

**The Management's Discussion and Analysis of Financial Condition and Results of Operations for Charlotte's Web Holdings, Inc. is also included in the Form 10-K for the year ended December 31, 2024 filed on SEDAR on March 19, 2025 in its entirety.**

*This document (this "MD&A") contains information under the heading "Item 7. 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") Annual Report on Form 10-K for the year ended December 31, 2024 (the "Annual Report") filed concurrently with this MD&A on the date hereof on our profile on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca) and on EDGAR at [www.sec.gov](http://www.sec.gov). This MD&A should be read in conjunction with our Annual Report, including Item 8 containing the Company's consolidated financial statements and the related notes thereto as well as Item 1 "Business" and Item 1A "Risk Factors". This MD&A incorporates by reference herein the section entitled "Disclosure Regarding Forward-Looking Statements" and Item 1A "Risk Factors" from our Annual Report. Defined terms used herein but otherwise not defined have the meaning ascribed to them in the Annual Report.*

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

For purposes of this discussion, "Charlotte's Web," "CW," "we," "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. This management's discussion and analysis of financial condition and results of operations ("MD&A") is provided as of March 19, 2025 and should be read together with the Company's audited consolidated financial statements and the accompanying notes for the year ended December 31, 2024 and December 31, 2023. 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. is a Certified B Corp headquartered in Louisville, Colorado, which conducts 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™, and CBD Clinic™. Charlotte's Web premium quality products start with proprietary hemp genetics that are 100% North American farm-grown and are then manufactured into hemp extracts containing naturally occurring phytocannabinoids including cannabidiol ("CBD"), cannabichromene ("CBC"), cannabigerol ("CBG"), terpenes, flavonoids and other cannabinoids and beneficial hemp compounds. The Company is headquartered in a cGMP compliant facility in Louisville, Colorado, where the Company conducts its production of tinctures, distribution, and quality control activities as well as research and development ("R&D"). Charlotte's Web product categories include full-spectrum hemp extract oil tinctures (liquid products), gummies, capsules, CBD topical creams and lotions, broad-spectrum botanical CBD, functional mushrooms, and pet products. The Company also offers NSF Certified for Sport® broad-spectrum tincture and gummy products. Charlotte's Web products are distributed to retailers and health care practitioners, and online through the Company's website at [www.CharlottesWeb.com](http://www.CharlottesWeb.com). The information provided on the website is not part of this MD&A.

The Company's business consists of the farming, manufacturing, marketing, and sales of hemp-derived CBD and botanical-based wellness products. As of December 31, 2024, the Company operated in a single operating and reportable segment, hemp-derived CBD wellness products, making up the majority of the revenue of the Company. The executive officers reviewed overall operating results in order to assess financial performance and to make resource allocation decisions, rather than assessing any lower-level unit of operations in isolation.

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. 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 research provides evidence 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 strategic vision. 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 and sources hemp through contract farming operations in Arizona, Colorado, Kentucky, and Canada. The hemp grown in Canada is utilized exclusively in the Canadian markets or for research purposes and not in the Company's products sold within the United States.

### ***Recent Developments***

With an increased commitment to innovation, Charlotte's Web has refreshed its mission to "Unearth the Science of Nature to Revolutionize Wellness," and is evolving its wellness offerings both to strengthen the Company's core leadership in CBD, and extend beyond CBD to include a broader range of botanical-based wellness solutions, including minor cannabinoids. A testament to this expansion is the launch of Charlotte's Web Stay Asleep Cannabidiol ("CBN") gummies. Similar to CBD, CBN is a non-intoxicating cannabinoid found in the hemp plant. At the cutting edge of innovative natural sleep solutions, these new melatonin free gummies could offer distinct benefits for the approximately 67% of adults who report waking up during the night (Phillips Global Sleep Survey, 2019). This is the first CBN sleep product supported by placebo-controlled peer-reviewed research study, offering a 20 mg dose of CBN. The Stay Asleep gummy demonstrates Charlotte's Web's commitment to science-backed products, providing an effective alternative to more traditional sleep supplements and medications. Charlotte's Web believes expanding beyond CBD leverages the Company's brand recognition, intellectual property, and partnerships, including an ongoing collaboration with DeFloria, Inc. ("DeFloria") for botanical drug development.

