

**CHARLOTTE'S WEB HOLDINGS, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019  
(Expressed in United States dollars)

CONSOLIDATED FINANCIAL  
STATEMENTS  
For the Years Ended December 31, 2020 and 2019

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## Independent Auditor's Report

To the shareholders of Charlotte's Web Holdings, Inc.

### Opinion

We have audited the consolidated financial statements of Charlotte's Web Holdings, Inc. (the Company), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of loss and other comprehensive loss, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for opinion

We conducted our audit in accordance with United States and Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United States and Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

### ***Acquisition of Abacus Health Products, Inc.***

As disclosed in Note 4, Charlotte's Web acquired 100% of the issued and outstanding subordinate voting shares of Abacus Health Products, Inc. ("Abacus Health") for purchase consideration of \$114.1 million. The acquisition of Abacus was significant to our audit due to the financial magnitude of the transaction and due to significant judgments and assumptions involved in the recognition and measurement of the acquired assets and assumed liabilities for Abacus Health. For certain intangible assets acquired, including trade name and customer relationships, no observable market values are available. To determine the corresponding fair values, complex valuation models based on assumptions are used.

Management, assisted by its external valuation specialists, determined the fair value of the Abacus's identifiable assets and liabilities, notably: trade name, customer relationships, assembled workforce, and inventories. The valuation of these assets is also highly dependent on estimates of future cash flows as well as the cost of capital applied and, due to judgment, subject to considerable uncertainty. In this context and due to the underlying complexity of the valuation models, there is a risk for the financial statements that the fair values have not been determined appropriately. As a result of the acquisition of Abacus, goodwill of \$77.5 million and other intangibles of \$23.4 million were recognized.

### **How our audit addressed the key audit matter**

We evaluated the competency and objectivity of the external valuation specialists engaged by the company to perform the purchase price allocation. We also involved our own valuation specialists to assist us with the valuation prepared by Management and their valuation specialists of the intangible assets to evaluate the methods and valuation models used and assumptions made by management, such as discount and growth rates. This involved assessing the mathematical accuracy of the valuation models and also evaluating the expectations of the future short-, medium-, and long-term growth of revenue and costs by comparing them with external market data.

We analyzed whether the assumptions for the value drivers of trade names (long-term sales growth rates, royalty rates, risk premiums), and customer relationships (grouping of customers, retention rates, risk premiums) were appropriate and consistent with observable market parameters. We evaluated the assumptions for the valuation of the assembled workforce (replacement cost) and inventory (expected sales proceeds and selling costs). We also evaluated the assumptions and methodologies used to determine the weighted average cost of capital, and in particular whether the determination of the peer group to derive the cost of equity was appropriate.

Additionally, we included internal tax specialists on our team for the assessment of deferred taxes. Furthermore, we assessed whether the disclosures required pursuant to IFRS 3 in the notes to the consolidated financial statements were complete and appropriate.

### **Existence and valuation of inventories**

At December 31, 2020, the carrying amount of inventories amounted to \$61.9 million, after considering allowance for inventory obsolescence of \$17.2 million. As described in Note 8 of the financial statements, these inventories mainly consist of harvested hemp and seeds, raw materials, and finished goods. Valuation of the inventories is at the lower of cost or net realizable value. Valuation at cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity.

The Company's inventory is located across a number of internal and external farms, manufacturing, and warehouse locations. This, in combination with the judgment applied in the valuation of inventory on hand, made us conclude that existence and valuation of inventories is a key audit matter of our audit. Significant judgement is required in assessing the appropriate level of the provision for slow moving and/or obsolete inventory. Such judgements include management's expectations of forecast inventory demand, product expiration dates, and plans to dispose of inventories that are close to expiration.

### **Other information**

Management is responsible for the other information. The other information comprises Management's discussion and analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### **How our audit addressed the key audit matter**

Our audit procedures to test the existence of the inventories, among others, consisted of the observation of full physical inventory counts. We compared our count results with the results of the counts by Company representatives. To assess the valuation of inventories, among other procedures, we performed testing on a sample of historical costs and contracts. We also tested management's calculation and application of overhead rates to inventory. For excess and obsolete inventories, we tested, on a sample basis, the expiration dates of inventory. We evaluated the assumptions made by management, and in particular, the key assumptions around the quantity of forecasted sales, in assessing inventory obsolescence provisions through an analysis of inventory items by age and the level of inventory reserves during the period.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with United States and Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with United States and Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our audit report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



The engagement partner on the audit resulting in this independent auditor's report is Mark Belfance.

*Ernst + Young LLP*

Denver, Colorado  
March 25, 2021

**CHARLOTTE'S WEB HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(In thousands of United States dollars)

	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 52,803	\$ 68,553
Trade and other receivables, net (note 5)	6,274	5,462
Note receivable (note 6)	1,753	1,421
Note receivable - related party (note 7)	1,004	—
Inventories (note 8)	61,936	64,054
Prepaid expenses and other current assets (note 11)	7,390	3,592
Income taxes receivable (note 20)	11,440	3,273
	142,600	146,355
Non-current assets:		
Property and equipment, net (note 9)	60,269	42,949
Intangible assets, net (note 10)	25,376	1,596
Goodwill (note 10)	77,454	—
Deferred tax assets (note 20)	4	30,417
Other long-term assets (note 12)	5,178	1,625
	\$ 310,881	\$ 222,942
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,891	\$ 8,798
Accrued liabilities	11,519	7,323
Deferred revenue	615	550
Current cultivation liabilities (note 16)	9,304	10,803
Current notes payable (note 13)	629	9
Current lease obligations (note 14)	2,015	1,945
	28,973	29,428
Non-current liabilities:		
Long-term cultivation liabilities (note 16)	2,513	14,289
Long-term notes payable (note 13)	144	3
Long-term lease obligations (note 14)	20,567	22,116
Warrant liabilities (note 15)	4,304	3,408
Other long-term liabilities	151	—
	56,652	69,244
Shareholders' equity:		
Share capital	279,308	123,927
Contributed surplus	19,849	27,513
(Accumulated deficit) Retained earnings	(44,928)	2,258
	254,229	153,698
	\$ 310,881	\$ 222,942

Approved by the Board of Directors

/s/ "Jacques Tortoroli"

Director (signed)

/s/ "John Held"

Director (signed)

**CHARLOTTE'S WEB HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF LOSS AND OTHER COMPREHENSIVE LOSS**

(In thousands of United States dollars, except per share amounts)

	Year ended December 31,	
	2020	2019
Revenue	\$ 95,226	\$ 94,594
Cost of sales (note 19)	42,937	44,144
Gross profit before (gain) loss on fair value of biological assets	52,289	50,450
Realized fair value (gain) included in inventory sold (note 8)	(289)	(994)
Unrealized fair value loss on growth of biological assets (note 8)	323	842
Gross profit	52,255	50,602
Expenses:		
General and administrative (note 19)	68,764	45,546
Sales and marketing (note 19)	30,010	28,107
Research and development (note 19)	5,951	1,754
Operating expenses	104,725	75,407
Operating loss	(52,470)	(24,805)
Financing costs	1,260	326
Interest income	(185)	(994)
Change in fair value of warrants and other income, net	(12,671)	(2,928)
Loss before taxes	(40,874)	(21,209)
Income tax expense (benefit) (note 20)	6,312	(5,642)
Net loss and comprehensive loss	\$ (47,186)	\$ (15,567)
Weighted average number of common shares - basic (note 18d)	125,012,249	96,539,194
Weighted average number of common shares - diluted (note 18d)	125,012,249	96,539,194
Loss per share - basic (note 18d)	\$ (0.38)	\$ (0.16)
Loss per share - diluted (note 18d)	\$ (0.38)	\$ (0.16)

**CHARLOTTE'S WEB HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(In thousands of United States dollars)

Year ended December 31, 2019	Share capital	Contributed surplus	Retained earnings	Total
Balance - December 31, 2018	\$ 78,316	\$ 25,357	\$ 17,825	\$ 121,498
Exercise of common stock options	2,850	(1,264)	—	1,586
Exercise of common stock warrants	1,328	(842)	—	486
Accumulated effect of income tax from stock options (note 20)	—	1,284	—	1,284
Share-based compensation expense (note 18e)	—	2,978	—	2,978
2019 Share offering, net of warrants (note 18b)	44,295	—	—	44,295
Share issuance costs (note 18b)	(2,862)	—	—	(2,862)
Net loss and comprehensive loss	—	—	(15,567)	(15,567)
Balance - December 31, 2019	\$ 123,927	\$ 27,513	\$ 2,258	\$ 153,698

  

Year ended December 31, 2020	Share capital	Contributed surplus	Accumulated deficit	Total
Balance - December 31, 2019	\$ 123,927	\$ 27,513	\$ 2,258	\$ 153,698
Exercise of common stock options (note 18b)	4,001	(1,534)	—	2,467
Withholding of common stock upon vesting of restricted share awards	1,328	(1,347)	—	(19)
Accumulated effect of income tax from stock options (note 20)	—	(16,087)	—	(16,087)
Share-based compensation expense (note 18e)	—	5,897	—	5,897
2020 Share Offering, net of warrants (note 18b)	47,959	—	—	47,959
Share issuance costs (note 18b)	(3,368)	—	—	(3,368)
Abacus Acquisition (note 4)	105,461	5,407	—	110,868
Net loss and comprehensive loss	—	—	(47,186)	(47,186)
Balance - December 31, 2020	\$ 279,308	\$ 19,849	\$ (44,928)	\$ 254,229

**CHARLOTTE'S WEB HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands of United States dollars)

	Year ended December 31,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (47,186)	\$ (15,567)
Items not involving cash:		
Depreciation (note 9)	7,746	3,666
Amortization (note 10)	2,008	300
Change in fair value of biological assets	34	(152)
Change in fair value of warrant liabilities (note 15)	(11,167)	(2,107)
Expected credit losses	834	422
Inventory provision, net (note 8)	8,025	15,474
Share-based compensation (note 18)	5,897	2,978
Loss on disposal of assets	(5)	18
Deferred income taxes	14,348	(5,684)
Changes in working capital:		
Trade and other receivables, net	2,276	(1,010)
Inventories	(1,782)	(53,498)
Prepaid expenses and other current assets	(3,673)	325
Accounts payable	(8,594)	3,460
Accrued liabilities	829	840
Income taxes	(8,132)	(1,486)
Cultivation liabilities	(11,289)	18,275
Other operating assets and liabilities, net	1,239	270
	(48,592)	(33,476)
Cash flows from investing activities:		
Cash acquired in business combinations (note 4)	11,181	—
Purchases of property and equipment	(25,904)	(13,775)
Purchases of intangible assets	(2,353)	(1,278)
Proceeds from sale of assets	91	54
Funding of note receivable (note 6)	(1,400)	(1,400)
Collections on note receivable (note 6)	1,125	—
Funding of note receivable - related party (note 7)	(1,000)	—
Proceeds from loans due from related parties	—	128
Other investing activities	(1,181)	(1,444)
	(19,441)	(17,715)
Cash flows from financing activities:		
Proceeds from public offering	57,165	49,810
Proceeds from common stock option exercises	2,467	1,586
Withholding of common stock upon vesting of restricted share awards	(19)	—
Proceeds from common stock warrant exercises	—	486
Payments on notes payable (note 13)	(809)	(9)
Payments on lease obligations (note 14)	(3,153)	(2,671)

