CHARLOTTE'S WEB HOLDINGS, INC.

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

These financial statements for Charlotte's Web Holdings, Inc. are also included in the Form 10-Q for the quarter ended September 30, 2022 filed on SEDAR on November 14, 2022 in its entirety. Amounts are presented in thousands of United States dollars, unless otherwise indicated.

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

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

Item 1. Financial Statements

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See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30, 2022 (unaudited)	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,513	$ 19,494
Accounts receivable, net	2,044	4,882
Notes receivable - current	495	495
Inventories, net	50,599	52,077
Prepaid expenses and other current assets	4,530	8,095
Income taxes receivable	—	10,764
Total current assets	74,181	95,807
Property and equipment, net	31,087	36,085
Operating lease right-of-use assets, net	17,079	20,679
Intangible assets, net	2,018	2,843
Stanley Brothers USA Holdings purchase option	9,100	13,000
Notes receivable - noncurrent	1,037	1,037
Other long-term assets	6,016	2,062
Total assets	$ 140,518	$ 171,513
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,584	$ 5,049
Accrued and other current liabilities	7,435	9,570
Cultivation liabilities – current	812	3,448
Lease obligations – current	2,316	2,103
Total current liabilities	13,147	20,170
Cultivation liabilities – noncurrent	—	385
Lease obligations – noncurrent	18,507	20,500
Other long-term liabilities	2	12
Total liabilities	31,656	41,067
Commitments and contingencies (note 6)		
Shareholders' equity:		
Common shares, nil par value; unlimited shares authorized as of September 30, 2022 and December 31, 2021, respectively; 145,509,372 and 144,659,964 shares issued and outstanding as of September 30, 2022 and December 31, 2021	1	1
Proportionate voting shares, nil par value; nil shares authorized as of September 30, 2022 and December 31, 2021, respectively; nil shares issued and outstanding as of September 30, 2022 and December 31, 2021	—	—
Additional paid-in capital	321,559	319,059
Accumulated deficit	(212,698)	(188,614)
Total shareholders' equity	108,862	130,446
Total liabilities and shareholders' equity	$ 140,518	$ 171,513

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

	Three Months Ended September 30, (unaudited)		Nine months ended September 30, (unaudited)	
	2022	**2021**	**2022**	**2021**
Revenue	$ 17,037	$ 23,704	$ 55,271	$ 71,263
Cost of goods sold	8,092	8,789	25,291	26,884
Gross profit	8,945	14,915	29,980	44,379
Selling, general and administrative expenses	11,032	24,299	48,646	73,263
Asset impairment	1,822	—	1,822	—
Operating loss	(3,909)	(9,384)	(20,488)	(28,884)
Other income, net	321	110	304	320
Change in fair value of financial instruments and other	(4,000)	8,459	(3,900)	9,082
Loss before provision for income taxes	(7,588)	(815)	(24,084)	(19,482)
Income tax benefit	—	38	—	8
Net loss	$ (7,588)	$ (777)	$ (24,084)	$ (19,474)
Net loss per common share, basic and diluted	$ (0.05)	$ (0.01)	$ (0.17)	$ (0.14)
Weighted-average shares used in computing net loss per share, basic and diluted	145,334,992	140,521,244	145,203,515	140,054,738

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

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

	Proportionate Voting Shares	Common Shares		Additional Paid-in	Accumulated	Total
	Shares	Shares	Amount	Capital	Deficit	Shareholders'
Balance—December 31, 2021	—	144,659,964	$ 1	$ 319,059	$ (188,614)	$ 130,446
Common shares issued upon vesting of restricted share units, net of withholding	—	77,193	—	(45)	—	(45)
Harmony Hemp contingent equity compensation	—	169,045	—	165	—	165
ATM program issuance costs	—	239,500	—	(2)	—	(2)
Share-based compensation	—	—	—	1,214	—	1,214
Net loss	—	—	—	—	(8,626)	(8,626)
Balance— March 31, 2022	—	145,145,702	$ 1	$ 320,391	$ (197,240)	$ 123,152
Common shares issued upon vesting of restricted share units, net of withholding	—	132,463	—	(13)	—	(13)
Share-based compensation	—	—	—	643	—	643
Net loss	—	—	—	—	(7,870)	(7,870)
Balance—June 30, 2022	—	145,278,165	$ 1	$ 321,021	$ (205,110)	$ 115,912
Common shares issued upon vesting of restricted share units, net of withholding	—	231,207	—	(67)	—	(67)
ATM program issuance costs	—	—	—	(59)	—	(59)
Share-based compensation	—	—	—	664	—	664
Net loss	—	—	—	—	(7,588)	(7,588)
Balance—September 30, 2022	—	145,509,372	$ 1	$ 321,559	$ (212,698)	$ 108,862

