CHARLOTTE’S WEB HOLDINGS, INC.

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020
(Expressed in United States dollars)

INTRODUCTION

For the three and six months ended June 30, 2020.

For purposes of this discussion, “Charlotte’s Web,” “CW,” “we,” or the “Company” refers to Charlotte’s Web Holdings, Inc. and its subsidiaries: Charlotte’s Web, Inc. and Abacus Health Products, Inc. ("Abacus Health"), a British Columbia corporation, and the wholly owned subsidiary of Abacus Health: Abacus Health Products, Inc. ("Abacus US"), a Delaware corporation, and the two wholly-owned subsidiaries of Abacus US: Abacus Wellness, Inc. and CBD Pharmaceuticals Ltd.

This management’s discussion and analysis of financial condition and results of operations (“MD&A”) is provided as of September 14, 2020, and should be read together with the Company’s Unaudited Interim Condensed Consolidated Financial Statements and the accompanying notes for the three and six months ended June 30, 2020, and the audited Consolidated Financial Statements and the accompanying notes for the years ended December 31, 2019 and 2018. The results reported herein have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and, unless otherwise noted, are expressed in United States dollars.

Additional information relating to the Company, including the Company’s Annual Information Form prepared for the year ended December 31, 2019 and dated March 27, 2020 (“AIF”), can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

In the interest of providing the shareholders and potential investors of Charlotte’s Web Holdings, Inc. with information about the Company, including management’s assessment of the Company’s future plans and operations, certain information provided in this MD&A constitutes forward-looking statements or information (collectively, “forward-looking statements”). Forward-looking statements are typically identified by words such as “may”, “will”, “should”, “could”, “anticipate”, “expect”, “project”, “estimate”, “forecast”, “plan”, “intend”, “target”, “believe” and similar words suggesting future outcomes or statements regarding an outlook. Although these forward-looking statements are based on assumptions the Company considers to be reasonable based on the information available on the date such statements are made, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties, and other factors which may cause actual results, levels of activity, and achievements to differ materially from those expressed or implied by such statements. The forward-looking statements contained in this MD&A are based on certain assumptions and analysis by management of the Company (“Management”) in light of its experience and perception of historical trends, current conditions and expected future development and other factors that it believes are appropriate.

The material factors and assumptions used to develop the forward-looking statements herein include, but are not limited to, the following: (i) the impact of the COVID-19 pandemic; (ii) the regulatory climate in which the Company operates; (iii) the continued sales success of the Company’s products; (iv) the continued success of sales and marketing activities; (v) the Company’s ability to complete the conversion or buildout of its facilities on time and on budget; (vi) there will be no significant delays in the development and commercialization of the Company’s products; (vii) the Company will continue to maintain sufficient and effective production and research and development capabilities to compete on the attributes and cost of its products; (viii) the Company’s ability to deal with adverse growing conditions (due to pests, disease, fungus, climate or other factors) in a timely and cost-effective manner; (ix) there will be no significant reduction in the availability of qualified and cost-effective human resources; (x) new products will continue to be added to the Company’s portfolio; (xi) demand for hemp-based wellness products will continue to grow in the foreseeable future; (xii) there will be no significant barriers to the acceptance of the Company’s products in the market; (xiii) the Company will be able to maintain compliance with applicable contractual and regulatory obligations and requirements; (xiv) there will be adequate liquidity available to the Company to carry out its operations; and (xv) products do not develop that would render the Company’s current and future product offerings undesirable and the Company is otherwise able to minimize the impact of competition and keep pace with changing consumer preferences; and (xvi) the Company will be able to successfully manage and integrate acquisitions and take advantage of synergies from acquisitions.

The Company's forward-looking statements are subject to risks and uncertainties pertaining to, among other things, the adverse impact of the COVID-19 pandemic to our operations, our supply chain, our distribution chain, and to the broader market for our products, revenue fluctuations, nature of government regulations (both domestic and foreign), economic conditions, loss of key customers, retention and availability of executive talent, competing products, common share price volatility, loss of proprietary information, product acceptance, internet and system infrastructure functionality, information technology security, cash available to fund operations, crop risk, availability of capital, international and political considerations, the successful integration of acquired businesses, and including but not limited to those risks and uncertainties discussed under the heading "Risks and Uncertainties" in this MD&A and the Company's other filings with securities regulators. The impact of any one risk, uncertainty, or factor on a particular forward-looking statement is not determinable with certainty as these are interdependent, and the Company's future course of action depends on Management's assessment of all information available at the relevant time. Except to the extent required by law, the Company assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A, whether as a result of new information, future events, or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on the Company's behalf, are expressly qualified in their entirety by these cautionary statements.

BUSINESS OVERVIEW

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 does not produce or sell medicinal or recreational marijuana or products derived from high-THC (as defined below) Cannabis plants.

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). The Company does not produce or sell medicinal or recreational marijuana or products derived from high-THC Cannabis/marijuana plants. Hemp products have no psychoactive effects.

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.

On August 28, 2020, the Company announced it has earned B Lab's B Corporation certification to further expand the ways in which the Company can fulfill its mission of benefitting the planet and all who live upon it. Certified B Corporations (also referred to as B Corps) are for-profit companies that use the power of business to build a more inclusive and sustainable economy. B Corps are required to consider the impact of their decisions on all stakeholders: customers, workers, communities, and the environment. These requirements are aligned with Charlotte's Web's socially conscious founding principles, and formalizes its commitment to environmental, social, and governance issues for stakeholders. In connection with the certification process, and as approved by the shareholders of the Company at the August 2019 annual general and special meeting, the Company has converted to a "benefit company" in accordance with the Business Corporations Act (British Columbia).

FACTORS AFFECTING THE COMPANY'S PERFORMANCE

The Company's performance and future success depends on a number of factors. These factors are also subject to several inherent risks and challenges, some of which are discussed below and referred to under "Risks and Uncertainties."

The COVID-19 Pandemic

In December 2019, an outbreak of the novel strain of coronavirus, COVID-19, was identified and subsequently recognized as a pandemic by the World Health Organization. Governments worldwide have enacted and continue to enact various measures to combat the spread of the virus, which include the implementation of travel restrictions, self-isolation measures, and physical distancing, all of which have caused material disruption to businesses globally, resulting in an economic slowdown. Global equity markets have continued to experience significant volatility and uncertainty. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The deterioration of economic conditions to date has resulted in a surge in unemployment and has lead to a deterioration in consumer balance sheets, all of which has impacted consumer spending behavior and has adversely affected the Company's financial performance. Specifically, the Company has seen a decline in online search traffic and retailer foot traffic, as well as temporary closures across customer channels. If the COVID-19 pandemic continues to impact consumer spending behavior, the Company could continue to experience declines in financial performance and, if deemed to be more than temporary, could trigger asset impairment.

Since becoming aware of the outbreak of COVID-19, Management has been closely monitoring and reacting to the impact of the global pandemic on the Company, with a focus on ensuring the health and safety of our employees, business continuity and supporting our communities. Management has implemented various preventative measures to limit disruption to our operations, our production and our supply chains, while maintaining full operations and internal controls over financial reporting and disclosures.

Revenue and the distribution of our products may be impacted by an escalation of COVID-19 infections should it lead to the closure of essential food, drug, mass and e-commerce channels. High demand and service interruptions on transportation may affect our operations as well as international and domestic shipments of finished goods. Manufacturing closures have the potential to impact our ability to produce finished goods and affect the availability of purchased finished goods. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the response measures. It is impossible to forecast the duration and full scope of the economic impact of COVID-19, and other consequential changes it will have, on the Company's business, results of operations, financial conditions and prospects, both in the short term and in the long term.

See also "Risks and Uncertainties - Impacts of COVID-19 to the Company's Business" below.

Branding

The Company's well recognized brand, Charlotte's Web, is built around consumer trust with a focus on quality. Maintaining and growing the Company's brand appeal domestically and internationally is critical to its continued success.

Regulation

The Company is subject to the local, state, and federal laws in the jurisdictions in which it operates. Outside of the United States, the Company's products may be subject to tariffs, treaties and various trade agreements as well as laws affecting the importation of consumer goods and the retail sale of hemp-derived products. The 2018 Farm Bill became law on December 20, 2018. The 2018 Farm Bill removed hemp from the list of controlled substances under the Controlled Substances Act. The 2018 Farm Bill also redefined hemp to include its "derivatives, extracts, and cannabinoids", and accordingly removed popular hemp products, such as hemp-derived CBD from the purview of the U.S. Drug Enforcement Agency (the "DEA"). Although the DEA no longer regulates hemp, the FDA retains its authority to regulate ingestible and topical products, including those that contain hemp and hemp extracts such as CBD. As a producer and marketer of hemp-derived products, the FDA governs the regulations applicable to manufacturing and marketing dietary supplements. These include regulations for food facility registration; current good manufacturing practice ("cGMPs") regulations; nutrition and allergen labeling and label claim regulations; rules for submission of received serious adverse event reports; and safety requirements, including, as applicable, new dietary ingredient ("NDI") and generally recognized as safe ("GRAS") regulations. The FDA has stated its concerns over drug claims being made about products that contain CBD, as well as the agency's position that under the Food, Drug and Cosmetic Act ("FD&C Act") CBD cannot be marketed in a dietary supplement because a product containing CBD was approved as a drug and substantial clinical trials studying CBD as a new drug were made public prior to the marketing of any food or dietary supplements containing CBD, and therefore dietary supplements or food are precluded from containing this ingredient (the "IND Preclusion"). The Company believes there are significant arguments against this position in that all conditions of the applicable statute must be met before the IND Preclusion applies.

