

*A copy of this second amended and restated preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada (other than Québec) but has not yet become final for the purpose of the sale of securities. Information contained in this second amended and restated preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of securities only in those jurisdictions where such securities may be lawfully offered for sale and therein only by persons permitted to sell such securities. See “Plan of Distribution”.*

*These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), or any securities laws of any state of the United States and may not be offered or sold in the United States except in compliance with the registration requirements of the U.S. Securities Act and any applicable state securities laws or pursuant to an applicable exemption therefrom. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States. See “Plan of Distribution”.*

## SECOND AMENDED AND RESTATED PRELIMINARY PROSPECTUS

(amending and restating the amended and restated preliminary prospectus dated July 13, 2018, which amended and restated the preliminary prospectus dated June 25, 2018)

Initial Public Offering and Secondary Offering

August 22, 2018

CHARLOTTE’S WEB  
STANLEY BROTHERS



**CHARLOTTE’S WEB HOLDINGS, INC.**

**C\$100,100,000**

**14,300,000 Common Shares**

This prospectus qualifies the distribution of an aggregate of 14,300,000 common shares (“**Common Shares**”) in the capital of Charlotte’s Web Holdings, Inc. (the “**Company**”, “**we**”, “**our**”, “**us**”) consisting of a treasury issuance by the Company of 13,312,150 Common Shares (the “**Treasury Offering**”) and a secondary offering of 987,850 Common Shares (the “**Secondary Base Offering**”, and together with the Treasury Offering, the “**Offering**”) at a price of C\$7.00 per Common Share (the “**Offering Price**”). The Company intends to use the net proceeds of the Treasury Offering as described in this prospectus. See “*Use of Proceeds*”. The Common Shares are being offered for sale by Canaccord Genuity Corp. (the “**Lead Underwriter**”), as lead underwriter, GMP Securities L.P., PI Financial Corporation, and Cormark Securities Inc. (collectively, the “**Underwriters**”). If the Over-Allotment Option (as defined below) is exercised in full, an additional 2,145,000 Common Shares will be offered by the Selling Shareholders (as defined below). The Common Shares issued pursuant to the Offering, including those which may be sold pursuant to the Over-Allotment Option, are collectively referred to herein as the “**Offered Shares**”.

The Company has been created to indirectly acquire and hold all of the capital stock in CWB Holdings, Inc. (“**CWB**”), a market leader in the production and distribution of innovative hemp-based, CBD wellness products. Through its vertically integrated business model, CWB strives to improve customers’ lives and meet their demands for stringent product quality, efficacy and consistency. CWB does not produce or sell medicinal or recreational marijuana or products derived therefrom. Immediately after the closing of the Offering, as part of the Reorganization (as defined below) (collectively, the “**Closing**”), all of the existing securityholders of CWB will exchange their securities of CWB for securities of the Company. See “*Corporate Structure — Reorganization*”.

Upon completion of the Offering, the Company’s share capital will consist of two classes of issued and outstanding shares: Common Shares and proportionate voting shares (the “**Proportionate Voting Shares**”) (collectively, the “**Shares**”); and one authorized class of preferred shares issuable in series, none of which will be issued and outstanding. Generally, the Common Shares and Proportionate Voting Shares have the same rights, are equal in all respects and are treated by the Company as if they were shares of one class only. Proportionate Voting Shares, or fractions thereof, may at any time, subject to the FPI Condition, at the option of the holder and subject to certain restrictions, be converted into Common Shares at a ratio of 400 Common Shares per Proportionate Voting Share. Prior to conversion, each Proportionate Voting Share, or fraction thereof, carries 400 votes per share (compared to one vote per Common Share) and is entitled to dividends and liquidation distributions in an amount equal to 400 times the amount distributed in respect of each Common Share. The Common Shares may at any time, at the option of the holder and with the consent of the Company, be converted into Proportionate Voting Shares at a ratio of 400 Common Shares for one Proportionate Voting Share. Upon completion of the Offering and the Reorganization,

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**CHARLOTTE'S WEB**  
STANLEY BROTHERS



**CRAFTED IN NATURE.  
PERFECTED BY SCIENCE.  
TRUSTED BY FAMILIES.**



A market leader in the production and distribution of innovative hemp-based, cannabidiol (CBD) wellness products.

**\$40** MILLION  
2017 REVENUE

**35%**  
2017 EBITDA MARGIN

**300** ACRES  
OF CULTIVATION (2018E)

E-COMMERCE SALES  
GROWTH  
**60%**  
FROM 2016 TO 2017

**40,000** FT<sup>2</sup>  
MANUFACTURING  
AND R&D FACILITY

SOLD IN  
**2,700**  
RETAIL LOCATIONS



**FAST GROWING SEGMENT  
OF A ROBUST MARKET**

CAGR OF

**55%**

HEMP-DERIVED CBD  
SEGMENT (2016-2021)

**\$50B**

U.S. SUPPLEMENTS  
MARKET (2020)

REVENUE:  
(US\$ MILLION)

GROWTH

**172%**

2016

**\$14.7**

2017

**\$40.0**

ADJUSTED EBITDA  
(US\$ MILLION)

GROWTH

**600%**

2016

**\$2.0**

2017

**\$14.1**

GROSS  
MARGIN

**80%**

EBITDA  
MARGIN

**34%**

Q1-2018

BRAND BY  
MARKET SHARE

**#1**

MARKET  
SHARE\*

**14%**

\*2017 management estimate



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assuming no exercise of the Over-Allotment Option and excluding the Private Placement (as defined below), the Company will have an aggregate of 14,300,000 Common Shares and 194,178.15 Proportionate Voting Shares issued and outstanding. See “Description of Share Capital” and “Exemption from National Instruments”.

Upon completion of the Offering and the Reorganization, all of the issued and outstanding Proportionate Voting Shares will be held or controlled, directly or indirectly, by the former CWB Shareholders (as defined below). As a result, the former CWB Shareholders will collectively own or control, directly or indirectly, an equivalent of 77,671,258 Common Shares (assuming the conversion of all Proportionate Voting Shares to Common Shares on the basis of 400 Common Shares for one Proportionate Voting Share), representing an 83.7% equity and voting interest in the Company assuming the Private Placement is fully subscribed (85.7% on a fully-diluted basis), and if the Over-Allotment Option is exercised in full, the former CWB Shareholders, collectively, will own an equivalent of 75,526,258 Common Shares (assuming the conversion of all Proportionate Voting Shares to Common Shares on the basis of 400 Common Shares for one Proportionate Voting Share), representing an 81.4% equity and voting interest in the Company assuming the Private Placement is fully subscribed (83.7% on a fully-diluted basis).

Upon completion of the Offering and the Reorganization, and in the event that the Over-Allotment Option is exercised in full and assuming the Private Placement is fully subscribed, the Selling Shareholders, collectively, will own an equivalent of 51,060,538 Common Shares (assuming the conversion of all Proportionate Voting Shares to Common Shares on the basis of 400 Common Shares for one Proportionate Voting Share), representing a 55.0% equity and voting interest in the Company (48.1% on a fully-diluted basis).

**There is no market through which these securities may be sold, and purchasers may not be able to resell securities purchased under this prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. An investment in the Offered Shares is speculative and is subject to a number of risks that should be considered by a prospective purchaser. Prospective purchasers should carefully consider the risk factors described under “Risk Factors” before purchasing the Offered Shares.**

The Canadian Securities Exchange (the “CSE”) has conditionally approved the listing of the Common Shares under the symbol “CWEB”. Listing is subject to fulfilling all of the requirements of the CSE on or before ● , 2018.

As of the date of this prospectus, the Company does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, Aequis NEO Exchange Inc., any U.S. marketplace, or a marketplace outside Canada and the United States of America.

