These financial statements for Charlotte's Web Holdings, Inc. are also included in the Form 10-K for the year ended December 31, 2021 filed on SEDAR on March 24, 2022 in its entirety.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Charlotte's Web Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Charlotte's Web Holdings, Inc. (the Company) as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2019.

Denver, Colorado

March 24, 2022

CHARLOTTE'S WEB HOLDINGS, INC.

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

	December 31,	
	2021	**2020**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,494	$ 52,803
Accounts receivable, net	4,882	4,793
Notes receivable - current	495	2,757
Inventories, net	52,077	63,157
Prepaid expenses and other current assets	8,095	8,845
Income taxes receivable	10,764	11,440
Total current assets	95,807	143,795
Property and equipment, net	36,085	39,363
Operating lease right-of-use assets, net	20,679	21,037
Intangible assets, net	2,843	25,376
Goodwill	—	76,039
Stanley Brothers USA Holdings purchase option	13,000	—
Notes receivable - noncurrent	1,037	—
Other long-term assets	2,062	5,177
Total assets	$ 171,513	$ 310,787
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,049	$ 4,891
Accrued and other current liabilities	9,570	12,763
Cultivation liabilities – current	3,448	9,304
Lease obligations – current	2,103	1,916
Total current liabilities	20,170	28,874
Cultivation liabilities – noncurrent	385	2,513
Lease obligations – noncurrent	20,500	20,567
Warrant and other long-term liabilities	12	4,591
Total liabilities	41,067	56,545
Commitments and contingencies (note 9)		
Shareholders' equity:		
Common shares, nil par value; unlimited shares authorized as of December 31, 2021 and 2020, respectively; 144,659,964 and 107,060,237 shares issued and outstanding as of December 31, 2021 and 2020	1	1
Proportionate voting shares, nil par value; nil shares authorized as of December 31, 2021 and unlimited shares authorized as of December 31, 2020, respectively; nil and 81,177 outstanding as of December 31, 2021 and December 31, 2020, respectively	—	—
Additional paid-in capital	319,059	305,133
Accumulated deficit	(188,614)	(50,892)
Total shareholders' equity	130,446	254,242
Total liabilities and shareholders' equity	$ 171,513	$ 310,787

See Notes to Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share amounts)

	Year Ended December 31,	
	2021	**2020**
Revenue	$ 96,092	$ 95,226
Cost of goods sold	47,507	42,937
Gross profit	48,585	52,289
Selling, general and administrative expenses	97,641	103,631
Goodwill and asset impairments	98,003	—
Operating loss	(147,059)	(51,342)
Other income, net	51	1,330
Change in fair value of financial instruments and other	9,429	11,317
Loss before provision for income taxes	$ (137,579)	$ (38,695)
Income tax (expense) benefit	(143)	8,014
Net loss and comprehensive loss	$ (137,722)	$ (30,681)
Net loss per common share, basic and diluted	$ (0.98)	$ (0.25)
Weighted-average shares used in computing net loss per share, basic and diluted	140,769,247	125,012,249

See Notes to Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share amounts)

	Proportionate Voting Shares	Common Shares		Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
	Shares	Shares	Amount			
Balance—December 31, 2019	95,342	67,418,174	$ 1	$ 144,206	$ (20,211)	$ 123,996
Exercise of stock options	—	3,987,035	—	2,467	—	2,467
Conversion to common shares	(16,140)	6,455,826	—	—	—	—
Withholding of common shares upon vesting of restricted share units	—	32,801	—	(19)	—	(19)
Share-based compensation	—	—	—	3,149	—	3,149
Harmony Hemp contingent equity compensation	—	114,696	—	1,177	—	1,177
2020 Share offering, net of warrants and issuance costs	—	11,500,000	—	44,591	—	44,591
Abacus acquisition	1,975	17,551,705	—	109,562	—	109,562
Net loss and comprehensive loss	—	—	—	—	(30,681)	(30,681)
Balance—December 31, 2020	81,177	107,060,237	$ 1	$ 305,133	$ (50,892)	$ 254,242
Exercise of stock options	—	8,261	$ —	$ 30	$ —	$ 30
Conversion to common shares	(81,177)	32,471,060	—	—	—	—
Exercise of warrants	—	98,788	—	441	—	441
Withholding of common shares upon vesting of restricted share units	—	182,727	—	(146)	—	(146)
Harmony Hemp contingent equity compensation	—	338,091	—	1,460	—	1,460
ATM Program, net of share issuance costs	—	4,500,800	—	8,118	—	8,118
Share-based compensation	—	—	—	4,023	—	4,023
Net loss and comprehensive loss	—	—	—	—	(137,722)	(137,722)
Balance—December 31, 2021	—	144,659,964	$ 1	$ 319,059	$ (188,614)	$ 130,446

See Notes to Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,	
	2021	**2020**
Cash flows from operating activities:		
Net loss and comprehensive loss	$ (137,722)	$ (30,681)
Adjustments to reconcile net loss and comprehensive loss to net cash used in operating activities:		
Depreciation and amortization	11,025	6,847
Goodwill and asset impairments	98,003	—
Change in fair value of financial instruments	(9,305)	(11,167)
Allowance for credit losses	1,509	834
Inventory provision	9,729	8,025
Share-based compensation	5,483	4,326
Loss (gain) on disposal of assets	390	(5)
Changes in operating assets and liabilities:		
Accounts receivable, net	(948)	1,470
Inventories	1,023	(1,782)
Prepaid expenses and other current assets	694	(2,867)
Operating lease right-of-use assets and lease obligations	138	569
Accounts payable, accrued and other liabilities	(2,911)	(8,075)
Income taxes	676	(8,133)
Cultivation liabilities	(7,166)	(11,289)
Other operating assets and liabilities, net	(177)	(101)
Net cash used in operating activities	(29,559)	(52,029)
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	—	11,181
Purchases of property and equipment and intangible assets	(4,918)	(28,257)
Proceeds from sale of assets	13	91
Issuance of notes receivable, net of collections	510	(1,275)
Investment in Stanley Brothers USA Holdings purchase option	(8,000)	—
Other investing activities	606	(897)
Net cash used in investing activities	(11,789)	(19,157)
Cash flows from financing activities:		
Proceeds from public offerings, net of issuance costs	8,257	53,797
Proceeds from stock option exercises	30	2,467
Other financing activities	(248)	(828)
Net cash provided by financing activities	8,039	55,436
Net decrease in cash and cash equivalents	(33,309)	(15,750)
Cash and cash equivalents —beginning of year	52,803	68,553
Cash and cash equivalents —end of year	$ 19,494	$ 52,803
Non-cash activities:		
Equity instruments issued in business combinations	$ —	$ 109,562
Non-cash purchases of property and equipment	(2,500)	(1,291)
Reduction to cultivation liabilities for inventory provision	(543)	(2,073)

See Notes to Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND PRESENTATION OF FINANCIAL STATEMENTS

Description of the Business

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

The Company's primary products are made from proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, terpenes, flavonoids and other hemp compounds. Hemp extracts are produced from Hemp, which is defined as the plant *Cannabis sativa L*. The Company is engaged in research involving the effectiveness of a broad variety of compounds derived from Hemp.

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

The Company does not currently produce or sell medicinal or recreational marijuana or products derived from high-THC Cannabis plants. On March 2, 2021, Charlotte's Web executed an Option Purchase Agreement pursuant to which the Company has the option to acquire Stanley Brothers USA Holdings, Inc. ("Stanley Brothers USA"), a Cannabis wellness incubator. Until the Stanley Brothers USA Holdings Purchase Option ("SBH Purchase Option") is exercised, both 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.

The Company holds the number one market share position across major retail channels including total US food/ drug/mass retail, total US natural specialty retail, and e-commerce, based on market share data from leading third-party analysts such as Nielsen, SPINS, and Brightfield Group, respectively.

The Company grows its proprietary hemp domestically in the United States on farms leased in northeastern Colorado and sources high quality hemp through contract farming operations in Kentucky and Oregon.

In furtherance of the Company's R&D efforts, the Company 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 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 LOFT 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.

Emerging Growth Company Status

The Company is an emerging growth company ("EGC"), as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has elected to use the extended transition period for complying with new or

revised accounting standards, and as a result of this election, the consolidated financial statements may not be comparable to companies that comply with public company FASB standards' effective dates. The Company can elect to early adopt, if permitted by the accounting standard. The Company may take advantage of these exemptions up until the last day of the fiscal year following the fifth anniversary of an offering or such earlier time that it is no longer an EGC.