In September 2024, the Company launched its new functional mushroom line which included three products: Focus Support, Stress Support, and Energy Support. The products are hemp-free and expand the Company's ongoing commitment to providing science-supported botanical-based solutions to its customers.

The Company's ReCreate brand has been absorbed under the recognized Charlotte's Web brand to better penetrate the lifestyles category.

As of December 31, 2024, several states have adopted new regulations that will impact the Company's ability to sell certain products as currently formulated or packaged in these states. Many of these states have also implemented new THC/CBD limits, age verification, testing, labeling and packaging requirements. The Company continues to assess the business and financial impacts of the new regulations, including steps that can be taken to address the new product formulation and labeling requirements, as well as costs and potential revenue impacts and anticipated timing for such impacts to the Company in these states.

The Company continues to invest in R&D efforts to identify new product opportunities. The Company is working to capitalize on the rapidly emerging botanical-based wellness products industry by driving customer acquisition and retention, as well as accelerating retail expansion. In addition, the Company is expanding its product line beyond hemp-based products should the science and the Company's strategic vision support such expansion.

On February 24, 2025, the Company announced that the U.S. Food and Drug Administration ("FDA") has completed its review of the Phase 1 data and Investigational New Drug ("IND") application submitted by DeFloria. The FDA has concluded that DeFloria may now proceed with its planned FDA Phase 2 clinical trial for its botanical pharmaceutical candidate, AJA001 Oral Solution, a treatment for symptoms of autism spectrum disorder ("ASD"). DeFloria is a collaboration including the Company and AJNA to develop AJA001 as a treatment for

irritability associated with autism spectrum disorder. AJA001 employs the Company's proprietary full-spectrum cannabidiol hemp extract derived from one of its patented cultivars.

### Selected Financial Information

	Year Ended December 31,	
	2024	2023
Total revenues	\$ 49,667	\$ 63,155
Cost of goods sold	28,407	27,589
Gross profit	\$ 21,260	\$ 35,566
Selling, general, and administrative expenses	53,247	75,630
Asset impairments	—	548
Operating loss	\$ (31,987)	\$ (40,612)
Gain on initial investment in unconsolidated entity	—	10,700
Change in fair value of financial instruments	615	9,339
Other income (expense), net	1,565	(2,694)
Income tax expense	(39)	(529)
Net loss	\$ (29,846)	\$ (23,796)
Total assets	\$ 113,442	\$ 152,548
Long-term liabilities	\$ 70,419	\$ 73,344

### 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, distributors, and retail B2B customers.

	Year Ended December 31,		% Increase (Decrease)
	2024	2023	
Product revenue	\$ 49,019	\$ 63,155	(22.4)%
Service revenue	648	—	100.0 %
Total revenue	\$ 49,667	\$ 63,155	(21.4)%

Total revenue for the year ended December 31, 2024, was \$49,667, a decrease of 21.4% compared to the year ended December 31, 2023.

Total product revenue decreased 22.4% compared to the year ended December 31, 2023. The decrease was primarily driven by lower comparable average order value sales through the Company's web store, reflecting a price reduction of the Company's oil tincture products introduced at the beginning of 2024. However, comparable year-over-year unit volume sales began improving in the second half of 2024. Revenue was also negatively impacted by inflationary impacts on consumer spending, reduced retailer shelf allocations to the CBD category, and the fallout of some retailers exiting the CBD category as a result of increased state regulatory pressures.

The service revenue is attributable to the Company and DeFloria, Inc. ("DeFloria") entering into a Master Services Agreement ("Services Agreement") pursuant to which the Company is compensated for the provision of certain services to DeFloria.

### ***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, mix of products sold, third-party quality costs, transportation, overhead allocations, and changes in inventory provisions.

