CHARLOTTE'S WEB HOLDINGS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021
(Expressed in United States dollars)

INTRODUCTION

For the three and nine months ended September 30, 2021.

For purposes of this discussion, "Charlotte's Web," "CW," "we," or the "Company" refers to Charlotte's Web Holdings, Inc. and its subsidiaries: Charlotte's Web, Inc. and Abacus Products, Inc. ("Abacus"), and its wholly owned subsidiaries.

This management's discussion and analysis of financial condition and results of operations ("MD&A") is provided as of November 15, 2021 and should be read together with the Company's Unaudited Interim Condensed Consolidated Financial Statements and the accompanying notes for the three and nine months ended September 30, 2021 and the audited Consolidated Financial Statements and the accompanying notes for the year ended December 31, 2020. The results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, unless otherwise noted, are expressed in United States dollars.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com.

The Company determined that, as of June 30, 2021, more than 50% of the Company's issued and outstanding voting shares were directly or indirectly owned of record by residents in the United States. As a result of this fact and certain other requirements under applicable United States federal securities laws, the Company determined that it will lose its foreign private issuer status under applicable United States federal securities laws and will be subject to Securities and Exchange Commission ("SEC") reporting requirements applicable to U.S. domestic companies beginning on January 4, 2022. These U.S. reporting requirements will require, among other things, the Company's financial statements and financial data to be presented under U.S. Generally Accepted Accounting Principles ("US GAAP") following this transition period. After becoming an SEC reporting issuer, the manner in which the Company raises capital will be different and will likely require that the Company file registration statements with the SEC related to such activities, which will likely increase the time and expense associated with such activities.

On November 5, 2021, the Company filed a Form 10 with the United States Securities and Exchange Commission in order to register the Company's common shares pursuant to section 12(g) of the Securities Exchange Act of 1934.

FORWARD-LOOKING STATEMENTS

In the interest of providing the shareholders and potential investors of Charlotte's Web Holdings, Inc. with information about the Company, including management's assessment of the Company's future plans and operations, certain information provided in this MD&A constitutes forward-looking statements or information (collectively, "forward-looking statements"). Forward-looking statements are typically identified by words such as "may", "will", "should", "could", "anticipate", "expect", "project", "estimate", "forecast", "plan", "intend", "target", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Although these forward-looking statements are based on assumptions the Company considers to be reasonable based on the information available on the date such statements are made, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties, and other factors which may cause actual results, levels of activity, and achievements to differ materially from those expressed or implied by such statements. The forward-looking statements contained in this MD&A are based on certain assumptions and analysis by management of the Company ("Management") in light of its experience and perception of historical trends, current conditions and expected future development and other factors that it believes are appropriate.

Specifically, this MD&A contains forward-looking statements relating to, but not limited to: potential capacity expansion for production, extraction, R&D and distribution; national and international expansion activities and strategy; capacity expansion and transition to a CPG operating company capable of supporting mass retail channel growth; the impact of certain activities on the Company's business and financial condition; customer acquisition and retention; suggested regulatory developments; possible equity and debt financing; the Company's anticipated trajectory, long-term growth expectations and shareholder value creation; R&D activities, including potential clinical trials; and product expansion, including into cannabis wellness where federally permissible.

The material factors and assumptions used to develop the forward-looking statements herein include, but are not limited to, the following: (i) the impact of the COVID-19 pandemic; (ii) the legislative and regulatory climate in which the Company currently operates and may in the future operate; (iii) the continued sales success of the Company's products; (iv) the continued success of sales and marketing activities; (v) the Company's ability to complete the conversion or buildout of its facilities on time and on budget; (vi) there will be no significant delays in the development and commercialization of the Company's products; (vii) the Company will continue to maintain sufficient and effective production and research and development capabilities to compete on the attributes and cost of its products; (viii) the Company's ability to deal with adverse growing conditions (due to pests, disease, fungus, climate or other factors) in a timely and cost-effective manner; (ix) there will be no significant reduction in the availability of qualified and cost-effective human resources; (x) new products will continue to be added to the Company's portfolio; (xi) demand for the Company's products will grow in the foreseeable future; (xii) there will be no significant barriers to the acceptance of the Company's products in the market; (xiii) the Company will be able to maintain compliance with applicable contractual and regulatory obligations and requirements; (xiv) there will be adequate liquidity available to the Company to carry out its operations; and (xv) products do not develop that would render the Company's current and future product offerings undesirable and the Company is otherwise able to minimize the impact of competition and keep pace with changing consumer preferences.

The Company's forward-looking statements are subject to risks and uncertainties pertaining to, among other things, the adverse impact of the COVID-19 pandemic to the Company's operations, supply chain, distribution chain, and to the broader market for the Company's products, revenue fluctuations, nature of government legislation and regulations (both domestic and foreign), economic conditions, loss of key customers, retention and availability of executive talent, competing products, common share price volatility, loss of proprietary information, product acceptance, internet and system infrastructure functionality, information technology security, cash available to fund operations, crop risk, availability of capital, international and political considerations, the successful integration of acquired businesses, regulatory changes, and including but not limited to those risks and uncertainties discussed under the heading "Risks and Uncertainties" in this MD&A, the AIF, and the Company's other filings with securities regulators. The impact of any one risk, uncertainty, or factor on a particular forward-looking statement is not determinable with certainty as these are interdependent, and the Company's future course of action depends on Management's assessment of all information available at the relevant time. Except to the extent required by law, the Company assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A, whether as a result of new information, future events, or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on the Company's behalf, are expressly qualified in their entirety by these cautionary statements.

BUSINESS OVERVIEW

Charlotte's Web Holdings, Inc., a Certified B Corp headquartered in Denver, Colorado, is a market leader in innovative hemp extract wellness products under a family of brands which includes Charlotte's Web™, CBD Medic™, CBD Clinic™, and Harmony Hemp™. Charlotte's Web branded premium quality products start with proprietary hemp genetics that are 100% American farm grown and manufactured into hemp extracts containing naturally occurring phytocannabinoids including CBD, cannabichromene (CBC), cannabigerol (CBG), cannabinol (CBN), terpenes, flavonoids and other beneficial hemp compounds. The Company's CW Labs R&D science division is located at the University at Buffalo in New York which is part of the State University of New York (SUNY) system of 64 universities. Charlotte's Web product categories include full spectrum hemp extract oil tinctures (liquid products), gummies (sleep, stress, immunity, exercise recovery), capsules, CBD topical creams and lotions, as well as products for pets. Charlotte's Web products are distributed to more than 14,000 retail outlets and 8,000 health care practitioners, and online through the Company's website at www.CharlottesWeb.com.

The Company's primary products are made from high quality and proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, terpenes, flavonoids and other hemp compounds. The Company believes the presence of these various compounds work synergistically to heighten the effects of the products, making them superior to single-compound isolates.

Hemp extracts are produced from Hemp. The Company is engaged in research involving the effectiveness of a broad variety of compounds derived from Hemp. Where such research evidences that a higher than 0.3% THC

formulation enhances the efficacy of a product, or necessitates a new product, the Company may consider expanding its product portfolio in jurisdictions where it is legal to do so and where consistent with the Company's founding principles.

The Company does not currently produce or sell medicinal or recreational marijuana. On March 2, 2021, Charlotte's Web entered into an option purchase agreement (the "SBH Purchase Option"), pursuant to which the Company has the option to acquire Stanley Brothers USA Holdings, Inc. ("Stanley Brothers USA"), a Cannabis wellness incubator. Until the SBH Purchase Option is exercised, both Charlotte's Web and Stanley Brothers USA will continue to operate as standalone entities in the US. Internationally, the companies are able to explore opportunities where Cannabis is federally permissible.

As noted above, the Company's current product categories include tinctures (liquid product), capsules, gummies, pet, and topical 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 on farms leased in northeastern Colorado and sources high quality hemp through contract farming operations in Kentucky and Oregon.

The Company continues to invest in research and development ("R&D") efforts to identify new product opportunities. Management is working to expand the Company's production capacity, sales and marketing infrastructure, and to find opportunities for continuous improvement in the supply chain and proactively define the competitive landscape. The Company is working to capitalize on the rapidly emerging botanical wellness products industry by driving customer acquisition and retention, as well as accelerating national and international retail expansion. In addition, the Company may consider expanding its product line beyond Hemp-based products should the science and the Company's founding principles support such expansion.

In furtherance of the Company's R&D efforts, the Company has established CW Labs, an internal division for R&D, to substantially expand the Company's efforts around the science of hemp derived compounds. CW Labs aims to support the Company's product portfolio with science-based innovation (including studies on safety, effectiveness, and efficacy) while advancing clinical trials. CW Labs is currently engaged in double-blind, placebo-controlled human clinical trials addressing hemp-based solutions for several need states. CW Labs is located in Louisville, Colorado at the Company's production and distribution facility and the Hauptmann Woodward Research Institute on the campus of the University at Buffalo's Jacobs School of Medicine and The Center for Integrated Global Biomedical Sciences through which it fosters collaborations throughout the State University of New York network of 64 national and international research and medical institutions. In November 2019, the Company announced a collaboration between CW Labs and the University at Buffalo's Center for Integrated Global Biomedical Sciences to advance hemp cannabinoid science through a research program that provides a better understanding of the therapeutic uses and safety of cannabinoids.

FACTORS AFFECTING THE COMPANY'S PERFORMANCE

The Company's performance and future success depends on a number of factors. These factors are also subject to several inherent risks and challenges, some of which are discussed below and referred to under "Risks and Uncertainties."

The COVID-19 Pandemic

The COVID-19 pandemic continues to disrupt global economic conditions, financial markets, supply chains, and business operations. Global equity markets have experienced significant volatility and uncertainty, and governments and central banks have reacted to the pandemic with significant monetary and fiscal interventions designed to stabilize economic conditions. Notwithstanding widespread vaccine availability within the United States, the emergence of COVID-19 variants and slowing vaccination rates in certain localities has resulted in increased infection rates and several jurisdictions resuming certain COVID-19 restrictions.

The COVID-19 pandemic has influenced and may continue to influence consumer spending behavior and retail operations. If the impacts of the COVID-19 pandemic persist, or if consumer demand for the Company's products

lags, the Company could experience declines in financial performance and, if deemed to be more than temporary, could trigger asset impairment.

On September 9, 2021, in an effort to prevent the spread of COVID-19 and the highly contagious Delta variant, President Biden announced executive orders that included a mandate for private-sector businesses with 100 or more employees to require COVID-19 vaccination or weekly testing as soon as the Occupational Safety and Health Administration ("OSHA") issues its Emergence Temporary Standard ("ETS"). As of the date hereof, the OSHA has yet to deliver its ETS. The Company is monitoring the status of the ETS and will review it upon release to understand and comply with any legal obligations. The Company endeavors to ensure that current health and safety protocols in place across the Company's facilities remain in compliance with applicable local, state and federal guidelines.

Management continues to closely monitor and react to the impact of the global pandemic on the Company, with a focus on ensuring the health and safety of employees, business continuity and supporting our communities. Management has implemented various preventative measures that aim to limit disruption to the Company's operations, production and supply chains, while maintaining full operations and internal controls over financial reporting and disclosures.

As the Company reintegrates its personnel to its workplace, it may incur additional costs to adapt the workplace to meet applicable health and safety requirements. The occurrence of additional waves of the virus or its variants, or insufficient vaccination levels may require the Company to revise or delay such integration plans. To the extent that it is unable to effectively protect its workforce against the transmission of the virus, the Company may be forced to slow or reverse its reintegration efforts and could face allegations of liability.

Due to the speed with which the COVID-19 variant situation is evolving and the uncertainty of its duration, it is not possible to fully estimate the short and long-term impact on the Company's business, operations or financial results; however, the impact could be material. The Company continues to monitor the situation and work with its stakeholders in order to assess further possible implications to its business, supply chain and customers, and, where practicable, mitigate adverse consequences and responsible address this global pandemic.

See also "Risks and Uncertainties - Impacts of COVID-19 to the Company's Business" below.

Branding

The Company's well recognized brand, Charlotte's Web, along with its acquired CBD Clinic™, CBDMedic™, and Harmony Hemp™ brands, are built around consumer trust with a focus on quality. Maintaining and growing the Company's brand appeal domestically and internationally is critical to its continued success.

Regulation

The Company is subject to the local, state, and federal laws in the jurisdictions in which it operates. Outside of the United States, the Company's products may be subject to tariffs, treaties and various trade agreements as well as laws affecting the importation of consumer goods and the retail sale of hemp-derived products. The 2018 Farm Bill became law on December 20, 2018. The 2018 Farm Bill removed hemp from the list of controlled substances under the Controlled Substances Act. The 2018 Farm Bill also redefined hemp to include its "derivatives, extracts, and cannabinoids", and accordingly removed popular hemp products, such as hemp-derived CBD from the purview of the U.S. Drug Enforcement Agency (the "DEA").

Although the DEA no longer regulates hemp, the U.S. Food and Drug Administration ("FDA") retains its authority to regulate ingestible and topical products, including those that contain hemp and hemp extract constituents such as CBD. FDA regulations govern manufacturing and marketing of food and dietary supplements. These include regulations for food facility registration; current good manufacturing practice ("cGMPs") regulations; nutrition and allergen labeling and label claim regulations; rules for submission of received serious adverse event reports; and safety requirements, including, as applicable, new dietary ingredient ("NDI") and generally recognized as safe ("GRAS") regulations.