Smaller Reporting Company Status

The Company is a "smaller reporting company" as defined in Exchange Act of 1934, as amended ("Exchange Act") Rule 12b-2. As a result, the Company is eligible to take advantage of certain reduced disclosure and other requirements that are otherwise applicable to public companies including, but not limited to, not being subject to the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002. The Company will remain a smaller reporting company until the last day of the fiscal year in which (1) the aggregate worldwide market value of its common shares held by non-affiliates equaled or exceeded $250 million as of the prior June 30th, or (2) its annual revenues equaled or exceeded $100 million during such completed fiscal year and the aggregate worldwide market value of its common shares held by non-affiliates equaled or exceeded $700 million as of the prior June 30th.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Companies acquired during each reporting period are reflected in the results of the Company effective as of their respective dates of acquisition through the end of the reporting period. All intercompany balances and transactions have been eliminated in consolidation. Unless otherwise indicated, comparisons are to comparable prior periods, and 2021 and 2020 refer to the 12 months ended December 31, 2021, and December 31, 2020, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make informed estimates, judgments and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the disclosures in the accompanying notes. On an ongoing basis, management evaluates such estimates and assumptions for continued reasonableness. In particular, management makes estimates with respect to any (i) inventory provision, (ii) underlying assumptions that affect the potential impairment of goodwill and long-lived assets, (iii) ability to realize income tax benefits associated with deferred tax assets, (iv) fair value of acquired intangible assets and goodwill, and (v) underlying assumptions that affect the fair value of the SBH Purchase Option. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation. Management's estimates are based on historical information available at the date of the consolidated financial statements and various other assumptions management believes are reasonable based on the circumstances. Actual results could differ materially from those estimates.

Reclassifications and prior period presentations

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

Basic and Diluted Net Loss per Share

Basic loss per share is calculated using the two-class method, in which net loss and comprehensive loss is allocated to both common shares and proportionate voting shares based on the number of fully converted shares in each class. Basic net loss per common share and proportionate voting share is computed by dividing the allocated net loss and comprehensive loss by the weighted-average number of common shares outstanding and weighted average number of proportionate voting shares outstanding during the period. Diluted loss per common share is computed by dividing the allocated net loss and comprehensive loss by the weighted-average number of common shares together with the number of additional common shares that would have been outstanding if all potentially dilutive common shares had been issued. Diluted loss per proportionate voting share is computed by dividing the allocated net loss and comprehensive loss by the weighted-average number of proportionate voting shares outstanding during the period. Since the Company was in a loss position for the periods presented, basic net loss per share is the same as diluted net loss per share since the effects of potentially dilutive securities are antidilutive.

Segments

Operating segments are defined as components of an entity for which discrete financial information is available that is regularly reviewed by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources and in assessing performance. As such, the Company has one operating segment, which is the business of hemp-based CBD wellness products. Substantially all long-lived assets are located in the United States and substantially all revenue is attributed to customers and consumers based in the United States.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the total consideration transferred in connection with the acquisition is allocated to the tangible and intangible assets acquired, liabilities assumed, and any non-controlling interest in the acquired entity based on fair values. Goodwill acquired in connection with business combinations represents the excess of consideration transferred over the net tangible and identifiable intangible assets acquired. Certain assumptions and estimates are employed in evaluating the fair value of assets acquired and liabilities assumed. These estimates may be affected by factors, such as changing market conditions or changes in government regulations. The most significant assumptions requiring judgment involve identifying and estimating the fair value of intangible assets and the associated useful lives to establish amortization periods. To finalize purchase accounting for significant acquisitions, the Company utilizes the services of independent valuation specialists to assist in the determination of the fair value of acquired tangible and intangible assets.

Costs related to the acquisition, other than those associated with the issuance of debt or equity securities, incurred by the Company in connection with a business combination, are expensed as incurred.

Any contingent or deferred consideration payable is recognized at fair value at the acquisition date. Any amounts tied to an individual's employment are recognized as compensation expense over the required service period.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents in accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The cash amounts in deposit accounts held in excess of federally-insured limits were $19,244 and $52,516 as of December 31, 2021 and 2020, respectively. Management believes that the Company is not exposed to significant credit risk due to the financial strength of the depository institution in which the cash is held.

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk, but has limited risk, as the majority of its sales are transacted with cash.

As of December 31, 2021 and 2020, no single customer accounted for more than 10% of the Company's consolidated revenue. As of December 31, 2021 the Company had one customer whose accounts receivable balance individually represented 34% of the Company's accounts receivable. At December 31, 2020, no single customer accounted for more than 10% of the Company's accounts receivable.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable is stated as the amount billed, net of an estimated allowance for credit losses ("ACL"). The Company's ACL is adjusted periodically and is based on management's consideration of the age and nature of the past due accounts as well as specific payment issues. The Company considers as past due any receivable balance not collected within its contractual terms. Changes in the Company's estimate to the ACL is recorded through bad debt expense and individual accounts are charged against the allowance when all reasonable collection efforts are exhausted.

Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. Cost includes all expenses for direct raw materials inputs, as well as costs directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Cost is determined by use of the weighted average method. The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions, including forecasted demand compared to quantities on hand, as well as other factors such as potential excess or aged inventories based on product shelf life, and other factors that affect inventory obsolescence. The Company's raw materials inventories of harvested hemp are recorded at cost to harvest. Raw materials costs as well as production costs are included in the carrying value of the Company's finished goods inventory.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets were comprised of the following amounts (in thousands):

	December 31, 2021	December 31, 2020
Prepaid expenses	$ 6,224	$ 4,621
Deposits	925	2,742
Other miscellaneous receivables	946	1,482
Total prepaid expenses and other current assets	$ 8,095	$ 8,845

Property and Equipment, Net

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building	30 years
Machinery and equipment	3-10 years
Furniture and fixtures	2-7 years
Leasehold improvements	Shorter of useful life or term of lease (1-15 years)

Construction-in-process assets are capitalized during construction and depreciation commences when the asset is placed into service. Significant improvements that extend the useful life of an asset are capitalized. Repairs and maintenance which do not extend the useful lives of assets are expensed as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gains or losses are recognized.

Intangible Assets, Net

Finite Lived Intangible Assets

Finite lived intangible assets consist of customer relationships, software, patents, and trade names. These intangible assets were determined to have finite lives and are amortized over their useful lives. Acquired intangible assets from business combinations include trade names and customer relationships. Software is stated at cost less accumulated amortization. The costs of obtaining a patent are capitalized and amortized over its useful life. Acquired trade names and customer relationships are stated at fair value and are amortized over their useful lives.

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

Customer Relationships	10 years
Software	3-5 years
Patents	15-20 years
Tradenames	10 years

Capitalized Software Development Costs

The Company develops software for internal use. Software development costs incurred during the application development stage, which includes payroll and payroll-related costs related to employees and third-party consultant costs are capitalized. The Company amortizes these costs over the estimated useful life of the software, which is generally three years. These costs are included in intangible assets, net on the consolidated balance sheets.

Goodwill

Goodwill represents the excess of acquisition costs over the fair value of tangible assets and identifiable intangible assets of the businesses acquired. Goodwill is not amortized. Goodwill is subject to impairment testing annually as of October 1, or any time changes in circumstances indicate that the carrying amount may not be fully recoverable. The Company performs its annual impairment test to determine if any events or circumstances exist, such as an adverse change in business climate or a decline in overall industry demand, that would indicate that it would more likely than not reduce the fair value of a reporting unit below its carrying amount, including goodwill.

If events or circumstances do not indicate that the fair value of a reporting unit is below its carrying amount, then goodwill is not considered to be impaired and no further testing is required. If it is determined that there are impairment indicators, the Company will compare the fair value of its reporting units to its carrying value, including goodwill. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the amount by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. The Company also monitors the indicators for goodwill impairment testing between annual tests. See note 7, Goodwill and intangible assets, for further discussion.

Impairment of Long-Lived Assets

The Company reviews intangible assets with indefinite useful lives for impairment at least annually and reviews all intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Long-lived assets, such as property and equipment and intangible assets subject to depreciation and amortization, as well as indefinite lived intangibles and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or that the useful life is shorter than the Company had originally estimated. Recoverability of these assets is measured by comparison of the carrying amount of each asset or asset group to the future undiscounted cash flows the asset or asset group is expected to generate over their remaining lives. If the asset or asset group is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset or asset group. If the useful life is shorter than originally estimated, the Company amortizes the remaining carrying value over the new shorter useful life. See note 7, Goodwill and intangible assets, and note 6, Property and equipment, net, for further discussion.

