These financial statements for Charlotte's Web Holdings, Inc. are also included in the Form 10-K for the year ended December 31, 2022 filed on SEDAR on March 23, 2023 in its entirety. Amounts are presented in thousands of United States dollars, unless otherwise indicated.

Item 8. Financial Statements and Supplementary Data

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Charlotte's Web Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Charlotte's Web Holdings, Inc. (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2019.

Denver, Colorado

March 23, 2023

CHARLOTTE'S WEB HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 66,963	$ 19,494
Accounts receivable, net	1,847	4,882
Inventories, net	26,953	52,077
Prepaid expenses and other current assets	7,998	8,590
Income taxes receivable	—	10,764
Total current assets	103,761	95,807
Property and equipment, net	29,330	36,085
License and media rights	26,871	—
Operating lease right-of-use assets, net	16,519	20,679
Intangible assets, net	1,771	2,843
SBH purchase option and other derivative assets	3,620	13,000
Notes receivable - noncurrent	—	1,037
Other long-term assets	5,770	2,062
Total assets	$ 187,642	$ 171,513
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,018	$ 5,049
Accrued and other current liabilities	6,899	9,570
Cultivation liabilities – current	445	3,448
Lease obligations – current	2,306	2,103
License and media rights payable - current	7,759	—
Total current liabilities	21,427	20,170
Cultivation liabilities – noncurrent	6	385
Lease obligations – noncurrent	17,905	20,500
Derivative and other long-term liabilities	12,995	12
License and media rights payable - noncurrent	20,383	—
Convertible debenture	37,421	—
Total liabilities	110,137	41,067
Commitments and contingencies (note 9)		
Shareholders' equity:		
Common shares, nil par value; unlimited shares authorized as of December 31, 2022 and 2021, respectively; 152,135,026 and 144,659,964 shares issued and outstanding as of December 31, 2022 and 2021	1	1
Additional paid-in capital	325,431	319,059
Accumulated deficit	(247,927)	(188,614)
Total shareholders' equity	77,505	130,446
Total liabilities and shareholders' equity	$ 187,642	$ 171,513

See Notes to Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

	Year Ended December 31,	
	2022	**2021**
Revenue	$ 74,139	$ 96,092
Cost of goods sold	54,728	47,507
Gross profit	19,411	48,585
Selling, general and administrative expenses	70,060	97,641
Goodwill and asset impairments	1,837	98,003
Operating loss	(52,486)	(147,059)
Other income, net	744	51
Change in fair value of financial instruments and other	(7,480)	9,429
Loss before provision for income taxes	$ (59,222)	$ (137,579)
Income tax expense	(91)	(143)
Net loss	$ (59,313)	$ (137,722)
Net loss per common share, basic and diluted	$ (0.40)	$ (0.98)
Weighted-average shares used in computing net loss per share, basic and diluted	146,631,767	140,769,247

See Notes to Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except share amounts)

	Proportionate Voting Shares	Common Shares		Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
	Shares	Shares	Amount			
Balance—December 31, 2020	81,177	107,060,237	$ 1	$ 305,133	$ (50,892)	$ 254,242
Exercise of stock options	—	8,261	—	30	—	30
Conversion to common shares	(81,177)	32,471,060	—	—	—	—
Exercise of warrants	—	98,788	—	441	—	441
Withholding of common shares upon vesting of restricted share units	—	182,727	—	(146)	—	(146)
Harmony Hemp contingent equity compensation	—	338,091	—	1,460	—	1,460
ATM Program, net of share issuance costs	—	4,500,800	—	8,118	—	8,118
Share-based compensation	—	—	—	4,023	—	4,023
Net loss	—	—	—	—	(137,722)	(137,722)
Balance—December 31, 2021	—	144,659,964	$ 1	$ 319,059	$ (188,614)	$ 130,446
Common shares issued upon vesting of restricted share units, net of withholdings	—	947,396	—	(190)	—	(190)
Harmony Hemp contingent equity compensation	—	169,045	—	164	—	164
Common share issuance license and media agreement		6,119,121	—	3,060	—	3,060
ATM Program, net of share issuance costs	—	239,500	—	(65)	—	(65)
Share-based compensation	—	—	—	3,403	—	3,403
Net loss	—	—	—	—	(59,313)	(59,313)
Balance—December 31, 2022	—	152,135,026	$ 1	$ 325,431	$ (247,927)	$ 77,505

See Notes to Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

See Notes to Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Cash flows from operating activities:		
Net loss	$ (59,313)	$ (137,722)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8,968	11,025
Goodwill and asset impairments	1,837	98,003
Change in fair value of financial instruments	7,480	(9,305)
Allowance for credit losses	1,226	1,509
Inventory provision	23,394	9,729
Share-based compensation	3,403	5,483
Changes in right-of-use assets	2,146	2,368
Loss (gain) on disposal of assets	(184)	390
Other	958	—
Changes in operating assets and liabilities:		
Accounts receivable, net	2,946	(948)
Inventories, net	1,730	1,023
Prepaid expenses and other current assets	3,781	694
Operating lease obligations	(2,012)	(2,230)
Accounts payable, accrued and other liabilities	(3,577)	(2,911)
License and media rights	(500)	—
Income tax receivable	10,764	676
Cultivation liabilities	(4,000)	(7,166)
Other operating assets and liabilities, net	(4,362)	(177)
Net cash used in operating activities	(5,315)	(29,559)
Cash flows from investing activities:		
Purchases of property and equipment and intangible assets	(265)	(4,918)
Proceeds from sale of assets	660	13
Issuance of notes receivable, net of collections	—	510
Investment in Stanley Brothers USA Holdings purchase option	—	(8,000)
Other investing activities	—	606
Net cash provided by (used in) investing activities	395	(11,789)
Cash flows from financing activities:		
Proceeds from public offerings, net of issuance costs	(64)	8,257
Proceeds from stock option exercises	—	30
Proceeds from convertible debenture	52,761	—
Other financing activities	(308)	(248)
Net cash provided by financing activities	52,389	8,039
Net increase (decrease) in cash and cash equivalents	47,469	(33,309)
Cash and cash equivalents —beginning of year	19,494	52,803
Cash and cash equivalents —end of year	$ 66,963	$ 19,494
Non-cash activities:		
Non-cash purchase of license and media rights assets	(31,399)	—
Non-cash share issuance for license and media rights agreement	(3,060)	—
Non-cash purchases of property and equipment	—	(2,500)
Reduction to cultivation liabilities for inventory provision	—	(543)

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share, per share, per unit, and number of years)

1. DESCRIPTION OF BUSINESS AND PRESENTATION OF FINANCIAL STATEMENTS

Description of the Business

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

The Company’s primary products are made from proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, terpenes, flavonoids and other hemp compounds. Hemp extracts are produced from the plant *Cannabis sativa L.* (“Cannabis”), and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol ("THC") concentration of not more than 0.3% on a dry weight basis ("Hemp"). The Company is engaged in research involving the effectiveness of a broad variety of compounds derived from Hemp.

The Company’s current product categories include human ingestible products: tinctures (liquid product), capsules, gummies, sprays, topicals, and pet products. 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 does not currently produce or sell medicinal or recreational marijuana or products derived from high-THC Cannabis plants. On March 2, 2021, Charlotte’s Web executed an Option Purchase Agreement pursuant to which the Company has the option to acquire Stanley Brothers USA Holdings, Inc. (“Stanley Brothers USA”), a Cannabis wellness incubator. Until the Stanley Brothers USA Holdings Purchase Option ("SBH Purchase Option") is exercised, both Charlotte’s Web and Stanley Brothers USA will continue to operate as standalone entities in the US. Internationally, the companies are able to explore opportunities where Cannabis is federally permissible. The Company does not currently have any plans to expand into high-THC products in the near future.

The Company grows its proprietary hemp domestically in the United States on farms leased in northeastern Colorado and sources Hemp through contract farming operations in Kentucky, Oregon, and Canada. The Hemp grown in Canada is utilized exclusively in the Canadian market and not in products sold in the United States.

In furtherance of the Company’s R&D efforts, in 2020, the Company established CW Labs, an internal division for R&D, to substantially expand the Company’s efforts around the science of hemp derived compounds. CW Labs is currently engaged in clinical trials addressing Hemp-based health solutions. CW Labs is located in Louisville, Colorado at the Company’s current good manufacturing practice ("cGMP") production and distribution facility.

Emerging Growth Company Status

The Company is an emerging growth company ("EGC"), as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has elected to use the extended transition period for complying with new or revised accounting standards, and as a result of this election, the consolidated financial statements may not be comparable to companies that comply with public company FASB standards' effective dates. The Company can elect to early adopt, if permitted by the accounting standard. The Company may take advantage of these exemptions up until the last day of the fiscal year following the fifth anniversary of an offering or such earlier time that it is no longer an EGC.