### Price: C\$7.00 per Offered Share<sup>(1)</sup>

	<u>Price to the Public</u>	<u>Underwriters’ Fee<sup>(3)</sup></u>	<u>Net Proceeds to the Company<sup>(2)</sup></u>	<u>Net Proceeds to Selling Shareholders<sup>(5)</sup></u>
Per Offered Share	C\$7.00	C\$0.42	C\$6.58	C\$6.58
Total Offering <sup>(2)(4)</sup>	C\$100,100,000	C\$6,006,000	C\$87,593,947	C\$6,500,053

Notes:

- (1) The Offering Price of the Offered Shares was determined through negotiations between the Company and the Underwriters. The Offering Price may not be indicative of the market price of the Common Shares after the Offering.
- (2) Before deducting the expenses of the Offering that are estimated to be C\$3,250,000. The expenses of the Offering and the Underwriters’ Fee will be paid by the Company from the proceeds of the Treasury Offering. See “Plan of Distribution”.
- (3) The Underwriters will be paid a fee (the “Underwriters’ Fee”) equal to (i) 6.0% of the aggregate gross proceeds of the Offering (including exercise of the Over-Allotment Option), and (ii) non-transferable warrants (the “Broker Warrants”) exercisable to acquire, within two (2) years of the Closing Date, an aggregate number of Common Shares equal to 3.0% of the number of Offered Shares sold under the Offering (including exercise of the Over-Allotment Option), at an exercise price equal to the Offering Price.
- (4) The Company and the Underwriters agree that the sale of the Common Shares pursuant to the Secondary Base Offering (the “Secondary Base Shares”) and the Over-Allotment Shares (as defined below) may be completed as a secondary offering (collectively, the “Secondary Offering”) by certain of the CWB Shareholders, being Aiko Trust, CK&J Irrevocable Trust, Master and A Hound Irrevocable Trust, Paulina Irrevocable Trust, Tristan 2 Arlo Irrevocable Trust, Blue Water Irrevocable Trust, J. Austin Stanley, Arvesa Corp., Kristi Fontenot, Little Sis Trust, Lynn Kehler, Proverbs 31 Woman Irrevocable Trust, M, C and C Special Needs Trust, Graham Carlson and Old Faithful Special Needs

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Trust (collectively, the “**Selling Shareholders**”) provided that the Underwriters shall receive the Underwriters’ Fee in respect of any Offered Shares sold by way of the Secondary Offering. The Company and the Selling Shareholders have agreed to grant to the Underwriters an option (the “**Over-Allotment Option**”), exercisable in whole or in part at any time and from time to time for a period of 30 days following the Closing, to purchase up to an additional 2,145,000 Common Shares from the Selling Shareholders (the “**Over-Allotment Shares**”) (representing 15% of the Common Shares offered pursuant to the Offering), on the same terms as set forth above solely to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total “Price to the Public”, “Underwriters’ Fee”, “Net Proceeds to the Company”, and “Net Proceeds to Selling Shareholders” will be C\$7.00, C\$6,906,900, C\$87,593,947, and C\$20,614,153, respectively before deducting the expenses of the Offering payable by the Company that are estimated to be C\$3,250,000. This prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Over-Allotment Shares upon the exercise of the Over-Allotment Option, regardless of whether the Over-Allotment Option is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases and qualifies the distribution of the Broker Warrants. See “*Plan of Distribution*” and “*Principal Securityholders and Selling Shareholders*”.

- (5) Each of the Selling Shareholders will be responsible for the payment of the Underwriters’ Fee payable in respect of the Secondary Base Shares and the Over-Allotment Shares sold by such Selling Shareholder; however, the Selling Shareholders will not be responsible for any further fees or expenses of the Underwriters in connection with the Offering as the Company has determined the incremental cost in connection therewith is nominal in the context of the overall Offering.

The following table sets out the maximum number of Offered Shares that may be sold by the Company to the Selling Shareholders pursuant to the exercise of the Over-Allotment Option and by the Company to the Underwriters pursuant to the exercise of the Broker Warrants:

<u>Underwriters’ Position</u>	<u>Maximum Size or Number of Securities Available</u>	<u>Exercise Period</u>	<u>Exercise Price</u>
Broker Warrants	493,350 Common Shares	Exercisable for a period of 2 years following the Closing Date	Equal to the Offering Price
Over-Allotment Option	2,145,000 Common Shares	Exercisable for a period of 30 days following the Closing Date	Equal to the Offering Price

The Underwriters, as principals, conditionally offer the Offered Shares qualified under this prospectus, subject to prior sale, if, as and when sold and delivered by the Company and the Selling Shareholders and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement (as defined herein) among the Company, the Selling Shareholders and the Underwriters referred to under “*Plan of Distribution*” and subject to the approval of certain legal matters relating to the Offering, on behalf of the Company by DLA Piper (Canada) LLP, and on behalf of the Underwriters by Stikeman Elliott LLP.

In connection with the Offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Offered Shares at levels other than those that might prevail in the open market. See “*Plan of Distribution*”.

Subscriptions will be received subject to rejection or allocation in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. The Closing is expected to occur on or about ● , 2018 or such other date as the Company and the Underwriters may agree, but in any event no later than ● , 2018 (the “**Closing Date**”). The Offered Shares will be deposited with CDS Clearing and Depository Services Inc. (“**CDS**”) in electronic form on the Closing Date through the non-certificated inventory system administered by CDS. A purchaser of Offered Shares will receive only a customer confirmation from the registered dealer from or through which Offered Shares are purchased. No certificates will be issued to purchasers, except in certain limited circumstances, and registration will be made in the depository services of CDS. See “*Plan of Distribution — Non-Certificated Inventory System*”.

Prospective purchasers should be made aware that the acquisition of Common Shares may have tax consequences both in Canada and the United States. Such tax consequences for investors, including investors who are resident in or citizens of the United States, may not be described fully herein. See “*Certain Canadian Federal Income Tax Considerations*” and “*Certain United States Tax Considerations*”.

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The Company's directors, officers, promoters and the Selling Shareholders reside outside of Canada. The persons named below have appointed the following agent for service of process:

<u>Name of Director or Officer</u>	<u>Name and Address of Agent</u>
Joel Stanley, Director	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Jared Stanley, Director	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
John Held, Director	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Shane Hoyne, Director	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Hesaam Moallem, President, Chief Executive Officer and Director	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Richard Mohr, Chief Financial Officer	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Juan Sartori, Director	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
William West, Director	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
<u>Name of Selling Shareholder</u>	<u>Name and Address of Agent</u>
Aiko Trust	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Lynn Kehler	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Blue Water Irrevocable Trust	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
CK&J Irrevocable Trust	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Graham Carlson	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
J. Austin Stanley	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Arvesa Corp.	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Kristi Fontenot	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Little Sis Trust	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Master and A Hound Irrevocable Trust	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
M, C and C Special Needs Trust	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Paulina Irrevocable Trust	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Proverbs 31 Woman Irrevocable Trust	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Tristan 2 Arlo Irrevocable Trust	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Old Faithful Special Needs Trust	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada

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<u>Name of Promoter</u>	<u>Name and Address of Agent</u>
Joel Stanley	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Jared Stanley	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Jesse Stanley	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Josh Stanley	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Jon Stanley	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
J. Austin Stanley	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Jordan Stanley	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada

<u>Name of Expert</u>	<u>Name and Address of Agent</u>
DLA Piper LLP (US)	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada
Frost Brown Todd LLC	DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada

Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or that resides outside of Canada, even if the party has appointed an agent for service of process.

For investors outside of Canada, neither the Company nor the Underwriters have done anything that would permit the Offering or distribution of this prospectus in any jurisdiction where action for the purpose is required other than in Canada. Investors are required to inform themselves about and to observe any restrictions relating to the Offering and the distribution of this prospectus.