Shortly after the 2018 Farm Bill was signed into law, the FDA issued a statement by former Commissioner Dr. Scott Gottlieb on the agency's regulation of products containing cannabis and cannabis-derived compounds, in which the FDA confirmed its authority to regulate ingestible and topical products, including those that contain hemp and hemp extracts constituents such as CBD. The FDA has also stated its concerns over drug claims being made about

products that contain CBD, as well as the agency's position that under the federal Food, Drug and Cosmetic Act ("FD&C Act") CBD cannot be marketed in a dietary supplement because a product containing CBD was approved as a drug and substantial clinical trials studying CBD as a new drug were made public prior to the marketing of any food or dietary supplements containing CBD, and therefore dietary supplements or food are precluded from containing this ingredient (the "IND Preclusion"). The Company believes there are significant arguments against this position in that all conditions of the applicable statute must be met before the IND Preclusion applies. The FDA has maintained its stance.

Over the intervening years, the FDA has sent warning letters to dozens of companies marketing CBD products with disease claims. The letters also reiterate the agency's position that CBD cannot be added to food and dietary supplements. This matter is still in active discussion with the FDA and is unresolved as of the date of this MD&A. While the Company disagrees with the position of the FDA, there is risk that this agency, or the FTC (as defined herein), could take law enforcement or regulatory actions against the Company.

The FDA has acknowledged that there are pathways through which certain Cannabis-derived compounds, such as CBD, might be permitted in a food or dietary supplement. FDA officials have publicly stated that the FDA has authority to issue a regulation that would allow the use of CBD in a food or dietary supplement. The FDA has also confirmed that it is now evaluating whether to pursue such a process, and clarified that the agency would consider doing so if it determines that all other requirements in the FD&C Act are met, including those required for food additives or new dietary ingredients.

Statements from the FDA in July 2019 made clear that the FDA is "[p]aving the way for regulatory clarity[.]" The FDA "is committed to evaluating the regulatory frameworks for non-drug uses, including products marketed as foods and dietary supplements[.]" Importantly, FDA "recognize[s] that there is substantial public interest in marketing and accessing CBD in food, including dietary supplements . . . [and that] [t]he statutory provisions that currently prohibit marketing CBD in these forms also allow the FDA to issue a regulation creating an exception, and some stakeholders have asked that the FDA consider issuing such a regulation to allow for the marketing of CBD in conventional foods or as a dietary supplement, or both."

Additionally, the FDA is "[l]istening to and learning from stakeholders[.]" The FDA held a public hearing on May 31, 2019 to obtain scientific data and information about the safety, manufacturing, product quality, marketing, labeling, and sale of products containing Cannabis or Cannabis-derived compounds. Numerous hemp industry stakeholders and consumers shared their perspectives, including a number of the Company's trade associations.

On March 5, 2020, former FDA Commissioner Dr. Stephen M. Hahn issued a statement on the FDA's work related to CBD products. The statement makes clear that the FDA is taking steps to solicit additional public feedback, data, and research on the science, safety, and quality of CBD products. These new steps will ensure that even confidential and proprietary information can be shared with the FDA and kept protected. Additionally, former Commissioner Hahn's statement reiterates that the FDA will continue to monitor and police the CBD products marketplace and is evaluating the issuance of a risk-based enforcement policy that provides greater transparency and clarity regarding factors the FDA intends to consider in prioritizing enforcement decisions. Much of former Commissioner's Hahn statement was also included in the FDA's congressionally mandated report on CBD, which was also submitted on March 5, 2020. Importantly, the report confirms that the FDA is actively considering pathways to allow the marketing of CBD as a dietary supplement. The report signals the FDA's interest in certain questions about CBD, including effects from sustained use, effects from different methods of exposure, and effects on the developing brain and on the unborn child and breastfed newborn. The report acknowledges that the FDA is receiving inquiries about whether "full spectrum" and "broad spectrum" Hemp products can currently be marketed and sold as dietary supplements, but the FDA has not yet answered the question conclusively. Largely, the report does little to address the regulatory ambiguity for hemp derived extracts with naturally occurring CBD, but former Commissioner Hahn has publicly stated that it would be a "fool's game" for the FDA to pull CBD products from the market entirely, as their use is already widespread.

On July 22, 2020, the FDA submitted a draft CBD enforcement policy guidance to the White House Office of Management and Budget for review. However, due to a regulatory freeze imposed by the Biden Administration, the FDA withdrew the draft guidance and has not yet indicated whether or when a new guidance document will be submitted. Further, in January 2021, the FDA issued an update entitled "Better Data for a Better Understanding of the Use and Safety Profile of Cannabidiol (CBD) Products." In the statement, the FDA acknowledges the rapid

increase and interest in the availability of CBD and other products derived from cannabis and calls for "real- world" data" on the use and safety of CBD. The call acknowledges the FDA's current gaps in understanding of the safety profile of CBD, which may be addressed through obtaining real-world data and help build a robust evidentiary foundation to inform public health decisions regarding CBD. The FDA further notes that it is continuing to "evaluate the regulatory frameworks that apply to certain cannabis-derived products that are intended for non-drug uses, including whether any new FDA regulations may be warranted." It is unclear whether the new FDA Commissioner, to be appointed under the Biden Administration, will take the same stance on CBD as former Commissioners Hahn and Gottlieb, or continue the progress toward a clear regulatory pathway for CBD products, in particular for dietary supplements and food products.

On February 4, 2021, Rep. Kurt Schrader (D-OR-5) and Rep. Morgan Griffith (R-VA-9) introduced H.R. 841. This is the second year they have introduced this bill. It would ensure that Hemp-derived CBD, and other non-intoxicating Hemp-derived compounds, could be lawfully marketed as dietary supplements. The bill would require CBD and Hemp extract product manufacturers to comply with the existing regulatory framework for dietary supplements, to help assure that such products are safe, properly labeled, and manufactured in accordance with current Good Manufacturing Practices. Passage would also help stabilize the Hemp markets, open up a promising economic opportunity for U.S. agriculture, and fulfill the commitments made to Hemp farmers pursuant to the 2018 Farm Bill. Prospects for such passage are improved by the fact that the prior version of H.R. 841, introduced during the 116th Congress (2019-2020), won the bipartisan support of 30 co-sponsors and was referred to the House Committee on Energy and Commerce. However, the bill failed to win passage prior to the congressional session ending. Prospects for passage of H.R. 841 would be further improved by the introduction of companion legislation in the U.S. Senate, although continuing congressional focus on the nation's response to COVID-19, infrastructure, and cannabis legislation may delay action.

On March 6, 2020, Charlotte's Web completed its assessment for self-affirmed GRAS status for its full spectrum hemp extract. The Company made this determination based on composite safety information and an Expert Panel review in accordance with FDA guidelines for GRAS. As required by law, this general recognition of safety utilized scientific procedures that we believe are the same quantity and quality of scientific evidence that would be required to obtain FDA approval of a food additive, and the data is publicly available and accepted, i.e., published, in the scientific literature.

The Company's edible pet supplements have been approved to carry the Quality Seal from the National Animal Supplement Council ("NASC"), a non-profit group dedicated to protecting and enhancing the health of companion animals throughout the country. The seal is awarded to manufacturers and suppliers that have successfully passed an NASC facility audit and comply with rigorous quality standards, including strict labeling requirements, real-time adverse event reporting, and random product testing by an independent lab.

The Company's products carry U.S. Hemp Authority™ Certified Seal, which requires meeting or exceeding stringent self-regulatory standards for cGMP and passing an annual third-party audit. The U.S. Hemp Authority Certification Program is designed to increase consumer and law enforcement confidence in hemp products being sold in the market today by designating them as safe and legal.

The Company's manufacturing facility in Boulder, CO was added to NSF International's dietary supplements Good Manufacturing Practice ("GMP") registration for the first and second quarter of 2020, prior to the Company's relocation to its new production and distribution facility. The Company's new production and distribution facility in Louisville, CO was also added to NSF's International GMP registration as of July 6, 2021. Earning GMP registration from NSF International verifies that a manufacturing facility has the proper methods, equipment, facilities, and controls in place to produce dietary supplement products. The NSF GMPs were developed in accordance with the FDA's 21 CFR part 111 regulation on dietary supplement manufacturing, packaging, and distribution.

On October 31, 2019, the USDA released the interim final rule ("IFR"), which governs the domestic production of hemp under the 2018 Farm Bill. The IFR also specifies the provisions that a state or tribal Hemp plan must contain to be in compliance with the 2018 Farm Bill. In January 2021, the USDA published a Final Rule ("FR") concerning the IFR. The Final Rule builds on the IFR and, more specifically, incorporates modifications based on public comments and lessons learned during the 2020 growing season. USDA Secretary Tom Vilsack signed off on the Final Rule on March 8, 2021, and the Final Rule took effect on March 22, 2021. It is available at https://

www.federalregister.gov/documents/2021/01/19/2021-00967/establishment-of-a-domestic-hemp-production-program.

On August 21, 2020, the DEA issued an Interim Final Rule ("DEA IFR") concerning implementation of the 2018 Farm Bill. Even though the 2018 Farm Bill removed Hemp from scheduling under the U.S. Controlled Substances Act ("CSA"), the DEA IFR purports to clarify that material that exceeds 0.3% delta-9 THC remains controlled in Schedule I of the CSA. Additionally, the DEA IFR states that the 2018 Farm Bill does not impact the control status of synthetically derived THCs, for which the DEA claims that the amount of delta-9 THC is not a determining factor in whether the material is a controlled substance.

The DEA IFR has caused consternation throughout the Hemp industry because of concerns that it confuses the legality of in-process Hemp extract material that may temporarily and unintentionally exceed 0.3% delta-9 (before returning to or below 0.3% delta-9 THC in finished form). However, DEA spokesperson Sean Mitchell has indicated that the DEA is aware of the Hemp industry's policy concerns and "has higher enforcement priorities, such as opioids and methamphetamine." Moreover, the DEA IFR is currently in the notice-and-comment stage of federal rulemaking. To date, more than 3,300 public comments have been submitted, so it is possible that the DEA IFR will be modified and improved before becoming a final rule. Many of the comments, which are being submitted by stakeholders and industry groups, make clear that the DEA IFR is inconsistent with the 2018 Farm Bill and would cause serious challenges for the hemp products industry. Further, in the Consolidated Appropriations Act, 2021, Congress included report language that directed the USDA to develop regulations to protect the transportation, sale, and storage of in-process Hemp extract. There is also a chance that the DEA IFR will be invalidated in its entirety. It is currently the subject of at least one federal lawsuit, which could result in the DEA IFR being struck down. In the Company's opinion, the DEA IFR is improper and unconstitutional but also that the Company's products enjoy all of the protections of the 2014 and 2018 Farm Bills and are not impacted by the DEA IFR.

On July 23, 2021 the Company was advised by the FDA of its objection to a New Dietary Ingredient Notification ("NDIN") submitted by the Company earlier in 2021. The Federal Food, Drug, and Cosmetic Act (the "FD&C Act") requires that manufacturers who wish to market dietary supplements that contain "new dietary ingredients" notify the Food and Drug Administration about these ingredients. The Company's submission was objected to on the basis that a full spectrum hemp extract does not meet the definition of a dietary supplement due to an exclusion provision (CBD isolate is a drug) and due to safety concerns. The Company does not agree with a number of conclusions reached by the FDA, in particular with respect to their analysis of safety data provided. While the objection does not impact the Company's existing business, the Company will continue to engage with the FDA and lawmakers with the objective of securing a favorable ruling and/or facilitating the promulgation of definitive legislation establishing an appropriate regulatory environment to protect consumers and to establish guidance for manufacturers.

As the regulatory environment in which the Company operates continues to evolve, the Company may explore strategic opportunities including product expansion beyond the Company's traditional hemp-based, CBD wellness products and potential brand or product partnerships.

Competition

The market for hemp-based wellness products is highly competitive. The competition consists of publicly and privately-owned companies, which tend to be highly fragmented in terms of both geographic market coverage and products offered. With the Company's recognized brand quality, innovation capabilities, high-quality and safety-focused manufacturing processes, Management believes the Company is well-positioned to capitalize on favorable long-term trends in the hemp-based wellness products segment as the FDA establishes guidelines on how the industry will operate.

Growth Strategies

The Company has faced challenges in growing revenue over the past year due to factors primarily arising from the COVID-19 pandemic, a lack of regulatory guidelines and general industry trends; however, Management believes the Company has a strong future growth strategy. The Company's future success depends, in part, on overall economic recovery and on Management's ability to implement its growth strategy including (i) product innovations; (ii) growth in retail, wholesale and distributor partnerships; and (iii) growth in e-commerce distribution. The ability of the Company to implement this growth strategy depends on, among other things, its

ability to develop new products that appeal to consumers, maintain and expand brand loyalty and brand recognition, maintain and improve competitive position in the markets, and identify and successfully enter, and market products in new geographic areas and segments as well the ability to successfully navigate legislative and regulatory uncertainties (see "Risks and Uncertainties").

Product Innovation and Consumer Trends

The Company's business is subject to changing consumer trends and preferences, which are dependent, in part, on continued consumer interest in new products. The success of new product offerings depends upon a number of factors, including the Company's ability to (i) accurately anticipate customer needs; (ii) develop new products that meet these needs; (iii) successfully commercialize new products; (iv) price products competitively; (v) manufacture and deliver products in sufficient volumes and on a timely basis; and (vi) differentiate product offerings from those of competitors.