On March 5, 2020, FDA Commissioner Dr. Stephen M. Hahn issued a statement on the FDA's work related to CBD products. The statement makes clear that the FDA will continue its work to educate the public on CBD's perceived safety risks and that the FDA is taking steps to solicit additional public feedback, data, and research on the science, safety, and quality of CBD products. These new steps will ensure that even confidential and proprietary information can be shared with the FDA and kept protected. Additionally, Commissioner Hahn's statement reiterates that the FDA will continue to monitor and police the CBD products marketplace and is evaluating the issuance of a risk-based enforcement policy that provides greater transparency and clarity regarding factors the FDA intends to consider in prioritizing enforcement decisions. Much of Commissioner's Hahn statement was also included in the FDA's congressionally mandated report on CBD, which was also submitted on March 5, 2020. Importantly, the report confirms that the FDA is actively considering pathways to allow the marketing of CBD as a dietary supplement. The report signals the FDA's interest in certain questions about CBD, including effects from sustained use, effects from different methods of exposure, and effects on the developing brain and on the unborn child and breastfed newborn. The report acknowledges that the FDA is receiving inquiries about whether "full spectrum" and "broad spectrum" Hemp products can currently be marketed and sold, but the FDA has not yet answered the question conclusively. Largely, the report does little to address the regulatory ambiguity for CBD, but Commissioner Hahn has publicly stated that it would be a "fool's game" for the FDA to pull CBD products from the market entirely, as their use is already widespread.

On March 6, 2020, Charlotte's Web completed its assessment for self-affirmed Generally Recognized as Safe ("GRAS") status for its full spectrum hemp extract. The Company made this determination based on composite safety information and an Expert Panel review in accordance with FDA guidelines for GRAS. As required by law, this general recognition of safety utilized scientific procedures that we believe are the same quantity and quality of scientific evidence that would be required to obtain FDA approval of a food additive, and the data is publicly available and accepted, i.e., published, in the scientific literature.

The Company's edible pet supplements have been approved to carry the Quality Seal from the National Animal Supplement Council ("NASC"), a non-profit group dedicated to protecting and enhancing the health of companion animals throughout the country. The seal is awarded to manufacturers and suppliers that have successfully passed an NASC facility audit and comply with rigorous quality standards, including strict labeling requirements, real-time adverse event reporting, and random product testing by an independent lab.

The Company's products carry U.S. Hemp Authority™ Certified Seal, which requires meeting or exceeding stringent self-regulatory standards for current Good Manufacturing Practices (cGMP) and passing an annual third-party audit. The U.S. Hemp Authority Certification Program is designed to increase consumer and law enforcement confidence in hemp products being sold in the market today by designating them as safe and legal.

The Company's manufacturing facility in Boulder, CO has been added to NSF International's dietary supplements Good Manufacturing Practice ("GMP") registration. Earning GMP registration from NSF International verifies that a manufacturing facility has the proper methods, equipment, facilities, and controls in place to produce dietary supplement products. The NSF GMPs were developed in accordance with the FDA's 21 CFR part 111 regulation on dietary supplement manufacturing, packaging, and distribution.

Competition

The market for hemp-based CBD wellness products is highly competitive. The competition consists of publicly and privately-owned companies, which tend to be highly fragmented in terms of both geographic market coverage and products offered. With the Company's leading brand quality, innovation capabilities, high-quality and safety-focused manufacturing processes, Management believes the Company is well-positioned to capitalize on favorable long-term trends in the hemp-based CBD wellness products segment as the FDA establishes guidelines on how the industry will operate.

Growth Strategies

The Company has faced challenges in growing revenue in the current year due to factors primarily arising from the COVID-19 pandemic, however Management believes the Company has a strong future growth strategy. The Company's future depends, in part, on overall economic recovery and on Management's ability to implement its growth strategy including (i) product innovations; (ii) growth in retail, wholesale and distributor partnerships; and (iii) growth in e-commerce distribution. The ability of the Company to implement this growth strategy depends on, among other things, its ability to develop new products that appeal to consumers, maintain and expand brand loyalty and brand recognition, maintain and improve competitive position in the markets, and identify and successfully enter, and market products in new geographic areas and segments as well the ability to successfully navigate legislative and regulatory uncertainties (see "Risks and Uncertainties").

Product Innovation and Consumer Trends

The Company's business is subject to changing consumer trends and preferences, which are dependent, in part, on continued consumer interest in new products. The success of new product offerings depends upon a number of factors, including the Company's ability to (i) accurately anticipate customer needs; (ii) develop new products that meet these needs; (iii) successfully commercialize new products; (iv) price products competitively; (v) manufacture and deliver products in sufficient volumes and on a timely basis; and (vi) differentiate product offerings from those of competitors.

Business Acquisitions and Partnerships

The Company believes that it needs to actively identify and source future acquisition and partnership opportunities over the long-term that will enable it to further broaden and diversify its product offerings, leverage current and future manufacturing and distribution facilities for new products, cultivate for international markets, and expand its intellectual property portfolio.

Customer Relationships

The Company has relationships with wholesalers, distributors and retailers across the food, mass market, natural, specialty, professional and retail channels. The Company sells its products through e-commerce, food, drug and mass channels, and natural channels, and is reliant on knowledgeable partners to display and present its product to customers in their brick and mortar stores. The Company's partners service customers by stocking and displaying products and explaining product attributes and health benefits. The Company's relationship with these retail customers is important for consumer trust in the brand and in the products they purchase.

CORPORATE HIGHLIGHTS

On May 20, 2020, the Company was issued U.S. utility patent U.S. 10,653,085, its second U.S. patent for hemp genetics. This patent is for 'CW1AS1', a new hemp variety created by company co-founder Joel Stanley and Senior Director of Cultivation R&D, Bear Reel.

On June 11, 2020, the Company completed the previously-announced plan to acquire Abacus Health Products, Inc. ("Abacus Health"). Pursuant to the arrangement, Charlotte's Web acquired all the issued and outstanding subordinate voting shares of Abacus Health ("Abacus Acquisition"). Refer to Acquisition of Abacus Health section below for further details of the acquisition.

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$77.6 million (US $57.2 million). 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 Warrant issued resulted in a $9.2 million financial liability reported in the unaudited interim condensed consolidated statements of financial position. Net proceeds from the offering will be used primarily to fund the Company’s business development and for general working capital purposes.

On July 10, 2020 the Company announced that Jean Birch had joined the Company’s Board of Directors. Ms. Birch brings broad experience as an independent public company director in addition to being a veteran C-level operating executive with deep experience in the consumer sector. Ms. Birch currently serves as a director for Jack in the Box Inc., Forrester Research, as well as CorePoint Lodging Inc. Previous board appointments include Papa Murphy's Inc. and Darden. Ms. Birch is a Board Leadership Fellow, as certified by the National Association of Corporate Directors. In addition, Ms. Birch brings more than 20 years of consumer retail experience running large restaurant companies, such as IHOP, Macaroni Grill and Corner Bakery Cafe, where she delivered exceptional operational results.

On August 31, 2020, the Company announced that Mr. Shane Hoyne tendered his resignation as a director of the Company. Mr. Hoyne's resignation was effective August 31, 2020, and he did not stand for re-election at the Company's annual general shareholders' meeting held on September 3, 2020. Mr. Hoyne has served on the Board of Charlotte's Web since May, 2018 and will be pursuing multiple other business commitments going forward.

On September 4, 2020, the Company announced that Susan Vogt had joined the Company's Board of Directors. Ms. Vogt has more than thirty-five years' experience in the global life science research, pharmaceutical, biotech and clinical diagnostics markets, most recently as the Chief Executive Officer of venture-backed Aushon BioSystems, a life science and diagnostics tools company enabling the discovery and use of protein biomarkers for the diagnosis and treatment of complex diseases. Aushon BioSystems was acquired by Quanterix in 2018. Prior to joining Aushon, she led the turnaround of SeraCare Life Sciences as President and CEO. There she successfully re-listed the company on NASDAQ and returned the company to profitability. Prior to that, Ms. Vogt held numerous senior level positions at Millipore Corporation, including Corporate Officer and President of the BioPharmaceutical Division. Ms. Vogt has served on the board of directors and advisory boards of a number of other private and publicly held companies, including UK-based TAP BioSystems, and Belfast-based Andor Technologies, and currently serves on the Board of Anika Therapeutics and Sharps Compliance.

Following the Company's annual general shareholder's meeting, the elected Board of Directors are Joel Stanley, Adrienne Elsner, Jared Stanley, John Held, Jacques Tortoroli, Jean Birch and Susan Vogt, and therefore the number of directors is set at seven.

FINANCIAL INFORMATION

The following table sets forth selected financial information for the periods indicated. This information is unaudited, but reflects all adjustments of a normal, recurring nature that are, in the opinion of Management, necessary to present a fair statement of the Company's consolidated financial performance for the periods presented. Quarter-to-quarter comparisons of the Company's financial results are not necessarily meaningful and should not be relied on as an indication of future performance.