Cultivation Liabilities

Cultivation liabilities consist of amounts owed to third-party farming operators for the hemp harvests cultivated in 2019 and 2018. There were no cultivation liabilities incurred for the hemp harvest cultivated in 2021 or 2020 as there was minimal hemp grown with third-party farming operators due to sufficient quantities on hand of harvested hemp inventories and the resulting minimal crops did not trigger additional liabilities per the terms of the agreements. The terms of the agreements with third-party farming operators are fixed and determined based on the potency and yield of the hemp crops after harvests are completed. As stated in the agreements with the third-party farming operators, amounts are paid over four or eight quarters depending on the quantity of acres planted. The Company can reduce the settlement amount of cultivation liabilities for harvested hemp outside of quality specifications, as stated in the agreements. The cultivation liabilities are initially measured at the present value of future payments, discounted using the Company's incremental borrowing rate. Refer to note 11 for detail of the cultivation liabilities for the years ended December 31, 2021 and 2020. The Company did not enter into any arrangements of this nature with third-party farming operators for the 2022 harvest.

Leases

The Company elected to early adopt ASU 2016-02, *Leases* (Topic 842) as of January 1, 2019, as permitted by the standard. After the adoption of this standard, the Company determined if an arrangement contains a lease at inception based on whether there is an identified asset and whether the Company controls the use of the identified asset throughout the period of use. The Company classifies leases as either finance or operating. The Company does not have any finance leases. Right-of-use ("ROU") assets are recognized at the lease commencement date and represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the remaining lease term.

Present value of lease payments are discounted based on the more readily determinable of (i) the rate implicit in the lease or (ii) the Company's incremental borrowing rate. Because the Company's operating leases generally do not

provide an implicit rate, the Company estimates its incremental borrowing rate based on the information available at lease commencement date for collateralized borrowings with a similar term, an amount equal to the lease payments and in a similar economic environment where the leased asset is located. The collateralized borrowings were based on the Company's credit rating corroborated with market credit metrics like debt level and interest coverage.

The Company's operating lease ROU assets are measured based on the corresponding operating lease liability adjusted for (i) payments made to the lessor at or before the commencement date, (ii) initial direct costs incurred and (iii) lease incentives under the lease. Options to renew or terminate the lease are recognized as part of the Company's ROU assets and lease liabilities when it is reasonably certain the options will be exercised. ROU assets are also assessed for impairments consistent with the Company's long-lived asset policy.

Operating lease expense for fixed lease payments is recognized on a straight-line basis over the lease term. Variable lease payments for real estate taxes, insurance, maintenance, and utilities, which are generally based on the Company's pro rata share of the total property, are not included in the measurement of the ROU assets or lease liabilities and are expensed as incurred.

Operating leases are presented separately as operating lease right-of-use assets, net and lease obligations, current and non-current, in the accompanying consolidated balance sheets.

We have elected the short-term lease recognition exemption for all applicable classes of underlying assets. Short-term disclosures include only those leases with a term greater than one month and 12 months or less, and expense is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less, that do not include an option to purchase the underlying asset that we are reasonably certain to exercise, are not recorded on the balance sheet.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customer* ("ASC 606"). The Company elected to early adopt ASC 606 as of January 1, 2018, as permitted by the standard. The Company performs the following five steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company applies the five-step model to arrangements that meet the definition of a contract under the standard, including when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of revenue accounting, the Company evaluates the goods or services promised within each contract related performance obligation and assesses whether each promised good or service is distinct. The Company recognizes as revenue, the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The Company recognizes revenue from customers when control of the goods or services are transferred to the customer, generally when products are shipped, at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. Freight revenue is included in revenue on the consolidated statements of operations and comprehensive loss, and is generally exempt from state sales taxes. Sales tax collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenue in the consolidated statements of operations and comprehensive loss. Contracts are written to include standard discounts and allowances. Contracts are not written to include advertising allowances, tiered discounts or any other performance obligation. Since the Company's contracts involve the delivery of various tangible products, the arrangements are considered to contain only a single performance obligation, as such there is no allocation of the transaction price. The Company also offers ecommerce discounts and promotions through its online rewards program. The Charlotte's Web Loyalty Program offers customers rewards points for every dollar

spent through the Company website to earn store credit for future purchases. The Company defers recognition of revenue for unredeemed awards until the following occurs: (1) rewards are redeemed by the consumer, (2) points or certificates expire, or (3) an estimate of the expected unused portion of points or certificates is applied, which is based on historical redemption patterns.

Any product that doesn't meet the customer's expectations can be returned within the first 30 days of delivery in exchange for another product or for a full refund. Any product sold through a distributor or retailer must be returned to the original purchase location for any return or exchange. The Company accounts for customer returns utilizing the "expected value method." Expected amounts are excluded from revenue and recorded as a "refund liability" that represents the Company's obligation to return the customer's consideration. Estimates are based on actual historical data. The Company destroys all returned products for safety and quality purposes.

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

	Year Ended December 31,	
	2021	2020
Direct-to-consumer	$ 62,334	$ 63,826
Business-to-business	33,758	31,400
Total	$ 96,092	$ 95,226

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

Cost of Goods Sold

Cost of goods sold primarily consists of the inventory and production costs for the Company's products sold during the period, and also includes amortization and depreciation, as well as allocated expenses.

Selling, General and Administrative

Selling, general and administrative expense primarily consists of compensation and other personnel-related costs, including share-based compensation, marketing and advertising expenses, professional services fees, rent and related costs, property and casualty and directors and officers insurance premiums and bank and merchant fees. Advertising expenses are expensed as incurred and primarily includes the cost of marketing activities such as online advertising, search engine optimization, promotional activities and market research. For the years ended December 31, 2021 and 2020, the Company recognized $17,523 and $14,723 of advertising expense, respectively. Selling, general and administrative expense also includes research and development expenses, which are expensed as incurred. For the years ended December 31, 2021 and 2020, the Company recognized $5,502 and $5,951, respectively, of research and development expenses.

Defined Contribution Plan

The Company has defined contribution plans, under which the Company contributes based on a percentage of the employees' elected contributions. Defined contribution expense of $441 and $1,038 was recorded during the years ended December 31, 2021 and December 31, 2020, respectively.

Share-based Compensation

The Company accounts for compensation expense for share-based option awards to employees, non-employee directors, and other non-employees based on the estimated grant date fair value of the options on a straight-line basis over the requisite service period, which is the vesting period for stock options. The fair value of stock options are estimated using the Black-Scholes-Merton ("Black-Scholes") valuation model, which requires assumptions and judgments regarding stock price, volatility, risk-free interest rates, dividend yields and expected option terms. The Company uses the historical volatility and grant date closing price of its publicly traded shares to estimate the grant-date fair value of its stock options. Due to the lack of historical exercise history, the expected term of the Company's stock options for employees has been determined utilizing the "simplified" method for awards. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is zero based on the fact that the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future. Share-based compensation is recognized net of actual forfeitures when they occur. All share-based compensation costs are recorded in the consolidated statements of operations and comprehensive loss in selling, general and administrative expense.

The Company measures nonemployee awards at their fair value consistent with the accounting for employee share-based compensation as described above. For the years ended December 31, 2021 and 2020, the Company did not have any material expense for nonemployee awards.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets or liabilities are computed based on the temporary difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal income tax rate in effect for the year in which the differences are expected to reverse. Deferred income tax expense or benefit is based on the changes in the deferred income tax assets or liabilities from period to period. A valuation allowance is established if it is more-likely-than-not that all or a portion of the deferred tax asset will not be realized.

Significant judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against net deferred tax assets. We assess the likelihood that deferred tax assets will be recovered as deductions from future taxable income. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis and includes a review of all available positive and negative evidence. Factors reviewed include projections of pre-tax book income for the foreseeable future, determination of cumulative pre-tax book income or loss, earnings history, and reliability of forecasting. It is the Company's policy to offset indefinite lived deferred tax assets with indefinite lived deferred tax liabilities. The Company provided a full valuation allowance on deferred tax assets because it is more likely than not that deferred tax assets will not be realized.

The Company accounts for uncertainties in income taxes under Topic 740, which prescribes a recognition threshold and measurement methodology to recognize and measure an income tax position taken, or expected to be taken, in a tax return. With respect to any tax positions that do not meet the recognition threshold, a corresponding liability, including interest and penalties, is recorded in the consolidated financial statements. The Company may be subject to examination by tax authorities where the Company conducts operations. The earliest income tax year that may be subject to examination is 2018. The Company has recorded an uncertain tax position of $179 and $134 as of December 31, 2021 and December 31, 2020, respectively. The Company's policy is to recognize interest and penalties on taxes, if any, as income tax expense.

