

CHARLOTTE'S WEB HOLDINGS, INC.

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Expressed in US Dollars)

UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL
STATEMENTS
For the Three and Nine Months Ended September 30, 2018 and 2017

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CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of United States dollars)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash	\$ 79,359	\$ 7,056
Trade and other receivables (note 4)	3,456	2,129
Inventories (note 6)	14,396	4,808
Prepaid expenses and other current assets	4,299	436
	101,510	14,429
Non-current assets:		
Property and equipment, net (note 7)	4,915	3,373
Deferred tax assets (note 15)	3,167	549
Loan due from related party (note 5)	107	107
Other long-term assets (note 8)	683	996
	\$ 110,382	\$ 19,454
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,675	\$ 948
Accrued liabilities (note 12)	6,838	3,343
Deferred revenue	438	490
Income taxes payable	53	157
Convertible note (note 10)	-	1,040
Current portion of notes payable (note 11)	9	15
Current portion of finance lease obligations (note 9)	282	299
	11,295	6,292
Non-current liabilities:		
Long-term note payable (note 11)	14	28
Long-term finance lease obligations (note 9)	188	397
Deferred rent	76	98
Other long-term liabilities (note 12)	2,643	-
	14,216	6,815
Shareholders' equity:		
Share capital	79,222	5,835
Contributed surplus (note 13)	2,271	787
Retained earnings	14,673	6,017
	96,166	12,639
Commitments (note 9, 10, 11, 12)		
	\$ 110,382	\$ 19,454

Approved by the Board of Directors

/S/ John Held

Director (signed)

/S/ William West

Director (signed)

CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

(In thousands of United States dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue	\$ 17,736	\$ 11,274	\$ 48,046	\$ 27,454
Cost of sales (note 14)	3,967	2,318	10,990	6,877
Gross profit before loss on fair value of biological assets	13,769	8,956	37,056	20,577
Realized fair value amounts included in inventory sold (note 6)	(147)	(50)	(600)	(167)
Unrealized fair value loss on growth of biological assets (note 6)	1,622	789	1,622	789
Gross profit	12,294	8,217	36,034	19,955
Expenses:				
General and administrative (note 14)	5,272	3,214	14,252	7,274
Sales and marketing (note 14)	3,910	1,507	8,385	4,244
Research and development	132	157	386	380
Initial public offering related costs	473	-	1,332	-
	9,787	4,878	24,355	11,898
Operating income	2,507	3,339	11,679	8,057
Financing costs	(31)	(69)	(160)	(180)
Interest income	138	7	191	9
Other income	196	-	196	-
Income before taxes	2,810	3,277	11,906	7,886
Income taxes (note 15)	(987)	(1,250)	(3,250)	(2,769)
Net income (loss) and comprehensive income (loss)	\$ 1,823	\$ 2,027	\$ 8,656	\$ 5,117
Weighted average number of common shares - basic (note 13)	83,472,950	79,439,113	80,792,665	79,144,336
Weighted average number of common shares - diluted (note 13)	91,501,078	84,626,894	86,937,632	84,332,118
Earnings per share - basic (note 13)	\$ 0.02	\$ 0.03	\$ 0.11	\$ 0.06
Earnings per share - diluted (note 13)	\$ 0.02	\$ 0.02	\$ 0.10	\$ 0.06

CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of United States dollars)

Nine months ended September 30, 2017	Share capital	Contributed surplus	Retained earnings (deficit)	Total
Balance - December 31, 2016	\$ 5,835	\$ 327	\$ (1,458)	\$ 4,704
Share-based compensation expense (note 13f)	-	294	-	294
Net income	-	-	5,117	5,117
Balance - September 30, 2017	\$ 5,835	\$ 621	\$ 3,659	\$ 10,115

Nine months ended September 30, 2018	Share capital	Contributed surplus	Retained earnings (deficit)	Total
Balance - December 31, 2017	\$ 5,835	\$ 787	\$ 6,017	\$ 12,639
Initial public offering (note 1)	71,958	-	-	71,958
Private placement (note 1)	4,256	-	-	4,256
Exercise of stock options (note 13f)	42	-	-	42
Issuance of broker stock warrants (note 13g)	(845)	845	-	-
Exercise of broker stock warrants (note 13g)	1,782	-	-	1,782
Share-based compensation expense (note 13f)	-	639	-	639
Share issuance costs	(3,806)	-	-	(3,806)
Net income	-	-	8,656	8,656
Balance - September 30, 2018	\$ 79,222	\$ 2,271	\$ 14,673	\$ 96,166

