The Management's Discussion and Analysis of Financial Condition and Results of Operations for Charlotte's Web Holdings, Inc. is 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 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with, and is qualified in its entirety by, the audited consolidated financial statements and the accompanying notes. Except for historical information, the discussion in this section contains forward-looking statements that involve risks and uncertainties. Future results could differ materially from those discussed below for many reasons, including the risks described in Item 1A—"Risk Factors."

MD&A of Charlotte's Web Holdings, Inc.

For purposes of this discussion, "Charlotte's Web," "CW," "we," or the "Company" refers to Charlotte's Web Holdings, Inc. and its subsidiaries: Charlotte's Web, Inc. and Abacus Products, Inc., and its wholly-owned subsidiaries; Abacus Wellness, Inc. and CBD Pharmaceuticals Ltd. This management's discussion and analysis of financial condition and results of operations ("MD&A") is provided as of March 24, 2022 and should be read together with the Company's audited consolidated financial statements and the accompanying notes for the years ended December 31, 2021 and December 31, 2020. The results herein have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Company determined that, as of June 30, 2021, more than 50% of the Company's issued and outstanding voting shares were directly or indirectly owned of record by residents in the United States. As a result of this fact and certain other requirements under applicable United States federal securities laws, the Company determined that it would lose its foreign private issuer status under applicable United States federal securities laws and, in connection with the effectiveness of the Company's Form 10 Registration Statement, became subject to SEC reporting requirements applicable to U.S. domestic companies beginning on January 4, 2022. These U.S. reporting requirements require, among other things, the Company's financial statements and financial data to be presented under U.S. GAAP. After becoming an SEC reporting issuer, the manner in which the Company raises capital will now be different and will likely require that the Company file registration statements with the SEC related to such activities, which will likely increase the time and expense associated with such activities.

Amounts are presented in thousands of United States dollars, unless otherwise indicated.

BUSINESS OVERVIEW

Charlotte's Web Holdings, Inc., a Certified B Corp headquartered in Denver, Colorado, is a market leader in innovative hemp extract wellness products under a family of brands which includes Charlotte's Web™, CBD Medic™, CBD Clinic™, and Harmony Hemp™. Charlotte's Web branded premium quality products start with proprietary hemp genetics that are 100% North American farm grown and manufactured into hemp extracts containing naturally occurring phytocannabinoids including CBD, cannabichromene ("CBC"), cannabigerol ("CBG"), terpenes, flavonoids and other beneficial hemp compounds. The Company moved into its new cGMP facility in Louisville, Colorado, the LOFT, during the second quarter of 2020 at which the Company conducts its production, distribution, and quality control activities, and has expanded it's R&D. Charlotte's Web product categories include full spectrum hemp extract oil tinctures (liquid products), gummies (sleep, stress, immunity, exercise recovery), capsules, CBD topical creams and lotions, as well as products for pets. Charlotte's Web products are distributed to more than 15,000 retail doors and 8,000 health care practitioners, and online through the Company's website at www.CharlottesWeb.com. The information provided on the Charlotte's Web website is not part of this MD&A.

The business of the Company consists of the farming, manufacturing, sales, and marketing of products of hemp-derived CBD wellness products. As of December 31, 2021, the Company operated in a single operating and reportable segment, hemp-derived CBD wellness products, as its executive officers reviewed overall operating results in order to assess financial performance and to make resource allocation decisions, rather than to assess a lower-level unit of operations in isolation.

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

Hemp extracts are produced from the plant Cannabis and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a THC concentration of not more than 0.3% on a dry weight basis. The Company is engaged in research involving a broad variety of compounds derived from Hemp. Where such research evidences that a greater than 0.3% THC level may have a potential therapeutic use, the Company may consider pursuing development of that use in jurisdictions where it is legal to do so in accordance with applicable regulations and if consistent with the Company's founding principles.

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 the Stanley Brothers USA Holdings Purchase Option ("SBH Purchase Option") pursuant to which the Company has the option to acquire Stanley Brothers USA, a Cannabis wellness incubator. Until the SBH Purchase Option is exercised, both Charlotte's Web and Stanley Brothers USA will continue to operate as standalone entities in the US. Outside the US, the companies are able to explore opportunities where Cannabis is federally permissible. At this time, however, the Company does not have any plans to expand into high-THC products in the near future.

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.