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**This prospectus qualifies the distribution of securities of an entity that currently does, and is expected to continue to derive its revenues from the production and distribution of hemp-based, CBD wellness products in certain states in the United States. All Industrial Hemp produced and sold by CWB constitutes Industrial Hemp under the 2014 Farm Bill, as well as the laws of the states in which it produces and sells such Industrial Hemp.**

**Federal legislation has scheduled all cannabis grown in the United States as a controlled substance, and as a result, the cultivation or sale of hemp for any purpose in the United States without a Schedule I registration with the U.S. Drug Enforcement Agency (the “DEA”) is, unless exempted by the 2014 Farm Bill, illegal.**

**The Company’s position is that its activities fall within the relief from federal interference (e.g. by the DEA) provided by Section 7606 of the 2014 Farm Bill. However, the statute does not explicitly state that private businesses, such as the Company, may cultivate or conduct commercial sales of Industrial Hemp or products derived therefrom. Rather, Section 7606 specifically allows for the “growing or cultivation of Industrial Hemp” for the “purposes of research” pursuant to state “pilot programs” conducted by “institutions of higher education and State departments of agriculture”. The Company takes the position that its activities nevertheless fall within the ambit of Section 7606(a)(1) based on the following facts, interpretations and assumptions:**

- (i) the fact that permissible research activities under Section 7606(a)(1) includes cultivation for the purpose of research conducted under an agricultural pilot program;**
- (ii) the fact that Section 7606(b)(1) provides that agricultural pilot programs include pilot programs to study the marketing of Industrial Hemp;**
- (iii) the interpretation and assumption that the Licenses (as defined below) provided to the Company by the CDA (as defined below) to cultivate significant quantities of Industrial Hemp are licenses granted in furtherance of “studying the marketing” of Industrial Hemp. In its interpretation, the Company is further assuming that, because hemp was criminalized for nearly a century, significant long-term commercial activities will be required to provide an understanding of the Industrial Hemp industry for the purpose of meeting the goals of the 2014 Farm Bill, and that because state departments of agriculture are not in the business of selling products, they must contract with and/or license private entities to sell products as part of these marketing studies. This is further based on significant discussions between Company and the CDA pursuant to which the Company understands that the Licenses were granted under Colorado’s pilot program.**
- (iv) the interpretation that the Company’s activities (based on the foregoing facts and assumptions) fall within the ambit of Colorado’s agricultural pilot program, notwithstanding that the Company is not an “institution of higher education or State department”;**
- (v) the fact that all of the Company’s cultivation operations conducted through third parties in Oregon and Kentucky (which represent all the Company’s cultivation operations outside of Colorado) are also licensed by the respective Departments of Agriculture of these states and the assumption that these third parties operate in compliance with such states’ pilot programs. This assumption is further evidenced by the fact that these third party operators provide contractual representations to the Company that they are in fact in compliance with state laws relating to cultivation under their respective state pilot programs and that the Company has been provided copies of the applicable Licenses; and**

(vi) the interpretation and assumption that interstate commerce falls fully within U.S. federal jurisdiction and, as a result, marketing and sales of the Company's products to other U.S. states are permitted by the 2014 Farm Bill notwithstanding that such other states may not have implemented a pilot program or that the Company does not directly participate in such states' existing agricultural pilot programs. *"See United States Regulatory Matters — United States Federal Regulation of Industrial Hemp — Development of Current Regulatory Framework"* and *"United States Regulatory Matters — United States Federal Regulation of Industrial Hemp — The 2014 Farm Bill"*.

However, there are differing interpretations with respect to whether states must explicitly permit the sale of Industrial Hemp and Industrial Hemp products in order to comply with the 2014 Farm Bill or the DEA's Statement of Principles (as defined below). Based on the assumptions set out above, the Company takes the position that such activities comply whether or not the state has an agricultural pilot project in place. Certain other stakeholders such as the DEA may take a narrower interpretation, namely that in the absence of explicit state approval or recognition and/or of an agricultural pilot program, such activities are prohibited. Similarly, some DEA spokespersons have taken the position that the interstate commercial sale of consumable CBD products is outside the scope of the 2014 Farm Bill.

Certain government agencies (such as the DEA and the U.S. Food and Drug Administration (the "FDA")) and certain federal officials have challenged the scope of permissible commercial activity, including the Company's operations. Some DEA representatives, for example, have stated they believe that producers of CBD-based products, including CWB, produce and sell their products in violation of the U.S. Controlled Substances Act (the "CSA") and the Federal Food, Drug, and Cosmetic Act (the "FDCA") because the hemp-based products sold by the Company are derived from the Cannabis plant (as defined below). Similarly, the FDA has indicated that CWB's marketing activities fall within FDA jurisdiction and, on occasion, have failed to comply with the FDCA.

The FDA has not approved CBD or other individual cannabinoids as drugs, nor has the FDA deemed CBD or other individual cannabinoids permissible for use in dietary supplements, as dietary ingredients or as safe for use in food. The FDA has taken the position that CBD cannot be marketed in a dietary supplement because it has been the subject of investigation as a new drug pursuant to the IND Preclusion (as defined below). The Company believes there are significant arguments against this position in that all conditions of the applicable statute must be met before the IND Preclusion applies. In addition, the FDA is currently challenging whether the Company's products can be sold in the U.S. without FDA approvals which have not yet been obtained. This matter is still in active discussion with the FDA and is unresolved as at the date of the prospectus. The FDCA does not recognize CBD as safe for use in food products. See *"United States Regulatory Matters — FDA Regulation"*.

While the Company disagrees with the positions of each of the DEA and the FDA, there is risk that either or both of these agencies could take law enforcement actions against the Company and/or CWB. There is also a risk that state or local authorities could take enforcement actions against the Company and/or CWB.

Legal barriers applicable to selling hemp and hemp-derived CBD products result from a number of factors, including the fact that hemp and marijuana are both derived from the Cannabis plant, the rapidly changing patchwork of state laws governing hemp and hemp-derived CBD, the position of some DEA representatives that CBD is a controlled substance and the lack of FDA approval for CBD as a lawful food ingredient, food additive or dietary supplement.

Any investment in the Common Shares is speculative due to a variety of factors, including the nature of the Company's business subsequent to Closing. An investment in these securities should only be made by persons who can afford a total loss of their investment. Legislative and regulatory uncertainties, along with difficulties concerning potential enforcement activities by U.S. federal, state and local governments (or discretion exercised thereby), represent significant risks concerning the Company's business activities. These risks include, but are not limited to:

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- the DEA’s interpretation and application of existing federal laws and rules concerning both those portions of the Cannabis plant exempted from the definition of “marihuana” under the CSA and those varieties provided for as Industrial Hemp (as defined below) pursuant to the 2014 Farm Bill (as defined below);
- the DEA promulgation of its “Establishment of a New Drug Code for Marihuana Extract”, and pending litigation related thereto;
- deference to and reliance on the DEA by federal, state and/or local law enforcement and regulatory authorities;
- positions asserted by the FDA concerning products containing derivatives from Industrial Hemp;
- uncertainty surrounding the characterization of cannabinoids as a dietary ingredient by the FDA;
- enforcement activities by state and/or local law enforcement and regulatory authorities under the auspice of individual state law, regardless of any potential conflict thereby with federal law; and
- both the Omnibus Appropriations Law (as defined below) and the 2014 Farm Bill are set to expire on September 30, 2018, unless extended or replaced by a consolidated version of the 2018 Farm Bill (as defined below) currently under review by a joint House/Senate conference committee. See “*United States Regulatory Matters — United States Federal Regulation of Industrial Hemp — Development of Current Regulatory Framework — The Hemp Farming Act of 2018.*”

If the Company’s operations are found to be in violation of any of such laws or any other governmental regulations, the Company and/or CWB may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company’s operations or asset seizures, any of which could adversely affect the Company’s business and financial results. If the DEA takes action against the Company and/or CWB or the CBD industry notwithstanding the regulatory regime surrounding the 2014 Farm Bill, this could have a material adverse effect on the Company’s and/or CWB’s business, financial condition and results of operations including the cessation of operations entirely. Failure to comply with FDA requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. The Company’s and/or CWB’s suppliers, service providers and distributors may elect, at any time, to breach or otherwise cease to participate in supply, service or distribution agreements, or other relationships, on which the Company’s operations rely. Loss of its suppliers, service providers or distributors would have a material adverse effect on the Company’s and/or CWB’s business and operational results. Historically, CWB has sold its products in international jurisdictions and there is the possibility that any such international jurisdiction could determine that CWB was not compliant with applicable local regulations. If CWB’s sales therein were found to be in violation of such international regulations CWB and/or the Company may be subject to enforcement actions in such jurisdictions. See “*Risk Factors — International Regulatory Risks*”.

