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-Q for the quarter ended March 31, 2022 filed on SEDAR on May 16, 2022 in its entirety.

This document (this "MD&A") contains information under the heading "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" which has been excerpted from Charlotte's Web Holdings, Inc.'s (the "Company" or "our") Quarterly Report on Form 10-Q for the quarter ended March 31, 2022 (the "First Quarter Report") filed concurrently with this MD&A on the date hereof on our profile on SEDAR at www.sedar.com and on EDGAR at www.sec.gov. This MD&A should be read in conjunction with our First Quarter Report, including Item 18 containing the Company's consolidated financial statements and the related notes thereto as well as Item 1 "Business" and Item 1A "Risk Factors". This MD&A incorporates by reference herein the section entitled "Disclosure Regarding Forward-Looking Statements" and Item 1A "Risk Factors" from our First Quarter Report. Defined terms used herein but otherwise not defined have the meaning ascribed to them in the First Quarter Report.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q ("Form 10-Q") contains statements that are, or may be considered to be, "forward-looking statements." Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on current beliefs, expectations or assumptions regarding the future of the business, future plans and strategies, operational results and other future conditions. All statements other than statements of historical fact included in this Form 10-Q regarding the prospects of Charlotte's Web Holdings, Inc., ("Charlotte's Web", the "Company" or "we") the industry or its prospects, plans, financial position or business strategy may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking words such as "plans," "expects" or "does not expect," "is expected," "look forward to," "budget," "scheduled," "estimates," "forecasts," "will continue," "intends," "the intent of," "have the potential," "anticipates," "does not anticipate," "believes," "should," "should not," or variations of such words and phrases that indicate that certain actions, events or results "may," "could," "would," "might," or "will," "be taken," "occur," or "be achieved," or the negative of these terms or variations of them or similar terms. Furthermore, forward-looking statements may be included in various filings that the Company makes with the SEC or press releases or oral statements made by or with the approval of one of the Company's authorized executive officers. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it cannot assure you that these expectations will prove to be correct. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. (All capitalized and undefined terms used in this section shall have the same meanings hereafter defined in this Quarterly Report on Form 10-Q.)

The following discussion and analysis of financial condition and results of operations should be read in conjunction with, and is qualified in its entirety by, the unaudited condensed consolidated financial statements and the accompanying notes in this Form 10-Q and the sections entitled "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2021. Except for historical information, the discussion in this section contains forward-looking statements that involve risks and uncertainties, as discussed in the "Cautionary Note Regarding Forward Looking Statements." Future results could differ materially from those discussed below for many reasons, including the risks described in Item 1A—"Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021 and in Part II, Item 1A—Risk Factors" of this Form 10-Q.

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 Health Products, Inc., Abacus Wellness, Inc. and CBD Pharmaceuticals Ltd. The results herein have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

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 its 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 March 31, 2022, 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 sativa L. ("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 delta-9 tetrahydrocannabinol ("THC") concentration of not more than 0.3% on a dry weight basis ("Hemp"). 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 Holdings, SPINS LLC, 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 plans 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 plans 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

	As of and for the Three Months Ended March 31	
	2022	**2021**
Total revenues	$ 19,356	$ 23,407
Cost of goods sold	7,643	9,770
Gross profit	11,713	13,637
Selling, general, and administrative expenses	20,355	23,786
Operating loss	(8,642)	(10,149)
Other income (expense), net	(84)	105
Change in fair value of financial instruments and other	100	(2,696)
Income tax expense	—	(34)
Net loss and comprehensive loss	$ (8,626)	$ (12,774)
Total assets	$ 160,824	$ 295,553
Total liabilities	$ 37,672	$ 52,534

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.