Business Acquisitions, Partnerships and Operations

The Company continually leverages its global relationships and network of industry participants and advisors to actively identify and source future acquisition and partnership opportunities over the long-term that will enable it to further broaden and diversify its product offerings, leverage current and future manufacturing and distribution facilities for new products, cultivate for international markets, and expand its intellectual property portfolio. In addition, the Company continues to explore and consider strategic expansion to its operations, which may include product expansion beyond the Company's traditional hemp-based wellness products and potential brand or product partnerships.

Customer Relationships

The Company has relationships with wholesalers, distributors and retailers across the food, drug and mass market, as well as the natural, specialty, professional and retail channels. The Company sells its products through e-commerce, food, drug and mass channels, and natural channels, and is reliant on knowledgeable partners to display and present its product to customers in their brick and mortar stores. The Company's partners service customers by stocking and displaying products and explaining product attributes and benefits. The Company's relationship with these retail customers is important for consumer trust in the brand and in the products they purchase.

CORPORATE HIGHLIGHTS AND EVENTS

Third quarter of fiscal year 2021

The Company entered into an agreement to sublease the office building at 1600 Pearl St, Boulder, Colorado, commencing July 1, 2021. The sublease agreement will terminate August 31, 2025, and is classified as a long-term lease by reference to the right-of-use asset arising from the head lease. The Company derecognized the right-of-use asset on the head lease at the sublease commencement date of July 1, 2021 and continues to account for the original lease liability. The Company, as the original lessee and sublessor, recognized a net investment in the sublease of an $3,693 at the sublease commencement date.

As of July 30, 2021, the Company's CW Labs science division and Colorado State University's College of Agricultural Sciences ("CSU") have completed the first of three collaborative metabolomic hemp studies researching the complex chemical profile of full spectrum hemp extracts made from the Company's U.S. patented hemp cultivars. The collaboration examines cannabinoid profiles in hemp extracts under varying cultivars and conditions. Long term, the study data discovered as a result this academic research will provide a deeper understanding of the range of constituents in full spectrum hemp extract, and an understanding of what factors can affect that profile. The information is intended to guide optimizing phytochemical fingerprints and will help to improve agricultural and extraction methods, and further standardize the process, procedures, test methods and controls for consistency and reproducibility.

On September 21, 2021, the Company announced the addition of three new Charlotte's Web™ Gummies. New Daily Wellness, THC-Free and Immunity gummies are now available for sale in our two customer channels.

Subsequent to the period

On October 7, 2021, the Company announced its expansion of retail distribution in California following passage of Assembly Bill 45 ("AB 45" or the "Law") on October 6. The Law formally permits retail sale of products containing hemp-derived cannabidiol (CBD), including dietary supplements, topicals, over-the-counter and pet products. Following AB 45's passage, the Company expects California retailers to expand or begin receiving product shipments from Charlotte's Web. This includes Charlotte's Web current national retail partners which combined represent more than 1,000 locations in California, that can now confidently offer Charlotte's Web products to consumers with clear regulatory guidance across the state.

On October 12, 2021, the Company announced that its corporate farm acreage, and its 137,000 sq. ft. Louisville, Colorado-based manufacturing and R&D facility, earned U.S. Department of Agriculture ("USDA") organic certification. This certification paves the way for several product lines to carry the USDA Organic Seal. In compliance with federal regulations for certified organic practices and with the Company's own strict quality and safety standards, these products are produced without genetically modified organisms (GMOs) and made from hemp grown on U.S. hemp farms with no synthetic pesticides or herbicides. Charlotte's Web farmers use cover crops and crop rotation to build healthy soils. The Company maintained USDA certified organic practices on its farm over a three-year transition period with on-farm inspections by a USDA accredited organic certification agency before being formally approved as 'USDA Certified Organic.'

On October 27, 2021, the Company announced the newest addition to its pet product line: Charlotte's Web™Skin Health & Allergy Support Chews for dogs with sensitive skin due to seasonal allergies. The dog-loving Charlotte's Web product development team created Skin Health & Allergy Support Chews with the Company's proprietary full-spectrum hemp extract and other beneficial botanicals so pet parents can support skin health for their pets.

On November 10, 2021, the Company announced the addition of new oral sprays to the Company's e-commerce website. The Charlotte's Web Calm Spray and Sleep Spray with CBG and CBN features a unique format that delivers the hemp extract in a consistent measure. Developed to help consumers manage their everyday stress or support a healthy sleep cycle, these are the Company's first products developed around the minor cannabinoids cannabigerol and cannabinol. The new oral sprays launched on the Company's e-commerce website as an exclusive, limited-time offer ahead of the nationwide launch with retailers in 2022.

On November 11, 2021, the Company has completed the harvest of its first ever international hemp crop, in Canada. In April of 2021 Charlotte's Web proprietary hemp cultivars were approved for registration on Health Canada's List of Approved Cultivars for outdoor cultivation in Canada. The early flowering and maturing hemp cultivars were uniquely developed to produce high naturally occurring cannabidiol ("CBD") in shorter northern climate growing seasons. The Canadian harvest included the Company's flagship "CW1AS1" U.S. patented cultivar used for its leading full-spectrum hemp extract "Original Formula." Charlotte's Web will prioritize this first CW1AS1 harvest for Original Formula available exclusively for medical cannabis patients in Canada. The hemp biomass will be processed into whole plant hemp extract for Charlotte's Web CBD wellness products in Canada for sale in 2022. Canada is part of Charlotte's Web international cultivation expansion, and provides further access to other international geographies through export from the Canadian market for biomass, extract and finished goods.

FINANCIAL INFORMATION

The following table sets forth selected financial information for the periods indicated. This information is unaudited, but reflects all adjustments of a normal, recurring nature that are, in the opinion of Management, necessary to present a fair statement of the Company's consolidated financial performance for the periods presented. Quarter-to-quarter comparisons of the Company's financial results are not necessarily meaningful and should not be relied on as an indication of future performance.

The Company's financial information for the three and nine months ended September 30, 2021 compared to the same periods in 2020, is impacted by the strategic acquisition of Abacus, which occurred in June of 2020, the most significant impact of which is to revenue (refer below).

	Three months ended September 30,		Nine months ended September 30,	
U.S. $ thousands, except per share data	**2021**	2020	**2021**	2020
Revenue	**$ 23,704**	$ 25,156	**$ 71,263**	$ 68,299
Gross profit before biological assets adjustment	**14,915**	15,258	**44,379**	41,726
Net impact, fair value of biological assets	**—**	501	**(41)**	415
Gross profit	**14,915**	14,757	**44,420**	41,311
Operating expenses	**23,900**	28,312	**72,890**	81,117
Operating loss	**(8,985)**	(13,555)	**(28,470)**	(39,806)
Change in fair value of financial instruments and other expense (income), net	**(8,381)**	(7,379)	**(9,223)**	(14,387)
Net loss and comprehensive loss	**$ (913)**	$ (6,539)	**$ (20,227)**	$ (32,468)
Loss per share - basic	**$ (0.01)**	$ (0.05)	**$ (0.14)**	$ (0.27)
Loss per share - diluted	**$ (0.01)**	$ (0.05)	**$ (0.14)**	$ (0.27)
Adjusted EBITDA[1]	**$ (2,768)**	$ (6,645)	**$ (11,356)**	$ (18,091)

Assets:	**September 30, 2021**	December 31, 2020
Cash and cash equivalents	**$ 21,069**	$ 52,803
Total assets	**$ 286,581**	$ 310,881
Liabilities:		
Long-term liabilities	**$ 21,303**	$ 27,679
Total liabilities	**$ 44,908**	$ 56,652

[1] Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") is not a recognized performance measure under IFRS. Adjusted EBITDA does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. The term EBITDA consists of net loss and excludes interest ("financing costs"), taxes, depreciation and amortization. Adjusted EBITDA also excludes share-based compensation, impairment of assets, transaction costs, legal settlement costs, restructuring charges, and adjustments for fair value. A reconciliation of the Company's net loss to EBITDA and Adjusted EBITDA is presented within the "EBITDA and Adjusted EBITDA" section below. Adjusted EBITDA presented in prior periods has been reclassified to conform with the current period presentation to include interest income as a reduction of EBITDA and restructuring charges as an addition to Adjusted EBITDA.

U.S. $ thousands	**Q3 2021**	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Revenue	**$ 23,704**	$ 24,152	$ 23,407	$ 26,927	$ 25,156	$ 21,680	$ 21,463	$ 22,830
Net (loss) income	**(913)**	(5,388)	(13,926)	(14,718)	(6,539)	(14,430)	(11,499)	(18,778)
(Loss) earnings per share - basic	**$ (0.01)**	$ (0.04)	$ (0.10)	$ (0.11)	$ (0.05)	$ (0.13)	$ (0.11)	$ (0.19)
(Loss) earnings per share - diluted	**$ (0.01)**	$ (0.04)	$ (0.10)	$ (0.11)	$ (0.05)	$ (0.13)	$ (0.11)	$ (0.19)

Revenue

The majority of the Company's revenue is derived from sales of branded products to consumers via our direct-to-consumer ("DTC") e-commerce website, and distributors, retail and wholesale business-to-business ("B2B") customers.

	Three months ended September 30,			Nine months ended September 30,		
U.S. $ thousands	**2021**	2020	% Increase (Decrease)	**2021**	2020	% Increase (Decrease)
	$ 23,704	$ 25,156	(5.8)%	**$ 71,263**	$ 68,299	4.3 %
Direct-to-consumer ("DTC") revenue	**$ 15,175**	$ 16,736	(9.3)%	**$ 46,988**	$ 46,350	1.4 %
Business-to-business ("B2B") revenue	**$ 8,529**	$ 8,420	1.3 %	**$ 24,275**	$ 21,949	10.6 %

Revenue for the three months ended September 30, 2021 was $23,704, a decrease of 5.8% compared to the three months ended September 30, 2020 as higher unit sales were offset by product mix and increased discounting, as well as there were supply chain disruptions that negatively impacted revenue. B2B revenue increased 1.3% compared to three months ended September 30, 2020 on higher unit sales volume with new pet, topicals, and gummies distribution. .

DTC e-commerce sales decreased 9.3% compared to three months ended September 30, 2020. The decrease was driven by product mix and higher discounting. DTC accounted for 64.0% of total revenue in the third quarter of 2021 versus 66.5% for the same period in 2020.

Revenue for the nine months ended September 30, 2021 was $71,263, an increase of 4.3% compared to the nine months ended September 30, 2020. B2B revenue increased 10.6% compared to the nine months ended September 30, 2020 due to consumers returning to brick and mortar retail shopping following the economic reopening of COVID-19 lockdowns, higher sales volume from the acquisition of Abacus, which occurred in June of 2020, and new distribution on pet, topicals and gummies products. DTC e-commerce sales increased 1.4% reflecting increased marketing, targeted promotions, as well as incremental demand for the Company's new topical and THC-free ingestible products, partially offset by product mix.

Cost of Sales

Cost of sales includes the cost of inventory sold, changes in inventory provisions, and production costs expensed. Direct and indirect production costs include direct labor, processing, testing, packaging, quality assurance, security, shipping, depreciation of production equipment, production management and other related expenses. The primary factors that can impact cost of sales on a period-to-period basis include the volume of products sold, the mix of products sold, third-party quality costs, transportation, overhead allocations and changes in inventory provisions.

The components of cost of sales are as follows:

U.S. $ thousands	Three months ended September 30, 2021	2020	% Increase (Decrease)	Nine months ended September 30, 2021	2020	% Increase (Decrease)
Cost of sales	**$ 8,789**	$ 9,898	(11.2)%	**$ 26,884**	$ 26,573	1.2 %
Inventory expensed to cost of sales	**6,684**	8,133	(17.8)%	**20,801**	18,594	11.9 %
Inventory provision, net	**—**	(307)	100.0 %	**178**	2,216	(92.0)%
Other production costs	**1,209**	1,869	(35.3)%	**3,319**	5,080	(34.7)%
Depreciation and amortization	**896**	203	341.4 %	**2,586**	683	278.6 %

Cost of sales decreased 11.2% for the three months ended September 30, 2021 compared to 2020, due primarily to lower input costs of inventory, partially offset by higher unit sales volume. Cost of sales increased 1.2% for the nine months ended September 30, 2021 compared to the same period in 2020, primarily due to higher unit sales volume and higher depreciation and occupancy costs related to the Company's new production facility ("LOFT", partially offset by lower input costs of inventory and a decrease in inventory provision. The nine months ended September 30, 2020 had a higher inventory provision related to a decrease in future sales projections as a result of the COVID-10 pandemic.

Gross Profit

The primary factors that can impact gross profit margins include the volume of products sold, the mix of revenue between DTC e-commerce and B2B, the mix of products sold, third-party quality costs, transportation costs, and changes in inventory provisions.