Share issuance costs	(3,368)	(2,862)
	52,283	46,340

Decrease in cash and cash equivalents	(15,750)	(4,851)
Cash and cash equivalents, beginning of year	68,553	73,404
Cash and cash equivalents, end of period	\$ 52,803	\$ 68,553

Supplemental disclosures of cash flows from operating activities:

Cash paid for interest	\$ (145)	\$ (45)
Cash paid for interest on lease obligations	(1,115)	(281)
Cash received from interest	185	994
Cash received (paid) for taxes	14	(1,765)
Non-cash purchases of property and equipment	(1,291)	(1,932)
Non-cash purchases of intangibles	(35)	—
Non-cash inventory provision	(2,073)	—

## 1. Company overview

### (a) Organization and Reorganization

Charlotte's Web Holdings, Inc. together with its subsidiaries, (collectively the "Company") is a public company incorporated pursuant to the laws of the Province of British Columbia. The Company is publicly listed on the Toronto Stock Exchange ("TSX") under the symbol "CWEB."

The Company's head office is located at 1600 Pearl Street, Suite 300, Boulder, Colorado, 80302, United States and its registered and records office is located at 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia V6C 2Z7, Canada.

### (b) Nature of operations

Charlotte's Web is a market leader in the production and distribution of innovative hemp-based, cannabidiol ("CBD") wellness products. Through its vertically integrated business model, the Company strives to improve consumers' lives and meet their demands for stringent product quality, efficacy and consistency.

The Company's hemp products are made from high quality and proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, including CBD, terpenes, flavonoids and other minor but valuable 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 CBD isolates.

The Company's hemp extracts are produced from hemp, which is defined in the 2018 Farm Bill (as defined in the AIF) as the plant *Cannabis sativa L.* 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 percent on a dry weight basis. THC causes psychoactive effects when consumed and is typically associated with marijuana (i.e. Cannabis with high-THC content). Hemp products have no psychoactive effects.

The Company does not currently produce or sell medicinal or recreational marijuana or products derived from high-THC (as defined above) Cannabis plants. On March 2, 2021, Charlotte's Web executed an Option Purchase Agreement pursuant to which the Company has the option to acquire Stanley Brothers USA Holdings, Inc., a cannabis wellness incubator (note 26). Until the Option is exercised, both Charlotte's Web and Stanley Brothers USA Holdings, Inc. will continue to operate as standalone entities in the US. Internationally, the companies are able to explore opportunities where cannabis is federally permissible. A partnership with, or acquisition of, Stanley Brothers USA Holdings, Inc. would provide the Company with an opportunity to enter the U.S. and/or international cannabis wellness market with an experienced and trusted team and brand, positioning the Company for potential new growth opportunities.

The Company's current product categories include human ingestible products (tinctures, capsules, and gummies), topicals, and pet products. Planned product categories, as or when approved by the U.S Food and Drug Administration ("FDA"), include powdered supplements, beverage, food, beauty, sport, professional (dedicated health care practitioner products), and over-the-counter wellness. The Company's products are distributed through its e-commerce website, third-party e-commerce websites, select distributors, health practitioners, and a variety of brick and mortar specialty retailers.

The Company grows its proprietary hemp on farms leased or owned in eastern Colorado and sources hemp through long term contract farming operations in Kentucky and Oregon.

## 2. Basis of preparation

### (a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements for the years ended December 31, 2020 and 2019 were approved and authorized for issue by the board of directors on March 23, 2021. The board of directors has the power to amend the financial statements after issuance.

### (b) Measurement basis

The consolidated financial statements have been prepared primarily on a historical cost basis, except for other measurement bases described in the applicable notes.

### (c) Basis of consolidation

The Company's consolidated financial statements include those of the parent company Charlotte's Web Holdings, Inc., its wholly owned subsidiaries, Charlotte's Web, Inc, and acquired subsidiary, Abacus Products, Inc. ("Abacus Health"), a British Columbia corporation, pursuant to the acquisition on June 11, 2020 (note 4). Further, as a result of the acquisition, these financial statements consolidate the wholly owned subsidiary of Abacus Health, Abacus Products, Inc. ("Abacus US"), a Delaware corporation, and the two wholly-owned subsidiaries of Abacus US, Abacus Wellness, Inc. and CBD Pharmaceuticals Ltd.

Inter-company balances and transactions are eliminated in preparing the consolidated financial statements. The accounting policies of the subsidiaries are consistent with the Company's policies.

### (d) Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

#### i. Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the industrial hemp plants to the point of harvest, harvesting costs, and selling costs. In calculating final inventory values, management is required to determine an estimate of obsolete inventory and an estimate for any inventory for which cost is lower than estimated net realizable value and recognizes inventory provisions accordingly.

#### ii. Share-based compensation

The Company uses the Black-Scholes option-pricing model to determine the grant date fair value of share-based compensation. The following assumptions are used in the model: expected volatility; expected option life; risk-free interest rate and fair value.

Changes to assumptions used to determine the grant date fair value of share-based compensation awards can affect the amounts recognized in the consolidated financial statements.

iii. Warrant liabilities

The Company's warrants are classified as financial liabilities and are remeasured to fair value at each reporting date using the Black-Scholes option pricing model, with changes to fair value recognized in profit or loss for the period. The following assumptions are used in the model: expected volatility; expected option life; risk-free interest rate and fair value.

Changes to assumptions used to determine the fair value of warrant liabilities can affect the amounts recognized in the consolidated financial statements.

iv. Taxes

In calculation of current and deferred income taxes, management is required to make estimates and assumptions regarding the carrying values of assets and liabilities that are subject to accounting estimates inherent in those balances, the interpretation of tax legislation in various jurisdictions, expectations on future operating results, timing of reversal of temporary differences and possible audits by regulating tax authorities.

Changes in estimates or assumptions may result in changes to the current or deferred income tax balances in the consolidated financial statements.

v. Leases

The application of IFRS 16 "Leases" requires significant judgements and certain key estimations to be made. Critical judgements required in the application of IFRS 16 include the following: (i) identifying whether a contract includes a lease; (ii) determining whether it is reasonably certain that an extension or termination option will exercised; (iii) determining whether variable payments are in-substance fixes; (iv) establishing whether there are multiple leases in an arrangement; and (v) determining the stand-alone selling price of lease and nonlease components. Key sources of estimation uncertainty in the application of IFRS 16 include the following: (i) estimating the lease term; (ii) determining the appropriate rate to discount lease payments; and (iii) assessing whether a right-of-use (RoU) asset is impaired.

vi. Goodwill

Goodwill, which is not subject to amortization, is evaluated for impairment annually or more frequently if events or changes in circumstances suggest the asset might be impaired. Goodwill is evaluated at the level of the Company's single operating segment. When evaluating goodwill for impairment, the total carrying amount of the cash generating unit is compared to its recoverable amount and any loss is allocated first to goodwill and then to other assets.

**(e) Reclassifications and prior period presentations**

Certain amounts presented in prior periods have been reclassified to conform with the current period presentation.

**(f) Functional and presentation currency**

The consolidated financial statements are presented in United States dollars (unless otherwise noted), which is the functional currency of the parent company. All financial information is presented in United States dollars and has been rounded to the nearest thousand, except for loss per share amounts.

**(g) Current versus non-current classification**

The Company presents assets and liabilities in the statements of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred income tax assets and liabilities are classified as non-current assets and liabilities.

**3. Summary of significant accounting policies**

**(a) Cash and cash equivalents**

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents in accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

**(b) Biological assets**

Biological assets, consisting of industrial hemp plants, are measured at fair value less costs to sell up to the point of harvest. Determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the industrial hemp plants up to the point of harvest, sales price and expected remaining future yields for the industrial hemp plants.

Gains or losses arising from changes in fair value less costs to sell during the year are included in the statements of loss and other comprehensive loss of the related year.

In determining the fair value of hemp plants, the Company used its average purchase price from third-party farmers, based on potency, as a proxy for fair value as the Company's strains of hemp do not have an active market as the Company does not sell its harvested hemp plants. Processing costs after harvest include drying, stripping, hammermilling and packaging of the raw material. These costs are reductions

from the average purchase price. The net fair value is then capitalized into inventory and becomes a raw material element of finished goods sold.

The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy and there have been no changes between levels during the years. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions:

- i. The cost to complete the hemp plant post-harvest
- ii. Cost to sell
- iii. Selling price
- iv. Potency
- v. The stage of plant growth; and
- vi. Expected yields by plant

Fair value pricing can result in a decrease in the value of biological assets as a result of seasonal crop yields, and the reduction of processing and estimated costs to sell from the average purchase price.

The Company capitalizes the direct and indirect costs associated with the production of its biological assets as incurred, less estimated yield losses and fair value adjustments. Indirect costs capitalized include utilities and supplies used in the growing process, indirect labor for individuals involved in the quality control process, depreciation on production equipment and overhead costs to the extent it is associated with grow space.

#### **(c) Inventories**

Inventories are stated at the lower of cost and 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 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 first-in, first-out method. 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.

Inventories of harvested hemp are transferred from biological assets at their fair value less cost to sell at harvest, which becomes deemed cost.

#### **(d) Property and equipment, net**

Property and equipment are stated at cost less accumulated depreciation. Construction-in-process assets are capitalized during construction and depreciation commences when the asset is available for use. Repair and maintenance costs are recognized in profit and loss as incurred unless the recognition criteria for capitalization are satisfied, and it substantially changes the useful life of an asset.