	Three Months Ended March 31,		%
	2022	2021	(Decrease)
Total revenue	$ 19,356	$ 23,407	(17.3)%
Direct-to-consumer ("DTC") revenue	13,138	16,130	(18.5)%
Business-to-business ("B2B") revenue	6,218	7,277	(14.6)%

Total revenue for the three months ended March 31, 2022 was $19,356, a decrease of 17.3% compared to the three months ended March 31, 2021. DTC e-commerce revenue decreased 18.5% year-over-year. The decrease was attributable to lower traffic at the Company's online store, wildfire shipping delays, and an industry-wide consumer shift to lower-priced CBD products; primarily gummies and topical products, where Charlotte's Web is the market share leader. The decreased online traffic, was due to lessened promotional frequency, partially offset by stronger subscriptions and higher conversion rates. B2B revenue decreased 14.6% compared to the three months ended March 31, 2021, due to reduced shipments to some of the Company's largest retail customers after the warehouse closure and some supply chain challenges on top selling clinic SKUs. This was partially offset by new retail distribution in grocery, natural, and pet retail, following the passing of Assembly Bill 45 in California.

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:

	Three Months Ended March 31,		%
	2022	2021	(Decrease)
Cost of goods sold	$ 7,643	$ 9,770	(21.8)%
Inventory expensed to cost of goods sold	5,866	7,213	(18.7)%
Inventory provision, net	—	333	(100.0)%
Other production costs	923	1,437	(35.8)%
Depreciation and amortization	854	787	8.5 %

Cost of goods sold decreased 21.8% for the three months ended March 31, 2022 compared to the three months ended March 31, 2021, primarily due to lower unit sales volume, lower shipping costs, product mix and a decrease in inventory provisions.

Depreciation and amortization expense for the three months ended March 31, 2022 and March 31, 2021 was $2,078 and $2,668, respectively, of which $854 and $787, respectively, was expensed to cost of goods sold. The remaining depreciation and amortization expenses of $1,224 and $1,881, respectively, was expensed to Selling, general, and administrative expenses. The decrease in depreciation and amortization is attributable to us writing off all of our intangible assets in December 2021.

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 three months ended March 31, 2022 and March 31, 2021 is as follows:

	Three Months Ended March 31,		%
	2022	**2021**	**(Decrease)**
Gross profit	$ 11,713	$ 13,637	(14.1)%
Percentage of revenue	60.5%	58.3%	

Gross profit decreased 14.1% for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The decrease is primarily related to lower net revenue in both the DTC and B2B channels which we discussed above while, partially offset by lower period expenses, improved product mix and a decrease in inventory provisions.

Selling, General, and Administrative Expenses

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

	Three Months Ended March 31,		%
	2022	**2021**	**(Decrease)**
Selling, general, and administrative expenses	$ 20,355	$ 23,786	(14.4)%

Total Selling, general, and administrative expenses for the three months ended March 31, 2022 and March 31, 2021 were $20,355 and $23,786, respectively. The 14.4% decrease was primarily attributable to a decrease in personnel, legal and professional services costs along with lower depreciation and amortization. Depreciation and amortization expensed to Selling, general, and administrative expenses for the three months ended March 31, 2022 and March 31, 2021 were $1,224 and $1,881, respectively.

Total research and development expenses expensed to Selling, general, and administrative expense for the three months ended March 31, 2022 and March 31, 2021 were $1,170 and $1,308, 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.

Total Change in Fair Value of Financial Instruments and Other

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

	Three Months Ended March 31,		%
	2022	2021	(Decrease)
Change in fair value of financial instruments and other	$ 100	$ (2,696)	(103.7)%

Total change in fair value of financial instruments and other for the three months ended March 31, 2022 and March 31, 2021 was $100 and $(2,696), respectively. For the three months ended March 31, 2022, the change in fair value of financial instruments and other was primarily driven by the revaluation of the fair value of the Company's SBH Purchase Option for $100. For the three months ended March 31, 2021, 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.

Liquidity and Capital Resources

As of March 31, 2022 and December 31, 2021, the Company had total current liabilities of $17,794 and $20,170, respectively, and cash and cash equivalents of $14,497 and $19,494, respectively, to meet its current obligations. The Company believes it will be cash neutral in 2022.