The components of cost of goods sold are as follows:

	Year Ended December 31,		% Increase (Decrease)
	2024	2023	
Inventory expensed to cost of goods sold	16,030	19,757	(18.9)%
Inventory provision, net	4,154	1,039	299.8 %
Other production costs	4,188	3,222	30.0 %
Service costs	647	—	100.0 %
Depreciation and amortization	3,388	3,571	(5.1)%
Cost of goods sold	\$ 28,407	\$ 27,589	3.0 %

Cost of goods sold increased 3.0% for the year ended December 31, 2024 despite lower revenue compared to the same period in 2023. The increase was primarily due to a \$4.2 million increase in inventory provisions in 2024 due to the revaluation of aged hemp biomass based on current market conditions. The increase was partially offset by lower inventory expense and other variable costs associated with lower revenue in 2024.

Depreciation and amortization expense for the year ended December 31, 2024 and 2023 was \$9,979 and \$15,160, respectively, of which \$3,388 and \$3,571, respectively, was expensed to cost of goods sold. The remaining depreciation and amortization expenses of \$6,591 and \$11,589, 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, revenue mix between DTC e-commerce and B2B, product sales mix, promotional and sales discount rate, manufacturing spend, transportation costs, and changes in inventory provisions.

Gross profit for the year ended December 31, 2024 and 2023 is as follows:

	Year Ended December 31,		% Increase (Decrease)
	2024	2023	
Gross profit	\$ 21,260	\$ 35,566	(40.2)%
Gross margin	42.8%	56.3%	(24.0)%

Gross profit for the year ended December 31, 2024 was \$21,260, compared to \$35,566 for the year ended December 31, 2023. The decrease primarily related to the revenue decrease of 21.4%, impacting fixed cost absorption, and lowering blended margin following price reductions

on oil tincture products initiated in the first quarter of 2024. Additionally, gross profit was reduced by the \$4.2 million inventory provision as described within Cost of Goods Sold.

### ***Selling, General, and Administrative Expenses***

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

	Year Ended December 31,		% Increase (Decrease)
	2024	2023	
Selling, general, and administrative expenses	\$ 53,247	\$ 75,630	(29.6)%

Total Selling, general, and administrative expenses for the year ended December 31, 2024 and 2023 were \$53,247 and \$75,630, respectively. For the year ended December 31, 2024, the 29.6% decrease was primarily due to the cost cutting measures undertaken by the company in the second half of the year. These measures included adjusting the size of the workforce to properly align with the revenue scope, improving the Company's insurance program, aligning with more cost-efficient software options, and making prudent travel decisions, among others.

Depreciation and amortization expensed to Selling, general, and administrative expenses for the year ended December 31, 2024 and 2023 were \$6,591 and \$11,589, respectively, and decreased due to the amendment to the MLB agreement that allowed for the extension of the payments and amortization.

Total research and development expenses for the year ended December 31, 2024 and 2023 were \$2,332 and \$2,964, respectively, expensed to Selling, general, and administrative expense. 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.

### ***Gain on Initial Investment in Unconsolidated Entity***

The initial gain on investment in unconsolidated entity is as follows:

	Year Ended December 31,		% (Decrease)/ Increase
	2024	2023	
Gain on initial investment in unconsolidated entity	\$ —	\$ 10,700	100 %

Total change in gain on investment in unconsolidated entity the year ended December 31, 2024 and 2023 was \$0 and \$10,700 respectively. For the year ended December 31, 2023, the gain was due to the Company jointly forming an entity, DeFloria, with AJNA, and BAT. DeFloria was established to pursue FDA approval for a novel botanical drug to target a neurological condition, with the botanical drug being developed from certain proprietary hemp genetics of the Company. The initial investment was measured at fair value and is remeasured at each reporting date, with changes recognized in changes in fair value of financial instruments.

### ***Total Change in Fair Value of Financial Instruments***

The total change in fair value of financial instruments is as follows:

	Year Ended December 31,		% Increase (Decrease)
	2024	2023	
Change in fair value of financial instruments	\$ 615	\$ 9,339	93.4 %

Total change in fair value of financial instruments for the year ended December 31, 2024 and December 31, 2023 was a gain of \$615 and \$9,339, respectively. For the year ended December 31, 2024, the gain in fair value of financial instruments was primarily due to the revaluation of the fair value of the Company's debt conversion option and debt interest rate conversion feature resulting in a gain of \$2.5 million, compared to a net gain of \$9.6 million for the year ended December 31, 2023. The fair value of the Company's embedded derivatives and options are revalued at each reporting date, with changes impacted by variability in the Company's share price and implied debt yields.