Depreciation is calculated on the straight-line basis over the following estimated useful lives of the assets:

<u>Assets</u>	<u>Useful Life</u>
Building	30 years
Machinery & Equipment	3-10 years
Furniture and fixtures	2-7 years
Leasehold improvements	Shorter of useful life or term of lease (1-15 years)

**(e) Intangible assets, net**

Intangible assets consist of software, patents, and the Company's internet domain name. Acquired intangible assets from business combinations include trade names and customer relationships. Software is stated at cost less accumulated amortization. The costs of purchasing the Company's internet domain name through an open market is capitalized as an indefinite-lived intangible asset, as the Company expects the usefulness of the domain name to continue indefinitely with no issues of renewal. The costs of obtaining a patent are capitalized and amortized over its useful life. Acquired trade names and customer relationships are stated at fair value and are amortized over their useful lives. 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.

Amortization is calculated on the straight-line basis over the following estimated useful lives of the assets:

<u>Assets</u>	<u>Useful Life</u>
Software	3-5 years
Patents	15-20 years
Tradenames	10 years
Customer Relationships	10 years

**(f) Leases**

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease (net of any incentives received from the lessor) are recognized on a straight-line basis over the period of the lease.

Assets acquired under lease liabilities are measured at the lower of the present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Recorded lease obligations are reduced by the principal portion of lease payments. The imputed interest portion of lease payments is charged to finance costs.

**(g) Revenue recognition**

The majority of the Company's revenue is derived from sales of branded products to consumers via our direct-to-consumer (DTC) ecommerce website, and distributors, retail and wholesale business-to-business (B2B) customers. The following table sets forth the disaggregation of the company's revenue from DTC customers from our ecommerce website versus B2B customers:

	Year ended	
	2020	2019
DTC	\$63,826	\$50,024
B2B	31,400	44,570
Total	\$95,226	\$94,594

The Company recognizes revenue from customers when control of the goods or services are transferred to the customer, generally when products are shipped, at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The Company has an

insignificant amount of contract liability due to customers as of December 31, 2020. Freight revenue 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 revenues in the consolidated statements of loss. Contracts are written to include standard discounts and allowances. Contracts are not written to include advertising allowances, tiered discounts or any other performance obligation. Since there is only a single performance obligation, there is no allocation of the transaction price. The Company also offers ecommerce 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.

Per Company policy, any product that doesn't meet the customer's expectations can be returned within the first 30 days of delivery in exchange for another product or for a full refund. 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 data. Under IFRS 15, the Company must also recognize a "return asset" for the value of goods recovered. The Company currently destroys all returned product for safety and quality purposes, and as such, no return asset is recognized.

**(h) Research and development**

Research costs are expensed as incurred. Development costs are also expensed unless they meet specific criteria related to technical, market and financial feasibility, in which case they are deferred, recognized as an intangible asset, and amortized to operations using the straight-line method over the economic life of the product from the date of completion of the project.

**(i) Income taxes**

Income tax expenses are comprised of current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantially enacted at the reporting date.

Deferred tax is recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized, or the liability is settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment dates. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company records interest related to unrecognized tax benefits in interest expense and penalties in general and administrative expenses.

**(j) Share-based compensation**

The Company has a share option plan for employees (including officers), consultants and directors from which options to purchase common shares of the Company are issued. Share-based compensation costs are accounted for on a fair value basis, as measured at the grant date.

All share-based compensation is ultimately recognized as an expense with a corresponding credit to contributed surplus. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Any adjustment to cumulative share-based compensation resulting from a revision, such as changes in vesting

expectations due to forfeitures or cancellations, is recognized in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of stock options and vesting of restricted share awards, proceeds received are credited to share capital. The fair value of each option and restricted share award is reversed from contributed surplus to share capital.

**(k) Loss per share**

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is computed similar to basic earnings per share, except the weighted average number of common shares outstanding are increased to include additional shares from the assumed exercise of share options, if dilutive.

**(l) Long-lived assets**

Long-lived assets, such as property and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison of their carrying amounts to future undiscounted net cash flows expected to be generated from the operation and sale of the long-lived assets. If such assets are considered impaired, the impairment to be recognized is measured by the amount in which the carrying amount of the long-lived assets exceeds their fair values. No impairment was recorded for the years ended December 31, 2020 or 2019.

Other long-term assets primarily consist of long-term deposits on various equipment and leases for premises.

**(m) Financial instruments**

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled, or expires.

Classification and subsequent measurement of financial assets and liabilities

IFRS 9 contains three principal categories for financial assets and liabilities:

- amortized cost
- fair value through other comprehensive income, or
- fair value through profit or loss (FVTPL)

Based on the new classification and measurement requirements of IFRS 9, the Company's financial assets previously classified as loans and receivables are classified as amortized financial assets. Financial liabilities previously classified as other liabilities are now classified as amortized financial liabilities. All financial assets are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income, or other financial items, except for impairment of trade receivables which is presented within operating expenses.

#### *Amortized Cost*

A financial asset is measured at amortized cost if it is held in loans and receivables that are non-derivative financial assets with fixed or determinable payments not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

The Company recognizes expected credit losses (ECLs) for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Trade receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

For financial assets carried at amortized cost (loans receivable), the Company recognizes loss allowances for ECLs on its financial assets measured at amortized cost. ECLs are a probability-weighted estimate of credit losses. The Company applies a three-stage approach to measure ECLs. The Company measures loss allowance at an amount equal to 12 months of expected losses for performing loans receivable if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses on loans receivable that have experienced a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected losses which are credit impaired (Stage 3).

The Company considers a significant increase in credit risk to have occurred if contractual payments are more than 30 days past due and considers the loans receivable to be in default if they are 90 days past due. A significant increase in credit risk or default may have also occurred if there are other qualitative factors (including forward looking information) to consider; such as borrower specific information (i.e. change in credit assessment). Such factors include consideration relating to whether the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

Financial liabilities are measured subsequently at amortized cost using the effective interest method. The Company's financial liabilities include accounts payable, accrued liabilities, cultivation liabilities, notes payable, and lease obligations.

#### *Financial assets and liabilities at fair value through profit or loss (FVTPL)*

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial liabilities at FVTPL are initially measured at fair value on the transaction date using the Black-Scholes option pricing model, with the following assumptions used in the model: expected volatility; expected option life; risk-free interest rate and fair value. Financial liabilities are subsequently measured at fair value at reporting date, with changes in fair value recognized in profit or loss for the period. The Company has a financial liability at December 31, 2020 measured at fair value through profit or loss related to warrant liabilities arising from the 2019 Share Offering (note 18b), the 2020 Share Offering (note 18b), and the Abacus Acquisition that closed June 11, 2020 (note 4).

The following is a summary of the classification the Company has applied to each of its significant categories of financial instruments outstanding:

<i>Financial instrument</i>	<i>Classification</i>
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Note receivable	Amortized cost
Note receivable - related party	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Notes payable	Amortized cost
Cultivation liabilities	Amortized cost
Lease obligations	Amortized cost
Warrant liabilities	FVTPL

**(n) Share capital**

Share capital represents the value of shares that have been issued.

Upon exercise of stock options and vesting of restricted share awards, proceeds received are credited to share capital. The fair value of each option and restricted share award is reversed from contributed surplus to share capital.

**(o) Segments**

The Company operates its business in one segment, hemp-based CBD wellness products.

**(p) Foreign currency**

Transactions entered into by the Company in a currency other than the functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

**(q) Business combinations**

The Company accounts for business combinations in accordance with IFRS 3, "Business Combinations." A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The consideration transferred for the acquisition of a business comprises the fair value of assets transferred, liabilities assumed, and equity interests issued by the Company. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity, and the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes to fair value recognized in profit or loss.

**(r) Goodwill**

IAS 36 requires that assets be carried at no more than their recoverable amount. The recoverable amount of goodwill is required to be measured at least on an annual basis, irrespective of whether any impairment indicators exist. The Company evaluates goodwill, which is not subjected to amortization, annually, or more frequently if events or changes in circumstances suggest the asset might be impaired. In evaluating goodwill impairment, the total carrying amount of the reporting unit is compared to its recoverable amounts and any loss is allocated first to goodwill and then to the other assets.

**(s) Adoption of new accounting standards and policies**

The Company has adopted the following new accounting standards which became effective as of January 1, 2020.

IFRS 3, "Business Combinations"

In October 2018, the IASB issued amendments to IFRS 3, Business Combinations. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and apply prospectively. The amendments clarify the definition of a business, with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. A transaction should be accounted for as a business combination if the acquired assets and liabilities constitute a business, and related acquisition costs are to be expensed as incurred. A transaction should be accounted for as an asset acquisition if an acquired set of activities and assets is a group of assets rather than a business, and related acquisition costs are typically capitalized.

**(t) Future accounting standards issued but not yet effective**

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. The amendments are effective for annual periods beginning on or after January 1, 2022. Adoption thereof is not expected to have a material impact on the presentation of the Company's financial statements.

#### 4. Acquisition of Abacus Health

On June 11, 2020, the Company acquired all the issued and outstanding subordinate voting shares of Abacus Health ("Abacus Acquisition").

Abacus Health develops, markets and sells over-the-counter ("OTC") topical products combining active pharmaceutical ingredients with hemp extract. This acquisition provides the Company with growth opportunities in both topical and ingestible products in the cannabidiol ("CBD") wellness category.

Abacus Health primarily sells its products under three brand names: CBD CLINIC, CBDMEDIC, and Harmony Hemp. CBD CLINIC is marketed to the professional practitioner market and sold exclusively to registered health practitioners such as chiropractors, acupuncturists, massage therapists, physical therapists, naturopaths and osteopaths. CBDMEDIC is targeted to the consumer market. CBDMEDIC products are sold directly to consumers through retail outlets, health and fitness locations, as well as through an e-commerce platform. Harmony Hemp is targeted to the consumer market. These products are sold through retail outlets as well as through an e-commerce platform.

The acquisition constitutes a business combination as the acquired assets meet the definition of a business as defined in IFRS 3 Business Combinations. The purchase price accounting reflected in the accompanying financial statements was completed during the year ended December 31, 2020.

The acquisition closed on June 11, 2020 and, accordingly, the consolidated statements of loss and other comprehensive loss include Abacus Health results of operations for the period from June 11, 2020 through December 31, 2020. Due to integration of Abacus Health into the Company's systems as of July 1, 2020, at December 31, 2020 it is not feasible for the Company to disaggregate the acquiree revenue, on an after discount and promotions basis, or the results of operations related thereto consolidated in the financial statements. If the acquisition had taken place as of January 1, 2020, revenue from continuing operations for the year ended December 31, 2020 would have been \$99,340. Loss from continuing operations for the year ended December 31, 2020 would have been \$(61,588).

##### (a) Fair value of consideration

Pursuant to the terms of the arrangement agreement, for each Abacus Health subordinate voting share and other equity instruments, each holder received a 0.85 equivalent replacement award of the Company's respective security at the time of closing.