Materially all of the Company’s assets, liabilities and operations are exposed to U.S. Cannabis-related activities.

The disclosure set forth above relating to U.S. regulatory matters in respect of the 2014 Farm Bill and the Company’s Industrial Hemp activities is supported by a legal opinion provided to the Company by Frost Brown Todd LLC (Lexington, Kentucky). See “*United States Regulatory Matters*”.

See “*Risk Factors*” for more information about the risks concerning the Company’s and CWB’s business and operations.

See “*United States Regulatory Overview — General Overview*”, “*United States Federal Regulation of Industrial Hemp — Development of Current Regulatory Framework — Statement of Principles*” and “*United States Federal Regulation of Industrial Hemp — Development of Current Regulatory Framework — DEA Position*” for more information about the position of the enforcement authorities.

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## GLOSSARY

In this prospectus, unless otherwise indicated or the context otherwise requires, the following terms shall have the indicated meanings. Words importing the singular include the plural and vice versa and words importing a gender include any genders. A reference to an agreement means the agreement as it may be amended, supplemented or restated from time to time.

“**2003 Rules**” has the meaning ascribed thereto under the heading “*United States Regulatory Matters — United States Federal Regulation of Industrial Hemp — Development of the Current Regulatory Framework*”;

“**2014 Farm Bill**” means section 7606 of the *Agricultural Act of 2014*;

“**2018 Farm Bill**” has the meaning ascribed thereto under the heading “*Business of the Company — History and Development of the Company — Key Milestones*”;

“**2018 Spending Bill**” has the meaning ascribed thereto under the heading “*Management’s Discussion and Analysis — Corporate Highlights*”;

“**Advance Notice provisions**” has the meaning ascribed thereto under the heading “*Description of Share Capital — Advance Notice Provisions*”;

“**AE**” has the meaning ascribed thereto under the heading “*Business of the Company — Manufacturing*”;

“**Adjusted EBITDA**” has the meaning ascribed thereto under *Management’s Discussion and Analysis — Financial Information — Adjusted EBITDA*”;

“**affiliate**” or “**associate**” has the meaning ascribed thereto in the *Securities Act* (British Columbia), as amended from time to time;

“**allowable capital loss**” has the meaning ascribed thereto under the heading “*Certain Canadian Federal Income Tax Considerations — Holders Resident in Canada — Taxation of Capital Gains and Capital Leases*”;

“**Articles**” has the meaning ascribed thereto under the heading “*Description of Share Capital*”;

“**BCBCA**” means the *Business Corporations Act* (British Columbia), as amended;

“**Board**” or “**Board of Directors**” means the board of directors of the Company;

“**Brightfield Report**” means the report entitled “*Hemp-Derived CBD, Market Overview & Analysis*” published by the Brightfield Group;

“**Broker Warrants**” has the meaning ascribed thereto on the cover page;

“**business day**” means a day other than a Saturday, Sunday or a day on which the principal chartered banks located at Vancouver, British Columbia, are not open for business;

“**CAGR**” means compound annual growth rate;

“**Canadian Securities Laws**” means the securities legislation or ordinance and regulations thereunder of each province of Canada and the rules, instruments, policies and orders of each Canadian securities regulator made thereunder;

“**Cannabis**” means *Cannabis sativa L.*;

“**CBD**” means cannabidiol, a phytocannabinoid derived from the Cannabis plant;

“**CBCA**” means the Colorado Business Corporation Act;

“**CDA**” means to the Colorado Department of Agriculture;

“**CDPHE**” means the Colorado Department of Public Health and Environment;

“**CDS**” has the meaning ascribed thereto on the cover page;

“**CDSA**” means the *Controlled Drugs and Substances Act* (Canada).

“**CDS Participant**” has the meaning ascribed thereto under the heading “*Plan of Distribution — Non-certificated Inventory System*”;

“**cGMP**” means current Good Manufacturing Practices regulations enforced by the FDA;

“**Closing**” has the meaning ascribed thereto on the cover page;

“**Closing Date**” means the date of the Closing, for which the initial Closing is expected to be on or about ● , 2018, but in any case, no later than ● , 2018;

“**CO<sub>2</sub>**” has the meaning ascribed thereto under the heading “*Business of the Company — Manufacturing*”;

“**Code**” means the U.S. Internal Revenue Code of 1986, as amended;

“**Colorado Hemp Act**” means *Colo. Rev. Stat. §§ 35-61-101-109*;

“**Common Shares**” has the meaning ascribed thereto on the cover page;

“**Compensation Committee**” has the meaning ascribed thereto under the heading “*Role and Composition of the Compensation Committee*”;

“**Conversion Event**” has the meaning ascribed thereto under the heading “*Description of Share Capital — Authorized Share Capital Upon Completion of the Offering — Conversion Rights and Transfers*”;

“**Convertible Note**” means the US\$1,000,000 convertible note of CWB Holdings, Inc. dated January 12, 2017 which was repaid on May 31, 2018;

“**CPG**” means consumer packaged goods;

“**CSA**” has the meaning ascribed thereto on the cover page;

“**CSE**” means the Canadian Securities Exchange;

“**CTE**” has the meaning ascribed thereto under the heading “*Business of the Company — Sales and Distribution Strategy — Sports Medicine and Recovery Market*”;

“**CWB**” means, pre-Reorganization, CWB Holdings, Inc., a company existing under the laws of Colorado, and post-Reorganization, Charlotte’s Web, Inc., a company re-domiciled and amalgamated under the laws of Delaware;

“**CWB Shareholders**” means the pre-Reorganization shareholders of CWB;

“**DC&P**” has the meaning ascribed thereto under the heading “*Risk Factors — Risks Related to the Offering — Financial Reporting and Other Public Company Requirements*”;

“**DEA**” has the meaning ascribed thereto on the cover page;

“**diluted basis**” means the number of Common Shares outstanding assuming the exercise of all outstanding Options and other rights to acquire Common Shares;

“**DSHEA**” has the meaning ascribed thereto under the heading “*Business of the Company — Industry Overview*”;

“**Employment Agreement**” has the meaning ascribed thereto under the heading “*Executive Compensation — Employment Agreements, Termination and Change of Control Benefits*”;

“**Ethics Code**” has the meaning ascribed thereto under the heading “*Disclosure of Corporate Governance Practices — Ethical Business Conduct*”;

“**Exchange Act**” has the meaning ascribed thereto under the heading “*Description of Share Capital — Authorized Share Capital Upon Completion of the Offering — Conversion Conditions*”;

“**FATCA**” has the meaning ascribed thereto under the heading “*Certain United States Tax Considerations — Non-U.S. Holders — Additional Withholding Tax on Payments made to Foreign Accounts*”;

“**FCEN**” has the meaning ascribed thereto under the heading “*Risk Factors — Risks Related to the Regulatory Environment — Anti-money Laundering Laws and Regulations*”;

“**FCEN Memo**” has the meaning ascribed thereto under the heading “*Risk Factors — Anti-money Laundering Laws and Regulations*”;

“**FDA**” has the meaning ascribed thereto on the cover page;

“**FDCA**” has the meaning ascribed thereto under the heading “*United States Regulatory Matters — General Overview*”;

“**forward-looking statements**” has the meaning ascribed thereto under the heading “*Notice to Investors — Forward-Looking Statements*”;

“**Founder Options**” means the 576,429 options to purchase an aggregate of 576,429 common shares of CWB issued to certain founders in lieu of common shares;

“**FPI Condition**” has the meaning ascribed thereto under the heading “*Description of Share Capital — Authorized Share Capital Upon Completion of the Offering — Conversion Conditions*”;