CHARLOTTE'S WEB HOLDINGS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of United States dollars)

	Nine months ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 8,656	\$ 5,117
Items not involving cash:		
Depreciation	951	475
Loss from change in fair value of biological assets	1,622	621
Accretion on convertible note	71	105
Loss from change in fair value of convertible note	(66)	(63)
Allowance for doubtful accounts	119	(13)
Write down obsolete inventory	181	-
Deferred rent	(22)	(28)
Share-based compensation	639	294
Gain on sale of assets	(28)	-
Deferred income taxes	(2,617)	(13)
Changes in working capital:		
Trade and other receivables	(1,446)	(691)
Inventories	(11,391)	(1,031)
Prepaid expenses and other current assets	(3,863)	(307)
Accounts payable	2,727	(142)
Accrued liabilities	3,494	1,473
Income taxes	(104)	(819)
Deferred revenue	(52)	(130)
Other long-term liabilities	2,643	-
	1,514	4,848
Cash flows from investing activities:		
Purchases of property and equipment	(2,503)	(1,404)
Proceeds from sale of assets	38	-
Other long-term assets	313	(496)
	(2,152)	(1,900)
Cash flows from financing activities:		
Proceeds from initial public offering	71,958	-
Proceeds from private placement	4,256	-
Proceeds from stock warrant exercise	1,782	-
Payments on notes payable	(20)	(10)
Payments on finance lease obligations	(226)	(159)
Payments on convertible note	(1,000)	-
Debt settlement	(45)	-
Share issuance costs	(3,806)	-
Proceeds from sale of common stock	42	-
Proceeds from notes payable	-	1,038
	72,941	869
Increase in cash	72,303	3,817
Cash, beginning of year	7,056	1,090
Cash, end of period	\$ 79,359	\$ 4,907
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 31	\$ 73

CHARLOTTE'S WEB HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2018 and 2017

1. Company overview

Charlotte's Web Holdings, Inc. and its subsidiary, Charlotte's Web, Inc., (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 Canadian Securities Exchange (CSE) under the symbol "CWEB."

The Company's head office is located at 2425 55th Street, Suite 200, Boulder, Colorado, 80301, United States and its registered and records office is located at 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia V6C 2Z7, Canada.

Reorganization

The Company was incorporated under the Business Corporations Act (British Columbia) on May 18, 2018, as Stanley Brothers Holdings Inc. On July 12, 2018, the Company changed its name to Charlotte's Web Holdings, Inc. The Company was created to indirectly acquire and hold all of the shares of CWB Holdings, Inc. ("CWB").

Stanley Brothers, Inc. was incorporated under the laws of Delaware on June 15, 2018 and is a wholly owned subsidiary of the Company. In conjunction with the initial public offering, Stanley Brothers, Inc. changed its name to Charlotte's Web, Inc. The registered office of Charlotte's Web, Inc. is located at Corporation Service Company, 251 Little Falls Drive, City of Wilmington, County of New Castle, Delaware 19808, United States.

CWB was incorporated under the Colorado Business Corporation Act ("CBCA"). CWB was initially formed December 8, 2013 under the name Stanley Brothers Social Enterprises, LLC, and on June 19, 2015, changed its name to CWB Holdings, LLC. On December 30, 2015, it converted from a limited liability company to a corporation pursuant to Colorado law and changed its name to CWB Holdings, Inc. The registered office and head office of CWB are located at 2425 55th Street, Suite 200, Boulder, Colorado 80301, United States.

Immediately following the Company's initial public offering, the Company and CWB completed the following reorganization steps (collectively, the "Reorganization") pursuant to a merger agreement between the Company, CWB and Charlotte's Web, Inc.

