

CHARLOTTE'S WEB HOLDINGS, INC.

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MARCH 31, 2020 and 2019
(Expressed in United States dollars)

UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL
STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

CONTENTS

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS:

STATEMENTS OF FINANCIAL POSITION	1
STATEMENTS OF (LOSS) INCOME AND OTHER COMPREHENSIVE (LOSS) INCOME	2
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	3
STATEMENTS OF CASH FLOWS.....	4
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.....	5

CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of United States dollars)

	March 31, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash	\$ 53,036	\$ 68,553
Trade and other receivables, net (note 4)	9,814	5,462
Note receivable (note 5)	1,430	1,421
Inventories (note 6)	64,845	64,054
Prepaid expenses and other current assets (note 9)	4,071	3,592
Income taxes receivable	11,319	3,273
	144,515	146,355
Non-current assets:		
Property and equipment, net (note 7)	42,360	42,949
Intangible assets, net (note 8)	1,701	1,596
Deferred tax assets (note 16)	-	30,417
Other long-term assets	1,656	1,625
	\$ 190,232	\$ 222,942
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,361	\$ 8,798
Accrued liabilities	8,385	7,323
Deferred revenue	509	550
Current cultivation liabilities (note 12)	13,310	10,803
Current note payable	9	9
Current lease obligations (note 10)	2,053	1,945
	29,627	29,428
Non-current liabilities:		
Long-term cultivation liabilities (note 12)	10,640	14,289
Long-term note payable	1	3
Long-term lease obligations (note 10)	21,777	22,116
Warrant liability (note 11)	440	3,408
	62,485	69,244
Shareholders' equity:		
Share capital	125,787	123,927
Contributed surplus	11,201	27,513
Retained earnings	(9,241)	2,258
	127,747	153,698
	\$ 190,232	\$ 222,942

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 (LOSS) INCOME AND OTHER
COMPREHENSIVE (LOSS) INCOME

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

	Three months ended March 31,	
	2020	2019
Revenue	\$ 21,463	\$ 21,700
Cost of sales (note 15)	6,466	5,906
Gross profit before (gain) on fair value of biological assets	14,997	15,794
Realized fair value (gain) included in inventory sold (note 6)	(82)	(142)
Gross profit	15,079	15,936
Expenses:		
General and administrative (note 15)	16,031	8,461
Sales and marketing (note 15)	6,532	4,560
Research and development (note 15)	766	191
	23,329	13,212
Operating (loss) income	(8,250)	2,724
Financing costs	170	57
Interest income	(129)	(356)
Other income, net	(3,079)	3
(Loss) income before taxes	(5,212)	3,020
Income tax expense (note 16)	6,287	686
Net (loss) income and comprehensive (loss) income	\$ (11,499)	\$ 2,334
Weighted average number of common shares - basic (note 14c)	107,436,794	93,213,977
Weighted average number of common shares - diluted (note 14c)	107,436,794	106,316,146
(Loss) earnings per share - basic (note 14c)	\$ (0.11)	\$ 0.03
(Loss) earnings per share - diluted (note 14c)	\$ (0.11)	\$ 0.02

CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of United States dollars)

Three months ended March 31, 2019	Share capital	Contributed surplus	Retained earnings	Total
Balance - December 31, 2018	\$ 78,316	\$ 25,357	\$ 17,825	\$ 121,498
Exercise of broker stock warrants	1,246	(822)	-	424
Income tax benefit from stock options	-	27,034	-	27,034
Share-based compensation expense (note 14d)	-	308	-	308
Net income	-	-	2,334	2,334
Balance - March 31, 2019	\$ 79,562	\$ 51,877	\$ 20,159	\$ 151,598
Three months ended March 31, 2020	Share capital	Contributed surplus	Retained earnings	Total
Balance - December 31, 2019	\$ 123,927	\$ 27,513	\$ 2,258	\$ 153,698
Exercise of common stock options	1,860	(491)	-	1,369
Income tax benefit from stock options	-	(16,087)	-	(16,087)
Share-based compensation expense (note 14d)	-	266	-	266
Net (loss)	-	-	(11,499)	(11,499)
Balance - March 31, 2020	\$ 125,787	\$ 11,201	\$ (9,241)	\$ 127,747

