CHARLOTTE’S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2021 and 2020

(Expressed in United States dollars)

UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL
STATEMENTS
For the three months ended March 31, 2021 and 2020

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CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of United States dollars)

	March 31, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,048	$ 52,803
Trade and other receivables, net (note 4)	5,686	6,274
Note receivable (note 5)	1,500	1,753
Note receivable - related party (note 6)	1,012	1,004
Inventories (note 7)	61,974	61,936
Prepaid expenses and other current assets (note 11)	5,037	7,390
Income taxes receivable	10,776	11,440
	121,033	142,600
Non-current assets:		
Property and equipment, net (note 8)	61,787	60,269
Intangible assets, net (note 9)	24,588	25,376
Goodwill (note 9)	77,454	77,454
SBH Purchase Option (note 10)	8,000	—
Deferred tax assets	3	4
Other long-term assets (note 12)	2,712	5,178
	$ 295,577	$ 310,881
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,180	$ 4,891
Accrued liabilities	7,885	11,519
Deferred revenue	509	615
Current cultivation liabilities (note 16)	8,520	9,304
Current notes payable (note 13)	373	629
Current lease obligations (note 14)	1,999	2,015
	25,466	28,973
Non-current liabilities:		
Long-term cultivation liabilities (note 16)	—	2,513
Long-term notes payable (note 13)	58	144
Long-term lease obligations (note 14)	19,971	20,567
Warrant liabilities (note 15)	7,625	4,304
Other long-term liabilities	186	151
	53,306	56,652
Shareholders' equity:		
Share capital	280,183	279,308
Contributed surplus	20,942	19,849
Accumulated deficit	(58,854)	(44,928)
	242,271	254,229
	$ 295,577	$ 310,881

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Approved by the Board of Directors

/s/ “Jacques Tortoroli”

Director (signed)

/s/ “John Held”

Director (signed)

CHARLOTTE’S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND OTHER COMPREHENSIVE LOSS

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Revenue	$ 23,407	$ 21,463
Cost of sales (note 18)	9,770	6,466
Gross profit before (gain) loss on fair value of biological assets	13,637	14,997
Realized fair value (gain) included in inventory sold	(206)	(82)
Unrealized fair value loss on growth of biological assets	165	—
Gross profit	13,678	15,079
Expenses:		
General and administrative (note 18)	14,968	16,031
Sales and marketing (note 18)	7,720	6,532
Research and development (note 18)	1,308	766
Operating expenses	23,996	23,329
Operating loss	(10,318)	(8,250)
Financing costs	348	170
Interest income	(19)	(129)
Change in fair value of warrants and other expense (income), net	3,245	(3,079)
Loss before taxes	(13,892)	(5,212)
Income tax expense (note 19)	34	6,287
Net loss and comprehensive loss	$ (13,926)	$ (11,499)
Weighted average number of common shares - basic (note 17b)	139,697,474	107,436,794
Weighted average number of common shares - diluted (note 17b)	139,697,474	107,436,794
Loss per share - basic (note 17b)	$ (0.10)	$ (0.11)
Loss per share - diluted (note 17b)	$ (0.10)	$ (0.11)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands of United States dollars)

Three months ended March 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	1,860	(491)	—	1,369
Accumulated effect of income tax from stock options	—	(16,087)	—	(16,087)
Share-based compensation expense (note 17c)	—	266	—	266
Net loss and comprehensive loss	—	—	(11,499)	(11,499)
Balance - March 31, 2020	$ 125,787	$ 11,201	$ (9,241)	$ 127,747

Three months ended March 31, 2021	Share capital	Contributed surplus	Accumulated deficit	Total
Balance - December 31, 2020	$ 279,308	$ 19,849	$ (44,928)	$ 254,229
Exercise of common stock options (note 17a)	61	(31)	—	30
Exercise of common stock warrants (note 17a)	485	(45)	—	440
Withholding of common stock upon vesting of restricted share awards	329	(441)	—	(112)
Share-based compensation expense (note 17c)	—	1,610	—	1,610
Net loss and comprehensive loss	—	—	(13,926)	(13,926)
Balance - March 31, 2021	$ 280,183	$ 20,942	$ (58,854)	$ 242,271

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of United States dollars)

