

CHARLOTTE'S WEB HOLDINGS, INC.

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 and 2020
(Expressed in United States dollars)

UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL
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For the three and nine months ended September 30, 2021 and 2020

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CHARLOTTE'S WEB HOLDINGS, INC.**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(In thousands of United States dollars)

	September 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,069	\$ 52,803
Trade and other receivables, net (note 4)	5,726	6,274
Note receivable (note 5)	1,324	1,753
Note receivable - related party (note 6)	1,029	1,004
Current finance lease receivable (note 11)	1,013	—
Inventories (note 7)	62,334	61,936
Prepaid expenses and other current assets (note 12)	7,739	7,390
Income taxes receivable	10,876	11,440
	111,110	142,600
Non-current assets:		
Property and equipment, net (note 8)	56,978	60,269
Intangible assets, net (note 9)	23,434	25,376
Goodwill (note 9)	77,454	77,454
Stanley Brothers USA Holdings purchase option (note 10)	12,900	—
Long-term finance lease receivable (note 11)	2,487	—
Other long-term assets (note 13)	2,218	5,182
	\$ 286,581	\$ 310,881
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,574	\$ 4,891
Accrued liabilities	8,781	11,519
Deferred revenue	801	615
Current cultivation liabilities (note 17)	4,129	9,304
Current notes payable (note 14)	229	629
Current lease obligations (note 15)	2,091	2,015
	23,605	28,973
Non-current liabilities:		
Long-term cultivation liabilities (note 17)	—	2,513
Long-term notes payable (note 14)	—	144
Long-term lease obligations (note 15)	21,035	20,567
Warrant liabilities (note 16)	223	4,304
Other long-term liabilities	45	151
	44,908	56,652
Shareholders' equity:		
Share capital	283,720	279,308
Contributed surplus	23,108	19,849
Accumulated deficit	(65,155)	(44,928)
	241,673	254,229
	\$ 286,581	\$ 310,881

CHARLOTTE'S WEB HOLDINGS, INC.**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND OTHER COMPREHENSIVE LOSS**
(In thousands of United States dollars, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenue	\$ 23,704	\$ 25,156	\$ 71,263	\$ 68,299
Cost of sales (note 19)	8,789	9,898	26,884	26,573
Gross profit before (gain) loss on fair value of biological assets	14,915	15,258	44,379	41,726
Realized fair value (gain) included in inventory sold	—	—	(206)	(86)
Unrealized fair value loss on growth of biological assets	—	501	165	501
Gross profit	14,915	14,757	44,420	41,311
Expenses:				
General and administrative (note 19)	14,051	17,816	43,904	54,955
Sales and marketing (note 19)	8,378	8,512	24,552	21,879
Research and development (note 19)	1,471	1,984	4,434	4,283
Operating expenses	23,900	28,312	72,890	81,117
Operating loss	(8,985)	(13,555)	(28,470)	(39,806)
Financing costs	307	369	979	903
Interest income	2	(24)	(33)	(179)
Change in fair value of financial instruments and other expense (income), net	(8,381)	(7,379)	(9,223)	(14,387)
Loss before taxes	(913)	(6,521)	(20,193)	(26,143)
Income tax expense (note 20)	—	18	34	6,325
Net loss and comprehensive loss	\$ (913)	\$ (6,539)	\$ (20,227)	\$ (32,468)
Weighted average number of common shares - basic (note 18b)	140,521,244	138,866,673	140,054,738	120,238,141
Weighted average number of common shares - diluted (note 18b)	140,521,244	138,866,673	140,054,738	120,238,141
Loss per share - basic (note 18b)	\$ (0.01)	\$ (0.05)	\$ (0.14)	\$ (0.27)
Loss per share - diluted (note 18b)	\$ (0.01)	\$ (0.05)	\$ (0.14)	\$ (0.27)

CHARLOTTE'S WEB HOLDINGS, INC.**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(In thousands of United States dollars)

Nine months ended September 30, 2020	Share capital	Contributed surplus	Accumulated deficit	Total
Balance - December 31, 2019	\$ 123,927	\$ 27,513	\$ 2,258	\$ 153,698
Exercise of stock options	2,140	(599)	—	1,541
Withholding of common stock upon vesting of restricted share awards	1,269	(1,285)	—	(16)
Accumulated effect of income tax from stock options	—	(16,087)	—	(16,087)
Share-based compensation expense (note 18c)	—	4,336	—	4,336
2020 Share Offering	47,959	—	—	47,959
Share issuance costs	(3,368)	—	—	(3,368)
Abacus acquisition	105,461	5,407	—	110,868
Net loss and comprehensive loss	—	—	(32,468)	(32,468)
Balance - September 30, 2020	\$ 277,388	\$ 19,285	\$ (30,210)	\$ 266,463