CHARLOTTE'S WEB HOLDINGS, INC.**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands of United States dollars)

	Three months ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net (loss) income	\$ (11,499)	\$ 2,334
Items not involving cash:		
Depreciation and amortization	1,804	926
Change in fair value of biological assets	(82)	(142)
Change in fair value of warrants	(2,968)	-
Expected credit losses	105	170
Inventory provision, net	(5)	373
Share-based compensation	266	308
(Gain)/Loss on disposal of assets	-	4
Deferred income taxes	14,331	(200)
Changes in working capital:		
Trade and other receivables, net	(3,113)	(769)
Inventories	(349)	(3,155)
Prepaid expenses and other current assets	(479)	(3,119)
Accounts payable	(3,437)	(516)
Accrued liabilities	(364)	(205)
Income taxes	(8,046)	934
Cultivation liabilities	(1,142)	(675)
Other operating assets and liabilities, net	114	43
	(14,864)	(3,689)
Cash flows from investing activities:		
Purchases of property and equipment and intangible assets	(1,524)	(768)
Proceeds from sale of assets	1	47
Proceeds from loans due from related parties	-	14
Other investing activities	(31)	-
	(1,554)	(707)
Cash flows from financing activities:		
Proceeds from common stock option exercises	1,369	-
Proceeds from stock warrant exercises	-	424
Payments on notes payable	(2)	(3)
Payments on lease obligations	(466)	(374)
	901	47
(Decrease) increase in cash	(15,517)	(4,349)
Cash, beginning of year	68,553	73,404
Cash, end of period	\$ 53,036	\$ 69,055
Supplemental disclosures of cash flows from operating activities:		
Cash paid for interest	\$ (5)	\$ (57)
Cash paid for interest on lease obligations	(165)	(281)
Cash received from interest	129	356
Cash paid for taxes	(2)	-
Non-cash purchases of property and equipment	(1,341)	-

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, 2019.

The unaudited interim condensed consolidated financial statements for the three months ended March 31, 2020 and 2019 were approved and authorized for issue by the Board of Directors on May 12, 2020.

(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.

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.

(e) Reclassifications and prior period presentations

Certain amounts presented in prior periods have been reclassified to conform with the current period presentation.

(f) 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 (loss) 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, 2019. 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, 2020.

IFRS 3, "Business Combinations"

In October 2018, the IASB issued amendments to IFRS 3, Business Combinations. 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. 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. A transaction should be accounted for as a business combination if the acquired assets and liabilities constitute a business, and related acquisition costs are to be expensed as incurred. A transaction should be accounted for as an asset acquisition if an acquired set of activities and assets is a group of assets rather than a business, and related acquisition costs are typically capitalized.

The Company's asset purchase agreement with Stanley Brothers Bio Tec, Inc. entered into February 28, 2020 is deemed a business combination. The all-stock acquisition of Abacus Health ("Abacus") expected to be finalized in the second or third quarter of 2020 is also deemed a business combination. As a result, acquisition costs related to these business combinations of \$433 were expensed as incurred during the three months ended March 31, 2020.

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

(b) Future accounting standards issued but not yet effective

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. The amendments are effective for annual periods beginning on or after January 1, 2022. Adoption thereof is not expected to have a material impact on the presentation of the Company's financial statements.

4. Trade and other receivables

Trade and other receivables consist of the following:

	March 31, 2020	December 31, 2019
Trade receivables	\$ 6,069	\$ 5,677
Tenant improvement allowance	4,098	-
Other miscellaneous receivables	293	326
Expected credit losses (note 16)	(646)	(541)
Trade and other receivables, net	\$ 9,814	\$ 5,462

Of the \$4,098 tenant improvement allowance receivable balance at March 31, 2020, \$1,258 was reclassified from property and equipment under construction during the three months ended March 31, 2020.

The Company provides for expected credit losses (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:

	March 31, 2020	December 31, 2019
Current	\$ 7,842	\$ 3,340
Aged 1-30 days past due	519	1,028
Aged 31-60 days past due	454	541
Aged >60 days past due	1,645	1,094
Expected credit losses	(646)	(541)
	\$ 9,814	\$ 5,462

Of the \$7,842 current receivable balance at March 31, 2020, \$4,098 relates to the tenant improvement allowance receivable.