	Three months ended March 31, 2021	Three months ended March 31, 2020
Cash flows from operating activities:		
Net loss	$ (13,926)	$ (11,499)
Items not involving cash:		
Depreciation (note 8)	2,533	1,654
Amortization (note 9)	889	150
Change in fair value of biological assets	(41)	(82)
Change in fair value of warrant liabilities (note 15)	3,321	(2,968)
Expected credit losses	(23)	105
Inventory provision, net (note 7)	333	(5)
Share-based compensation (note 17)	1,610	266
Loss on disposal of assets	76	—
Deferred income taxes	1	14,331
Changes in working capital:		
Trade and other receivables, net	611	(3,113)
Inventories	(261)	(349)
Prepaid expenses and other current assets	2,173	(479)
Accounts payable	1,289	(3,437)
Accrued liabilities	(3,906)	(364)
Income taxes	664	(8,046)
Cultivation liabilities	(3,320)	(1,142)
Other operating assets and liabilities, net	242	114
	(7,735)	(14,864)
Cash flows from investing activities:		
Purchases of property and equipment	(1,659)	(1,270)
Purchases of intangible assets	(64)	(254)
Proceeds from sale of assets	8	1
Collections on note receivable (note 5)	266	—
Investment in SBH Purchase Option (note 10)	(8,000)	—
Other investing activities	384	(31)
	(9,065)	(1,554)
Cash flows from financing activities:		
Proceeds from common stock option exercises	30	1,369
Proceeds from common stock warrant exercises	440	—
Withholding of common stock upon vesting of restricted share awards	(112)	—
Payments on notes payable (note 13)	(342)	(2)
Payments on lease obligations (note 14)	(971)	(466)
	(955)	901

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

(Decrease) increase in cash		(17,755)		(15,517)
Cash and cash equivalents, beginning of year		52,803		68,553
Cash and cash equivalents, end of period	$	35,048	$	53,036

Supplemental disclosures of cash flows from operating activities:				
Cash paid for interest	$	(36)	$	(5)
Cash paid for interest on lease obligations		(312)		(165)
Cash received from interest		19		129
Cash received (paid) for taxes		662		(2)
Non-cash purchases of property and equipment		(235)		(1,341)
Non-cash purchases of intangible assets		(37)		—

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

1. Company overview

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.

2. Basis of preparation

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS 34"), Interim Financial Reporting on a basis consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These unaudited interim condensed consolidated financial statements include only significant events and transactions occurring since the Company's last fiscal year-end. They do not include all the information and notes required by IFRS for annual financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements and notes for the Company's fiscal year ended December 31, 2020.

The unaudited interim condensed consolidated financial statements for the three months ended March 31, 2021 and March 31, 2020 were approved and authorized for issue by the Board of Directors on May 10, 2021.

(b) Measurement basis

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

(c) Basis of consolidation

The Company's unaudited interim condensed consolidated financial statements include those of the parent company Charlotte's Web Holdings, Inc., and its wholly owned subsidiaries, Charlotte's Web, Inc. and Abacus Products, Inc. ("Abacus Health"), and its wholly owned subsidiaries.

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

(d) Use of estimates

The preparation of unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the unaudited interim condensed consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Reclassifications and prior period presentation

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

(f) Functional and presentation currency

The unaudited interim condensed 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.

3. Summary of significant accounting policies

The Company's significant accounting policies are described in note 3, "Summary of significant accounting policies," in the Company's annual consolidated financial statements for the year ended December 31, 2020.

(a) Changes in significant accounting policies

i. Inventories

Prior to the quarter ended March 31, 2021, the Company's inventory costs were determined by use of the first-in, first-out method ("FIFO"). As of January 1, 2021 and for the quarter ended March 31, 2021, and on a go forward basis, the Company is using the weighted average method for the valuation of the company's inventories. The change to the weighted average method gives more representative presentation of the results and the financial position of the Company, primarily based on differing shelf life requirements of the Company's direct-to-consumer ("DTC") ecommerce and business-to-business ("B2B") customers. The effect of this change was not material to any prior period.

(b) Adoption of new accounting standards and policies

The Company has no new accounting standards or policies adopted that have a material impact on the unaudited interim condensed consolidated financial statements.

(c) Future accounting standards issued but not yet effective

The Company reviewed recently issued accounting pronouncements and concluded they were either not applicable or not expected to have a significant impact on the Company's consolidated financial statements.

