30,	
	2019	2018
Weighted average number of common shares - basic	94,105,280	79,430,438
Shares deemed to be issued in respect to share-based payments and warrants	12,140,003	5,187,913
Weighted average number of common shares - diluted	106,245,283	84,618,351
Earnings per share - basic	\$ 0.05	\$ 0.09
Earnings per share - diluted	\$ 0.04	\$ 0.08

(d) Stock incentives plans

On December 31, 2015, the Company adopted the Stanley Brothers, Inc. 2015 Stock Option Plan (the "2015 Plan"), which provides for grants of incentive share options and nonqualified share options to employees (including officers), consultants and directors. The 2015 Plan, and grants made under the 2015 Plan, are designed to align shareholder and participant interests. The Company's board of directors establishes the terms and conditions of any grants under the 2015 Plan. Incentive share options may be granted only to employees.

On August 31, 2018, the Company adopted the Charlotte's Web Holdings, Inc. 2018 Long-Term Incentive Plan (the "2018 Plan"), which provides for grants of stock options, stock appreciation rights, stock awards, stock units, performance shares, performance units, and other stock-based awards (collectively the "Awards") to eligible individuals on the terms and subject to conditions set forth in the 2018 Plan. The 2018 Plan is designed to attract and retain key personnel and service providers. The Company's board of directors, or appointed administrators, establish the terms and conditions of any grants under the 2018 Plan.

The aggregate number of common shares of the Company as to which options may be granted from time to time under both the 2015 Plan and 2018 Plan shall not exceed 13,500,000 shares. The maximum exercise period of any option grant shall not exceed ten years from the date of grant. The options generally vest over a period of one to five years.

Share-based compensation expense recognized for the three months ended June 30, 2019, and 2018, was \$440 and \$162, respectively. Share-based compensation expense recognized for the six months ended June 30, 2019 and 2018, was \$749 and \$421, respectively.

i. Stock options

1. Founders stock options

At June 30, 2019 and December 31, 2018, the number of common shares under option and exercisable was 1,799,948 and 5,187,904 (converted from 576,429 prior to Reorganization), respectively. Weighted average remaining contractual life is 0.55 years as of June 30, 2019 and 1.55 years as of June 30, 2018.

2. 2015 and 2018 Plan stock options

The Company recognizes compensation expense for share option grants based on the fair value at the date of grant using the Black-Scholes option pricing model. The following assumptions were used to determine the fair value of share option grants.

	Six months ended June 30,	
	2019	2018
Valuation assumptions:		
Expected volatility	90.0%-92.0%	54.0%
Expected term (years)	1.5-5.0	4.6
Risk-free interest rate	1.9%-2.5%	2.2%
Value of underlying share	\$11.92-\$21.10	\$0.49

	Number of shares under option	Weighted average exercise price (USD)
Balance at January 1, 2019	8,090,669	\$ 0.59
Granted	159,960	16.94
Exercised	(711,709)	0.56
Forfeited (and expired)	(209,231)	0.56
Balance at June 30, 2019	7,329,689	\$ 0.95
Exercisable at June 30, 2019	6,143,840	\$ 0.62

Weighted average remaining contractual life is 7.99 years. The weighted average grant-date fair value of options granted during the six months ended June 30, 2019 was \$12.05.

The weighted average share price at the date of exercise of options exercised during the six-month period ended June 30, 2019 was \$14.61.

ii. Restricted share awards

During the six months ended June 30, 2019, the Company issued time-based restricted share awards to certain employees as permitted under the 2018 Plan. The restricted share awards granted vest in equal installments over four years. Upon vesting, one share of the Company's common stock is issued for each restricted share awarded. The fair value of

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each restricted share award granted is equal to the market price of the Company's stock at the date of the grant, less an estimated forfeiture rate of 10%.