- (1) CWB merged into Charlotte's Web, Inc. (formerly Stanley Brothers, Inc.).
- (2) Shareholders of CWB exchanged their shares in CWB for shares in the Company. The shares of common stock of CWB owned as of immediately prior to the Reorganization were converted into the right to receive from the Company one Proportionate Voting Share for every 44.444 shares of common stock of CWB. The ratio was intended to give effect to an approximate 9:1 split of common stock of CWB in connection with the exchange of such stock for Proportionate Voting Shares.
- (3) All the issued and outstanding shares of CWB were cancelled and the shareholders of CWB ceased to have any rights other than the right to receive consideration of any rights of dissenting shareholders.

CWB had one wholly owned subsidiary which operated under the name of Stanley Brothers Social Enterprises, LLC ("SBSE") through its dissolution date of April 17, 2018.

Initial Public Offering and Private Placement

On August 30, 2018, the Company completed its initial public offering by issuing 13,312,150 of its common shares ("Common Shares") in the capital of the Company at a price of C\$7.00 (US\$5.41) per Common Share. Aggregate proceeds, net of underwriting fees of C\$6,103 (US\$4,713), were C\$87,082 (US\$67,245).

On September 5, 2018, the Company completed a non-brokered private placement ("Private Placement") of 802,216 Common Shares at a price of C\$7.00 (US\$5.30) per Common Share. Aggregate proceeds were C\$5,616 (US\$4,256). The private placement was completed to accommodate certain investors who could not participate in the initial public offering due to their jurisdictions outside of 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, 2017.

The unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2018 and 2017 were approved and authorized for issue by the board of directors on November 20, 2018.

(b) Measurement basis

The unaudited interim condensed consolidated financial statements have been prepared mainly on a historical cost basis. Other measurement bases used are described in the applicable notes.

(c) Basis of consolidation

The Company's unaudited interim condensed consolidated financial statements consolidate those of the parent company and its wholly owned subsidiary, Charlotte's Web, Inc. In addition, the Company's unaudited interim condensed consolidated financial statements consolidate those of the parent company and its wholly owned subsidiary, SBSE, through its dissolution date of April 17, 2018.

Inter-company balances and transactions are eliminated in preparing the consolidated financial statements. The accounting policies of the subsidiary 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 consolidated

financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 9 and IFRS 15, which are described in note 3.

(e) Functional and presentation currency

The consolidated financial statements are presented in United States dollars, which is the Company's functional currency. All financial information presented in United States dollars has been rounded to the nearest thousand.

3. Adoption of new accounting standards and policies

IFRS 9, "Financial Instruments: Classification and Measurement"

IFRS 9, "Financial Instruments: Classification and Measurement", addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Company adopted the new standard on January 1, 2018.

The Company assessment of the new guidance was determined to not have a significant impact on the classification and measurement of its financial instruments for the following reasons:

- The Company does not currently hold any financial assets that would be accounted for differently under the new standard;
- The Company does not currently have any outstanding hedges that would require reassessment under the updated hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. This will apply to the Company's trade and other receivables. The financial performance and disclosure were not materially affected by the application of the standard.

IFRS 15, "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" (IFRS 15), which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and several revenue-related interpretations. IFRS 15 establishes a new model for revenue earned from a contract with a customer. Specific guidance is given on identifying separate performance obligations in the contract and allocating the transaction price to the separate performance obligations in an amount that reflects total consideration expected during the term of the contract. In addition, the standard requires additional disclosures about the nature, amount, timing and uncertainty of revenue and related cash flows. This standard is effective for annual periods beginning on or after January 1, 2018.

The Company adopted the new standard on January 1, 2018 using the modified retrospective method, without restatement of the comparative figures. The Company's contracts are primarily short-term in nature and generally do not include significant multiple deliverables.

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The Company reviewed its accounting policies and practices to identify potential differences that would result from applying the guidance. The new guidance requires the Company to estimate variable consideration and include in revenue amounts for which it is probable that a significant revenue reversal will not occur. The adoption of the guidance did not have a material impact on the timing or measurement of the Company's revenue recognition.