Consideration consisted of the following:

Common shares	\$	105,461
Other equity instruments		8,666
Total fair value of consideration	\$	114,127

Abacus Health issued and outstanding subordinate voting shares were replaced with the 0.85 equivalent number of the Company's common shares and were valued at the Company's closing market price on the date of the acquisition resulting in purchase consideration of \$105,461.

Abacus Health other equity instruments, including outstanding stock options, warrants, stock appreciation rights ("SARs"), and Harmony Hemp contingent equity compensation (note 18e) were replaced with the 0.85 equivalent number of respective securities of the Company. To determine the portion of fair value of the replacement award that is part of purchase consideration, the Company measured both the fair value of the replacement award as the acquiree, Abacus Health, and the acquirer, the Company, as of the

acquisition date. The Company attributed the portion of the fair value related to pre-combination service as purchase consideration and attributed the remaining fair value to remuneration for post-combination services based on any remaining service period. The Company's fair values of the replacement awards were valued using the Black-Scholes option pricing model, with the following assumptions used in the model: expected volatility; expected term; risk-free interest rate and value of the underlying share. The resulting purchase consideration for replacement stock options, warrants, SARs, and Harmony Hemp contingent equity compensation is \$8,666.

A portion of the other equity instruments, SARs of \$402 and certain warrants of \$2,857 (note 15), were determined to be liabilities based on the nature of the instruments. These liabilities are presented at their respective fair value as of December 31, 2020 in the consolidated statements of financial position.

**(b) Fair value of assets acquired**

The fair value allocation to the identifiable net assets acquired and liabilities assumed, at June 11, 2020, is summarized as follows:

<b>Assets acquired</b>		
Cash	\$	11,181
Trade and other receivables		2,264
Inventories		4,845
Prepaid expenses and other current assets		1,349
Income taxes receivable		35
Property and equipment		815
Intangible assets		23,400
Deferred tax assets		22
Other long-term assets		1,432
	\$	45,343
<b>Liabilities assumed</b>		
Accounts payable	\$	4,687
Accrued liabilities		2,041
Current note payable		1,258
Current lease obligations		213
Long-term note payable		312
Long-term lease obligations		159
	\$	8,670
<b>Net assets acquired</b>	<b>\$</b>	<b>36,673</b>

The fair value of acquired inventories and intangible assets were determined using a forecasted cash flow approach with the assistance of a third-party valuation firm. Acquired inventories consist of substantially all finished goods.

Acquired intangible assets consist of a trade name and customer relationships. Fair value of the acquired customer relationships and trade name are \$22,700 and \$700, respectively. The Company has assigned a ten-year useful life to both classes of acquired intangible assets.

The Company determined that Abacus Health's carrying costs approximated fair value for all other acquired assets and assumed liabilities.

**(c) Goodwill**

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed.

The goodwill acquired from the Abacus Acquisition is not deductible for tax purposes.

Fair value of consideration	\$	114,127
Less: Fair value of net assets acquired		(36,673)
Goodwill (note 10)	\$	77,454

**5. Trade and other receivables**

Trade and other receivables consist of the following:

	December 31, 2020	December 31, 2019
Trade receivables	\$ 5,735	\$ 5,677
Tenant improvement allowance	410	—
Other miscellaneous receivables	942	326
Expected credit losses (note 21)	(813)	(541)
Trade and other receivables, net	\$ 6,274	\$ 5,462

During the year ended December 31, 2020, \$1,258 was reclassified from property and equipment under construction to tenant improvement allowance receivable, of which \$410 remains outstanding as of December 31, 2020.

Other miscellaneous receivables consists primarily of an amount due from a vendor for a settlement related to faulty equipment and credits due from vendors.

The Company provides for expected credit losses based on its assessment of probability of specific losses, estimates of future individual exposures and provisions based on historical experience (note 21).

The aging of receivables is as follows:

	December 31, 2020	December 31, 2019
Current	\$ 3,160	\$ 3,340
Aged 1-30 days past due	1,765	1,028
Aged 31-60 days past due	180	541
Aged >60 days past due	1,982	1,094
Expected credit losses	(813)	(541)
	\$ 6,274	\$ 5,462

**6. Note receivable**

Effective May 2019, the Company entered into a promissory note secured by extraction units with one of the Company's third-party farming suppliers for an amount up to \$2,800. The note was amended on March 18, 2020 and bears interest at 2.52% per annum for twelve months from each funding date and increases to 4.00% per annum thereafter. The note is carried at amortized costs and unpaid principal and unpaid interest balances are to be paid on or before the amended maturity date of October 31, 2021. Under the terms of the note, the borrower may pay the principal and accrued interest as an offset to the Company's purchases of extracted hemp.

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Details of the Company's note receivable and the carrying amounts is as follows:

	December 31, 2020		December 31, 2019	
Beginning balance	\$	1,421	\$	—
Funded		1,400		1,400
Interest accrued		57		21
Collections		(1,125)		—
Ending balance	\$	1,753	\$	1,421

As of December 31, 2020, the credit risk related to the note receivable has not increased significantly since initial recognition.

**7. Note receivable - related party**

Effective November 2020, the Company entered into a note receivable with certain founders of the Company to negotiate a future binding transaction in good faith (note 26). This agreement included a secured promissory note, where \$1,000 was loaned to one of the founders. The note is secured by equity instruments with certain founders of the Company, is carried at amortized cost, bears interest at 3.25% per annum, and requires the unpaid principal and unpaid interest balances to be paid on or before the maturity date of November 13, 2021.

Details of the Company's promissory note and the carrying amounts is as follows:

	December 31, 2020	
Beginning balance	\$	—
Funded		1,000
Interest accrued		4
Collections		—
Ending balance	\$	1,004

As of December 31, 2020, the credit risk related to the promissory note has not increased significantly since initial recognition.

## 8. Inventories

Inventories consist of the following:

	December 31, 2020		December 31, 2019	
Harvested hemp and seeds	\$	39,869	\$	37,549
Raw materials		14,644		19,785
Finished goods		24,615		22,593
		79,128		79,927
Less: inventory provision		(17,192)		(15,873)
	\$	61,936	\$	64,054

### a. Harvested hemp and seeds

The Company grows its industrial hemp (i) on leased and owned farms operated entirely by Company personnel, and (ii) through third-party farming operations with oversight by the Company. The grow season for the Company's harvested hemp is generally from May through early October of each year. All harvesting of plants is complete prior to year-end. All of the Company's hemp is currently consumed internally for its finished goods products and is not sold in its raw or processed form. The grow season for the Company's hemp seeds is generally from January through June and July through December of each year. The Company's seeds are primarily utilized for internal production of the Company's hemp and research and development purposes.

Details of the harvested hemp and seeds consists of the following:

	December 31, 2020		December 31, 2019	
Balance, beginning of period	\$	37,549	\$	10,463
Transferred to hemp and seeds upon harvest		3,299		35,411
Consumed in production		(1,268)		(9,319)
Realized fair value adjustment upon consumption		289		994
Balance, end of period	\$	39,869	\$	37,549

Amount of harvested hemp and seeds transferred to inventories upon harvest consisted of the following:

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	Years ended	
	December 31, 2020	December 31, 2019
Cultivated hemp	\$ 914	\$ 32,056
Materials	155	391
Labor	959	2,060
Rent and warehousing	388	98
Equipment and depreciation	840	859
Other	366	789
Unrealized fair value adjustment	(323)	(842)
Balance	\$ 3,299	\$ 35,411

**b. Biological assets**

The Company capitalizes the direct and indirect costs associated with the production of its biological assets as incurred, less estimated yield losses and fair value adjustments. Any adjustments to capitalized biological asset costs are expensed to cost of sales.

The Company measures its hemp biological assets at their fair value less costs to sell. The purchase price for hemp biological assets grown through third-party farming operations is deemed to approximate fair value. Fair value for hemp biological assets grown by the Company is determined using a model which estimates the expected harvest yield in pounds for plants currently being cultivated, and then adjusts that amount for the expected selling price per pound and for additional costs to be incurred, such as post-harvest costs.

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy, were used by management as part of this model:

- a. Selling price – calculated as the weighted average historical selling price from third-party farming operations, based on potency, sold to the Company, which is expected to approximate selling prices
- b. Stage of growth – represents the weighted average number of weeks that biological assets have reached as of the measurement date out of the typical 20 to 22-week growing cycle
- c. Yield by plant – represents the expected number of pounds and related potency of harvested hemp inventory which are expected to be obtained from each harvested plant
- d. Post-harvest costs – calculated as the cost per pound of harvested hemp to complete the sale of hemp finished goods, consisting of the cost of direct and indirect materials and labor related to labelling and packaging

One of the Company's strains of industrial hemp includes a 17% and 8% premium for the years ended December 31, 2020 and December 31, 2019, respectively, because of its estimated increased value due to its prime genetics. The premium is based on the hemp extract cost differential between products containing such prime genetics compared to other genetics used in the manufacturing of its finished products. Processing costs after harvest include drying,

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stripping, hammermilling and packaging of the raw material. At December 31, 2020 and December 31, 2019, estimated weighted average post-harvest costs were \$7.12 and \$5.16 per pound of industrial hemp. Costs to sell were estimated at 32% and 30% of fair value at December 31, 2020 and December 31, 2019, respectively. These costs are reductions from the average purchase price. The net fair value is then capitalized into inventory and becomes a raw material element of finished goods sold.

The following table quantifies each significant unobservable input and provides the impact a 10% increase/decrease in each input would have on the fair value of biological assets.

	December 31, 2020	December 31, 2019	10% Change as at December 31, 2020	10% Change as at December 31, 2019
Stage of growth	22 Weeks	20 Weeks	\$ —	\$ —
Total yield of harvest crop (lbs)	127 lbs	195 lbs	\$ 98	\$ 84
Post-harvest costs per pound	\$ 7.12	\$ 5.16	\$ 66	\$ 76

A 10% change in average selling price per pound would increase/decrease fair value of the biological assets by \$100 and \$76 at December 31, 2020 and 2019, respectively.

A 10% change in average potency would increase/decrease fair value of the biological assets by \$96 and \$122 at December 31, 2020 and 2019, respectively.