### ***Asset Impairments***

	Year Ended December 31,		% Increase (Decrease)
	2024	2023	
Asset Impairment	\$ —	\$ 548	100.0 %

For the year ended December 31, 2023, the Company recorded an impairment loss due to the decline in market conditions at the Company's hemp farm that indicated a fair value less than the carrying value.

### ***Provision for Income Taxes***

	Year Ended December 31,		% Increase (Decrease)
	2024	2023	
Income tax expense	\$ (39)	\$ (529)	(92.6)%
Effective tax rate	(0.1)%	(2.3)%	

The Company's effective tax rate during the year ended December 31, 2024 and December 31, 2023 was (0.1)% and (2.3)%, respectively. The effective tax rate for the year ended December 31, 2024 is (0.1)% as the Company continues to believe its deferred tax assets are more likely to not be realized and a full valuation allowance remains recorded against net deferred taxes as of December 31, 2024 and December 31, 2023. The increase in the effective rate for the year ended December 31, 2024 compared to the year ended December 31, 2023, is primarily due to the remeasurement of the valuation allowance.

## Liquidity and Capital Resources

The Company's objective when managing its liquidity and capital resources is to provide sufficient short and long-term liquidity to fund net operating losses and capital expenditures while executing strategic growth plans. In the near to mid-term, it is focused on reducing negative cash flows from operations.

On November 14, 2022, the Company 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"). 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 a stated 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 stated annualized rate of interest shall be reduced to 1.5%. Interest is accrued annually and payable on the maturity date or date of earlier conversion. The maturity date for the debenture is November 2029. 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.

As of December 31, 2024, the Company had total cash and cash equivalents of \$22,618, compared to \$47,820 at December 31, 2023. The decrease over the twelve-month period is primarily a result of cash used in operating activities of \$21,261, and capital expenditures of \$3,851 primarily allocated to enabling in-house production of topical and gummy products.

As a result of delays in federal regulation of the hemp CBD industry and lower-than-expected revenue, management began taking actions in 2022 to reduce annual operating costs by lowering employee costs, simplifying the business through rationalizing the number of products produced and sold, reducing the number of third-party co-manufacturers, and lowering spend on non-employee-related SG&A costs. Other than an increase in MLB spend, management has continued these cost saving measures throughout 2024.

The Company filed a 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 was set to expire on June 6, 2023. The Company filed a prospectus supplement to distribute up to C\$60,000 of common shares of the Company (the "Offered Shares") under the ATM Program. As of January 4, 2022, the ATM Program ceased to be available to the Company. Thereafter, the manner in which the Company raises capital will likely require that the Company file registration statements with the SEC related to such activities, which will likely increase the time and expense associated with such activities.

Management believes that the Company's existing cash and cash equivalents, and short-term investments will provide sufficient liquidity to fund operations and planned capital expenditures for the next 12 months. The Company's ability to fund its operations for the longer term will depend on the future operating performance, particularly revenue growth, which can be affected by general economic conditions, industry regulatory changes, and other factors beyond the Company's control.

In addition to cash provided by operations, the Company may fund long-term liquidity requirements through various sources of capital. 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 raise funds through the issuance of additional equity and/or debt securities is dependent on a number of factors, including the current state of the capital markets, investor sentiment, and intended use of proceeds.



## Cash Flows

### *Cash Flow from Operating Activities*

Net cash used in operating activities for the year ended December 31, 2024 and December 31, 2023 were as follows:

	Year Ended December 31,	
	2024	2023
Net cash used in operating activities	\$ (21,261)	\$ (15,386)

For the year ended December 31, 2024, the increase in cash used in operations of \$5.9 million is primarily due to the Company's collection of \$4.3 million from income tax refunds during the year ended December 31, 2023.

### *Cash Flow from Investing Activities*

Net cash used in investing activities for the year ended December 31, 2024 and December 31, 2023 were as follows:

	Year Ended December 31,	
	2024	2023
Net cash used in investing activities	\$ (3,796)	\$ (3,506)

For the year ended December 31, 2024, the increase in cash used in investing activities was driven primarily by machinery purchases as part of the Company's plan to in-source topical and gummy production.