Nine months ended September 30, 2021	Share capital	Contributed surplus	Accumulated deficit	Total
Balance - December 31, 2020	\$ 279,308	\$ 19,849	\$ (44,928)	\$ 254,229
Exercise of stock options (note 18a)	61	(31)	—	30
Exercise of warrants (note 18a)	485	(45)	—	440
Withholding of common stock upon vesting of restricted share awards	1,109	(1,251)	—	(142)
Share-based compensation expense (note 18c)	—	4,586	—	4,586
ATM Program (note 18a)	3,234	—	—	3,234
Share issuance costs (note 18a)	(477)	—	—	(477)
Net loss and comprehensive loss	—	—	(20,227)	(20,227)
Balance - September 30, 2021	\$ 283,720	\$ 23,108	\$ (65,155)	\$ 241,673

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

(In thousands of United States dollars)

	Nine months ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (20,227)	\$ (32,468)
Items not involving cash:		
Depreciation (note 8)	7,629	5,513
Amortization (note 9)	2,656	1,216
Change in fair value of biological assets	(41)	415
Change in fair value of warrant liabilities (note 16)	(4,081)	(13,082)
Change in fair value of Stanley Brothers USA Holdings purchase option (note 10)	(4,900)	—
Expected credit losses	590	716
Inventory provision, net (note 7)	178	2,216
Share-based compensation (note 18)	4,586	4,336
Loss on disposal of assets	267	2
Deferred income taxes	4	14,340
Changes in working capital:		
Trade and other receivables, net	199	2,145
Inventories	(876)	2,672
Prepaid expenses and other current assets	(313)	(10,286)
Accounts payable	2,506	(8,286)
Accrued liabilities	(2,896)	2,143
Income taxes	564	(8,089)
Cultivation liabilities	(7,166)	(7,477)
Other operating assets and liabilities, net	739	426
	(20,582)	(43,548)
Cash flows from investing activities:		
Cash acquired in business combinations	—	11,181
Purchases of property and equipment	(3,482)	(22,340)
Purchases of intangible assets	(606)	—
Proceeds from sale of assets	9	46
Repayments on (issuance of) notes receivable (note 5)	468	(440)
Investment in Stanley Brothers USA Holdings purchase option (note 10)	(8,000)	—
Other investing activities	521	(309)
	(11,090)	(11,862)
Cash flows from financing activities:		
Proceeds from public offerings, net of share issuance costs	2,896	53,797
Proceeds from stock option exercises	30	1,541
Proceeds from warrant exercises	440	—
Payments on lease obligations (note 15)	(2,742)	(2,101)
Other financing activities	(686)	(489)
	(62)	52,748
(Decrease) increase in cash	(31,734)	(2,662)
Cash and cash equivalents, beginning of year	52,803	68,553
Cash and cash equivalents, end of period	\$ 21,069	\$ 65,891

Supplemental disclosures of cash flows from operating activities:

Cash paid for interest	\$	(43)	\$	(62)
Cash paid for interest on lease obligations		(936)		(841)
Cash received from interest		33		179
Cash received (paid) for taxes		600		(56)
Non-cash purchases of property and equipment		(2,490)		(2,359)
Non-cash purchases of intangible assets		(108)		—
Non-cash inventory provision		(543)		—
Non-cash disposal of right-of-use-assets		(3,465)		—

1. Company overview

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

The Company's head office is located at 1801 California St., Suite 4800, Denver, CO, 80202, United States and its registered and records office is located at 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia V6C 2Z7, Canada.

2. Basis of preparation

(a) Statement of compliance

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

These unaudited interim condensed consolidated financial statements include only significant events and transactions occurring since the Company's last fiscal year-end. They do not include all the information and notes required by IFRS for annual financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements and notes for the Company's fiscal year ended December 31, 2020.

(b) Measurement basis

The unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis, except for other measurement bases described in the applicable notes.

(c) Basis of consolidation

The Company's unaudited interim condensed consolidated financial statements include those of the parent company Charlotte's Web Holdings, Inc., and its wholly owned subsidiaries, Charlotte's Web, Inc. and Abacus Products, Inc. ("Abacus"), and its wholly owned subsidiaries.

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

(d) Use of estimates

The preparation of unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the unaudited interim condensed consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Reclassifications and prior period presentation

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

(f) Functional and presentation currency

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

3. Summary of significant accounting policies

The Company's significant accounting policies are described in note 3, "Summary of significant accounting policies," in the Company's annual consolidated financial statements for the year ended December 31, 2020.