4. Trade and other receivables

Trade and other receivables consist of the following:

	March 31, 2021	December 31, 2020
Trade receivables	$ 4,983	$ 5,735
Tenant improvement allowance	410	410
Other miscellaneous receivables	916	942
Expected credit losses (note 20)	(623)	(813)
Trade and other receivables, net	$ 5,686	$ 6,274

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

The aging of receivables is as follows:

	March 31, 2021	December 31, 2020
Current	$ 3,393	$ 3,160
Aged 1-30 days past due	505	1,765
Aged 31-60 days past due	149	180
Aged >60 days past due	2,262	1,982
Expected credit losses	(623)	(813)
	$ 5,686	$ 6,274

5. Note receivable

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

	Note receivable
Balance at December 31, 2019	$ 1,421
Funded	1,400
Interest accrued	57
Payments received	(1,125)
Balance at December 31, 2020	$ 1,753
Interest accrued	13
Payments received	(266)
Balance at March 31, 2021	$ 1,500

As of March 31, 2021, the credit risk related to the note receivable has not increased significantly since initial recognition.

6. Note receivable - related party

Details of the Company's note receivable - related party and the carrying amount is as follows:

		Note receivable - related party
Balance at December 31, 2019	$	—
Funded		1,000
Interest accrued		4
Balance at December 31, 2020	$	1,004
Interest accrued		8
Balance at March 31, 2021	$	1,012

As of March 31, 2021, the credit risk related to the promissory note has not increased significantly since initial recognition.

7. Inventories

Inventories consist of the following:

		March 31, 2021		December 31, 2020
Harvested hemp and seeds	$	39,054	$	39,869
Raw materials		13,600		14,644
Finished goods		22,131		24,615
Biological assets		160		—
	$	74,945	$	79,128
Less: inventory provision		(12,971)		(17,192)
	$	61,974	$	61,936

a. 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, 2019	$	(15,873)
Inventory provision, net		(10,098)
Write-offs		8,779
Balance at December 31, 2020	$	(17,192)
Inventory provision, net		(333)
Write-offs		4,554
Balance at March 31, 2021	$	(12,971)

For the three months ended March 31, 2021 and March 31, 2020, net inventory provisions of and $333 and $588 were recognized through the cost of sales and write-offs of inventory previously reserved for of $4,554 and $593 were recognized, respectively.

8. 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
Cost								
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
Assets acquired in business combinations	—	397	90	180	—	363	—	1,030
Reclassifications	—	66	(66)	(150)	(1,258)	(206)	206	(1,408)
Transfers 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
Additions - purchased assets	—	311	—	—	3,846	—	—	4,157
Additions - right-of-use assets	—	—	—	—	—	47	—	47
Transfers under construction	—	1,733	32	5,632	(7,397)	—	—	—
Disposals	—	(165)	(16)	(81)	—	(5)	—	(267)
At March 31, 2021	$ 3,409	$ 19,090	$ 897	$ 27,861	$ 2,552	$ 24,182	$ 1,292	$ 79,283

	Land and building	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU assets - buildings	RoU Assets - cultivation land	Total
Accumulated depreciation								
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)
Depreciation - expensed	(13)	(929)	(35)	(802)	—	(708)	(46)	(2,533)
Depreciation - capitalized to inventory	(7)	(51)	—	(1)	—	—	(10)	(69)
Disposals	—	112	15	55	—	1	—	183
At March 31, 2021	$ (110)	$ (8,248)	$ (377)	$ (3,470)	$ —	$ (4,796)	$ (495)	$ (17,496)

	Land and building	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Under construction	RoU assets - buildings	RoU assets - cultivation land	Total
Property and equipment, net								
At December 31, 2020	$ 3,319	$ 9,831	$ 524	$ 19,588	$ 6,103	$ 20,051	$ 853	$ 60,269
At March 31, 2021	$ 3,299	$ 10,842	$ 520	$ 24,391	$ 2,552	$ 19,386	$ 797	$ 61,787

Depreciation expensed for the three months ended March 31, 2021 and 2020 was $2,533 and $1,654, respectively. Depreciation related to cultivation equipment and right-of-use assets that was capitalized for the three months ended March 31, 2021 was $59 and $10, respectively. Depreciation related to cultivation equipment and right-of-use assets that was capitalized for the three months ended March 31, 2020 was $275 and $81, respectively.