The changes in the carrying value of biological assets are as follows:

	Biological assets
Carrying amount, December 31, 2018	\$ —
Production costs	4,197
Purchases	32,056
Changes in fair value less costs to sell due to biological transformation	(842)
Transferred to inventories upon harvest	(35,411)
Carrying amount, December 31, 2019	\$ —
	Biological assets
Carrying amount, December 31, 2019	\$ —
Production costs	2,708
Purchases	914
Changes in fair value less costs to sell due to biological transformation	(323)
Transferred to inventories upon harvest	(3,299)
Carrying amount, December 31, 2020	\$ —

**c. Inventory provision**

An inventory provision is estimated by management and is included in cost of sales. Details of the Company's inventory provision is as follows:

	Inventory Provision	
Balance at December 31, 2018	\$	(399)
Inventory provision, net		(15,474)
Write offs		—
Balance at December 31, 2019	\$	(15,873)
Inventory provision, net		(10,098)
Write offs		8,779
Balance at December 31, 2020	\$	(17,192)

For the year ended December 31, 2020, net inventory provisions of \$10,098 were recognized, of which \$8,025 were expensed through the cost of sales and \$2,073 were recognized as settlement reductions of cultivation liabilities due to third-party farming operators related to harvested hemp outside of quality specifications. For the year ended December 31, 2020, write-offs of inventory previously reserved for of \$8,779 were recognized. For the year ended December 31, 2019, inventory provisions of and \$15,474 were expensed through the cost of sales and the Company had no inventory write offs.

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**9. Property and equipment**

Details of the Company's property and equipment, including right-of-use (RoU) assets, and their carrying amounts are as follows:

	Land and building	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU assets - buildings	RoU assets - cultivation land	Total
<b>Cost</b>								
At December 31, 2018	\$ —	\$ 5,958	\$ 405	\$ 2,624	\$ 159	\$ —	\$ —	\$ 9,146
Transition to IFRS 16	—	—	—	—	—	3,017	131	3,148
Additions - purchased assets	1,086	6,495	4	636	7,487	—	—	15,708
Additions - right-of-use assets	—	—	—	—	—	21,648	1,286	22,934
Transfers under construction	2,292	1,924	—	1,088	(5,304)	—	—	—
Disposals	—	(95)	(5)	(21)	—	—	—	(121)
At December 31, 2019	\$ 3,378	\$ 14,282	\$ 404	\$ 4,327	\$ 2,342	\$ 24,665	\$ 1,417	\$ 50,815
Additions - purchased assets	31	1,894	24	11	25,170	—	—	27,130
Additions - right-of-use assets	—	—	—	—	—	187	—	187
Acquired in business combinations	—	397	90	180	—	363	—	1,030
Reclassifications	—	66	(66)	(150)	(1,258)	(206)	206	(1,408)
Transfer under construction	—	1,266	429	18,456	(20,151)	—	—	—
Disposals	—	(694)	—	(514)	—	(869)	(331)	(2,408)
At December 31, 2020	\$ 3,409	\$ 17,211	\$ 881	\$ 22,310	\$ 6,103	\$ 24,140	\$ 1,292	\$ 75,346

	Land and building	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU assets - buildings	RoU Assets - cultivation land	Total
<b>Accumulated depreciation</b>								
At December 31, 2018	\$ —	\$ (1,920)	\$ (143)	\$ (277)	\$ —	\$ —	\$ —	\$ (2,340)
Depreciation - expensed	—	(999)	(126)	(228)	—	(2,313)	—	(3,666)
Depreciation - capitalized to inventory	(19)	(1,008)	—	(653)	—	—	(233)	(1,913)
Disposals	—	39	4	10	—	—	—	53
At December 31, 2019	\$ (19)	\$ (3,888)	\$ (265)	\$ (1,148)	\$ —	\$ (2,313)	\$ (233)	\$ (7,866)
Depreciation - expensed	—	(2,882)	(92)	(1,865)	—	(2,645)	(262)	(7,746)
Depreciation - capitalized to inventory	(71)	(818)	—	(223)	—	—	(275)	(1,387)
Vendor settlement	—	(400)	—	—	—	—	—	(400)
Disposals	—	608	—	514	—	869	331	2,322
At December 31, 2020	\$ (90)	\$ (7,380)	\$ (357)	\$ (2,722)	\$ —	\$ (4,089)	\$ (439)	\$ (15,077)

	Land and building	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU assets - buildings	RoU assets - cultivation land	Total
<b>Property and equipment, net</b>								
At December 31, 2019	\$ 3,359	\$ 10,394	\$ 139	\$ 3,179	\$ 2,342	\$ 22,352	\$ 1,184	\$ 42,949
At December 31, 2020	\$ 3,319	\$ 9,831	\$ 524	\$ 19,588	\$ 6,103	\$ 20,051	\$ 853	\$ 60,269

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**10. Intangible assets and goodwill**

The Company's intangible assets include software, customer relationships, trade names, and patents, and are subject to amortization. Amortization of intangible assets is primarily recorded to general and administrative expense. The Company's software is primarily internally developed. The Company's intangible assets also include an internet domain name, which is an indefinite-lived intangible asset that is not subject to amortization.

No impairment was recorded related to intangible assets for the years ended December 31, 2020 and December 31, 2019.

Details of the Company's intangible assets subject to amortization and indefinite-lived intangible assets and their respective carrying amounts are as follows:

	Software	Customer relationships	Trade names	Patents	Internet domain name	Intangibles in process	Total
<b>Cost</b>							
At December 31, 2018	\$ 633	\$ —	\$ —	\$ —	\$ 150	\$ —	\$ 783
Additions	120	—	—	—	—	1,157	1,277
Transfers	1,112	—	—	—	—	(1,112)	—
At December 31, 2019	\$ 1,865	\$ —	\$ —	\$ —	\$ 150	\$ 45	\$ 2,060
Additions	87	—	—	—	—	2,301	2,388
Acquired in business combination	—	22,700	700	—	—	—	23,400
Transfers	1,837	—	—	201	—	(2,038)	—
At December 31, 2020	\$ 3,789	\$ 22,700	\$ 700	\$ 201	\$ 150	\$ 308	\$ 27,848
<b>Accumulated amortization</b>							
At December 31, 2018	\$ (164)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (164)
Amortization	(300)	—	—	—	—	—	(300)
At December 31, 2019	\$ (464)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (464)
Amortization	(692)	(1,269)	(39)	(8)	—	—	(2,008)
At December 31, 2020	\$ (1,156)	\$ (1,269)	\$ (39)	\$ (8)	\$ —	\$ —	\$ (2,472)
<b>Intangible assets, net</b>							
At December 31, 2019	\$ 1,401	\$ —	\$ —	\$ —	\$ 150	\$ 45	\$ 1,596
At December 31, 2020	\$ 2,633	\$ 21,431	\$ 661	\$ 193	\$ 150	\$ 308	\$ 25,376

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Details of the Company's goodwill is as follows:

	December 31, 2020
Beginning balance	\$ —
Goodwill arising from business combinations (note 4)	77,454
Ending balance	\$ 77,454

At December 31, 2020, we determined our goodwill was not impaired.

**11. Prepaid expenses and other current assets**

Details of the Company's prepaid expenses and other current assets are as follows:

	December 31, 2020	December 31, 2019
Prepaid expenses:		
Insurance	\$ 2,679	\$ 1,940
Software	870	243
Marketing	159	794
Other	939	239
Deposits:		
Inventory	2,422	173
Other	321	203
	\$ 7,390	\$ 3,592

**12. Other long-term assets**

Details of the Company's other long-term assets are as follows:

	December 31, 2020	December 31, 2019
Prepaid expenses:		
Insurance	\$ 1,161	\$ —
Marketing	803	—
Deposits:		
Equipment	2,984	1,553
Leases	37	65
Other	193	7
	\$ 5,178	\$ 1,625

**13. Notes payable**

On February 10, 2020, one of the wholly-owned subsidiaries of Abacus US, Abacus Wellness, Inc., acquired the principal assets of two companies owning the Harmony Hemp brand. Pursuant to the terms of the asset purchase agreement, Abacus US, and therefore the Company, is obligated to pay the remaining purchase price payable for Harmony Hemp and deliver contingent equity compensation (note 18e). The remaining purchase price payable as of December 31, 2020 for Harmony Hemp acquired with the Abacus Acquisition (note 4) is \$770, of which \$626 and \$144 is current and long-term, respectively. The remaining notes payable balance relates to financed equipment.

Details of the Company's notes payable are as follows:

	Short-term borrowings	Long-term borrowings	Total
December 31, 2019	\$ 9	\$ 3	\$ 12
Acquired purchase price payable	1,258	312	1,570
Repayments	(809)	—	(809)
Conversion to short-term borrowings	171	(171)	—
December 31, 2020	\$ 629	\$ 144	\$ 773

Scheduled maturities of notes payable are as follows:

	Within 1 year	1 to 5 years	Total
December 31, 2020	\$ 629	\$ 144	\$ 773

#### 14. Lease obligations

The Company leases many RoU assets related to office space, warehouse and production space, and land to facilitate agricultural operations. The leases expire on various dates through 2035. Information about leases for which the Company is a lessee is presented below:

	December 31, 2020	December 31, 2019
Maturity analysis - contractual undiscounted cash flows		
Less than one year	\$ 3,248	\$ 2,710
One to five years	11,188	11,980
More than five years	17,202	19,567
<b>Total undiscounted lease liabilities</b>	<b>\$ 31,638</b>	<b>\$ 34,257</b>
Lease liabilities, beginning of period		
Lease liabilities, beginning of period	\$ 24,061	\$ 3,517
Additions	187	22,934
Leases acquired in business combination	372	—
Repayments	(3,153)	(2,671)
Interest	1,115	281
<b>Lease liabilities included in the statement of financial position</b>	<b>\$ 22,582</b>	<b>\$ 24,061</b>
Current		
Current	2,015	1,945
Long-term		
Long-term	20,567	22,116

Short-term leases and leases of low-value are insignificant and are not capitalized in accordance with IFRS 16.

#### 15. Warrant liabilities

The Company's warrants (note 18f) are classified as financial liabilities. The financial liabilities are remeasured to fair value at each reporting date using the Black-Scholes option pricing model, with changes to fair value recognized in profit or loss for the period.