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

	Number of restricted shares	Weighted average grant- date fair value (USD)
Balance at January 1, 2019	-	\$ -
Granted	87,595	19.16
Balance at June 30, 2019	87,595	\$ 19.16

(e) Broker stock warrants

Details of the number of common stock warrants outstanding is as follows:

	Number of warrants outstanding
Balance at January 1, 2019	93,803
Exercised	(87,873)
Balance at June 30, 2019	5,930

For the six months ended June 30, 2019, 87,873 warrants were exercised at a price of C\$7.00 (average US price of \$5.10) per share for total proceeds of \$461.

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15. Expenses by nature

The costs of sales and operating expenses by nature are as follows:

	Three months ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Cost of sales	\$ 6,526	\$ 4,277	\$ 12,431	\$ 7,021
Inventory expensed to cost of sales	5,237	3,104	9,562	5,172
Freight and other production costs	1,379	905	2,476	1,334
Depreciation and amortization	(90)	268	393	515
General and administrative	\$ 9,060	\$ 4,915	\$ 17,519	\$ 8,981
Personnel	5,564	2,987	10,580	5,201
Other operating expenses	2,475	1,649	5,109	3,367
Accretion, depreciation and amortization	499	68	898	131
Travel and entertainment	522	211	932	282
Sales and marketing	\$ 6,527	\$ 2,411	\$ 11,087	\$ 4,474
Advertising, promotions and selling costs	3,562	1,163	6,253	1,950
Personnel	2,335	914	3,865	2,024
Other operating expenses	322	227	496	227
Travel and entertainment	273	107	403	273
Depreciation and amortization	35	-	70	-

16. Income taxes

(a) Components of income taxes

The major components of income tax expense attributable to income from continuing operations consists of:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
U.S. federal	\$ 379	\$ 994	\$ 1,019	\$ 1,830
State and local	269	240	315	433
	\$ 648	\$ 1,234	\$ 1,334	\$ 2,263

For the six months ended June 30, 2019, the Company recognized an additional net benefit of \$7,278 related to the income tax benefit of stock options. During the six months ended June 30, 2019, \$4,693 of benefit was reclassified to income tax receivable due to the exercise of stock options.

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(b) Tax rate reconciliation

Income tax expense attributable to income from continuing operations for the six months ended June 30, 2019 and 2018, differed from the amounts computed by applying the U.S. federal income tax rates of 21%, as a result of the following:

	2019	2018
Computed "expected" tax expense	21.0%	21.0%
State income taxes, net of federal tax benefit	1.5%	3.7%
Permanent items	0.3%	0.2%
Change in tax rate	0.2%	0.0%
Other, net	-0.2%	0.0%
	22.8%	24.9%

(c) Uncertain tax position

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Company recognizes the tax benefit from an uncertain tax position only if it is probable that the tax position will be sustained based on its technical merits. The Company measures and records the tax benefits from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company's estimated liabilities related to these matters are adjusted in the period in which the uncertain tax position is effectively settled, the statute of limitations for examination expires or when additional information becomes available. The Company's liability for unrecognized tax benefits requires the use of assumptions and significant judgement to estimate the exposures associated with our various filing positions. Although the Company believes that the judgments and estimates made are reasonable, actual results could differ and resulting adjustments could materially affect our effective income tax rate and income tax provision.

The Company has concluded that it is probable that a taxation authority will accept the position taken in the calculation of the deferred tax assets under Section 162 (m) of the United States Internal Revenue Code (or "Section 162(m)"). The Tax Cuts and Jobs Act amended Section 162(m) to expand the corporations and executives to which it applies. Under Section 162(m), compensation paid in excess of one million to any person who served as CEO or CFO during the taxable year and any other named executive officer serving as an executive at the end of the taxable year (each, a "covered employee") as well any person who was a covered employee in a preceding taxable year, subject to limited transition relief, is not deductible.

Should circumstances change or if a taxation authority does not accept this position, deferred tax assets of approximately \$3,852 may as a result cease to meet the recognition criteria and become a permanent difference in calculating the deferred tax provision.