Smaller Reporting Company Status

The Company is a "smaller reporting company" as defined in Exchange Act of 1934, as amended ("Exchange Act") Rule 12b-2. As a result, the Company is eligible to take advantage of certain reduced disclosure and other requirements that are otherwise applicable to public companies including, but not limited to, not being subject to the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002. The Company will remain a smaller reporting company until the last day of the fiscal year in which (1) the aggregate worldwide market value of its common shares held by non-affiliates equaled or exceeded $250 million as of the prior June 30th, or (2) its annual revenues equaled or exceeded $100 million during such completed fiscal year and the aggregate worldwide market value of its common shares held by non-affiliates equaled or exceeded $700 million as of the prior June 30th.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Unless otherwise indicated, comparisons are to comparable prior periods, and 2022 and 2021 refer to the 12 months ended December 31, 2022, and December 31, 2021, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make informed estimates, judgments and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the disclosures in the accompanying notes. On an ongoing basis, management evaluates such estimates and assumptions for continued reasonableness. In particular, management makes estimates with respect to any (i) inventory provision, (ii) underlying assumptions that affect the potential impairment of goodwill and long-lived assets, (iii) ability to realize income tax benefits associated with deferred tax assets, and, (iv) underlying assumptions that affect the fair value of the SBH purchase option and other derivative instruments. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation. Management's estimates are based on historical information available at the date of the consolidated financial statements and various other assumptions management believes are reasonable based on the circumstances. Actual results could differ materially from those estimates.

Reclassifications and prior period presentations

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

Basic and Diluted Net Loss per Share

Basic net loss per common share is computed by dividing the allocated net loss and by the weighted-average number of common shares outstanding during the period. Diluted loss per common share is computed by dividing the allocated net loss by the weighted-average number of common shares together with the number of additional common shares that would have been outstanding if all potentially dilutive common shares had been issued. Since the Company was in a loss position for the periods presented, basic net loss per share is the same as diluted net loss per share since the effects of potentially dilutive securities are antidilutive.

Segments

Operating segments are defined as components of an entity for which discrete financial information is available that is regularly reviewed by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources and in assessing performance. As such, the Company has one operating segment, which is the business of hemp-based CBD wellness products. Substantially all long-lived assets are located in the United States and substantially all revenue is attributed to customers based in the United States.

Cash and Cash Equivalents

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

Concentration of Credit Risk

The Company's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The cash amounts in deposit accounts held in excess of federally-insured limits were $66,713 and $19,244 as of December 31, 2022 and 2021, respectively.

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk, but has limited risk, as the majority of its sales are transacted with cash.

As of December 31, 2022 and 2021, no single customer accounted for more than 10% of the Company's consolidated revenue. The Company had one customer whose accounts receivable balance individually represented 21% and 34% of accounts receivable as of December 31, 2022 and 2021, respectively.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable is stated as the amount billed, net of an estimated allowance for credit losses ("ACL"). The Company's ACL is adjusted periodically and is based on management's consideration of the age and nature of the past due accounts as well as specific payment issues. The Company considers as past due any receivable balance not collected within its contractual terms. Changes in the Company's estimate to the ACL is recorded through bad debt expense and individual accounts are charged against the allowance when all reasonable collection efforts are exhausted.

Inventories

Inventories are stated at the lower of cost or 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 for direct raw materials inputs, as well as costs 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 weighted average 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, including State and Federal regulatory considerations. The Company's raw materials inventories of harvested hemp are recorded at cost to harvest. Raw materials costs as well as production costs are included in the carrying value of the Company's finished goods inventory. The Company's inventory production process for cannabinoid products includes the cultivation of botanical raw material. Because of the duration of the cultivation process, a portion of the inventory will not be sold within one year. Consistent with the practice in other industries that cultivate botanical raw materials, all inventory is classified as a current asset. Refer to note "Inventories" for further discussion.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets were comprised of the following amounts (in thousands):

	December 31, 2022	December 31, 2021
Prepaid expenses	$ 2,612	$ 6,224
License and media rights	2,500	—
Deposits	2,313	925
Other miscellaneous receivables	573	1,441
Total prepaid expenses and other current assets	$ 7,998	$ 8,590

Property and Equipment, Net

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building	30 years
Machinery and equipment	3-12 years
Furniture and fixtures	2-7 years
Leasehold improvements	Shorter of useful life or term of lease (2-15 years)

Construction-in-process assets are capitalized during construction and depreciation commences when the asset is placed into service. Significant improvements that extend the useful life of an asset are capitalized. Repairs and maintenance which do not extend the useful lives of assets are expensed as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gains or losses are recognized.

Intangible Assets, Net

Finite Lived Intangible Assets

Finite lived intangible assets consist of software, patents, and licenses. These intangible assets were determined to have finite lives and are amortized over their useful lives. Software is stated at cost less accumulated amortization. The costs of obtaining a patent are capitalized and amortized over its useful life.

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

Software	2-5 years
Patents	15-20 years

Capitalized Software Development Costs

The Company develops software for internal use. Software development costs incurred during the application development stage, which includes payroll and payroll-related costs related to employees and third-party consultant costs are capitalized. The Company amortizes these costs over the estimated useful life of the software, which is generally three years. These costs are included in intangible assets, net on the consolidated balance sheets.

Goodwill

Goodwill represents the excess of acquisition costs over the fair value of tangible assets and identifiable intangible assets of the businesses acquired. Goodwill is not amortized. Goodwill is subject to impairment testing annually as of October 1, or any time changes in circumstances indicate that the carrying amount may not be fully recoverable. The Company performs its annual impairment test to determine if any events or circumstances exist, such as an adverse change in business climate or a decline in overall industry demand, that would indicate that it would more likely than not reduce the fair value of a reporting unit below its carrying amount, including goodwill.

If events or circumstances do not indicate that the fair value of a reporting unit is below its carrying amount, then goodwill is not considered to be impaired and no further testing is required. If it is determined that there are impairment indicators, the Company will compare the fair value of its reporting units to its carrying value, including goodwill. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the amount by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. The Company also monitors the indicators for goodwill impairment testing between annual tests. See note "Goodwill and intangible assets", for further discussion.

Impairment of Long-Lived Assets

The Company reviews intangible assets with indefinite useful lives for impairment at least annually and reviews all intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Long-lived assets, such as property and equipment and intangible assets subject to depreciation and amortization, as well as indefinite lived intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or that the useful life is shorter than the Company had originally estimated. Recoverability of these assets is measured by comparison of the carrying amount of each asset or asset group to the future undiscounted cash flows the asset or asset group is expected to generate over their remaining lives. If the asset or asset group is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset or asset group. If the useful life is shorter than originally estimated, the Company amortizes the remaining carrying value over the new shorter useful life. See note "Goodwill and Intangible Assets", and note "Property and Equipment, net", for further discussion.

Cultivation Liabilities

Cultivation liabilities consist of amounts owed to third-party farming operators for the hemp harvests cultivated between 2022 and 2019. There were no cultivation liabilities incurred for the hemp harvest cultivated in 2021 or 2020 as there was minimal hemp grown with third-party farming operators due to sufficient quantities on hand of harvested hemp inventories and the resulting minimal crops did not trigger additional liabilities per the terms of the agreements. The terms of the agreements with third-party farming operators are fixed and determined based on the potency and yield of the hemp crops after harvests are completed. As stated in the agreements with the third-party farming operators, amounts are paid over four or eight quarters depending on the quantity of acres planted. The Company can reduce the settlement amount of cultivation liabilities for harvested hemp outside of quality specifications, as stated in the agreements. The cultivation liabilities are initially measured at the present value of future payments, discounted using a risk free interest rate. Refer to note "Cultivation Liabilities" for detail of the cultivation liabilities for the years ended December 31, 2022 and 2021.

Leases

The Company elected to early adopt ASU 2016-02, *Leases* (Topic 842) as of January 1, 2019, as permitted by the standard. After the adoption of this standard, the Company determined if an arrangement contains a lease at inception based on whether there is an identified asset and whether the Company controls the use of the identified asset throughout the period of use. The Company classifies leases as either finance or operating. The Company does not have any finance leases. Right-of-use ("ROU") assets are recognized at the lease commencement date and represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the remaining lease term.

Present value of lease payments are discounted based on the more readily determinable of (i) the rate implicit in the lease or (ii) the Company's incremental borrowing rate. Because the Company's operating leases generally do not provide an implicit rate, the Company estimates its incremental borrowing rate based on the information available at lease commencement date for collateralized borrowings with a similar term, an amount equal to the lease payments and in a similar economic environment where the leased asset is located. The collateralized borrowings were based on the Company's credit rating corroborated with market credit metrics like debt level and interest coverage.