(a) Changes in significant accounting policies

i. Inventories

As of January 1, 2021, the Company is using the weighted average method for the valuation of the company's inventories. Previously the Company's inventory costs were determined by use of the first-in, first-out method ("FIFO"). The change to the weighted average method gives more representative presentation of the results and the financial position of the Company, primarily based on differing shelf life requirements of the Company's direct-to-consumer ("DTC") ecommerce and business-to-business ("B2B") customers. The effect of this change was not material to any prior period.

(b) Adoption of new accounting standards and policies

The Company has no new accounting standards or policies adopted that have a material impact on the unaudited interim condensed consolidated financial statements.

(c) Future accounting standards issued but not yet effective

The Company reviewed recently issued accounting pronouncements and concluded they were either not applicable or not expected to have a significant impact on the Company's consolidated financial statements.

4. Trade and other receivables

Trade and other receivables consist of the following:

	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 (note 21)	(1,067)	(813)
Trade and other receivables, net	\$ 5,726	\$ 6,274

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

The aging of receivables is as follows:

	September 30, 2021	December 31, 2020
Current	\$ 3,940	\$ 3,160
Aged 1-30 days past due	749	1,765
Aged 31-60 days past due	250	180
Aged >60 days past due	1,854	1,982
Expected credit losses	(1,067)	(813)
	\$ 5,726	\$ 6,274

5. Note receivable

Details of the Company's note receivable and the carrying amount is as follows:

	Note receivable
Balance at December 31, 2019	\$ 1,421
Funded	1,400
Interest accrued	57
Payments received	(1,125)
Balance at December 31, 2020	\$ 1,753
Interest accrued	39
Payments received	(468)
Balance at September 30, 2021	\$ 1,324

As of September 30, 2021, the credit risk related to the note receivable has not increased significantly since initial recognition.

6. Note receivable - related party

Details of the Company's note receivable - related party and the carrying amount is as follows:

	Note receivable - related party	
Balance at December 31, 2019	\$	—
Funded		1,000
Interest accrued		4
Balance at December 31, 2020	\$	1,004
Interest accrued		25
Balance at September 30, 2021	\$	1,029

As of September 30, 2021, the credit risk related to the promissory note has not increased significantly since initial recognition.

7. Inventories

Inventories consist of the following:

	September 30, 2021		December 31, 2020	
Harvested hemp and seeds	\$	36,746	\$	39,869
Raw materials		16,128		14,644
Finished goods		17,276		24,615
Biological assets		509		—
	\$	70,659	\$	79,128
Less: inventory provision		(8,325)		(17,192)
	\$	62,334	\$	61,936

a. Harvested hemp and seeds

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

Balance at December 31, 2020	\$	39,869
Transferred to hemp and seeds upon harvest		—
Consumed in production		(3,329)
Realized fair value adjustment upon consumption		206
Balance at September 30, 2021	\$	36,746

Balance at December 31, 2019	\$	37,549
Transferred to hemp and seeds upon harvest		3,299
Consumed in production		(1,268)
Realized fair value adjustment upon consumption		289
Balance at December 31, 2020	\$	39,869

b. Biological assets

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

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

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

Measurement of the plant at fair value less costs to sell begins in early September and is recognized evenly until the point of harvest. As of September 30, 2021, carrying value approximates the fair value of the biological assets.

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

CHARLOTTE'S WEB HOLDINGS, INC.
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	Biological assets
Carrying amount, December 31, 2020	\$ —
Production costs	509
Purchases	—
Changes in fair value less costs to sell due to biological transformation	—
Transferred to inventories upon harvest	—
Carrying amount, September 30, 2021	\$ 509

	Biological assets
Carrying amount, December 31, 2019	\$ —
Production costs	2,708
Purchases	914
Changes in fair value less costs to sell due to biological transformation	(323)
Transferred to inventories upon harvest	(3,299)
Carrying amount, December 31, 2020	\$ —

c. Inventory provision

An inventory provision is estimated by management and is included in cost of sales. Details of the Company's inventory provision is as follows:

	Inventory Provision
Balance at December 31, 2019	\$ (15,873)
Inventory provision, net	(10,098)
Write-offs	8,779
Balance at December 31, 2020	\$ (17,192)
Inventory provision, net	(720)
Write-offs	9,587
Balance at September 30, 2021	\$ (8,325)

For the three months ended September 30, 2021, no inventory provisions were expensed through cost of sales and \$543 were recognized as settlement reductions of cultivation liabilities due to third-party farming operators. For the nine months ended September 30, 2021, net inventory provisions of \$720 were recognized, of which \$178 were expensed through the cost of sales and \$543 were recognized as settlement reductions of cultivation liabilities due to third-party farming operators. For the three and nine months ended September 30, 2021, write-offs of inventory previously reserved for of \$455 and \$9,587 were recognized, respectively. For the three and nine months ended September 30, 2020, net inventory provisions of \$(307) and \$2,216 were recognized through the cost of sales and write-offs of inventory previously reserved for of \$5,157 and \$6,679, respectively.