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except share amounts)

(unaudited)

	Proportionate Voting Shares	Common Shares		Additional Paid-in	Accumulated	Total
	Shares	Shares	Amount	Capital	Deficit	Shareholders'
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	(3,961)	1,584,410	—	—	—	—
Common shares issued upon vesting of restricted share units, net of withholding	—	61,548	—	(112)	—	(112)
Exercise of common stock warrants	—	98,788	—	441	—	441
Share-based compensation	—	—	—	832	—	832
Harmony Hemp contingent equity compensation	—	169,046	—	360	—	360
Net loss	—	—	—	—	(12,774)	(12,774)
Balance—March 31, 2021	77,216	108,982,290	$ 1	$ 306,684	$ (63,666)	$ 243,019
Conversion to common shares	(1,327)	530,900	—	—	—	—
Withholding of common stock upon vesting of restricted share awards	—	16,559	—	(26)	—	(26)
Harmony Hemp contingent equity compensation	—	—	—	363	—	363
ATM Offering, net of share issuance costs	—	278,200	—	839	—	839
Share-based compensation	—	—	—	994	—	994
Net loss	—	—	—	—	(5,923)	(5,923)
Balance—June 30, 2021	75,889	109,807,949	$ 1	$ 308,854	$ (69,589)	$ 239,266
Conversion to common shares	(38,675)	15,469,990	—	—	—	—
Withholding of common stock upon vesting of restricted share awards	—	103,074	—	(5)	—	(5)
Harmony Hemp contingent equity compensation	—	169,045	—	196	—	196
ATM Offering, net of share issuance costs	—	740,000	—	1,918	—	1,918
Share-based compensation	—	—	—	1,383	—	1,383
Net loss	—	—	—	—	(777)	(777)
Balance—September 30, 2021	37,214	126,290,058	$ 1	$ 312,346	$ (70,366)	$ 241,981

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine months ended September 30, (unaudited)	
	2022	**2021**
Cash flows from operating activities:		
Net loss	$ (24,084)	$ (19,474)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,762	8,228
Asset impairment	1,822	—
Change in fair value of financial instruments	3,900	(9,082)
Allowance for credit losses	(89)	590
Inventory provision	1,857	178
Share-based compensation	2,686	4,128
(Gain)/Loss on disposal of assets	(97)	267
Cultivation settlement reduction	(582)	—
Changes in right-of-use assets	1,877	—
Changes in operating assets and liabilities:		
Accounts receivable, net	2,928	(226)
Inventories, net	112	(876)
Prepaid expenses and other current assets	3,086	112
Operating lease obligations	(1,665)	(81)
Accounts payable, accrued and other liabilities	(4,238)	(439)
Income taxes receivable	10,764	523
Cultivation liabilities	(2,471)	(7,166)
Other operating assets and liabilities, net	(4,167)	(6)
Net cash used in operating activities	(2,599)	(23,324)
Cash flows from investing activities:		
Purchases of property and equipment and intangible assets	(411)	(4,088)
Proceeds from sale of assets	354	9
Issuance of notes receivable, net of collections	—	468
Investment in Stanley Brothers USA Holdings purchase option	—	(8,000)
Other investing activities	—	521
Net cash used in investing activities	(57)	(11,090)
Cash flows from financing activities:		
Proceeds from sale of public offering, net of issuance costs	(61)	2,896
Proceeds from stock option exercises	—	30
Other financing activities	(264)	(246)
Net cash (used) provided in financing activities	(325)	2,680
Net decrease in cash and cash equivalents	(2,981)	(31,734)
Cash and cash equivalents —beginning of period	19,494	52,803
Cash and cash equivalents —end of period	$ 16,513	$ 21,069
Non-cash activities:		
Non-cash purchases of property and equipment	$ —	$ (2,490)

See Notes to Unaudited Condensed 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 publicly traded company incorporated pursuant to the laws of the Province of British Columbia and a Certified B Corp. 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 corporate headquarters is located in Louisville, Colorado in the United States of America. The majority of the Company's business is conducted 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 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 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, 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 (the "SBH Purchase Option") pursuant to which the Company has the option to acquire Stanley Brothers USA Holdings, Inc. ("Stanley Brothers USA"), a cannabis wellness incubator. Until the SBH Purchase Option is exercised, both Charlotte's Web and Stanley Brothers USA will continue to operate as standalone entities in the US. Internationally, the companies are able to explore opportunities where Cannabis is federally permissible. The Company does not currently have any plans to expand into high-THC products in the near future.