Gross profit is as follows:

U.S. $ thousands	Three months ended September 30, 2021	2020	% Increase (Decrease)	Nine months ended September 30, 2021	2020	% Increase (Decrease)
Gross profit	**$ 14,915**	$ 14,757	1.1 %	**$ 44,420**	$ 41,311	7.5 %
Percentage of revenue	**62.9%**	58.7%		**62.3%**	60.5%	

Gross profit increased 1.1% for the three months ended September 30, 2021 compared to the same period in 2020. Gross profit increased 7.5% for the nine months ended September 30, 2021 compared to 2020. The increases are primarily related to higher unit sales volume, including from the acquisition of Abacus, partially offset by product mix, third quarter supply chain disruptions and higher discounting.

Classification of Operating Expenses

The composition of the operating costs classification as presented in the consolidated financial statements is as follows:

U.S. $ thousands	Three months ended September 30, **2021**	2020	% Increase (Decrease)	Nine months ended September 30, **2021**	2020	% Increase (Decrease)
General and administrative	**$ 14,051**	$ 17,816	(21.1)%	**$ 43,904**	$ 54,955	(20.1)%
Salaries and wages	**3,840**	4,789	(19.8)%	**12,722**	13,493	(5.7)%
Payroll taxes and employee benefits	**1,993**	2,483	(19.7)%	**5,889**	7,439	(20.8)%
Legal and professional services	**1,352**	2,443	(44.7)%	**4,506**	14,230	(68.3)%
Other operating expenses	**4,617**	5,655	(18.4)%	**13,571**	14,106	(3.8)%
Depreciation and amortization	**2,249**	2,446	(8.1)%	**7,216**	5,687	26.9 %
Sales and marketing	**$ 8,378**	$ 8,512	(1.6)%	**$ 24,552**	$ 21,879	12.2 %
Advertising, promotions and selling costs	**4,771**	3,954	20.7 %	**12,905**	10,828	19.2 %
Salaries and wages	**2,222**	3,101	(28.3)%	**7,648**	7,964	(4.0)%
Payroll taxes and employee benefits	**522**	1,040	(49.8)%	**1,835**	1,640	11.9 %
Other operating expenses	**830**	376	120.7 %	**2,058**	1,321	55.8 %
Depreciation and amortization	**33**	41	(19.5)%	**106**	126	(15.9)%
Research and development	**$ 1,471**	$ 1,984	(25.9)%	**$ 4,434**	$ 4,283	3.5 %
Salaries and wages	**582**	837	(30.5)%	**2,169**	2,241	(3.2)%
Payroll taxes and employee benefits	**198**	358	(44.7)%	**644**	774	(16.8)%
Other operating expenses	**556**	721	(22.9)%	**1,244**	1,075	15.7 %
Depreciation and amortization	**135**	68	98.5 %	**377**	193	95.3 %

Personnel

Personnel expense includes employee compensation and related payroll taxes and employee benefits expenses as follows:

U.S. $ thousands	Three months ended September 30, 2021	Three months ended September 30, 2020	% Increase (Decrease)	Nine months ended September 30, 2021	Nine months ended September 30, 2020	% Increase (Decrease)
Personnel	**$ 9,357**	$ 12,608	(25.8)%	**$ 30,907**	$ 33,551	(7.9)%
Salaries and wages	**$ 6,644**	$ 8,727	(23.9)%	**$ 22,539**	$ 23,698	(4.9)%
General and administrative	**3,840**	4,789	(19.8)%	**12,722**	13,493	(5.7)%
Sales and marketing	**2,222**	3,101	(28.3)%	**7,648**	7,964	(4.0)%
Research and development	**582**	837	(30.5)%	**2,169**	2,241	(3.2)%
Payroll taxes and employee benefits	**$ 2,713**	$ 3,881	(30.1)%	**$ 8,368**	$ 9,853	(15.1)%
General and administrative	**1,993**	2,483	(19.7)%	**5,889**	7,439	(20.8)%
Sales and marketing	**522**	1,040	(49.8)%	**1,835**	1,640	11.9 %
Research and development	**198**	358	(44.7)%	**644**	774	(16.8)%
Headcount (active employees)	**287**	328[(1)]				

[1] Headcount as of September 30, 2020 was recalculated to conform with 2021 definition.

Personnel expense decreased 25.8% and 7.9% for the three and nine months ended September 30, 2021, compared to 2020. The decrease for the three months ended September 30, 2021 is driven by a 23.9% decrease in salaries and wages primarily due to the prior year cost restructuring as well as lower employee-related costs, and a 30.1% decrease in payroll taxes and employee benefits, primarily due to lower shared-based compensation, and adjustments to certain employer paid benefits. The decrease for the nine months ended September 30, 2021 is driven by a 15.1% decrease in payroll taxes and employee benefits, primarily due to adjustments to certain employer paid benefits and costs incurred related to the acquisition of Abacus in 2020. The decrease in headcount is due to acquisition synergies, sales restructuring, and supply chain optimization.

Sales and marketing salaries and wages decreased 28.3% and 4.0% for the three and nine months ended September 30, 2021, compared to the same periods in 2020. Sales and marketing payroll taxes and employee benefit costs decreased 49.8% and increased 11.9% for the three and nine months ended September 30, 2021, compared to the same periods in 2020. The decreases in sales and marketing salaries and wages in 2021 are primarily related to prior year cost restructuring and the Company's renegotiated name and likeness agreement with the Company's founders, the Stanley Brothers (see "Other Operating Expenses" and "Related Party Transactions" sections below). Pursuant to the renegotiated agreement, the Company incurs sales and marketing other operating expenses pursuant to a consulting agreement, rather than salaries and wages. The decrease in payroll taxes and employee benefit costs for the three months ended September 30, 2021 compared to 2020 is attributable to lower employer payroll taxes due to fewer stock option exercises.

Non-cash compensation expense is included in personnel costs and relates to the Company's stock options, restricted share awards, and common share issuances. Non-cash share-based compensation for the three months ended September 30, 2021 and 2020 totaled $1,596 and $2,026. The decrease is primarily driven by by the acquisition of Abacus. Non-cash share-based compensation for the nine months ended September 30, 2021 and 2020 totaled $4,586 and $4,336. The increase is primarily driven by additional equity grants.

Legal and Professional Services

Legal and professional services include (i) legal fees; (ii) litigation; (iii) legal settlements; (iv) accounting services; (v) various consulting fees; and (vi) regulatory and lobbyist fees.

U.S. $ thousands	Three months ended September 30, 2021	2020	% Increase (Decrease)	Nine months ended September 30, 2021	2020	% Increase (Decrease)
Legal and professional services	$ 1,352	$ 2,443	(44.7)%	**$ 4,506**	$ 14,230	(68.3)%

Legal and professional services decreased 44.7% for the three months ended September 30, 2021 compared to the same period in 2020. Legal and professional services decreased 68.3% for the nine months ended September 30, 2021 compared to 2020. The decreases are primarily related to legal settlement costs and fees incurred during the three and nine months ended September 30, 2020, and legal and other acquisition costs for the acquisition of Abacus during the nine months ended September 30, 2020. The remaining decrease is attributable to lower legal representation costs due to the conclusion of legal matters and decreases in consulting fees related to supply chain optimization and internal controls.

Other Operating Expenses

Other operating expenses include (i) utilities and maintenance; (ii) banking and credit card processing fees; (iii) third-party software expenses (including maintenance and support); and (iv) taxes, permits and other fees (other than income taxes), net of overhead allocations.

U.S. $ thousands	Three months ended September 30, 2021	2020	% Increase (Decrease)	Nine months ended September 30, 2021	2020	% Increase (Decrease)
Other operating expenses	**$ 6,003**	$ 6,752	(11.1)%	**$ 16,873**	$ 16,502	2.2 %
General and administrative	**4,617**	5,655	(18.4)%	**13,571**	14,106	(3.8)%
Sales and marketing	**830**	376	120.7 %	**2,058**	1,321	55.8 %
Research and development	**556**	721	(22.9)%	**1,244**	1,075	15.7 %

Other operating expenses decreased 11.1% for the three months ended September 30, 2021 compared to the same period in 2020 driven by decreases in outside services related to the acquisition of Abacus and lower bad debt expense, partially offset by increases in marketing spend. Other operating expenses increased 2.2% for the nine months ended September 30, 2021 compared to the same period in 2020. For the nine months ended September 30, 2021, sales and marketing other operating expenses include $612 of consulting services pursuant to the terms of the consulting agreement with the Company and the Company's founders, the Stanley Brothers (see "Related Party Transactions" below).

Advertising, Promotions and Selling Costs

Advertising, promotions and selling costs relate to targeted marketing programs to drive DTC e-commerce sales, retail customer support, trade show activities, packaging design, personnel and web-based activities. The Company believes that marketing of its brand and products, together with customer education, is fundamental to the future success of the business.

U.S. $ thousands	Three months ended September 30, **2021**	2020	% Increase (Decrease)	Nine months ended September 30, **2021**	2020	% Increase (Decrease)
Advertising, promotions and selling costs	**$ 4,771**	$ 3,954	20.7 %	**$ 12,905**	$ 10,828	19.2 %

Advertising, promotions, and selling costs increased 20.7% for the three months ended September 30, 2021 compared to the same period in 2020. Advertising, promotions, and selling costs increased 19.2% for the nine months ended September 30, 2021 compared to 2020. The costs associated with these activities may vary significantly from period to period and fluctuate based on current marketing initiatives.

The following table sets forth total sales and marketing costs as a percentage of revenue for the eight most recent fiscal quarters.

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales and marketing	**2021**	2021	2021	2020	2020	2020	2020	2019
Percent of revenue	**35.3 %**	35.0 %	33.0 %	30.2 %	33.7 %	31.9 %	30.2 %	46.9 %

EBITDA and Adjusted EBITDA

Earnings before interest, taxes, depreciation and amortization ("EBITDA") and adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") are not recognized performance measures under IFRS. EBITDA and Adjusted EBITDA do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. The term EBITDA consists of net loss and excludes interest ("financing costs"), taxes, depreciation and amortization. Adjusted EBITDA also excludes share-based compensation, impairment of assets, transaction costs, legal settlement costs, restructuring charges, and adjustments for fair value. EBITDA and Adjusted EBITDA are included as supplemental disclosures because Management believes that such measurement provides a more meaningful assessment of the Company's operations on a continuing basis by eliminating certain non-cash charges and charges or gains that are infrequent. The most directly comparable measure to EBITDA and Adjusted EBITDA calculated in accordance with IFRS is net loss. The following is a reconciliation of the Company's net loss to EBITDA and Adjusted EBITDA.

	Three months ended September 30,		Nine months ended September 30,	
U.S. $ thousands	**2021**	2020	**2021**	2020
Net loss and comprehensive loss	**$ (913)**	$ (6,539)	**$ (20,227)**	$ (32,468)
Depreciation of property and equipment and amortization of intangibles	**3,313**	2,798	**10,285**	6,729
Financing costs	**307**	369	**979**	903
Interest income	**2**	(23)	**(33)**	(179)
Income tax benefit	**—**	18	**34**	6,325
EBITDA	**$ 2,709**	$ (3,377)	**$ (8,962)**	$ (18,690)
Mark-to-market financial instruments	**(8,459)**	(6,455)	**(9,082)**	(13,356)
Net impact, fair value of biological assets	**—**	501	**(41)**	415
Share-based compensation	**1,596**	2,026	**4,586**	4,336
Impairment of assets	**—**	(307)	**178**	2,216
SEC registration and other transaction costs	**605**	182	**787**	3,728
Legal settlement	**—**	—	**—**	2,050
Restructuring charges	**781**	785	**1,178**	1,210
Adjusted EBITDA	**$ (2,768)**	$ (6,645)	**$ (11,356)**	$ (18,091)

The following table sets forth Adjusted EBITDA as a percentage of revenue for the eight most recent fiscal quarters.

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Adjusted EBITDA[1]	**$ (2,768)**	$ (3,930)	$ (4,658)	$ (2,078)	$ (6,645)	$ (5,757)	$ (5,688)	$(10,135)
Percent of revenue	**(11.7)%**	(16.3)%	(19.9)%	(7.7)%	(26.4)%	(26.6)%	(26.5)%	(44.4)%

[1] Adjusted EBITDA presented in prior periods has been reclassified to conform with the current period presentation to include interest income as a reduction of EBITDA and restructuring charges as an addition to Adjusted EBITDA.

Depreciation and Amortization

Depreciation and amortization include depreciation on capital expenditures for farming and harvesting operations, corporate assets, and right-of-use assets.

U.S. $ thousands	Three months ended September 30, 2021	2020	% Increase (Decrease)	Nine months ended September 30, 2021	2020	% Increase (Decrease)
Depreciation	**$ 2,427**	$ 2,026	19.8 %	**$ 7,629**	$ 5,513	38.4 %
Depreciation - property and equipment	**1,876**	1,326	41.5 %	**5,572**	3,387	64.5 %
Depreciation - right-of-use assets	**551**	700	(21.3)%	**2,057**	2,126	(3.2)%
Amortization of intangibles	**$ 886**	$ 771	14.9 %	**$ 2,656**	$ 1,216	118.4 %
Total depreciation and amortization	**$ 3,313**	$ 2,797	18.4 %	**$ 10,285**	$ 6,729	52.8 %

Depreciation and amortization expense increased 18.4% for the three months September 30, 2021, compared to the same period in 2020. Depreciation and amortization expense increased 52.8% for the nine months ended September 30, 2021 compared to 2020. The increase in depreciation is primarily the result of investments in equipment and machinery and leasehold improvements related to the LOFT in 2020. The increase in amortization is related to intangible assets acquired in conjunction with the acquisition of Abacus.