	Balance at December 31, 2018	Initial fair value measurement	Change in fair value	Change in foreign currency	Balance at December 31, 2019
2019 Share Offering Warrants	\$ —	\$ 5,515	\$ (2,107)	\$ —	\$ 3,408
	\$ —	\$ 5,515	\$ (2,107)	\$ —	\$ 3,408

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	Balance at December 31, 2019	Initial fair value measurement	Change in fair value	Change in foreign currency	Balance at December 31, 2020
2019 Share Offering Warrants	\$ 3,408	\$ —	\$ (3,194)	\$ 41	\$ 255
2020 Share Offering Warrants	—	9,206	(5,454)	95	3,847
Abacus Health acquired	—	2,857	(2,727)	72	202
	\$ 3,408	\$ 12,063	\$ (11,375)	\$ 208	\$ 4,304

The following assumptions were used to determine the fair value of the Company's warrants:

	December 31, 2020	December 31, 2019
Valuation assumptions:		
Expected volatility	86.1 %	84.2 %
Expected term (years)	0.1-1.5	1.0
Risk-free interest	0.1 %	1.6 %
Value of underlying share	\$ 3.29	\$ 7.64

#### 16. Cultivation liabilities

Cultivation liabilities consist of amounts owed to third-party farming operators. The total amount to be paid is determined based on a calculation that includes the potency and yield of the crops. The amounts are paid over multiple years as stated in the contracts with the third-party farming operators. The cultivation liabilities are initially measured at the present value of future payments, discounted using the Company's incremental borrowing rate. The imputed interest recognized on cultivation liabilities for the years ended December 31, 2020 and December 31, 2019 was insignificant.

In conjunction with the contract terms, the company can reduce the settlement amount for harvested hemp outside of quality specifications. For the year ended December 31, 2020, the Company recognized \$2,073 of settlement reductions.

Future payments due under contract obligations are as follows:

	Short-term	Long-term	Total
December 31, 2018	\$ 3,531	\$ 3,286	\$ 6,817
Costs incurred related to 2019 crop	9,858	13,180	23,038
Settlement payments	(4,763)	—	(4,763)
Conversion to short-term borrowings	2,177	(2,177)	—
December 31, 2019	\$ 10,803	\$ 14,289	\$ 25,092

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	Short-term	Long-term	Total
December 31, 2019	\$ 10,803	\$ 14,289	\$ 25,092
Settlement payments	(11,289)	—	(11,289)
Settlement reductions	(2,073)	—	(2,073)
Interest	87	—	87
Conversion to short-term borrowings	11,776	(11,776)	—
December 31, 2020	\$ 9,304	\$ 2,513	\$ 11,817

Scheduled maturities of amounts owed are as follows:

	Within 1 year	1 to 5 years	Total
Cultivation liabilities	\$ 9,346	\$ 2,516	\$ 11,862
Imputed interest	(42)	(3)	(45)
December 31, 2020	\$ 9,304	\$ 2,513	\$ 11,817

### 17. Line of credit

The Company entered into an asset backed line of credit with J.P. Morgan in the year ended December 31, 2020 for \$10,000 with an option to increase the line of credit to \$20,000 with a 3-year maturity. The line of credit agreement requires compliance by the Company with certain debt covenants. The Company has obtained a limited waiver of certain covenant provisions of the existing line of credit. The waiver is effective for the trailing four quarters ended December 31, 2020. As of December 31, 2020, the Company could but has not yet drawn on the line of credit.

### 18. Shareholders' equity

The Company's share capital consists of two classes of issued and outstanding shares: Common Shares and Proportionate Voting Shares ("PVS"); and one authorized class of Preferred Shares issuable in series, none of which are issued and outstanding.

#### (a) Authorized share capital

The Company's authorized share capital consists of (i) an unlimited number of Common Shares, (ii) an unlimited number of Proportionate Voting Shares, and (iii) an unlimited number of Preferred Shares, issuable in series. The Company's shares have no par value. Specifics on rights associated with outstanding shares can be found in the Company's annual information form dated March 27, 2020 on SEDAR at [www.sedar.com](http://www.sedar.com).

Common shares may at any time, at the option of the holder and with the consent of the Company, convert into Proportionate Voting Shares on the basis of 400 Common Shares for one Proportionate Voting Share. No fractional Common Shares will be issued upon conversion of any Proportionate Voting Shares and any fractional Common Shares will be rounded down to the nearest whole number. For all matters coming before shareholders, Common Shares carry one vote per share and Proportionate Voting Shares carry 400 votes per share. Proportionate Voting Shares may at any time, at the option of the holder, be converted into Common Shares at a ratio of 400 Common Shares per Proportionate Voting Share. Common Shares may at any time, at the option of the holder and with the consent of the Company, be converted into Proportionate Voting Shares on the basis of 400 Common Shares for one Proportionate Voting Share.

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**(b) Issued and outstanding**

Changes for the years ended December 31, 2020 and December 31, 2019 are as follows:

	Proportional voting shares	Common shares outstanding	Treasury shares	Number of common shares issued
December 31, 2018	177,978	23,817,171	(1,835,370)	21,981,801
Exercise of common stock options	—	7,238,048	—	7,238,048
Conversion to common voting shares	(82,636)	33,054,235	—	33,054,235
2019 Share Offering <sup>2</sup>	—	5,000,000	—	5,000,000
Exercise of common stock warrants	—	92,693	—	92,693
Common shares granted <sup>5</sup>	—	51,397	—	51,397
December 31, 2019	95,342	69,253,544	(1,835,370)	67,418,174
Exercise of common stock options	—	3,987,035	—	3,987,035
Conversion to common voting shares	(16,140)	6,455,826	—	6,455,826
Restricted share award vesting	—	32,801	—	32,801
2020 Share Offering <sup>1</sup>	—	11,500,000	—	11,500,000
Harmony Hemp Share Issuance <sup>3</sup>	—	114,696	—	114,696
Abacus Health acquired shares <sup>4</sup>	1,975	17,551,705	—	17,551,705
December 31, 2020	81,177	108,895,607	(1,835,370)	107,060,237

- On June 18, 2020, the Company closed its underwritten public share offering ("2020 Share Offering") of 10,000,000 units ("Offered Units") with an over-allotment option exercised in full for an additional 1,500,000 units of the Company at a price of C\$6.75 (US\$4.97) per Offered Unit, for total aggregate gross proceeds of C\$77,625 (US\$57,165). Each Offered Unit consisted of one common share of the Company and one-half of one common share purchase warrant of the Company (each whole common share purchase warrant, a "2020 Share Offering Warrant"). Each 2020 Share Offering Warrant entitles the holder to purchase one common share of the Company at a price of C\$8.50 through expiration two years after the closing of the 2020 Share Offering. At initial measurement, the 5,750,000 2020 Share Offering Warrants (note 18f) issued resulted in a \$9,206 financial liability reported in the consolidated statements of financial position (note 15). For the year ended December 31, 2020, share issuance costs of \$3,368 were recognized in the consolidated statements of changes in shareholders' equity.
- On December 3, 2019, the Company closed its underwritten public share offering (the "2019 Share Offering") of 5,000,000 units ("Offered Units") of the Company at a price of C\$13.25 (US\$9.96) per Offered Unit (the "Offering Price"), for total aggregate gross proceeds of C\$66,250 (US\$49,810). Each Offered Unit consisted of one common share of the Company and one-half of one common share purchase warrant of the Company (each whole common share purchase warrant, a "2019 Share Offering Warrant"). Each 2019 Share Offering Warrant entitles the holder to purchase one common share of the Company at a price of C\$16.50 through expiration two years after the closing of the 2019 Share Offering. At initial measurement, the 2,500,000 2019 Share Offering Warrants (note 18f) issued resulted in a \$5,515 financial liability reported in the statements of financial position (note 15). For the year ended December 31, 2019, share issuance costs of \$2,862 were recognized in the consolidated statements of changes in shareholders' equity.

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3. Pursuant to the terms of the Harmony Hemp asset purchase agreement (note 13), Abacus US, and therefore the Company, was required to deliver common shares to former note holders of Harmony Hemp during the year ended December 31, 2020.
4. Acquired Abacus Health shares and other securities presented in these consolidated financial statements are stated on a post-acquisition converted basis (note 4).
5. On October 1, 2019, the Company issued 51,397 common shares as part of a compensation agreement.

During the years ended December 31, 2020 and December 31, 2019 certain existing shareholders cancelled and converted their proportional voting shares to common shares and exercised common stock options and warrants. During the year ended December 31, 2020 restricted share awards vested.

**(c) Dividends**

The common proportionate voting share shareholders are entitled to receive dividends out of the assets available for the payment of dividends at such times and in such amount and form as the Board of Directors may determine from time to time, subject to any preferential rights of the holders of any outstanding preferred shares, on the following basis, and otherwise without preference or distinction among or between the shares. Each proportionate voting share will be entitled to 400 times the amount paid or distributed per common share.

**(d) Loss earnings per share**

Basic and diluted loss per share have been calculated using net loss.

The reconciliation of weighted average number of shares for the purpose of diluted loss per share to the weighted average number of ordinary shares used in the calculation of basic loss per share is detailed below. Basic shares include the proportionate voting shares on an as-converted basis.

	Years ended December 31,	
	2020	2019
Weighted average number of common shares - basic	125,012,249	96,539,194
Dilutive effect of stock options and awards	—	—
Weighted average number of common shares - diluted	125,012,249	96,539,194
Loss per share - basic	\$ (0.38)	\$ (0.16)
Loss per share - diluted	\$ (0.38)	\$ (0.16)
Weighted average common share equivalents excluded due to anti-dilutive effect on diluted earnings per share	3,767,700	10,077,295

Awards excluded due to anti-dilutive effect on diluted earnings per share consist of stock options, founder options, restricted share awards, broker stock warrants, and common share warrants.

**(e) Stock incentive plans**

On December 31, 2015, the Company adopted the Stanley Brothers, Inc. 2015 Stock Option Plan (the "2015 Plan"), which provides for grants of incentive stock options and nonqualified stock options to employees (including officers), consultants and directors. The 2015 Plan, and grants made under the 2015 Plan, are designed to align shareholder and participant interests. The Company's board of directors establishes the terms and conditions of any grants under the 2015 Plan. Incentive stock options may be granted only to employees.

On August 31, 2018, the Company adopted the Charlotte's Web Holdings, Inc. 2018 Long-Term Incentive Plan (the "2018 Plan"), which provides for grants of stock options, stock appreciation rights, stock awards, stock units, performance shares, performance units, and other stock-based awards (collectively the "Awards") to eligible individuals on the terms and subject to conditions set forth in the 2018 Plan. The 2018 Plan is designed to attract and retain key personnel and service providers. The Company's board of directors, or appointed administrators, establish the terms and conditions of any grants under the 2018 Plan.

The aggregate number of common shares of the Company as to which stock incentive awards may be granted from time to time under both the 2015 Plan and 2018 Plan shall not exceed 13,500,000 shares. The maximum exercise period of any option grant shall not exceed ten years from the date of grant. The stock incentive awards vest over a time-based service period, generally a period of one to four years, and are settled in equity. The number of available awards at December 31, 2020, was 3,477,045.

Share-based compensation expense recognized for the years ended December 31, 2020, and December 31, 2019, was \$5,897 and \$2,978, respectively.