The Company grows its proprietary Hemp domestically in the United States on farms leased in northeastern Colorado. Additionally, Hemp is sourced through contract farming operations in Kentucky, Oregon, and Canada. The Hemp grown in Canada is utilized exclusively in the Canadian market and not in products sold in the United States.

In furtherance of the Company's research and development ("R&D") efforts, the Company established CW Labs, an internal division for R&D, to expand the Company's efforts around the science of Hemp derived compounds. CW Labs is currently engaged in clinical trials addressing safe Hemp-based health solutions. CW Labs is located in Louisville, Colorado at the Company's current good manufacturing practice ("cGMP") production and distribution facility. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Any reference in these notes to applicable guidance is meant to refer to GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Updates ("ASU") of the Financial Accounting Standards Board ("FASB").

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements include all normal and recurring adjustments (which consist primarily of accruals, estimates and assumptions that impact the financial statements) considered necessary to present fairly the Company's financial position as of September 30, 2022 and its results of operations for the three and nine months ended September 30, 2022 and 2021, cash flows for the nine months ended September 30, 2022 and 2021, and stockholders' equity for the three and nine months ended September 30, 2022 and 2021. Operating results for the three and nine months ended September 30, 2022, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2022. The unaudited interim condensed consolidated financial statements presented herein do not contain the required disclosures under GAAP for annual consolidated financial statements. Certain amounts presented in prior periods have been reclassified to conform with the current period presentation. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes as of and for the year ended December 31, 2021 included in the Company's Annual Report on Form 10-K filed with the SEC on March 24, 2022.

Inventories

Inventories are stated at the lower of cost or net realizable value. 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. The Company's inventory production process for cannabinoid products includes the cultivation of botanical raw material. Because of the duration of the cultivation process, a portion of the inventory will not be sold within one year. Consistent with the practice in other industries that cultivate botanical raw materials, all inventory is classified as a current asset.

Revenue Recognition

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Direct-to-consumer	$ 11,759	$ 15,175	$ 38,174	$ 46,988
Business-to-business	5,278	8,529	17,097	24,275
Total	$ 17,037	$ 23,704	$ 55,271	$ 71,263

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

Recently Adopted Accounting Pronouncements

Other than described below, no new accounting pronouncements adopted or issued by the FASB had or may have a material impact on the Company's condensed 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. There was an immaterial impact upon adoption on the condensed consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, which addresses that Current GAAP has no specific authoritative guidance on the accounting for, or the disclosure of, government assistance received by business entities. The pronouncement and subsequent amendments require the following annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy: 1) Information about the nature of the transactions and the related accounting policy used to account for the transactions; 2) The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item, 3) Significant terms and conditions of the transactions, including commitments and contingencies. ASU 2021-10 is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company evaluated the impact of the pronouncement, see further discussion within the Notes to Condensed Consolidated Financial Statements section "Income and Other Taxes".

Recently Issued Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2020-04, *Reference Rate Reform (Topic 848)—Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This standard provides optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in this standard apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The Company is currently evaluating the impact, if any, that the updated standard will have on the condensed consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40):Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"), which simplifies the accounting for convertible instruments by removing the separation 8 models for convertible debt instruments and convertible preferred stock with (1) cash conversion features, and (2) beneficial conversion features. In addition, ASU 2020-06 enhances information transparency by making targeted improvements to the disclosures for convertible instruments

and earnings-per-share guidance and amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. ASU 2020-06 is effective for emerging growth companies for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company will evaluate the impact of the pronouncement and determined if there is any impact to the condensed consolidated financial statements if preferred shares are issued in future periods.

3. FAIR VALUE MEASUREMENT

The following table sets forth the Company's financial instruments that were measured at fair value on a recurring basis at September 30, 2022 and December 31, 2021, by level within the fair value hierarchy:

	September 30, 2022			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Stanley Brothers USA Purchase Option	$ —	$ —	$ 9,100	$ 9,100

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

There were no transfers between levels of the hierarchy during the three and nine month periods ended September 30, 2022 and the year ended December 31, 2021.