4. Trade and other receivables

Trade and other receivables consist of the following:

	Septmeber 30, 2018	December 31, 2017
Trade	\$ 3,139	\$ 2,126
Other miscellaneous receivables	512	79
Expected credit losses ("ECLs, see Note 16)	(195)	(76)
	\$ 3,456	\$ 2,129

The Company provides for 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:

	September 30, 2018	December 31, 2017
Current	\$ 2,617	\$ 1,561
Aged 1-30 days past due	599	466
Aged 31-60 days past due	178	45
Aged >60 days past due	257	133
Expected credit losses	(195)	(76)
	\$ 3,456	\$ 2,129

5. Loan due from related party

At September 30, 2018 and December 31, 2017, the Company had a non-interest bearing, unsecured, receivable due from one of the founders of the Company in the amount of \$107. The Company assesses the receivable as fully collectible. There was no change in credit risk of this receivable during the period.

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6. Inventories

Inventories consist of the following:

	September 30, 2018	December 31, 2017
Harvested hemp	\$ 686	\$ 1,582
Raw materials	6,606	1,622
Finished goods	1,870	1,857
Biological assets	5,491	-
	14,653	5,061
Less: inventory reserve	(257)	(253)
	\$ 14,396	\$ 4,808

An inventory provision is estimated by management and is included in cost of sales. For the nine-month period ended, September 30, 2018, there were \$181 additional reserves and \$185 of write-offs against the reserve. For the nine-month period ended, September 30, 2017, there were no changes to the inventory reserves and no inventory write-offs. The amounts of inventory expensed during the nine-month periods ended September 30, 2018 and 2017 is \$7,582 and \$4,074, respectively.

The Company grows its industrial hemp (i) on leased 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 hemp products is generally from May through early October of each year. All harvesting of plants is complete prior to year-end. 100% of the Company's hemp is currently consumed internally for its finished goods products and is not sold in its raw or processed form. As of September 30, 2018, the 2018 crop had not yet been harvested and therefore was included at fair value in 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 biological assets at their fair value less costs to sell. This 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 any 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:

- 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 future selling prices
- Stage of growth – represents the weighted average number of weeks out of the 20-week growing cycle that biological assets have reached as of the measurement date

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- Yield by plant – represents the expected number of pounds of harvested hemp inventory which are expected to be obtained from each harvested plant
- Post-harvest costs – calculated as the cost per pound of harvested hemp to complete the sale of hemp plants post-harvest, consisting of the cost of direct and indirect materials and labor related to labelling and packaging

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

	September 30, 2018	September 30, 2017	10% Change as at 9/30/2018	10% Change as at 9/30/2017
Average selling price	\$ 13.47	\$ 20.12	\$ 573,000	\$ 36,000
Stage of growth	18 weeks	18 weeks	\$ 139,000	\$ 105,000
Yield of plant	426 lbs	63 lbs	\$ 162,000	\$ 257,000
Post-harvest costs	\$ 2.60	\$ 2.64	\$ 111,000	\$ 17,000

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

	Biological assets
Carrying amount, December 31, 2017	\$ -
Production costs	2,517
Purchases (third-party farming)	4,596
Unrealized changes in fair value less costs to sell due to biological transformation	(1,622)
Carrying amount, September 30, 2018	\$ 5,491

	Biological assets
Carrying amount, December 31, 2016	\$ -
Production costs	1,572
Purchases (third-party farming)	724
Unrealized changes in fair value less costs to sell due to biological transformation	(789)
Carrying amount, September 30, 2017	\$ 1,507

The effect of changes in fair value of biological assets and inventory during the nine-months include:

	2018	2017
Unrealized change in fair value of biological assets	\$ 1,622	\$ 789
Realized fair value increments on inventory sold during the year	(600)	(167)
Net effect of changes in fair value of biological assets and inventory	\$ 1,022	\$ 622

The effect of changes in fair value of biological assets and inventory during the three-months include:

	2018	2017
Unrealized change in fair value of biological assets	\$ 1,622	\$ 789
Realized fair value increments on inventory sold during the year	(147)	(50)
Net effect of changes in fair value of biological assets and inventory	\$ 1,475	\$ 739

CHARLOTTE'S WEB HOLDINGS, INC.
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7. Property and equipment

Details of the Company's property and equipment and their carrying amounts are as follows:

	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Software	Under construction	Total
Cost						
At December 31, 2016	\$ 1,302	\$ 210	\$ 236	\$ 19	\$ -	\$ 1,767
Additions	2,055	102	171	174	142	2,644
Disposals	-	(5)	-	-	-	(5)
At December 31, 2017	3,357	307	407	193	142	4,406
Additions	1,516	138	276	374	199	2,503
Disposals	(38)	-	-	-	-	(38)
Transfer under construction	-	-	142	-	(142)	-
At September 30, 2018	\$ 4,835	\$ 445	\$ 825	\$ 567	\$ 199	\$ 6,871

	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Software	Under construction	Total
Accumulated depreciation						
At December 31, 2016	\$ (253)	\$ (41)	\$ (36)	\$ (8)	\$ -	\$ (338)
Depreciation for the year	(575)	(55)	(58)	(8)	-	(696)
Disposals	-	1	-	-	-	1
At December 31, 2017	(828)	(95)	(94)	(16)	-	(1,033)
Depreciation for the period	(688)	(57)	(102)	(104)	-	(951)
Disposals	28	-	-	-	-	28
At September 30, 2018	\$ (1,488)	\$ (152)	\$ (196)	\$ (120)	\$ -	\$ (1,956)

	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Software	Under construction	Total
Net book value						
At December 31, 2017	\$ 2,529	\$ 212	\$ 313	\$ 177	\$ 142	\$ 3,373
At September 30, 2018	\$ 3,347	\$ 293	\$ 629	\$ 447	\$ 199	\$ 4,915

Depreciation expense for the three months ended September 30, 2018 and 2017 was \$375 and \$220, respectively. Depreciation expense for the nine months ended September 30, 2018 and 2017 was \$951 and \$475, respectively.

The Company has certain equipment held under finance lease agreements. As of September 30, 2018, and December 31, 2017, the net carrying amount included in machinery and equipment is \$912 and \$1,205, respectively.

The Company financed the purchase of a vehicle under a note payable. As of March 31, 2018, the note was paid in full. At December 31, 2017, the net carrying amount included in machinery and equipment is \$22.

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8. Other long-term assets

Other long-term assets consist of long-term deposits on various leases for equipment and premises. No impairments were recorded for the nine months ended September 30, 2018 or 2017.

9. Leases

(a) Obligations under finance leases

Future annual minimum payments due under finance lease obligations are as follows:

	within 1 year	1 to 5 years	Total
September 30, 2018			
Future minimum lease payments	\$ 336	\$ 199	\$ 535
Finance charges	(54)	(11)	(65)
Present value of minimum lease payments	\$ 282	\$ 188	\$ 470

(b) Obligations under operating leases

Future annual minimum payments due under operating lease obligations are as follows:

	within 1 year	1 to 5 years	> 5 years	Total
September 30, 2018	\$ 1,195	\$ 2,026	\$ 13	\$ 3,234

Rent expense for the nine months ended 2018 was approximately \$1,118.

10. Convertible note

Details of the Company's convertible note are as follows:

	Total
January 1, 2018	\$ 1,040
Accretion	71
Fair value adjustment	(66)
Payment	(1,000)
Debt settlement	(45)
September 30, 2018	\$ -
	Total
January 1, 2017	\$ -
Conversion option liability	314
Derivative liability	671
Accretion	105
Fair value adjustment	(63)
September 30, 2017	\$ 1,027

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The Company repaid its outstanding \$1.0 million convertible note on May 31, 2018.

For the three months ending September 30, 2017, total accretion expense, related to the convertible note was \$38. There was no accretion expensed for the three months ending September 30, 2018. For the nine months ending September 30, 2018 and 2017, total accretion expensed related to the convertible note was \$71 and \$105, respectively.

For the three months ending September 30, 2017, total interest paid and expensed, related to the convertible note was \$38. There was no interest paid and expensed for the three months ending September 30, 2018. For the nine months ending September 30, 2018 and 2017, total interest paid and expensed, related to the convertible note was \$80 and \$109, respectively.

