

These financial statements for Charlotte's Web Holdings, Inc. are also included in the Form 10-Q for the quarter ended March 31, 2026 filed on SEDAR+ on May 13, 2026 in its entirety. Amounts are presented in thousands of United States dollars, unless otherwise indicated.

CHARLOTTE'S WEB HOLDINGS, INC.
FORM 10-Q
For the Quarter Ended March 31, 2026

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PART I

Item 1. Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	March 31, 2026 (unaudited)	December 31, 2025
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,198	\$ 8,035
Accounts receivable, net	1,410	811
Inventories, net	17,181	18,022
Prepaid expenses and other current assets	3,334	3,491
Total current assets	27,123	30,359
Property and equipment, net	21,630	22,679
Operating lease right-of-use assets, net	11,183	11,297
Investment in unconsolidated entity	8,600	8,800
Intangible assets, net	761	785
Derivative and other long-term assets	1,390	1,353
Total assets	\$ 70,687	\$ 75,273
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 2,589	\$ 2,186
Accrued and other current liabilities	4,021	5,053
Lease obligations – current	1,490	1,420
Total current liabilities	8,100	8,659
Convertible debenture	51,504	50,849
Lease obligations	11,922	12,186
Derivative and other long-term liabilities	14,202	5,618
Total liabilities	85,728	77,312
Commitments and contingencies (Note 7)		
Shareholders' deficit:		
Common shares, nil par value; unlimited shares authorized; 159,683,953 and 159,420,141 shares issued and outstanding as of March 31, 2026 and December 31, 2025	1	1
Additional paid-in capital	329,380	329,270
Accumulated deficit	(344,422)	(331,310)
Total shareholders' deficit	(15,041)	(2,039)
Total liabilities and shareholders' deficit	\$ 70,687	\$ 75,273

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

	Three Months Ended March 31, (unaudited)	
	2026	2025
Revenue	\$ 11,159	\$ 12,262
Cost of goods sold	5,955	6,032
Gross profit	5,204	6,230
Selling, general, and administrative expenses	9,528	11,578
Operating loss	(4,324)	(5,348)
Change in fair value of financial instruments	(8,868)	(126)
Other income (expense), net	77	(738)
Loss before provision for income taxes	\$ (13,115)	\$ (6,212)
Income tax benefit	3	—
Net loss	<u>\$ (13,112)</u>	<u>\$ (6,212)</u>
Per common share amounts (Note 10)		
Net loss per common share, basic and diluted	\$ (0.08)	\$ (0.04)

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

(in thousands, except share amounts)

(unaudited)

	Common Shares		Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Amount			
Balance—December 31, 2025	159,420,141	\$ 1	\$ 329,270	\$ (331,310)	\$ (2,039)
Common shares issued upon vesting of restricted share units, net of withholding	263,812	—	(41)	—	(41)
Share-based compensation	—	—	151	—	151
Net loss		—		(13,112)	(13,112)
Balance—March 31, 2026	<u>159,683,953</u>	<u>\$ 1</u>	<u>\$ 329,380</u>	<u>\$ (344,422)</u>	<u>\$ (15,041)</u>
Balance—December 31, 2024	158,009,541	\$ 1	\$ 328,655	\$ (301,569)	\$ 27,087
Common shares issued upon vesting of restricted share units, net of withholding	—	—	—	—	—
Share-based compensation	—	—	187	—	187
Net loss		—		(6,212)	(6,212)
Balance—March 31, 2025	<u>158,009,541</u>	<u>\$ 1</u>	<u>\$ 328,842</u>	<u>\$ (307,781)</u>	<u>\$ 21,062</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31, (unaudited)	
	2026	2025
Cash flows from operating activities:		
Net loss	\$ (13,112)	\$ (6,212)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,678	2,449
Change in fair value of financial instruments	8,868	126
Convertible debenture and other accrued interest	793	868
Changes in right-of-use assets	114	473
Share-based compensation	151	187
Other	(788)	126
Changes in operating assets and liabilities:		
Accounts receivable, net	(575)	(394)
Inventories, net	856	19
Prepaid expenses and other current assets	109	28
Operating lease obligations	(194)	(605)
Accounts payable, accrued and other liabilities	(537)	71
Other operating assets and liabilities, net	(142)	96
Net cash used in operating activities	<u>(2,779)</u>	<u>(2,768)</u>
Cash flows from investing activities:		
Purchases of property and equipment and intangible assets	(21)	(521)
Proceeds from sale of assets	4	28
Net cash used in investing activities	<u>(17)</u>	<u>(493)</u>
Cash flows from financing activities:		
Other financing activities	(41)	—
Net cash used in financing activities	<u>(41)</u>	<u>—</u>
Net decrease in cash and cash equivalents	(2,837)	(3,261)
Cash and cash equivalents —beginning of period	8,035	22,618
Cash and cash equivalents —end of period	<u>\$ 5,198</u>	<u>\$ 19,357</u>
Non-cash activities:		
Non-cash purchase of property and equipment and intangible assets	<u>\$ —</u>	<u>\$ (83)</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share, per share, per unit, and number of years)
(unaudited)