Stanley Brothers USA Purchase Option

In 2021, the Company entered into an option purchase agreement with 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 statements of operations 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 and nine months ended September 30, 2022, a $4,000 and $3,900 loss, respectively, related to the SBH Purchase Option was recognized as change in fair value of financial instruments and other in the statements of operations. For the three and nine months ended September 30, 2021, a $5,730 and $4,900 gain, respectively, related to the SBH Purchase Option was recognized as change in fair value of financial instruments and other in the statements of operations. As of September 30, 2022 and December 31, 2021, the SBH Purchase Option represents a financial asset of $9,100 and $13,000, respectively, in the condensed consolidated balance sheets.

The Monte Carlo valuation model considers multiple revenue and Earnings Before Interest Taxes Depreciation and Amortization ("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 of the SBH Purchase Option:

	September 30, 2022	December 31, 2021
Expected volatility	87.5%	92.5%
Expected term (years)	2.9	3.7
Risk-free interest rate	4.2%	1.1%
Weighted average cost of capital	45.0%	40%

Warrant Liabilities

The warrants offered during 2020 (the "2020 Share Offering Warrants") did not meet all of the criteria for equity classification as the warrants were denominated in Canadian dollars, which differs from the Company's functional currency. As a result, the 2020 Share Offering Warrants were initially measured at fair value and were revalued at each reporting period using the Black-Scholes option pricing model based on Level 2 observable inputs. The assumptions used by the Company were 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 was based on the actual historical market activity of the Company's shares. The expected life was based on the remaining contractual term of the warrants and the risk-free interest rate was based on the implied yield available on U.S. Treasury Securities with a maturity equivalent to the expected life of the warrants. On June 18, 2022, the 2020 Share Offering Warrants expired, totaling 5,750,000 common shares, with a weighted average exercise price per warrant of $6.27.

For the three months ended September 30, 2022 no gain or loss was recognized, and for the three months ended September 30, 2021, a $2,638 gain related to the warrant liabilities was recognized as change in fair value of financial instruments and other in the condensed consolidated statements of operations and net loss. For the nine months ended September 30, 2022 no gain or loss was recognized, and for the nine months ended September30, 2021, a $4,081 gain related to the warrant liabilities was recognized as change in fair value of financial instruments and other in the condensed consolidated statements of operations and net loss.

4. INVENTORIES

Inventories consist of the following:

	September 30, 2022	December 31, 2021
Harvested hemp and seeds	$ 37,444	$ 38,249
Raw materials	12,617	15,189
Finished goods	14,865	13,974
	64,926	67,412
Less: inventory provision	(14,327)	(15,335)
Total inventory	$ 50,599	$ 52,077

5. DEBT

Line of Credit

The Company terminated the asset backed line of credit ("ABL") for $10,000 with J.P. Morgan on July 27, 2022. Borrowings under the ABL bore 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%. Borrowings under the ABL were secured by all of the assets of the Company and guaranteed by other subsidiaries of the Company. The line of credit agreement required compliance by the Company with certain debt covenants. As of the termination date and December 31, 2021, the Company was not in compliance with the debt covenants and had not drawn on the line of credit.

6. 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 September 30, 2022 there are no litigation 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.

7. 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 a year to 12 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.

Maturities of operating lease liabilities as of September 30, 2022 are as follows:

	Operating Leases
Year Ending December 31:	
2022 (3 months remaining)	$ 867
2023	3,415
2024	3,205
2025	2,896
2026	2,172
Thereafter	15,595
Total lease obligation	28,150
Less: Imputed interest	(7,327)
Total lease liabilities	20,823
Less: Current lease liabilities	2,316
Total non-current lease liabilities	$ 18,507

During the quarter, the Company made the decision to cease utilizing the Denver office space and plans to sublease the office space at current market rents. Based on an analysis of the estimated undiscounted cash flows relative to a potential sublease arrangement, the Company evaluated the recoverability of the assets associated with the subleased space, including, the right-of-use asset and concluded the asset was impaired.

The Company recorded an impairment charge of $1,822 in the consolidated statements of operations for the three and nine months ended September 30, 2022. There were no such impairments for the three and nine months ended September 30, 2021.