Income Taxes

U.S. $ thousands	Three months ended September 30, 2021	2020	% Increase (Decrease)	Nine months ended September 30, 2021	2020	% Increase (Decrease)
Income tax expense	**$ —**	$ 18	(100.0)%	**$ 34**	$ 6,325	(99.5)%
Combined income tax rate	**(0.2)%**	(24.2)%				

The combined income tax rate used in 2021 was (0.2)% compared to (24.2)% in 2020. The decrease in the Company's tax expense during the three months ended September 30, 2021 compared to the same period in 2020 is primarily attributable to the Company expensing previously recognized deferred tax assets in the first quarter of 2020.

The Company has filed cash tax refund claims for the income taxes receivable; however, due to government delays in processing these claims, we do not expect to receive the majority of the refunds until 2022.

SBH Purchase Option

On March 2, 2021, the Company entered into the SBH Purchase Option with Stanley Brothers USA, a privately held Delaware company. The SBH Purchase Option was purchased for total consideration of $8,000 and has a five-year term (extendable for an additional two years upon payment of additional consideration). The SBH Purchase Option provides Charlotte's Web the option to acquire all, or substantially all, the shares of Stanley Brothers USA on the earlier of three years from the effective date of the SBH Purchase Option 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 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 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 SBH Purchase Option is classified as a financial asset. The financial asset is remeasured at fair value at each reporting date, with changes to fair value recognized in profit or loss for the period. 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 significant estimation uncertainty. For the three and nine months ended September 30, 2021, a gain of $5,730 and $4,900, respectively, was recognized in the statement of loss and comprehensive loss. As of September 30, 2021, the SBH Purchase Option represents a financial asset of $12,900.

The Monte Carlo valuation model considers multiple revenue and EBITDA outcomes and probabilities in assigning a fair value.

The following assumptions are used in the model:

a. Financial projections of Stanley Brothers USA
b. Probability and timing of exercise
c. Expected volatility
d. Expected Option life
e. Risk-free interest rate

Trade and Other Receivables, Net

Trade and other receivables consist primarily of trade accounts arising in the normal course of business. Trade receivables are carried at amortized cost less any associated expected credit losses. The Company provides for expected credit losses based on its assessment of probability of specific losses, estimates or future individual exposures and provisions based on historical experience.

U.S. $ thousands	**September 30, 2021**	December 31, 2020
Trade receivables	**$ 5,496**	$ 5,735
Tenant improvement allowance	**410**	410
Other miscellaneous receivables	**887**	942
Expected credit losses	**(1,067)**	(813)
Trade and other receivables, net	**$ 5,726**	$ 6,274

Trade and other miscellaneous receivables decreased $294 from December 31, 2020 to September 30, 2021. The Company reviews the accounts receivable aging monthly and monitors the payment status of each outstanding invoice. The Company communicates with its customers on a regular basis regarding the schedule of future payments, as required. At the balance sheet date, $1,067 has been recognized as an expected credit loss based on individual account review and overall customer payment history.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities generally include trade payables and personnel-related accruals.

U.S. $ thousands	**September 30, 2021**	December 31, 2020
Accounts payable	**$ 7,574**	$ 4,891
Accrued liabilities	**8,781**	11,519
	$ 16,355	$ 16,410

The accounts payable balance increased by $2,683 from December 31, 2020 to September 30, 2021 due primarily to timing of payments on trade payables. The accrued liabilities balance decreased $2,738 primarily due to a decrease in accrued compensation.

CONTRACTUAL OBLIGATIONS

Contractual obligations include amounts owed to third-party farming operators, notes payable, and leases on office locations and land.

U.S. $ thousands	**September 30, 2021**	December 31, 2020
Cultivation liabilities		
Current cultivation liabilities	**$ 4,129**	$ 9,304
Long-term cultivation liabilities	**—**	2,513
	$ 4,129	$ 11,817
Notes payable		
Current notes payable	**$ 229**	$ 629
Long-term notes payable	**—**	144
	$ 229	$ 773
Lease obligations		
Current lease obligations	**$ 2,091**	$ 2,015
Long-term lease obligations	**21,035**	20,567
	$ 23,126	$ 22,582

Contractual undiscounted future payments due on lease obligations are as follows:

	September 30, 2021	December 31, 2020
Maturity analysis - contractual undiscounted cash flows		
Less than one year	$ 3,292	$ 3,248
One to two years	3,406	2,966
Two to three years	3,270	2,877
Three to four years	3,221	2,786
Four to five years	2,209	2,559
More than five years	16,137	17,202
	$ 31,535	$ 31,638

Contractual undiscounted future payments due on cultivation liabilities and notes payable are as follows:

Contractual obligations	Total	within 1 year	1 - 5 years	> 5 years
Cultivation liabilities	$ 4,160	$ 4,160	$ —	$ —
Notes payable	229	229	—	—
Total	$ 4,389	$ 4,389	$ —	$ —

Cultivation Liabilities

The third-party farming operators obligation reflects amounts owed to third-party farming operators, based on the potency and yield from prior year's hemp harvests. The amounts are paid in multiple years per the terms of the related contracts. The $7,688 decrease from December 31, 2020 is primarily due to payments made during the nine months ended September 30, 2021.

Notes Payable

The notes payable balance primarily arose from the Company's acquisition of Abacus in June 2020. The $544 decrease from December 31, 2020 is primarily due to payments made during the nine months ended September 30, 2021.

Lease Obligations

Lease obligations at September 30, 2021 increased $544 compared to December 31, 2020 due primarily to the addition of the Company's Denver corporate office, offset by standard recurring lease payments during the period. Right-of-use (RoU) assets, net of amortization, at September 30, 2021 decreased $3,212 compared to December 31, 2020 due primarily to the derecognition of the Company's former Boulder corporate office right-of-use asset and recurring period amortization, offset by the addition of the Company's Denver corporate office.

The Company entered into an agreement to sublease the office building at 1600 Pearl St, Boulder, Colorado, commencing July 1, 2021. The sublease agreement will terminate August 31, 2025, and is classified as a long-term lease by reference to the right-of-use asset arising from the head lease. The Company derecognized the right-of-use asset on the head lease at the sublease commencement date of July 1, 2021 and continues to account for the original lease liability. The Company, as the original lessee and sublessor, recognized a net investment in the sublease of an $3,613 at the sublease commencement date.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary liquidity and capital requirements are for capital expenditures, inventory, working capital and general corporate purposes. The Company currently has a cash and cash equivalents balance of $21,069 at September 30, 2021.

The Company's ability to fund operating expenses and capital expenditures will depend on its future operating performance which will be affected by general economic conditions, financial, regulatory, FDA, and other factors including factors beyond the Company's control (See "Factors affecting the Company's Performance" and also "Risks and Uncertainties"). From time-to-time, Management reviews acquisition opportunities and if suitable opportunities arise, may make selected acquisitions to implement the Company's business strategy.

Management continually assesses liquidity in terms of the ability to generate sufficient cash flow to fund the business. Net cash flow is affected by the following items: (i) operating activities, including the level of trade receivables, accounts payable, accrued liabilities and unearned revenue and deposits; (ii) investing activities, including the purchase of property and equipment; and (iii) financing activities, including debt financing and the issuance of capital stock.

The Company has an asset backed line of credit with J.P. Morgan for $10,000 with an option in certain circumstances to increase the line of credit to $20,000. The current maturity date is March 23, 2023. The Company has obtained a limited waiver of certain covenant provisions of the existing line of credit. The waiver is effective for the trailing four quarters ended September 30, 2021. As of September 30, 2021, the Company has not drawn on the line of credit.

The Company filed a final short form base shelf prospectus on May 5, 2021, with a term of 25-months, which allows the Company to qualify the distribution by way of prospectus in Canada of up to C$350,000 of common shares, preferred shares, warrants, subscription receipts, units, or any combination thereof. The final short form base prospectus expires on June 6, 2023. The Company filed a prospectus supplement to distribute up to C$60,000 of common shares of the Company (the "Offered Shares") under the ATM Program. The Offered Shares may be issued by the Company to the public from time to time, through the Agents, at the Company's discretion. The Offered Shares sold under the ATM Program, if any, will be sold at the prevailing market price at the time of sale under the ATM Program. Under the ATM Program, for the nine months ended September 30, 2021, the Company issued 1,018,200 Offered Shares at an average price of C$3.95 or US$3.18 per share for gross proceeds of C$4,025, or US$3,234. As of September 30, 2021, C$55,975 remains available for issuance under the ATM Program. For the nine months ended September 30, 2021 share issuance costs were $477, for net proceeds to the Company of $2,757 recognized in the unaudited interim condensed consolidated statements of changes in shareholders' equity. The Company determined that, as of June 30, 2021, more than 50% of the Company's issued and outstanding voting shares were directly or indirectly owned of record by residents in the United States. As a result of this fact and certain other requirements under applicable United States federal securities laws, the Company determined that it will lose its foreign private issuer status under applicable United States federal securities laws and will be subject to Securities and Exchange Commission ("SEC") reporting requirements applicable to U.S. domestic companies beginning on January 4, 2022. These U.S. reporting requirements will require, among other things, the Company's financial statements and financial data to be presented under U.S. Generally Accepted Accounting Principles ("US GAAP") following this transition period. After becoming an SEC reporting issuer, the manner in which the Company raises capital will be different and will likely require that the Company file registration statements with the SEC related to such activities, which will likely increase the time and expense associated with such activities. The Company will be deemed a U.S. domestic issuer under applicable United States federal securities laws beginning January 4, 2022. As of that date, the ATM Program will cease to be available to the Company.

Cash used in operations during the nine months ended September 30, 2021 totaled $20,582, compared to $43,548 for the same period in 2020. The decrease in cash used in operations is primarily due to a decrease in net loss compared to the same period in 2020, along with favorable timing of working capital.

Net cash used in investing activities totaled $11,090 for the nine months ended September 30, 2021 compared to $11,862 for the same period in 2020. For the nine months ended September 30, 2021, the SBH Purchase Option was executed for total consideration of $8,000. For the nine months ended September 30, 2020, purchases of

equipment for the build out of the LOFT were $22,340, offset by cash acquired from the acquisition of Abacus of $11,181.

Net cash used in financing activities totaled $62 for the nine months ended September 30, 2021 compared to $52,748 provided for the same period in 2020. The net cash used in financing activities during the period ended September 30, 2021 resulted primarily from payments on lease obligations and notes payable, offset by ATM Program proceeds of C$4,025 or $3,234. The net cash provided by financing activities for the nine months ended September 30, 2020 was primarily from proceeds from the Company's 2020 Share Offering, as well as common stock option exercises during the period.

During the nine months ended September 30, 2021, the Company generated an operating loss of $28,470, produced an Adjusted EBITDA loss of $11,356, with negative cash flow from operations of $20,582. The Company has shareholders' equity of $241,673 and positive working capital of $87,505.

RELATED PARTY TRANSACTIONS

Aidance Scientific, Inc. ("Aidance") is the manufacturer of nearly all Abacus products. The former Chief Executive Officer of Abacus, and a current employee of the Company, also serves on Aidance's Board of Directors. For the nine months ended September 30, 2021, the Company made purchases of $947 and $3,133, respectively, from Aidance. Payment terms on purchases are due 30 days after receipt. As of September 30, 2021, the Company has an insignificant liability due to Aidance presented in accounts payable in the unaudited interim condensed consolidated statements of financial position.

On March 2, 2021, the Company entered into the SBH Purchase Option with Stanley Brothers USA (refer above). The SBH Purchase Option was purchased for total consideration of $8,000. Certain founders of the Company, who are also employees or consultants, are the majority shareholders of Stanley Brothers USA.

On April 16, 2021, pursuant to the amendment to the agreement, the name and likeness and license agreement between the Company and Leeland & Sig LLC d/b/a Stanley Brothers Brand Company was extended for a period of one year, expiring July 31, 2022. In addition, the Company executed a consulting agreement which extended the service arrangements of the seven 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 three and nine months ended September 30, 2021, the Company recognized $445 and $612, respectively, of sales and marketing expenses in the unaudited interim condensed consolidated statement of loss and comprehensive loss related to this agreement. The remaining $1,469 is presented as marketing in prepaid expenses on the unaudited interim condensed consolidated statement of financial position.

CRITICAL ACCOUNTING ESTIMATES

Use of Estimates

The preparation of consolidated financial statements in conformity with IFRS requires Management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Biological assets and inventory

In calculating the value of biological assets and inventory, Management is required to make a number of estimates, including estimating the stage of growth of the industrial hemp plants to the point of harvest, harvesting costs and selling costs. In calculating final inventory values, Management is required to determine an estimate of obsolete inventory and an estimate for any inventory for which cost is lower than estimated net realizable value and recognizes inventory provisions accordingly.

Share-based compensation

The Company uses the Black-Scholes option-pricing model to determine the grant date fair value of share-based compensation. The following assumptions are used in the model: dividend yield; expected volatility; risk-free interest rate; expected option life; and fair value.

Changes to assumptions used to determine the grant date fair value of share-based compensation awards can affect the amounts recognized in the consolidated financial statements.