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

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

Selected Financial Information

	Year Ended December 31,	
	2021	2020
Total revenues	$ 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 (expense), net	51	1,330
Change in fair value of financial instruments and other	9,429	11,317
Income tax expense	(143)	8,014
Net loss and comprehensive loss	$ (137,722)	$ (30,681)
Total assets	$ 171,513	$ 310,787
Long-term liabilities	$ 20,897	$ 27,671

Revenue

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

	Year Ended December 31,		% Increase (Decrease)
	2021	2020	
Total revenue	$ 96,092	$ 95,226	0.9 %
Direct-to-consumer ("DTC") revenue	$ 62,334	$ 63,826	(2.3)%
Business-to-business ("B2B") revenue	$ 33,758	$ 31,400	7.5 %

Total revenue for the year ended December 31, 2021 was $96,092, an increase of 0.9% compared to the year ended December 31, 2020. B2B revenue increased 7.5% compared to the year ended December 31, 2020 due to consumers returning to brick and mortar retail shopping following the lifting of COVID-19 lockdowns, higher sales volume from the acquisition of Abacus, which occurred in June of 2020, and new distribution on pet, topicals and gummy products, partially offset by product mix. DTC e-commerce revenue decreased 2.3% reflecting decreased online traffic, increased discounting, and product mix, partially offset by incremental demand for the Company's new topical and THC-free ingestible products.

Cost of Goods Sold

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

The components of cost of goods sold are as follows:

	Year Ended December 31,		% Increase (Decrease)
	2021	2020	
Cost of goods sold	$ 47,507	$ 42,937	10.6 %
Inventory expensed to cost of goods sold	28,620	26,870	6.5 %
Inventory provision, net	9,729	8,025	21.2 %
Other production costs	6,180	6,864	(10.0)%
Depreciation and amortization	2,978	1,178	NM*

* - Not meaningful.

Cost of goods sold increased 10.6% for the year ended December 31, 2021 compared to the same period in 2020, primarily due to higher unit sales volume and higher depreciation and occupancy costs related to the Company's new production facility ("LOFT"), and an increase in inventory provisions, partially offset by cost savings. The investment in the LOFT facility was predicated to provide cost savings in the future.

An inventory provision is estimated by management 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. For the year ended December 31, 2021, the inventory provision charge increased 21.2% due to reserves primarily related to bulk dilution, extract, and hemp, based on management's determination during the fourth quarter that these inventories would no longer be used in product formulations, as well as aged finished goods. The Company's shelf life specifications vary by product category and brand, and range from 18 months to two years. Human ingestible products including tinctures, capsules, and gummies have a shelf life of two years, two years, and 18 months, respectively. Charlotte's Web branded topical products have a two year shelf life and the CBD CLINIC, CBDMEDIC, and Harmony Hemp brands of Abacus topical products have an 18 month shelf life. Pet tinctures have a two year shelf life and pet chews have an 18 month shelf life.

Depreciation and amortization expense for the year ended December 31, 2021 and 2020 was $11,025 and $6,847, respectively, of which $2,978 and $1,178, respectively, was expensed to cost of goods sold. The increase in depreciation and amortization expensed to Cost of goods sold is primarily the result of investments in equipment and machinery and leasehold improvements related to the LOFT in 2020 and 2021. The remaining depreciation and amortization expenses of $8,047 and $5,669, respectively, was expensed to Selling, general, and administrative expenses.

Gross Profit

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

Gross profit for the years ended December 31, 2021 and 2020 is as follows:

	Year Ended December 31,		% Increase (Decrease)
	2021	2020	
Gross profit	$ 48,585	$ 52,289	(7.1)%
Percentage of revenue	50.6%	54.9%	

Gross profit decreased 7.1% for the year ended December 31, 2021 compared to 2020. The decrease is primarily related to higher depreciation and occupancy costs related to the Company's new production facility ("LOFT"), as well as increases in inventory provisions and product mix, partially offset by higher unit sales volume, including from the acquisition of Abacus.

Selling, General, and Administrative Expenses

Total Selling, general, and administrative expenses are as follows:

	Year Ended December 31,		% Increase (Decrease)
	2021	2020	
Selling, general, and administrative expenses	$ 97,641	$ 103,631	(5.8)%

Total Selling, general, and administrative expenses for the year ended December 31, 2021 and 2020 were $97,641 and $103,631, respectively. The 5.8% decrease was primarily attributable to a decrease in legal and professional services related to legal settlement costs and legal and other acquisition costs for the acquisition of Abacus during the year ended December 31, 2020. Depreciation and amortization expensed to Selling, general, and administrative expenses for the year ended December 31, 2021 and 2020 were $8,047 and $5,669, respectively, primarily related to amortization of intangible assets acquired in conjunction with the acquisition of Abacus.

Total research and development expenses expensed to Selling, general, and administrative expense for the year ended December 31, 2021 and 2020 were $5,502 and $5,951, respectively. Research and development expenses primarily include personnel costs related to our R&D science division as well as R&D related projects advancing hemp cannabinoid science through research programs that provide a better understanding of the therapeutic uses and of cannabinoids.