8. CULTIVATION LIABILITIES

Future payments due under cultivation contract obligations are as follows:

	Short-term	Long-term	Total
December 31, 2021	$ 3,448	$ 385	$ 3,833
Crop costs incurred	169	—	169
Payments	(2,640)	—	(2,640)
Settlement reductions	(582)	—	(582)
Interest	32	—	32
Conversion to short-term borrowings	385	(385)	—
September 30, 2022	$ 812	$ —	$ 812

9. SHAREHOLDERS' EQUITY

As of September 30, 2022 and 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 PVS 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 PVS. As of September 30, 2022 and December 31, 2021, the Company had no PVS issued and outstanding.

Common Shares

As of September 30, 2022 and December 31, 2021, the Company was authorized to issue an unlimited number of common shares, which have no par value.

Preferred Shares

As of September 30, 2022 and December 31, 2021, the Company was authorized to issue an unlimited number of preferred shares, which have no par value.

Share Offering Warrants – Liability Classified

The following summarizes the number of warrants outstanding as of September 30, 2022:

	Number of Warrants	Weighted-Average Exercise Price per Warrant
Outstanding as of December 31, 2021	6,983,140	$ 7.86
Granted	—	—
Exercised	—	—
Expired	(6,983,140)	$ 7.86
Outstanding as of September 30, 2022	—	—

As of September 30, 2022, there are no outstanding warrants. On May 8, 2022, warrants, pursuant to the Abacus acquisition, totaling 1,233,140, with a weighted average exercise price per warrant of $15.29 expired. In addition, on June 18, 2022, the 2020 Share Offering Warrants , totaling 5,750,000 common shares, with a weighted average exercise price per warrant of $6.27 expired.

10. 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 PVS is computed by dividing the allocated net loss by the weighted-average number of common shares outstanding and weighted average number of PVS outstanding during the period. Diluted loss per common share is computed by dividing the allocated net 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

PVS is computed by dividing the allocated net loss by the weighted-average number of PVS outstanding during the period.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	$ (7,588)	$ (777)	$ (24,084)	$ (19,474)
Weighted-average number of common shares - basic	145,334,992	120,270,444	145,203,515	112,688,338
Dilutive effect of stock options and awards	—	—	—	—
Weighted-average number of proportionate voting shares - basic	—	50,627	—	68,416
Weighted-average number of common	145,334,992	120,270,444	145,203,515	112,688,338
Weighted-average number of proportionate voting shares - diluted	—	50,627	—	68,416
Loss per common share – basic and diluted	$ (0.05)	$ (0.01)	$ (0.17)	$ (0.14)
Loss per proportionate voting share – basic and diluted	$ —	$ (2.21)	$ —	$ (55.62)

On October 12, 2022, the Company issued 6,119,121 common shares as part of the MLB Subscription Agreement. Additionally, on November 14, 2022, as part of the BAT Subscription Agreement, the Company issued 37,670,540 shares. Refer to additional disclosure within the Subsequent Events section of the Notes to Condensed Consolidated Financial Statements.

As of September 30, 2022 and 2021, potentially dilutive securities include stock options, restricted share units, broker warrants, and common share warrants. When the Company recognizes a net loss, 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:

	September 30,	
	2022	2021
Outstanding options	4,625,261	3,881,721
Outstanding restricted share units	2,843,470	872,311
Outstanding common share warrants	—	9,483,140
Total	7,468,731	14,237,172

11. SHARE-BASED COMPENSATION

Stock options

Stock options vest over a prescribed service period and are approved by the Company's board of directors on an award-by-award basis. Options have a prescribed service period generally lasting up to four years, with certain options having a shorter vesting period or 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 nine months ended September 30, 2022 and 2021:

	Nine Months Ended September 30,	
	2022	2021
Expected volatility	85.8%	82.5%
Expected term (years)	6.0	6.0
Risk-free interest rate	3.3%	1.3%
Expected dividend yield	0%	0%
Value of underlying share	$0.43	$2.18

Detail of the number of stock options outstanding for the three months ended September 30, 2022 under the Company's 2015 legacy option plan and the Company's amended 2018 long term incentive plan (collectively, the "Plans") is as follows:

	Number of Options	Weighted-Avg. Exercise Price per Option	Weighted-Avg. Remaining Contract Term	Aggregate Intrinsic Value
Outstanding as of December 31, 2021	3,343,883	$ 3.16	7.54	$ 1,039,229
Granted	3,813,579	1.11		
Exercised	—	—		
Forfeited (and expired)	(2,532,201)	3.32		
Outstanding as of September 30, 2022	4,625,261	$ 1.41	8.78	$ 170,184
Exercisable/vested as of September 30, 2022	1,579,296	$ 1.59	6.16	$ 14,184

The weighted average grant-date fair value of options granted during the nine months ended September 30, 2022 was $1.11. The weighted average grant-date fair value of options granted during the nine months ended September 30, 2021 was $4.63.