5. Note receivable

Effective May 2019, the Company entered into a promissory note up to \$2,800 secured by extraction units with one of the Company's third-party farming suppliers. As of March 31, 2020, \$1,400 of the note was funded. The note bears interest at 2.52% per annum for twelve months and increases to 4.00% per annum thereafter. The note requires the unpaid principal and unpaid interest balances to be paid on or before the amended maturity date of October 31, 2021. The borrower may pay the principal and accrued interest in the form of an offset to the Company's purchases of extracted hemp. The note is carried at amortized cost, with an outstanding balance of \$1,400 and accrued interest of \$30 as of March 31, 2020.

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

As of March 31, 2020, the credit risk related to the note receivable has not increased significantly since initial recognition. The Company assessed the note receivable as fully collectible with no related ECLs.

6. Inventories

Inventories consist of the following:

	March 31, 2020	December 31, 2019
Harvested hemp and seeds	\$ 37,270	\$ 37,549
Raw materials	19,327	19,785
Finished goods	23,136	22,593
Biological assets	980	-
	80,713	79,927
Less: inventory provision	(15,868)	(15,873)
	\$ 64,845	\$ 64,054

An inventory provision is estimated by management and is included in cost of sales. For the three months ended March 31, 2020, inventory provisions of \$588 and write-offs of inventory previously reserved for of \$593 were recognized through the cost of sales. For the three months ended March 31, 2019, inventory provisions of \$373 were expensed through the cost of sales. For the period ended March 31, 2019, the Company had no inventory write-offs. The amount of inventory expensed during the three months ended March 31, 2020 and 2019 is \$4,699 and \$4,325, respectively.

Details of the harvested hemp and seeds consists of the following:

	March 31, 2020	December 31, 2019
Balance, beginning of period	\$ 37,549	\$ 10,463
Transferred to hemp and seeds upon harvest	-	35,411
Consumed in production	(279)	(8,325)
Balance, end of period	\$ 37,270	\$ 37,549

The effect of changes in fair value of biological assets and inventory during the three months ended March 31, 2020 and 2019, respectively, include:

	2020	2019
Realized fair value (gain) included in inventory sold	\$ (82)	\$ (142)
Unrealized fair value loss on growth of biological assets	-	-
Net effect of changes in fair value of biological assets and inventory	\$ (82)	\$ (142)

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

7. Property and equipment

Details of the Company's property and equipment, including right-of-use (RoU) assets, and their carrying amounts are as follows:

	Land and building	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU assets - buildings	RoU assets - cultivation equipment	Total
Cost								
At December 31, 2018	\$ -	\$ 5,958	\$ 405	\$ 2,624	\$ 159	\$ -	\$ -	9,146
Transition to IFRS 16	-	-	-	-	-	3,017	131	3,148
Additions - purchased assets	1,086	6,495	4	636	7,487	-	-	15,708
Additions - right-of-use assets	-	-	-	-	-	21,648	1,286	22,934
Transfers under construction	2,292	1,924	-	1,088	(5,304)	-	-	-
Disposals	-	(95)	(5)	(21)	-	-	-	(121)
At December 31, 2019	\$ 3,378	\$ 14,282	\$ 404	\$ 4,327	\$ 2,342	\$ 24,665	\$ 1,417	\$ 50,815
Additions - purchased assets	30	949	-	-	1,566	-	-	2,545
Additions - right-of-use assets	-	-	-	-	-	70	-	70
Acquired property and equipment	-	215	-	-	-	-	-	215
Reclassifications	-	-	-	(150)	(1,258)	-	-	(1,408)
Transfer under construction	-	-	-	(130)	130	-	-	-
Disposals	-	(1)	-	-	-	-	-	(1)
At March 31, 2020	\$ 3,408	\$ 15,445	\$ 404	\$ 4,047	\$ 2,780	\$ 24,735	\$ 1,417	\$ 52,236