Goodwill and asset impairments

The Company fully impaired the goodwill and intangible assets related to customer relationships and trade names recorded from the acquisition of Abacus during the year ended December 31, 2021 totaling $76,039 and $19,750, respectively. The Company did not record any goodwill and asset impairments for the year ended December 31, 2020.

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 and overall U.S. stock market, 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, market approach, and market capitalization 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.

The factors listed above representing a goodwill triggering event also indicated a triggering event for the Company's acquired customer relationships and trade name intangible assets. 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 of customer relationships and trade name intangible assets acquired and total an impairment loss of $19,750 was recorded for the year ended December 31, 2021

Total Change in Fair Value of Financial Instruments and Other

Total change in fair value of financial instruments and other is as follows:

	Year Ended December 31,		% Increase (Decrease)
	2021	2020	
Change in fair value of financial instruments and other	$ 9,429	$ 11,317	(16.7)%

Total change in fair value of financial instruments and other for the year ended December 31, 2021 and 2020 was $9,429 and $11,317, respectively. For the year ended December 31, 2021, the change in fair value of financial instruments and other was primarily driven by the revaluation of the fair value of the Company's warrant liabilities and SBH Purchase Option for $4,304 and $5,000, respectively. For the year ended December 31, 2020, the change in fair value of financial instruments and other was driven by the revaluation of the fair value of the Company's warrant liabilities. The fair value of Company's warrant liabilities is revalued at each reporting date with changes primarily based on changes to the Company's share price input to the Black-Scholes option pricing model. The fair value of the Company's SBH Purchase option is revalued at each reporting date with changes primarily based on changes in financial projections of Stanley Brothers USA and the probability and timing of exercise.

Provision for Income Taxes

	Year Ended December 31,		% Increase (Decrease)
	2021	2020	
Income tax (expense) benefit	$ (143)	$ 8,014	(101.8)%
Effective tax rate	(0.1)%	20.7 %	

The Company’s effective tax rate during the year ended December 31, 2021 and 2020 was (0.1)% and 20.7% respectively. The effective tax rate for the year ended December 31, 2021 is (0.1)% as the Company continues to believe its deferred tax assets are not more-likely-than-not to be realized and a full valuation allowance remains recorded against net deferred taxes as of December 31, 2021 and 2020. The effective rate for the year ended December 31, 2021 is lower than the year ended December 31, 2020, primarily due to the tax benefits from the Coronavirus Aid, Relief and Economic Security, or CARES, Act and the net operating loss carry back claim made in 2020.

Liquidity and Capital Resources

As of December 31, 2021 and 2020, the Company had total current liabilities of $20,170 and $28,874, respectively, and cash and cash equivalents of $19,494 and $52,803, respectively, to meet its current obligations. The Company believes it will be cash neutral in 2022.

The Company's ability to fund operating expenses and capital expenditures for the next twelve months and thereafter will depend on its future operating performance which will be affected by general economic conditions, financial, regulatory, FDA, and other factors including factors beyond the Company's control (See Item 1A - *"Risks Factors"*). From time-to-time, Management reviews acquisition opportunities and if suitable opportunities arise, may make selected acquisitions to implement the Company's business strategy.

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

The Company has an asset backed line of credit with J.P. Morgan for $10,000 with an option in certain circumstances to increase the line of credit to $20,000. The current maturity date is March 23, 2023. The line of credit agreement requires compliance by the Company with certain debt covenants. 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.

The Company filed the final short form base shelf prospectus on May 5, 2021 with Canadian regulators, with a term of 25-months, which allows the Company to qualify the distribution by way of prospectus in Canada of up to C$350,000 of common shares, preferred shares, warrants, subscription receipts, units, or any combination thereof. The final short form base prospectus expires on June 6, 2023. The Company filed a prospectus supplement to distribute up to C$60,000 of common shares of the Company (the "Offered Shares") under the ATM Program. The Offered Shares may be issued by the Company to the public from time to time, through the Agents, at the Company's discretion. The Offered Shares sold under the ATM Program, if any, will be sold at the prevailing market price at the time of sale under the ATM Program. As of December 31, 2021, C$49,007 was available for issuance. As discussed above, 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.

Cash Flows

Cash from Operating Activities

Net cash used in operating activities for the year ended December 31, 2021 and 2020 were as follows:

(in thousands)	**Year Ended December 31,**	
	2021	**2020**
Net cash used in operating activities	$ (29,559)	$ (52,029)

For the year ended December 31, 2021, the decrease in cash used in operations is primarily due to favorable working capital, including lower accounts payable, inventory and prepaid expenses. Additionally, there was a decrease in cash outflows related to cultivation payments for the year ended December, 31, 2021.