The Company's operating lease ROU assets are measured based on the corresponding operating lease liability adjusted for (i) payments made to the lessor at or before the commencement date, (ii) initial direct costs incurred and (iii) lease incentives under the lease. Options to renew or terminate the lease are recognized as part of the Company's ROU assets and lease liabilities when it is reasonably certain the options will be exercised. ROU assets are also assessed for impairments consistent with the Company’s long-lived asset policy. See note "Leases" for further discussion.

Operating lease expense for fixed lease payments is recognized on a straight-line basis over the lease term. Variable lease payments for real estate taxes, insurance, maintenance, and utilities, which are generally based on the Company’s pro rata share of the total property, are not included in the measurement of the ROU assets or lease liabilities and are expensed as incurred.

Operating leases are presented separately as operating lease right-of-use assets, net and lease obligations, current and non-current, in the accompanying consolidated balance sheets.

We have elected the short-term lease recognition exemption for all applicable classes of underlying assets. Short-term disclosures include only those leases with a term greater than one month and 12 months or less, and expense is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less, that do not include an option to purchase the underlying asset that we are reasonably certain to exercise, are not recorded on the balance sheet.

Convertible Debenture

The Company determined that the debenture is a freestanding financial instrument, which includes embedded derivatives. The embedded derivatives have been bifurcated from the debenture and accounted for separately in accordance with the provisions of ASC 815, *Derivatives and Hedging*. The Company reviewed the terms of the debenture and identified two material embedded features which required bifurcation and separate accounting pursuant to the provisions of ASC 815: 1) the interest rate conversion feature based on changes in federal regulations, and 2) the debt conversion option to common shares. The debt interest rate conversion feature is classified as a derivative asset and measured at fair value using a probability weighted income approach. The debt conversion option is classified as a derivative liability and measured at fair value using a Black-Scholes option pricing model. The Company allocated proceeds first to the derivatives measured at fair value and the residual amount is allocated to the debenture. Debt issuance costs are allocated to the debenture. The debt issuance costs are presented as a direct reduction from the face value of the debenture and amortized over the stated term of the debenture. Refer to note "Fair Value Measurement' and note "Debt" for additional discussion regarding the convertible debenture and derivative instruments.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customer* (“ASC 606”). The Company elected to early adopt ASC 606 as of January 1, 2018, as permitted by the standard. The Company performs the following five steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company applies the five-step model to arrangements that meet the definition of a contract under the standard, including when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of revenue accounting, the Company evaluates the goods or services promised within each contract related performance obligation and assesses whether each promised good or service is distinct. The Company recognizes as revenue, the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

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

The Company recognizes revenue from customers when control of the goods or services are transferred to the customer, generally when products are shipped, at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. Freight revenue is included in revenue on the consolidated statements of operations, and is generally exempt from state sales taxes. Sales tax collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenue in the consolidated statements of operations. Contracts are written to include standard discounts and allowances. Contracts are not written to include advertising allowances, tiered discounts or any other performance obligation. Since the Company's contracts involve the delivery of various tangible products, the arrangements are considered to contain only a single performance obligation, as such there is no allocation of the transaction price. The Company also offers ecommerce discounts and promotions through its online rewards program. The Charlotte's Web Loyalty Program offers customers rewards points for every dollar spent through the Company website to earn store credit for future purchases. The Company defers recognition of revenue for unredeemed awards until the following occurs: (1) rewards are redeemed by the consumer, (2) points or certificates expire, or (3) an estimate of the expected unused portion of points or certificates is applied, which is based on historical redemption patterns.

Any product that doesn't meet the customer's expectations can be returned within the first 30 days of delivery in exchange for another product or for a full refund. Any product sold through a distributor or retailer must be returned to the original purchase location for any return or exchange. The Company accounts for customer returns utilizing the "expected value method." Expected amounts are excluded from revenue and recorded as a "refund liability" that represents the Company's obligation to return the customer's consideration. Estimates are based on actual historical and current specific data.

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

	Year Ended December 31,	
	2022	**2021**
Direct-to-consumer	$ 50,700	$ 62,334
Business-to-business	23,439	33,758
Total	$ 74,139	$ 96,092

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

Cost of Goods Sold

Cost of goods sold primarily consists of the inventory and production costs for the Company's products sold during the period, and also includes amortization and depreciation, as well as allocated expenses. For the year ended December 31, 2022 and 2021, cost of goods sold includes $23,394 and $9,729 in inventory provision, respectively. Refer to note "Inventories" for further discussion.

Selling, General and Administrative

Selling, general and administrative expense primarily consists of compensation and other personnel-related costs, including share-based compensation, marketing and advertising expenses, professional services fees, rent and related costs, property and casualty and directors and officers insurance premiums and bank and merchant fees. Advertising expenses are expensed as incurred and primarily includes the cost of marketing activities such as online advertising, search engine optimization, promotional activities and market research. For the years ended December 31, 2022 and 2021, the Company recognized $12,211 and $17,523 of advertising expense, respectively. Selling, general and administrative expense also includes research and development expenses, which are expensed as incurred. For the years ended December 31, 2022 and 2021, the Company recognized $3,435 and $5,502, respectively, of research and development expenses.

Defined Contribution Plan

The Company has defined contribution plans, under which the Company contributes based on a percentage of the employees' elected contributions. Defined contribution expense of $540 and $441 was recorded during the years ended December 31, 2022 and December 31, 2021, respectively.

Share-based Compensation

The Company accounts for compensation expense for share-based option awards to employees, non-employee directors, and other non-employees based on the estimated grant date fair value of the options on a straight-line basis over the requisite service period, which is the vesting period for stock options. The fair value of stock options are estimated using the Black-Scholes-Merton ("Black-Scholes") valuation model, which requires assumptions and judgments regarding stock price, volatility, risk-free interest rates, dividend yields and expected option terms. The Company uses the historical volatility and grant date closing price of its publicly traded shares to estimate the grant-date fair value of its stock options. Due to the lack of historical exercise history, the expected term of the Company's stock options for employees has been determined utilizing the "simplified" method for awards. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is zero based on the fact that the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future. Share-based compensation is recognized net of actual forfeitures when they occur. All share-based compensation costs are recorded in the consolidated statements of operations in selling, general and administrative expense.

The Company measures nonemployee awards at their fair value consistent with the accounting for employee share-based compensation as described above. For the years ended December 31, 2022 and December 31, 2021, the Company did not have any material expense for nonemployee awards.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets or liabilities are computed based on the temporary difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal income tax rate in effect for the year in which the differences are expected to reverse. Deferred income tax expense or benefit is based on the changes in the deferred income tax assets or liabilities from period to period. A valuation allowance is established if it is more-likely-than-not that all or a portion of the deferred tax asset will not be realized.

Significant judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against net deferred tax assets. We assess the likelihood that deferred tax assets will be recovered as deductions from future taxable income. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis and includes a review of all available positive and negative evidence. Factors reviewed include projections of pre-tax book income for the foreseeable future, determination of cumulative pre-tax book income or loss, earnings history, and reliability of forecasting. It is the Company's policy to offset indefinite lived deferred tax assets with indefinite lived deferred tax liabilities. The Company provided a full valuation allowance on deferred tax assets because it is more likely than not that deferred tax assets will not be realized.

The Company accounts for uncertainties in income taxes under Topic 740, which prescribes a recognition threshold and measurement methodology to recognize and measure an income tax position taken, or expected to be taken, in a tax return. With respect to any tax positions that do not meet the recognition threshold, a corresponding liability, including interest and penalties, is recorded in the consolidated financial statements. The Company may be subject to examination by tax authorities where the Company conducts operations. The earliest income tax year that may be subject to examination is 2018. The Company has recorded an uncertain tax position of $221 and $179 as of December 31, 2022 and December 31, 2021, respectively. The Company's policy is to recognize interest and penalties on taxes, if any, as income tax expense.

Recently Issued Accounting Pronouncements

Other than described below, no new accounting pronouncements adopted or issued by the Financial Accounting Standards Board ("FASB") had or may have a material impact on the Company's consolidated financial statements.

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2020-04, *Reference Rate Reform (Topic 848)—Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This standard provides optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in this standard apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on rollforward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. The Company is currently evaluating the impact, if any, that the updated standard will have on the condensed consolidated financial statements.

Recently Adopted Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which aims to reduce complexity in accounting standards by improving certain areas of U.S. GAAP without compromising information provided to users of financial statements. ASU 2019-12 is effective for public entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other entities, the standard is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted, and the Company elected to adopt for the fiscal year beginning January 1, 2022. There was an immaterial impact upon adoption on the condensed consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40):Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"), which simplifies the accounting for convertible instruments by removing the separation models for convertible debt instruments and convertible preferred stock with (1) cash conversion features, and (2) beneficial conversion features. In addition, ASU 2020-06 enhances information transparency by making targeted improvements to the disclosures for convertible instruments and earnings-per-share guidance and amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. ASU 2020-06 is effective for emerging growth companies for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted, and the Company elected to adopt for the fiscal year beginning January 1, 2022. The Company evaluated the impact of the pronouncement and accounted for the convertible debenture in accordance with ASU 2020-06. See further discussion within the note "Debt".