The Company's primary sources of liquidity are its Net cash flows, and sales of its securities from time to time. 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. 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 receivable, 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 March 31, 2022 and December 31, 2021, the Company was not in compliance with certain debt covenants since March 9, 2022 and through May 16, 2022, the line of credit has been on hold. As of March 31, 2022 and May 16, 2022, 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 at-the-market equity program ("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 January 4, 2022, the ATM Program ceased to be available to the Company. The Company could reestablish this ATM once it becomes eligible for short-form registration on Form S-3, which could be as early as January 2023.

Cash Flows

Cash from Operating Activities

Net cash used in operating activities for the three months ended March 31, 2022 and March 31, 2021 were as follows:

(in thousands)	**Three Months Ended March 31,**	
	2022	**2021**
Net cash used in operating activities	$ (4,679)	$ (8,706)

For the three months ended March 31, 2022, the decrease in cash used in operations is primarily due to an improvement in the net operating loss compared to the same period in the prior year as well as 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 three months ended March 31, 2022.

Cash from Investing Activities

Net cash used in investing activities for the three months ended March 31, 2022 and March 31, 2021 were as follows:

(in thousands)	**Three Months Ended March 31,**	
	2022	**2021**
Net cash used in investing activities	$ (271)	$ (9,065)

For the three months ended March 31, 2022, 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. For the three months ended March 31, 2021 the outflow mainly related to the SBH Purchase Option that was executed for total consideration of $8,000.

Cash from Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2022 and March 31, 2021 were as follows:

(in thousands)	**Three Months Ended March 31,**	
	2022	**2021**
Net cash used in financing activities	$ (47)	$ 16

For the three months ended March 31, 2022, the change was primarily due to the vesting of restricted stock units. For the three months ended March 31, 2021, the change was primarily due payment of offering costs related to the ATM Program. \

Off-Balance Sheet Arrangements

As of March 31, 2022 and 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

	March 31, 2022	**December 31, 2021**
Secured promissory notes dated November 13, 2020[(1)]	$ 1,037	$ 1,037
Total due from related party (current portion notes receivable)	$ 1,037	$ 1,037

[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. According to the terms of the agreement, no additional interest will accrue through the payment date. 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 and to extend the maturity date to November 13, 2023. 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 March 31, 2022. 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 Leeland & Sig LLC d/b/a Stanley Brothers 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 seven Stanley brothers, as consideration for the consulting services to be provided to the Company over the term of the agreement and certain restrictive covenants. For the three months ended March 31, 2022 and March 31, 2021, the Company recognized $420 and $0, respectively, of selling, general, and administrative expenses in the condensed consolidated statements of operations and comprehensive loss related to this agreement. The remaining $604 and $1,025 is presented in prepaid expenses on the condensed consolidated balance sheets as of March 31, 2022 and December 31, 2021, respectively.

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 three months ended March 31, 2022 and March 31, 2021, a $100 gain and $0, respectively, related to the SBH Purchase Option was recognized as a change in fair value of financial instruments and other in the statements of operations and comprehensive loss. As of March 31, 2022 and December 31, 2021, the SBH Purchase Option represents a financial asset of $13,100 and $13,000, respectively, 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 former officer of the Company, also serves on Aidance's Board of Directors. For the three months ended March 31, 2022 and March 31, 2021, the Company made purchases of $673 and $1,537, respectively, from Aidance. Payment terms on purchases are due 30 days after receipt. As of March 31, 2022 and December 31, 2021, the Company has an liabilities due to Aidance presented in accounts payable in the condensed consolidated balance sheets of $294 and $119 as of March 31, 2022 and December 31, 2021, respectively.

Recently Adopted Accounting Principles

Refer to footnote 2 of the audited consolidated financial statements filed in the Company Form 10K on March 24, 2022 for more information on the recently adopted accounting principles.

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 condensed 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 condensed 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.

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 condensed consolidated statements of operations and comprehensive loss. There were no impairment losses recognized for the three months ended March 31, 2022 and 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 condensed 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 March 31, 2022 and December 31, 2021. The Company's policy is to recognize interest and penalties on taxes, if any, within operations as income tax expense.