CHARLOTTE'S WEB HOLDINGS, INC.
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8. Property and equipment

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

	Land and building	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU assets - buildings	RoU assets - cultivation land	Total
Cost								
At December 31, 2019	\$ 3,378	\$ 14,282	\$ 404	\$ 4,327	\$ 2,342	\$ 24,665	\$ 1,417	\$ 50,815
Additions - purchased assets	31	1,894	24	11	25,170	—	—	27,130
Additions - right-of-use assets	—	—	—	—	—	187	—	187
Assets acquired in business combinations	—	397	90	180	—	363	—	1,030
Reclassifications	—	66	(66)	(150)	(1,258)	(206)	206	(1,408)
Transfers under construction	—	1,266	429	18,456	(20,151)	—	—	—
Disposals	—	(694)	—	(514)	—	(869)	(331)	(2,408)
At December 31, 2020	\$ 3,409	\$ 17,211	\$ 881	\$ 22,310	\$ 6,103	\$ 24,140	\$ 1,292	\$ 75,346
Additions - purchased assets	—	735	410	—	4,803	—	—	5,948
Additions - right-of-use assets	—	—	—	—	—	2,350	—	2,350
Transfers under construction	—	2,389	32	5,960	(8,381)	—	—	—
Disposals	—	(1,006)	(22)	(197)	—	(6,021)	—	(7,246)
At September 30, 2021	\$ 3,409	\$ 19,329	\$ 1,301	\$ 28,073	\$ 2,525	\$ 20,469	\$ 1,292	\$ 76,398

	Land and building	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU assets - buildings	RoU Assets - cultivation land	Total
Accumulated depreciation								
At December 31, 2019	\$ (19)	\$ (3,888)	\$ (265)	\$ (1,148)	\$ —	\$ (2,313)	\$ (233)	\$ (7,866)
Depreciation - expensed	—	(2,882)	(92)	(1,865)	—	(2,645)	(262)	(7,746)
Depreciation - capitalized to inventory	(71)	(818)	—	(223)	—	—	(275)	(1,387)
Vendor settlement	—	(400)	—	—	—	—	—	(400)
Disposals	—	608	—	514	—	869	331	2,322
At December 31, 2020	\$ (90)	\$ (7,380)	\$ (357)	\$ (2,722)	\$ —	\$ (4,089)	\$ (439)	\$ (15,077)
Depreciation - expensed	(38)	(2,882)	(134)	(2,518)	—	(1,928)	(129)	(7,629)
Depreciation - capitalized to inventory	(21)	(137)	—	(3)	—	—	(40)	(201)
Disposals	—	740	21	170	—	2,556	—	3,487
At September 30, 2021	\$ (149)	\$ (9,659)	\$ (470)	\$ (5,073)	\$ —	\$ (3,461)	\$ (608)	\$ (19,420)

	Land and building	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU assets - buildings	RoU assets - cultivation land	Total
Property and equipment, net								
At December 31, 2020	\$ 3,319	\$ 9,831	\$ 524	\$ 19,588	\$ 6,103	\$ 20,051	\$ 853	\$ 60,269
At September 30, 2021	\$ 3,260	\$ 9,670	\$ 831	\$ 23,000	\$ 2,525	\$ 17,008	\$ 684	\$ 56,978

Depreciation expensed for the three months ended September 30, 2021 and 2020 was \$2,427 and \$2,026, respectively. Depreciation expensed for the nine months ended September 30, 2021 and 2020 was \$7,629 and \$5,513, respectively. Depreciation related to cultivation equipment and right-of-use assets that was capitalized for the three and nine months ended September 30, 2021 was \$66 and \$201 respectively. Depreciation related to cultivation equipment and right-of-use assets that was capitalized for the three and nine months ended September 30, 2020 was \$342 and \$1,120, respectively.

The Company entered into an agreement to sublease the office building at 1600 Pearl St, Boulder, Colorado and derecognized the right-of-use asset on the head lease of \$3,465 at the sublease commencement date of July 1, 2021 and recognized a net investment in the sublease at the sublease commencement date (note 11).