Recently Issued Accounting Pronouncements

Other than described below, no new accounting pronouncements adopted or issued by the Financial Accounting Standards Board ("FASB") had or may have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)*. The guidance on the accounting for implementation, setup and other upfront costs (collectively referred to as implementation costs) applies to entities that are a customer in a hosting arrangement that is a service contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The new standard is effective for public companies with fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. For all other entities, the amendments are effective for all fiscal years beginning after December 15, 2020 and all interim periods beginning after December 15, 2021. As an EGC, the Company has elected to use the extended transition period for complying with new or revised standards and can and has elected to follow the private company adoption timeline. The Company adopted this standard prospectively as of January 1, 2021, and is currently evaluating the impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which aims to reduce complexity in accounting standards by improving certain areas of U.S. GAAP without compromising information provided to users of financial statements. ASU 2019-12 is effective for public entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other entities, the standard is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the impact, if any, that the updated standard will have on the consolidated financial statements.

Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)*. The guidance on the accounting for implementation, setup and other upfront costs (collectively referred to as implementation costs) applies to entities that are a customer in a hosting arrangement that is a service contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The new standard is effective for public companies with fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. For all other entities, the amendments are effective for all fiscal years beginning after December 15, 2020 and all interim periods beginning after December 15, 2021. As an EGC, the Company has elected to use the extended transition period for complying with new or revised standards and can and has elected to follow the private company adoption timeline. The Company adopted this standard prospectively as of January 1, 2021, and the adoption of the standard did not have a material impact on the Company's consolidated financial statements.

3. ACQUISITION OF ABACUS HEALTH

On June 11, 2020, the Company acquired all the issued and outstanding subordinate voting shares of Abacus Products, Inc. ("Abacus").

Abacus develops, markets and sells over-the-counter ("OTC") topical products combining active pharmaceutical ingredients with hemp extract. This acquisition provided the Company with growth opportunities in both topical and ingestible products in the CBD wellness category.

Abacus primarily sells its products under three brand names: CBDMedic™, CBD Clinic™, and Harmony Hemp. CBD Clinic™ is marketed to the professional practitioner market and sold exclusively to registered health practitioners such as chiropractors, acupuncturists, massage therapists, physical therapists, naturopaths, and osteopaths. CBDMedic™ is targeted to the consumer market. CBDMedic™ products are sold directly to consumers through retail outlets, health, and fitness locations, as well as through an e-commerce platform. Harmony Hemp is targeted to the consumer market. These products are sold through retail outlets as well as through an e-commerce platform. The acquisition of these brands substantially expanded the Company's topical offerings and presence in the key food and mass markets.

The acquisition closed on June 11, 2020 and, accordingly, the consolidated statements of operations and comprehensive loss include Abacus Health results of operations for the period from June 11, 2020 through December 31, 2020 and for the year ended December 31, 2021. Due to integration of Abacus Health into the Company's systems as of July 1, 2020, at December 31, 2021 and 2020 it is not feasible for the Company to disaggregate the acquiree revenue, on an after discount and promotions basis, or the results of operations related thereto consolidated in the financial statements. If the acquisition had taken place as of January 1, 2020, revenue from continuing operations for the year ended December 31, 2020 would have been $99,341. Loss from continuing operations for the year ended December 31, 2020 would have been $(47,810). The aforementioned pro-forma amounts are unaudited.

As a result of the business combination, one-time acquisition costs of $3,897 were expensed as incurred during the year ended December 31, 2020.

Fair Value of Consideration

Pursuant to the terms of the arrangement agreement, for each Abacus subordinate voting share and other equity instruments, including outstanding stock options, warrants, SARs, and contingent consideration, each holder received a 0.85 equivalent replacement award of the Company's respective security at the time of closing. To determine the portion of fair value of the replacement award that is part of purchase consideration, the Company measured both the fair value of the replacement award as the acquiree, Abacus, and the acquirer, the Company, as of the acquisition date. The Company attributed the portion of the fair value related to pre-combination service as purchase consideration and attributed the remaining fair value to remuneration for post-combination services based on any remaining service period. The Company's fair values of the replacement awards were valued using the Black-Scholes option pricing model, with the following assumptions used in the model: expected volatility; expected term; risk-free interest rate and value of the underlying share. The resulting purchase consideration for replacement stock options, warrants, SARs, and contingent consideration is $7,251. A portion of the other equity instruments, SARs of $293 and certain warrants of $2,857, were determined to be liabilities based on the nature of the instruments. These liabilities are presented at their respective fair value as of December 31, 2021 and 2020 in the consolidated balance sheets. The Company transferred 18,456,302 Common shares and 3,884,986 other equity instruments.

The following table outlines the total consideration transferred:		
Common shares	$	105,461
Other equity instruments		7,251
Total consideration transferred	$	112,712
The following table summarizes the assets acquired and liabilities assumed as of the acquisition date:		
Cash	$	11,181
Accounts receivable and other receivables		2,264
Inventories		4,845
Intangible assets		23,400
Other current and long-term assets		3,653
Goodwill		76,039
	$	121,382
Accounts payable		4,687
Accrued liabilities		2,041
Current note payable		1,258
Other current and long-term liabilities		684
Total liabilities	$	8,670
Net assets acquired	$	112,712

The fair value of acquired inventories and intangible assets were determined using a forecasted cash flow approach with the assistance of a third-party valuation firm. Acquired inventories consist of substantially all finished goods.

Acquired intangible assets consist of a trade name and customer relationships. Fair value of the acquired customer relationships and trade name are $22,700 and $700, respectively. The Company assigned a ten-year useful life to both classes of acquired intangible assets.

The Company determined that Abacus Health's carrying costs approximated fair value for all other acquired assets and assumed liabilities.

On February 10, 2020, one of the wholly-owned subsidiaries of Abacus US, Abacus Wellness, Inc., acquired the principal assets of two companies owning the Harmony Hemp brand. Pursuant to the terms of the asset purchase agreement, Abacus US, and therefore the Company, is obligated to pay the remaining purchase price payable for Harmony Hemp and deliver contingent equity compensation. The remaining purchase price payable as of December 31, 2021 and 2020 for Harmony Hemp acquired with the Abacus acquisition was $144 and $770, respectively, which is included in accrued and other current liabilities on the consolidated balance sheets.

Goodwill

The goodwill acquired from the Abacus acquisition was primarily attributable to expected synergies from future growth and potential monetization opportunities. See note 7, Goodwill and intangible assets, for further discussion.

4. FAIR VALUE MEASUREMENT

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2—Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities; unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities

Level 3—Unobservable inputs that are supported by little or no market data for the related assets or liabilities

The categorization of a financial instrument within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's financial instruments include cash and cash equivalents, accounts receivable and other receivables, notes receivable and payable, accounts payable and accrued liabilities, cultivation liabilities, warrant liabilities and other current assets and liabilities. At December 31, 2021 and 2020, the carrying amounts of accounts receivable and other receivables, accounts payable and other current assets and liabilities approximated at their fair values because of their short-term nature. The carrying value of the notes receivable and cultivation liability approximates the fair value as the stated interest rate approximates market rates currently available to the Company. The Company's warrant liabilities are accounted for at fair value and are considered Level 2 instruments. The Company's Stanley Brothers USA Holdings Purchase Option is accounted for at fair value and is considered a Level 3 instrument.

The following table sets forth the Company's financial instruments that were measured at fair value on a recurring basis at December 31, 2021 and 2020, by level within the fair value hierarchy:

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Stanley Brothers USA Holdings Purchase Option	$ —	$ —	$ 13,000	$ 13,000
Financial liabilities:				
Warrant liabilities	$ —	$ —	$ —	$ —

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets:				
	$ —	$ —	$ —	$ —
Financial liabilities:				
Warrant liabilities	$ —	$ 4,304	$ —	$ 4,304

There were no transfers between levels of the hierarchy during the year ended December 31, 2021 and December 31, 2020.