	Three months ended June 30,		Six months ended June 30,	
U.S. $ millions, except per share data	2020	2019	2020	2019
Revenue	**$ 21.6**	**$ 25.0**	**$ 43.1**	**$ 46.7**
Gross profit before biological assets adjustment	**11.5**	**18.5**	**26.5**	**34.3**
Net impact, fair value of biological assets	**—**	**(0.4)**	**(0.1)**	**(0.5)**
Gross profit	**11.5**	**18.8**	**26.6**	**34.8**
Operating expenses	**29.5**	**16.2**	**52.8**	**29.5**
Other income, net	**(4.0)**	**—**	**(7.0)**	**—**
(Loss) income before taxes	**(14.4)**	**2.8**	**(19.6)**	**5.9**
Net (loss) income	**$ (14.4)**	**$ 2.2**	**$ (25.9)**	**$ 4.5**
(Loss) earnings per share - basic	**$ (0.13)**	**$ 0.02**	**$ (0.23)**	**$ 0.05**
(Loss) earnings per share - diluted	**$ (0.13)**	**$ 0.02**	**$ (0.23)**	**$ 0.04**
Adjusted EBITDA	**$ (5.7)**	**$ 3.8**	**$ (11.4)**	**$ 8.0**

Assets:	June 30, 2020	December 31, 2019
Cash and cash equivalents	$ 99.8	$ 68.6
Total assets	$ 357.6	$ 222.9
Liabilities:		
Long-term liabilities	$ 40.8	$ 39.8
Total liabilities	$ 86.7	$ 69.2

[1] Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") is not a recognized performance measure under IFRS. Adjusted EBITDA does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. The term EBITDA consists of net (loss) income and excludes interest ("financing costs"), taxes, depreciation and amortization. Adjusted EBITDA also excludes share-based compensation, impairment of assets, acquisition costs, legal settlement costs, restructuring charges, and adjustments for fair value of biological assets, warrant liabilities, and stock appreciation rights. A reconciliation of the Company's net (loss) income to EBITDA and Adjusted EBITDA is presented within the "EBITDA and Adjusted EBITDA" section below.

U.S. $ millions		**Q2 2020**	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Revenue	$	**21.6**	$ 21.5	$ 22.8	$ 25.1	$ 25.0	$ 21.7	$ 21.5	$ 17.7
Net (loss) income		**(14.4)**	(11.5)	(18.8)	(1.3)	2.2	2.3	3.2	1.8
(Loss) earnings per share - basic	$	**(0.13)**	$ (0.11)	$ (0.19)	$ (0.01)	$ 0.02	$ 0.03	$ 0.03	$ 0.02
(Loss) earnings per share - diluted	$	**(0.13)**	$ (0.11)	$ (0.19)	$ (0.01)	$ 0.02	$ 0.02	$ 0.02	$ 0.02

Revenue

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.

	Three months ended June 30,		Year-over-year	Six months ended June 30,		Year-over-year
	2020	2019	% Increase (Decrease)	2020	2019	% Increase (Decrease)
Revenue - U.S. $ millions	**$ 21.6**	$ 25.0	(13.6)%	**$ 43.1**	$ 46.7	(7.7)%
Direct-to-consumer ("DTC") - percentage of revenue	**71.8 %**	46.4%[1]	33.6 %	**68.7 %**	48.2%[1]	31.6 %
Business-to-business ("B2B") - percentage of revenue	**28.2 %**	53.6%[1]	(54.5)%	**31.3 %**	51.8%[1]	(44.2)%

[1] Percentages for the three and six months ended June 30, 2019 were recategorized to conform with 2020 categorization.

Revenue for the three months ended June 30, 2020 and 2019 totaled $21.6 million, compared to $25.0 million for the same period in 2019, representing a 13.6% decrease primarily due to factors arising from COVID-19, including an overall decline in online search traffic and foot traffic for retailers, as well as temporary closures across customer channels. On a year-over-year basis for the three months ended June 30, 2020, DTC ecommerce sales grew by 33.6% primarily due to increased marketing and targeted promotions and B2B sales decreased by 54.5% due to factors arising from COVID-19. Additionally, during the three months ended June 30, 2020, the Company took pricing decreases to maintain a competitive market presence, which impacted overall revenue.

Revenue for the six months ended June 30, 2020 totaled $43.1 million, compared to $46.7 million for the same period in 2019, representing a 7.7% decrease primarily due to factors arising from COVID-19 and lack of FDA regulatory guidelines impacting product expansion into human ingestible products. On a year-over-year basis for the six months ended June 30, 2020, DTC ecommerce sales grew by 31.6% primarily due to increased marketing and targeted promotions and B2B sales decreased by 44.2% due to factors arising from COVID-19 and lack of FDA regulatory guidelines.

The significant increase in year-over-year DTC ecommerce revenue for the six months ended June 30, 2020 was achieved through ongoing marketing and social media programs driving conversions. Management believes the decreases for the same period in B2B revenue is due to the continued struggle of increased competition in the natural health channel resulting in oversaturation and price compression reducing velocities, combined with factors arising from the COVID-19 pandemic. Declines in the food, drug, mass ("F/D/M") were driven by an overlap of new distribution inventory loading from a year ago combined with customers delaying further product expansion into human ingestible products plans due to the lack of FDA regulatory guidelines. The Company experienced impacts to revenue as a result of the COVID-19 pandemic due to decreases in online search traffic and retail customers overall decline in foot traffic, as well as temporary closures across customer channels.

Cost of Sales

Cost of sales includes the cost of inventory sold, changes in inventory provisions, and production costs expensed. Direct and indirect production costs include direct labor, processing, testing, packaging, quality assurance, security, shipping, depreciation of production equipment, production management and other related expenses.

The primary factors that can impact cost of sales on a period-to-period basis include the mix of revenue between DTC ecommerce and B2B, third-party quality costs, transportation, overhead allocations, the mix of products sold and changes in inventory provisions.

The components of cost of sales are as follows:

	Three months ended June 30,		Year-over-year	Six months ended June 30,		Year-over-year
Revenue - U.S. $ millions	**2020**	2019	% Increase (Decrease)	**2020**	2019	% Increase (Decrease)
Cost of sales	**$ 10.2**	$ 6.5	56.9 %	**$ 16.7**	$ 12.4	34.7 %
Inventory expensed to cost of sales	**5.8**	5.2	11.5 %	**10.5**	9.6	9.4 %
Inventory provision, net	**2.5**	—	100.0 %	**2.5**	—	100.0 %
Other production costs	**1.7**	1.4	21.4 %	**3.2**	2.4	33.3 %
Depreciation and amortization	**0.2**	(0.1)	300.0 %	**0.5**	0.4	25.0 %

Cost of sales for the three months ended June 30, 2020 totaled $10.2 million, compared to $6.5 million for the same period in 2019, representing a 56.9% increase. Cost of sales for the six months ended June 30, 2020 totaled $16.7 million, compared to $12.4 million for the same period in 2019, representing a 34.7% increase.

An inventory provision is estimated by Management and is included in cost of sales. For the three months ended June 30, 2020, inventory provisions of $1.9 million were recognized through the cost of sales and write-offs of inventory previously reserved for of $0.9 million were recognized. For the six months ended June 30, 2020, inventory provisions of $2.5 million were recognized through the cost of sales and write-offs of inventory previously reserved for of $1.5 million were recognized. For the three and six months ended June 30, 2019, inventory provisions of $580 and $953 were expensed through the cost of sales and the Company had no write-offs of inventory previously reserved for. The increase in the inventory provision for the three and six months ended June 30, 2020 is primarily related to a decrease in future sales projections as a result of the COVID-19 pandemic. Due to uncertainties inherent in the current economic environment, additional inventory provisions may be necessary if future sales projections continue to decline compared to inventory quantities on hand and the expiration dates of those inventories.

Gross Profit

The primary factors that can impact gross profit margins include the mix of revenue between DTC ecommerce and B2B, third-party quality costs, transportation costs, the mix of products sold, changes in inventory provisions and biological asset adjustments.

Gross profit for the three months and six months ended June 30, 2020 and 2019:

	Three months ended June 30,		Six months ended June 30,	
U.S. $ millions	**2020**	2019	**2020**	2019
Gross profit	**$ 11.5**	$ 18.8	**$ 26.6**	$ 34.8
Percentage of revenue	**53.2%**	75.2%	**61.7%**	74.5%
Gross profit (before biological adjustments)	**$ 11.5**	$ 18.5	**$ 26.5**	$ 34.3
Percentage of revenue	**53.2%**	74.0%	**61.5%**	73.4%

Gross profit totaled $11.5 million for the three months ended June 30, 2020, compared to $18.8 million for the same period in 2019, a year-over-year decrease of 38.8%. Excluding the impact attributable to inventory provision, gross profit for the three months ended June 30, 2020 totaled $14.0 million, a year-over-year decrease of 25.5%. Gross profit for the six months ended June 30, 2020 totaled $26.6 million, compared to $34.8 million for the same period in 2019, a year-over-year decrease of 23.6%. Excluding the impact attributable to inventory provision, gross profit for the six months ended June 30, 2020 totaled $29.1 million, a year-over-year decrease of 16.4%. The decrease in gross profit percentage on a year-over-year basis, excluding the impact attributable to the inventory provision, is primarily due to pricing decreases and an increase in marketing and targeted promotions and sales discounts in the DTC ecommerce channel, offset by the higher growth of DTC eCommerce as a percentage of total revenue.

Biological assets, consisting of industrial hemp plants, and seeds 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 income and other comprehensive income of the related year.

Classification of Operating Expenses

The composition of the operating costs classification as presented in the Unaudited Interim Condensed Consolidated Financial Statements is as follows:

U.S. $ millions	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
General and administrative	**$ 21.1**	$ 9.1	**$ 37.1**	$ 17.5
Personnel	**9.0**	2.9	**16.8**	7.1
Legal and professional services	**7.0**	3.1	**10.9**	4.4
Other operating expenses	**3.3**	2.6	**6.2**	5.1
Depreciation and amortization	**1.8**	0.5	**3.2**	0.9
Sales and marketing	**$ 6.9**	$ 6.5	**$ 13.4**	$ 11.1
Advertising, promotions and selling costs	**3.4**	3.6	**6.9**	6.2
Personnel	**3.0**	2.3	**5.5**	3.9
Facilities and other expenses	**0.4**	0.6	**0.9**	0.9
Depreciation and amortization	**0.1**	—	**0.1**	0.1
Research and development	**$ 1.5**	$ 0.7	**$ 2.3**	$ 0.8
Personnel	**1.3**	0.3	**1.8**	0.5
Other operating expenses	**0.2**	0.4	**0.4**	0.3
Accretion, depreciation and amortization	**—**	—	**0.1**	—

In anticipation of the FDA providing a regulatory framework for CBD and expected growth overall in the industry, the Company invested heavily in both management personnel and corporate infrastructure. Due to lack of regulatory FDA guidelines and factors arising from the COVID-19 pandemic, including impacts to future sales projections, the Company is reassessing the appropriate cost structure to support current and expected future results of operations.