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9. Intangible assets and goodwill

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

	Software	Customer relationships	Trade names	Patents	Internet domain name	Intangibles in process	Total
Cost							
At December 31, 2019	\$ 1,865	\$ —	\$ —	\$ —	\$ 150	\$ 45	\$ 2,060
Additions	87	—	—	—	—	2,301	2,388
Acquired in business combination	—	22,700	700	—	—	—	23,400
Transfers	1,837	—	—	201	—	(2,038)	—
At December 31, 2020	\$ 3,789	\$ 22,700	\$ 700	\$ 201	\$ 150	\$ 308	\$ 27,848
Additions	18	—	—	43	—	653	714
Transfers	163	—	—	86	—	(249)	—
At September 30, 2021	\$ 3,970	\$ 22,700	\$ 700	\$ 330	\$ 150	\$ 712	\$ 28,562

	Software	Customer relationships	Trade names	Patents	Internet domain name	Intangibles in process	Total
Accumulated amortization							
At December 31, 2019	\$ (464)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (464)
Amortization	(692)	(1,269)	(39)	(8)	—	—	(2,008)
At December 31, 2020	\$ (1,156)	\$ (1,269)	\$ (39)	\$ (8)	\$ —	\$ —	\$ (2,472)
Amortization	(886)	(1,705)	(53)	(12)	—	—	(2,656)
At September 30, 2021	\$ (2,042)	\$ (2,974)	\$ (92)	\$ (20)	\$ —	\$ —	\$ (5,128)

	Software	Customer relationships	Trade names	Patents	Internet domain name	Intangibles in process	Total
Intangible assets, net							
At December 31, 2020	\$ 2,633	\$ 21,431	\$ 661	\$ 193	\$ 150	\$ 308	\$ 25,376
At September 30, 2021	\$ 1,928	\$ 19,726	\$ 608	\$ 310	\$ 150	\$ 712	\$ 23,434

Amortization expense for the three and nine months ended September 30, 2021 was \$886 and \$2,656. Amortization expense for the three and nine months ended September 30, 2020 was \$771 and \$1,216.

As of September 30, 2021, the Company's carrying amount of goodwill was \$77,454.

10. SBH Purchase Option

On March 2, 2021, the Company entered into an option purchase agreement (the "SBH Purchase Option") with Stanley Brothers USA Holdings, Inc. ("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 earnings before interest, taxes, depreciation, and amortization ("EBITDA") measures. The Company is not obligated to exercise the SBH Purchase Option. As part of the SBH Purchase Option agreement, Stanley Brothers USA issued the Company a warrant exercisable to purchase 10% of the outstanding Stanley Brothers USA shares and convertible securities that are considered in-the-money, subject to certain conditions and exclusions. The warrant is exercisable 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 the statement of loss and comprehensive 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, \$5,730 and \$4,900, respectively, were recognized as changes in fair value of financial instruments, net 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 determining 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
- f. Weighted average cost of capital

11. Finance lease receivable

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.

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Information about leases for which the Company is a lessor is presented below.

	September 30, 2021	December 31, 2020
Maturity analysis - lease receivables		
Less than one year	\$ 1,059	\$ —
One to two years	963	—
Two to three years	963	—
Three to four years	696	—
Four to five years	—	—
More than five years	—	—
Total undiscounted lease receivables at September 30, 2021	\$ 3,681	\$ —
Unearned finance income	181	—
Net investment in the lease	\$ 3,500	\$ —
Current	\$ 1,013	\$ —
Long-term	2,487	—

As of September 30, 2021, the Company assessed the finance lease receivable as fully collectible with no related ECLs.

12. Prepaid expenses and other current assets

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

	September 30, 2021	December 31, 2020
Prepaid expenses:		
Insurance	\$ 2,284	\$ 2,679
Marketing	2,528	159
Software	268	870
Other	914	939
Deposits:		
Inventory	1,221	2,422
Other	524	321
	\$ 7,739	\$ 7,390

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13. Other long-term assets

Details of the Company's other long-term assets are as follows:

	September 30, 2021	December 31, 2020
Prepaid expenses:		
Insurance	\$ 965	\$ 1,161
Marketing	858	803
Deposits:		
Equipment	83	2,984
Leases	191	37
Other	121	197
	\$ 2,218	\$ 5,182

14. Notes payable

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

	Short-term borrowings	Long-term borrowings	Total
Balance at December 31, 2019	\$ 9	\$ 3	\$ 12
Acquired purchase price payable	1,258	312	1,570
Repayment	(809)	—	(809)
Conversion to short-term borrowings	171	(171)	—
Balance at December 31, 2020	\$ 629	\$ 144	\$ 773
Repayments	(544)	—	(544)
Conversion to short-term borrowings	144	(144)	—
Balance at September 30, 2021	\$ 229	\$ —	\$ 229

Scheduled maturities of notes payable are as follows:

	Within 1 year	1 to 5 years	Total
September 30, 2021	\$ 229	\$ —	\$ 229

15. Lease obligations

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

	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
Total undiscounted lease liabilities at September 30, 2021	\$ 31,535	\$ 31,638
Current	\$ 2,091	\$ 2,015
Long-term	21,035	20,567

Lease liabilities included in the statement of financial position are as follows:

Lease liabilities at December 31, 2019	\$ 24,061
Additions	187
Leases acquired in business combination	372
Repayments	(3,153)
Interest	1,115
Lease liabilities at December 31, 2020	\$ 22,582
Additions	2,350
Repayments	(2,742)
Interest	936
Lease liabilities at September 30, 2021	\$ 23,126

Short-term leases and leases of low-value are insignificant and are not capitalized in accordance with IFRS 16.

16. Warrant liabilities

Details of the Company's warrant liabilities are as follows:

	Balance at December 31, 2020	Change in fair value	Change in foreign currency	Balance at September 30, 2021
2019 Share Offering Warrants	\$ 255	\$ (266)	\$ 11	\$ —
2020 Share Offering Warrants	3,847	(3,649)	25	223
Abacus acquired	202	(189)	(13)	—
	\$ 4,304	\$ (4,104)	\$ 23	\$ 223

The following assumptions were used to determine the fair value of the Company's warrants:

	September 30, 2021	December 31, 2020
Valuation assumptions:		
Expected volatility	82.1 %	86.1 %
Expected term (years)	0.2-0.7	0.1-1.5
Risk-free interest	0.1 %	0.1 %
Value of underlying share	\$ 2.50	\$ 3.29

17. Cultivation liabilities

Details of the Company's cultivation liabilities are as follows:

	Short-term	Long-term	Total
December 31, 2020	\$ 9,304	\$ 2,513	\$ 11,817
Payments	(7,166)	—	(7,166)
Settlement Reductions	(543)	—	(543)
Interest	21	—	21
Conversion to short-term borrowings	2,513	(2,513)	—
September 30, 2021	\$ 4,129	\$ —	\$ 4,129

Scheduled maturities of amounts owed are as follows:

	Within 1 year	1 to 5 years	Total
Cultivation liabilities	\$ 4,160	\$ —	\$ 4,160
Imputed interest	(31)	—	(31)
September 30, 2021	\$ 4,129	\$ —	\$ 4,129

18. Shareholders' equity

(a) Issued and outstanding

On June 4, 2021 the Company filed a prospectus supplement to establish an at-the-market equity program ("ATM Program"). The Company may distribute up to C\$60,000 of common shares of the Company (the "Offered Shares") under the ATM Program. Distributions of Offered Shares under the ATM Program are made at the market prices prevailing at the time of each sale. 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.

Changes for the nine months ended September 30, 2021 are as follows:

	Proportionate voting shares	Common shares outstanding	Treasury shares	Number of common shares issued
December 31, 2020	81,177	108,895,607	(1,835,370)	107,060,237
Exercise of common stock options	—	8,261	—	8,261
Exercise of common stock warrants	—	98,788	—	98,788
Conversion to common voting shares	(43,963)	17,585,300	—	17,585,300
Restricted share award vesting	—	181,181	—	181,181
Harmony Hemp share issuance	—	338,091	—	338,091
ATM Program	—	1,018,200	—	1,018,200
September 30, 2021	37,214	128,125,428	(1,835,370)	126,290,058

Pursuant to the terms of the acquisition of Abacus, the Company was required to deliver 338,091 common shares to former note holders of Harmony Hemp during the nine months ended September 30, 2021.

During the nine months ended September 30, 2021, certain existing shareholders cancelled and converted their proportionate voting shares to common shares and exercised common stock options and warrants. Also during the nine months ended September 30, 2021 restricted share awards vested.

(b) Loss per share

Basic and diluted loss per share have been calculated using net loss.

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

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	Three months ended September 30,	
	2021	2020
Weighted average number of common shares - basic	140,521,244	138,866,673
Dilutive effect of stock options and awards	—	—
Weighted average number of common shares - diluted	140,521,244	138,866,673
(Loss) per share - basic	\$ (0.01)	\$ (0.05)
(Loss) per share - diluted	\$ (0.01)	\$ (0.05)
Weighted average common share equivalents excluded due to anti-dilutive effect on diluted earnings per share	3,917,103	3,628,815
	Nine months ended September 30,	
	2021	2020
Weighted average number of common shares - basic	140,054,738	120,238,141
Dilutive effect of stock options and awards	—	—
Weighted average number of common shares - diluted	140,054,738	120,238,141
(Loss) earnings per share - basic	\$ (0.14)	\$ (0.27)
(Loss) earnings per share - diluted	\$ (0.14)	\$ (0.27)
Weighted average common share equivalents excluded due to anti-dilutive effect on diluted earnings per share	3,577,994	3,888,005

Awards excluded due to anti-dilutive effect on diluted earnings per share consist of stock options, restricted share awards, broker stock warrants, and common share warrants.