Stanley Brothers USA Holdings Purchase Option

On March 2, 2021, the Company entered into an option purchase agreement with Stanley Brothers USA, a privately held Delaware company, and the shareholders of Stanley Brothers USA. 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 the Company the option to acquire all or substantially all the shares of Stanley Brothers USA on the earlier of February 26, 2025 and federal legalization of cannabis in the United States, or such earlier time as Stanley Brothers USA and the Company agree, at a purchase price to be determined at the time of exercise of the SBH Purchase Option. Upon exercise of the SBH Purchase Option, the purchase price will be determined based on application of predetermined multiples of Stanley Brothers USA revenue and earnings before interest, taxes, depreciation, and amortization ("EBITDA") measures. The Company is not obligated to exercise the SBH Purchase Option. As part of the SBH Purchase Option agreement, Stanley Brothers USA issued the Company a warrant exercisable to purchase 10% of the outstanding Stanley Brothers USA shares and convertible securities that are considered in-the-money, subject to certain conditions and exclusions. The warrant is exercisable at the Company's election for a nominal exercise price in the event the Company elects not to acquire all or substantially all shares of Stanley Brothers USA and expires 60 days after the expiration of the option.

The Company has elected the fair value option in accordance with ASC 825-10 guidance to record its SBH Purchase Option. Under ASC 825-10, a business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The SBH Purchase Option is classified as a financial asset and is remeasured at fair value at each reporting date, with changes to fair value recognized in the consolidated statements of operations and comprehensive loss for the period. The use of assumptions for the fair value determination includes a high degree of subjectivity and judgment using unobservable inputs (level 3 on the fair value hierarchy), which results in estimation uncertainty. Changes in assumptions that reasonably could have been different at the reporting date may result in a higher or lower determination of fair value (Stanley Brothers USA financial results or projections of future financial results). Changes in fair value measurements, if significant, may affect performance of cash flows. For the year ended December 31, 2021, a $5,000 gain related to the SBH Purchase Option was recognized as change in fair value of financial instruments and other in the statements of operations and comprehensive loss. As of December 31, 2021, the SBH Purchase Option represents a financial asset of $13,000 in the consolidated balance sheets.

The Monte Carlo valuation model considers multiple revenue and EBITDA outcomes for Stanley Brothers USA and other probabilities in assigning a fair value. Primary assumptions utilized include financial projections of Stanley Brothers USA and the probability and timing of exercise. The following additional assumptions are used in the model:

	Year Ended December 31,
	2021
Expected volatility	92.5%
Expected term (years)	3.7
Risk-free interest rate	1.1%
Weighted average cost of capital	40.0%

Warrant Liabilities

The 2019 Share Offering Warrants and the 2020 Share Offering Warrants do not meet all of the criteria for equity classification as the warrants are denominated in Canadian dollars, which differs from the Company's functional currency. As a result, the 2019 Share Offering Warrants and the 2020 Share Offering Warrants are initially measured at fair value and are revalued at each reporting period using the Black-Scholes option pricing model based on Level 2 observable inputs. The assumptions used by the Company are the quoted price of the Company's common shares in an active market, risk-free interest rate, volatility and expected life, and assumes no dividends. Volatility is based on the actual historical market activity of the Company's shares. The expected life is based on the remaining contractual term of the warrants and the risk-free interest rate is based on the implied yield available on U.S. Treasury Securities with a maturity equivalent to the expected life of the warrants.

For the years ended December 31, 2021 and 2020, a $4,304 and $11,167 gain related the warrant liabilities was recognized as change in fair value of financial instruments and other in the consolidated statements of operations and comprehensive loss. As of December 31, 2021 the Company's warrant liabilities fair value is zero due to some warrants expiring in December 2021, a shorter expected term for the remaining outstanding warrants, and a significant decline in the Company's stock price.

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

	Year Ended December 31,	
	2021	2020
Expected volatility	83.8%	86.1%
Expected term (years)	0.4 – 0.5	0.1-0.5
Risk-free interest rate	0.4%	0.1%
Expected dividend yield	—%	—%
Value of underlying share	$1.34	$3.29

5. INVENTORIES

Inventories consist of the following:

	December 31,	
	2021	2020
Harvested hemp and seeds	$ 38,249	$ 41,090
Raw materials	15,189	14,644
Finished goods	13,974	24,615
	67,412	80,349
Less: inventory provision	(15,335)	(17,192)
Total	$ 52,077	$ 63,157

Inventory Provision

For the year ended December 31, 2021, inventory provisions of $10,272 were recognized, of which $9,729 were expensed through the cost of goods sold and $543 were recognized as settlement reductions of cultivation liabilities due to third-party farming operators related to harvested hemp outside of quality specifications. For the year ended December 31, 2021, write-offs of inventory previously reserved for of $12,129 were recognized. For the year ended December 31, 2020, inventory provisions of $8,025 were expensed through the cost of good and $2,073 were recognized as settlement reductions of cultivation liabilities due to third-party farming operators related to harvested hemp outside of quality specifications. For the year ended December 31, 2020, write-offs of inventory previously reserved for of $8,779 were recognized.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	December 31,	
	2021	2020
Building	$ 3,409	$ 3,409
Machinery and equipment	15,552	17,211
Furniture and fixtures	1,202	881
Leasehold improvements	27,158	22,310
	$ 47,321	$ 43,811
Accumulated depreciation	(13,829)	(10,551)
Construction-in-process	2,593	6,103
Total property and equipment, net	$ 36,085	$ 39,363

Depreciation expense for the years ended December 31, 2021 and December 31, 2020, was $7,481 and $4,839, respectively, of which $4,503 and $3,661, respectively, was recorded in Selling, general, and administrative expense in the consolidated statements of operations and comprehensive loss. For the years ended December 31, 2021 and December 31, 2020, depreciation expense of $2,978 and $1,178, respectively, was recorded in Cost of goods sold in the consolidated statements of operations and comprehensive loss.

During the year ended December 31, 2021, an impairment loss of $1,921 was recorded related to property and equipment. The impairment resulted from the Company's decision to exit a third-party farming operator relationship.

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table summarizes the changes in the carrying amount of goodwill:

	December 31,	
	2021	2020
Beginning balance	$ 76,039	$ —
Goodwill arising from business combination	—	76,039
Goodwill impairment	$ (76,039)	—
Ending balance	$ —	$ 76,039

The Company determined the sustained decrease in our share price in the fourth quarter of 2021, along with a significant decline to the equity value of the Company's peers, represented a goodwill impairment triggering event. The Company performed a quantitative analysis as of December 31, 2021 to determine if impairment to our goodwill existed for the one reporting unit. We used a blended approach in calculating fair value of our one reporting unit including the income approach and market approach. This analysis resulted in full impairment of our goodwill balance totaling $76,039 included in goodwill and asset impairments charges on the consolidated statements of operations and comprehensive loss for the year ended December 31, 2021. The goodwill impairment was measured as the amount by which the carrying value of the reporting unit, including goodwill, exceeded its fair value.

Intangible Assets

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

	As of December 31, 2021			
	Weighted-Average Remaining Useful Life (in years)	Gross	Accumulated Amortization	Net
Definite-lived intangibles assets[1]*:*				
Software	1.67	$ 3,993	$ (2,342)	$ 1,651
Patents	18.37	352	(24)	328
Internal use software in process	—	714	—	714
Indefinite lived intangible assets:				
Internet domain name		150	—	150
Total		$ 5,209	$ (2,366)	$ 2,843

[1] The factors listed above representing a goodwill triggering event also indicated a triggering event for the Company's customer relationships and trade name intangible assets acquired with the acquisition of Abacus.

The Company performed a quantitative analysis as of December 31, 2021 to determine if impairment existed by comparing the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate over their remaining lives. This analysis resulted in full impairment of the customer relationships and trade name intangible assets acquired and total an impairment loss of $19,750 was recorded in goodwill and asset impairments charges on the consolidated statements of operations and comprehensive loss for the year ended December 31, 2021.

	As of December 31, 2020			
	Weighted-Average Remaining Useful Life (in years)	Gross	Accumulated Amortization	Net
Definite-lived intangibles assets:				
Software	2.49	$ 3,789	$ (1,156)	$ 2,633
Customer relationships	9.44	22,700	(1,269)	21,431
Trade names	9.44	700	(39)	661
Patents	18.66	201	(8)	193
Internal use software in process	—	308	—	308
Indefinite lived intangible assets:				
Internet domain name	—	150	—	150
Total		$ 27,848	$ (2,472)	$ 25,376

For the years ended December 31, 2021 and December 31, 2020, amortization expense of $3,544 and $2,008, respectively, was recorded in Selling, general, and administrative expense in the consolidated statements of operations and comprehensive loss.