**i. Stock options**

**1. Founders stock options**

On January 15, 2015, the Company issued nonqualified stock options, in lieu of common stock, to a limited number of consultants ("Founder Options"). Each of these option holders did not qualify for the issuance of common stock under the Company's then existing S-Corporation status due to their residence standing. Issued Founder Options were for 5,187,904 underlying common shares and were fully vested after one year. The exercise price and the fair value at grant date was \$0.005 per share.

At December 31, 2020, all common shares under option were exercised. At December 31, 2019, the number of common shares under option and exercisable was 799,948.

**2. 2015 and 2018 Plan stock options**

The Company recognizes compensation expense for stock option grants based on the fair value at the date of grant using the Black-Scholes option pricing model. The Company applies estimated forfeiture rates that are derived from our historical forfeitures of similar awards.

The expected stock price volatility represents an average of the Company's historical volatility measured over a period approximating the expected life.

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The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

The expected life of the stock options is based on vesting term and contractual life of grants and is not necessarily indicative of exercise patterns that may occur.

The following assumptions were used to determine the fair value of share option grants:

	Years ended December 31,	
	2020	2019
Valuation assumptions:		
Expected volatility	84.1% - 87.4%	85.0%-101.4%
Expected term (years)	0.3 - 7.0	1.0-5.0
Risk-free interest rate	0.5%-1.4%	1.4%-2.5%
Value of underlying share	\$2.40-\$7.13	\$9.54-\$21.10

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Detail of the number of stock options outstanding for the years ended December 31, 2020 and 2019 under the 2015 and 2018 plans is as follows:

	Number of shares under option		Weighted average exercise price (USD)
Balance at December 31, 2018	8,090,669	\$	0.59
Granted	456,853		15.15
Exercised	(2,850,092)		0.56
Forfeited (and expired)	(795,236)		0.70
Balance at December 31, 2019	4,902,194	\$	1.95
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Exercisable at December 31, 2019	4,251,343	\$	0.81
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	Number of shares under option		Weighted average exercise price (USD)
Balance at December 31, 2019	4,902,194	\$	1.95
Granted	1,390,740		4.92
Abacus Health acquired stock options	1,317,932		4.80
Exercised	(3,187,087)		0.77
Forfeited (and expired)	(1,093,573)		6.61
Balance at December 31, 2020	3,330,206	\$	3.93
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Exercisable at December 31, 2020	1,714,419	\$	2.10

For the balance at December 31, 2019, weighted average remaining contractual life is 7.94 years. The weighted average grant-date fair value of options granted during the year ended December 31, 2019 was \$11.52.

The weighted average share price at the date of exercise of options exercised during the year ending December 31, 2019 was \$12.97.

For the balance at December 31, 2020, the weighted average remaining contractual life is 7.83 years. The weighted average grant-date fair value of options granted during the year ended December 31, 2020 was \$4.92.

The weighted average share price at the date of exercise of options exercised during the year ended December 31, 2020 was \$5.20.

Vesting of awards under these plans were generally time based over a period of one to four years. Of the 3,330,206 options outstanding at December 31, 2020, 1,300,012 options have an exercise price of \$0.56, and the remaining 2,030,195 options have an exercise price ranging between \$2.40 and \$21.10.

**ii. Restricted share awards**

The Company has issued time-based restricted share awards to certain employees as permitted under the 2018 Plan. The restricted share awards granted vest in accordance with the board-approved agreement, typically over equal installments over four years. Upon vesting, one share of the Company's common stock is issued for each restricted share awarded. The fair value of each restricted share award granted is equal to the market price of the Company's stock at the date of the grant, less an estimated forfeiture rate. The Company applies estimated forfeiture rates that are derived from our historical forfeitures of similar award.

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

	Number of restricted shares	Weighted average grant-date fair value (USD)
Balance at December 31, 2018	—	\$ —
Granted	114,266	20.52
Balance at December 31, 2019	114,266	\$ 20.52

	Number of restricted shares	Weighted average grant-date fair value (USD)
Balance at December 31, 2019	114,266	\$ 20.52
Granted	409,279	4.28
Forfeited	(34,069)	9.01
Vested	(32,801)	18.88
Balance at December 31, 2020	456,675	\$ 6.47

**iii. Harmony Hemp contingent equity compensation**

Pursuant to the terms of the Harmony Hemp asset purchase agreement (note 13), Abacus US, and therefore the Company, is required to deliver common shares in three installments on the 12<sup>th</sup>, 18<sup>th</sup> and 24<sup>th</sup> month anniversaries of the closing date to key individuals. All vesting of the common shares is dependent and contingent on the continuation of the key individual's consulting, employment or other services relationship with the Company on the applicable vesting date. Share-based compensation expense attributable to Harmony Hemp contingent equity compensation for the year ended December 31, 2020 was \$1,178.

**(f) Warrants**

Common share warrants were issued in conjunction with the 2019 and 2020 Share Offerings (note 18b). Each common share warrant entitles its holder to purchase one common share. The common share warrants are measured at fair value using the Black-Scholes option pricing model. Total common share warrants issued in the 2019 offering were 2,500,000 at an initial fair market value of \$2.206 per share, totaling \$5,515, as reported as a warrant liability. Total common share

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warrants issued in the 2020 Share Offering were 5,750,000 at an initial fair market value of \$1.601 per share, totaling \$9,206, as reported as a warrant liability (note 15).

Pursuant to the terms of the Abacus Acquisition, each holder of an Abacus Health common share warrant received a 0.85 equivalent replacement warrant. Refer to note 4 for determination of fair value of warrants acquired and the related classification as of acquisition June 11, 2020.

The following summarizes the number of warrants outstanding as of December 31, 2020 and December 31, 2019:

	Balance at December 31, 2018				Balance at December 31, 2019	
	Number of warrants outstanding	Granted	Exercised	Expired	Number of warrants outstanding	Weighted average exercise price
Broker	93,803	—	(92,693)	—	1,110	\$ 5.39
2019 Share Offering Warrants	—	2,500,000	—	—	2,500,000	12.67
	93,803	2,500,000	(92,693)	—	2,501,110	\$ 12.67

  

	Balance at December 31, 2019				Balance at December 31, 2020	
	Number of warrants outstanding	Granted	Abacus Health acquired warrants	Expired	Number of warrants outstanding	Weighted average exercise price
Broker	1,110	—	—	(1,110)	—	\$ —
2019 Share Offering Warrants	2,500,000	—	—	—	2,500,000	12.67
2020 Share Offering Warrants	—	5,750,000	—	—	5,750,000	6.26
Abacus Health acquired	—	—	1,892,872	—	1,892,872	11.38
	2,501,110	5,750,000	1,892,872	(1,110)	10,142,872	\$ 8.80

For the balance of outstanding warrants at December 31, 2020, the weighted average remaining contractual life is 1.38 years.

**19. Expenses by nature**

The costs of sales and operating expenses by nature are as follows:

	Years ended December 31,	
	2020	2019
Cost of sales	\$ 42,937	\$ 44,144
Inventory expensed to cost of sales	26,870	22,731
Inventory provision, net	8,025	15,474
Other production costs	6,715	5,095
Depreciation and amortization	1,327	844
<b>General and administrative</b>	<b>\$ 68,764</b>	<b>\$ 45,546</b>
Salaries and wages	21,079	19,184
Employee benefits	10,475	7,697
Legal and professional services	16,102	8,436
Other operating expenses	13,179	7,341
Depreciation and amortization	7,929	2,888
<b>Sales and marketing</b>	<b>\$ 30,010</b>	<b>\$ 28,107</b>
Advertising, promotions and selling costs	14,723	16,417
Salaries and wages	11,132	8,251
Employee benefits	2,349	1,242
Facilities and other expenses	1,649	1,829
Depreciation and amortization	157	368
<b>Research and development</b>	<b>\$ 5,951</b>	<b>\$ 1,754</b>
Salaries and wages	2,962	1,074
Employee benefits	960	44
Other operating expenses	1,688	547
Depreciation and amortization	341	89

As a result of business combinations, as defined by IFRS 3 Business Combinations (note 3), one-time acquisition costs of \$3,897 were expensed as incurred during the year ended December 31, 2020, respectively, in general and administrative. Ongoing costs subsequent to the Abacus Acquisition primarily include sales and marketing and research and development salaries and wages and employee benefits.

Litigation settlement expense of \$2,050 was recorded during the year ended December 31, 2020 in general and administrative.

Other operating expenses in general and administrative includes property and casualty and directors and officers insurance premiums, personal property tax obligations, rent and related costs primarily related to the Company's new warehouse and distribution facility, and bank and merchant fees.

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Defined contribution expense of \$1,038 and \$794 was recorded during the years ended December 31, 2020 and December 31, 2019, respectively, in employee benefits.

**20. Income taxes**

**(a) Components of income taxes**

The major components of income tax expense (benefit) attributable to loss from continuing operations consists of:

	Current	Deferred	Total
Year ended December 31, 2019			
U.S. federal	\$ (103)	\$ (4,966)	\$ (5,069)
State and local	146	(719)	(573)
Foreign	—	—	—
	\$ 43	\$ (5,685)	\$ (5,642)
Year ended December 31, 2020			
U.S. federal	\$ (162)	\$ 5,395	\$ 5,233
State and local	176	879	1,055
Foreign	7	17	24
	\$ 21	\$ 6,291	\$ 6,312

During the first quarter of 2020, the Company expensed previously recognized deferred tax assets (see (d) below). Of the \$30,417 deferred tax asset at December 31, 2019, \$16,087 was offset in contributed surplus related to the income tax benefit previously recognized for stock options. Further, \$8,069 was reclassified to income taxes receivable in conjunction with the CARES Act (see (e) below) and the remaining \$6,261 was recorded as income tax expense.

**(b) Tax rate reconciliation**

Income tax expense attributable to loss from continuing operations for the years ended December 31, 2020 and 2019 differed from the amounts computed by applying the U.S. federal income tax rates of 21%, as a result of the following:

	2020	2019
Computed "expected" tax expense	21.0%	21.0%
State income taxes, net of federal tax benefit	3.9%	2.3%
Permanent items	3.2%	1.8%
Change in tax rate	0.0%	0.0%
Inability to recognize current year deferred tax assets	(26.9%)	0.0%
Other, net	(1.3%)	1.5%
Effective tax rate before discrete item	(0.1%)	26.6%
Derecognize deferred tax assets	(15.3%)	0.0%
Effective tax rate after discrete item	(15.4%)	26.6%

**(c) Uncertain tax position**

Due to the adoption of IFRIC 23, uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Company recognizes the tax benefit from an uncertain tax position only if it is probable that the tax position will be sustained based on its technical merits. The Company measures and records the tax benefits from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company's estimated liabilities related to these matters are adjusted in the period in which the uncertain tax position is effectively settled, the statute of limitations for examination expires or when additional information becomes available. The Company's liability for unrecognized tax benefits requires the use of assumptions and significant judgement to estimate the exposures associated with our various filing positions. Although the Company believes that the judgments and estimates made are reasonable, actual results could differ and resulting adjustments could materially affect our effective income tax rate and income tax provision.