(c) Stock incentive plans

Share-based compensation expense recognized for the three months ended September 30, 2021 and 2020 was \$1,596 and \$2,026, respectively. Share-based compensation expense recognized for the nine months ended September 30, 2021 and 2020 was \$4,586 and \$4,336. Share-based compensation expense attributable to Harmony Hemp contingent equity compensation (note 18a) for the three and nine months ended September 30, 2021 was \$195 and \$868.

i. Stock options

1. 2015 and 2018 Plan stock options

The following assumptions were used to determine the fair value of share option grants.

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	Nine months ended September 30,	
	2021	2020
Valuation assumptions:		
Expected volatility	82.5% - 86.5%	84.1% - 87.4%
Expected term (years)	5.0-7.0	0.3 - 6.3
Risk-free interest rate	1.3% - 1.7%	0.5% - 1.4%
Value of underlying share	\$3.21 - \$4.70	\$3.79 - \$7.13

Detail of the number of stock options outstanding for the nine months ended September 30, 2021 under the 2015 and 2018 plans is as follows:

	Number of shares under option	Weighted average exercise price (USD)
Balance at December 31, 2020	3,330,206	\$ 3.93
Granted	904,185	4.63
Exercised	(8,261)	3.64
Forfeited	(268,890)	4.74
Expired	(75,519)	\$ 10.35
Balance at September 30, 2021	3,881,721	\$ 3.91
Exercisable at September 30, 2021	2,141,551	\$ 2.85

For the balance at September 30, 2021, weighted average remaining contractual life is 7.72 years. The weighted average grant-date fair value of options granted during the nine months ended September 30, 2021 was \$4.63.

The weighted average share price at the date of exercise of options exercised during the nine months ended September 30, 2021 was \$4.85.

ii. Restricted share awards

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

	Number of restricted shares	Weighted average grant-date fair value (USD)
Balance at December 31, 2020	456,675	\$ 6.47
Granted	745,126	4.62
Forfeited	(115,892)	4.72
Canceled	(32,417)	8.30
Vested	(181,181)	5.42
Balance at September 30, 2021	872,311	\$ 5.27

(d) Warrants

The following summarizes the number of warrants outstanding as of September 30, 2021:

	Balance at December 31, 2020			Balance at September 30, 2021	
	Number of warrants outstanding	Exercised	Expired	Number of warrants outstanding	Weighted average exercise price
2019 Share Offering Warrants	2,500,000	—	—	2,500,000	\$ 12.67
2020 Share Offering Warrants	5,750,000	—	—	5,750,000	6.26
Abacus acquired warrants	1,892,872	(98,788)	(560,944)	1,233,140	15.10
	10,142,872	(98,788)	(560,944)	9,483,140	\$ 9.10

For the balance of outstanding warrants at September 30, 2021, the weighted average remaining contractual life is 0.71 years.

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19. Expenses by nature

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Cost of sales	\$ 8,789	\$ 9,898	\$ 26,884	\$ 26,573
Inventory expensed to cost of sales	6,684	8,133	20,801	18,594
Inventory provision, net	—	(307)	178	2,216
Other production costs	1,209	1,869	3,319	5,080
Depreciation and amortization	896	203	2,586	683
General and administrative	\$ 14,051	\$ 17,816	\$ 43,904	\$ 54,955
Salaries and wages	3,840	4,789	12,722	13,493
Payroll taxes and employee benefits	1,993	2,483	5,889	7,439
Legal and professional services	1,352	2,443	4,506	14,230
Other operating expenses	4,617	5,655	13,571	14,106
Depreciation and amortization	2,249	2,446	7,216	5,687
Sales and marketing	\$ 8,378	\$ 8,512	\$ 24,552	\$ 21,879
Advertising, promotions and selling costs	4,771	3,954	12,905	10,828
Salaries and wages	2,222	3,101	7,648	7,964
Payroll taxes and employee benefits	522	1,040	1,835	1,640
Other operating expenses	830	376	2,058	1,321
Depreciation and amortization	33	41	106	126
Research and development	\$ 1,471	\$ 1,984	\$ 4,434	\$ 4,283
Salaries and wages	582	837	2,169	2,241
Payroll taxes and employee benefits	198	358	644	774
Other operating expenses	556	721	1,244	1,075
Depreciation and amortization	135	68	377	193