Taxes
In calculation of current and deferred income taxes, Management is required to make estimates and assumptions regarding the carrying values of assets and liabilities that are subject to accounting estimates inherent in those balances, the interpretation of tax legislation in various jurisdictions, expectations on future operating results, timing of reversal of temporary differences and possible audits by regulating tax authorities.

Changes in estimates or assumptions may result in changes to the current or deferred income tax balances in the consolidated financial statements.

Leases
The application of IFRS 16 "Leases" requires significant judgements and certain key estimations to be made. Critical judgements required in the application of IFRS 16 include the following (i) identifying whether a contract includes a lease; (ii) determining whether it is reasonably certain that an extension or termination option will exercised; (iii) determining whether variable payments are in-substance fixes; (iv) establishing whether there are multiple leases in an arrangement; and (v) determining the stand-alone selling price of lease and non-lease components. Key sources of estimation uncertainty in the application of IFRS 16 include the following: (i) estimating the lease term; (ii) determining the appropriate rate to discount lease payments; and (iii) assessing whether a right-of-use (RoU) asset is impaired.

Goodwill
Goodwill, which is not subject to amortization, is evaluated for impairment annually or more frequently if events or changes in circumstances suggest the asset might be impaired. Goodwill is evaluated at the level of the Company's single operating segment. When evaluating goodwill for impairment, the total carrying amount of the cash generating unit is compared to its recoverable amount and any loss is allocated first to goodwill and then to other assets.

OUTSTANDING SHARE DATA

The Company's authorized share capital consists of (i) an unlimited number of common shares; (ii) an unlimited number of proportionate voting shares (each proportionate voting share is equal to 400 common shares in terms of voting and economic rights); and (iii) an unlimited number of preferred shares, issuable in series.

On November 3, 2021, all outstanding proportionate voting shares of the Company were converted by way of mandatory conversion in accordance with the Company's articles and at the discretion of the Company, into common shares. Following this conversion, and as of the close of business on November 3, 2021, 140,337,870 common shares were issued and outstanding, nil proportionate voting shares were issued and outstanding and nil preferred shares were issued and outstanding. Pursuant to the Company's articles, the Company is no longer authorized to issue additional proportionate voting shares.

As of November 12, 2021, potential dilutive securities include (i) 1,300,012 outstanding share options in the Company's 2015 legacy option plan with a weighted average exercise price of $0.5556; (ii) 2,414,334 outstanding share options in the Company's 2018 option plan with a weighted average exercise price of $5.56; (iii) 2,500,000 common share warrants with an exercise price of C$16.50 (iv) 5,750,000 common share warrants with an exercise price of C$8.50 (v) 1,233,140 common share purchase warrants with a weighted average exercise price of $15.29 and (vi) 823,144 restricted share awards. Each option and restricted share award entitles the holder to purchase one common share.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the establishment and maintenance of Disclosure Controls and Procedures ("DCP") and Internal Control Over Financial Reporting ("ICFR") is the responsibility of Management. The DCP and ICFR have been designed by Management based on the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to provide reasonable assurance that the Company's financial reporting is reliable and that its financial statements have been prepared in accordance with IFRS.

Regardless of how well the DCP and ICFR are designed, internal controls have inherent limitations and can only provide reasonable assurance that the controls are meeting the Company's objectives in providing reliable financial reporting information in accordance with IFRS. These inherent limitations include, but are not limited to, human error and circumvention of controls and as such, there can be no assurance that the controls will prevent or detect all misstatements due to errors or fraud, if any.

RISKS AND UNCERTAINTIES

The risks and uncertainties described below are not exhaustive. Additional risks and uncertainties can be found in other public filings of the Company on www.sedar.com including the Company's AIF. Additional risks not presently known or currently deemed immaterial may also impair the Company's business operation. If any of the events described in the following business risks actually occur, overall business, operating results and the financial condition of the Company could be materially adversely affected.

Impacts of COVID-19 to the Company's Business

Management has continued to closely monitor the impact of the COVID-19 global pandemic, with a focus on the health and safety of the Company's employees, business continuity and supporting its communities.

In response to, or as a result of, the current COVID-19 pandemic and emergence of variants, the Company may experience, among other things, voluntary or mandated temporary closures of one or more of the Company's facilities; temporary or long-term labor shortages; temporary or long-term adverse impacts on the Company's supply chain and distribution channels; the potential of increased network vulnerability and risk of data loss resulting from increased use of remote access and removal of data from the Company's facilities; difficulty in complying with covenants under its current or future debt agreements; required reallocation or adjustment of resources, which may impact the Company's business plans and product offerings. In addition, the direct or indirect impacts of COVID-19 may extend to disrupt the Company's suppliers, partners, manufacturers, farmers, customers and other stakeholders, which in turn could materially adversely affect the Company's business, results of operations or financial condition. Any change or disruption in operations could impact and have a material adverse effect on the Company's operations and/or results from operations. In addition, the re-introduction of voluntary or mandated efforts to slow the spread of COVID-19 could impact the Company's operations and sales. If portions or all of the Company's, or its retail-partners', operations are further disrupted or suspended as a result of preventative or reactionary measures in response to the ongoing spread of COVID-19, it could have a material adverse impact on the Company's profitability, results of operations, financial condition and stock price. Further, there continue to be significant economic and social impacts of the COVID-19 pandemic, including rising inflation rates, continued levels of higher unemployment, among other impacts; any of which may have an impact on consumer behavior, including use of the Company's products, as well as a reduction in retail purchases, which may have a material adverse impact on the Company's profitability, results of operations, financial condition and stock price.

Among others, the Company has identified the following as potential continuing direct or indirect impacts and risks to its business and operations due to the COVID-19 pandemic:

- COVID-19 Variants: Notwithstanding widespread vaccine availability within the United States, the emergence of COVID-19 variants and slowing vaccination rates in certain localities has resulted in increased infection rates and several jurisdictions resuming certain COVID-19 restrictions. Additional waves of increased COVID-19 infection rates could negatively impact traffic and sales volume for retailers offering our products, which in turn could have a negative impact on our sales volume in the business-to-business segment.

- Operations and Return to Work: Since the outbreak of the pandemic, the Company has taken various steps to mitigate the impact of COVID-19, including implementing precautionary measures at its facilities to ensure the safety of its staff and product consumers. The Company has continued to operate under preventative measures and has experienced minimal disruption to its operations and supply chain. As the Company reintegrates its personnel to its workplace, it may incur additional costs to adapt the workplace to meet applicable health and safety requirements. The occurrence of additional waves of the virus or its variants, or insufficient vaccination levels may require the Company to revise or delay such integration plans. To the extent that it is unable to effectively protect its workforce against the transmission of the virus, the Company may be forced to slow or reverse its reintegration efforts and could face allegations of liability.
- IT Infrastructure, Privacy and Cyber Security: Increased volume and sophistication of targeted cyber-attacks have been seen since the declaration of the global pandemic. Pandemic-adjusted operations, such as work from home arrangements and remote access to the Company's systems, may pose heightened risk of cyber security and privacy breaches and may put additional stress on the Company's IT infrastructure. A failure of such infrastructure could severely limit the Company's ability to conduct ordinary operations or expose the Company to liability. To date, the Company's systems have functioned capably, and it has not experienced a material impact to its operations as a result of an IT infrastructure issue.
- Counterparty and Supplier Risk: Given the continued presence of COVID-19, the Company is subject to increased exposure that contract counterparties and suppliers could fail to meet their obligations to the Company. Non-performance or default of third party contracts by a significant counterparty could adversely affect the Company's operations and financial results.

Given the uncertainties associated with the ongoing COVID-19 pandemic, including the uncertainty surrounding the remaining duration and outcome, COVID-19 variants and vaccine efficacy, the Company is unable to estimate the full impact of the COVID-19 pandemic on its business, financial condition, results of operations, and/or cash flows; however, the impact could be material. During the quarter ended September 30, 2021, the Company's business-to-business sales continued to be negatively impacted as a result of the COVID-19 pandemic. The uncertain nature of the impacts of the COVID-19 pandemic may affect the Company's results of operations for the balance of fiscal 2021, and may impact the Company's future sales, product costs and provisions of inventory going forward. The continued uncertainty surrounding COVID-19 and the impacts COVID-19 variants may have on the Company and its stakeholders may result in, among other things, disruptions to operations (including the Company's supply chain and sales channels), reductions in business activity, increased funding costs and funding pressures (as applicable), a decrease in the market price of the Company's shares, a decrease in asset values, additional write-downs and impairment charges, lower profitability, and a reduction in demand for the Company's products, any of which could have a material adverse impact on the Company's financial results, position, and prospects.

Economic Uncertainty and Market Price Volatility

Demand for the Company's products and services is influenced by general economic and consumer trends and regulatory environments beyond the Company's control. There can be no assurance that the Company's business and corresponding financial performance will not be adversely affected by general regulatory, economic or consumer trends. In particular, if global economic conditions remain uncertain, and if such uncertainty continues or worsens, this may have a material adverse effect on the Company's business, financial condition and results of operations.

Furthermore, such economic conditions have produced downward pressure on share prices and impact on the availability of credit for financial institutions and corporations. If current levels of market disruption and volatility continue or worsen, the Company might experience reductions in business activity, increased funding costs and funding pressures, as applicable, a decrease in the market price of its securities, a decrease in asset values, additional write-downs and impairment charges and lower profitability.

The market price of the Company's securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control. This volatility may affect the ability of holders of listed securities to sell their securities at an advantageous price. Market price fluctuations may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period,

downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Company's securities.

In addition, broad market, societal and industry factors may harm the market price of the common shares and other listed securities of the Company. Hence, the price of the common shares and such other securities could fluctuate based upon factors that have little or nothing to do with the Company, and these fluctuations could materially reduce the price of the common shares or such other securities regardless of the Company's operating performance. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur.

Industry Competition

The number of competitors in the Company's market segment is expected to increase, both nationally and internationally, which could negatively impact the Company's market share and demand for products. The markets for businesses in the CBD and hemp extracts industries are competitive and evolving. In particular, the Company faces strong competition from both existing and emerging companies that offer similar products. Some of the Company's current and potential competitors may have longer operating histories, greater financial, marketing and other resources and larger customer bases.

Given the rapid changes affecting the global, national and regional economies generally and the hemp industry, in particular, the Company may not be able to create and maintain a competitive advantage in the marketplace. The Company's success will depend on its ability to keep pace with any changes in such markets, especially in light of legal and regulatory changes. The Company's success will also depend on its ability to respond to, among other things, changes in the economy, market conditions, and regulatory and competitive pressures. Any failure by the Company to anticipate or respond adequately to such changes could have a material adverse effect on its financial condition, operating results, liquidity, cash flow and operational performance.

Key Officers and Employees

The Company's success and future growth will depend, to a significant degree, on the continued efforts of the Company's directors and officers to develop the business and manage operations, and on their ability to attract and retain key technical, scientific, sales, and marketing staff or consultants. The loss of any key person or the inability to attract and retain new key personnel could have a material adverse effect on the business and financial results from operations. Competition for qualified technical, scientific, sales, and marketing staff, as well as officers and directors can be intense, and no assurance can be provided that the Company will be able to attract or retain key personnel in the future. From time to time, share-based compensation may comprise a significant component of the Company's compensation for key personnel, and if the price of the Common Shares declines, it may be difficult to recruit and retain such individuals.

In addition, COVID-19 poses a risk to all of the Company's activities, including the potential that a member of Management may contract by the virus and the Company's ability to continue to rely on its key personnel throughout the pandemic. The Company is diligently monitoring developments relating to COVID-19 and its impact on the Company's personnel, and make operational adjustments as necessary. Any of the foregoing risks or actions could disrupt the Company's operations and have a materials adverse effect on the Company's results from operations and financial condition.

Product Viability

If the products the Company sells are not perceived to have the effects intended by the end user, its business may suffer. In general, the Company's products contain hemp extract and other ingredients which are classified in the United States as dietary supplements. Many of the Company's products contain innovative ingredients or combinations of ingredients. There is little long-term data with respect to efficacy, unknown side effects and/or interaction with individual human biochemistry. Moreover, there is little long-term data with respect to efficacy, unknown side effects and/or its interaction with individual animal biochemistry. As a result, the Company's

products could have certain side effects if not taken as directed or if taken by an end user that has certain known or unknown medical conditions.

Agricultural Operations Risk

The Company's business is dependent on the outdoor growth and production of industrial hemp, an agricultural product. As such, the risks inherent in engaging in agricultural businesses apply. Potential risks include the risk that crops may become diseased or victim to insects, fungus or other pests or contaminants; subject to extreme weather conditions such as excess rainfall, hail, fire, freezing temperature or drought; wild and domestic animal conflicts; and crop-raiding, sabotage or vandalism— all of which could result in low crop yields, decreased availability of industrial hemp, inadequate inventory levels for future expected growth, and higher acquisition prices. There can be no guarantee that an agricultural event will not adversely affect the business and operating results.

In addition, the Company's agricultural activities are based on certain assumptions regarding supply and demand. These assumptions are directly impacted by the various risk factors disclosed herein and in the Company's AIF, and any change in or impact on these assumptions may impair the Company's ability to accurately anticipate cultivation volume requirements, which inability may result in a misallocation of capital resources and have a negative impact on the Company's financial condition.