Personnel

Personnel expense includes all employee compensation and related employee benefits expenses.

Gross personnel expense is as follows:

U.S. $ millions	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Personnel	**$ 13.3**	$ 5.5	**$ 24.1**	$ 11.5
General and administrative	**9.0**	2.9	**16.8**	7.1
Sales and marketing	**3.0**	2.3	**5.5**	3.9
Research and development	**1.3**	0.3	**1.8**	0.5
Headcount (active employees)	**318**	223		

Personnel expense totaled $13.3 million for the three months ended June 30, 2020, compared to $5.5 million for the same period in 2019, a year-over-year increase of 141.8%. Personnel expense totaled $24.1 million for the six months ended June 30, 2020 compared to $11.5 million for the same period in 2019, a year-over-year increase of 109.6%.

The increase in personnel count on a year-over-year basis is primarily due to an investment in experienced Consumer Products Goods corporate personnel, including senior key management in government relations and communications, sales, marketing, production, supply chain, IT and finance.

Non-cash compensation expense is included in operating costs and relates to the Company's stock options and restricted share awards. Non-cash share-based compensation for the three months ended June 30, 2020 and 2019 totaled $2.0 million and $0.3 million. Non-cash share-based compensation for the six months ended June 30, 2020 and 2019 totaled $2.3 million and $0.6 million. The increase in non-cash share-based compensation expense is driven primarily by the Company's 2020 Long-term Incentive Plan stock option and restricted share award grants and acquired stock options resulting from the Abacus Acquisition (refer below).

Legal and Professional Services

Legal and professional services include (i) legal fees; (ii) litigation; (iii) legal settlements; (iv) accounting services; and (iv) other various consulting fees.

	Three months ended June 30,		Six months ended June 30,	
U.S. $ millions	**2020**	2019	**2020**	2019
Legal and professional services	**7.0**	3.1	**10.9**	4.4

Legal and professional services totaled $7.0 million for the three months ended June 30, 2020, compared to $3.1 million for the same period in 2019, a year-over-year increase of 125.8%. For the six months ended June 30, 2020 and 2019, legal and professional services totaled $10.9 million and $4.4 million, a year-over-year increase of 147.7%. The increase was driven primarily by $2.1 million legal settlement costs recognized in the three months ended June 30, 2020 and one-time legal and other acquisition costs of $3.1 million and $3.5 million for the Abacus Acquisiton for the three and six months ended June 30, 2020.

Other Operating Expenses

Other operating expenses include (i) utilities and maintenance; (ii) banking and credit card processing fees; (iii) third-party software expenses (including maintenance and support); and (iv) taxes, permits and other fees (other than income taxes), net of overhead allocations.

	Three months ended June 30,		Six months ended June 30,	
U.S. $ millions	**2020**	2019	**2020**	2019
Other operating expenses	**$ 3.9**	$ 3.5	**$ 7.5**	$ 6.3
General and administrative	**3.3**	2.6	**6.2**	5.1
Sales and marketing	**0.4**	0.6	**0.9**	0.9
Research and development	**0.2**	0.3	**0.4**	0.3

Other operating expenses totaled $3.9 million for the three months ended June 30, 2020, compared to $3.5 million for the same period in 2019, a year-over-year increase of 11.4%. For the six months ended June 30, 2020, other operating expenses were $7.5 million compared to $6.3 million for the same period in 2019, a year-over-year increase of 19.0%.

The increase in other operating expenses is primarily due to general and administrative expenses, which totaled $3.3 million for the three months ended June 30, 2020, compared to $2.6 million for the same period in 2019, a year-over-year increase of 26.9%. General and administrative expenses totaled $6.2 million for the six months ended June 30, 2020, compared to $5.1 million for the same period in 2019, a year-over-year increase of 21.6%. The increase was driven primarily by $0.8 million in rent expense related to the Company's expanded production and distribution facility and corporate office leases, $0.4 million in director and officer ("D&O") insurance costs, and $0.3 million increase in investor relations and other related filing costs, offset by a reduction in merchant credit card fees of $0.8 million.

Advertising, Promotions and Selling Costs

Advertising, promotions and selling costs relate to targeted marketing programs to drive DTC ecommerce sales, retail customer support, trade show activities, packaging design, personnel and web-based activities. The Company believes that marketing of its brand and products, together with customer education, is fundamental to the future success of the business. The costs associated with these activities may vary significantly from period to period on both an absolute and relative basis.

	Three months ended June 30,		Six months ended June 30,	
U.S. $ millions	**2020**	2019	**2020**	2019
Advertising, promotions and selling costs	**3.4**	3.6	**6.9**	6.2

Advertising, promotions and selling expenses totaled $3.4 million for the three months ended June 30, 2020, compared to $3.6 million for the same period in 2019, a year-over-year decrease of 5.6%.

For the six months ended June 30, 2020 and 2019, advertising, promotions and selling costs were $6.9 million and $6.2 million, a year-over-year increase of 11.3%.

The following table sets forth total sales and marketing costs as a percentage of revenue for the eight most recent fiscal quarters.

Sales and marketing	**Q2 2020**	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Percent of revenue	**15.7 %**	30.2 %	46.9 %	25.1 %	26.1 %	21.0 %	20.6 %	22.0 %

EBITDA and Adjusted EBITDA

Earnings before interest, taxes, depreciation and amortization ("EBITDA") and adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") are not recognized performance measures under IFRS. EBITDA and Adjusted EBITDA do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. The term EBITDA consists of net (loss) income and excludes interest ("financing costs"), taxes, depreciation and amortization. Adjusted EBITDA also excludes share-based compensation, impairment of assets, acquisition costs, legal settlement costs, restructuring charges, and adjustments for fair value of biological assets, warrant liabilities, and stock appreciation rights. EBITDA and Adjusted EBITDA are included as supplemental disclosures because Management believes that such measurement provides a better assessment of the Company's operations on a continuing basis by eliminating certain non-cash charges and charges or gains that are nonrecurring. The most directly comparable measure to EBITDA and Adjusted EBITDA calculated in accordance with IFRS is net (loss) income. The following is a reconciliation of the Company's net (loss) income to EBITDA and Adjusted EBITDA.

	Three months ended June 30,		Six months ended June 30,	
U.S. $ millions	**2020**	2019	**2020**	2019
Net (loss) income	**$ (14.4)**	$ 2.2	**$ (25.9)**	$ 4.5
Depreciation of property and equipment	**$ 2.1**	0.5	**$ 3.9**	1.4
Financing costs	**0.3**	0.1	**0.5**	0.1
Interest income	**—**	(0.3)	**(0.1)**	(0.6)
Income taxes	**—**	0.6	**6.3**	1.3
EBITDA	**$ (12.0)**	$ 3.1	**(15.3)**	6.7
Mark-to-market fair value of warrants and stock appreciation rights	**(3.9)**	—	**(6.9)**	—
Fair value changes of biological assets, net	**—**	(0.4)	**(0.1)**	(0.5)
Share-based compensation	**2.0**	0.3	**2.3**	0.6
Impairment of assets	**2.5**	0.6	**2.5**	1.0
Acquisition costs	**3.1**	—	**3.5**	—
Legal settlement	**2.1**	—	**2.1**	—
Restructuring charges	**0.5**	0.2	**0.5**	0.2
Adjusted EBITDA	**$ (5.7)**	$ 3.8	**$ (11.4)**	$ 8.0

[1] Adjusted EBITDA presented in prior periods has been reclassified to conform with the current period presentation to include Interest income as a reduction of EBITDA and Adjusted EBITDA.

The following table sets forth Adjusted EBITDA as a percentage of revenue for the eight most recent fiscal quarters.

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Adjusted EBITDA	**$ (5.7)**	$ (5.7)	$ (10.2)	$ 0.7	$ 3.8	$ 4.2	$ 3.4	$ 5.3
Percent of revenue	**(26.4)%**	(26.5)%	(44.7)%	2.8 %	15.2 %	19.4 %	15.8 %	29.9 %

[1] Adjusted EBITDA presented in prior periods has been reclassified to conform with the current period presentation to include Interest income as a reduction of EBITDA and Adjusted EBITDA.

Depreciation and Amortization

Depreciation and amortization include depreciation on capital expenditures for farming and harvesting operations, as well as corporate assets.

	Three months ended June 30,		Six months ended June 30,	
U.S. $ millions	**2020**	2019	**2020**	2019
Depreciation	**$ 1.9**	$ 0.4	**$ 3.5**	$ 1.3
Depreciation - property and equipment	**1.2**	0.0	**2.1**	0.6
Depreciation - right-of-use assets	**0.7**	0.4	**1.4**	0.7
Amortization of intangibles	**$ 0.2**	$ 0.1	**$ 0.4**	$ 0.1
Total depreciation and amortization	**$ 2.1**	$ 0.5	**$ 3.9**	$ 1.4

Depreciation and amortization expense totaled $2.1 million and $3.9 million for the three and six months ended June 30, 2020, compared to $0.5 million and $1.4 million for the same periods in 2019. The increase in depreciation and amortization is primarily the result of investments in equipment and machinery in 2019 in advance of expected F/D/M channel revenue growth.

Income Taxes

	Three months ended June 30,		Six months ended June 30,	
U.S. $ millions	**2020**	2019	**2020**	2019
Income tax expense	**$ —**	$ 0.6	**$ 6.3**	$ 1.3
Combined income tax rate	**(32.1)%**	22.8 %		

Income tax expense for the three months ended June 30, 2020 was insignificant due to the Company's net loss, compared to $0.6 million for the same period in 2019. Income tax expense of $6.3 million was incurred during the six months ended June 30, 2020, compared to $1.3 million for the same period in 2019.