As of December 31, 2021, expected amortization of intangible assets is as follows:

Year Ending December 31:	
2022	$ 1,065
2023	606
2024	35
2025	18
2026	18
Thereafter	237
Total future amortization	$ 1,979

8. DEBT

Line of Credit

The Company entered has an asset backed line of credit ("ABL") with J.P. Morgan for $10,000 with an option under certain circumstances to increase the line of credit to $20,000. Borrowings under the ABL bear interest at a variable rate based on (A) CB Floating Rate defined as Prime Rate plus 1.0% or (B) monthly LIBOR rate plus 2.50%. The current maturity date is March 23, 2023. Borrowings under the ABL are secured by all of the assets of the Borrowers and guaranteed by other subsidiaries of the Borrowers. The line of credit agreement requires compliance by the Company with certain debt covenants.

Financial Covenants

The Company is subject to a number of customary covenants under the credit facility, including limitation on additional borrowings, acquisitions, dividend payments and requirements to maintain certain financial ratios including a consolidated fixed charge coverage ratio, minimum earnings before interest, depreciation, and amortization ("EBITDA") and minimum liquidity, as defined by the line of credit agreement as measured on the last day of each quarter. As of December 31, 2021, the Company was not in compliance with certain debt covenants and as of March 9, 2022 the line of credit was on hold. As of December 31, 2021, there are no amounts drawn on the line of credit.

9. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

From time to time, the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. Although the ultimate aggregate amount of monetary liability or financial impact with respect to these matters is subject to many uncertainties and is therefore not predictable with assurance, management believes that as of December 31, 2021 there are no other litigations pending that could have, individually and in the aggregate, a material adverse effect on the Company's financial position, results of operations or cash flows.

10. LEASES

The Company has lease arrangements related to office space, warehouse and production space, and land to facilitate agricultural operations. The leases have remaining lease terms of less than 8 years to 13.17 years, some of which include options to extend the leases for up to 5 years. Generally, the lease agreements do not include options to terminate the lease.

The weighted average remaining lease term was 10.37 years for operating leases as of December 31, 2021. The weighted average discount rate was 5.43% for operating leases as of December 31, 2021.

The components of lease cost, including variable lease costs primarily consisting of common area maintenance charges and real estate taxes, for the years ended December 31, 2021 and 2020 are as follows:

	Year Ended December 31,	
	2021	2020
Operating Lease Cost:		
Fixed lease cost	$ 2,969	$ 4,014
Variable lease cost	1,512	1,707
Total lease cost	$ 4,481	$ 5,721
Sublease income	724	478

Other information related to leases was as follows:

	Year Ended December 31,	
	2021	2020
Supplemental Cash Flow Information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$ 3,528	$ 3,153
Right-of-use assets obtained in exchange of lease obligations:		
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 2,350	$ 515

Maturities of operating lease liabilities as of December 31, 2021 are as follows:

	Operating Leases
Year Ending December 31:	
2022	$ 3,331
2023	3,410
2024	3,255
2025	2,946
2026	2,222
Thereafter	15,595
Total lease obligation	$ 30,759
Less: Imputed interest	(8,156)
Total lease liabilities	$ 22,603
Less: Current lease liabilities	2,103
Total non-current lease liabilities	$ 20,500

11. CULTIVATION LIABILITIES

In conjunction with the contract terms, the company can reduce the settlement amount for harvested hemp outside of quality specifications. For the years ended December 31, 2021 and 2020, the Company recognized $855 and $2,073, respectively, of settlement reductions.

Future payments due under contract obligations are as follows:

	Short-term	Long-term	Total
December 31, 2019	$ 10,803	$ 14,289	$ 25,092
Payments	(11,289)	—	(11,289)
Settlement reductions	(2,073)	—	(2,073)
Interest	87	—	87
Conversion to short-term borrowings	11,776	(11,776)	—
December 31, 2020	$ 9,304	$ 2,513	$ 11,817

	Short-term	Long-term	Total
December 31, 2020	$ 9,304	$ 2,513	$ 11,817
Payments	(7,166)	—	(7,166)
Settlement reductions	(855)	—	(855)
Interest	37	—	37
Conversion to short-term borrowings	2,128	(2,128)	—
December 31, 2021	$ 3,448	$ 385	$ 3,833

Scheduled maturities of amounts owed as of December 31, 2021 are as follows:

Year Ending December 31:	
2022	$ 3,461
2023	385
Total payments	$ 3,846
Less: Imputed interest	(13)
Total cultivation liabilities	$ 3,833
Less: Current portion of cultivation liabilities	(3,448)
Total non-current cultivation liabilities	$ 385

12. SHAREHOLDERS' EQUITY

As of December 31, 2021, the Company's share capital consists of one class of issued and outstanding shares: Common Shares. The Company is also authorized to issue preferred shares issuable in series. To date, no shares of preferred shares have been issued or are outstanding.

On November 3, 2021, all outstanding proportionate voting shares ("PVS") 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, 142,335,464 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.

Common Shares

As of December 31, 2021, the Company was authorized to issue an unlimited number of common shares, which have no par value.

Dividend Rights – Holders of common shares are entitled to receive dividends out of the assets available for the payment of dividends at such times and in such amount and form as the Board of Directors may determine from time to time, subject to any preferential rights of the holders of any outstanding preferred shares, on the following basis, and otherwise without preference or distinction between the common shares and the PVSs; each PVS was entitled to 400 times the amount distributed per common share. The Company is permitted to pay dividends unless there are reasonable grounds for believing that the Company is insolvent or the payment of the dividend would render the Company insolvent.

Voting Rights – Holders of common shares shall be entitled to receive notice of and to attend and vote at all meetings of shareholders of the Company except a meeting at which only the holders of another class or series of shares is entitled to vote. Each common share shall entitle the holder thereof to one vote at each such meeting.

Liquidation Rights – Holders of common shares will be entitled to receive all of the Company's assets remaining after payment of all debts and other liabilities, subject to any preferential rights of the holders of any outstanding preferred shares.

Proportionate Voting Shares

Pursuant to the above, the Company is no longer authorized to issue additional proportionate voting shares. As a result as of December 31, 2021, the Company had no PVS issued and outstanding. As of December 31, 2020, the Company had issued and outstanding 81,177 PVS shares.

Dividend Rights – Holders of PVSs were entitled to receive dividends out of the assets available for the payment of dividends at such times and in such amount and form as the Board of Directors may determine from time to time, subject to any preferential rights of the holders of any outstanding preferred shares, on the following basis, and otherwise without preference or distinction among or between the common shares and the PVSs; each PVS was entitled to 400 times the amount distributed per common share. The Company was permitted to pay dividends unless there were reasonable grounds for believing that the Company was insolvent or the payment of the dividend would render the Company insolvent.

Voting Rights – Holders of PVSs were entitled to receive notice of and to attend and vote at all meetings of shareholders of the Company except a meeting at which only the holders of another class or series of shares is entitled to vote. Each PVS entitled the holder thereof to 400 votes at each such meeting.

Conversion Rights – PVSs could at any time, subject to certain conditions as outlined in the Articles, at the option of the holder or the discretion of the Company, be converted into common shares at a ratio of 400 common shares per PVS.

Liquidation Rights – Holders of Shares were entitled to receive all of the Company's assets remaining after payment of all debts and other liabilities, subject to any preferential rights of the holders of any outstanding preferred shares, on the basis that each PVS were entitled to 400 times the amount distributed per common share, and otherwise without preference or distinction between the common shares and PVSs.

Share Offering Warrants – Liability Classified

The Company accounts for warrants as either equity-classified or liability-classified instruments based on an assessment of the warrant's specific terms and applicable authoritative guidance in ASC 480 and ASC 815, Derivatives and Hedging ("ASC 815"). The assessment considers whether the warrants are freestanding financial instruments and meet the definition of a liability pursuant to ASC 480, and whether the warrants meet all of the requirements for equity classification under ASC 815, including whether the warrants are indexed to the Company's common shares, among other conditions for equity classification. This assessment, which requires the use of professional judgment, is conducted at the time of warrant issuance and as of each subsequent quarterly period end date while the warrants are outstanding. For issued warrants that do not meet all the criteria for equity classification, the warrants are required to be recorded at their initial fair value on the date of issuance, and each balance sheet date thereafter. Any change in fair value of the warrants is recognized in the Company's statements of operations and comprehensive loss.