“**FTC**” has the meaning ascribed thereto under the heading “*Risk Factors — Risks Related to the Regulatory Environment — Risks Associated with Numerous Laws and Regulations*”;

“**Governance and Nominating Committee**” means the Corporate Governance and Nominating Committee of the Board;

“**Grants**” has the meaning ascribed thereto under the heading “*Executive Compensation — Long Term Incentive Plan*”;

“**hemp**” means any part of the Cannabis plant having no more than three-tenths of one percent (0.3%) concentration of THC on a dry weight basis;

“**HFA**” has the meaning ascribed thereto under the heading “*Business of the Company — History and Development of the Company — Key Milestones*”;

“**HIA**” means the Hemp Industries Association;

“**HIA v. DEA II**” has the meaning ascribed there to under the heading “*United States Regulatory Matters — United States Federal Regulation of Industrial Hemp — Development of the Current Regulatory Framework*”;

“**HIA v. DEA III**” has the meaning ascribed there to under the heading “*United States Regulatory Matters — United States Federal Regulation of Industrial Hemp — Development of the Current Regulatory Framework*”;

“**Holder**” has the meaning ascribed thereto under the heading “*Certain Canadian Federal Income Tax Considerations*”;

“**IASB**” means the International Accounting Standards Board;

“**ICFR**” has the meaning ascribed thereto under the heading “*Risk Factors — Financial Reporting and Other Public Company Requirements*”;

“**IFRS**” means International Financial Reporting Standards as issued by the International Accounting Standards Board, as adopted by the Canadian Accounting Standards Board;

“**IFRS 15**” has the meaning ascribed thereto under the heading “*Management’s Discussion and Analysis — Future Accounting Standards and Interpretation*”;

“**IND**” means investigational new drug;

“**Indemnified Parties**” has the meaning ascribed thereto under the heading “*Plan of Distribution — General Terms of the Underwriting Agreement*”;

“**IND Preclusion**” has the meaning ascribed thereto under the heading “*United States Regulatory Matters — FDA Regulation*”;

“**Industrial Hemp**” means as any part of the *Cannabis sativa L.* plant, whether growing or not, with a delta-9 THC concentration of not more than 0.3% on a dry weight basis, lawfully cultivated in the United States pursuant to, and in compliance with, a state agricultural pilot program which sanctions such activity;

“**IRS**” means the U.S. Internal Revenue Service;

“**Lead Underwriter**” means Canaccord Genuity Corp.;

“**Legacy Option Plan**” means the existing stock option plan of CWB, which will be assumed by the Company in connection with the Reorganization until all stock options existing thereunder have been exercised or have expired;

“**Licenses**” has the meaning ascribed thereto on page 69;

“**Lock-Up Period**” has the meaning ascribed thereto under the heading “*Securities Subject to Contractual Restriction on Transfer — Lock-Up Arrangements*”;

“**LTIP**” has the meaning ascribed thereto under the heading “*Executive Compensation — Long Term Incentive Plan*”;

“**Management**” means, collectively, the executive officers of the Company;

“**MCT**” has the meaning ascribed thereto under the heading “*Business of the Company — Product Overview — Liquid Products*”;

“**MD&A**” means management’s discussion and analysis;

“**Merger**” has the meaning ascribed thereto under the heading “*Corporate Structure — Reorganization*”;

“**Merger Agreement**” has the meaning ascribed thereto under the heading “*Corporate Structure — Reorganization*”;

“**Name and Likeness Agreement**” has the meaning ascribed thereto under the heading “*Business of the Company — Intellectual Property*”;

“**NDI**” has the meaning ascribed thereto under the heading “*Risk Factors — Risks Related to the Regulatory Environment — NDI Objection by FDA*”;

“**NEOs**” has the meaning ascribed thereto under the heading “*Executive Compensation — Introduction*”;

“**NFL**” has the meaning ascribed thereto under the heading “*Business of the Company — Sales and Distribution Strategy — Sports Medicine and Recovery Market*”;

“**NI 41-101**” means National Instrument 41-101 — *General Prospectus Requirements* of the Canadian Securities Administrators;

“**NI 45-102**” means National Instrument 45-102 — *Resale of Securities*;

“**NI 52-109**” means National Instrument 52-109 — *Certification of Disclosure in Issuers’ Annual and Interim Filings*;

“**NI 52-110**” means National Instrument 52-110 — *Audit Committees*;

“**NI 58-101**” means National Instrument 58-101 — *Disclosure of Corporate Governance Practices*;

“**Non-Executive Directors**” has the meaning ascribed thereto under the heading “*Director Compensation — Director Compensation Table*”;

“**Non-Resident Holder**” has the meaning ascribed thereto under the heading “*Certain Canadian Federal Income Tax Considerations — Non-Resident Holders in Canada*”;

“**Notice Date**” has the meaning ascribed thereto under the heading “*Description of Share Capital — Advance Notice Provisions*”;

“**Odd Lot**” has the meaning ascribed thereto under the heading “*Description of Share Capital — Authorized Share Capital Upon Completion of the Offering — Take-Over Bid Protection*”;

“**Offered Shares**” has the meaning ascribed thereto on the cover page;

“**Offering**” has the meaning ascribed thereto on the cover page;

“**Offering Price**” has the meaning ascribed thereto on the cover page;

“**Omnibus Appropriations Law**” has the meaning ascribed thereto under the heading “*United States Regulatory Matters — United States Federal Regulation of Industrial Hemp — Development of the Current Regulatory Framework*”;

“**Option**” means an option to acquire a Common Share granted pursuant to the LTIP;

“**Over-Allotment Option**” has the meaning ascribed thereto on the cover page;

“**Over-Allotment Shares**” has the meaning ascribed thereto on the cover page;

“**Permitted Holder**” has the meaning ascribed thereto under the heading “*Description of Share Capital — Authorized Share Capital Upon Completion of the Offering — Conversion Rights and Transfers*”;

“**Person**” means any individual, partnership, association, body corporate, trust, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;

“**Private Placement**” has the meaning ascribed thereto on page 23;

“**Private Placement Shares**” has the meaning ascribed thereto on page 23;

“**Proportionate Exchange Ratio**” has the meaning ascribed thereto under the heading “*Corporate Structure — Reorganization*”;

“**Proportionate Voting Shares**” has the meaning ascribed thereto on the cover page;

“**PS&M**” has the meaning ascribed thereto under the heading “*Management’s Discussion and Analysis — Financial Information*”;

“**PVS Offer**” has the meaning ascribed thereto under the heading “*Description of Share Capital — Authorized Share Capital Upon Completion of the Offering — Take-Over Bid Protection*”;

“**Registered Holder**” and “**Registered Holders**” have the meanings ascribed thereto under the heading “*Notice to Investors — Eligibility for Investment*”;

“**Registered Plan**” has the meaning ascribed thereto under the heading “*Notice to Investors — Eligibility for Investment*”;

“**Regulation S**” has the meaning ascribed thereto under the heading “*Plan of Distribution — General terms of the Underwriting Agreement*”;

“**Reorganization**” has the meaning ascribed thereto under the heading “*Corporate Structure — Reorganization*”;

“**Reorganization Consideration**” has the meaning ascribed thereto under the heading “*Corporate Structure — Reorganization*”;

“**Resident Holder**” has the meaning ascribed thereto under the heading “*Certain Canadian Federal Income Tax Considerations — Holders Resident in Canada*”;

“**R&D**” means research and development;

“**SEC**” means the U.S. Securities and Exchange Commission;

“**Secondary Base Offering**” has the meaning ascribed thereto on the cover page;

“**Secondary Base Shares**” has the meaning ascribed thereto on the cover page;

“**Secondary Offering**” has the meaning ascribed thereto on the cover page;

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval;

“**SEO**” has the meaning ascribed thereto under the heading “*Business of the Company — Industry Overview — The Hemp-Derived Supplements Sector*”;

“**Selling Shareholders**” has the meaning ascribed thereto on the cover page;