During the years ended December 31, 2020, the Company did not record a provision for uncertain tax positions.

**(d) Deferred tax assets**

IAS 12 – Income Taxes requires an entity to recognize deferred tax assets when it is probable that taxable profits will be available to offset these temporary differences when they are deducted. Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. Two significant pieces of objective negative evidence evaluated were the cumulative loss incurred over the three-year period, which triggered during the quarter ended March 31, 2020, and the forecasted annual 2020 loss. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. As a result, the Company does not have the ability to recognize the deferred tax assets. These assets consist primarily of a net operating loss carryforward in the amount of \$30,778 and a research and development tax credit in the amount of \$1,336. These deferred tax assets remain available for future use to offset future tax liabilities. Federal net operating loss carryforwards of \$25,673 can be carried forward indefinitely. Some of the state net operating loss carryforwards of \$5,105 will expire if they are not used within certain periods. The research and development tax credit expires in 2036.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2020 and 2019 are presented below.

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	2020	2019
Deferred tax assets:		
Accrued expenses	\$ —	\$ 736
Change in fair value of biological assets	—	228
Share-based compensation	—	6,461
Inventory provision	—	3,816
Accrued employee paid time off	—	99
Expected credit losses	—	130
Right of use assets	—	97
UNICAP - 263A	—	922
Other	—	168
Net operating loss carryforward	—	18,215
Other carryforwards	—	363
	\$ —	\$ 31,235
Deferred tax liabilities:		
Property and equipment	—	(818)
Net deferred tax asset	\$ —	\$ 30,417

**(e) The CARES Act**

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, allows for the Company to carryback the net operating loss generated in 2019. The impact of the carryback will result in an additional refund of \$8,069, which is included in income taxes receivable as of December 31, 2020. The Company previously recognized \$3,273 of income taxes receivable related to overpayments made in 2019. The CARES Act, 2019 overpayments, and miscellaneous other income taxes receivable result in a total income taxes receivable as of December 31, 2020 of \$11,440.

The Company will continue to monitor future developments and interpretations for further impacts

## 21. Financial risk management

The Company has exposure to the following risks from its use of financial instruments. The main types of risks are market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company's financial instruments and policies for managing these risks are detailed below.

### (a) Fair Value

The Company's financial assets include cash and cash equivalents, trade and other receivables, and notes receivable. Financial liabilities include accounts payable and accrued liabilities, cultivation liabilities, notes payable, lease obligations and derivative financial liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to their short period to maturity. The derivative financial 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 warrant financial liabilities are subject to a level 1 valuation.

The basis of the valuation of the derivative warrant financial liabilities is fair value. The derivative financial liabilities are revalued each period using the Black-Scholes valuation model and quoted market rates. This valuation technique maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates.

### (b) 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 it holding financial instruments.

The Company conducts sales transactions with foreign entities. The transactions are primarily denominated in USD, the functional currency. As a result of the Abacus Acquisition, the Company has a wholly-owned subsidiary that transacts in the New Israeli Shekel ("NIS"). Since the acquisition on June 11, 2020, the impact of foreign currency exchange is immaterial to the consolidated financial statements. Therefore, the Company does not have material exposure to foreign exchange rate risk.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to change in market interest rates. The Company's trade receivables 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, 2020 (note 17). Changes in market interest rates cause the fair value of long-term debt with fixed interest rates to fluctuate but does not impact net income as the Company records debt at amortized cost and the carrying value does not change as interest rates change.

**(c) 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 trade receivables, note receivables, and deposits. The Company's maximum exposure to credit risk is limited to the carrying amount of the financial assets as summarized below:

	December 31, 2020	December 31, 2019
Accounts receivable	\$ 6,274	\$ 5,462
Note receivable	1,753	1,421
Note receivable - related party	1,004	—
Deposits - current	2,742	376
Deposits - long term	3,214	1,625
	<u>\$ 14,987</u>	<u>\$ 8,884</u>

The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance provision is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. The provision matrix below shows the expected credit loss rate at each aging category of trade and other receivables.

	Current	Aged 1-30 days past due	Aged 31-60 days past due	Aged > 60 days past due	Total
Expected loss rate	4.72 %	9.69 %	16.67 %	23.36 %	11.47 %
Gross carrying amount	\$3,160	\$ 1,765	\$ 180	\$ 1,982	\$ 7,087
Loss allowance provision, end of the period	\$ 149	\$ 171	\$ 30	\$ 463	\$ 813

**i. Trade and other receivables**

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. Other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred, but not yet been identified. The Company maintains an allowance for doubtful accounts that represents its estimate of the uncollectible amounts based on specific losses estimated on individual exposures and provisions based on historical experience.

The Company considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor;

- probability that the debtor will enter bankruptcy or financial reorganization; and/or
- default or delinquency in payments

See note 5 for information about the aging of trade and other receivables.

**ii. Note receivable**

The Company's note receivable is due from one of the Company's third-party farming suppliers. The Company manages its credit risk related to the note receivable by securing it with extraction units (note 6).

**iii. Note receivable - related party**

The Company's related party note receivable is with certain founders of the Company. The Company manages its credit risk related to the note receivable by securing it with equity instruments (note 7).

**iv. Deposits current and long-term**

Deposits are made primarily for equipment and facility usage. The Company manages its credit risk surrounding deposits by dealing solely with what management believes to be reputable financial institutions (note 11).

**(d) 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 forecast cash inflows and outflows from business operations. The Company's cash and cash equivalents balances at December 31, 2020 and December 31, 2019 were \$52,803 and \$68,553, respectively. Net working capital at December 31, 2020 and December 31, 2019 was \$113,627 and \$116,927, respectively.

## 22. Fair value measurement

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments. The Company's financial instruments are categorized into the Level 1 fair value hierarchy.

	December 31, 2020		December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 52,803	\$ 52,803	\$ 68,553	\$ 68,553
Trade and other receivables, net	6,274	6,274	5,462	5,462
Note receivable	1,753	1,753	1,421	1,421
Loan due from related parties	1,004	1,004	—	—
	\$ 61,834	\$ 61,834	\$ 75,436	\$ 75,436
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ 16,410	\$ 16,410	\$ 16,121	\$ 16,121
Cultivation liabilities	11,817	11,817	25,092	25,092
Notes payable	773	773	12	12
Lease obligations	22,582	22,582	24,061	24,061
Warrant liabilities	4,304	4,304	3,408	3,408
	\$ 55,886	\$ 55,886	\$ 68,694	\$ 68,694

## 23. Capital management

For capital management purposes, the Company defines capital as its shareholders' equity that includes share capital, contributed surplus and retained earnings. The amounts included in the Company's capital for the relevant period are as follows:

December 31, 2020	\$254,229
December 31, 2019	\$153,698

The Company's principal objectives in managing capital are:

- to ensure that it will continue to operate as a going concern;
- to be flexible to take advantage of contract and growth opportunities that are expected to provide satisfactory returns to its shareholders;
- to maintain a strong capital base to maintain customers, investors, creditors and market confidence; and
- to provide an adequate rate of return to its shareholders.

The Company manages and adjusts its capital structure considering changes in economic conditions. To maintain or adjust its capital structure, the Company may issue debt or new shares. Financing decisions are generally made on a specific transaction basis and depend on such things as the Company's needs, capital markets, and economic conditions at the time of the transaction. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable, given the size of the company.

To support capital management, the Company has an asset backed line of credit with J.P. Morgan for up to \$10,000 with an option to increase the line of credit to \$20,000 with a 3-year maturity (note 17). The Company has not yet drawn on the line of credit.

**24. Related party transactions**

On February 28, 2020, the Company entered into an asset purchase agreement with Stanley Brothers Bio Tec, Inc., an entity formerly owned by certain founders of the Company. The Company purchased substantially all the assets related to Stanley Brothers Bio Tec Inc. for total consideration of \$250. Acquired property and equipment totaled \$215 and consisted primarily of lab equipment. The remaining \$35 of lab and other miscellaneous supplies acquired were expensed through research and development.

Aidance Scientific, Inc. ("Aidance") is the manufacturer of nearly all Abacus Health products. The former Chief Executive Officer of Abacus Health, and a current Officer of the Company, also serves on Aidance's Board of Directors. For the year ended December 31, 2020, the Company made purchases of \$2,758 from Aidance. Payment terms on purchases are due 30 days after receipt. As of December 31, 2020, the Company has a liability of \$197 due to Aidance presented in accounts payable in the consolidated statements of financial position.

Effective November 2020, the Company entered into a note receivable with certain founders of the Company to negotiate a future binding transaction in good faith. This agreement included a secured promissory note, where \$1,000 was loaned to one of the founders (note 7). Refer also to note 26 below.

**25. Remuneration of key management of the Company**

The remuneration awarded to senior key management includes the following:

	Years ended December 31,	
	2020	2019
Wages and bonus	\$ 3,752	\$ 2,285
Short-term employee benefits	241	236
Share-based compensation	2,738	926
	\$ 6,731	\$ 3,447

The Company added key management positions starting in the second quarter of 2019.

**26. Subsequent events**

The Company has evaluated subsequent events through March 25, 2021, which is the date the financial statements were available to be issued.

On March 2, 2021, the Company entered into an Option Purchase Agreement (the "Option") with Stanley Brothers USA Holdings, Inc. ("Stanley Brothers USA"), a privately held Delaware company, and the shareholders of Stanley Brothers USA. The Option was purchased for total consideration of \$8,000 and has a five-year term (extendable for an additional two years upon payment of additional consideration), and it provides Charlotte's Web the optionality to acquire all or substantially all of Stanley Brothers USA on the earlier of three years from the effective date of the Option and federal legalization of cannabis in the United States, or such earlier time as Stanley Brothers USA and Charlotte's Web may agree, at a

purchase price to be determined at the time of exercise of the Option. CW is not obligated to exercise the Option.

In addition to the Option, Stanley Brothers USA has issued the Company a warrant (the "Warrant") exercisable to purchase 10% of the outstanding Stanley Brothers USA shares and convertible securities that are considered in-the-money, subject to certain conditions and exclusions. The Warrant is exercisable for a nominal exercise price in the event the Company elects not to exercise the Option.