The combined income tax rate used in 2020 was (32.1)% compared to 22.8% in 2019. The increase in the Company's tax expense in the six months ended June 30, 2020 compared to the same period in 2019 is primarily attributable to the Company expensing previously recognized deferred tax assets in the first quarter of 2020. Of the Company's deferred tax assets previously recognized, $16.1 million was offset in contributed surplus related to the income tax benefit previously recognized for stock options. Further, $8.1 million was reclassified to income taxes receivable in conjunction with the CARES Act (see below). The remaining $6.3 million was recorded as income tax expense.

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 a three-year period 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 $18.0 million. This net operating loss carryforward remains available for future use to offset future tax liabilities. In addition, related to the acquisition of Abacus Health the Company has available for future use $5.4 million to offset future tax liabilities.

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 a refund of $8.1 million which is included in income taxes receivable as of June 30, 2020. The Company previously recognized $3.3 million of income taxes receivable related to 2019 overpayments, resulting in a total income taxes receivable as of June 30, 2020 of $11.3 million.

Acquisition of Abacus Health

On June 11, 2020, the Company completed the previously-announced plan to acquire Abacus Health. Pursuant to the arrangement, Charlotte's Web acquired all the issued and outstanding subordinate voting shares of Abacus Health.

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.

Transfer of ownership occurred on June 11, 2020 and, accordingly, the Unaudited Condensed Consolidated Statements of (Loss) Income and Other Comprehensive (Loss) Income include Abacus Health results of operations for the period from June 11, 2020 through June 30, 2020. The revenues and operating profit of the acquired business since the date of acquisition were not material to the Company's results of operations.

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	$	105.5
Other equity instruments		8.7
Total fair value of consideration	$	114.2

Estimated fair value of assets acquired

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

Assets acquired	$	45.7
Liabilities assumed		8.2
Net assets acquired	$	37.5

The estimated preliminary 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. Preliminary fair value estimates of the acquired trade name and customers relationships are $0.7 and $22.5, respectively. The Company has preliminarily 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.

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. Goodwill is the only intangible asset with an indefinite life as of June 30, 2020.

Fair value of consideration	$	114.2
Estimated fair value of assets acquired		(37.5)
Goodwill	$	76.7

Trade and Other Receivables, Net

Trade and other receivables consist primarily of trade accounts arising in the normal course of business and a tenant improvement allowance receivable. Trade receivables are carried at amortized cost less any associated expected credit losses. The Company provides for expected credit losses based on its assessment of probability of specific losses, estimates or future individual exposures and provisions based on historical experience.

U.S. $ millions		**June 30, 2020**		December 31, 2019
Trade receivables	**$**	**7.6**	$	5.7
Tenant improvement allowance		**4.1**		—
Other miscellaneous receivables		**1.3**		0.3
Expected credit losses		**(0.5)**		(0.5)
Trade and other receivables, net	**$**	**12.5**	**$**	**5.5**

Trade and other miscellaneous receivables increased $2.9 million. The Company reviews the accounts receivable aging monthly and monitors the payment status of each outstanding invoice. The Company communicates with its customers on a regular basis regarding the schedule of future payments, as required. At the balance sheet date,

$(0.5) million has been booked as an expected credit loss based on individual account review and overall customer payment history.

During the six months ended June 30, 2020, the Company recognized $4.1 million of a tenant improvement receivable allowance related to the build out of the Company's expanded production and distribution facility.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities generally include trade payables and personnel-related accruals .

U.S. $ millions		**June 30, 2020**		December 31, 2019
Accounts payable	**$**	**15.5**	$	8.8
Accrued liabilities		**14.8**		7.3
	$	**30.3**	$	16.1

The accounts payable balance increased by $6.7 million due primarily to timing of payments on trade payables. The accrued liabilities balance increased $7.5 million due to an increase in accrued payroll and unbilled construction costs related to the build out of the Company's expanded production and distribution facility.

CONTRACTUAL OBLIGATIONS

Contractual obligations include leases on office locations, land and manufacturing equipment, and amounts owed to third-party farming operators.

U.S. $ millions		**June 30, 2020**		December 31, 2019
Lease obligations				
Current lease obligations	**$**	**2.3**	$	1.9
Long-term lease obligations		**21.4**		22.1
	$	**23.7**	$	24.0
Cultivation liabilities				
Current cultivation liabilities	**$**	**11.5**	$	10.8
Long-term cultivation liabilities		**10.0**		14.3
	$	**21.5**	$	25.1
Notes payable				
Current notes payable	**$**	**1.3**	$	—
Long-term notes payable		**0.3**		—
	$	**1.6**	$	—

Contractual undiscounted future payments due on these contract obligations are as follows:

Contractual obligations		Total	within 1 year	1 - 5 years	> 5 years
Lease obligations	$	33.5	$ 3.6	$ 11.8	$ 18.1
Cultivation liabilities		21.7	11.6	10.1	0.0
Notes payable		1.6	1.3	0.3	0.0
Total	$	56.8	$ 16.5	$ 22.2	$ 18.1

Lease Obligations

Lease obligations at June 30, 2020 decreased slightly to $23.7 from $24.0 million at December 31, 2019 due primarily to standard recurring lease payments offset by lease additions throughout the period. Right-of-use (RoU) assets, net of amortization, decreased to $22.4 million at June 30, 2020 from $23.6 million at December 31, 2019 due primarily to recurring period depreciation.

Cultivation Liabilities

Current and non-current cultivation liabilities at June 30, 2020 decreased to $21.5 million from $25.1 million at December 31, 2019. The third-party farming operators obligation reflects amounts owed to third-party farming operators, based on the estimated potency and yield from prior year's hemp harvests. The amounts are paid in multiple years per the terms of the related contracts. The $3.6 million decrease from December 31, 2019 is due to payments made during the six months ended June 30, 2020.

Notes Payable

Current and non-current notes payable increased to $1.6 million at June 30, 2020 compared to an insignificant balance at December 31, 2019. The notes payable balance arose from the Company's acquisition of Abacus Health on June 11th, 2020, as one of the wholly-owned subsidiaries of Abacus US, Abacus Wellness, Inc., had previously acquired the principal assets of two companies owning the Harmony Hemp brand on February 10th, 2020. 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, of which $1.3 million is current and $0.3 million is non-current.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary liquidity and capital requirements are for capital expenditures, inventory, working capital and general corporate purposes. The Company currently has a cash balance of $99.8 million at June 30, 2020 and along with cash flows from operations, will provide capital to support the growth of the business and for general corporate purposes.

The Company's ability to fund operating expenses and capital expenditures will depend on its future operating performance which will be affected by general economic conditions (including the COVID-19 pandemic), financial, regulatory, FDA, and other factors including factors beyond the Company's control (See "Factors affecting the Company's Performance" and also "Risks and Uncertainties"). From time-to-time, Management reviews acquisition opportunities and if suitable opportunities arise, may make selected acquisitions to implement the Company's business strategy.

Management continually assesses liquidity in terms of the ability to generate sufficient cash flow to fund the business. Net cash flow is affected by the following items: (i) operating activities, including the level of trade receivables, accounts payable, accrued liabilities and unearned revenue and deposits; (ii) investing activities, including the purchase of property and equipment; and (iii) financing activities, including debt financing and the issuance of capital stock. The Company also has access to an asset backed line of credit with J.P. Morgan for $10.0 million with an accordion feature to extend the line to $20.0 million with a 3-year maturity. The line of credit agreement requires compliance by the Company with certain debt covenants. As of June 30, 2020, the Company was in compliance with all debt covenants and has not yet drawn on the line of credit.

Cash used in operations during the six months ended June 30, 2020 totaled $22.0 million, compared to $15.2 million for the same period in 2019. The increase in cash used by operations is due primarily to the increase in changes in working capital.

Net cash used in investing activities totaled $0.8 million for the six months ended June 30, 2020 compared to $6.2 million for the same period in 2019. For the six months ended June 30, 2020, purchases of equipment for the build out of the Company's expanded production and distribution facility of $10.2 million and other investing activities of $1.8 million, offset by cash acquired from the acquisition of Abacus Health of $11.2 million.

Net cash provided by financing activities totaled $54.0 million for the six months ended June 30, 2020 compared to $0.6 million used for the same period in 2019. The net cash provided by financing activities during the period ended June 30, 2020 resulted primarily from the gross proceeds of $57.2 million from the Company's 2020 Share Offering, as well as common stock option exercises during the period.

Cash and cash equivalents June 30, 2020 was $99.8 million, compared to $68.6 million at December 31, 2019. Working capital increased from $116.9 million as of December 31, 2019 to $155.0 million as of June 30, 2020.

During the six months ended June 30, 2020, the Company generated an operating loss of $25.9 million, produced an Adjusted EBITDA loss of $11.4 million, and negative cash flow from operations of $22.0 million. The Company has shareholders’ equity of $270.9 million and positive working capital of $155.0 million.

RELATED PARTY TRANSACTIONS

During 2019, the Company entered into an agreement for the lease of property held by an entity owned by certain founders of the Company. The lease term is effective January 1, 2019 through December 31, 2020. Per the terms of the lease agreement, the Company prepaid base rent in full upon execution in the amount $0.1 million. The lease asset is presented as a right-of-use asset with property and equipment in the Unaudited Interim Condensed Consolidated Financial Statements for the six months ended June 30, 2020.