	Land and building	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU assets - buildings	RoU Assets - cultivation equipment	Total
Accumulated depreciation								
At December 31, 2018	\$ -	\$ (1,920)	\$ (143)	\$ (277)	\$ -	\$ -	\$ -	\$ (2,340)
Depreciation - expensed	-	(328)	(126)	(899)	-	(2,313)	-	(3,666)
Depreciation - capitalized to inventory	(19)	(1,008)	-	(653)	-	-	(233)	(1,913)
Disposals	-	39	4	10	-	-	-	53
At December 31, 2019	\$ (19)	\$ (3,217)	\$ (265)	\$ (1,819)	\$ -	\$ (2,313)	\$ (233)	\$ (7,866)
Depreciation - expensed	-	(694)	(31)	(216)	-	(713)	-	(1,654)
Depreciation - capitalized to inventory	(13)	(195)	-	(67)	-	-	(81)	(356)
Disposals	-	-	-	-	-	-	-	-
At March 31, 2020	\$ (32)	\$ (4,106)	\$ (296)	\$ (2,102)	\$ -	\$ (3,026)	\$ (314)	\$ (9,876)

	Land and building	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU assets - buildings	RoU assets - cultivation equipment	Total
Property and equipment, net								
At December 31, 2019	\$ 3,359	\$ 11,065	\$ 139	\$ 2,508	\$ 2,342	\$ 22,352	\$ 1,184	\$ 42,949
At March 31, 2020	\$ 3,376	\$ 11,339	\$ 108	\$ 1,945	\$ 2,780	\$ 21,709	\$ 1,103	\$ 42,360

Depreciation expensed for the three months ended March 31, 2020 and 2019 was \$1,654 and \$880, respectively. Depreciation related to cultivation right-of-use assets that was capitalized for the three months ended March 31, 2020 and 2019, was \$81 and \$51, respectively. Depreciation related to cultivation

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

machinery and equipment that was capitalized for the three months ended March 31, 2020 was \$275. The Company had no cultivation depreciation capitalized for the three months ended March 31, 2019. The capitalized depreciation is included in inventories on the statements of financial position.

Included in machinery and equipment is certain equipment held under lease agreements. As of March 31, 2020, and December 31, 2019, the net carrying amount of these RoU assets, included in machinery and equipment, is \$240 and \$331, respectively.

On February 28, 2020, the Company entered into an asset purchase agreement with Stanley Brothers Bio Tec, Inc. The Company purchased substantially all the assets related to Stanley Brothers Bio Tec Inc. for total consideration of \$250. Acquired property and equipment totaled \$215 and consisted primarily of lab equipment. The remaining \$35 of lab and other miscellaneous supplies acquired were expensed through research and development.

8. 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 development	Total
Cost				
At December 31, 2018	\$ 633	\$ 150	\$ -	\$ 783
Additions	120	-	1,157	1,277
Transfers	1,112	-	(1,112)	-
At December 31, 2019	\$ 1,865	\$ 150	\$ 45	\$ 2,060
Additions	77	-	178	255
Transfers	23	-	(23)	-
At March 31, 2020	\$ 1,965	\$ 150	\$ 200	\$ 2,315

	Software	Internet domain name	Under development	Total
Accumulated Amortization				
At December 31, 2018	\$ (164)	\$ -	\$ -	\$ (164)
Amortization	(300)	-	-	(300)
At December 31, 2019	\$ (464)	\$ -	\$ -	\$ (464)
Amortization	(150)	-	-	(150)
At March 31, 2020	\$ (614)	\$ -	\$ -	\$ (614)

	Software	Internet domain name	Under development	Total
Intangible assets, net				
At December 31, 2019	\$ 1,401	\$ 150	\$ 45	\$ 1,596
At March 31, 2020	\$ 1,351	\$ 150	\$ 200	\$ 1,701

Amortization expense for the three months ended March 31, 2020 and 2019 was \$150 and \$46, respectively.

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

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 months ended March 31, 2020.

9. Prepaid expenses and other current assets

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

	March 31, 2020	December 31, 2019
Prepaid expenses:		
Marketing	\$ 287	\$ 794
Insurance	1,171	1,940
Other	1,548	482
Deposits:		
Inventory	645	173
Other	420	203
	\$ 4,071	\$ 3,592

10. 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 2035. Information about leases for which the Company is a lessee is presented below.