1. DESCRIPTION OF BUSINESS AND PRESENTATION OF FINANCIAL STATEMENTS

Description of the Business

Charlotte's Web Holdings, Inc. together with its subsidiaries (collectively "Charlotte's Web" or the "Company") is a public company incorporated pursuant to the laws of the Province of British Columbia. The Company's common shares are publicly listed on the Toronto Stock Exchange ("TSX") under the symbol "CWEB" and quoted on the OTCQX under the symbol "CWBHF." The Company's corporate headquarters is located in Louisville, Colorado in the United States of America. The majority of the Company's business is conducted in the United States of America.

The Company's primary products are made from high-quality and proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, terpenes, flavonoids, and other hemp compounds. Hemp extracts are produced from the plant *Cannabis sativa* L. ("cannabis" or "CBD"), and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol ("THC") concentration of not more than 0.3% on a dry weight basis ("hemp"). The Company is engaged in research involving the effectiveness of a broad variety of compounds derived from hemp, as well as other botanical-based wellness products such as functional mushrooms. The Company does not currently produce or sell medical or recreational marijuana or products derived from high-THC cannabis plants. The Company does not currently have any plans to expand into these products in the near future.

The Company's current product categories include full-spectrum hemp extract oil tinctures (liquid product), gummies, soft-gels, CBD topical creams and lotions, broad-spectrum botanical CBD gummies, functional mushroom gummies, and pet products. The Company's products are distributed through its eCommerce website, third-party eCommerce websites, select distributors, and healthcare practitioners.

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, New Mexico, and Canada. The hemp grown in Canada is utilized exclusively in the Canadian markets or for research purposes and not in products sold within the United States.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES

Basis of Presentation

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

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements include all normal and recurring adjustments (which consist primarily of accruals, estimates and assumptions that impact the financial statements) considered necessary to present fairly the Company's financial position as of March 31, 2026 and its results of operations for the three months ended March 31, 2026 and 2025, cash flows for the three months ended March 31, 2026 and 2025, and stockholders' equity (deficit) for the three months ended March 31, 2026 and 2025. Operating results for the three months ended March 31, 2026, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2026. The unaudited interim condensed consolidated financial statements presented herein do not contain the required disclosures under U.S. GAAP for annual consolidated financial statements. Certain amounts presented in prior periods have been reclassified to conform with the current period presentation. The accompanying unaudited

CHARLOTTE'S WEB HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share, per share, per unit, and number of years)

(unaudited)

interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes as of and for the year ended December 31, 2025, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 31, 2026.

Inventories

Inventories are stated at the lower of cost or net realizable value. The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions. The Company's inventory production process for cannabinoid products includes the cultivation of botanical raw material. Due to the duration of the cultivation process, a portion of the inventory will not be sold within one year. Consistent with the practice in other industries that cultivate botanical raw materials, all inventory is classified as a current asset.

Revenue Recognition

The majority of the Company's revenue is derived from sales of branded products to consumers via the Company's direct-to-consumer eCommerce website, as well as distributors, and health practitioners. The service revenue is due to the Company and DeFloria, Inc. ("DeFloria") entering into a Master Services Agreement ("Services Agreement") in which the Company is compensated for the provision of certain services to DeFloria. Refer to Note 3 for additional disclosure on the DeFloria Service Agreement. The following table sets forth the disaggregation of the Company's revenue:

	Three Months Ended March 31,	
	2026	2025
Product revenue	\$ 11,084	\$ 12,187
Service revenue	75	75
Total revenue	<u>\$ 11,159</u>	<u>\$ 12,262</u>

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

Recently Adopted Accounting Pronouncements

There are no new accounting pronouncements adopted by the Company that had or may have a material impact on the accompanying unaudited interim condensed consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

Other than described below, no new accounting pronouncements issued by the FASB had or may have a material impact on the Company's consolidated financial statements.

