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 September 30, 2022 filed on SEDAR on November 14, 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 September 30, 2022 (the "Third 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 Third Quarter Report including Item 1 containing the Company's unaudited condensed 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 Third Quarter Report. Defined terms used herein but otherwise not defined have the meaning ascribed to them in the 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.

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.

Management's Discussion & Analysis of Charlotte's Web Holdings, Inc.

For purposes of this discussion, “Charlotte’s Web,” “CW,” “we,” "our", "us", 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 Louisville, Colorado, and does the majority of its business in the United States. The Company 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 during the second quarter of 2020 at which the Company conducts its production, distribution, and quality control activities, and has expanded its research and development ("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 retailers and 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 September 30, 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 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 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 share position in food/drug/mass retail, natural/ vitamin specialty and e-commerce, based on market share data from leading third-party analysts such as The Nielsen Company (total xAOC), SPINS (SPINS Total US), and Brightfield Group, respectively.

The Company grows its proprietary Hemp domestically in the United States on farms leased in northeastern Colorado. Additionally, high quality 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.

On October 12, 2022, the Company announced a partnership with Major League Baseball (MLB) along with the launch of Charlotte's Web™ SPORT – Daily Edge, the first broad-spectrum hemp-derived tincture to be Certified for Sport® by NSF, the highly respected global third-party organization that establishes standards for safety, quality, sustainability, and performance and certifies manufacturers and products against them. Leveraging our scientific research, Current Good Manufacturing Practices (cGMP), and Certified B Corp principles, Daily Edge underwent strict independent testing to uniquely meet MLB's scientific benchmarks and no-banned substances policy. Our products, which receive the NSF Certified for Sport® designation, have met the highest safety standards and can be promoted across MLB events and media platforms.

Effective as of November 14, 2022, we 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") is 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 a federal regulation permitting the use of CBD. 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 Company continues to invest in R&D efforts to identify new product opportunities. The Company plans to capitalize on the rapidly emerging botanical wellness products industry by driving customer acquisition and retention, accelerating national retail expansion primarily through distributors, and growing its international market penetration.

In furtherance of the Company's 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 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.

Selected Financial Information

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Total revenues	$ 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
Income tax benefit	—	38	—	8
Net loss	$ (7,588)	$ (777)	$ (24,084)	$ (19,474)
Total assets			$ 140,518	$ 286,781
Total liabilities			$ 31,656	$ 44,800

For The Three Months Ended September 30, 2022 and 2021

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 September 30,		% (Decrease)
	2022	2021	
Direct-to-consumer ("DTC") revenue	$ 11,759	$ 15,175	(22.5)%
Business-to-business ("B2B") revenue	5,278	8,529	(38.1)%
Total revenue	$ 17,037	$ 23,704	(28.1)%

Total revenue for the three months ended September 30, 2022 was $17,037, a decrease of 28.1% compared to the three months ended September 30, 2021.

DTC e-commerce revenue decreased 22.5% compared to the three months ended September 30, 2021. The decrease was primarily attributable to lower traffic at our online store due to lower organic searches, less paid media and less effective earned and affiliate traffic generation. Additional drivers include increased depth and frequency of competitor price promotions. The decrease was partially offset by higher customer subscription orders through its loyalty program.

B2B revenue decreased 38.1% compared to the three months ended September 30, 2021, due to an unfavorable product mix as lower priced gummies, increased 11.6 points in share representing 38%, compared to higher priced tinctures which declined 3.3 points in share representing 11.1% in the similar prior year period. Additionally, B2B revenue decreased as the Food Drug Mass retail and Natural channels reduced CBD products shelf space. Higher depth and frequency of price promotions has also unfavorably impacted year over year revenues. To a lesser extent, product returns reserve during the current period of $270 contributed to the decrease during the three months ended September 30, 2022. This was partially offset by new retail distribution following the passing of Assembly Bill 45 in California. This law allows for the inclusion of hemp and CBD, extracts, or derivatives of hemp in food and beverages, dietary supplements, cosmetics, and processed pet food.

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 co-manufacturer costs, transportation, overhead allocations and changes in inventory provisions.