On June 4, 2021, the Company filed a prospectus supplement to establish an at-the-market equity program (the "ATM Program"). The Company may distribute up to C$60,000,000 of Common Shares of the Company (the "Offered Shares") under the ATM Program. Distributions of the Offered Shares through the ATM Program are made pursuant to the terms of an equity distribution agreement with Canaccord Genuity Corp. and BMO Nesbitt Burns Inc. (together, the "Agents"). 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 are sold at the prevailing market price at the time of sale under the ATM Program, and for the year ended December 31, 2021, the Company issued 4,740,300 Offered Shares at an average price of $1.85 per share for gross proceeds of $8,714. For the year ended December 31, 2021, share issuance costs were $596 for net proceeds to the Company of $8,118. The Company became an SEC reporting entity beginning on January 4, 2022. As of that date, the ATM Program ceased to be available to the Company. Thereafter, the manner in which the Company raises capital 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 June 18, 2020, the Company closed its underwritten public share offering ("2020 Share Offering") of 10,000,000 units ("Offered Units") with an over-allotment option exercised in full for an additional 1,500,000 units of the Company at a price of C$6.75 (US$4.97) per Offered Unit, for total aggregate gross proceeds of C$77,625 (US$57,165). Each Offered Unit consisted of one common share of the Company and one-half of one common share purchase warrant of the Company (each whole common share purchase warrant, a "2020 Share Offering Warrant"). Each 2020 Share Offering Warrant entitles the holder to purchase one common share of the Company at a price of C$8.50 through expiration two years after the closing of the 2020 Share Offering. At initial measurement, the 5,750,000 2020 Share Offering Warrants issued resulted in a $9,206 financial liability reported in the consolidated statements of financial position. For the year ended December 31, 2020, share issuance costs of $3,368 were recognized in the consolidated statements of changes in shareholders' equity.

The 2020 Share Offering Warrants do not meet all of the criteria for equity classification as the warrants are denominated in Canadian dollars, which differs from the Company's functional currency. As a result, the 2020 Share Offering Warrants are initially measured at fair value and are revalued at each reporting period using the

Black-Scholes option pricing model (note 4). Total common share warrants issued in the 2020 Share Offering were 5,750 at an initial fair market value of $1.601 per share, totaling $9,206, as reported as a warrant liability.

Pursuant to the terms of the Abacus acquisition, each holder of an Abacus common share warrant received a 0.85 equivalent replacement warrant. Refer to note 3 for determination of fair value of warrants acquired and the related classification as of acquisition June 11, 2020.

The following summarizes the number of warrants outstanding as of December 31, 2021 and December 31, 2020:

	Number of Warrants	Weighted-Average Exercise Price per Warrant
Outstanding as of December 31, 2020	10,142,872	$ 8.80
Exercised	98,788	4.42
Expired	3,060,944	10.94
Outstanding as of December 31, 2021	6,983,140	$ 7.86

For the balance of outstanding warrants at December 31, 2021, the weighted average remaining contractual life is 0.54 years.

13. LOSS PER SHARE

The Company computes loss per share of common shares and PVS under the two-class method required for multiple classes of common shares and participating securities. The rights, including the liquidation and dividend rights, of the two classes of shares are similar except for the 400:1 conversion ratio between the common shares and PVS shares. Accordingly, the loss per share attributable to common shareholders will be the same for common shares and PVS, on either an individual or combined basis. Basic net loss per common share and proportionate voting share is computed by dividing the allocated net loss and comprehensive loss by the weighted-average number of common shares outstanding and weighted average number of proportionate voting shares outstanding during the period. Diluted loss per common share is computed by dividing the allocated net loss and comprehensive loss by the weighted-average number of common shares together with the number of additional common shares that would have been outstanding if all potentially dilutive common shares had been issued, unless anti-dilutive. Diluted loss per proportionate voting share is computed by dividing the allocated net loss and comprehensive loss by the weighted-average number of proportionate voting shares outstanding during the period.

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

	Year Ended December 31,	
	2021	2020
Net loss and comprehensive loss	$ (137,722)	$ (30,681)
Weighted-average number of common shares - basic	140,769,247	88,996,249
Dilutive effect of stock options and awards	—	—
Weighted-average number of proportionate voting shares - basic	—	90,040
Weighted-average number of common shares - diluted	140,769,247	88,996,249
Weighted-average number of proportionate voting shares - diluted	—	90,040
Loss per common share – basic and diluted	$ (0.98)	$ (0.25)
Loss per proportionate voting share – basic and diluted	$ —	$ (98.17)

As of December 31, 2021 and 2020, potentially dilutive securities include stock options, restricted share units, broker warrants, and common share warrants. When the Company recognizes a net loss and comprehensive loss from continuing operations, all potentially dilutive shares are anti-dilutive and are consequently excluded from the calculation of diluted net loss per share. The potentially dilutive awards outstanding for each year are presented in the table below:

	Year Ended December 31,	
	2021	2020
Outstanding options	3,343,883	3,330,206
Outstanding restricted share units	1,816,851	456,675
Outstanding common share warrants	6,983,140	10,142,872
Total	12,143,874	13,929,753

14. SHARE-BASED COMPENSATION

Share Incentive Plans

2015 Plan

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

2018 Plan

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

The aggregate number of common shares of the Company as to which share incentive awards may be granted from time to time under both the 2015 Plan and 2018 Plan shall not exceed 13,500,000 shares. The maximum exercise period of any option grant shall not exceed ten years from the date of grant. The share incentive awards vest over a time-based service period, generally a period of one to four years, and are settled in equity. The number of available awards at December 31, 2021, was 8,855,118.

Stock options

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

The fair values of options granted during the period were determined using a Black-Scholes model. The following principal inputs were used in the valuation of awards issued for the years ended December 31, 2021 and 2020:

	Year Ended December 31,	
	2021	2020
Expected volatility	82.0% - 86.5%	84.1% - 87.4%
Expected term (years)	5.0 – 7.0	0.3 – 7.0
Risk-free interest rate	1.3% - 1.7%	0.5% - 1.4%
Expected dividend yield	0%	0%
Value of underlying share	$1.02 - $4.70	$2.40 - $7.13

Detail of the number of stock options outstanding for the years ended December 31, 2021 and 2020 under the 2015 and 2018 plans is as follows:

	Number of Options	Weighted-Average Exercise Price per Option	Weighted-Average Remaining Contract Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2020	3,330,206	$ 3.93	7.83	$ 4,955,658
Granted	1,290,662	3.56		
Exercised	(8,261)	3.64		
Forfeited (and expired)	(1,268,724)	5.57		
Outstanding as of December 31, 2021	3,343,883	$ 3.16	7.54	$ 1,039,229
Exercisable/vested as of December 31, 2021	2,003,375	$ 2.56	5.54	$ 941,729

For the options outstanding at December 31, 2021, the weighted average remaining contractual life is 7.54 years. The weighted average grant-date fair value of options granted during the year ended December 31, 2021 was $3.56.

For the options outstanding at December 31, 2020, weighted average remaining contractual life is 7.83 years. The weighted average grant-date fair value of options granted during the year ended December 31, 2020 was $4.92.

The weighted average share price at the date of exercise of options exercised during the years ending December 31, 2021 and 2020 was $4.85 and $5.20, respectively.

Vesting of awards under these plans were generally time based over a period of one to four years. For the 720,261 option awards vested during the year ended December 31, 2021, the weighted average grant date fair value was $5.93. For the 1,004,939 option awards vested during the year ended December 31, 2020, the weighted average grant date fair value was $4.84.

Of the 3,343,883 options outstanding at December 31, 2021, 1,300,012 options have an exercise price of $0.56, and the remaining 2,043,871 options have an exercise price ranging between $1.02 and $21.10.

Restricted share units

The Company has issued time-based restricted share units to certain employees as permitted under the 2018 Plan. The restricted share units granted vest in accordance with the board-approved agreement, typically over equal installments over one to four years. Upon vesting, one share of the Company's common shares is issued for each restricted share awarded. The fair value of each restricted share unit granted is equal to the market price of the Company's shares at the date of the grant. The fair value of shares vested during the year ended December 31, 2021 was $751.

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

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of December 31, 2020	456,675	$ 6.47
Granted	2,160,313	2.50
Forfeited	(584,290)	5.07
Vested	(182,727)	5.40
Outstanding as of December 31, 2021	1,816,851	$ 2.28

Share-based Compensation Expense

Share-based compensation expense for all equity arrangements for the years ended December 31, 2021 and 2020 was $5,483 and $4,326, respectively, included in selling, general and administrative expense in the consolidated statements of operations and comprehensive loss.

As of December 31, 2021, and 2020, there was approximately $4,638 and $6,769 of total unrecognized share-based compensation expense, related to unvested options granted to employees under the Company's share option plan that is expected to be recognized over a weighted average period of 2.27 years as of each year ended.