	March 31, 2020
Maturity analysis - contractual undiscounted cash flows	
Less than one year	\$ 3,326
One to five years	11,760
More than five years	18,772
Total undiscounted lease liabilities at March 31, 2020	\$ 33,858
Lease liabilities at December 31, 2019	\$ 24,061
Additions	70
Repayments	(466)
Interest	165
Lease liabilities included in the statement of financial position at March 31, 2020	\$ 23,830
Current	\$ 2,053
Non-current	\$ 21,777
Variable lease payments not included in the measurement of lease liabilities	\$ 6

11. Warrant Liability

The Company's share purchase warrants are classified as a financial liability. The financial liability is remeasured to fair value at each reporting date using the Black-Scholes option pricing model, with the

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

following assumptions used in the model: expected volatility; expected term; risk-free interest rate and value of the underlying share, with changes to fair value recognized in profit or loss for the period.

	March 31, 2020	December 31, 2019
Expected volatility	86.62%	84.23%
Expected term (years)	0.67	1.00
Risk-free interest rate	0.70%	1.59%
Value of underlying share	\$ 4.30	\$ 7.64

	March 31, 2020
Balance, beginning of period	\$ 3,408
Change in fair value	(2,811)
Change in foreign exchange rate	(157)
Balance, end of period	\$ 440

12. Cultivation Liabilities

Cultivation liabilities consist of amounts owed to third-party farming operators. 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 operators. The cultivation liabilities are initially measured at the present value of future payments, discounted using the Company's incremental borrowing rate. Total imputed interest on cultivation liabilities at March 31, 2020 was \$138.

Future payments due under contract obligations are as follows:

	Short-term	Long-term	Total
December 31, 2019	\$ 10,803	\$ 14,289	\$ 25,092
Payments	(1,142)	-	(1,142)
Conversion to short-term borrowings	3,649	(3,649)	-
March 31, 2020	\$ 13,310	\$ 10,640	\$ 23,950

Scheduled maturities of amounts owed are as follows:

	Within 1 year	1 to 5 years	Total
Cultivation liabilities	\$ 13,414	\$ 10,674	\$ 24,088
Imputed interest	(104)	(34)	(138)
March 31, 2020	\$ 13,310	\$ 10,640	\$ 23,950

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

13. Line of credit

The Company entered into an asset backed line of credit with J.P. Morgan during the three months ended March 31, 2020 for \$10,000 with an accordion feature to extend the line to \$20,000 with a 3-year maturity. The line of credit agreement requires compliance by the Company with certain debt covenants. As of March 31, 2020, the Company was in compliance with all debt covenants and has not yet drawn on the line of credit.

14. Shareholders' equity

(a) Issued and outstanding

Changes for the three months ended March 31, 2020 are as follows:

	Proportional voting shares	Common shares outstanding	Treasury shares	Number of common shares issued
December 31, 2019	95,342	69,253,544	(1,835,370)	67,418,174
Exercise of stock options	-	3,062,799	-	3,062,799
Exercise of broker stock warrants	-	-	-	-
Conversion to common voting shares	(2,887)	1,154,766	-	1,154,766
March 31, 2020	92,455	73,471,109	(1,835,370)	71,635,739

During the three month period ending March 31, 2020 certain existing shareholders' proportional voting shares were cancelled and converted to common shares.

(b) Dividends

The common proportionate voting share shareholders are entitled to receive dividends out of the assets available for the payment of dividends at such times and in such amount and form as the Board of Directors may from time to time determine, subject to any preferential rights of the holders of any outstanding preferred shares, on the following basis, and otherwise without preference or distinction among or between the shares. Each proportionate voting share will be entitled to 400 times the amount paid or distributed per common share.

(c) (Loss) earnings per share

Basic and diluted (loss) earnings per share have been calculated using net (loss) income.

The reconciliation of weighted average number of shares for the purpose of diluted (loss) earnings per share to the weighted average number of ordinary shares used in the calculation of basic (loss) earnings per share is detailed below. Basic shares include the proportionate voting shares on an as-converted basis.