The weighted average share price at the date of exercise of options exercised during the nine months ended September 30, 2022 and 2021 was $0 and $3.64, respectively.

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 up to four years. Upon vesting, one of the Company's common shares is issued for each restricted share unit 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 nine months ended September 30, 2022 and September 30, 2021 was $881 and $354, respectively.

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, 2021	1,816,851	$ 2.28
Granted	3,380,777	$ 0.91
Forfeited	(1,748,387)	$ 1.85
Vested	(440,863)	$ 2.00
Shares withheld upon vesting	(164,908)	$ 1.58
Outstanding as of September 30, 2022	2,843,470	$ 0.99

Share-based Compensation Expense

Share-based compensation expense for all equity arrangements for the three months ended September 30, 2022 and September 30, 2021 was $664 and $1,579, respectively, included in selling, general and administrative expense in the condensed consolidated statements of operations and comprehensive loss. Share-based compensation expense for all equity arrangements for the nine months ended September 30, 2022 and September 30, 2021 was $2,686 and $4,128, respectively, included in selling, general and administrative expense in the condensed consolidated statements of operations and comprehensive loss.

As of September 30, 2022, $6,114 of total unrecognized share-based compensation expense related to unvested options and restricted stock units granted to employees is expected to be recognized over a weighted-average period of 2.50 years.

12. INCOME AND OTHER TAXES

The Company's effective tax rate during the nine months ended September 30, 2022 and 2021 was 0%, respectively. The Company's effective tax rates differ from the U.S. federal statutory rate of 21% for the nine months ended September 30, 2022 and 2021, respectively, primarily due to the Company being in a full valuation allowance.

As of September 30, 2022, the Company has received $10,841 from the Internal Revenue Service ("IRS") which was the remaining amount of the income taxes receivable and interest.

The Company qualified for federal government assistance through employee retention credit ("ERC") provisions of the Consolidated Appropriations Act of 2021. As there is no authoritative guidance under U.S. GAAP on accounting for government assistance to for-profit business entities, we account for grants provided by the government, including accounting for certain refundable tax credits, by analogy to International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance. In accordance with IAS 20, management determined it has reasonable assurance for receipt of the ERC and recorded the ERC benefit of $4,106 for the period ended September 30, 2022 as an offset to Selling, general and administrative expenses expense. Due to the expected timing of receipt of the ERC, a corresponding receivable was recognized within other long-term assets as of September 30, 2022.

13. RELATED PARTY TRANSACTIONS

Aidance Scientific, Inc. ("Aidance") is the manufacturer of nearly all Abacus Health products. The former Chief Executive Officer of Abacus Products, Inc. ("Abacus"), and a former officer of the Company, also serves on Aidance's Board of Directors. For the three and nine months ended September 30, 2022 and 2021, the Company made purchases of $1,254 and $947 and $2,943 and $3,133, respectively from Aidance. Payment terms on purchases are due 30 days after receipt. As of September 30, 2022, the Company had a liability of $258 due to Aidance presented in accounts payable in the condensed consolidated balance sheets. 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 ("founders") 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, bore interest at 3.25% per year, and required the unpaid principal and unpaid interest balances to be paid on or before the maturity date of November 13, 2021. 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. Interest income is recognized based upon the contractual interest rate and unpaid principal balance of the promissory note. As of September 30, 2022 and December 31, 2021, the founders owed the Company $1,037 consisting of principal and interest. 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, the Company does not believe there is an estimated credit loss on the note receivable as of September 30, 2022 and 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 3). 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 September 30, 2022, pursuant to an amendment to the Name and Likeness and License Agreement between the Company and Leeland & Sig LLC d/b/a Stanley Brothers Brand Company, agreement was extended to December 31, 2022. The Name and Likeness Agreement was amended to provide the payment of a nominal per diem fee for each Stanley brother that participates in certain events. In addition, on April 16, 2021, the Company executed a separate consulting agreement which extended the services agreements of the seven Stanley brothers for a period of one year, expiring July 31, 2022. Upon execution of the consulting agreement in 2021, 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 and nine months ended September 30, 2022, the Company recognized $150 and $1,025, respectively in sales and marketing expenses in the condensed consolidated statements of operations and net loss related to this agreement. For the three and nine months ended September 30, 2021, the Company recognized $167 of selling, general and administrative expenses in the condensed consolidated statements of operations and net loss related to this agreement. As September 30, 2022 there is no remaining balance.**14. SUBSEQUENT EVENTS**