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, which addresses that Current GAAP has no specific authoritative guidance on the accounting for, or the disclosure of, government assistance received by business entities. The pronouncement and subsequent amendments require the following annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy: 1) Information about the nature of the transactions and the related accounting policy used to account for the transactions; 2) The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item, 3) Significant terms and conditions of the transactions, including commitments and contingencies. ASU 2021-10 is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company adopted for the fiscal year beginning January 1, 2022. The Company evaluated the impact of the pronouncement, see further discussion within the note "Income and Other Taxes".

3. FAIR VALUE MEASUREMENT

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2—Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities; unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities

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

Level 3—Unobservable inputs that are supported by little or no market data for the related assets or liabilities

The categorization of a financial instrument within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company’s financial instruments include cash and cash equivalents, accounts receivable and other receivables, notes receivable and payable, SBH purchase option and asset derivatives, accounts payable and accrued liabilities, cultivation liabilities, convertible debenture, liability derivatives, and other current assets and liabilities. At December 31, 2022 and 2021, the carrying amounts of cash and cash equivalents, accounts receivable and other receivables, accounts payable and other current assets and liabilities approximated at their fair values because of their short-term nature. The carrying value of the notes receivable and cultivation liability approximates the fair value as the stated interest rate approximates market rates currently available to the Company. The carrying value of the convertible debenture approximates the fair value after adjustments for the bifurcated embedded derivatives and other discounts, refer to the "Debt" note for fair value discussion.

The following table sets forth the Company’s financial instruments that were measured at fair value on a recurring basis at December 31, 2022 and 2021, by level within the fair value hierarchy:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Stanley Brothers USA Holdings purchase option	$ —	$ —	$ 2,300	$ 2,300
Debt interest rate conversion feature	—	—	1,320	1,320
Total Financial Assets	$ —	$ —	$ 3,620	$ 3,620
Financial Liabilities:				
Debt conversion option	$ —	$ 12,995	$ —	$ 12,995

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Stanley Brothers USA Holdings Purchase Option	$ —	$ —	$ 13,000	$ 13,000
Financial Liabilities:				
Warrants	$ —	$ —	$ —	$ —

There were no transfers between levels of the hierarchy during the years ended December 31, 2022 and December 31, 2021.

Convertible Debt Derivatives

On November 14, 2022, the Company entered into a subscription agreement (the “Subscription Agreement”) with BT DE Investments, Inc. a wholly-owned subsidiary of BAT Group (LSE: BATS and NYSE: BTI, the "Lender"), providing for the issuance of $56.8 million (C$75.3 million) convertible debenture (the "debenture"). The debenture is convertible into 19.9% ownership of the Company's common shares at a conversion price of C$2.00 per common share of the Company on the Toronto Stock Exchange (TSX). The debenture will accrue interest at a stated annualized rate of 5% until such time that there is federal regulation permitting the use of cannabidiol, a phytocannabinoid derived from the plant Cannabis sativa L. ("CBD") as an ingredient in food products and dietary supplements in the United States. (The term "federal regulation" is defined as the date that federal laws in the United States permit, authorize or do not prohibit the use of CBD as an ingredient in food products and dietary supplements). Following federal regulation of CBD, the annualized rate of interest shall reduce to 1.5%.

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

The Company determined that the debenture did not meet the definition of a freestanding derivative under ASC 815 "Fair Value Measurement for financial statement", and required the bifurcation of two embedded derivatives, the debt interest rate conversion feature and the debt conversion option.

Debt Interest Rate Conversion Feature

The debt interest rate conversion feature is classified as a financial asset and is remeasured at fair value at each reporting date, with changes recognized in consolidated statements of operations as changes in fair value of financial instruments and other for the period. The use of assumptions for the fair value determination includes a high degree of subjectivity and judgment using unobservable inputs (level 3 on the fair value hierarchy), which results in estimation uncertainty. The debt interest rate conversion feature, if triggered, reduces the stated interest rate of the debenture to 1.5% upon federal regulation of CBD in the United States.

For the year ended December 31, 2022, a $138 gain related to the debt interest rate conversion feature was recognized as change in fair value of financial instruments and other in the statements of operations. As of December 31, 2022, the debt interest rate conversion feature represents a financial asset of $1,320 within SBH purchase option and other derivative assets in the consolidated balance sheets.

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

	Year Ended December 31, 2022
Stated interest rate	5.0%
Adjusted interest rate	1.5%
Implied debt yield	8.6%
Federal regulation probability	15.0%
Year of event	2025

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

Debt Conversion Option

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

For the year ended December 31, 2022, a $3,082 gain related to the debt conversion option was recognized as change in fair value of financial instruments and other in the statements of operations. As of December 31, 2022, the debt conversion option represents a financial liability of $12,995 within derivative and other long-term liabilities in the consolidated balance sheets.

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

	Year Ended December 31, 2022
Expected volatility	86.7%
Expected term (years)	6.9
Risk-free interest rate	4.0%
Expected dividend yield	—%
Value of underlying share	$0.73
Exercise price	$2.00

Stanley Brothers USA Holdings Purchase Option

On March 2, 2021, the Company entered into an option purchase agreement with Stanley Brothers USA, a privately held Delaware company, and the shareholders of Stanley Brothers USA. The SBH Purchase Option was purchased for total consideration of $8,000 and has a five-year term (extendable for an additional two years upon payment of additional consideration). The SBH Purchase Option provides the Company the option to acquire all or substantially all the shares of Stanley Brothers USA on the earlier of February 26, 2025 and federal legalization of cannabis in the United States, or such earlier time as Stanley Brothers USA and the Company agree, at a purchase price to be determined at the time of exercise of the SBH Purchase Option. Upon exercise of the SBH Purchase Option, the purchase price will be determined based on application of predetermined multiples of Stanley Brothers USA revenue and earnings before interest, taxes, depreciation, and amortization (“EBITDA”) measures. The Company is not obligated to exercise the SBH Purchase Option. As part of the SBH Purchase Option agreement, Stanley Brothers USA issued the Company a warrant exercisable to purchase 10% of the outstanding Stanley Brothers USA shares and convertible securities that are considered in-the-money, subject to certain conditions and exclusions. The warrant is exercisable at the Company's election for a nominal exercise price in the event the Company elects not to acquire all or substantially all shares of Stanley Brothers USA and expires 60 days after the expiration of the option.

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

The Company has elected the fair value option in accordance with ASC 825-10 guidance to record its SBH Purchase Option. Under ASC 825-10, a business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The SBH Purchase Option is classified as a financial asset and is remeasured at fair value at each reporting date, with changes to fair value recognized in the consolidated statements of operations for the period. The use of assumptions for the fair value determination includes a high degree of subjectivity and judgment using unobservable inputs (level 3 on the fair value hierarchy), which results in estimation uncertainty. Changes in assumptions that reasonably could have been different at the reporting date may result in a higher or lower determination of fair value (Stanley Brothers USA financial results or projections of future financial results). Changes in fair value measurements, if significant, may affect performance of cash flows. For the year ended December 31, 2022 and December 31, 2021, a $10,700 loss and a $5,000 gain, respectively, related to the SBH Purchase Option was recognized as change in fair value of financial instruments and other in the statements of operations. As of December 31, 2022 and December 31, 2021, the SBH Purchase Option represents a financial asset of $2,300 and $13,000 within SBH purchase option and other derivative assets in the consolidated balance sheets.

The Monte Carlo valuation model considers multiple revenue and EBITDA outcomes for Stanley Brothers USA and other probabilities in assigning a fair value. Primary assumptions utilized include financial projections of Stanley Brothers USA and the probability and timing of exercise. The following additional assumptions are used in the model:

	Year Ended December 31,	
	2022	**2021**
Expected volatility	115.0%	92.5%
Expected term (years)	2.7	3.7
Risk-free interest rate	4.3%	1.1%
Weighted average cost of capital	40.0%	40.0%

Warrant Liabilities

In 2020, the Company closed its underwritten public share offering ("2020 Share Offering") of 10,000,000 units ("Offered Units"). 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"). The 2020 Share Offering Warrants do not meet all of the criteria for equity classification as the warrants are denominated in Canadian dollars ("CAD"), which differs from the Company's functional currency. As a result, the 2020 Share Offering Warrants are initially measured at fair value and are revalued at each reporting period using the Black-Scholes option pricing model based on Level 2 observable inputs. The assumptions used by the Company are the quoted price of the Company's common shares in an active market, risk-free interest rate, volatility and expected life, and assumes no dividends. Volatility is based on the actual historical market activity of the Company's shares. The expected life is based on the remaining contractual term of the warrants and the risk-free interest rate is based on the implied yield available on U.S. Treasury Securities with a maturity equivalent to the expected life of the warrants.