17. Financial risk management

The Company has exposure to the following risks from its use of financial instruments. The main types of risks are market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company's financial instruments and policies for managing these risks are detailed below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligation, resulting in financial loss to the Company. Such risks arise primarily from certain financial assets held by the Company consisting of trade receivables, note receivable, and deposits. The Company's maximum exposure to credit risk is limited to the carrying amount of the financial assets as summarized below:

	June 30, 2019	December 31, 2018
Trade and other receivables	\$ 7,430	\$ 4,874
Note receivable	1,400	-
Other long-term assets	993	181
	<u>\$ 9,823</u>	<u>\$ 5,055</u>

The provision matrix below shows the expected credit loss rate at each aging category of receivables at June 30, 2019.

	Current	Aged 1-30 days past due	Aged 31-60 days past due	Aged >60 days past due	Total
Expected loss rate	1.38%	2.45%	3.46%	11.04%	3.33%
Gross carrying amount	4,500	1,428	463	1,295	7,686
Loss allowance provision, end of the period	62	35	16	143	256

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company manages liquidity risk by evaluating working capital and forecasting long-term financial liabilities as well as forecast cash inflows and outflows from business operations. The Company's cash balances at June 30, 2019 and December 31, 2018 were \$51,431, and \$73,404, respectively. Net working capital at June 30, 2019 and December 31, 2018 was \$96,972 and \$93,799, respectively.

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18. Fair value measurement

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments.

	June 30, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash	\$ 51,431	\$ 51,431	\$ 73,404	\$ 73,404
Trade and other receivables	7,430	7,430	4,874	4,874
Note receivable	1,400	1,400	-	-
Loan due from related parties	114	114	128	128
	\$ 60,375	\$ 60,375	\$ 78,406	\$ 78,406
Financial liabilities				
Accounts payable and accrued liabilities	\$ 11,185	\$ 11,185	\$ 13,393	\$ 13,393
Obligations under lease obligations	8,656	8,656	396	396
Notes payable	16	16	21	21
Other long-term liabilities	1,819	1,819	3,286	3,286
	\$ 21,676	\$ 21,676	\$ 17,096	\$ 17,096

19. Capital management

For capital management purposes, the Company defines capital as its shareholders' equity that includes share capital, contributed surplus and retained earnings. The amounts included in the Company's capital for the relevant period are as follows:

June 30, 2019	\$ 134,908
December 31, 2018	\$ 121,498

The Company's principal objectives in managing capital are:

- to ensure that it will continue to operate as a going concern;
- to be flexible to take advantage of contract and growth opportunities that are expected to provide satisfactory returns to its shareholders;
- to maintain a strong capital base to maintain customers, investors, creditors and market confidence; and
- to provide an adequate rate of return to its shareholders.

The Company manages and adjusts its capital structure considering changes in economic conditions. To maintain or adjust its capital structure, the Company may issue debt or new shares. Financing decisions are generally made on a specific transaction basis and depend on such things as the Company's needs, capital markets and economic conditions at the time of the transaction. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable, given the size of the company.

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The Company does not have any externally imposed capital compliance requirements at June 30, 2019. There were no changes in the Company's approach to capital management during the six months ended June 30, 2019.

20. Related party transactions

The Company entered into an agreement for the lease of property held by an entity owned by certain founders of the Company. The lease term is effective January 1, 2019 through December 31, 2020. Per the terms of the lease agreement, the Company prepaid base rent in full upon execution in the amount of \$144. The lease asset is presented as a right of use asset with property and equipment on the statement of financial position.

21. Remuneration of directors and key management of the Company

The remuneration awarded to directors and senior key management includes the following:

	Three months ended June 30,	
	2019	2018
Wages	\$ 771	\$ 137
Share-based compensation	181	136
	\$ 952	\$ 273

	Six months ended June 30,	
	2019	2018
Wages	\$ 948	\$ 259
Share-based compensation	423	325
	\$ 1,371	\$ 584