Aidance Scientific, Inc. (“Aidance”) is the manufacturer of nearly all Abacus Health products. The former Chief Executive Officer of Abacus Health, and current President of the Company, also serves on Aidance’s Board of Directors. As of June 30, 2020, the Company has a liability of $0.3 million due to and a receivable of $0.1 million due from Aidance presented in accounts payable and trade and other receivables, net, respectively.

CRITICAL ACCOUNTING ESTIMATES

Use of Estimates

The preparation of 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. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts; the valuation of deferred tax assets, fixed assets, inventory, share-based compensation and provisions for other contingencies.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include the following:

Biological assets and inventory

In calculating the value of 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. 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.

Useful lives of depreciable and amortizable assets
In calculating the depreciation and amortization expense, Management is required to make estimates of the expected useful lives of property and equipment and intangible assets.

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: dividend yield; expected volatility; risk-free interest rate; expected option life; 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. Share-based compensation expense is recognized as an expense in profit or loss. 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.

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. In calculating deferred tax assets, when it is probable that taxable profits will be available to offset 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.

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

Impairment of financial assets
The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value. Expected credit losses are measured by making estimates and assumptions in regard to probability-weighted amounts, the time value of money, information regarding past events, current conditions and forecasts of future economic conditions.

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 non-lease 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.

OUTSTANDING SHARE DATA

The Company is authorized by its certificate of incorporation to issue (i) an unlimited number of common shares; (ii) an unlimited number of proportionate voting shares (each proportionate voting share is equal to 400 common shares in terms of voting and economic rights); and (iii) an unlimited number of preferred shares, issuable in series.

At the close of business on September 11, 2020, 138,968,308 common shares and common equivalent shares (i.e. proportional voting shares on a common share equivalent basis) were issued and outstanding. There are no preferred shares currently issued and outstanding.

As of September 11, 2020, potential dilutive securities include (i) 1,525,011 outstanding share options in the Company's 2015 legacy option plan with a weighted average exercise price of $0.5556; (ii) 2,851,888 outstanding share options in the Company's 2018 option plan with a weighted average exercise price of $5.78; (iii) 2,500,000 common share warrants with an exercise price of C$16.50 (iv) 5,750,000 common share warrants with an exercise price of C$8.50 (v) 1,892,872 Abacus Health acquired warrants with a weighted average exercise price of $11.38 and (vi) 465,443 restricted shares. Each option and restricted share entitles the holder to purchase one common share.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the establishment and maintenance of Disclosure Controls and Procedures ("DCP") and Internal Control Over Financial Reporting ("ICFR") is the responsibility of Management. The DCP and ICFR have been designed by Management based on the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to provide reasonable assurance that the Company's financial reporting is reliable and that its financial statements have been prepared in accordance with IFRS.

Regardless of how well the DCP and ICFR are designed, internal controls have inherent limitations and can only provide reasonable assurance that the controls are meeting the Company's objectives in providing reliable financial reporting information in accordance with IFRS. These inherent limitations include, but are not limited to, human error and circumvention of controls and as such, there can be no assurance that the controls will prevent or detect all misstatements due to errors or fraud, if any.

RISKS AND UNCERTAINTIES

The risks and uncertainties described below are not exhaustive. Additional risks and uncertainties can be found in other public filings of the Company on www.sedar.com including the Company's AIF. Additional risks not presently known or currently deemed immaterial may also impair the Company's business operation. If any of the events described in the following business risks actually occur, overall business, operating results and the financial condition of the Company could be materially adversely affected.

Impacts of COVID-19 to the Company's Business

The impacts of the global emergence of the novel strain of coronavirus, identified as COVID-19, on the Company's business are currently unknown. The Company continues to monitor the situation and may take actions that alter its business operations as may be required by federal, state or local authorities or that Charlotte's Web determines are in the best interests of its employees, customers, partners, suppliers, shareholders and stakeholders. Any such actions could impact or cause substantial interruption to the Company's business, which could have a material adverse effect on the Company's business and operations or financial results. In response to, or as a result of, the current COVID-19 pandemic, the Company may experience, among other things, voluntary or mandated temporary closures of one or more of the Company's facilities; temporary or long-term labor shortages; temporary or long-term adverse impacts on the Company's supply chain and distribution channels; the potential of increased network vulnerability and risk of data loss resulting from increased use of remote access and removal of data from the Company's facilities; difficulty in complying with covenants under its current or future debt agreements; required reallocation or adjustment of resources, which may impact the Company's business plans and product offerings. In addition, the direct or indirect impacts of COVID-19 may extend to disrupt the Company's suppliers, partners, manufacturers, farmers, customers and other stakeholders, which in turn could materially adversely affect the Company's business, results of operations or financial condition. Any change or disruption in operations could impact and have a material adverse effect on the Company's operations and/or results from operations. In addition, voluntary or mandated efforts to slow the spread of COVID-19 could impact the Company's operations.

During the first half of 2020, a number of governments worldwide enacted measures to combat the spread of the virus, including in the United States. These measures included the implementation of travel restriction, self-isolation measures, physical distancing and in some instances, the suspension of non-essential business. In recent weeks, such measures have been eased or lifted in varying degrees by different governments of various countries, states and cities depending on the status of infection rates; however, the continued spread of COVID-19 has caused, and may continue to cause, some jurisdictions to roll back reopening plans that had been underway. There can be no guarantee that governments will continue to ease such restrictions, and jurisdictions may pause plans to permit businesses to reopen or roll back the reopening of businesses. If portions or all of the Company's, or its retail-partners', operations continue to be disrupted or suspended as a result of preventative or reactionary measures, it could have a material adverse impact on the Company's profitability, results of operations, financial condition and stock price.

Further, there are potentially significant economic and social impacts of the COVID-19 pandemic, including a surge in unemployment leading to a deterioration in consumer balance sheets, reduction in the availability of consumer credit, which may have an impact on consumer behavior, as well as a reduction in retail purchases as a result of business suspension and physical distancing measures. Any of which may have a material adverse impact on the Company's profitability, results of operations, financial condition and stock price.

The Company will continue to monitor the situation and work with its stakeholders (including customers, employees and suppliers) in order to assess further possible implications to its business, supply chain and customers, and, where practicable, take actions with a goal to mitigating adverse consequences and responsibly addressing this global pandemic.

Global Economic Uncertainty

Demand for the Company's products and services is influenced by general economic and consumer trends and regulatory environments beyond the Company's control. There can be no assurance that the Company's business and corresponding financial performance will not be adversely affected by general regulatory economic or consumer trends. In particular, global economic conditions remain constrained, and if such conditions continue, recur or worsen, this may have a material adverse effect on the Company's business, financial condition and results of operations.

Furthermore, such economic conditions have produced downward pressure on stock prices and on the availability of credit for financial institutions and corporations. If current levels of market disruption and volatility continue, the Company might experience reductions in business activity, increased funding costs and funding pressures (as applicable), a decrease in the market price of its shares, a decrease in asset values, additional write-downs and impairment charges and lower profitability.

In addition, the outbreak of COVID-19 has resulted in governments worldwide enacting measures to combat the spread of the virus, including in the United States. These measures, which include the implementation of travel restriction, self-isolation measures, physical distancing and in some instances, the suspension of non-essential business, have caused material disruption to businesses globally, resulting in an economic slowdown. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the response measures. It is impossible to forecast the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the Company's business, operations and prospects, both in the short term and in the long term. Future crises may be precipitated by any number of causes, including natural disasters, public health crises, geopolitical instability, or sovereign defaults. These factors may impact the Company's operations and the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favorable to the Company. Increased levels of volatility and market turmoil can adversely impact the Company's operations and stock price.

Industry Competition

The markets for businesses in the CBD and hemp extracts industries are competitive and evolving. In particular, the Company faces strong competition from both existing and emerging companies that offer similar products to the Company. Some of the Company's current and potential competitors may have longer operating histories, greater financial, marketing and other resources and larger customer bases.

Given the rapid changes affecting the global, national and regional economies generally and the CBD industry, in particular, the Company may not be able to create and maintain a competitive advantage in the marketplace. The Company's success will depend on its ability to keep pace with any changes in such markets, especially in light of legal and regulatory changes. The Company's success will also depend on its ability to respond to, among other things, changes in the economy, market conditions, and regulatory and competitive pressures. Any failure to anticipate or respond adequately to such changes could have a material adverse effect on the Company's financial condition, operating results, liquidity, cash flow and operational performance.

Key Officers and Employees

The Company's success and future growth will depend, to a significant degree, on the continued efforts of the Company's directors and officers to develop the business and manage operations, and on their ability to attract and retain key technical, scientific, sales, and marketing staff or consultants. The loss of any key person or the inability to attract and retain new key personnel could have a material adverse effect on the business. Competition for qualified technical, scientific, sales, and marketing staff, as well as officers and directors can be intense, and no assurance can be provided that the Company will be able to attract or retain key personnel in the future. The Company's inability to retain and attract the necessary personnel could materially adversely affect the business and financial results from operations.

In addition, COVID-19 poses a risk to all of the Company's activities, including the potential that a member of Management may become negatively impacted by the virus and the Company's ability to continue to rely on its key personnel throughout the pandemic. The Company will diligently monitor developments relating to COVID-19 and its impact on the Company's personnel, and make operational adjustments as necessary. Any of the foregoing risks or actions could disrupt the Company's operations and have a materials adverse effect on the Company's results from operations and financials condition.

Product Viability

If the products the Company sells are not perceived to have the effects intended by the end user, its business may suffer. In general, the Company's products contain hemp extract and other ingredients which are classified in the United States as dietary supplements. Many of the Company's products contain innovative ingredients or combinations of ingredients. There is little long-term data with respect to efficacy, unknown side effects and/or interaction with individual human biochemistry. Moreover, there is little long-term data with respect to efficacy, unknown side effects and/or its interaction with individual animal biochemistry. As a result, the Company's products could have certain side effects if not taken as directed or if taken by an end user that has certain known or unknown medical conditions.