### *Cash Flow from Financing Activities*

Net cash used in financing activities for the year ended December 31, 2024 and December 31, 2023 were as follows:

	Year Ended December 31,	
	2024	2023
Net cash used in financing activities	\$ (145)	\$ (251)

For the year ended December 31, 2024, the change was primarily due to the vesting of restricted stock units.

## Outstanding Share Data

The Company's authorized share capital consists of (i) an unlimited number of common shares; (ii) an unlimited number of proportionate voting shares (each proportionate voting share is equal to 400 common shares in terms of voting and economic rights); and (iii) an unlimited number of preferred shares, issuable in series. On November 3, 2021, all outstanding proportionate voting shares of the Company were converted by way of mandatory conversion in accordance with the Company's Articles, and at the discretion of the Company, into common shares. Following this conversion, and as of the close of business on November 3, 2021, 142,335,464 common shares were issued and outstanding, nil proportionate voting shares were issued and outstanding, and nil preferred shares were issued and outstanding. Pursuant to the Company's Articles, the Company is no longer authorized to issue additional proportionate voting shares.

As of March 17, 2025, 158,009,541 common shares were issued and outstanding, and nil preferred shares were issued and outstanding. As of March 17, 2025, potential dilutive securities include (i) stock options exercisable to purchase 985,012 common shares pursuant to the

Company's 2015 legacy option plan with a weighted average exercise price of \$0.56; (ii) stock options exercisable to purchase 2,366,675 common shares pursuant to the Company's 2018 option plan, as amended, with a weighted average exercise price of \$0.72; (iii) 4,409,234 restricted share units ("RSUs"). Each option, restricted share award, and convertible share entitles the holder to purchase one common share.

### **Off-Balance Sheet Arrangements**

As of December 31, 2024, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition, including, and without limitation, such considerations as liquidity and capital resources.

### **Related party transactions**

Effective November 2020, the Company issued a secured promissory note, where \$1,000 was loaned to one of the Stanley Brothers. The note receivable was secured by equity instruments with certain of the Stanley Brothers, bore interest at 3.25% per annum, and required the unpaid principal and unpaid interest balances to be paid on or before the maturity date of November 13, 2021, which was subsequently extended. Effective November 13, 2024, the Company entered into a third amendment of the promissory note to extend the maturity date until November 13, 2029. According to the terms of the agreement, no additional interest will accrue through the payment date. The note has been fully reserved for as of December 31, 2024.

On March 2, 2021, the Company entered into the SBH Purchase Option with Stanley Brothers USA as discussed above (Note 3 "Fair Value Measurement"). The SBH Purchase Option was purchased for total consideration of \$8,000. Certain of the Stanley Brothers, who are or were employees of the Company at the time, are the majority Shareholders of Stanley Brothers USA.

Effective January 5, 2023, the Company entered into a Brand License and Option Agreement with JMS Brands LLC, an entity owned by one of the Stanley Brothers. Pursuant to the Brand License and Option Agreement, the Company licensed certain intellectual property from JMS Brands LLC, for an annual license fee of \$500. As of January 5, 2024, the Brand License and Option Agreement has expired.

On April 6, 2023, the Company jointly formed an entity, DeFloria, with AJNA and BAT. AJNA is a botanical drug development company. AJNA is partially owned and was co-founded by certain of the Stanley Brothers. BAT holds an equity interest in the entity in the form of 2,000,000, preferred units following its \$10 million investment and has the right to participate in future equity issuances to maintain its pro rata equity position. The Company and AJNA each hold 4,000,000 of the entity's voting common units (Note 3). Effective May 1, 2023, the Company entered into an 8% interest bearing note receivable with DeFloria for the sale of lab equipment in the amount of \$170. The principal and interest of the note receivable will be paid in 36 monthly installments. As of December 31, 2024, the remaining note receivable of \$71 is presented in other assets in the consolidated balance sheets. Additionally, on February 12, 2024, the Company and DeFloria entered into a separate master services agreement pursuant to which the Company will be compensated for the provision of certain services to DeFloria. For the year ended December 31, 2024, the Company recognized \$648 in revenue and cost of goods sold, respectively, related to the service agreement with DeFloria. The Company has an accounts receivable balance due from DeFloria of \$648 as of December 31, 2024.