For the years ended December 31, 2022 and December 31, 2021, no gain and $4,304 gain, respectively, was recognized related the warrant liabilities as change in fair value of financial instruments and other in the consolidated statements of operations. As of December 31, 2021, the Company's warrant liabilities' fair value is zero due to some warrants expiring in December 2021, a shorter expected term for the remaining outstanding warrants, and a significant decline in the Company's stock price. As of December 31, 2022, there are no outstanding warrants.

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

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

	Year Ended December 31, 2021
Expected volatility	83.8%
Expected term (years)	0.4-0.5
Risk-free interest rate	0.4%
Expected dividend yield	—%
Value of underlying share	$1.34

4. INVENTORIES

Inventories consist of the following:

	December 31, 2022	December 31, 2021
Harvested hemp and seeds	$ 34,763	$ 38,249
Raw materials	10,960	15,189
Finished goods	13,237	13,974
	58,960	67,412
Less: inventory provision	(32,007)	(15,335)
Total	$ 26,953	$ 52,077

Inventory Provision

For the year ended December 31, 2022, inventory provisions of $23,394 were expensed through cost of goods sold. The increase was primarily due to an additional reserve for Hemp inventory of $20,349 based on the Company's determination during the fourth quarter that this inventory would no longer be used in product formulations as a result of Colorado's anticipated regulatory changes based on Senate Bill 22-205. For the year ended December 31, 2022, write-offs of inventory previously reserved for of $6,722 were recognized. For the year ended December 31, 2021, inventory provisions of $9,729 were expensed through cost of goods sold in the consolidated statements of operations, and $543 were recognized as settlement reductions of cultivation liabilities due to third-party farming operators related to harvested hemp outside of quality specifications. For the year ended December 31, 2021, write-offs of inventory previously reserved for of $12,129 were recognized.

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

5. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	December 31, 2022	December 31, 2021
Building	$ 3,409	$ 3,409
Machinery and equipment	16,688	15,552
Furniture and fixtures	1,146	1,202
Leasehold improvements	26,919	27,158
	$ 48,162	$ 47,321
Accumulated depreciation	(19,003)	(13,829)
Construction-in-process	171	2,593
Total property and equipment, net	$ 29,330	$ 36,085

Depreciation expense for the years ended December 31, 2022 and December 31, 2021, was $6,213 and $7,481, respectively, of which $3,181 and $4,503, respectively, was recorded in Selling, general, and administrative expense in the consolidated statements of operations. For the years ended December 31, 2022 and December 31, 2021, depreciation expense of $3,032 and $2,978, respectively, was recorded in Cost of goods sold in the consolidated statements of operations.

During the year ended December 31, 2021, an impairment loss of $1,921 was recorded related to property and equipment. The impairment resulted from the Company's decision to exit a third-party farming operator relationship.

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

As of December 31, 2022 and December 31, 2021, the Company has no goodwill. The Company determined the sustained decrease in share price in the fourth quarter of 2021, along with a significant decline to the equity value of the Company's peers, represented a goodwill impairment triggering event. The Company performed a quantitative analysis as of December 31, 2021 to determine if impairment to the Company's goodwill existed for the one reporting unit. A blended approach in calculating fair value of the one reporting unit included the income approach and market approach. This analysis resulted in full impairment of the Company's goodwill balance totaling $76,039 included in goodwill and asset impairments charges on the consolidated statements of operations for the year ended December 31,

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

2021. The goodwill impairment was measured as the amount by which the carrying value of the reporting unit, including goodwill, exceeded its fair value.

Intangible Assets

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

	As of December 31, 2022			
	Weighted-Average Remaining Useful Life (in years)	Gross	Accumulated Amortization	Net
Definite-lived intangible assets:	18.93	$ 3,514	$ (1,893)	$ 1,621
Indefinite-lived intangible assets:		150	—	150
Total		$ 3,664	$ (1,893)	$ 1,771

	As of December 31, 2021			
	Weighted-Average Remaining Useful Life (in years)	Gross	Accumulated Amortization	Net
Definite-lived intangibles assets[1] *:*	20.04	$ 5,059	$ (2,366)	$ 2,693
Indefinite lived intangible assets:	—	150	—	150
Total		$ 5,209	$ (2,366)	$ 2,843

[1] The factors listed above representing a goodwill triggering event also indicated a triggering event for the Company's customer relationships and trade name intangible assets acquired with the acquisition of Abacus. The Company performed a quantitative analysis as of December 31, 2021 to determine if impairment existed by comparing the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate over their remaining lives. This analysis resulted in full impairment of the customer relationships and trade name intangible assets acquired and total an impairment loss of $19,750 was recorded in goodwill and asset impairments charges on the consolidated statements of operations for the year ended December 31, 2021.

For the years ended December 31, 2022 and December 31, 2021, amortization expense of intangible assets of $1,228 and $3,544, respectively, was recorded in Selling, general, and administrative expense in the consolidated statements of operations.

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

As of December 31, 2022, expected amortization of intangible assets is as follows:

Year Ending December 31:		
2023	$	848
2024		140
2025		115
2026		18
2027		18
Thereafter		190
Total future amortization	$	1,329

7. LICENSE AND MEDIA RIGHTS

MLB Promotion Rights Agreement

On October 11, 2022, the Company entered into a Promotional Rights Agreement (the "MLB Promotional Rights Agreement") with MLB Advanced Media L.P., on its own behalf and on behalf of Major League Baseball Properties, Inc., the Office of the Commissioner of Baseball, The MLB Network, LLC and the Major League Baseball Clubs (collectively, the "MLB"), pursuant to which the Company entered into an strategic partnership with MLB to promote the Company's new NSF-Certified for Sport® product line.

As consideration under the MLB promotional rights agreement, the Company has paid and is committed to pay a combination of cash over the license period, along with upfront non-cash consideration in the form of equity, as well as contingent consideration in the form of contingent payments based on revenue. The consideration is as follows: 4% of the Company's fully diluted outstanding common shares; $30.5 million in cash consideration from 2022 through 2025, paid in accordance with the payment schedule below; 10% royalty on the Company's gross revenue from the sale of MLB branded products, after cumulative gross sales of all such branded products exceed $18.0 million.

As of October 11, 2022, the Company measured the assets acquired under the MLB promotional rights agreement based on the pro-rated fair value of i) the equity grant, ii) the committed cash payments, and iii) the revenue royalty payment for the acquired assets of 1) licensed properties and 2) prepaid media rights. The Company issued the MLB 6,119,121 common shares, the fair value of equity grant was $3,060. The fair value of the $30.5 million committed cash consideration was $28,339, based on the discounted future payments through the term of the agreement using a risk free interest rate of 4.31%. The fair value of the contingent 10% revenue royalty payment was $0 as the payment of the royalty fee is not considered probable.

As of December 31, 2022, the fair value of the total licensed properties was $23,399 recorded as a license and media rights asset, and the fair value of the media rights was $7,482 recorded as a $2,500 prepaid asset and a $4,982 license and media rights asset within the consolidated balance sheets. For the year ended December 31, 2022, the Company paid the MLB $500 as part of the committed cash payments, and recognized $1,516 in amortization expense related to the licensed properties, and $518 in media expense related to the media rights.

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

Maturities of the MLB license and media rights payable as of December 31, 2022 are as follows:

Year Ending December 31:		
2023	$	8,000
2024		10,000
2025		12,000
Total payments	$	30,000
Less: Imputed interest		(1,858)
Total license and media rights payable	$	28,142
Less: Current license liabilities		(7,759)
Total non-current license and media rights payable	$	20,383

As of December 31, 2022, expected amortization of licensed properties is as follows:

Year Ending December 31:		
2023	$	7,294
2024		7,294
2025		7,294
Total future amortization	$	21,882

8. DEBT

Convertible Debenture

Effective as of November 14, 2022, the Company entered into the Subscription Agreement with BT DE Investments, Inc., providing for the issuance of $56.8 million (C$75.3 million) convertible debenture. The debenture was denominated in Canadian Dollars ("CAD" or "C$"). The debenture is convertible into 19.9% ownership of the Company's common shares at a conversion price of C$2.00 per common share of the Company. The debenture will accrue interest at a stated annualized rate of 5% until such time that there is federal regulation permitting the use of CBD as an ingredient in food products and dietary supplements in the United States. Following federal regulation of CBD, the stated annualized rate of interest shall reduce to 1.5%. The maturity date for the debenture is November 2029.