Agricultural Operations Risk

The Company's business is dependent on the outdoor growth and production of industrial hemp, an agricultural product. As such, the risks inherent in engaging in agricultural businesses apply to the Company. Potential risks include the risk that crops may become diseased or victim to insects, fungus or other pests or contaminants, or subject to extreme weather conditions such as excess rainfall, hail, freezing temperature or drought, all of which could result in low crop yields, decreased availability of industrial hemp, inadequate inventory levels for future expected growth, and higher acquisition prices. There can be no guarantee that an agricultural event will not adversely affect the business and operating results.

In addition, the Company's agricultural activities are based on certain assumptions regarding supply and demand. These assumptions are directly impacted by the various risk factors disclosed herein and in the Company's AIF, and any change in or impact on these assumptions may impair the Company's ability to accurately anticipate cultivation volume requirements, which inability may result in a misallocation of capital resources and have a negative impact on the Company's financial condition.

Success of Quality Control Systems

The quality and safety of the Company's products are critical to the success of the business and operations. As such, it is imperative that the Company's (and its service providers') quality control systems operate effectively and successfully. Quality control systems can be negatively impacted by the design of the quality control systems, the quality training program, and adherence by employees to quality control guidelines. Although the Company strives to ensure that all of its service providers have implemented and adhere to high caliber quality control systems, any significant failure or deterioration of such quality control systems could have a material adverse effect on our business and operating results.

Domestic Supply Risk

The Company's business relies on full compliance under applicable laws and regulations relating to the sale of its products across the United States and internationally. The regulation of third-party suppliers may have a significant impact upon the Company's business. Any enforcement activity or any additional uncertainties which may arise in the future, could cause substantial interruption or cessation of the Company's business, including adverse impacts to the Company's supply chain and distribution channels, and other civil and/or criminal penalties at the federal level.

Weather Patterns

The Company's business can be affected by unusual weather patterns. The production of some of the Company's products rely on the availability and use of live plant material, which is grown in Colorado, Kentucky and Oregon. Growing periods can be impacted by weather patterns and these unpredictable weather patterns may impact the Company's ability to harvest its industrial hemp and produce products. In addition, severe weather, including drought, hail and freezing temperatures, can destroy a crop, which could result in limited quantities of hemp to process. If the Company is unable to harvest its hemp plants through its proprietary operations or contract farming arrangements, the ability to meet customer demand, generate sales and maintain operations could be impacted.

Reliance on Third-Party Suppliers and Service Providers

The Company intends to maintain a full supply chain for the material portions of the production process of its products. Despite maintaining full federal compliance and legality, the Company's suppliers and service providers may elect, at any time, to cease to engage in supply or service agreements in respect of the Company's products. Loss of suppliers or service providers could have a material adverse effect on the business and operational results.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Company. The Company is exposed to credit risk from our customers in the normal course of business. To mitigate this risk, the Company carries out regular credit evaluations (taking into account, among other things, the impact of the COVID-19 pandemic to customers' business) and purchases credit insurance, where appropriate, as a means of mitigating the risk of financial loss from defaults. The potential future economic impact of COVID-19 may impact the collectability of customer receivables, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company is exposed to this risk mainly in respect of accounts payable and accrued liabilities and lease liabilities. The Company manages liquidity risk through continuous monitoring of forecasts and actual cash flows and through the management of its capital structure.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for various reasons, including product defects such as contaminations, unintended harmful side effects or interactions with other products, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled, the Company could incur unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. The Company may lose significant revenue due to loss of sales and may not be able to compensate for or replace that revenue. There can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory actions or lawsuits. A recall for any product could lead to adverse publicity, decreased demand for the

Company's products and could have a material adverse effect on the results of operations and financial condition of the Company.

Product Liability

The Company's products will be produced for sale directly to end consumers, and therefore there is an inherent risk of exposure to product liability claims, regulatory action and litigation if the products are alleged to have caused loss or injury. In addition, the production and sale of the Company's products involves the risk of injury to end users due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human or animal consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation, and could have a material adverse effect on its business and operational results.

Effectiveness and Efficiency of Advertising and Promotional Expenditures; Search Engine Algorithms and Results

The Company's future growth and profitability will depend on the effectiveness and efficiency of advertising and promotional expenditures, including the Company's ability to (i) create greater awareness of its products; (ii) determine the appropriate creative message and media mix for future advertising expenditures; and (iii) effectively manage advertising and promotional costs in order to maintain acceptable operating margins. There can be no assurance that advertising and promotional expenditures will result in revenues in the future or will generate awareness of the Company's technologies, products or services. In addition, no assurance can be given that the Company will be able to manage its advertising and promotional expenditures on a cost-effective basis.

In addition, periodic changes to search engine algorithms, which retrieve data from search indices and deliver ranked search results, produce changes in search engine results pages. Any changes to these algorithms or in how these algorithms are applied, and therefore search engine results pages, could reduce visibility of, and traffic on, the Company's e-commerce website and negatively impact the Company's financial position and results of operations.

Additionally, the significant and continuing impact of COVID-19 in dominating news cycles in North America may have caused or could cause a reduction in search traffic for CBD or the Company's website or products. Any impact or reduction on ultimate traffic to the Company's e-commerce website could have a material adverse effect on the Company's direct-to-consumer sales, the Company's business, financial condition and results of operations.

Maintaining and Promoting Brands

Management believes that maintaining and promoting the Company's brand is critical to expanding its customer base. Maintaining and promoting the Company's brand will depend largely on the Company's ability to continue to provide quality, reliable and innovative products, which we may not be successful. The Company may introduce new products that customers do not like, which may negatively affect the brands and reputation. Maintaining and enhancing the Company's brands may require substantial investments, and these investments may not achieve the desired goals. If the Company fails to successfully promote and maintain its brand or if there are excessive expenses in this effort, the business and financial results from operations could be materially adversely affected.

Changing Consumer Preferences

As a result of changing consumer preferences, many dietary supplements and other innovative products attain financial success for a limited period of time. Even if the Company's products find retail success, there can be no assurance that any of the products will continue to see extended financial success. The Company's success will be dependent upon its ability to price, develop new, and improve product lines. Even if the Company is successful in introducing new products or further developing current products, a failure to continue to properly price or update products with compelling content could cause a decline in the products' popularity that could reduce revenues and harm the business, operating results and financial condition. Failure to introduce new features and product lines and to achieve and sustain market acceptance, could result in the Company being unable to meet consumer preferences and generate revenue, which would have a material adverse effect on profitability and financial results from operations.

Product Returns

Product returns are a customary part of the business. Products may be returned for various reasons, including expiration dates or lack of sufficient sales volume. Any increase in product returns could reduce the results of operations.

Obtaining Insurance

Due to the Company's involvement in the hemp industry, it may have a difficult time obtaining the various insurances that are desired to operate the business, which may expose the Company to additional risk and financial liability. Insurance that is otherwise readily available, such as general liability, and directors and officer's insurance, may be more difficult to find, and more expensive because of the regulatory regime applicable to the industry. There are no guarantees that the Company will be able to find such insurance coverage in the future, or that the cost will be affordable. If the Company is unable to obtain insurance coverage on acceptable terms, it may prevent it from entering into certain business sectors, may inhibit growth, and may expose the Company to additional risk and financial liabilities.

Impairment of Goodwill and Intangible Assets

Goodwill and intangible assets are reviewed for impairment annually or more frequently when events or changes in circumstances indicate that fair value of the reporting unit has been reduced to less than its carrying value. Determining the fair value of a reporting unit is judgmental and requires the use of significant estimates and assumptions, including revenue growth rates, strategic plans, and future market conditions, among others. There can be no assurance that the Company's estimates and assumptions made for purposes of the goodwill impairment will prove to be accurate predictions of the future. Adverse market conditions and the temporary or permanent loss of key customers and distribution channels, among other factors, could have a material adverse effect on the Company's business, financial condition and results of operations and could result in impairment of the Company's goodwill and intangible assets.

Additional Financings

If the Company requires additional capital to fund growth or other initiatives, it may seek additional equity or debt financing. There can be no assurances that the Company will be able to obtain additional financial resources on favorable commercial terms or at all. Failure to obtain such financial resources could affect the Company's plan for growth or result in the Company being unable to satisfy its obligations as they become due, either of which could have a material adverse effect on the business, results of operations and the financial condition of the Company.

Line of Credit

From time to time, the Company may rely on debt financing for a portion of its business activities, including capital and operating expenditures. There are no assurances that the Company will be able to comply at all times with the covenants applicable under its debt arrangements; nor are there assurances that the Company will be able to secure new financing that may be necessary to finance its operations and capital growth program. Any failure of the Company to secure financing or refinancing, to obtain new financing or to comply with applicable covenants under its borrowings could have a material adverse effect on the Company's financial results. Further, any inability of the Company to obtain new financing may limit its ability to support future growth.

Inability to Protect Intellectual Property

The Company's success is heavily dependent upon its intangible property and technology. The Company relies upon copyrights, patents, trade secrets, unpatented proprietary know-how and continuing innovation to protect the intangible property, technology and information that is considered important to the development of the business. The Company relies on various methods to protect its proprietary rights, including confidentiality agreements with consultants, service providers and Management that contain terms and conditions prohibiting unauthorized use and disclosure of confidential information. However, despite efforts to protect intangible property rights, unauthorized parties may attempt to copy or replicate intangible property, technology or processes. There can be no assurances that the steps taken by the Company to protect its intangible property, technology and information will be adequate to prevent misappropriation or independent third-party development of the Company's intangible property, technology or processes. It is likely that other companies can duplicate a production process similar to the Company's. Other companies may also be able to materially duplicate the Company's proprietary plant strains. To the extent that any of the above would occur, revenue could be negatively affected, and in the future, the Company may have to litigate to enforce its intangible property rights, which could result in substantial costs and divert Management's attention and Company resources.