Cash from Investing Activities

Net cash used in investing activities for the year ended December 31, 2021 and 2020 were as follows:

(in thousands)	Year Ended December 31,	
	2021	2020
Net cash used in investing activities	$ (11,789)	$ (19,157)

For the year ended December 31, 2021, the decrease in cash used in investing activities was driven by lower capital expenditures as the build-out of the LOFT was substantially completed in 2020, partially offset by the SBH Purchase Option that was executed for total consideration of $8,000 the cash acquired from the acquisition of Abacus of $11,181 in 2020.

Cash from Financing Activities

Net cash provided by financing activities for the year ended December 31, 2021 and 2020 were as follows:

(in thousands)	Year Ended December 31,	
	2021	2020
Net cash provided by financing activities	$ 8,039	$ 55,436

For the year ended December 31, 2021, the decrease in cash provided by financing activities was primarily due to higher proceeds from the Company's share offering completed in 2020 as compared to proceeds from the Company's ATM Program in 2021. There was also less cash provided in 2021 driven by fewer exercises of stock options.

Outstanding Share Data

The Company’s authorized share capital consists of (i) an unlimited number of common shares; (ii) an unlimited number of proportionate voting shares (each proportionate voting share is equal to 400 common shares in terms of voting and economic rights); and (iii) an unlimited number of preferred shares, issuable in series. On November 3, 2021, all outstanding proportionate voting shares of the Company were converted by way of mandatory conversion in accordance with the Company’s Articles and at the discretion of the Company, into common shares. Following this conversion, and as of the close of business on November 3, 2021, 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.

As of March 22, 2022, 145,110,106 common shares were issued and outstanding and nil preferred shares were issued and outstanding. As of March 22, 2022, potential dilutive securities include (i) stock options exercisable to purchase 1,300,012 common shares pursuant to the Company’s 2015 legacy option plan with a weighted average exercise price of $0.5556; (ii) stock options exercisable to purchase 3,677,024 common shares pursuant to the Company’s 2018 option plan, as amended, with a weighted average exercise price of $2.61; (iii) 5,750,000 common share warrants with an exercise price of C$8.50; (iv) 1,233,140 common share purchase warrants with a weighted average exercise price of $15.29 and (v) 2,692,683 restricted share units ("RSUs"). Each option and restricted share award entitles the holder to purchase one common share.

Off-Balance Sheet Arrangements

As of December 31, 2021, we do not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on our results of operations or financial condition, including, and without limitation, such considerations as liquidity and capital resources.

Related party transactions

	December 31,	
	2021	2020
Secured promissory notes dated November 13, 2020[(1)]	$ 1,037	$ 1,004
Total due from related party (current portion notes receivable)	$ 1,037	$ 1,004

[(1)]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.

Prepaid Expenses

On April 16, 2021, pursuant to the amendment to the Name and Likeness Agreement between the Company and Stanley 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 Stanley 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 selling, general, and administrative expenses in the consolidated statements of operations and comprehensive loss related to this agreement. The remaining $1,025 is presented in prepaid expenses on the condensed consolidated balance sheets.

Financial Instruments

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

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 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. 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 condensed 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. Additional assumptions used in the model include expected volatility, expected term (years), risk-free interest rate, and weighted average cost of capital.

Accounts payable

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

Recently Adopted Accounting Principles

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 and should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption and early adoption is permitted. 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.

Critical Accounting Estimates

Listed below are the accounting policies we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported. Please also refer to note 2 of our notes to consolidated financial statements for a discussion on recently adopted and issued accounting pronouncements.

Fair Value 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 in the consolidated balance sheets and is remeasured at fair value at each reporting date, with changes to fair value recognized in the 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. 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 asserted by the Company.

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. To determine if a provision for inventories is required, 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 inventories of harvested hemp are recorded at cost to grow and harvest. Raw materials costs as well as production costs are included in the carrying value of the Company's finished goods inventory.

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 performed 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. Goodwill is evaluated at the level of the Company's single operating segment which also represents the Company's only reporting unit. The Company determined that there was $76,039 of impairment of its goodwill for the year ended December 31, 2021.

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. Impairment losses are recorded in selling, general, and administrative expense in the consolidated statements of operations and comprehensive loss. There was $21,964 of impairment losses recognized for the year ended December 31, 2021.

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. The Company assesses 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 ASC 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 as of December 31, 2021 and December 31, 2020. The Company's policy is to recognize interest and penalties on taxes, if any, within operations as income tax expense.

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.