“**Senate Bill 2667**” has the meaning ascribed thereto under the heading “*Business of the Company — History and Development of the Company*”;

“**SFE**” has the meaning ascribed thereto under the heading “*Business of the Company — Manufacturing*”;

“**Shareholder**” means a holder of Common Shares;

“**Shares**” means, collectively, the Common Shares and the Proportionate Voting Shares;

“**Stanley brothers**” has the meaning ascribed thereto under the heading “*Business of the Company — History and Development of the Company*”;

“**Statement of Principles**” has the meaning ascribed thereto on page 63;

“**Tax Act**” means the *Income Tax Act* (Canada) as amended from time to time, including the regulations promulgated thereunder;

“**Tax Proposals**” has the meaning ascribed thereto under the heading “*Certain Canadian Federal Income Tax Considerations*”;

“**taxable capital gain**” has the meaning ascribed thereto under the heading “*Certain Canadian Federal Income Tax Considerations — Holders Resident in Canada — Taxation of Capital Gains and Capital Leases*”;

“**THC**” means Tetrahydrocannabinol;

“**Treasury Regulations**” has the meaning ascribed thereto under the heading “*Certain United States Tax Considerations*”;

“**Treaty**” has the meaning ascribed thereto under the heading “*Certain Canadian Federal Income Tax Considerations*”;

“**UMIR**” has the meaning ascribed thereto under the heading “*Plan of Distribution — Price Stabilization, Short Positions and Passive Market Making*”;

“**Underwriting Agreement**” means the underwriting agreement dated August 1, 2018, among the Company and the Underwriters with respect to the Offering;

“**Underwriters**” means the Lead Underwriter, GMP Securities L.P., PI Financial Corporation, and Cormark Securities Inc.;

“**Underwriter’s Fee**” has the meaning ascribed thereto on the cover page;

“**United States**” and “**U.S.**” mean the United States of America, its territories and possessions, including the District of Columbia;

“**USDA**” means the United States Department of Agriculture;

“**U.S. Securities Act**” means the United States Securities Act of 1933, as amended from time to time; and

“**USRPHC**” has the meaning ascribed thereto under the heading “*Risk Factors — Risks Related to the Offering — U.S. Tax Classification*”.

## NOTICE TO INVESTORS

### General

Certain technical terms used throughout this prospectus are defined in the Glossary.

Any statements in this prospectus made by or on behalf of Management are made in such persons' capacities as officers of the Company and not in their personal capacities.

A prospective investor should rely only on the information contained in this prospectus and is not entitled to rely on parts of the information contained in this prospectus to the exclusion of others. Neither the Company nor any of the Underwriters have authorized anyone to provide investors with any different or additional information. If anyone provides prospective investors with any additional or different or inconsistent information, including information or statements in media articles about the Company or CWB, prospective purchasers are warned not to rely on it. Prospective purchasers should not assume that the information contained in this prospectus is accurate as of any date other than the date of this prospectus, or where information is stated to be as of a date other than the date of this prospectus, such other applicable date. Subject to the Company's obligations under applicable securities laws, the information contained in this prospectus is accurate only as of the date of this prospectus regardless of the time of delivery of this prospectus or of any sale of the Offered Shares.

Investors should read this entire prospectus and consult their own professional advisors to assess the income tax, legal, risk factors and other aspects of their investment in the Offered Shares.

Neither the Company nor any of the Underwriters is offering to sell the Offered Shares in any jurisdiction where the offer or sale is not permitted. For investors outside Canada, neither the Company nor any of the Underwriters has done anything that would permit the Offering, or possession or distribution of this prospectus, in any jurisdiction where action for that purpose is required, other than in Canada. Investors are required to inform themselves about and to observe any restrictions relating to the Offering and the distribution of this prospectus.

**Investors are urged to read the information under the headings “*Forward-Looking Statements*”, “*Forward-Looking Statements relating to Growth Strategy*” and “*Risk Factors*” appearing elsewhere in this prospectus.**

### Eligibility for Investment

In the opinion of DLA Piper (Canada) LLP, counsel to the Company, and Stikeman Elliott LLP, counsel to the Underwriters, based on current provisions of the Tax Act in force on the date hereof and any specific proposals to amend the Tax Act publicly announced prior to the date hereof, and subject to the terms of any particular plan or accounts, if and when the Common Shares are listed on a designated stock exchange within the meaning of the Tax Act (which currently includes the CSE), the Common Shares will be qualified investments for a trust governed by a registered retirement savings plan, a registered retirement income fund, a registered education savings plan, a registered disability savings plan, a tax-free savings account (each a “**Registered Plan**”) or a deferred profit sharing plan, each as defined in the Tax Act.

Notwithstanding the foregoing, the annuitant, holder or subscriber of a Registered Plan, as the case may be, (each, a “**Registered Holder**” and collectively, the “**Registered Holders**”) will be subject to a penalty tax if the Common Shares held in a Registered Plan are a “prohibited investment” for the purpose of the Tax Act. The Common Shares will generally be a “prohibited investment” for a particular Registered Plan if a Registered Holder in respect thereof has a “significant interest” (as defined in the Tax Act) in the Company or does not deal at arm's length with the Company for the purposes of the Tax Act. The Common Shares will not be a prohibited investment if they are “excluded property” as defined in the Tax Act for trusts governed by a Registered Plan.

**This summary is of a general nature only and is not, and is not intended to be, legal or tax advice to any particular Shareholder. Prospective purchasers who intend to hold Common Shares in a Registered Plan should consult their own tax advisors having regard to their own particular circumstances.**

## Forward-Looking Statements

Certain statements contained in this prospectus constitute forward-looking statements and forward-looking information (collectively, “**forward-looking statements**”). Such forward-looking statements relate to possible events, conditions or financial performance of the Company based on future economic conditions and courses of action. All statements other than statements of historical fact are forward-looking statements. The use of any words or phrases such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe”, “will likely result”, “are expected to”, “will continue”, “is anticipated”, “believes”, “interprets”, “estimated”, “intends”, “plans”, “projection”, “outlook” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, assumptions, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes there is a reasonable basis for the expectations reflected in the forward-looking statements, however no assurance can be given that these expectations will prove to be correct and the forward-looking statements included in this prospectus should not be unduly relied upon by investors. The forward-looking statements speak only as of the date of this prospectus and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this prospectus contains forward-looking statements pertaining to the following:

- the regulatory regimes applicable to the Company, and those regimes in jurisdictions in which the Company intends to expand into;
- the Offering Price and the completion, size and timing of the Offering;
- the pricing, completion, size and timing of the Private Placement;
- the listing of the Common Shares on the CSE;
- the use of proceeds of the Offering and the Private Placement;
- expectations regarding industry trends, overall market growth rates, the Company’s growth rates and growth strategies;
- the success of farming activities and production;
- the continued availability of viable farmland and the ability to contract with farming partners;
- the ability to scale cultivation;
- expectations regarding certain future results and information, including expectations regarding the Company’s future revenue, expenses, EBITDA, Adjusted EBITDA, sales growth, capital expenditures, operations and use of future cash flow;
- the Company’s business plans and strategies, including expectations regarding expansion activities, product development and diversification, and marketing initiatives;
- the Company’s ability to identify new product opportunities and scale its production capacity and sales and marketing infrastructures;
- expectations regarding future products;
- the Company’s competitive position in its industry;
- annual growth rates of the market for the Company’s products;
- the amount of compensation (including pursuant to the Company’s LTIP) expected to be paid/granted to the directors and officers of the Company;
- the entering into and terms of the employment agreements expected to be entered into with each of the Stanley brothers;
- the Company’s ability to attract and retain employees necessary for its operations and to scale its production operations;

- the Company's ability to raise capital;
- the Company's treatment under regulatory regimes and tax laws;
- the Company's growth strategies, including retail expansion, acquisitions, branding and marketing initiatives, differentiated products and international expansion;
- the Company's business objectives and strategies;
- consumer behaviour;
- expected levels of operating costs, general administrative costs, costs of services and other costs and expenses; and
- completion of the Reorganization on the terms of and timelines contemplated by this prospectus.