11. Notes payable

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

	September 30, 2018	December 31, 2017
Equipment notes payable	\$ 23	\$ 43
Less current portion	(9)	(15)
	\$ 14	\$ 28

The following tables detail the changes in the Company's notes payable balances:

	Long-term borrowings	Short-term borrowings	Total
January 1, 2018	\$ 28	\$ 15	\$ 43
Repayment	(7)	(13)	(20)
Conversion to short-term borrowings	(7)	7	-
September 30, 2018	\$ 14	\$ 9	\$ 23

For the three months ending September 30, 2018, total interest paid and expensed, related to the notes payable was less than \$1. For the three months ending September 30, 2017, total interest paid and expensed, related to the notes payable was \$3. For the nine months ending September 30, 2018 and 2017, total interest paid and expensed, related to the notes payable was \$1 and \$21, respectively.

Scheduled maturities of notes payable were as follows:

	within 1 year	1 to 5 years	Total
September 30, 2018	\$ 9	\$ 14	\$ 23

12. Other Long-Term Liabilities

Other long-term liabilities consist of amounts owed to third-party farming operations. The total amount to be paid is based on the potency and yield of the crops. The amounts are paid over multiple years as stated in the contracts with the third-party farming operations. Current obligations are classified in accrued liabilities.

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Future payments due under contract obligations are as follows:

	within 1 year	1 to 5 years	Total
September 30, 2018	\$ 1,067	\$ 2,643	\$ 3,710

13. Shareholders' Equity

The Company's share capital was reorganized as a result of the initial public offering (note 1). The Company's share capital consists of two classes of issued and outstanding shares: Common Shares and Proportionate Voting Shares; 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. Specifics on rights associated with outstanding shares can be found in the Company's final long-form prospectus filed on August 24, 2018 on SEDAR at 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.

(b) Issued and outstanding

Shares issued and outstanding for the period of January 1, 2018 to June 30, 2018 were restated under the new organizational structure as follows:

	Before Reorganization			After Reorganization		
	Number of shares outstanding	Treasury shares	Number of shares issued	Number of shares outstanding	Treasury shares	Number of shares issued
January 1, 2018	9,043,280	(203,928)	8,839,352	81,390,203	(1,835,370)	79,554,833
Exercise of stock options	8,333	-	8,333	74,998	-	74,998
Cancelled	(107,857)	-	(107,857)	(970,723)	-	(970,723)
June 30, 2018	8,943,756	(203,928)	8,739,828	80,494,478	(1,835,370)	78,659,108

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Changes for the nine months ending September 30, 2018, as stated in restated share amounts, is as follows:

	Number of shares outstanding	Treasury shares	Proportional voting shares	Number of shares issued
January 1, 2018	81,390,203	(1,835,370)	-	79,554,833
Exercise of stock options	74,998	-	-	74,998
Cancelled	(970,723)	-	-	(970,723)
Conversion to proportional voting shares	(75,526,258)	-	188,816	(75,337,442)
Initial public offering	13,312,150	-	-	13,312,150
Private placement	802,216	-	-	802,216
Broker stock warrant exercise	333,011	-	-	333,011
September 30, 2018	19,415,597	(1,835,370)	188,816	17,769,043

On June 4, 2018, an existing employee and shareholder of the Company forfeited 970,723 shares due to a change in employment status.

On August 30, 2018, as discussed in note 1, the shareholders of CWB exchanged their shares in CWB for proportional voting shares in the Company. One proportional voting share is equal to 400 common shares.

On August 30, 2018, the Company issued 13,312,150 of common shares in conjunction with the initial public offering (note 1).

On September 5, 2018, the Company issued 802,216 of common shares in conjunction with the Private Placement (note 1).

(c) Contributed surplus

	September 30, 2018	December 31, 2017
Balance, beginning of period	\$ 787	\$ 327
Share-based compensation expense	639	460
Broker stock warrants issuance (note 13g)	845	
Balance, end of period	\$ 2,271	\$ 787

(d) Earnings per share

Basic and diluted earnings per share have been calculated using net income. Prior periods have been converted into post stock split shares for comparability.