The components of cost of goods sold are as follows:

	Three Months Ended September 30,		% (Decrease)
	2022	2021	
Inventory expensed to cost of goods sold	$ 5,407	$ 6,684	(19.1)%
Inventory provision, net	—	—	— %
Other production costs	1,842	1,208	52.5 %
Depreciation and amortization	843	897	(6.0)%
Cost of goods sold	$ 8,092	$ 8,789	(7.9)%

Cost of goods sold decreased by 7.9% for the three months ended September 30, 2022 compared to the three months ended September 30, 2021, as a result of lower unit volume sold. Lower cost gummies unit volume was down 2% compared to higher cost tinctures unit volume down 42% period over period. The decrease is partially offset by under leveraged fixed costs.

Depreciation and amortization expense for the three months ended September 30, 2022 and September 30, 2021 was $1,822 and $2,763, respectively, of which $843 and $897, respectively, was expensed to cost of goods sold.

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 and levels of customer product returns.

Gross profit for the three months ended September 30, 2022 and September 30, 2021 is as follows:

	Three Months Ended September 30,		%
	2022	**2021**	**(Decrease)**
Gross profit	$ 8,945	$ 14,915	(40.0)%
Percentage of revenue	52.5%	62.9%	(10.4)%

Gross profit decreased 40.0% for the three months ended September 30, 2022, compared to the three months ended September 30, 2021. The decrease is primarily related to lower revenue in both the DTC and B2B channels, as discussed above, due to a decrease in online traffic, competitor price pressure, and rising inflation in the macro economy. This is partially offset by lower period expenses and changes in product mix.

Selling, General, and Administrative Expenses

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

	Three Months Ended September 30,		%
	2022	**2021**	**(Decrease)**
Selling, general, and administrative expenses	$ 11,032	$ 24,299	(54.6)%

Total Selling, general, and administrative expenses for the three months ended September 30, 2022 and September 30, 2021 were $11,032 and $24,299, respectively. The 54.6% decrease was primarily attributable to restructuring activities earlier this year lowering personnel costs; an Employee Retention Credit ("ERC") tax benefit of $4,106, a decrease in media marketing spend, along with lower depreciation and amortization. Depreciation and amortization expensed to Selling, general, and administrative expenses for the three months ended September 30, 2022 and September 30, 2021 were $979 and $1,866, respectively. The overall decrease in depreciation and amortization resulted from the write off of intangible assets in December 2021.

Asset Impairment

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.

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 September 30,		% (Decrease)
	2022	2021	
Change in fair value of financial instruments and other	$ (4,000)	$ 8,459	(147.3)%

Total change in fair value of financial instruments and other for the three months ended September 30, 2022 and September 30, 2021 was a loss of $4,000 and a gain of $8,459, respectively. For the three months ended September 30, 2022, there was a loss in the fair value of the Company's SBH Purchase Option of $4,000 compared to a gain of $5,730 as of September 30, 2021. The fair value of the Company's SBH Purchase Option is revalued at each reporting date based on changes in financial projections of Stanley Brothers USA and the probability and timing of exercise. Additionally, for the three months ended September 30, 2021, the change in fair value of financial instruments and other was also driven by the revaluation of the fair value of the Company's warrant liabilities resulting in a gain of $2,638. The fair value of Company's warrant liabilities was 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. As of September 30, 2022, all outstanding warrants have expired.

For The Nine Months Ended September 30, 2022 and 2021

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.

	Nine Months Ended September 30,		% (Decrease)
	2022	2021	
Direct-to-consumer ("DTC") revenue	$ 38,174	$ 46,988	(18.8)%
Business-to-business ("B2B") revenue	17,097	24,275	(29.6)%
Total revenue	55,271	71,263	(22.4)%

Total revenue for the nine months ended September 30, 2022 was $55,271, a decrease of 22.4% compared to the nine months ended September 30, 2021.

DTC e-commerce revenue decreased 18.8% compared to the nine months ended September 30, 2021. The decrease was primarily due to lower traffic at our online store due to lower organic search, less paid media and less effective earned and affiliate traffic generation. Additional drivers include increased depth and frequency of competitor price promotions. The decrease was partially offset by higher customer subscription orders through its loyalty program.