9. Intangible assets and goodwill

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
Cost							
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
Additions	—	—	—	4	—	97	101
Transfers	55	—	—	86	—	(141)	—
At March 31, 2021	$ 3,844	$ 22,700	$ 700	$ 291	$ 150	$ 264	$ 27,949

	Software	Customer relationships	Trade names	Patents	Internet domain name	Intangibles in process	Total
Accumulated amortization							
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)
Amortization	(297)	(571)	(18)	(3)	—	—	(889)
At March 31, 2021	$ (1,453)	$ (1,840)	$ (57)	$ (11)	$ —	$ —	$ (3,361)

	Software	Customer relationships	Trade names	Patents	Internet domain name	Intangibles in process	Total
Intangible assets, net							
At December 31, 2020	$ 2,633	$ 21,431	$ 661	$ 193	$ 150	$ 308	$ 25,376
At March 31, 2021	$ 2,391	$ 20,860	$ 643	$ 280	$ 150	$ 264	$ 24,588

Amortization expense for the three months ended March 31, 2021 and 2020 was $889 and $150, respectively.

As of March 31, 2021, the Company's carrying amount of goodwill was $77,454.

10. SBH Purchase Option

On March 2, 2021, the Company entered into an option purchase agreement (the "SBH Purchase Option") with Stanley Brothers USA Holdings, Inc. ("Stanley Brothers USA"), a privately held Delaware company, and the shareholders of Stanley Brothers USA. The SBH Purchase Option was purchased for total consideration of $8,000 and has a five-year term (extendable for an additional two years upon payment of additional consideration). The SBH Purchase Option provides Charlotte's Web the option to acquire all or substantially all the shares of Stanley Brothers USA on the earlier of three years from the effective date of the SBH Purchase Option and federal legalization of cannabis in the United States, or such earlier time as Stanley Brothers USA and the Company agree, at a purchase price to be determined at the time of exercise of the SBH Purchase Option. Upon exercise of the SBH Purchase Option, the purchase price will be determined based on application of predetermined multiples of Stanley Brothers USA revenue and earnings before interest, taxes, depreciation, and amortization ("EBITDA") measures. The Company is not obligated to exercise the SBH Purchase Option. As part of the SBH Purchase Option agreement, Stanley Brothers USA issued the Company a warrant exercisable to purchase 10% of the outstanding Stanley Brothers USA shares and convertible securities that are considered in-the-money, subject to certain conditions and exclusions. The warrant is exercisable for a nominal exercise price in the event the Company elects not to acquire all or substantially all shares of Stanley Brothers USA and expires 60 days after the expiration of the option.

The SBH Purchase Option is classified as a financial asset. The financial asset is remeasured at fair value at each reporting date, with changes to fair value recognized in profit or loss for the period. The fair value determination includes a high degree of subjectivity and judgment using unobservable inputs (level 3 on the fair value hierarchy), which results in significant estimation uncertainty. As of March 31, 2021, the SBH Purchase Option represents a financial asset of $8,000.

The Monte Carlo valuation model considers multiple outcomes and probabilities in assigning a fair value. The following assumptions are used in the model:

a. Financial projections of Stanley Brothers USA
b. Probability and timing of exercise
c. Expected volatility
d. Expected Option life
e. Risk-free interest rate

11. Prepaid expenses and other current assets

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

	March 31, 2021	December 31, 2020
Prepaid expenses:		
Insurance	$ 1,738	$ 2,679
Software	530	870
Marketing	819	159
Other	839	939
Deposits:		
Inventory	818	2,422
Other	293	321
	$ 5,037	$ 7,390

12. Other long-term assets

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

	March 31, 2021	December 31, 2020
Prepaid expenses:		
Insurance	$ 1,096	$ 1,161
Marketing	803	803
Deposits:		
Equipment	270	2,984
Leases	37	37
Other	506	193
	$ 2,712	$ 5,178

13. Notes payable

The following details the changes in the Company's notes payable balance:

	Short-term borrowings	Long-term borrowings	Total
Balance at December 31, 2019	$ 9	$ 3	$ 12
Acquired purchase price payable	1,258	312	1,570
Repayment	(809)	—	(809)
Conversion to short-term borrowings	171	(171)	—
Balance at December 31, 2020	$ 629	$ 144	$ 773
Repayments	(342)	—	(342)
Conversion to short-term borrowings	86	(86)	—
Balance at March 31, 2021	$ 373	$ 58	$ 431

Scheduled maturities of notes payable are as follows:

	Within 1 year	1 to 5 years	Total
March 31, 2021	$ 373	$ 58	$ 431

14. Lease obligations

Information about leases for which the Company is a lessee is presented below.