With respect to forward-looking statements contained in this prospectus, the Company has made assumptions regarding, among other things:

- the regulatory climate in which the Company operates and such climate continuing to be favorable to the Company's business;
- the continued sales success of Company's products;
- the continued success of sales and marketing activities;
- there being no significant delays in the development and commercialization of the Company's products;
- the Company continuing to maintain sufficient and effective production and research and development capabilities to compete on the attributes and cost of its products;
- there being no significant reduction in the availability of qualified and cost-effective human resources;
- that new products will continue to be added to the Company's portfolio;
- that demand for hemp-based wellness related products will continue to grow in the foreseeable future;
- there will be no significant barriers to the acceptance of the Company's products in the market;
- that the Company will be able to maintain compliance with applicable contractual and regulatory obligations and requirements;
- there will be adequate liquidity available to the Company to carry out its operations;
- that superior products do not develop that would render the Company's current and future product offerings undesirable or uncompetitive;
- the Company's ability to compete in the CPG industry;
- the Company's ability to obtain and retain key personnel;
- the Company's expectations regarding the advancement and adoption of new product lines and ingredients;
- the continued availability of viable farmland and the ability to contract with farming partners;
- the ability to build brand awareness, including securing media coverage, use of subject matter experts, legislative participation and public speaking engagements;
- the ability of the Company to optimize search engine results and leverage social media and display advertising platforms;
- the effectiveness of the Company's marketing initiatives;
- the Company's ability to analyze customer data;
- the Company's ability to secure partnerships with manufacturers and/or distributors in international markets;

- future product viability and success;
- the ability to obtain licenses when required;
- continued growth of the CBD industry;
- consumer behavior;
- the ability to identify beneficial acquisition opportunities, and financing of such acquisition opportunities;
- the Company's ability to secure additional distribution locations;
- the Company's expectations regarding the number of acres of farmland planted;
- success of intellectual property applications;
- there being no significant reduction in the regional yield variables associated with growing Industrial Hemp; and
- the completion of the Offering.

The Company's actual results could differ materially from those anticipated in the forward-looking statements as a result of the risk factors set forth below and elsewhere in this prospectus:

- the Company's interpretation of and changes to state laws pertaining to Industrial Hemp;
- the Company's interpretation of and changes to federal laws pertaining to Industrial Hemp;
- risks associated with numerous laws and regulations;
- international regulatory risks;
- uncertainty caused by potential changes to regulatory framework;
- NDI objection by FDA;
- FDA interpretation of IND preclusion;
- regulatory approval and permits;
- DEA jurisdiction over hemp extracts or CBD;
- environmental, health and safety laws;
- anti-money laundering laws and regulations;
- denial of deductibility of certain expenses;
- liability for actions of employees, contractors and consultants;
- product viability;
- success of quality control systems;
- reliance on the Stanley Brothers brand;
- product recalls;
- product liability;
- positive test for THC or banned substances;
- product returns;
- weather patterns and agriculture operations risks;
- availability of adequate crop insurance;
- risks relating to obtaining farmland;
- other agricultural production risks;

- hemp plant specific agricultural risks;
- transportation risk;
- domestic supply risk;
- reliance on third party suppliers, service providers and distributors;
- industry competition;
- intra-industry competition;
- future activities of the Stanley brothers;
- other conflicts of interest;
- changing consumer preferences and customer retention;
- maintaining and promoting the Company's brand;
- unfavourable publicity or consumer perception;
- inability to sustain pricing models;
- reliance on key inputs;
- effectiveness and efficiency of advertising and promotional expenditures;
- key officers and employees;
- inability to renew material leases;
- obtaining insurance;
- additional financings;
- management of growth;
- risks related to acquiring companies;
- inability to protect intellectual property;
- intellectual property claims;
- litigation;
- trade secrets may be difficult to protect;
- use of customer information and other personal and confidential information;
- data security breaches;
- global economic uncertainty;
- risks related to the Company's social responsibility goals;
- emerging industry;
- forward-looking information;
- no prior public market;
- potential volatility of Common Share price;
- dissent or appraisal rights in respect of the Merger;
- dividends to shareholders;
- holding company structure;
- future sales of Common Shares by the CWB Shareholders, directors or officers;

- risks related to potential changes in definition of foreign private issuer;
- risks related to the Company's loss of foreign private issuer status in the United States;
- increased cost as a result of becoming a reporting issuer;
- financial reporting and other public company requirements;
- impact on resales into the United States;
- risk related to non-compliance with Regulation S under the U.S. Securities Act;
- impact of future sales by existing shareholders;
- influence of the significant shareholders;
- limited control over the Company's operations;
- working capital and future issuances;
- securities or industry analysts;
- immediate dilution;
- discretion in the use of proceeds;
- U.S. domestic corporation for U.S. Federal income tax purposes;
- withholding tax on dividends;
- U.S. tax classification; and
- the other factors referred to under "Risk Factors".

Readers are cautioned that the foregoing list of risk factors should not be construed as exhaustive.

The forward-looking statements included in this prospectus are expressly qualified by this cautionary statement and are made as of the date of this prospectus. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws. Investors should read this entire prospectus and consult their own professional advisors to assess the income tax, legal, risk factors and other aspects of their investment in the Offered Shares.

#### **Forward-Looking Statements relating to Growth Strategy**

Management currently believes that the achievement of the financial targets described under "*Business of the Company — Growth Strategy*" is possible, can be reasonably estimated and is based on underlying assumptions that Management believes are reasonable in the circumstances, given the time period for such targets. However, there can be no assurance that the Company will be able to meet key assumptions, including introducing five to seven new products prior to the end of 2019, expanding internationally into western Europe, South America and Asia, and continuing to increase in bricks-and mortar presence with over 3,000 points of distribution in place by the end of 2019, or the other assumptions described under "*Business of the Company — Growth Strategy*" will be realized. Furthermore, actual results or performance in the future may vary from the assumptions referred to in the financial outlook.

The description of the Company's potential growth opportunities described under "*Business of the Company — Growth Strategy*" is based on Management's current views and strategies, assumptions and expectations concerning the Company's growth opportunities, and the assessment of the opportunities for the Company's business and industry, and has been calculated using accounting policies that are generally consistent with the Company's current accounting policies. The purpose of disclosing the Company's financial targets is to provide investors with more information concerning the financial impact of the Company's business initiatives and growth strategies described above and elsewhere in this prospectus. The financial outlook described under "*Management's Discussion and Analysis — Growth Strategy*" is forward looking information for purposes of applicable securities laws in Canada and readers are therefore cautioned that actual results may vary from those described therein. See "*Notice to Investors — Forward-Looking Statements*" and "*Risk Factors*" elsewhere in this

prospectus for a description of the assumptions underlying the forward-looking statements and of the risks and uncertainties that impact our business and that could cause actual results to vary.

### Non-IFRS Financial Measures

The Company and CWB prepare and report their consolidated financial statements in accordance with IFRS as issued by the IASB. However, this prospectus makes reference to certain non-IFRS measures including key performance indicators used by Management. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management’s perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of the Company’s financial information reported under IFRS. The Company uses non-IFRS measures including “EBITDA” and “Adjusted EBITDA” which may be calculated differently by other companies. These non-IFRS measures and metrics are used to provide investors with supplemental measures of our operating performance and liquidity and thus highlight trends in our business that may not otherwise be apparent when relying solely on IFRS measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of companies in similar industries. Management also uses non-IFRS measures and metrics, in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of executive compensation. For a discussion of the use of “EBITDA” and “Adjusted EBITDA” and reconciliations thereof to the most directly comparable IFRS measures, see “*Management’s Discussion and Analysis — Adjusted EBITDA*”.

### Currency

In this prospectus, unless otherwise indicated, all “dollar” amounts or references to “\$” or “US\$” are to United States dollars. References to “C\$” are to Canadian dollars.