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

	Three months ended March 31,	
	2020	2019
Weighted average number of common shares - basic	107,436,794	93,213,977
Dilutive effect of stock options and awards	-	13,102,169
Weighted average number of common shares - diluted	107,436,794	106,316,146
(Loss) earnings per share - basic	\$ (0.11)	\$ 0.03
(Loss) earnings per share - diluted	\$ (0.11)	\$ 0.02
Awards excluded due to anti-dilutive effect on diluted earnings per share	5,223,177	-

(d) Stock incentive plans

Share-based compensation expense recognized for the three months ended March 31, 2020, and 2019, was \$266 and \$308, respectively.

i. Stock options

1. Founders stock options

At March 31, 2020, all common shares under option were exercised. At December 31, 2019, the number of common shares under option and exercisable was 799,948. Weighted average remaining contractual life was 0.79 years as of March 31, 2019.

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.

	Three months ended March 31,	
	2020	2019
Valuation assumptions:		
Expected volatility	84.13%-86.62%	101.4%
Expected term (years)	6.25	4.95
Risk-free interest rate	0.47%-1.40%	2.6%
Value of underlying share	\$4.09-\$7.13	\$15.04

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

	Number of shares under option	Weighted average exercise price (USD)
Balance at December 31, 2019	4,902,194	\$ 1.95
Granted	1,326,046	5.02
Exercised	(2,262,851)	0.56
Forfeited (and expired)	(124,098)	11.98
Balance at March 31, 2020	3,841,291	\$ 3.51
Exercisable at March 31, 2020	2,025,992	\$ 1.10

For the balance at March 31, 2020, weighted average remaining contractual life is 9.61 years. The weighted average grant-date fair value of options granted during the three months ended March 31, 2020 was \$3.71.

The weighted average share price at the date of exercise of options exercised during the three month period ended March 31, 2020 was \$6.26.

ii. Restricted share awards

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 December 31, 2019	114,266	\$ 20.52
Granted	297,439	4.70
Forfeited	(6,891)	21.11
Balance at March 31, 2020	404,814	\$ 8.89

(e) Broker stock warrants

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

	Number of warrants outstanding
Balance at December 31, 2019	1,110
Exercised	-
Balance at March 31, 2020	1,110

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

(f) Common share warrants

Common share warrants issued were 2,500,000 and have a fair market value of \$0.176 per share at March 31, 2020, totaling \$440 as reported as a warrant liability (note 11).

Details of the number of common share warrants outstanding at March 31, 2020, is as follows:

	Number of common share warrants outstanding
Balance at December 31, 2019	2,500,000
Exercised	-
Balance at March 31, 2020	2,500,000

15. Expenses by nature

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

	Three months ended March 31,	
	2020	2019
Cost of sales	\$ 6,466	\$ 5,906
Inventory expensed to cost of sales	4,699	3,952
Inventory provision, net	(5)	373
Other production costs	1,475	1,098
Depreciation and amortization	297	483
General and administrative	\$ 16,031	\$ 8,461
Personnel	7,787	5,016
Facilities and other expenses	6,744	2,636
Accretion, depreciation and amortization	1,368	399
Travel and entertainment	132	410
Sales and marketing	\$ 6,532	\$ 4,560
Advertising, promotions and selling costs	3,475	2,691
Personnel	2,498	1,530
Facilities and other expenses	338	174
Travel and entertainment	182	130
Depreciation and amortization	39	35
Research and development	\$ 766	\$ 191
Personnel	527	191
Other operating expenses	114	-
Accretion, depreciation and amortization	100	-
Travel and entertainment	25	-

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	
	March 31,	
	2020	2019
U.S. federal	\$ 5,463	\$ 640
State and local	824	46
	\$ 6,287	\$ 686

(b) Tax rate reconciliation

Income tax expense attributable to (loss) income from continuing operations for the three months ended March 31, 2020, and 2019, differed from the amounts computed by applying the U.S. federal income tax rates of 21%, as a result of the following:

	2020	2019
Computed "expected" tax expense	21.0%	21.0%
State income taxes, net of federal tax benefit	3.1%	0.2%
Permanent items	0.9%	1.9%
Change in tax rate	-0.1%	0.3%
Inability to recognize current year deferred tax assets	-26.4%	0.0%
Other, net	1.3%	0.6%
Effective tax rate before discrete item	-0.2%	24.0%
Derecognize deferred tax assets	-120.4%	0.0%
Effective tax rate after discrete item	-120.6%	24.0%

(c) Uncertain tax position

Due to the adoption of IFRIC 23, 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.