In December 2025, the FASB issued ASU 2025-11, Interim Reporting (Topic 270): Narrow-Scope Improvements. The guidance clarifies and improves Topic 270, including reorganizing the Codification, clarifying the scope of interim reporting guidance, adding a consolidated list of required interim disclosures, and introducing a disclosure principle for material events or changes occurring after the most recent annual reporting period. ASU 2025-11 is effective for public business entities for interim periods within annual periods beginning after December 15, 2027, with early adoption permitted. The Company is currently evaluating the effect of adopting this ASU.

In September 2025, the FASB issued ASU 2025-06, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40). This guidance modernizes and clarifies the accounting model for costs related to internal-use software, eliminating the historically used stage-based framework. The new guidance supersedes ASC 350-50 on website development costs, folding relevant guidance into ASC 350-40. ASU 2025-06 is effective for the Company beginning after December 15, 2027, and early adoption is permitted as of the beginning of an annual reporting period. The Company is currently evaluating the effect of adopting this ASU.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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In November 2024, the FASB issued ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses. The guidance requires disaggregated disclosure of income statement expenses for public business entities. ASU 2024-03 is effective for the Company beginning December 31, 2026. The Company is currently evaluating the effect of adopting this ASU.

3. FAIR VALUE MEASUREMENT

The following table sets forth the Company's financial instruments that were measured at fair value on a recurring basis at March 31, 2026 and December 31, 2025, by level within the fair value hierarchy:

	March 31, 2026			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Debt interest rate conversion feature	—	—	202	202
Total financial assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 202</u>	<u>\$ 202</u>
Investment in unconsolidated entity:	\$ —	\$ —	\$ 8,600	\$ 8,600
Financial liabilities:				
Debt conversion option	\$ —	\$ 13,779	\$ —	\$ 13,779
December 31, 2025				
	Level 1	Level 2	Level 3	Total
Financial assets:				
Debt interest rate conversion feature	—	—	211	211
Total financial assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 211</u>	<u>\$ 211</u>
Investment in unconsolidated entity:	\$ —	\$ —	\$ 8,800	\$ 8,800
Financial liabilities:				
Debt conversion option	\$ —	\$ 5,187	\$ —	\$ 5,187

There were no transfers between levels of the fair value hierarchy and there were no changes in the fair value methodologies during the three months ended March 31, 2026, and the year ended December 31, 2025.

Investment in Unconsolidated Entity

On April 6, 2023, the Company jointly formed an entity, DeFloria, with AJNA BioSciences ("AJNA"), and a subsidiary of British American Tobacco PLC ("BAT"). AJNA is a botanical drug development company. AJNA is partially owned and was co-founded by a member of the Stanley Brothers. The seven Stanley brothers (the "Stanley Brothers") founded CWB Holdings, Inc. (predecessor to Charlotte's Web, Inc).

As of March 31, 2026, BAT holds an equity interest in DeFloria in the form of approximately 2,000,000 or 100% preferred units following its \$10 million initial investment and has the right to participate in future equity issuances to maintain its pro rata equity position. In 2024, BAT and AJNA invested an additional \$5 million and \$2 million, respectively, into DeFloria in exchange for a convertible debenture. The Company and AJNA each hold 4,000,000 or approximately 50%, respectively, of DeFloria's voting common units following a 1-10 stock

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split when DeFloria converted from a Limited Liability Company to a Corporation. The Company's contribution to DeFloria is a license permitting the use of certain proprietary hemp intellectual property, including clinical and consumer data. Additionally, the Company has a supply agreement with DeFloria, under which the Company supplies the oils at cost used to produce and develop the new drug. AJNA's contribution to the entity is laboratory and regulatory services, clinical expertise, and the provision of clinical services. DeFloria used the investments for the clinical development of a hemp botanical Investigational New Drug application and has concluded Phase I clinical development.

Concurrently with the formation of DeFloria, the Company was issued a warrant to purchase 865,052 shares of Class A Common Stock of AJNA for an exercise price of \$2.89 per share. Management determined the warrant should be accounted for in accordance with ASC 321, which requires the warrant to be measured at fair value at issuance and subsequently remeasured at fair value each reporting period. All changes from the remeasurement of the warrant will be recorded as a change in fair value of financial instruments in the condensed consolidated statements of operations. As of April 2025, AJNA warrants have expired and as such have no value.

The Company determined that it 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. The maximum exposure to loss in the investment in DeFloria is limited to the Company's investment, which is represented by the financial statement carrying amount of its retained interest.

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 is 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. Upon formation of the entity, the Company elected the fair value option because it allowed the investment to be valued based on current market conditions.