Success of Quality Control Systems

The quality and safety of the Company's products are critical to the success of its business and operations. As such, it is imperative that the Company's (and its service providers') quality control systems operate effectively and successfully. Quality control systems can be negatively impacted by the design of the quality control systems, the quality training program, and adherence by employees to quality control guidelines. Although the Company strives to ensure that all of its service providers have implemented and adhere to high caliber quality control systems, any significant failure or deterioration of such quality control systems could have a material adverse effect on our business and operating results.

Domestic Supply Risk

The Company's business relies on full compliance under applicable laws and regulations relating to the sale of its products across the United States and internationally. The regulation of third-party suppliers may have a significant impact upon the Company's business. Any enforcement activity or any additional uncertainties which may arise in the future, could cause substantial interruption or cessation of the Company's business, including adverse impacts to the Company's supply chain and distribution channels, and other civil and/or criminal penalties at the federal level.

Weather Patterns

The Company is dependent upon agricultural production of hemp for the Company's operations, which are subject to seasonal and weather-related risks. The Company's business can be affected by unusual weather patterns. The production of some of the Company's products relies on the availability and use of live plant material, which is grown in Colorado, Kentucky and Oregon, and may be grown in Canada. Growing periods can be impacted by weather patterns and these unpredictable weather patterns may impact the Company's ability to harvest its industrial hemp and produce products. In addition, severe weather, including drought, fire, hail and freezing temperatures, can destroy a crop, which could result in the Company having no or limited hemp to process. If the Company is unable to harvest hemp through its proprietary operations or contract farming arrangements, its ability to meet customer demand, generate sales and maintain operations could be impacted. Given the proprietary nature of the Company's crops, it may not be practicable for the Company to source adequate, or any, replacement hemp to produce its downstream products.

Reliance on Third-Party Suppliers and Service Providers

The Company intends to maintain a full supply chain for the material portions of the production and distribution process of its products. The Company's suppliers, service providers and distributors may elect, at any time, to breach or otherwise cease to participate in supply, service or distribution agreements, or other relationships, on which the Company's operations rely. Loss of its suppliers, service providers or distributors would have a material adverse effect on the Company's business and operational results.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Company. The Company is exposed to credit risk from our customers in the normal course of business. To mitigate this risk, the Company carries out regular credit evaluations (taking into account, among other things, the impact of the COVID-19 pandemic to customers' business) and purchases credit insurance, where appropriate, as a means of mitigating the risk of financial loss from defaults. The potential future economic impact of COVID-19 may impact the collectability of customer receivables, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company is exposed to this risk mainly in respect of accounts payable and accrued liabilities and lease liabilities. The Company manages liquidity risk through continuous monitoring of forecasts and actual cash flows and through the management of its capital structure. On June 4, 2021, the Company filed a prospectus supplement to establish an ATM Program. The Company may distribute up to C$60,000 of common shares of the Company under the ATM Program.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled, the Company could incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. The Company may lose revenue due to loss of sales and may not be able to compensate for or replace that revenue. In addition, a product recall may require significant management attention. Recall of products could lead to adverse publicity, decreased demand for the Company's products and could have significant reputational and brand damage. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. A recall for any product could lead to adverse publicity, decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company.

Product Liability

The Company's products will be produced for sale directly to end consumers, and therefore there is an inherent risk of exposure to product liability claims, regulatory action and litigation if the products are alleged to have caused loss or injury. In addition, the production and sale of the Company's products involves the risk of injury to end users due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human or animal consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that its products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation, and could have a material adverse effect on its business and operational results.

Effectiveness and Efficiency of Advertising and Promotional Expenditures; Search Engine Algorithms and Results

The Company's future growth and profitability will depend on the effectiveness and efficiency of advertising and promotional expenditures, including the Company's ability to (i) create greater awareness of its products; (ii) determine the appropriate creative message and media mix for future advertising expenditures; and (iii) effectively manage advertising and promotional costs in order to maintain acceptable operating margins. There can be no assurance that advertising and promotional expenditures will result in revenues in the future or will generate awareness of the Company's technologies, products or services. In addition, no assurance can be given that the Company will be able to manage its advertising and promotional expenditures on a cost-effective basis.

In addition, periodic changes to search engine algorithms, which retrieve data from search indices and deliver ranked search results, produce changes in search engine results pages. Any changes to these algorithms or in how these algorithms are applied, and therefore search engine results pages, could reduce visibility of, and traffic on,

the Company's e-commerce website and negatively impact the Company's financial position and results of operations.

Additionally, the significant and continuing impact of COVID-19 in dominating news cycles in North America may have caused or could cause a reduction in search traffic for CBD or the Company's website or products. Any impact or reduction on ultimate traffic to the Company's e-commerce website could have a material adverse effect on the Company's direct-to-consumer sales, the Company's business, financial condition and results of operations.

Maintaining and Promoting Brands

Management believes that maintaining and promoting the Company's brand is critical to expanding its customer base. Maintaining and promoting the Company's brand will depend largely on its ability to continue to provide quality, reliable and innovative products, which it may not do successfully. The Company may introduce new products that customers do not like, which may negatively affect the brands and reputation. Maintaining and enhancing the Company's brands may require it to make substantial investments, and these investments may not achieve the desired goals. If the Company fails to successfully promote and maintain its brand or if there are excessive expenses in this effort, its business and financial results from operations could be materially adversely affected.

Changing Consumer Preferences

As a result of changing consumer preferences, many dietary supplements and other innovative products attain financial success for a limited period of time. Even if the Company's products find retail success, there can be no assurance that any of its products will continue to see extended financial success. The Company's success will be dependent upon its ability to price, develop new, and improve product lines. Even if the Company is successful in introducing new products or further developing current products, a failure to properly price or update products with compelling content could cause a decline in its products' popularity that could reduce revenues and harm the Company's business, operating results and financial condition. Failure to introduce new features and product lines and to achieve and sustain market acceptance, could result in the Company being unable to meet consumer preferences and generate revenue, which would have a material adverse effect on its profitability and financial results from operations.

Product Returns

Product returns are a customary part of the business. Products may be returned for various reasons, including expiration dates or lack of sufficient sales volume. Any increase in product returns could negatively impact the Company's results of operations.

Obtaining Insurance

Due to the Company's involvement in the hemp industry, it may have difficulty obtaining the various insurances that are desired to operate its business, which may expose the Company to additional risk and financial liability. Insurance that is otherwise readily available, such as general liability, and directors' and officers' insurance, may be more difficult to find, and more expensive, because of the regulatory regime applicable to the industry. There are no guarantees that the Company will be able to find such insurance coverage in the future, or that the cost will be affordable. If the Company is unable to obtain insurance coverage on acceptable terms, it may prevent it from entering into certain business sectors, may inhibit growth, and may expose the Company to additional risk and financial liabilities.

Impairment of Goodwill and Intangible Assets

Goodwill and intangible assets are reviewed for impairment annually or more frequently when events or changes in circumstances indicate that fair value of the reporting unit has been reduced to less than its carrying value. Determining the fair value of a reporting unit is judgmental and requires the use of significant estimates and assumptions, including revenue growth rates, strategic plans, and future market conditions, among others. There can be no assurance that the Company's estimates and assumptions made for purposes of the goodwill impairment will prove to be accurate predictions of the future. Adverse market conditions, including adverse impacts of the COVID-19 pandemic, temporary or permanent loss of key customers and distribution channels, among other factors, could have a material adverse effect on the Company's business, financial condition and results of operations and could result in impairment of the Company's goodwill and intangible assets.

Additional Financings

If the Company requires additional capital to fund growth or other initiatives, it may seek additional equity or debt financing. There can be no assurances that the Company will be able to obtain additional financial resources on favorable commercial terms or at all. Failure to obtain such financial resources could affect the Company's plan for growth or result in the Company being unable to satisfy its obligations as they become due, either of which could have a material adverse effect on the business, results of operations and the financial condition of the Company.

Line of Credit

From time to time, the Company may rely on debt financing for a portion of its business activities, including capital and operating expenditures. There are no assurances that the Company will be able to comply at all times with the covenants applicable under its debt arrangements; nor are there assurances that the Company will be able to secure new financing that may be necessary to finance its operations and capital growth program. Any failure of the Company to secure financing or refinancing, to obtain new financing or to comply with applicable covenants under its borrowings could have a material adverse effect on the Company's financial results. Further, any inability of the Company to obtain new financing may limit its ability to support future growth.

Inability to Protect Intellectual Property

The Company's success is heavily dependent upon its intangible property and technology. The Company relies upon copyrights, patents, trade secrets, unpatented proprietary know-how and continuing innovation to protect the intangible property, technology and information that is considered important to the development of the business. The Company relies on various methods to protect its proprietary rights, including confidentiality agreements with consultants, service providers and Management that contain terms and conditions prohibiting unauthorized use and disclosure of confidential information. However, despite efforts to protect intangible property rights, unauthorized parties may attempt to copy or replicate intangible property, technology or processes. There can be no assurances that the steps taken by the Company to protect its intangible property, technology and information will be adequate to prevent misappropriation or independent third-party development of the Company's intangible property, technology or processes. It is likely that other companies can duplicate a production process similar to the Company's. Other companies may also be able to materially duplicate the Company's proprietary plant strains. To the extent that any of the above would occur, revenue could be negatively affected, and in the future, the Company may have to litigate to enforce its intangible property rights, which could result in substantial costs and divert Management's attention and Company resources.

The Company may be unable to obtain registrations for its intellectual property rights for various reasons, including refusal by regulatory authorities to register trademarks or other intellectual property protections, prior registrations of which it is not aware, or it may encounter claims from prior users of similar intellectual property in areas where it operates or intends to conduct operations. This could harm its image, brand or competitive position and cause the Company to incur significant penalties and costs. On April 20, 2018 the U.S. Patent and Trademark Office ("USPTO") issued a Final Office Action refusing registration of two trademark applications submitted by the Company based on the Trademark Examiner's interpretation that the marks were not in lawful use in commerce under Sections 1 and 45 of the United States Trademark Act and because the goods identified in the application were not in compliance with either the Controlled Substances Act ("CSA") or the FD&C Act. The Company filed a Request for Reconsideration of the refusals in March 2019. Despite USPTO's aforementioned position and refusal for registration, the Company may rely on common law theories of trademark protection and enforcement in cases of actual or suspected trademark infringement of the trademarks it wishes to protect.

Intellectual Property Claims

Companies in the retail and wholesale consumer packaged goods industries frequently own trademarks and trade secrets and often enter into litigation based on allegations of infringement or other violations of intangible property rights. The Company may be subject to intangible property rights claims in the future and its products may not be able to withstand any third-party claims or rights against their use. Any intangible property claims, with or without merit, could be time consuming, expensive to litigate or settle and could divert Management resources and attention. An adverse determination also could prevent the Company from offering its products to others and may require that the Company procure substitute products or services for these members.

With respect to any intangible property rights claim, the Company may have to pay damages or stop using intangible property found to be in violation of a third-party's rights. The Company may have to seek a license for

the intangible property, which may not be available on reasonable terms and may significantly increase operating expenses. The technology also may not be available for license at all. As a result, the Company may also be required to pursue alternative options, which could require significant effort and expense. If the Company cannot license or obtain an alternative for the infringing aspects of its business, it may be forced to limit product offerings and may be unable to compete effectively. Any of these results could harm the Company's brand and prevent it from generating sufficient revenue or achieving profitability.

Reliance on the Stanley Brothers Brand and Design Marks

The Company's brand (and those brands associated with the Company, such as Charlotte's Web) is closely associated with the Stanley brothers. Any act, omission or occurrence which negatively effects the reputation of or goodwill associated with the Stanley brothers may have a commensurate impact on the Company. The Company has limited influence upon any of the Stanley brothers and may lack effective means of mitigating such risks. In addition, and pursuant to the amended name and likeness and license agreement between the Company and Leeland & Sig LLC d/b/a Stanley Brothers Brand Company, the Stanley brothers may cause the Company to cease using the "Stanley Brothers" brand and certain design marks, in certain circumstances. Moreover, the license pursuant to which Charlotte's Web is permitted to use the Stanley brothers name and associated logos expires on August 1, 2022.

Trade Secrets may be Difficult to Protect

The Company's success depends upon the skills, knowledge and experience of its scientific and technical personnel, consultants and advisors, as well as contractors. Because the Company operates in a highly competitive industry, it relies in part on trade secrets to protect its proprietary products and processes. However, trade secrets are difficult to protect. The Company enters into confidentiality or non-disclosure agreements with its corporate partners, employees, consultants, outside scientific collaborators, developers and other advisors. These agreements generally require that the receiving party keep confidential, and not disclose to third-parties, confidential information developed by the receiving party or made known to the receiving party by the Company during the course of the receiving party's relationship with the Company. These agreements also generally provide that inventions conceived by the receiving party in the course of rendering services to the Company will be its exclusive property, and the Company enters into assignment agreements to perfect its rights.

These confidentiality, inventions and assignment agreements, where in place, may be breached and may not effectively assign intellectual property rights to the Company. The Company's trade secrets could also be independently discovered by competitors, in which case the Company would not be able to prevent the use of such trade secrets by its competitors. The enforcement of a claim alleging that a party illegally obtained and was using the Company's trade secrets could be difficult, expensive and time consuming and the outcome could be unpredictable. Failure to obtain or maintain effective trade secret protection could adversely affect the Company's competitive position.