During the quarter ended March 31, 2020, the Company did not record a provision for uncertain tax positions.

(d) Deferred tax assets

IAS 12 – Income Taxes requires an entity to recognize deferred tax assets when it is probable that taxable profits will be available to offset these temporary differences when they are deducted. Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. Two significant pieces of objective negative evidence evaluated were the cumulative loss incurred over the three-year period ended March 31, 2020 and the forecasted annual 2020 loss. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. As a result, the Company does not have the ability to recognize the deferred tax assets. These assets consist primarily of a net operating loss carryforward in the amount of \$18,000. This net operating loss carryforward remains available for future use to offset future tax liabilities.

(e) The CARES Act

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, allows for the Company to carryback the net operating loss generated in 2019. The impact of the carryback will result in a refund of \$8,000 which is included in income taxes receivable as of March 31, 2020. The Company will continue to monitor future developments and interpretations for further impacts.

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) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of it holding financial instruments.

The Company conducts sales transactions with foreign entities. The transactions are denominated in USD, the functional currency, and therefore the Company does not have exposure to foreign exchange rate risk.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates. The Company's trade receivables and accounts payable are non-interest bearing. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not have any debt instruments outstanding with variable interest rates at March 31, 2020. Changes in market interest rates cause the fair value of long-term debt with fixed interest rates to fluctuate but does not impact net income as the Company records debt at amortized cost and the carrying value does not change as interest rates change.

(b) 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

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

exposure to credit risk is limited to the carrying amount of the financial assets as summarized below:

	March 31, 2020	December 31, 2019
Trade and other receivables, net	\$ 9,814	\$ 5,462
Note receivable	1,430	1,421
Other long-term assets	1,656	1,625
	\$ 12,900	\$ 8,508

The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance provision is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. The provision matrix below shows the expected credit loss rate at each aging category of trade and other receivables.

	Current	Aged 1-30 days past due	Aged 31-60 days past due	Aged > 60 days past due	Total
Expected loss rate	3.16%	6.11%	11.66%	19.07%	6.18%
Gross carrying amount	7,842	519	454	1,645	10,460
Loss allowance provision, end of the period	247	32	53	314	646

i. Trade and other receivables

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. Other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred, but not yet been identified. The Company maintains an allowance for doubtful accounts that represents its estimate of the uncollectible amounts based on specific losses estimated on individual exposures and provisions based on historical experience.

The Company considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganization; and/or
- default or delinquency in payments

See note 4 for information about the aging of trade and other receivables.

(c) 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 March 31, 2020 and December 31, 2019 were \$53,036 and \$68,553, respectively. Net working capital at March 31, 2020 and December 31, 2019 was \$114,888 and \$116,927, respectively.

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

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.

	March 31, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash	\$ 53,036	\$ 53,036	\$ 68,553	\$ 68,553
Trade and other receivables, net	9,814	9,814	5,462	5,462
Note receivable	1,430	1,430	1,421	1,421
	<u>\$ 64,280</u>	<u>\$ 64,280</u>	<u>\$ 75,436</u>	<u>\$ 75,436</u>
Financial liabilities				
Accounts payable and accrued liabilities	\$ 13,746	\$ 13,746	\$ 16,121	\$ 16,121
Cultivation liabilities	23,950	23,950	25,092	25,092
Note payable	10	10	12	12
Lease obligations	23,830	23,830	24,061	24,061
Warrant liability	440	440	3,408	3,408
	<u>\$ 61,976</u>	<u>\$ 61,976</u>	<u>\$ 68,694</u>	<u>\$ 68,694</u>

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:

March 31, 2020	\$ 127,747
December 31, 2019	\$ 153,698

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.

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 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 key management of the Company

The remuneration awarded to senior key management includes the following:

	Three months ended March 31,			
		2020		2019
Wages and bonus	\$	1,359	\$	170
Benefits		62		7
Share-based compensation		196		242
	\$	1,617	\$	419