	March 31, 2021	December 31, 2020
Maturity analysis - contractual undiscounted cash flows		
Less than one year	$ 3,179	$ 3,248
One to two years	3,064	2,966
Two to three years	2,902	2,877
Three to four years	2,804	2,786
Four to five years	2,188	2,559
More than five years	16,735	17,202
Total undiscounted lease liabilities at March 31, 2021	$ 30,872	$ 31,638
Current	$ 1,999	$ 2,015
Long-term	19,971	20,567

Lease liabilities at December 31, 2019	$ 24,061
Additions	187
Leases acquired in business combination	372
Repayments	(3,153)
Interest	1,115
Lease liabilities at December 31, 2020	$ 22,582
Additions	47
Repayments	(971)
Interest	312
Lease liabilities included in the statement of financial position at March 31, 2021	$ 21,970

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

15. Warrant liabilities

Details of the Company's warrant liabilities are as follows:

	Balance at December 31, 2020	Change in fair value	Change in foreign currency	Balance at March 31, 2021
2019 Share Offering Warrants	$ 255	$ 158	$ 27	$ 440
2020 Share Offering Warrants	3,847	2,993	62	6,902
Abacus Health acquired	202	135	(54)	283
	$ 4,304	$ 3,286	$ 35	$ 7,625

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

	March 31, 2021	December 31, 2020
Valuation assumptions:		
Expected volatility	86.3 %	86.1 %
Expected term (years)	0.7-1.2	0.1-1.5
Risk-free interest	0.1 %	0.1 %
Value of underlying share	$ 4.50	$ 3.29

16. Cultivation liabilities

Details of the Company's cultivation liabilities are as follows:

	Short-term	Long-term	Total
December 31, 2020	$ 9,304	$ 2,513	$ 11,817
Payments	(3,320)	—	(3,320)
Interest	23	—	23
Conversion to short-term borrowings	2,513	(2,513)	—
March 31, 2021	$ 8,520	$ —	$ 8,520

Scheduled maturities of amounts owed are as follows:

	Within 1 year	1 to 5 years	Total
Cultivation liabilities	$ 8,549	$ —	$ 8,549
Imputed interest	(29)	—	(29)
March 31, 2021	$ 8,520	$ —	$ 8,520

17. Shareholders' equity

(a) Issued and outstanding

Changes for the three months ended March 31, 2021 are as follows:

	Proportional voting shares	Common shares outstanding	Treasury shares	Number of common shares issued
December 31, 2020	81,177	108,895,607	(1,835,370)	107,060,237
Exercise of common stock options	—	8,261	—	8,261
Exercise of common stock warrants	—	98,788	—	98,788
Conversion to common voting shares	(3,961)	1,584,410	—	1,584,410
Restricted share award vesting	—	61,548	—	61,548
Harmony Hemp share issuance	—	169,046	—	169,046
March 31, 2021	77,216	110,817,660	(1,835,370)	108,982,290

Pursuant to the terms of the acquisition of Abacus Health (see below), the Company was required to deliver 169,046 common shares to former note holders of Harmony Hemp during the three months ended March 31, 2021.

During the three months ended March 31, 2021, certain existing shareholders cancelled and converted their proportional voting shares to common shares and exercised common stock options and warrants. Also during the three months ended March 31, 2021 restricted share awards vested.

(b) Loss 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.

	Three months ended March 31, 2021	Three months ended March 31, 2020
Weighted average number of common shares - basic	139,697,474	107,436,794
Dilutive effect of stock options and awards	—	—
Weighted average number of common shares - diluted	139,697,474	107,436,794
Loss per share - basic	$ (0.10)	$ (0.11)
Loss per share - diluted	$ (0.10)	$ (0.11)
Weighted average common share equivalents excluded due to anti-dilutive effect on diluted earnings per share	3,409,890	5,223,177

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

(c) Stock incentive plans

Share-based compensation expense recognized for the three months ended March 31, 2021, and March 31, 2020, was $1,610 and $266, respectively. Share-based compensation expense attributable to Harmony Hemp contingent equity compensation (note 17a) for the three months ended March 31, 2021 was $389.