MLB Promotion Rights Agreement

On October 11, 2022, Charlotte's Web Holdings, Inc. (the "Company") entered into a Promotional Rights Agreement (the "MLB Promotional Rights Agreement") with MLB Advanced Media L.P., on its own behalf and on behalf of Major League Baseball Properties, Inc., the Office of the Commissioner of Baseball, The MLB Network, LLC and the Major League Baseball Clubs (collectively, the "MLB"), pursuant to which the Company entered into an exclusive strategic partnership with MLB to promote the Company's new NSF-Certified for Sport® product line.

In consideration for the MLB Promotional Rights Agreement, which expires on December 31, 2025, the Company shall pay the MLB over the term of the MLB Promotional Rights Agreement, an aggregate rights fee of $30.5 million and a 10% royalty on the Company's gross revenue from the MLB branded products of the Company sold after sales of all such branded products exceed $18.0 million. The Company has also entered into a subscription agreement (the "Subscription Agreement") pursuant to which the Company agreed to issue to the MLB, subject to customary closing conditions, common shares equal to 4% of the Company's fully diluted outstanding common shares as of the day prior to the date of issue. The total number of shares issued to the MLB was 6,119,121 common shares of the Company, which were issued pursuant to an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 506 of Regulation D promulgated under the Securities Act. The Company did not receive any proceeds in respect of the shares.

Tilray Agreement

On November 1, 2022, the Company entered into a Manufacturing and Sales License Agreement (the "Agreement") with Aphria, Inc., an Ontario corporation, an affiliate of Tilray Brands, Inc. ("Tilray"), pursuant to which the parties entered into a strategic alliance by which Tilray will have the rights to licensing, manufacturing, quality, marketing and distribution of extract products in Canada. In consideration for the Agreement, Tilray has agreed to spend in each calendar year during the term of the Agreement (other than 2022) a minimum of 5% of net sales per year on advertising, retail marketing, direct to consumer advertising, and similar third-party marketing expenditures for the Company's products. In addition, Tilray will spend an additional C$250 (Canadian Dollars) on marketing in the first contract year following 2022 to launch the Company's brand into the Canadian market. Tilray will also pay the Company a monthly royalty of 10% of all net sales revenue received by Tilray from sales to third-party entities during the prior month. The Agreement expires on October 31, 2026, unless earlier terminated by either party

in accordance with the terms of the Agreement. The Agreement is also subject to termination for convenience by either party upon 6 months' notice given on or after October 31, 2024.

BAT Subscription Agreement

Effective as of November 14, 2022, the Company entered into a subscription agreement (the "Subscription Agreement") with BT DE Investments, Inc. a wholly-owned subsidiary of BAT Group (LSE: BATS and NYSE: BTI), providing for the issuance of an approximately $56.8 million (C$75.3 million) convertible debenture (the "Debenture") convertible into 19.9% ownership of the Company's common shares at a conversion price of C$2.00 per common share of the Company on the Toronto Stock Exchange (TSX). The Debenture will accrue interest at an annualized rate of 5% until such time that there is federal regulation permitting the use of cannabidiol, a phytocannabinoid derived from the plant Cannabis sativa L. ("CBD") as an ingredient in food products and dietary supplements in the United States. (The term "federal regulation" is defined as the date that federal laws in the United States permit, authorize or do not prohibit the use of CBD as an ingredient in food products and dietary supplements). Following federal regulation of CBD, the annualized rate of interest shall reduce to 1.5%. The maturity date for the Debenture shall be November 2029. The Subscription Agreement contains customary representations and warranties and covenants. The funds from this Debenture can be used for operating purposes to fund the Company, as approved by the board of directors or in accordance with the Company's board-approved budget.