Data Security Breaches

The Company or its third-party service providers collect, process, maintain and use sensitive personal information relating to its customers and employees, including customer financial data (e.g., credit card information) and their personally identifiable information, and rely on third parties in connection with the operation of its e-commerce site and for the various social media tools and websites it uses as part of its marketing strategy. Any perceived, attempted or actual unauthorized disclosure of customer financial data (e.g., credit card information) or personally identifiable information regarding the Company's employees, customers or website visitors could harm its reputation and credibility, reduce its e-commerce sales, impair its ability to attract website visitors, reduce its ability to attract and retain customers and could result in litigation against the Company or the imposition of significant fines or penalties.

Recently, data security breaches suffered by well-known companies and institutions have attracted a substantial amount of media attention, prompting new foreign, federal, provincial and state laws and legislative proposals addressing data privacy and security. As a result, the Company may become subject to more extensive requirements to protect the customer information that it processes in connection with the purchase of its products, resulting in increased compliance costs.

The Company's information technology systems and on-line activities, including its e-commerce websites, also may be subject to denial of service, malware or other forms of cyber-attacks. While the Company has taken measures to protect against those types of attacks, those measures may not adequately protect its on-line activities from such attacks. If a denial-of-service attack or other cyber event were to affect the Company's e-commerce sites or other information technology systems, its business could be disrupted, it may lose sales or valuable data, and its reputation may be adversely affected. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Climate Change-Related Risks

Climate change could exacerbate certain of the risks inherent in the Company's agricultural operations. Climate change could result in increasing frequency and severity of weather-related events, fires, resource shortages, changes in rainfall and storm patterns and intensities, water shortages and changing temperatures, and of which can damage or destroy crops, resulting in the Company having no or limited hemp to process. If the Company is unable to harvest hemp through its proprietary operations or contract farming arrangements, its ability to meet customer demand, generate sales, and maintain operations will be impacted. Furthermore, severe weather-related events may result in substantial costs to the Company, including costs to respond during the event, to recover from the event, and to possibly modify existing or future infrastructure requirements to prevent recurrence. Climate changes could also disrupt the Company's operations by impacting the availability and costs of materials needed for production and could increase insurance and other operating costs.

A number of governments or governmental bodies have introduced or are introducing regulatory changes in response to concerns about the potential impact of climate change. The Company faces the risk that its operations could be subject to government initiatives aimed at countering climate change, which could impose constraints on the Company's operations, for example due to increased costs for fossil fuels, electricity and transportation and costs associated with monitoring and reporting.

RISKS RELATED TO THE REGULATORY ENVIRONMENT

Changes to State Laws Pertaining to Hemp

The 2018 Farm Bill provides that states and Native American tribes may assume primary regulatory authority over the production of Hemp in their jurisdictions through a hemp plan approved by the USDA. As of the date hereof, the USDA has approved over 60 state and tribal hemp production plans submitted after the USDA FR became effective. If a state does not elect to devise a hemp regulatory program, the USDA's program will govern licensees in such states. Continued development of the hemp industry will depend on continued legislative authorization of hemp at the state level, and further amendment or supplementation of legislation at the federal level. Any number of events or occurrences could slow or halt progress all together in this space. While there appears to be ample public support for favorable legislative action at the state and federal levels, numerous factors may impact or negatively affect the legislative process(es) within the various states the Company has business interests in. Any one of these factors could slow or halt use of Hemp or hemp cannabinoids such as CBD, which would negatively impact the Company's business or growth, including possibly causing the Company to discontinue operations as a whole.

Legislative and regulatory uncertainties, along with difficulties concerning potential enforcement activities by U.S. federal, state and local governments (or discretion exercised thereby), also represent significant risks to the Company's business activities. Possible risks include, but are not limited to:

- positions asserted by the FDA concerning products containing derivatives from hemp;
- uncertainty surrounding the characterization of cannabinoids as a dietary ingredient by the FDA; and
- enforcement activities by state and/or local law enforcement and regulatory authorities under the auspice of individual state law, regardless of any potential conflict thereby with federal law.

If the Company's operations are found to be in violation of any of such laws or any other governmental regulations, or if applicable laws or regulations change or the enforcement of applicable laws or regulations changes, the Company may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures, any of which could adversely affect the Company's business and financial results.

Changes to Federal Laws Pertaining to Hemp

Federal regulations under the 2018 Farm Bill were promulgated in the USDA FR on January 19, 2021. The USDA FR governs the domestic production of Hemp under the 2018 Farm Bill and also specifies the provisions that a state or tribal Hemp plan must contain to be in compliance with the 2018 Farm Bill. However, some states are continuing to operate under the 2014 Farm Bill through the 2021 growing season. DEA's interpretation of the 2018 Farm Bill has been promulgated in the DEA IFR, published on August 21, 2020. The DEA IFR remains subject to change. FDA regulations have not issued and it is not clear at this time how FDA will treat Hemp products. Additional unfavorable requirements from DEA or FDA may have a material adverse impact on Company's business, financial condition and results of operations.

Risks Associated with Numerous Laws and Regulations

The production, labeling and distribution of the Company's products are regulated by various federal, state and local agencies. These governmental authorities may commence regulatory or legal proceedings, which could restrict the permissible scope of the Company's product claims or the ability to sell its products in the future. The FDA regulates the Company's products to ensure that the products are not adulterated or misbranded.

The Company is subject to regulation by various agencies as a result of the manufacture and sale of its hemp-based wellness products. The shifting compliance environment and the need to build and maintain robust systems to comply with different regulations in multiple jurisdictions increases the possibility that the Company may violate one or more of the requirements. If the Company's operations are found to be in violation of any of such laws or any other governmental regulations, or perceived to be in violation thereof, the Company may be subject to penalties or other negative effects, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures and the denial of regulatory applications (including those regulatory regimes outside of the scope of FDA jurisdiction, but which may rely on the positions of the FDA in the application of its regulatory regime), any of which could adversely affect the Company's business and financial results. In addition, the FDA is expected to make determinations as to how certain CBD products will be regulated and is expected to, in the long term, consider modernization in its regulation of dietary supplements generally.

Failure to comply with FDA requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. The Company's advertising is subject to regulation by the Federal Trade Commission ("FTC") under the Federal Trade Commission Act as well as subject to regulation by the FDA under the DSHEA. In recent years, the FTC has initiated numerous investigations of dietary and nutritional supplement products and companies based on allegedly deceptive or misleading claims. At any point, enforcement strategies of a given agency can change as a result of other litigation in the space or changes in political landscapes, and could result in increased enforcement efforts, which would materially impact the Company's business. Additionally, some states also permit advertising and labeling laws to be enforced by state attorney generals, who may seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Company. Private litigants may also seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Company. Any actions against the Company by governmental authorities or private litigants could have a material adverse effect on the Company's business, financial condition and results of operations.

Uncertainty Caused by Potential Changes to Regulatory Framework

There is substantial uncertainty and different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses as to the importation of derivatives from exempted portions of the Cannabis plant and the scope of 2014 and 2018 Farm Bill-compliant hemp programs relative to the 2014 Farm Bill and the 2018 Farm Bill and the emerging regulation of cannabinoids. These different opinions include, but are not limited to, the regulation of cannabinoids by the FDA and the extent to which manufacturers of products containing imported raw materials and/or 2018 Farm Bill-compliant cultivators and processors may engage in interstate commerce. The uncertainties cannot be resolved without further federal, and potentially state-level, legislation, regulation or a definitive judicial interpretation of existing legislation and rules. If these uncertainties continue, they may have an adverse effect upon the introduction of the Company's products in different markets.

Although the Company believes that the departures of Commissioner Gottlieb and Commissioner Hahn will not have a significant long-term impact on the development of a regulatory regime permitting hemp-derived compounds in foods or dietary supplements, there can be no certainty that the new Commissioner appointed by the Biden Administration will continue on that same path. If the new FDA Commissioner were to halt current initiatives of the FDA regarding CBD, such as a potential rulemaking or enforcement policy guidance, this could delay the development of such a regulatory regime and have an adverse effect on the business of the Company.

New Dietary Ingredient ("NDI")

Despite the position taken by the FDA that there is no evidence of CBD being marketed as a food or dietary supplement prior to drug trials being commenced and made public, the Company believes there is substantial uncertainty and different interpretations among state and federal regulatory agencies, legislators, academics and businesses as to whether cannabinoids including CBD were present in the food supply and marketed prior to October 15, 1994 or whether such inclusion of cannabinoids is otherwise permitted by the FDA as dietary ingredients, notwithstanding that cannabis and the cannabinoids contained therein have been consumed as food by human beings for centuries even if not specifically marketed as CBD or other cannabinoids. As a result, the Company believes the federal legality regarding the distribution and sale of hemp-based products intended for human consumption must be considered on a case-by-case basis and that the uncertainties cannot be resolved without further federal legislation, regulation or a definitive judicial interpretation of existing legislation and rules. A determination that Hemp products containing CBD or other cannabinoids were not present in the food supply, marketed prior to October 15, 1994, are not otherwise permissible for use as a dietary ingredient, may have a materially adverse effect upon the Company and its business. Moreover, if the FDA were to enforce the IND Preclusion based on its interpretation of the legislation, this would have a materially adverse effect upon the Company and its business.

FDA Interpretation of IND Preclusion

The FDA has taken the position that CBD cannot be added to food or marketed as a dietary supplement because it has been the subject of investigation as a new drug (i.e. IND Preclusion). The FDA has asserted its IND Preclusion position in a warning letter to the Company. The Company responded to the warning letter with its position that CBD was marketed in a dietary supplement or food prior to substantial clinical investigations being instituted and being made public. If the FDA were to enforce the IND Preclusion based on its interpretation, this would materially and adversely impact the Company's business and financial condition.

FDA Enforcement Letters

The FDA continues to enforce against violations of the FD&C Act by issuing warning letters to companies marketing and selling hemp derived CBD products. Over the past several years, the FDA has issued warning letters to companies marketing and selling unapproved hemp derived CBD products. The letters reiterate the agency's position that CBD cannot be added to food and dietary supplements and targeted companies whose products violated the FD&C Act's prohibition against: i) marketing CBD as or in a dietary supplement, human and animal food, or food additives; ii) marketing a dietary supplement, human and animal food, or cosmetic with disease or drug claims (i.e., claims suggesting that a product is intended to treat, cure, or prevent disease); iii) including a substance in human or animal food when that substance is not GRAS; and iv) selling products that are misbranded due to their failure to include "adequate directions for use by a layperson". The FDA also issued a consumer update reaffirming its position that CBD cannot lawfully be added to a food or marketed as a dietary supplement due to existing provisions of the FD&C Act, and outlines the data and potential safety issues it is considering as part of its ongoing evaluation of potential regulatory frameworks for CBD. Notably, the FDA states that it could not conclude based on available data that CBD is "generally recognized as safe" for use in human or animal food. While this is broad and may not be applicable in all instances, it nevertheless could materially and adversely impact the Company's business and financial condition. Further, the FDA has recently stated that it will continue to police the market and enforce against CBD products, and on March 22, 2021, the agency issued warning letters to two companies for selling OTC products labeled as containing CBD, alleging the products were illegally marketed unapproved drugs and misbranded due to prominent featuring of CBD on the labeling. The FDA's enforcement against the unlawful sale and marketing of CBD products has to date been limited to the issuance of warning letters, but they have a number of other enforcement means available to them, including civil and criminal

penalties. The FDA's current prohibition on certain hemp-derived products and the unknowns and associated risks of potential future regulations governing hemp-derived CBD products create risk for the Company's business.

DEA Interpretation and Enforcement of the DEA IFR

Through the DEA IFR, the DEA takes the position that material that exceeds 0.3% delta-9 THC remains controlled in Schedule I of the CSA, regardless of its status as in-process material that may only temporarily have a THC content over 0.3%. The DEA IFR may create risk for the Company's business. Enforcement of the DEA IFR, or any Final Rule that carries forward the rulemaking in the DEA Rule, may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines, and criminal prosecutions. Additionally, enforcement of the DEA IFR could jeopardize the legality of the Company's intermediate Hemp products, such as in-process Hemp extract that is incorporated in the Company's finished products. Such enforcement would not only disrupt the Company's operations, but it would also constrict the Company's supply chains.

Regulatory Approval and Permits

The Company may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are sold. There can be no assurance that the Company will be able to obtain or maintain any necessary licenses, permits or approvals. Any material delay or inability to receive these items is likely to delay and/or inhibit the Company's ability to conduct its business, and would have an adverse effect on its business, financial condition and results of operations.

Product and Market Expansion and Entry into New Markets

The Company may expand its product offerings and/or expand into new international markets, each of which will require management attention and financial resources that would otherwise be spent on other parts of its business. Such expansion would expose the Company to risks and expenses inherent in selling new products and offering products in new foreign jurisdictions, which could increase the Company's operational, regulatory, compliance, reputational and foreign exchange rate risks. The failure of the Company's operating infrastructure to support such expansion could result in operational failures and regulatory fines or sanctions. Future product, market or international expansion could require the Company to incur a number of up-front expenses, including those associated with obtaining regulatory clearance or approvals, as well as additional ongoing expenses, including those associated with infrastructure, staff and regulatory compliance. Any expansion efforts will be subject to various laws, regulations and guidelines that are subject to change over time, and result in increased costs and risk associated with regulatory compliance. In addition, product and market expansion could impact the Company's current product offerings, brand, and reputation, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.