i. Stock options

1. 2015 and 2018 Plan stock options

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

	Three months ended March 31,	
	2021	2020
Valuation assumptions:		
Expected volatility	86.5 %	84.1% - 86.6%
Expected term (years)	5.5-7.0	6.3
Risk-free interest rate	1.7 %	0.5% - 1.4%
Value of underlying share	$4.70	$4.09 - $7.13

Detail of the number of stock options outstanding for the three months ended March 31, 2021 under the 2015 and 2018 plans is as follows:

	Number of shares under option		Weighted average exercise price (USD)
Balance at December 31, 2020	3,330,206	$	3.93
Granted	793,132		4.70
Exercised	(8,261)		3.64
Forfeited (and expired)	(67,679)		10.91
Balance at March 31, 2021	4,047,398	$	3.96
Exercisable at March 31, 2021	2,005,111	$	2.32

For the balance at March 31, 2021, weighted average remaining contractual life is $8.22. The weighted average grant-date fair value of options granted during the three months ended March 31, 2021 was $4.70.

The weighted average share price at the date of exercise of options exercised during the three months ended March 31, 2021 was $4.85.

ii. Restricted share awards

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, 2020	456,675	$ 6.47
Granted	581,216	4.70
Forfeited and cancelled	(25,704)	4.78
Vested	(61,548)	5.15
Balance at March 31, 2021	950,639	$ 5.51

(d) Warrants

The following summarizes the number of warrants outstanding as of March 31, 2021:

	Balance at December 31, 2020				Balance at March 31, 2021	
	Number of warrants outstanding	Granted	Exercised	Expired	Number of warrants outstanding	Weighted average exercise price
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 warrants	1,892,872	—	(98,788)	(560,944)	1,233,140	15.10
	10,142,872	—	(98,788)	(560,944)	9,483,140	$ 9.10

For the balance of outstanding warrants at March 31, 2021, the weighted average remaining contractual life is 1.15 years.

18. Expenses by nature

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Cost of sales	$ 9,770	$ 6,466
Inventory expensed to cost of sales	7,213	4,699
Inventory provision, net	333	(5)
Other production costs	1,437	1,475
Depreciation and amortization	787	297
General and administrative	$ 14,968	$ 16,031
Salaries and wages	4,464	4,299
Payroll taxes and employee benefits	2,839	1,971
Legal and professional services	1,973	4,428
Other operating expenses	3,208	3,965
Depreciation and amortization	2,484	1,368
Sales and marketing	$ 7,720	$ 6,532
Advertising, promotions and selling costs	3,656	3,475
Salaries and wages	2,786	2,361
Payroll taxes and employee benefits	699	137
Other operating expenses	541	520
Depreciation and amortization	38	39
Research and development	$ 1,308	$ 766
Salaries and wages	720	415
Payroll taxes and employee benefits	238	112
Other operating expenses	237	139
Depreciation and amortization	113	100

19. Income taxes

(a) Components of income taxes

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

	Three months ended March 31,	
	2021	2020
U.S. federal	$ —	$ 5,463
State and local	25	824
Foreign	9	—
	$ 34	$ 6,287

(b) Tax rate reconciliation

Income tax expense attributable to loss from continuing operations for the three months ended March 31, 2021 and 2020 differed from the amounts computed by applying the U.S. federal income tax rates of 21%, as a result of the following:

	2021	2020
Computed "expected" tax expense	21.0%	21.0%
State income taxes, net of federal tax benefit	2.7%	3.1%
Permanent items	(3.3%)	0.9%
Change in tax rate	0.0%	(0.1%)
Inability to recognize current year deferred tax assets	(23.9%)	(26.4%)
Other, net	3.3%	1.3%
Effective tax rate before discrete item	(0.2%)	(0.2%)
Derecognize deferred tax assets	0.0%	(120.4%)
Effective tax rate after discrete item	(0.2%)	(120.6%)

(c) Uncertain tax position

During the three months ended March 31, 2021, the Company did not record a provision for uncertain tax positions.

20. 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

At March 31, 2021, the Company's financial assets include cash and cash equivalents, trade and other receivables, notes receivable, and the SBH Purchase Option. Financial liabilities include accounts payable and accrued liabilities, cultivation liabilities, notes payable, lease obligations and warrant liabilities.

(b) Market Risk

The Company does not have any debt instruments outstanding with variable interest rates at March 31, 2021.