The reconciliation of the weighted average number of shares for the purpose of diluted earnings per share to the weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

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	Nine months ended September 30,	
	2018	2017
Weighted average number of common shares - basic	80,792,665	79,144,336
Shares deemed to be issued in respect to share-based payments and warrants	6,144,967	5,187,782
Weighted average number of common shares - diluted	86,937,632	84,332,118
Earnings per share - basic	\$ 0.11	\$ 0.06
Earnings per share - diluted	\$ 0.10	\$ 0.06

	Three months ended September	
	2018	2017
Weighted average number of common shares - basic	83,472,950	79,439,113
Shares deemed to be issued in respect to share-based payments and warrants	8,028,128	5,187,781
Weighted average number of common shares - diluted	91,501,078	84,626,894
Earnings per share - basic	\$ 0.02	\$ 0.03
Earnings per share - diluted	\$ 0.02	\$ 0.02

(e) Founder options

At September 30, 2018 and December 31, 2017, the number of common shares under option and exercisable was 5,187,904 (converted from 576,429 prior to Reorganization). Weighted average remaining contractual life is 1.29 years as of September 30, 2018 and 4.04 years as of December 31, 2017.

(f) 2015 Stock Option Plan

Share-based compensation expense recognized for the three months ended September 30, 2018, and 2017, was \$219 and \$136, respectively. Share-based compensation expense recognized for the nine months ended September 30, 2018, and 2017, was \$639 and \$294, respectively.

The Company recognizes compensation expense for share option grants based on the fair value at the date of grant using the Black-Scholes option pricing model.

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

	Nine months ended September 30,	
	2018	2017
Valuation assumptions:		
Expected annualized volatility	54.0%	56.0%
Expected term (years)	4.64	6.00
Risk-free interest rate	2.2%	2.9%

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Share options outstanding for the period of January 1, 2018 to June 30, 2018 were restated under the new organizational structure as follows:

	Number of shares under option (before reorganization)	Number of shares under option (after reorganization)
Balance at January 1, 2018	727,192	6,544,793
Granted	275,000	2,475,025
Exercised	(8,333)	(74,998)
Forfeited	(77,500)	(697,507)
Expired	(7,500)	(67,501)
Balance at June 30, 2018	908,859	8,179,812

Changes for the nine months ending September 30, 2018, as stated in post reorganization share amounts, regarding the share options outstanding, is as follows:

	Number of shares under option	Weighted average exercise price (USD)
Balance at January 1, 2018	6,544,793	\$ 0.56
Granted	2,519,425	0.64
Exercised	(74,998)	0.56
Forfeited	(847,511)	0.56
Expired	(67,521)	0.56
Balance at September 30, 2018	8,074,188	\$ 0.58
Exercisable at September 30, 2018	3,450,331	\$ 0.51

Weighted average remaining contractual life is 8.77 years. The weighted average grant-date fair value of options granted during the nine months ended September 30, 2018 was \$0.58.

(g) Broker Stock Warrants

Broker stock warrants were issued in conjunction with the initial public offering (note 1). Each warrant entitles its holder to purchase one common share. The Company accounts for common stock warrants based on the fair market value of the instrument using the Black-Scholes option pricing model utilizing certain weighted average assumptions such as expected stock price volatility, term of the options and warrants, risk-free interest rates, and expected dividend yield at the grant date.

Total warrants issued were 493,350 at a fair market value of \$1.71 per share totaling \$845 as reported in share capital and the corresponding amount in contributed surplus.

The following assumptions were used to determine the fair value of common stock warrant grants.

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	Nine months ended September 30, 2018
Valuation assumptions:	
Expected annualized volatility	54.0%
Expected term (years)	2.00
Risk-free interest rate	2.6%

Details of the number of common share purchase warrants outstanding is as follows:

	Grant Date	Expiry Date	Exercise Price	Granted	Expired	Exercised	Number of Warrants Outstanding
December 31, 2017				-	-	-	-
	8/30/2018	8/30/2020	C\$7.00	493,350	-	(333,011)	160,339
September 30, 2018				493,350	-	(333,011)	160,339

On September 14, 2018, 333,011 warrants were exercised at a price of C\$7.00 (average US price of \$5.53) per share for total proceeds of \$1,782.