B2B revenue decreased 29.6% compared to the nine months ended September 30, 2021, due to an unfavorable product mix as lower priced gummies, increased 7.9 points in share representing 46.4%, compared to higher priced tinctures which declined 4.5 points in share representing 11.7% in the similar prior year period. Additionally, B2B revenue decreased as the Food Drug Mass retail and Natural channels reduced CBD products shelf space. Higher depth and frequency of price promotions has also unfavorably impacted year over year revenues. To a lesser extent, product returns reserve during the current period of $1,145 contributed to the decrease for nine months ended September 30, 2022. This was partially offset by new retail distribution 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:

	Nine Months Ended September 30,		% (Decrease)
	2022	2021	
Inventory expensed to cost of goods sold	$ 17,373	$ 20,801	(16.5)%
Inventory provision, net	1,857	177	949.2 %
Other production costs	3,518	3,319	6.0 %
Depreciation and amortization	2,543	2,587	(1.7)%
Cost of goods sold	$ 25,291	$ 26,884	(5.9)%

Cost of goods sold decreased 5.9% for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021, primarily due to lower unit volume sold. Lower cost gummies unit volume decreased 2.6% compared to higher cost tinctures which decreased 41.6% year over year The decrease is partially offset by an increase in the inventory provision as well as under leveraged fixed costs.

Depreciation and amortization expense for the nine months ended September 30, 2022 and September 30, 2021 was $5,762 and $8,228, respectively, of which $2,543 and $2,587, respectively, was expensed to cost of goods sold. The remaining depreciation and amortization expenses of $3,219 and $5,641, 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 nine months ended September 30, 2022 and September 30, 2021 is as follows:

	Nine Months Ended September 30,		% (Decrease)
	2022	2021	
Gross profit	$ 29,980	$ 44,379	(32.4)%
Percentage of revenue	54.2%	62.3%	(8.1)%

Gross profit decreased 32.4% for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The decrease is primarily related to lower revenue in both the DTC and B2B channels which we discussed above, and an increase to inventory provisions. The decrease is partially offset by lower inventory expenses.

Selling, General, and Administrative Expenses

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

	Nine Months Ended September 30,		% (Decrease)
	2022	2021	
Selling, general, and administrative expenses	$ 48,646	$ 73,263	(33.6)%

Total selling, general, and administrative expenses for the nine months ended September 30, 2022 and September 30, 2021 were $48,646 and $73,263, respectively. The 33.6% decrease was primarily attributable to restructuring activities in the first nine months of the year lowering personnel costs, an Employee Retention Credit ("ERC") tax benefit of $4,106, a decrease in media marketing spend, along with lower depreciation and amortization. Depreciation and amortization expensed to Selling, general, and administrative expenses for the nine months ended September 30, 2022 and September 30, 2021 were $3,219 and $5,641, respectively.

Total research and development costs expensed to Selling, general, and administrative expense for the nine months ended September 30, 2022 and September 30, 2021 were $2,835 and $4,434, respectively. Research and development expenses primarily include personnel costs related to the Company's 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 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:

	Nine Months Ended September 30,		% (Decrease)
	2022	2021	
Change in fair value of financial instruments and other	$ (3,900)	$ 9,082	(142.9)%

Total change in fair value of financial instruments and other for the nine months ended September 30, 2022 and September 30, 2021 was a loss of $3,900 and a gain of $9,082, respectively. For the nine months ended September 30, 2022, the change in fair value of financial instruments and other was primarily driven by a loss of $3,900 in the fair value of the Company's SBH Purchase Option . The fair value of the Company's SBH Purchase Option is revalued at each reporting date based on changes in the financial projections of Stanley Brothers USA and the probability and timing of exercise. Similarly, for the nine months ended September 30, 2021, the change in fair value of financial instruments and other was driven by the revaluation of the fair value of the Company's SBH Purchase Option resulting in a gain of $4,900, as well as, the revaluation of the Company's warrant liabilities resulting in a gain of $4,081. The fair value of Company's warrant liabilities was revalued at each reporting date based on changes to the Company's share price input to the Black-Scholes option pricing model. As of September 30, 2022, all outstanding warrants have expired.

Liquidity and Capital Resources

As of September 30, 2022 and December 31, 2021, the Company had total current liabilities of $13,147 and $20,170, respectively, and cash and cash equivalents of $16,513 and $19,494, respectively, to meet its current obligations. For the first nine months of 2022, the Company used approximately $3,000 in net cash, in which $4,997 was used in the first quarter, as such the Company was cash flow positive in the remaining quarters in which net cash provided was $1,997. Despite lower revenues than 2021, the Company has taken actions to reduce operating costs by approximately $30,000 annualized including eliminating positions and lowering employee costs substantially in January and July 2022, simplifying the business by rationalizing the number of products produced and sold, reducing the number of third-party co-manufacturers, and lowering spend on paid media. The Company collected the outstanding IRS receivable of approximately $10,890, partially offset by cultivation payments of $2,600 which benefited cash flow year to date.