The investment has been remeasured at fair value at each reporting date, with changes recognized in condensed consolidated statements of operations as changes in fair value of financial instruments for the period. For the three months ended March 31, 2026 and March 31, 2025, a loss of \$200 and \$100, respectively, related to the investment in DeFloria was recognized as a change in fair value of financial instruments in the condensed consolidated statements of operations. As of March 31, 2026 and December 31, 2025, the DeFloria investment represents an investment of \$8,600 and \$8,800, respectively, within the condensed consolidated balance sheets.

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. 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.

The following additional assumptions are used in the model:

	<u>March 31,</u> <u>2026</u>	<u>December 31,</u> <u>2025</u>
Expected term (years)	5.0	5.0
Volatility	98.2%	96.4%
Risk-free interest rate	3.9%	3.7%
Expected dividend yield	—%	—%
Discount for lack of marketability	32.0%	31.0%

CHARLOTTE'S WEB HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share, per share, per unit, and number of years)

(unaudited)

Convertible Debt Derivatives

On November 14, 2022, the Company entered into a subscription agreement (the "Subscription Agreement") with BT DE Investments, Inc. a wholly-owned subsidiary of BAT Group (LSE: BATS and NYSE: BTI) (the "Lender"), providing for the issuance of a \$56.8 million (C\$75.3 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 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 cannabidiol, a phytocannabinoid derived from the plant *Cannabis sativa L.* as an ingredient in food products and dietary supplements in the United States. The term "federal regulation" is defined as the date that federal laws in the United States permit, authorize or do not prohibit the use of CBD as an ingredient in food products and dietary supplements. Following federal regulation of CBD, the annualized rate of interest shall reduce to 1.5%. The maturity date for the debenture is November 14, 2029 (the "Maturity Date").

Debt Interest Rate Conversion Feature

The debt interest rate conversion feature is classified as a financial asset and is remeasured at fair value at each reporting date, with changes recognized in condensed consolidated statements of operations as changes in fair value of financial instruments 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. The debt interest rate conversion feature, if triggered, reduces the stated interest rate of the debenture to 1.5% upon federal regulation of CBD in the United States.

For the three months ended March 31, 2026 and March 31, 2025, a loss of \$6 and \$53, respectively, related to the debt interest rate conversion feature was recognized as a change in fair value of financial instruments in the condensed consolidated statement of operations. As of March 31, 2026 and December 31, 2025, the debt interest rate conversion feature represents a financial asset of \$202 and \$211, respectively, within Derivative assets in the condensed consolidated balance sheets.

To determine the value of the debt interest rate conversion feature, the Company utilizes a probability weighted income approach. This method calculates the present value of the reduced interest accrued on the debenture assuming the feature is triggered at a certain time, after accounting for the probability of federal regulation of CBD. This approach is useful when ultimate valuation is based on an unverifiable outcome, such as an event outside of the Company's influence. The following additional assumptions are used in the model:

	<u>March 31,</u>	<u>December 31,</u>
	<u>2026</u>	<u>2025</u>
Stated interest rate	5.0%	5.0%
Adjusted interest rate	1.5%	1.5%
Implied debt yield	14.0%	13.2%
Federal regulation probability	various	various
Year of event	various	various

Debt Conversion Option

Per the debenture, the Lender has the option, at any time before the Maturity Date at no additional consideration, for all or any part of the principal amount to be converted into fully paid and non-assessable common shares. The Company assessed this conversion feature and determined that the debt conversion option is an embedded derivative that requires bifurcation and is classified as a financial liability within the condensed consolidated balance sheet. The debt conversion option is initially measured at fair value and is revalued at each reporting period using the Black-Scholes option pricing model based on Level 2 observable inputs. The assumptions used by the Company are the quoted price of the Company's common shares in an active market, risk-free interest rate, volatility and expected life, and assumes no dividends. Volatility is based on the actual historical market activity of the Company's shares. The expected life is based on the remaining contractual term of the debenture and the risk-free interest rate is based on the implied yield available on U.S. Treasury Securities with a maturity equivalent to the expected maturity of the debenture.

CHARLOTTE'S WEB HOLDINGS, INC.

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(In thousands, except share, per share, per unit, and number of years)

(unaudited)

For the three months ended March 31, 2026 and March 31, 2025, a loss of \$8,662 and a gain of \$78, respectively, related to the debt conversion option was recognized as a change in fair value of financial instruments in the condensed consolidated statements of operations. As of March 31, 2026 and December 31, 2025, the debt conversion option represents a financial liability of \$13,779 and \$5,187, respectively, within derivative and other long-term liabilities in the condensed consolidated balance sheets.