15. INCOME TAXES

Loss before provision for income taxes for the years ended December 31, 2021 and December 31, 2020 consists of the following:

	Year Ended December 31,	
	2021	2020
U.S. loss	$ (137,589)	$ (38,793)
Foreign income	10	98
Total current	$ (137,579)	$ (38,695)

The major components of income tax (expense) benefit attributable to loss from operations consists of:

	Year Ended December 31,	
	2021	2020
Current:		
Federal	$ 50	$ 8,217
State	(33)	(176)
Foreign	(160)	(7)
Total current	$ (143)	$ 8,034
Deferred:		
Federal	—	—
State	—	—
Foreign	—	(20)
Total deferred	—	(20)
Total income tax (expense) benefit	$ (143)	$ 8,014

Income tax (expense) benefit attributable to loss from continuing operations for the years ended December 31, 2021 and 2020 differed from the amounts computed by applying the U.S. federal income tax rates of 21.0%, as a result of the following:

	Year Ended December 31,	
	2021	2020
U.S. federal statutory tax rate	21.0%	21.0%
State income taxes, net of federal tax benefit	1.8%	4.7%
Share-based compensation	(0.3)%	7.2%
Change in fair value of financial instruments and other	1.4%	6.1%
Non-deductible transaction costs	—%	(2.1)%
Goodwill impairment[1]	(11.4)%	—%
Changed in valuation allowance[2]	(12.5)%	(18.5)%
Research and development tax credit	0.4%	2.9%
Other, net	(0.5)%	(0.6)%
Effective tax rate	(0.1)%	20.7%

[(1)]During the year ended December 31, 2021, the Company impaired its goodwill associated with the acquisition of Abacus. A portion of this impairment charge is permanently disallowed for tax purposes.

[(2)]During the year ended December 31, 2021, the Company maintained a full valuation allowance on its deferred tax assets.

In March 2020, the President of the United States signed into law the Coronavirus Aid, Relief and Economic Security ("CARES") Act, a substantial tax-and-spending package intended to provide additional economic stimulus to address the impact of the COVID-19 pandemic. The CARES Act, among other things, allows for the Company to carryback certain net operating losses ("NOLs") generated in 2019. The impact of the carryback of our 2019 net operating losses resulted in an additional refund of $8,056, and is reflected in income taxes receivable as of December 31, 2021 and 2020. The carryback also resulted in an income tax benefit of $8,056, consisting of $6,218 due to the ability to recognize the net operating loss deferred tax asset and $1,838 from the rate differential between the tax effective in the carryback period and the 21% federal tax rate in 2019. The difference in the income tax receivable and the income tax benefit relates to incremental R&D credits claimed in the years the carryback was applied. These incremental tax credits recorded are also subject to the valuation established against net deferred tax assets. The Company previously recognized $3,273 of income taxes receivable related to overpayments made in 2019. The CARES Act, 2019 overpayments, and miscellaneous other income taxes receivable result in total income taxes receivable as of December 31, 2020 of $11,440. During the year ended December 31, 2021, the Company received $676 of the outstanding incomes taxes receivable related to state refunds.

The components of deferred tax assets and liabilities are as follows:

	December 31,	
	2021	2020
Deferred tax assets:		
Net operating loss and other carryforwards	$ 45,557	$ 33,961
Share-based compensation	1,853	1,717
Inventory provision and UNICAP 263A	4,191	4,653
Lease liability	5,586	5,455
Other	385	1,186
Property and equipment	121	—
Intangible assets	514	—
Total deferred tax assets	$ 58,207	$ 46,972
Valuation allowance	(52,888)	(35,685)
Total deferred tax assets, net	$ 5,319	$ 11,287
Deferred tax liabilities:		
Property and equipment	$ —	$ (851)
Intangibles	—	(5,127)
Right of use assets	(5,110)	(5,103)
Warrants	(209)	(206)
Total deferred tax liabilities	$ (5,319)	$ (11,287)
Net deferred taxes (liabilities)	$ —	$ —

The realization of deferred income tax assets may be dependent on the Company's ability to generate sufficient income in future years in the associated jurisdiction to which the deferred tax assets relate. The Company considers

all available positive and negative evidence, including scheduled reversals of deferred income tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Based on the review of all positive and negative evidence, including a three-year cumulative pre-tax loss, the Company continues to believe its deferred tax assets are not more-likely-than-not to be realized and, as such, a full valuation allowance is recorded against net deferred taxes. For the years ended December 31, 2021 and 2020, the Company's valuation allowance increased by $17,203 and $11,251, respectively, primarily related to the incremental net operating losses.

As of December 31, 2021, the Company has federal and state net operating losses of approximately $170,443 and $144,225, respectively. The entire federal NOLs are post-2017 NOL and therefore can be carried forward indefinitely and the state NOLs will begin to expire on December 31, 2029. The Company also has a research and development credit carryforward of $1,788 as of December 31, 2021.

Tax laws impose restrictions on the utilization of net operating loss carryforwards and research and development credit carryforwards in the event of a change in ownership of the Company as defined by Internal Revenue Code Section 382 and 383. The Company may have experienced ownership changes in the past that impact the availability of its net operating losses and tax credits. Should there be additional ownership changes in the future, the Company's ability to utilize existing carryforwards could be substantially restricted.

Uncertain tax position

A reconciliation of the beginning and ending amount of uncertain tax positions as of December 31, 2021 and 2020 is as follows:

Balance at December 31, 2020	$	134
Additions for current year tax positions		52
Additions for prior year tax positions		—
Reductions for prior year tax positions		(7)
Reductions as a result of settlement with tax authority		—
Balance at December 31, 2021	$	179

Balance at December 31, 2019	$	—
Additions for current year tax positions		55
Additions for prior year tax positions		79
Reductions for prior year tax positions		—
Reductions as a result of settlement with tax authority		—
Balance at December 31, 2020	$	134

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

materially affect the Company's effective income tax rate and income tax provision. The Company's policy is to recognize interest and penalties on taxes, if any, as income tax expense.

If recognized, none of the uncertain tax positions would affect the effective tax rate. The Company does not anticipate any significant changes to the uncertain tax positions in the next twelve months.

The Company files income tax returns in the U.S. federal and various state jurisdictions and Israel. In the normal course of business, it is subject to examination by taxing authorities throughout the world. The Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities in years before 2018.

16. RELATED PARTY TRANSACTIONS

Aidance Scientific, Inc. ("Aidance") is the manufacturer of nearly all Abacus Health products. The former Chief Executive Officer of Abacus Health, and a current Officer of the Company, also serves on Aidance's Board of Directors. For the years ended December 31, 2021 and 2020, the Company made purchases of $3,570 and $2,758, respectively from Aidance. Payment terms on purchases are due 30 days after receipt. As of December 31, 2021, the Company had a liability of $119 due to Aidance presented in accounts payable in the consolidated balance sheets.

Effective November 2020, the Company entered into a note receivable with certain founders of the Company to negotiate a future binding transaction in good faith. This agreement included a secured promissory note, where $1,000 was loaned to one of the founders. The note receivable is secured by equity instruments with certain founders of the Company, is carried at amortized cost, bears interest at 3.25% per annum, and required the unpaid principal and unpaid interest balances to be paid on or before the maturity date of November 13, 2021. Interest income is recognized based upon the contractual interest rate and unpaid principal balance of the promissory note. As of December 31, 2021, the founders owed the Company $1,037 consisting of principal and interest. The founders requested an extension of the maturity date, as allowed under the terms of the promissory note, resulting in an extension of the maturity date to November 13, 2023. The founders' equity instruments securing the promissory note remained in place and interest will continue to accrue on the note. On March 22, 2022, the Company and the founders amended the agreement to increase the equity instruments securing the promissory note. As a result of this amendment and the liquid and quantifiable value of the shares pledged, the Company does not believe there is an estimated credit loss on the note receivable as of December 31, 2021. The Company will continue to evaluate the note receivable for changes to credit loss estimates through the extended maturity date.

On March 2, 2021, the Company entered into the SBH Purchase Option with Stanley Brothers USA as discussed above (note 4). The SBH Purchase Option was purchased for total consideration of $8,000. Certain founders of the Company, who are or were employees at the time, are the majority shareholders of Stanley Brothers USA.

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 year ended December 31, 2021, the Company recognized $1,056 of sales and marketing expenses in the condensed consolidated statements of operations and comprehensive loss related to this agreement. The remaining $1,025 is presented in prepaid expenses in the condensed consolidated balance sheets.