The following is a summary of the Company's convertible debenture as of December 31, 2022:

	As of December 31, 2022		
Convertible Debenture	Principal Amount	Unamortized Debt Discount and Costs	Net Carrying Amount
Convertible debenture due November 2029	$ 56,080	$ (18,659)	$ 37,421

The debenture was C$75.3 million per the subscription agreement and translated to USD on the transaction date. The Company remeasures the debenture at each balance sheet date using the CAD to USD exchange rate as of that balance sheet date. The Company recognizes the resulting foreign currency gain or loss within the statement of operations during the period. For the year ended December 31, 2022, the Company recognized a foreign currency gain of $727 related to the net carrying value of the debenture.

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

Interest is accrued annually and payable on the maturity date or date of earlier conversion. On conversion, accrued interest will either be converted into common shares equal to the amount of accrued interest or will be paid in cash if agreed with the Lender. As of December 31, 2022, the principal amount of the debenture includes $163 of accrued interest expense. The following is a summary of the interest expense and amortization expense, recorded within the statement of operation, of the Company's convertible debenture as of December 31, 2022:

Interest and Amortization Expense	For the Year Ended December 31, 2022	
Interest expense	$	379
Amortization of debt discounts and costs	$	163
Total	$	542

Line of Credit

The Company terminated the asset backed line of credit ("ABL") of $10,000 with J.P. Morgan on July 27, 2022. Borrowings under the ABL bore interest at a variable rate based on (A) CB Floating Rate defined as Prime Rate plus 1.0% or (B) monthly LIBOR rate plus 2.50%. Borrowings under the ABL were secured by all of the assets of the Company and guaranteed by other subsidiaries of the Company. The line of credit agreement required compliance by the Company with certain debt covenants. As of the termination date and December 31, 2021, the Company was not in compliance with the debt covenants and had not drawn on the line of credit.

9. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

From time to time, the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. The ultimate aggregate amount of monetary liability or financial impact with respect to these matters is subject to many uncertainties and is therefore not predictable with assurance. As of December 31, 2022 there are no pending litigation that could have, individually and in the aggregate, a material adverse effect on the Company’s financial position, results of operations or cash flows.

10. LEASES

The Company has lease arrangements related to office space, warehouse and production space, and land to facilitate agricultural operations. The leases have remaining lease terms of less than 0.2 years to 12.2 years, some of which include options to extend the leases for up to 5 years. Generally, the lease agreements do not include options to terminate the lease.

The weighted average remaining lease term was 10.0 years for operating leases as of December 31, 2022. The weighted average discount rate was 5.5% for operating leases as of December 31, 2022.

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

The components of lease cost, including variable lease costs primarily consisting of common area maintenance charges and real estate taxes, for the years ended December 31, 2022 and 2021 are as follows:

	Year Ended December 31,	
	2022	2021
Operating Lease Cost:		
Fixed lease cost	$ 2,074	$ 2,969
Variable lease cost	1,572	1,512
Total lease cost	$ 3,646	$ 4,481
Sublease income	940	724

Other information related to leases was as follows:

	Year Ended December 31,	
	2022	2021
Supplemental Cash Flow Information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$ 3,471	$ 3,528
Right-of-use assets obtained in exchange of lease obligations:		
Right-of-use assets obtained in exchange for new operating lease liabilities	$ —	$ 2,350

Maturities of operating lease liabilities as of December 31, 2022 are as follows:

	Operating Leases
Year Ending December 31:	
2023	$ 3,368
2024	3,205
2025	2,896
2026	2,172
2027	1,847
Thereafter	13,698
Total lease obligation	$ 27,186
Less: Imputed interest	(6,975)
Total lease liabilities	$ 20,211
Less: Current lease liabilities	2,306
Total non-current lease liabilities	$ 17,905

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

During the year ended December 31, 2022, the Company made the decision to cease utilizing the Denver office space and plans to sublease the office space at current market rents. Based on an analysis of the estimated undiscounted cash flows relative to a potential sublease arrangement, the Company evaluated the recoverability of the assets associated with the subleased space, including, the right-of-use asset and concluded the asset was impaired.

The Company recorded an impairment charge of $1,837 within goodwill and asset impairments in the consolidated statements of operations as of December 31, 2022. There were no such impairments for the year ended December 31, 2021.

11. CULTIVATION LIABILITIES

In conjunction with the contract terms, the Company can reduce the settlement amount for harvested hemp outside of quality specifications. For the years ended December 31, 2022 and 2021, the Company recognized $582 and $855, respectively, of settlement reductions.

Future payments due under contract obligations are as follows:

	Short-term	Long-term	Total
December 31, 2020	$ 9,304	$ 2,513	$ 11,817
Payments	(7,166)	—	(7,166)
Settlement reductions	(855)	—	(855)
Interest	37	—	37
Conversion to short-term borrowings	2,128	(2,128)	—
December 31, 2021	$ 3,448	$ 385	$ 3,833
Payments	(3,049)		(3,049)
Settlement reductions	(582)		(582)
2022 Crop	206	6	212
Interest	37		37
Conversion to short-term borrowings	385	(385)	—
December 31, 2022	$ 445	$ 6	$ 451

Scheduled maturities of amounts owed as of December 31, 2022 are as follows:

Year Ending December 31:	
2023	$ 450
2024	6
Total future payments	$ 456
Less: Imputed interest	(5)
Total cultivation liabilities	$ 451
Less: Current portion of cultivation liabilities	(445)
Total non-current cultivation liabilities	$ 6

12. SHAREHOLDERS' EQUITY

As of December 31, 2022 and December 31, 2021, the Company's share capital consists of one class of issued and outstanding shares: Common Shares. The Company is also authorized to issue preferred shares issuable in series. To date, no shares of preferred shares have been issued or are outstanding.

Common Shares

As of December 31, 2022 and December 31, 2021, the Company was authorized to issue an unlimited number of common shares, which have no par value.

Dividend Rights – Holders of common shares are entitled to receive dividends out of the assets available for the payment of dividends at such times and in such amount and form as the Board of Directors may determine from time to time. The Company is permitted to pay dividends unless there are reasonable grounds for believing that the Company is insolvent or the payment of the dividend would render the Company insolvent.

Voting Rights – Holders of common shares are entitled to receive notice of and to attend and vote at all meetings of shareholders of the Company except a meeting at which only the holders of another class or series of shares is entitled to vote. Each common share shall entitle the holder thereof to one vote at each such meeting.

Liquidation Rights – Holders of common shares will be entitled to receive all of the Company's assets remaining after payment of all debts and other liabilities, subject to any preferential rights of the holders of any outstanding preferred shares.

Proportionate Voting Shares

On November 3, 2021, all outstanding proportionate voting shares ("PVS") of the Company were converted by way of mandatory conversion in accordance with the Company's Articles and at the discretion of the Company, into common shares. Following this conversion, and as of the close of business on November 3, 2021, 142,335,464 common shares were issued and outstanding, nil proportionate voting shares were issued and outstanding and nil preferred shares were issued and outstanding. Pursuant to the Company's Articles, the Company is no longer authorized to issue additional proportionate voting shares. As of December 31, 2022 and December 31, 2021, the Company has no PVS issued and outstanding.

Share Offering Warrants – Liability Classified

The Company accounted for warrants as liability-classified instruments as they did not meet all the criteria for equity classification. The warrants were required to be recorded at their initial fair value on the date of issuance, and each balance sheet date thereafter. Any change in fair value of the warrants is recognized in change in fair value of financial instruments and other within the statements of operations.

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

As of December 31, 2022, there are no outstanding warrants. On May 8, 2022, warrants related to prior acquisition, totaling 1,233,140, with a weighted average exercise price per warrant of $15.29 expired. In addition, on June 18, 2022, the 2020 Share Offering Warrants, totaling 5,750,000 common shares, with a weighted average exercise price per warrant of $6.27 expired. The following summarizes the number of warrants outstanding as of December 31, 2022 and December 31, 2021:

	Number of Warrants	Weighted-Average Exercise Price per
Outstanding as of December 31, 2021	6,983,140	$ 7.86
Exercised	—	—
Expired	(6,983,140)	7.86
Outstanding as of December 31, 2022	—	$ —

On June 4, 2021, the Company filed a prospectus supplement to establish an at-the-market equity program (the “ATM Program”). The Company may distribute up to C$60,000,000 of Common Shares of the Company (the “Offered Shares”) under the ATM Program. Distributions of the Offered Shares through the ATM Program are made pursuant to the terms of an equity distribution agreement with Canaccord Genuity Corp. and BMO Nesbitt Burns Inc. (together, the “Agents”). The Offered Shares may be issued by the Company to the public from time to time, through the Agents, at the Company’s discretion. The Offered Shares sold under the ATM Program are sold at the prevailing market price at the time of sale under the ATM Program, and for the year ended December 31, 2021, the Company issued 4,740,300 Offered Shares at an average price of $1.85 per share for gross proceeds of $8,714. For the year ended December 31, 2021, share issuance costs were $596 for net proceeds to the Company of $8,118. For the year ended December 31, 2022, share issuance costs were $64 recognized in the consolidated statements of shareholders’ equity. The Company became an SEC reporting entity beginning on January 4, 2022. As of that date, the ATM Program ceased to be available to the Company. Thereafter, the manner in which the Company raises capital will likely require that the Company file registration statements with the SEC related to such activities, which will likely increase the time and expense associated with such activities.