The following table provides the assumptions regarding Level 2 fair value measurements inputs at their measurement dates:

	<u>March 31,</u> <u>2026</u>	<u>December 31,</u> <u>2025</u>
Expected volatility	91.6%	89.8%
Expected term (years)	3.63	3.9
Risk-free interest rate	4.1%	3.9%
Expected dividend yield	—%	—%
Value of underlying share	C\$1.00	C\$0.50
Exercise price	C\$2.00	C\$2.00

Stanley Brothers USA Holdings Purchase Option

In 2021, the Company entered into an option purchase agreement (the "SBH Purchase Option") with Stanley Brothers USA Holdings, Inc ("Stanley Brothers USA"). The SBH Purchase Option was purchased for total consideration of \$8,000 and had a term of five years (extendable for an additional two years upon payment of additional consideration). The SBH Purchase Option provided the Company the option to acquire all or substantially all the shares of Stanley Brothers USA, at a purchase price to be determined at the time of exercise of the SBH Purchase Option. As part of the SBH Purchase Option agreement, Stanley Brothers USA issued the Company a warrant exercisable to purchase 10% of the outstanding Stanley Brothers USA shares and convertible securities that are considered in-the-money, subject to certain conditions and exclusions. The warrant was exercisable at the Company's election for a nominal exercise price in the event the Company elects not to acquire all or substantially all shares of Stanley Brothers USA and expired 60 days after the expiration of the option. The Company was not obligated to exercise the SBH Purchase Option or warrant and as such the unexercised option and warrant have expired.

For the three months ended March 31, 2025, the Company recognized a loss of \$52 related to the SBH Purchase Option within change in fair value of financial instruments in the condensed consolidated statements of operations. As of December 31, 2025, the SBH Purchase Option represented a financial asset of \$0 within Derivative assets and other long-term assets in the condensed consolidated balance sheets.

4. INVENTORIES

Inventories consist of the following:

	<u>March 31,</u> <u>2026</u>	<u>December 31,</u> <u>2025</u>
Harvested Hemp and seeds	\$ 2,702	\$ 2,212
Raw materials	9,423	10,379
Finished goods	6,132	6,606
	<u>18,257</u>	<u>19,197</u>
Less: inventory provision	(1,076)	(1,175)
Total	<u>\$ 17,181</u>	<u>\$ 18,022</u>

CHARLOTTE'S WEB HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share, per share, per unit, and number of years)

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5. LICENSE AND MEDIA RIGHTS

MLB Promotion Rights Agreement

On October 11, 2022, the Company entered into a Promotional Rights Agreement (the "MLB Promotional Rights Agreement") with MLB Advanced Media L.P., on its own behalf and on behalf of Major League Baseball Properties, Inc., the Office of the Commissioner of Baseball, The MLB Network, LLC and the Major League Baseball Clubs (collectively, the "MLB"), pursuant to which the Company entered into a strategic partnership with MLB to promote the Company's new NSF-Certified for Sport® product line. On May 13, 2025, the Company and MLB entered into a letter agreement ("PRA Letter Agreement") terminating the MLB Promotional Rights Agreement and waiving the Company's obligation to pay the remaining aggregate rights fee of \$18 million for the remainder of the term of the MLB Promotional Rights Agreement.

As consideration under the MLB promotional rights agreement, the Company paid a combination of cash over the license period, along with upfront non-cash consideration in the form of equity, as well as contingent consideration in the form of contingent payments based on revenue.

For the three months ended March 31, 2025, the Company recognized \$974 in amortization expense related to the license and media right assets. Licensed properties were amortized straight line and media rights were amortized as incurred.

6. DEBT

Convertible Debenture

On November 14, 2022, the Company entered into the Subscription Agreement with BT DE Investments, Inc., providing for the issuance of a \$56.8 million (C\$75.3 million) convertible debenture. The debenture is denominated in Canadian Dollars ("CAD" or "C\$"). 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 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 reduce to 1.5%. Interest is accrued annually and payable on the maturity date or date of earlier conversion.