20. Income taxes

(a) Components of income taxes

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
U.S. federal	\$ —	\$ —	\$ —	\$ 5,391
State and local	—	18	25	934
Foreign	—	—	9	—
	\$ —	\$ 18	\$ 34	\$ 6,325

(b) Tax rate reconciliation

Income tax expense attributable to loss from continuing operations for the nine months ended September 30, 2021 and 2020 differed from the amounts computed by applying the U.S. federal income tax rates of 21%, as a result of the following:

	2021	2020
Computed "expected" tax expense	21.0%	21.0%
State income taxes, net of federal tax benefit	3.9%	4.5%
Permanent items	3.9%	6.9%
Change in tax rate	—	(0.4%)
Inability to recognize current year deferred tax assets	(31.0%)	(29.7%)
Other, net	2.0%	1.8%
Effective tax rate before discrete item	(0.2%)	4.1%
Derecognize deferred tax assets	—	(28.3%)
Effective tax rate after discrete item	(0.2%)	(24.2%)

(c) Uncertain tax position

During the three and nine months ended September 30, 2021, the Company did not record a provision for uncertain tax positions.

21. Financial risk management

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

a. Fair Value

At September 30, 2021, the Company's financial assets include cash and cash equivalents, trade and other receivables, notes receivable, and the SBH Purchase Option. Financial liabilities include accounts payable and accrued liabilities, cultivation liabilities, notes payable, lease obligations and warrant liabilities.

b. Market Risk

The Company does not have any debt instruments outstanding with variable interest rates at September 30, 2021.

c. Credit risk

The Company's maximum exposure to credit risk is limited to the carrying amount of the financial assets as summarized below:

	September 30, 2021	December 31, 2020
Trade and other receivables, net	\$ 5,726	\$ 6,274
Note receivable	1,324	1,753
Note receivable - related party	1,029	1,004
Finance lease receivable	3,500	—
Deposits - current	1,745	2,742
Deposits - long term	395	3,218
	\$ 13,719	\$ 14,991

The provision matrix below shows the expected credit loss rate at each aging category of trade and other receivables.

	Current	Aged 1-30 days past due	Aged 31-60 days past due	Aged > 60 days past due	Total
Expected loss rate	3.6 %	10.0 %	25.6 %	42.4 %	15.7 %
Gross carrying amount	\$ 3,940	\$ 749	\$ 250	\$ 1,854	\$ 6,793
Loss allowance provision, end of the period	\$ 141	\$ 75	\$ 64	\$ 787	\$ 1,067

d. Liquidity risk

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 line of credit agreement requires compliance by the Company with certain debt covenants. 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 could but has not drawn on the line of credit.

The Company filed the 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. As of September 30, 2021, C\$55,975 remains available for issuance.

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.

The Company's cash balances at September 30, 2021 and December 31, 2020 were \$21,069 and \$52,803, respectively. Net working capital at September 30, 2021 and December 31, 2020 was \$87,505 and \$113,627, respectively.

22. Fair value measurement

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

	September 30, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash	\$ 21,069	\$ 21,069	\$ 52,803	\$ 52,803
Trade and other receivables, net	5,726	5,726	6,274	6,274
Note receivable	1,324	1,324	1,753	1,753
Note receivable - related party	1,029	1,029	1,004	1,004
SBH Purchase Option	12,900	12,900	—	—
Finance lease receivable	3,500	3,500	—	—
	\$ 45,548	\$ 45,548	\$ 61,834	\$ 61,834
Financial liabilities				
Accounts payable and accrued liabilities	\$ 16,355	\$ 16,355	\$ 16,410	\$ 16,410
Cultivation liabilities	4,129	4,129	11,817	11,817
Notes payable	229	229	773	773
Lease obligations	23,126	23,126	22,582	22,582
Warrant liabilities	223	223	4,304	4,304
	\$ 44,062	\$ 44,062	\$ 55,886	\$ 55,886

23. Capital management

The amounts included in the Company's capital for the relevant period are as follows:

September 30, 2021	\$240,041
December 31, 2020	\$254,229

To support capital management, 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 with a 3-year maturity (note 21).

24. 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 Officer of the Company, also serves on Aidance's Board of Directors. For the three and 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 (note 10). 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 an 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 the 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 (note 12) on the unaudited interim condensed consolidated statement of financial position.

25. Remuneration of key management of the Company

The remuneration awarded to senior key management includes the following:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Wages and bonus	\$ 869	\$ 580	\$ 3,448	\$ 2,604
Benefits	45	37	102	211
Share-based compensation	626	729	2,296	1,734
	\$ 1,540	\$ 1,346	\$ 5,846	\$ 4,549

26. Subsequent events

The Company has evaluated subsequent events through November 15, 2021, which is the date the financial statements were available to be issued.

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.