Effective as of November 14, 2022, we entered into a 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 convertible debenture (the "Debenture") is 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 CBD as an ingredient in food products and dietary supplements in the United States. 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.

The Company expects its selling, general and administrative expenses in 2023 to be generally in line with 2022 as MLB related rights fees is expected to be materially funded for through other expense savings.

The Company's primary sources of liquidity are its net cash on hand from operations and sales of its securities from time to time. The Company is currently in discussions with several parties related to potential new credit facilities. 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 net 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 filed the final short-form base shelf prospectus on May 5, 2021 with Canadian regulators, with a term of 25-months, which allowed 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"). 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.

The Company expects to meet our long-term liquidity requirements through various sources of capital, including cash provided by operations. The Company regularly considers fundraising opportunities and may decide, from time to time, to raise capital through borrowings or issuances of additional equity and/or debt securities. The Company's ability to incur additional debt is dependent upon a number of factors, including the state of the credit markets, our degree of leverage, the value of our unencumbered assets and borrowing restrictions imposed by lenders, including restrictions on the industry. The Company's ability to raise funds through the issuance of additional equity and/or debt securities is also dependent on a number of factors including the current state of the capital markets, investor sentiment and intended use of proceeds. The Company's ability to raise funds through the issuance of equity securities depends on, among other things, general market conditions for companies in the Hemp industry and market perceptions about us.

Cash Flows

Cash from Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2022 and September 30, 2021 were as follows:

	Nine Months Ended September 30,	
	2022	2021
Net cash used in operating activities	$ (2,599)	$ (23,324)

For the nine months ended September 30, 2022, the decrease in cash used in operations is primarily due lower revenues, collection of $10,841 from income tax refunds and its related interest, partially offset by cultivation payments.

Cash from Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2022 and September 30, 2021 were as follows:

	Nine Months Ended September 30,	
	2022	2021
Net cash used in investing activities	$ (57)	$ (11,090)

For the nine months ended September 30, 2022, the decrease in cash used in investing activities was driven by lower purchases of capital expenditures, partially offset by proceeds of sale of assets. For the nine months ended September 30, 2021 the outflow related to the SBH Purchase Option executed for total consideration of $8,000 and the purchase of $4,088 in capital expenditures, partially offset by other investing activities.

Cash from Financing Activities

Net cash used or provided by financing activities for the nine months ended September 30, 2022 and September 30, 2021 were as follows:

	Nine Months Ended September 30,	
	2022	2021
Net cash (used) provided in financing activities	$ (325)	$ 2,680

For the nine months ended September 30, 2022, the net change was primarily due to cash payment of taxes on the vesting of shares, as well as fees paid related to the termination of the asset backed line of credit with J.P. Morgan. For the nine months ended September 30, 2021, the net cash provided by financing activities during the period ended September 30, 2021 resulted primarily from ATM Program proceeds of $3,234, offset by payments on lease obligations and notes payable.

Off-Balance Sheet Arrangements

As of September 30, 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

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.

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 net 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. Our inventory production process for our cannabinoid products includes the cultivation of botanical raw material. Because of the duration of the cultivation process, a portion of our 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.

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 and nine months ended September 30, 2022 and 2021.

Income and Other 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 September 30, 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.

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 payroll tax 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.

Revenue Recognition

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

The Company recognizes revenue from customers when control of the goods or services are transferred to the customer, generally when products are shipped, at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. Freight revenue is included in revenue on the consolidated statements of operations and comprehensive loss, and is generally exempt from state sales taxes. Sales tax collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenue in the consolidated statements of operations and comprehensive loss. Contracts are written to include standard discounts and allowances. Contracts are not written to include advertising allowances, tiered discounts or any other performance obligation. Since the Company's contracts involve the delivery of various tangible products, the arrangements are considered to contain only a single performance obligation, as such there is no allocation of the transaction price. The Company also offers e-commerce discounts and promotions through its online rewards program. The Charlotte's Web Loyalty Program offers customers rewards points for every dollar spent through the Company website to earn store credit for future purchases. The Company defers recognition of revenue for unredeemed awards until the following occurs: (1) rewards are redeemed by the consumer, (2) points or certificates expire, or (3) an estimate of the expected unused portion of points or certificates is applied, which is based on historical redemption patterns.

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