On March 30, 2026, the Company announced that it has entered into an agreement to complete a transaction with BAT comprised of two components: (i) amendment and conversion of BAT's outstanding C\$75.3 million convertible debenture, as well as, all accrued interest, into Charlotte's Web's common shares at a conversion price of C\$0.94 per share; and (ii) a concurrent additional equity investment by BAT of \$10 million (approximately C\$13.6 million at current exchange rates) by way of a private placement at a price equal to the greater of (a) C\$0.94 per share, and (b) a dollar amount equal to the maximum discount available pursuant to section 607 of the TSX Company Manual applied to the 5-day volume weighted average price of the Company's common shares on the TSX prior to the closing date (collectively, the "Transaction"). The Transaction will result in the issuance of approximately 110 million Charlotte's Web's common shares to BAT and represents a total equity commitment of approximately C\$103 million (approximately \$75 million). Completion of the Transaction is subject to, among other conditions, TSX and shareholder approval. The Company's shareholders will be asked to approve the Transaction at an annual general and special meeting of the shareholders to be held on or about May 28, 2026.

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The following is a summary of the Company's convertible debenture as of March 31, 2026:

Convertible Debenture	As of March 31, 2026		
	Principal Amount	Unamortized Debt Discount and Costs	Net Carrying Amount
Convertible debenture due November 2029	\$ 63,839	\$ (12,335)	\$ 51,504

The following is a summary of the Company's convertible debenture as of December 31, 2025:

Convertible Debenture	As of December 31, 2025		
	Principal Amount	Unamortized Debt Discount and Costs	Net Carrying Amount
Convertible debenture due November 2029	\$ 63,944	\$ (13,095)	\$ 50,849

The debenture was C\$75.3 million per the subscription agreement and translated to USD on the transaction date. For the three months ended March 31, 2026 and March 31, 2025, the Company recognized a foreign currency gain of \$725 and \$62, respectively, related to the net carrying value of the debenture within the condensed consolidated statements of operations.

Interest is accrued annually and payable on the maturity date or date of earlier conversion. On conversion, accrued interest will either be converted into common shares equal to the amount of accrued interest or will be paid in cash if agreed with the Lender. As of March 31, 2026 and December 31, 2025, the principal amount of the debenture includes \$9,850 and \$9,057, respectively, of accrued interest expense. The following is a summary of the interest expense and amortization expense, recorded within the condensed consolidated statements of operations, of the Company's convertible debenture for the three months ended March 31, 2026 and 2025:

	Three Months Ended March 31,	
	2026	2025
Interest expense	\$ 793	\$ 722
Amortization of debt discounts and costs	587	463
Total interest and amortization expense	\$ 1,380	\$ 1,185

7. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

From time to time, the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. Although the ultimate aggregate amount of monetary liability or financial impact with respect to these matters is subject to many uncertainties and is therefore not predictable with assurance, management believes that as of March 31, 2026 there is no litigation pending that could have, individually and in the aggregate, a material adverse effect on the Company's financial position, results of operations or cash flows.

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8. LEASES

The Company has lease arrangements related to office space, warehouse and production space, and land to facilitate agricultural operations. The leases have remaining lease terms of less than 0.9 to 8.9 years, some of which include options to extend the leases for up to five years. Generally, the lease agreements do not include options to terminate the lease.

Maturities of operating lease liabilities as of March 31, 2026 are as follows:

	<u>Operating Leases</u>
2026 (9 months remaining)	\$ 1,672
2027	1,898
2028	1,819
2029	1,825
2030	1,851
Thereafter	6,329
Total lease obligation	15,394
Less: Imputed interest	(1,982)
Total lease liabilities	13,412
Less: Current lease liabilities	1,490
Total non-current lease liabilities	<u>\$ 11,922</u>

9. SHAREHOLDERS' EQUITY

As of March 31, 2026 and December 31, 2025, the Company's share capital consists of one class of issued and outstanding shares: common shares. The Company is also authorized to issue preferred shares issuable in series. To date, no shares of preferred shares have been issued or are outstanding.

Common Shares

As of March 31, 2026 and December 31, 2025, the Company was authorized to issue an unlimited number of common shares, which have no par value.

10. LOSS PER SHARE

The Company computes loss per share of common shares. Basic net loss per common share is computed by dividing the net loss by the weighted-average number of common shares outstanding. Diluted loss per common share is computed by dividing the net loss by the weighted-average number of common shares together with the number of additional common shares that would have been outstanding if all potentially dilutive common shares had been issued, unless anti-dilutive.