(c) Credit risk

The Company's maximum exposure to credit risk is limited to the carrying amount of the financial assets as summarized below:

	March 31, 2021	December 31, 2020
Trade and other receivables, net	$ 5,686	$ 6,274
Note receivable	1,500	1,753
Note receivable - related party	1,012	1,004
Deposits - current	1,111	2,742
Deposits - long term	813	3,214
	$ 10,122	$ 14,987

The provision matrix below shows the excepted 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	4.69 %	13.27 %	22.82 %	16.05 %	9.87 %
Gross carrying amount	$ 3,393	$ 505	$ 149	$ 2,262	$ 6,309
Loss allowance provision, end of the period	$ 159	$ 67	$ 34	$ 363	$ 623

(d) Liquidity risk

The Company's cash balances at March 31, 2021 and December 31, 2020 were $35,048 and $52,803, respectively. Net working capital at March 31, 2021 and December 31, 2020 was $95,567 and $113,627, respectively.

21. Fair value measurement

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments.

	March 31, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash	$ 35,048	$ 35,048	$ 52,803	$ 52,803
Trade and other receivables, net	5,686	5,686	6,274	6,274
Note receivable	1,500	1,500	1,753	1,753
Note receivable - related party	1,012	1,012	1,004	1,004
SBH Purchase Option	8,000	8,000	—	—
	$ 51,246	$ 51,246	$ 61,834	$ 61,834
Financial liabilities				
Accounts payable and accrued liabilities	$ 14,065	$ 14,065	$ 16,410	$ 16,410
Cultivation liabilities	8,520	8,520	11,817	11,817
Notes payable	431	431	773	773
Lease obligations	21,970	21,970	22,582	22,582
Warrant liabilities	7,625	7,625	4,304	4,304
	$ 52,611	$ 52,611	$ 55,886	$ 55,886

22. Capital management

The amounts included in the Company's capital for the relevant period are as follows:

March 31, 2021	$242,271
December 31, 2020	$254,229

To support capital management, the Company has a an asset backed line of credit with J.P. Morgan for $10,000 with an option to increase the line of credit to $20,000 with a 3-year maturity. As of March 31, 2021, the Company has not yet drawn on the line of credit, but could draw up to $10,000 at its discretion.

23. Related party transactions

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 three months ended March 31, 2021, the Company made purchases of $1,537 from Aidance. Payment terms on purchases are due 30 days after receipt. As of March 31, 2021, the Company has a liability of $530 due to Aidance presented in accounts payable in the unaudited interim condensed consolidated statements of financial position.

On March 2, 2021, the Company entered into the SBH Purchase Option with Stanley Brothers USA (note 10). The SBH Purchase Option was purchased for total consideration of $8,000. Certain founders of the Company, who are also employees, are the majority shareholders of Stanley Brothers USA.

On April 16, 2021, the Company extended the name and likeness and license agreement with Leeland & Sig LLC d/b/a Stanley Brothers Brand Company (note 25).

24. Remuneration of key management of the Company

The remuneration awarded to senior key management includes the following:

	Three months ended March 31,	
	2021	2020
Wages and bonus	$ 1,216	$ 1,359
Benefits	31	62
Share-based compensation	806	196
	$ 2,053	$ 1,617

25. Subsequent events

The Company has evaluated subsequent events through May 11, 2021, which is the date the financial statements were available to be issued.

On April 16, 2021, pursuant to an amending agreement, the name and likeness and license agreement between the Company and Leeland & Sig LLC d/b/a Stanley Brothers Brand Company was extended for a period of one year, expiring July 31, 2022. In addition, the Company executed a consulting agreement which extended the service arrangements of the seven Stanley brothers for a period of one year, expiring July 31, 2022. Upon execution of the consulting agreement, the Company paid $2,081 to Leeland & Sig LLC d/b/a Stanley Brothers Brand Company, on behalf of the Stanley brothers, as consideration for the consulting services to be provided to the Company over the term of the agreement and certain restrictive covenants.

On May 5, 2021, the Company filed the final short form base shelf prospectus, which will allow the Company to qualify the distribution by way of prospectus in Canada of up to C$350,000 of common shares, preferred shares, warrants, subscription receipts, units, or any combination thereof, during the 25-month period that the base shelf prospectus is effective. The specific terms of any offering under the base shelf prospectus will be established in a prospectus supplement, which will be filed with the applicable Canadian securities regulatory authorities in connection with any such offering.