13. LOSS PER SHARE

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

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

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

	Year Ended December 31, 2022	2021
Net loss	$ (59,313)	$ (137,722)
Weighted-average number of common shares - basic	146,631,767	140,769,247
Dilutive effect of stock options and awards	—	—
Weighted-average number of common shares - diluted	146,631,767	140,769,247
Loss per common share – basic and diluted	$ (0.40)	$ (0.98)

As of December 31, 2022 and December 31, 2021, potentially dilutive securities include stock options, restricted share units, broker warrants, common share warrants, and conversion of the convertible debenture. When the Company recognizes a net loss from continuing operations, all potentially dilutive shares are anti-dilutive and are consequently excluded from the calculation of diluted net loss per share. The potentially dilutive awards outstanding for each year are presented in the table below:

	Year Ended December 31, 2022	2021
Outstanding options	3,957,027	3,343,883
Outstanding restricted share units	2,569,574	1,816,851
Outstanding common share warrants	—	6,983,140
Convertible debenture conversion	28,587,830	—
Total	35,114,431	12,143,874

Convertible debenture conversion

For the year ended December 31, 2022, the debenture has no impact on the weighted-average number of common shares outstanding for the Basic EPS calculation prior to conversion as there are no shares issued and outstanding on issuance of the debenture. Conversely, income available to common stockholders will be impacted by interest expense of $379 and amortization of debt issuance costs of $163 related to the debenture.

Additionally, the Company evaluated the calculation for diluted EPS for the non-contingent conversion feature. Non-contingent features are considered at the option of the Lender at any time before maturity. The Company noted that only the non-contingent conversion feature requires further analysis for diluted EPS as there are no contingencies under the Subscription Agreement and common shares will be issued on conversion. The Company evaluated that the potential adjustments to the income available to common stockholders will include the after-tax amount of interest and other consequential changes in income or expense that would result from the assumed conversion, if any. The potential adjustment to the weighted-average number of common shares outstanding is based on the additional common shares resulting from the assumed conversion. The Company will consider the conversion feature only if it will have dilutive impact, not anti-dilutive. See reconciliation of basic and diluted EPS computations within note "Loss Per Share".

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

14. SHARE-BASED COMPENSATION

Share Incentive Plans

2015 Plan

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

2018 Plan

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

The aggregate number of common shares of the Company as to which share incentive awards may be granted from time to time under both the 2015 Plan and 2018 Plan shall not exceed 13,500,000 shares. The maximum exercise period of any option grant shall not exceed ten years from the date of grant. The share incentive awards vest over a time-based service period, generally a period of one to four years, and are settled in equity. The number of available awards at December 31, 2022, was 8,009,248.

Stock options

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

The fair values of options granted during the period were determined using a Black-Scholes model. The following principal inputs were used in the valuation of awards issued for the years ended December 31, 2022 and 2021:

	Year Ended December 31,	
	2022	2021
Expected volatility	83.0% - 86.0%	82.0% - 86.5%
Expected term (years)	5.5 – 7.5	5.0 – 7.0
Risk-free interest rate	1.8% - 3.3%	1.3% - 1.7%
Expected dividend yield	0%	0%
Value of underlying share	$0.44 - $1.56	$1.02 - $4.70

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

Detail of the number of stock options outstanding for the years ended December 31, 2022 and 2021 under the 2015 and 2018 plans is as follows:

	Number of Options	Weighted-Average Exercise Price per Option	Weighted-Average Remaining Contract Term	Aggregate Intrinsic Value
Outstanding as of December 31, 2021	3,343,883	$ 3.16	7.54	$ 1,039
Granted	3,813,579	1.11		
Exercised	—	—		
Forfeited (and expired)	(3,200,435)	2.75		
Outstanding as of December 31, 2022	3,957,027	$ 1.52	8.37	$ 47
Exercisable/vested as of December 31, 2022	1,669,287	$ 1.55	6.29	$ —

For the options outstanding at December 31, 2022, the weighted average remaining contractual life is 8.37 years. The weighted average grant-date fair value of options granted during the year ended December 31, 2022 was $1.11.

For the options outstanding at December 31, 2021, weighted average remaining contractual life is 7.54 years. The weighted average grant-date fair value of options granted during the year ended December 31, 2021 was $3.56.

The weighted average share price at the date of exercise of options exercised during the years ending December 31, 2022 and 2021 was $— and $4.85, respectively.

Vesting of awards under these plans were generally time based over a period of one to four years. For the 458,102 option awards vested during the year ended December 31, 2022, the weighted average grant date fair value was $1.60. For the 720,261 option awards vested during the year ended December 31, 2021, the weighted average grant date fair value was $5.93.

Of the 3,957,027 options outstanding at December 31, 2022, 985,012 options have an exercise price of $0.56, and the remaining 2,972,015 options have an exercise price ranging between $0.44 and $21.10.

Restricted share units

The Company has issued time-based restricted share units to certain employees as permitted under the 2018 Plan. The restricted share units granted vest in accordance with the board-approved agreement, typically over equal installments over one to four years. Upon vesting, one share of the Company's common shares is issued for each restricted share awarded. The fair value of each restricted share unit granted is equal to the market price of the Company's shares at the date of the grant. The fair value of shares vested during the year ended December 31, 2022 and 2021was $1,462 and $751, respectively.

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

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

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of December 31, 2021	1,816,851	$ 2.28
Granted	3,823,267	0.87
Forfeited	(1,797,430)	4.04
Vested	(1,273,114)	1.54
Outstanding as of December 31, 2022	2,569,574	$ 0.98

Share-based Compensation Expense

Share-based compensation expense for all equity arrangements for the years ended December 31, 2022 and 2021 was $3,567 and $5,483, respectively, included in selling, general and administrative expense in the consolidated statements of operations.

As of December 31, 2022, and 2021, there was approximately $3,239 and $4,638 of total unrecognized share-based compensation expense, related to unvested options granted to employees under the Company's share option plan that is expected to be recognized over a weighted average period of 2.27 years as of each year ended.

15. INCOME AND OTHER TAXES

Income Taxes

Loss before provision for income taxes for the years ended December 31, 2022 and December 31, 2021 consists of the following:

	Year Ended December 31, 2022	Year Ended December 31, 2021
U.S. loss	$ (59,153)	$ (137,589)
Foreign income (loss)	(69)	10
Total current	$ (59,222)	$ (137,579)

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

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

	Year Ended December 31, 2022	2021
Current:		
Federal	$ —	$ 50
State	(87)	(33)
Foreign	(4)	(160)
Total current	$ (91)	$ (143)
Deferred:		
Federal	—	—
State	—	—
Foreign	—	—
Total deferred	—	—
Total income tax expense	$ (91)	$ (143)

Income tax (expense) benefit attributable to loss from continuing operations for the years ended December 31, 2022 and 2021 differed from the amounts computed by applying the U.S. federal income tax rates of 21.0%, as a result of the following:

	Year Ended December 31, 2022	2021
U.S. federal statutory tax rate	21.0%	21.0%
State taxes, net of federal benefit	3.3%	1.8%
Share based compensation	(2.0)%	(0.3)%
Change in fair value of financial instruments and other	(2.7)%	1.4%
Goodwill impairment(1)	—%	(11.4)%
Change in valuation allowance(2)	(24.8)%	(12.5)%
R&D credit	0.7%	0.4%
Prior year true up	5.2%	—%
Other, net	(0.8)%	(0.5)%
Effective tax rate	(0.1)%	(0.1)%

(1)During the year ended December 31, 2021, the Company impaired its goodwill associated with the acquisition of Abacus. A portion of this impairment charge is permanently disallowed for tax purposes.

(2)During the year ended December 31, 2022 and 2021, the Company maintained a full valuation allowance on its deferred tax assets.

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

The Coronavirus Aid, Relief and Economic Security ("CARES") Act and miscellaneous other income taxes receivable result in total income taxes receivable as of December 31, 2021 of $10,764. During the year ended December 31, 2022, the Company received $10,841 from the Internal Revenue Service ("IRS") which was the remaining amount of the income taxes receivable and interest.