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

	Three Months Ended March 31,	
	2026	2025
Net loss	\$ (13,112)	\$ (6,212)
Weighted-average number of common shares - basic	159,669,297	158,009,541
Dilutive effect of stock options and awards	—	—
Weighted-average number of common shares - diluted	159,669,297	158,009,541
Loss per common share – basic and diluted	\$ (0.08)	\$ (0.04)

As of March 31, 2026 and March 31, 2025, potentially dilutive securities include stock options, restricted share units, common share warrants, and convertible debenture conversion. When the Company recognizes a net loss from continuing operations, all potentially dilutive shares are anti-dilutive and are consequently excluded from the calculation of diluted net loss per share. The potentially dilutive awards outstanding for each period are presented in the table below:

	March 31,	
	2026	2025
Outstanding options	1,924,812	3,351,687
Outstanding restricted share units	3,532,850	4,409,234
Total	5,457,662	7,760,921

The Company's 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. The Company can settle the convertible debenture in shares. If the convertible debenture in diluted EPS is anti-dilutive, or if the conversion value of the debenture does not exceed their conversion price for a reporting period, then the shares underlying the notes will not be reflected in the Company's calculation of diluted EPS. For the three months ended March 31, 2026, the price of the Company's shares did not exceed the conversion price and therefore there was no impact to potential common share diluted EPS during those periods.

On March 30, 2026, the Company announced that it has entered into an agreement to complete a transaction with BAT, refer to Note 6 for additional details. The Transaction, if completed, will result in the issuance of approximately 110 million Charlotte's Web's common shares to BAT and represents a total equity commitment of approximately C\$103 million (approximately \$75 million).

11. SHARE-BASED COMPENSATION

Stock options

Stock options vest over a prescribed service period and are approved by the Company's board of directors on an award-by-award basis. Options have a prescribed service period generally lasting up to four years, with certain options vesting immediately upon issuance. Upon the exercise of any stock options, the Company issues shares to the award holder from the pool of authorized but unissued common shares.

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There were no options granted for the three months ended March 31, 2026 and March 31, 2025. Detail of the number of stock options outstanding for the three months ended March 31, 2026 under the Company's amended 2018 Long-Term Incentive Plan (the "2018 Plan") is as follows:

	Number of Options	Weighted- Average Exercise Price per Option	Weighted- Average Remaining Contract Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2025	1,967,426	\$ 1.04	6.57	\$ 28
Granted	—	—		
Exercised	—	—		
Forfeited (and expired)	(42,614)	1.20		
Outstanding as of March 31, 2026	<u>1,924,812</u>	\$ 1.04	6.33	\$ 451
Exercisable/vested as of March 31, 2026	<u>1,729,638</u>	\$ 1.12	6.24	\$ 370

There were no options granted or exercised during the three months ended March 31, 2026 and March 31, 2025, respectively.

Restricted share units

The Company has issued time-based restricted share units to certain employees as permitted under the 2018 Plan. The restricted share units granted vest in accordance with the board-approved agreement, typically over equal installments up to four years. Upon vesting, one share of the Company's common shares is issued for each restricted share unit awarded. The fair value of each restricted share unit granted is equal to the market price of the Company's shares at the date of the grant. The fair value of shares vested during the three months ended March 31, 2026 was \$77. There were no shares vested during the three months ended March 31, 2025.

Details of the number of restricted share units outstanding under the 2018 Plan is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of December 31, 2025	4,084,117	\$ 0.18
Granted	—	\$ —
Forfeited	(176,267)	\$ 0.09
Vested	(263,812)	\$ 0.29
Shares withheld upon vesting	(111,188)	\$ 0.29
Outstanding as of March 31, 2026	<u>3,532,850</u>	\$ 0.18

Share-based Compensation Expense

Share-based compensation expense for all equity arrangements for the three months ended March 31, 2026 and March 31, 2025 was \$151 and \$187, respectively, included in selling, general and administrative expense in the condensed consolidated statements of operations. As of March 31, 2026, \$3,268 of total unrecognized share-based compensation expense related to unvested options granted to employees is expected to be recognized over a weighted-average period of 2.62 years.

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12. INCOME TAXES

The Company reported income tax benefit of \$3 and \$0 for the three months ended March 31, 2026 and 2025, respectively. The Company's effective tax rate in the three months ended March 31, 2026 and 2025 was 0.0%. The Company's effective tax rates differ from the U.S. federal statutory rate of 21.0% for the three months end March 31, 2026 and 2025, respectively, primarily due to state tax payments.

13. OPERATING SEGMENT

Segment information

The Company has determined that it operates in a single operating and reportable segment, which is the production and sale of hemp-based CBD wellness products, which makes up substantially all of the revenue at this time. This is consistent with how the chief operating decision maker (the "CODM") allocates resources and assesses performance. The Company's CODM is the executive operations committee that includes the chief executive officer, the chief financial officer, the chief operations officer and the chief people officer. The majority of Company's products have similar characteristics due to the same raw material ingredient (CBD and derivatives), similar nature of cultivation process, the type of customer and the regulatory nature of the industry.