On June 21, 2024, the Company entered into a consulting agreement with Jared Stanley, former executive of the Company, and current member of the Board of Directors. In consideration for Mr. Stanley's services, he will receive a bi-weekly fee of \$6.

### **Recently Adopted Accounting Pronouncements**

In November 2023 the FASB issued *ASU 2023-07—Segment Reporting*. The guidance was issued to provide financial statement users with more disaggregated expense information about a public entity's reportable segments. The guidance is effective for the year ended December 31, 2024, and the expanded interim disclosures are effective in entities in 2025 and will be applied retrospectively to all prior periods presented.

## **Critical Accounting Policies and Estimates**

Listed below are the accounting policies and estimates believed to be critical to the Company's 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 "Summary of Significant Accounting Policies and Use of Estimates" of the notes to the consolidated financial statements for a discussion on recently adopted and issued accounting pronouncements.

### ***Fair Value Option***

The Company has elected the fair value option in accordance with ASC 825-10 guidance to record its SBH Purchase Option. Under ASC 825-10, a business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The SBH Purchase Option is classified as a financial asset in the consolidated balance sheets and is remeasured at fair value at each reporting date, with changes to fair value recognized in the statements of operations 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.

### ***Investment in Unconsolidated Entities***

The Company has a variable interest in the investment in DeFloria; however, the Company is not the primary beneficiary of DeFloria as it lacks the power to direct DeFloria's key activities. The Company concluded that the investment in DeFloria should not be consolidated. In accordance with ASC 825-10, equity method investments are eligible for the fair value option as they represent recognized financial assets. As the Company was not required to consolidate the investment and does not meet any of the other scope exceptions, the Company had the ability to adopt the fair value option for the investment at inception. The investment was remeasured at fair value after each reporting date, with changes recognized in consolidated statements of operations, as changes in fair value of financial instruments for the period.

The use of assumptions for the fair value determination of the investment in DeFloria included a high degree of subjectivity and judgment using unobservable inputs (level 3 on the fair value hierarchy), which results in estimation uncertainty. To determine the value of the investment, the Company utilizes an Option Pricing Model (OPM). The OPM considers the various terms of the stockholder agreements, including the level of seniority among the securities, dividend policy, conversion ratios, and cash allocations upon liquidation of the entity. The OPM is appropriate when the range of potential future outcomes is difficult to predict with any certainty.

### ***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. The Company's inventory production process for cannabinoid products includes cultivating 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.

### ***Impairment of Long-Lived Assets***

The Company reviews intangible assets with indefinite useful lives for impairment at least annually and reviews all intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Long-lived assets, such as property and equipment and intangible assets subject to depreciation and amortization, as well as indefinite-lived intangibles and goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or that the useful life is shorter than the Company had originally estimated. Recoverability of these assets is measured by comparison of the carrying amount of each asset or asset group to the future undiscounted cash flows the asset or asset group is expected to generate over their remaining lives. If the asset or asset group is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset or asset group. If the useful life is shorter than originally estimated, the Company amortizes the remaining carrying value over the new shorter useful life. Impairment losses are recorded in selling, general, and administrative expense in the consolidated statements of operations. There was \$0 and \$548 of impairment losses recognized related to long-lived assets for the year ended December 31, 2024 and December 31, 2023, respectively.

### ***Convertible Debenture***

The Company determined that the debenture is a freestanding financial instrument which includes embedded derivatives. The embedded derivatives have been bifurcated from the debenture and accounted for separately in accordance with the provisions of ASC 815, *Derivatives and Hedging*. The Company reviewed the terms of the debenture and identified two material embedded features which required bifurcation and separate accounting pursuant to the provisions of ASC 815: 1) the interest rate conversion feature based on changes in federal regulations, and 2) the debt conversion option to common shares. The debt interest rate conversion feature is classified as a derivative asset and measured at fair value using a probability-weighted income approach. The debt conversion option is classified as a derivative liability and measured at fair value using a Black-Scholes option pricing model. The Company allocated proceeds first to the derivatives measured at fair value and the residual amount was allocated to the debenture. Debt issuance costs are allocated to the debenture. The debt issuance costs are presented as a direct reduction from the face value of the debenture and amortized over the stated term of the debenture.