The components of deferred tax assets and liabilities are as follows:

	December 31,	
	2022	2021
Deferred tax assets:		
Net operating loss and other carryforwards	$ 53,997	$ 45,557
Inventory provision and UNICAP 263A	8,079	4,191
Lease liability	4,972	5,586
Section 174 capitalized costs	1,733	—
Share-based compensation	976	1,853
Other	2,061	1,020
Total deferred tax assets	$ 71,818	$ 58,207
Valuation allowance	(67,582)	(52,888)
Total deferred tax assets, net	$ 4,236	$ 5,319
Deferred tax liabilities:		
Right of use assets	(4,063)	(5,110)
Warrants	(173)	(209)
Total deferred tax liabilities	$ (4,236)	$ (5,319)
Net deferred taxes	$ —	$ —

The realization of deferred income tax assets may be dependent on the Company's ability to generate sufficient income in future years in the associated jurisdiction to which the deferred tax assets relate. The Company considers all available positive and negative evidence, including scheduled reversals of deferred income tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Based on the review of all positive and negative evidence, including a three-year cumulative pre-tax loss, the Company continues to believe its deferred tax assets are not more-likely-than-not to be realized and, as such, a full valuation allowance is recorded against net deferred taxes. For the years ended December 31, 2022 and 2021, the Company's valuation allowance increased by $14,694 and $17,203, respectively, primarily related to the incremental net operating losses and an increase to the inventory provision.

As of December 31, 2022, the Company has US federal, US state, and Canadian net operating losses of approximately $195,381, $159,964, and $8,654 respectively. The entire US federal NOLs are post-2017 NOL and therefore can be carried forward indefinitely and the US state NOLs will begin to expire in, 2029. The Canada NOLs will begin to expire in 2038. For the year ended December 31, 2022 and 2021, the Company also has a research and development credit carryforward of $2,205 and $1,788, respectively, which begin to expire in 2039.

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

Tax laws impose restrictions on the utilization of net operating loss carryforwards and research and development credit carryforwards in the event of a change in ownership of the Company as defined by Internal Revenue Code Section 382 and 383. The Company may have experienced ownership changes in the past that impact the availability of its net operating losses and tax credits. Should there be additional ownership changes in the future, the Company's ability to utilize existing carryforwards could be substantially restricted.

Uncertain tax position

A reconciliation of the beginning and ending amount of uncertain tax positions as of December 31, 2022 and 2021 is as follows:

Balance at December 31, 2021	$	179
Additions for current year tax positions		40
Additions for prior year tax positions		2
Reductions for prior year tax positions		—
Reductions as a result of settlement with tax authority		—
Balance at December 31, 2022	$	221

Balance at December 31, 2020	$	134
Additions for current year tax positions		52
Additions for prior year tax positions		—
Reductions for prior year tax positions		(7)
Reductions as a result of settlement with tax authority		—
Balance at December 31, 2021	$	179

The Company recognizes the tax benefit from an uncertain tax position only if it is probable that the tax position will be sustained based on its technical merits. The Company measures and records the tax benefits from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company's estimated liabilities related to these matters are adjusted in the period in which the uncertain tax position is effectively settled, the statute of limitations for examination expires or when additional information becomes available. The Company's liability for unrecognized tax benefits requires the use of assumptions and significant judgment to estimate the exposures associated with the Company's various filing positions. Although the Company believes that the judgments and estimates made are reasonable, actual results could differ and resulting adjustments could materially affect the Company's effective income tax rate and income tax provision. The Company's policy is to recognize interest and penalties on taxes, if any, as income tax expense.

If recognized, none of the uncertain tax positions would affect the effective tax rate. The Company does not anticipate any significant changes to the uncertain tax positions in the next twelve months.

The Company files income tax returns in the U.S. federal, various state jurisdictions, Canada, and Israel. In the normal course of business, it is subject to examination by taxing authorities throughout the world. The Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities in years before 2019.

The Inflation Reduction Act ("IRA") was enacted on August 16, 2022. The IRA introduced new provisions including a 15% corporate alternative minimum tax for certain large corporations that have at least an average of $1 billion adjusted financial statement income over a consecutive three-tax-year period and a 1% excise tax surcharge on stock repurchases. The IRA is applicable for tax years beginning after December 31, 2022 and had no benefit to our consolidated financial statements for any of the periods presented, and we do not expect it to have a direct material impact on our future results of operations, financial condition, or cash flows.

Other Taxes

Employee Retention Credit

The Company qualified for federal government assistance through employee retention credit ("ERC") provisions of the Consolidated Appropriations Act of 2021. As there is no authoritative guidance under U.S. GAAP on accounting for government assistance to for-profit business entities, we account for grants provided by the government, including accounting for certain refundable tax credits, by analogy to International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance. In accordance with IAS 20, management determined it has reasonable assurance for receipt of the ERC and recorded the ERC benefit of $4,106 for the year ended December 31, 2022 as an offset to Selling, general and administrative expenses expense. Due to the expected timing of receipt of the ERC, a corresponding receivable was recognized within other long-term assets as of December 31, 2022.

16. RELATED PARTY TRANSACTIONS

Aidance Scientific, Inc. ("Aidance") is the manufacturer of nearly all Abacus Health products. The former Chief Executive Officer of Abacus Health ("Abacus"), and a former officer of the Company through June 2022, also serves on Aidance's Board of Directors. For the years ended December 31, 2022 and 2021, the Company made purchases of $3,293 and $3,570, respectively from Aidance. Payment terms on purchases are due 30 days after receipt. As of December 31, 2022 and 2021, the Company had a liability of $36 and $119, respectively, due to Aidance presented in accounts payable in the consolidated balance sheets.

Effective November 2020, the Company entered into a note receivable with certain founders of the Company to negotiate a future binding transaction in good faith. This agreement included a secured promissory note, where $1,000 was loaned to one of the founders. The note receivable was secured by equity instruments with certain founders of the Company, and bore interest at 3.25% per annum, and required the unpaid principal and unpaid interest balances to be paid on or before the maturity date of November 13, 2021. On March 22, 2022, the founders requested an extension of the maturity date, as allowed under the terms of the promissory note, resulting in an extension of the maturity date to November 13, 2023. According to the terms of the agreement, no additional interest will accrue through the payment date. As of December 31, 2021, the note receivable of $1,037 consisted of principal and interest. As of December 31, 2022, the Company established a reserve against the note receivable due to decline in collateral and risk associated with collectability and therefore, expensed the outstanding balance of $1,037.

Effective January 5, 2023, the Company entered into a Brand License and Option Agreement with JMS Brands LLC, an entity owned by one of the Company's founders. Pursuant to the Brand License and Option Agreement, the Company licenses certain intellectual property from JMS Brands LLC, for an annual license fee of $500. Pursuant to the terms of the agreement, the Company has the option to purchase the intellectual property rights for $2,000.

On March 2, 2021, the Company entered into the SBH Purchase Option with Stanley Brothers USA as discussed above (note "Fair Value Measurement"). The SBH Purchase Option was purchased for total consideration of $8,000. Certain founders of the Company, who are or were employees at the time, are the majority shareholders of Stanley Brothers USA.

Pursuant to an amendment to the Name and Likeness and License Agreement between the Company and Leeland & Sig LLC d/b/a Stanley Brothers Brand Company, the agreement was extended to June 30, 2023. The agreement includes the payment of a nominal per diem fee for specifically requested activities as brand ambassadors for the Company. In addition, on April 16, 2021, the Company executed a separate consulting agreement which extended the services agreements of the Stanley brothers for a period of one year, expiring July 31, 2022. Upon execution of the consulting agreement, the Company paid $2,081 to Leeland & Sig LLC d/b/a Stanley Brothers Brand Company, on behalf of the Stanley Brothers, as consideration for the consulting services to be provided to the Company over the term of the agreement and certain restrictive covenants. For the year ended December 31, 2022 and 2021, the Company recognized $1,025 and $1,056, respectively, of sales and marketing expenses in the condensed consolidated statements of operations related to this agreement. As of December 31, 2022, there is no remaining balance.

17. SUBSEQUENT EVENTS

Effective January 5, 2023, the Company entered into a Brand License and Option Agreement with JMS Brands LLC, an entity owned by one of the Company’s founders. Pursuant to the Brand License and Option Agreement, the Company licenses certain intellectual property from JMS Brands LLC, for an annual license fee of $500. Pursuant to the terms of the agreement, the Company has the option to purchase the intellectual property rights for $2,000.

Effective as of February 22, 2023, the Company entered into an Extension and Fifth Amending Agreement to Name and Likeness and License Agreement (the “Extension Agreement”) with Leeland & Sig LLC d/b/a Stanley Brothers Brand Company. Pursuant to the Extension Agreement, the term of the Name and Likeness and License Agreement dated August 1, 2018 between the Company and Licensor, as amended by the Amending Agreement to Name and Likeness Agreement effective April 16, 2021 was extended to June 30, 2023.