The CODM assesses performance for this segment and decides how to allocate resources based on pre-tax net income/(loss) that is reported on the condensed consolidated statement of operations. The measure of segment assets is reported on the condensed consolidated balance sheets as total assets. For the three months ended March 31, 2026 and 2025, the segment's revenues and pre-tax net loss were \$11,159 and \$12,262; and \$13,115 and \$6,212, respectively. There are no differences between segment revenues, pre-tax net income/(loss) and the Company's consolidated revenues and pre-tax net income/(loss).

General Information

Factors used to Identify Reportable Segments: The Company operates as a single reportable segment, focusing primarily on the production and sale of hemp-based CBD wellness products.

Products and Services: The Company's revenue is primarily derived from the production and sale of hemp-based CBD wellness products.

Chief Operating Decision Maker (CODM): The Company's Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, and Chief People Officer.

Measure of Segment Profit or Loss and Total Assets: The CODM evaluates performance and allocates resources based on pre-tax net income/(loss), as presented in the accompanying financial statements. The measure of segment assets is reported on the balance sheet as total consolidated assets.

Significant Segment Expenses

The following significant expenses are regularly reviewed by the CODM for the three months ended March 31, 2026 and 2025: Cost of goods sold \$5,955 and \$6,032, respectively; Selling, general, and administrative expenses \$9,528 and \$11,578, respectively; Change in fair value of financial instruments \$(8,868) and \$(126), respectively; and Depreciation and Amortization \$1,678 and \$2,449, respectively.

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Reconciliation to Consolidated Financial Statements

As the Company operates as a single reportable segment, the amounts presented above align directly with the consolidated totals in the financial statements.

	For the Three Months Ended March 31,	
	2026	2025
Product Revenue	\$ 11,084	\$ 12,187
Service Revenue	75	75
Total Revenue	\$ 11,159	\$ 12,262
Cost of goods sold	5,955	6,032
Gross profit	\$ 5,204	\$ 6,230
Gross profit %	46.6 %	50.8 %
Selling, general, and administrative expenses	9,528	11,578
Operating loss	\$ (4,324)	\$ (5,348)
Change in fair value of financial instruments	(8,868)	(126)
Other income (expense), net	77	(738)
Loss before provision for income taxes	<u>\$ (13,115)</u>	<u>\$ (6,212)</u>
Other segment information		
Depreciation/Amortization	1,678	2,449
Total assets	70,687	108,023
Long-term liabilities	<u>77,628</u>	<u>68,473</u>

14. 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 date 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, 2025.

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 members of the Stanley Brothers, who are or were employees of the Company at the time, are the majority shareholders of Stanley Brothers USA. The Company is not obligated to exercise the SBH Purchase Option and as such the unexercised option expired as of March 31, 2026.

On April 6, 2023, the Company jointly formed an entity, DeFloria, with AJNA BioSciences and BAT. AJNA is a botanical drug development company and is partially owned and was co-founded by a member of the Stanley Brothers. BAT holds an equity interest in the entity in the form of approximately 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

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March 31, 2026 and December 31, 2025, the remaining note receivable of \$8 and \$19, respectively, is presented in other assets in the condensed consolidated balance sheets.

On April 6, 2023, the Company and DeFloria entered into a supply agreement in which the Company shall supply raw material that will be used in the development of the new drug. The price charged by the Company is at cost of goods sold level. Similarly, 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 three months ended March 31, 2026 and March 31, 2025, the Company recognized \$75 and \$75 in revenue and cost of goods sold, respectively, related to the service agreement with DeFloria. Additionally, the Company has an accounts receivable balance due from DeFloria of \$1,546 and \$1,471 as of March 31, 2026 and December 31, 2025, respectively.

On July 15, 2025, the Company entered into a promissory note, as lender, where the Company loaned \$750 to DeFloria. The note and accrued interest is due and payable by DeFloria upon the later of December 31, 2026, or the date the Company shall issue and sell units of a newly-authorized series of preferred units in a bona fide financing transaction to one or more investors for aggregate cash proceeds to DeFloria or any other convertible debt of DeFloria of not less than \$10 million. Upon any event of default by DeFloria under the note, which includes DeFloria's failure to pay amounts within 3 business days of when due and breaches of DeFloria's obligations pursuant to the note, the Company will be entitled to exercise its rights under the note. The funds were distributed monthly between July and November 2025. The balance of the promissory note including accrued interest as of March 31, 2026 and December 31, 2025 is \$805 and \$784, respectively.

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 receives a bi-weekly fee of \$6.