14. Expenses by nature

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Cost of sales	\$ 3,967	\$ 2,318	\$ 10,990	\$ 6,877
Inventory expensed to cost of sales	2,408	1,289	7,582	4,074
Other production costs	1,306	1,029	2,640	2,803
Depreciation and amortization	253	-	768	-
General and administrative	\$ 5,272	\$ 3,214	\$ 14,252	\$ 7,274
Personnel	2,434	1,847	7,635	4,214
Facilities and other expenses	2,225	1,031	5,591	2,268
Accretion, depreciation and amortization	122	259	253	580
Travel and entertainment	491	77	773	212
Sales and marketing	\$ 3,910	\$ 1,507	\$ 8,385	\$ 4,244
Advertising, promotions and selling costs	2,751	615	4,702	2,066
Personnel	816	754	2,840	1,792
Facilities and other expenses	190	21	417	62
Travel and entertainment	153	117	426	324

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On August 30, 2018, the Company's listing with the CSE and its initial public offering were completed. The Company incurred various legal, consulting and professional fees in connection with these efforts that were not directly related to the initial public offering (and therefore could not be included in shareholders' equity). For the three and nine months ended September 30, 2018, costs recorded were \$476 and \$1,332, respectively.

15. Income taxes

(a) Components of income taxes

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
U.S. federal	\$ 1,106	\$ 1,287	\$ 2,936	\$ 2,614
State and local	(119)	(37)	314	155
	\$ 987	\$ 1,250	\$ 3,250	\$ 2,769

(b) Tax Rate Reconciliation

Income tax expense attributable to income from continuing operations for the nine months ended September 30, 2018 and 2017, differed from the amounts computed by applying the U.S. federal income tax rate of 21% as a result of the following:

	2018	2017
Computed "expected" tax expense	21.0%	34.0%
State income taxes, net of federal tax benefit	1.7%	3.1%
Permanent items	2.5%	(2.4%)
Change in rate	0.4%	0.2%
Other, net	1.7%	0.2%
	27.3%	35.1%

16. 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) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Company. Such risks arise primarily from certain financial assets held by the Company consisting of trade receivables and deposits. The Company's maximum exposure to credit risk is limited to the carrying amount of the financial assets as summarized below:

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	September 30, 2018	December 31, 2017
Trade and other receivables	\$ 3,456	\$ 2,129
Loan due from related party	107	107
Other long-term assets	683	996
	<u>\$ 4,246</u>	<u>\$ 3,232</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 and contract assets. 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 receivables.

	Current	Aged 1-30 days past due	Aged 31-60 days past due	Aged > 60 days past due
Expected loss rate	3.25%	4.96%	9.63%	24.33%
Gross carrying amount	2,617	599	178	257
Loss allowance provision, end of the period	85	30	17	63

(b) 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. Cash balances at September 30, 2018 and December 31, 2017 were \$79,359 and \$7,056, respectively. Net working capital at September 30, 2018 and December 31, 2017 was \$90,215 and \$8,137, respectively.

17. Fair value measurement

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

	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables:				
Cash	\$ 79,359	\$ 79,359	\$ 7,056	\$ 7,056
Trade and other receivables	3,456	3,456	2,129	2,129
Loan due from related party	107	107	107	107
	<u>\$ 82,922</u>	<u>\$ 82,922</u>	<u>\$ 9,292</u>	<u>\$ 9,292</u>
Financial liabilities				
Other financial liabilities:				
Accounts payable and accrued liabilities	\$ 10,513	\$ 10,513	\$ 4,291	\$ 4,291
Obligations under finance lease	470	470	696	696
Convertible note	-	-	1,040	1,040
Notes payable	23	23	43	43
	<u>\$ 11,006</u>	<u>\$ 11,006</u>	<u>\$ 6,070</u>	<u>\$ 6,070</u>

18. 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 periods are as follows:

September 30, 2018	\$96,166
December 31, 2017	\$12,639

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 does not have any externally imposed capital compliance requirements at September 30, 2018. There were no changes in the Company's approach to capital management during the nine months ended September 30, 2018.

19. Remuneration of directors and key management of the Company

The remuneration awarded to directors and senior key management, for the nine and three months ended September 2018 and 2017, includes the following:

For the nine months ending September 30,	2018	2017
Wages	\$ 387	\$ 113
Share based compensation	431	-
	\$ 818	\$ 113
For the three months ending September 30,	2018	2017
Wages	\$ 128	\$ 52
Share based compensation	106	-
	\$ 234	\$ 52