### ***Income Taxes***

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

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

The Company accounts for uncertainties in income taxes under ASC Topic 740, which prescribes a recognition threshold and measurement methodology to recognize and measure an income tax position taken, or expected to be taken, in a tax return. With respect to any tax positions that do not meet the recognition threshold, a corresponding liability, including interest and penalties, is recorded in the consolidated financial statements. The Company may be subject to examination by tax authorities where the Company conducts operations. The earliest income tax year that may be subject to examination is 2019. The Company has recorded an uncertain tax position as of December 31, 2024 and

December 31, 2023. The Company's policy is to recognize interest and penalties on taxes, if any, within the statement of operations as income tax expense.

### ***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 is 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 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. 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 does not 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.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

#### ***Fair Value***

The Company's financial assets include cash and cash equivalents, accounts receivables, notes receivable, investments in unconsolidated entities, an SBH purchase option, and other derivative assets. Financial liabilities include accounts payable and accrued and other current liabilities, cultivation liabilities, notes payable, lease obligations, convertible debenture, and derivative liability. The carrying amounts of current assets and liabilities approximate their fair value due to their short period to maturity. The derivative financial assets and liabilities are measured at fair value through profit or loss ("FVTPL"). The fair value measurement of the Company's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted);

- Level 2: Observable direct or indirect inputs other than Level 1 inputs; and
- Level 3: Unobservable inputs (i.e., not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur. The Company's cash and cash equivalents are subject to a level 1 valuation. The Company's derivative liabilities are subject to a level 2 valuation. The Company's SBH purchase option, other derivative assets, and investment in unconsolidated entity are subject to a level 3 valuation. The basis of the valuation of the derivative financial assets and liabilities, as well as the investment in an unconsolidated entity, are fair value. Refer to the "Fair Value Measurements" note in the consolidated financial statements for additional analysis of fair value instruments.

### ***Market Risk***

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holding financial instruments. The Company conducts sales transactions with foreign entities. The transactions are primarily denominated in USD, the functional currency. On November 11, 2022, the Company entered into a subscription agreement with BAT Group for \$56.8 million convertible debenture. The debenture was denominated in Canadian Dollars ("CAD" or "C\$") C\$75.3 million per the subscription agreement and translated to USD on the transaction date. The Company remeasures the debenture and the derivatives associated with the debenture at each balance sheet date using the CAD to USD exchange rate as of that balance sheet date. The Company recognizes the resulting foreign currency gain or loss within the statement of operation during the period. See additional discussion of foreign currency translation related to the convertible debenture within note Note 8 - "Debt" in the consolidated financial statements.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's accounts receivable and accounts payable are non-interest bearing. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not have any debt instruments outstanding with variable interest rates at December 31, 2024 and December 31, 2023 (see note Note 8 - "Debt" in the consolidated financial statements). Changes in market interest rates cause the fair value of long-term debt with fixed interest rates to fluctuate; however, does not impact net income as the Company records debt at amortized cost, and the carrying value does not change as interest rates change.

### ***Credit Risk***

Credit risk refers to the risk that a counterparty will default on its contractual obligation, resulting in financial loss to the Company. Such risks arise primarily from certain financial assets held by the Company consisting of accounts receivable, note receivables, and deposits. The Company applies the current expected credit loss ("CECL") standard to estimate its allowance for credit losses on all receivables. The loss allowance provision is based on the Company's historical collection and loss experience as well as forward-looking factors, where appropriate.

### ***Liquidity Risk***

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company manages liquidity risk by evaluating working capital and forecasting long-term financial liabilities, as well as forecasting cash inflows and outflows from business operations. The Company's cash and cash equivalents balances at December 31, 2024, and December 31, 2023, were \$22,618 and \$47,820, respectively. Net working capital at December 31, 2024, and December 31, 2023, was \$31,046 and \$54,526, respectively.