The Company may be unable to obtain registrations for its intellectual property rights for various reasons, including refusal by regulatory authorities to register trademarks or other intellectual property protections, prior registrations of which it is not aware, or it may encounter claims from prior users of similar intellectual property in areas where it operates or intends to conduct operations. This could harm its image, brand or competitive position and cause the Company to incur significant penalties and costs. On April 20, 2018 the U.S. Patent and Trademark Office ("USPTO") issued a Final Office Action refusing registration of two trademark applications submitted by the Company based on the Trademark Examiner's interpretation that the marks were not in lawful use in commerce under Sections 1 and 45 of the United States Trademark Act and because the goods identified in the application were not in compliance with either the Controlled Substances Act ("CSA") or the Food, Drug, and Cosmetic Act ("FD&C Act"). The Company filed a Request for Reconsideration of the refusals in March 2019. Despite USPTO's aforementioned position and refusal for registration, the Company may rely on common law theories of trademark protection and enforcement in cases of actual or suspected trademark infringement of the trademarks it wishes to protect.

Intellectual Property Claims

Companies in the retail and wholesale consumer packaged goods industries frequently own trademarks and trade secrets and often enter into litigation based on allegations of infringement or other violations of intangible property rights. The Company may be subject to intangible property rights claims in the future and its products may not be able to withstand any third-party claims or rights against their use. Any intangible property claims, with or without merit, could be time consuming, expensive to litigate or settle and could divert Management resources and attention. An adverse determination also could prevent the Company from offering its products to others and may require that the Company procure substitute products or services for these members.

With respect to any intangible property rights claim, the Company may have to pay damages or stop using intangible property found to be in violation of a third-party's rights. The Company may have to seek a license for the intangible property, which may not be available on reasonable terms and may significantly increase operating expenses. The technology also may not be available for license at all. As a result, the Company may also be required to pursue alternative options, which could require significant effort and expense. If the Company cannot license or obtain an alternative for the infringing aspects of its business, it may be forced to limit product offerings and may be unable to compete effectively. Any of these results could harm the Company's brand and prevent it from generating sufficient revenue or achieving profitability.

Trade Secrets may be Difficult to Protect

The Company's success depends upon the skills, knowledge and experience of its scientific and technical personnel, consultants and advisors, as well as contractors. Because the Company operates in a highly competitive industry, it relies in part on trade secrets to protect its proprietary products and processes. However, trade secrets are difficult to protect. The Company enters into confidentiality or non-disclosure agreements with its corporate partners, employees, consultants, outside scientific collaborators, developers and/ other advisors. These agreements generally require that the receiving party keep confidential and not disclose to third-parties confidential information developed by the receiving party or made known to the receiving party by the Company during the course of the receiving party's relationship with the Company. These agreements also generally provide that inventions conceived by the receiving party in the course of rendering services to the Company will be its exclusive property, and the Company enters into assignment agreements to perfect its rights.

These confidentiality, inventions and assignment agreements, where in place, may be breached and may not effectively assign intellectual property rights to the Company. The Company's trade secrets could also be independently discovered by competitors, in which case the Company would not be able to prevent the use of such trade secrets by its competitors. The enforcement of a claim alleging that a party illegally obtained and was using the Company's trade secrets could be difficult, expensive and time consuming and the outcome could be unpredictable. Failure to obtain or maintain effective trade secret protection could adversely affect the Company's competitive position.

Data Security Breaches

The Company or its third-party service providers collect, process, maintain and use sensitive personal information relating to its customers and employees, including customer financial data (e.g., credit card information) and their personally identifiable information, and rely on third parties in connection with the operation of its e-commerce site and for the various social media tools and websites it uses as part of its marketing strategy. Any perceived, attempted or actual unauthorized disclosure of customer financial data (e.g., credit card information) or personally identifiable information regarding the Company's employees, customers or website visitors could harm its reputation and credibility, reduce its e-commerce sales, impair its ability to attract website visitors, reduce its ability to attract and retain customers and could result in litigation against the Company or the imposition of significant fines or penalties.

Recently, data security breaches suffered by well-known companies and institutions have attracted a substantial amount of media attention, prompting new foreign, federal, provincial and state laws and legislative proposals addressing data privacy and security. As a result, the Company may become subject to more extensive requirements to protect the customer information that it processes in connection with the purchase of its products, resulting in increased compliance costs.

The Company's on-line activities, including its e-commerce websites, also may be subject to denial of service or other forms of cyber-attacks. While the Company has taken measures to protect against those types of attacks, those measures may not adequately protect its on-line activities from such attacks. If a denial of service attack or other cyber event were to affect the Company's e-commerce sites or other information technology systems, its business could be disrupted, it may lose sales or valuable data, and its reputation may be adversely affected.

Climate Change-Related Risks

Climate change could exacerbate certain risks inherent in the Company's agricultural operations. Climate change could result in increasing frequency and severity of weather-related events, resource shortages, changes in rainfall and storm patterns and intensities, water shortages and changing temperatures, and of which can damage or destroy crops, resulting in the Company having no or limited hemp to process. If the Company is unable to harvest hemp through its proprietary operations or contract farming arrangements, its ability to meet customer demand, generate sales, and maintain operations will be impacted. Furthermore, severe weather-related events may result in substantial costs to the Company, including costs to respond during the event, to recover from the event, and to possibly modify existing or future infrastructure requirements to prevent recurrence. Climate changes could also disrupt the Company's operations by impacting the availability and costs of materials needed for production and could increase insurance and other operating costs.

A number of governments or governmental bodies have introduced or are introducing regulatory changes in response to concerns about the potential impact of climate change. The Company faces the risk that its operations could be subject to government initiatives aimed at countering climate change, which could impose constraints on the Company's operations, for example due to increased costs for fossil fuels, electricity and transportation and costs associated with monitoring and reporting.

RISKS RELATED TO THE REGULATORY ENVIRONMENT

Changes to Laws and Regulations Pertaining to Hemp

As of the date hereof, approximately forty seven states authorized hemp programs pursuant to the 2014 Farm Bill. Additionally, a handful of states and Native American tribes have had hemp regulatory plans approved under the 2018 Farm Bill. These new plans supplant any prior programs for hemp in these jurisdictions. Continued development of the hemp industry will be dependent upon new legislative authorization of hemp at the state level, and further amendment or supplementation of legislation at the federal level. Any number of events or occurrences could slow or halt progress altogether in this space. While progress within the hemp industry is currently encouraging, growth is not assured. Growth may be slowed by business failures of individuals or companies involved in supply and/or demand chains. Additionally, while there appears to be ample public support for favorable legislative action, numerous factors may impact or negatively affect the legislative process(es) within the various states where the Company has business interests or transports raw material to various processing centers for final product production. Any one of these factors could slow or halt use of hemp, which could negatively impact the business up to possibly causing the Company to discontinue operations as a whole.

Legislative and regulatory uncertainties, along with difficulties concerning potential enforcement activities by U.S. federal, state and local governments (or discretion exercised thereby), also represent significant risks concerning the Company's business activities. Possible risks include, but are not limited to:

- positions asserted by the FDA concerning products containing derivatives from Hemp;
- uncertainty surrounding the characterization of cannabinoids as a dietary ingredient by the FDA; and
- enforcement activities by state and/or local law enforcement and regulatory authorities under the auspice of individual state law, regardless of any potential conflict thereby with federal law.

If the Company's operations are found to be in violation of any of such laws or any other governmental regulations, the Company may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures, any of which could adversely affect the Company's business and financial results.

Costs Associated with Numerous Laws and Regulations

The manufacture, labeling and distribution of the Company products is regulated by various federal, state and local agencies. These governmental authorities may commence regulatory or legal proceedings, which could restrict the permissible scope of the Company's product claims or the ability to sell products in the future. The FDA regulates the Company's products to ensure that the products are not adulterated or misbranded.

The Company is subject to regulation by the federal government and other state and local agencies as a result of its CBD products. The shifting compliance environment and the need to build and maintain robust systems to comply with different compliance in multiple jurisdictions increases the possibility that the Company may violate one or more of the requirements. If the Company's operations are found to be in violation of any of such laws or any other governmental regulations that apply to the Company, it may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations, any of which could adversely affect the ability to operate the Company's business and its financial results.

Failure to comply with FDA requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. The Company's advertising is subject to regulation by the Federal Trade Commission ("FTC") under the Federal Trade Commission Act. In recent years, the FTC has initiated numerous investigations of dietary supplement products and companies. Additionally, some states also permit advertising and labeling laws to be enforced by private attorney generals, who may seek relief for consumers, seek class-action certifications, seek class-wide damages and product recalls of products sold by the Company. Any actions against the Company by any governmental authorities (Domestic or International) or private litigants could have a material adverse effect on the Company's business, financial condition and results of operations.

Uncertainty Caused by Potential Changes to Legal Regulations

There is substantial uncertainty and different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses as to the 2018 Farm Bill and the emerging regulation of cannabinoids. These different opinions include, but are not limited to, the regulation of cannabinoids by the FDA and the extent to which 2018 Farm Bill-compliant cultivators and processors may engage in interstate commerce. The uncertainties cannot be resolved without further federal, and perhaps even state-level, legislation, regulation or a definitive judicial interpretation of existing legislation and rules. If these uncertainties continue, such may have an adverse effect upon the introduction and availability of the Company's products in different markets.

Regulatory Approval and Permits

The Company may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are sold. There can be no assurance that the Company will be able to obtain or maintain any necessary licenses, permits or approvals. Any material delay or inability to receive these items is likely to delay and/or inhibit the Company's ability to conduct its business, and would have an adverse effect on the business, financial condition and results of operations.