The closing, high, low and average exchange rates for the United States dollar in terms of Canadian dollars for each of the years ended December 31, 2017 and December 31, 2016, and the quarter ended June 30, 2018 as reported by the Bank of Canada, were as follows:

	Year Ended December 31,		Quarterly period ended June 30, 2018
	2017 (C\$)	2016 (C\$)	
Closing <sup>(1)</sup> .....	1.2545	1.3427	1.3168
High <sup>(1)</sup> .....	1.3743	1.4559	1.3310
Low <sup>(1)</sup> .....	1.2128	1.2536	1.2552
Average <sup>(2)</sup> .....	1.2986	1.3248	1.2911

#### Notes:

- (1) The exchange rates are nominal quotations (not buying or selling rates) of the applicable rates published by the Bank of Canada and are intended for statistical purposes.
- (2) Calculated as an average of the daily noon rates for 2016. Calculated as an average of the daily closing rates for 2017 and 2018 as a result of changes to the reporting methodology of the Bank of Canada implemented after April 28, 2017.

On August 16, 2018, the Bank of Canada daily average rate of exchange was C\$1.00 = US\$0.7603 or US\$1.00 = C\$1.3152.

### Market, Independent Third Party and Industry Data

Unless otherwise indicated, the Company has obtained the market and industry data contained in this prospectus from its internal research, Management’s estimates and third party public information, including data from the Brightfield Report, the CBD Report by the Frontier Financial Group Inc. and other industry

publications. While the Company and the Underwriters believe such internal research, Management's estimates and third party public information is reliable, such internal research and Management's estimates have not been verified by any independent sources and neither the Company nor the Underwriters have verified any third party public information. While the Company and the Underwriters are not aware of any misstatements regarding the market and industry data contained in this prospectus, such data involves risks and uncertainties and are subject to change based on various factors, including those described under "*Notice to Investors — Forward-Looking Statements*" and "*Risk Factors*".

### **Trade Marks, Trade Names and Service Marks**

This prospectus contains certain trademarks which are protected under applicable intellectual property laws and are the Company's and CWB's property. Solely for convenience, the Company's trademarks and trade names referred to in this prospectus may appear without the ® or ™ symbol, but such references are not intended to indicate, in any way, that the Company will not assert, to the fullest extent under applicable law, its rights to these trademarks and trade names.

### **Marketing Materials**

A "template version" of the following "marketing materials" (each such term as defined in NI 41-101) for this Offering filed with the securities commission or similar regulatory authority in each of the provinces of Canada, except Quebec, are specifically incorporated by reference into this prospectus:

1. the term sheet filed on SEDAR on July 13, 2018 (the "**July 13 Term Sheet**") and the revised term sheet filed on SEDAR on August 22, 2018 (the "**August 22 Term Sheet**"); and
2. the investor presentation filed on SEDAR on July 16, 2018 (the "**July 16 Investor Presentation**") and the revised investor presentation filed on SEDAR on August 22, 2018 (the "**August 22 Investor Presentation**").

The terms sheets and investor presentations referred to above are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The August 22 Term Sheet and the August 22 Investor Presentation revised the July 13 Term Sheet and the July 16 Investor Presentation, respectively, to, among other things, reflect the increase to the number of Offered Shares to be issued pursuant to the Offering, the increase to the gross proceeds, the addition of the Secondary Base Offering and the addition of the Private Placement.

These revisions are all reflected in this prospectus. Pursuant to subsection 13.7(7) of NI 41-101, the August 22 Term Sheet and the August 22 Investor Presentation, as well as blacklines to the July 13 Term Sheet and the July 16 Investor Presentation are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

In addition, any template version of any other marketing materials filed with the securities commission or similar regulatory authority in each of the provinces of Canada, except Quebec, in connection with this Offering, after the date hereof, but prior to the termination of the distribution of the Offered Shares under this prospectus (including any amendments to, or an amended version of, any template version of any marketing materials), is deemed to be incorporated by reference herein. Any template version of any marketing materials utilized in connection with this Offering are not part of this prospectus to the extent that the contents of the template version of the marketing materials have been modified or superseded by a statement contained in this prospectus.

## SUMMARY

*The following is a summary of the principal features of the Company and the Offering and should be read together with the more detailed information and financial data and statements appearing elsewhere in this prospectus. Reference is made to the “Glossary” and for the meaning of certain defined terms and abbreviations.*

### Overview

CWB is a market leader in the production and distribution of innovative hemp-based, CBD wellness products. Through its vertically integrated business model, CWB strives to improve customers' lives and meet their demands for stringent product quality, efficacy and consistency. CWB does not produce or sell medicinal or recreational marijuana or products derived therefrom.

CWB's products are made from high quality and proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, including CBD, terpenes, flavonoids and other minor but valuable hemp compounds. CWB believes the presence of these various compounds work synergistically to heighten the effects of the products, making them superior to single-compound CBD isolates.

Hemp extracts are produced from Industrial Hemp, which is defined as Cannabis with less than 0.3% THC. THC causes psychoactive effects when consumed and is typically associated with marijuana (i.e., Cannabis with high-THC content). CWB does not produce or sell medicinal or recreational marijuana or products derived from high-THC Cannabis/marijuana plants. Industrial Hemp products have no psychoactive effects.

CWB's current product categories include tinctures (liquid product), capsules and topical products. Planned product categories include powdered supplements, single-use, beverage, sport and professional (dedicated health care practitioner products). CWB's products are distributed through its e-commerce website, select wholesalers and a variety of brick and mortar retailers.



CWB grows its proprietary hemp on farms leased in northeastern Colorado and sources high quality hemp through contract farming operations in Kentucky and Oregon, as further described below.

CWB continues to invest in R&D efforts to identify new product opportunities. CWB plans to scale its production capacity and sales and marketing infrastructures as demand for its products continues to increase. Management believes the timing is right to invest in expanded production capacity to address emerging new product opportunities, take further control of the supply chain and proactively define the competitive landscape. CWB intends to capitalize on the rapidly emerging CBD wellness products industry by driving customer acquisition and retention, as well as accelerating national and international retail expansion.

### Financial Highlights

CWB believes that its high-quality products, brand awareness, consumer loyalty, efficient supply chain and prudent business and financial management have contributed to strong and consistent financial performance. Select financial highlights include the following:

- Revenue grew from US\$14.7 million in 2016 to US\$40.0 million in 2017, representing growth of 172% year-over-year

- Gross profit grew from US\$9.6 million in 2016 to US\$29.9 million in 2017, representing growth of 212% year-over-year; gross profit as a percent of revenue was 65% and 75% in 2016 and 2017, respectively
- Adjusted EBITDA grew from US\$2.0 million in 2016 to US\$14.1 million in 2017; Adjusted EBITDA as a percent of revenue was 14% and 35% in 2016 and 2017, respectively
- For the three months ended June 30, 2018, CWB generated revenue of US\$17.2 million (US\$30.3 million for the six months ended), gross profit of US\$13.2 million (US\$23.7 million for the six months ended) and Adjusted EBITDA of US\$6.1 million (US\$10.7 million for the six months ended)



Adjusted EBITDA is a non-IFRS financial measure. See “*Notice to Investors — Non-IFRS Financial Measures*” and “*Management’s Discussion and Analysis — Adjusted EBITDA*”.

## Investment Highlights

### *Leading Market Position in a Rapidly Growing Segment*

Charlotte’s Web is the #1 brand by market share in the hemp-derived CBD supplements segment. In the U.S., the segment is expected to grow rapidly from US\$174 million in 2016 to US\$1.6 billion in 2021, representing a CAGR of 55% over the period.<sup>(1)</sup> In 2016, Charlotte’s Web accounted for approximately 8% of reported category sales.<sup>(2)</sup> After the leading two brands in the industry, no other brand in the category had more than a 2% share of sales and 93% of brands registered less than US\$1 million in sales or less than 100 distribution points, or both.<sup>(3)</sup> In 2017, CWB’s market share was approximately 14% (based on CWB’s 2017 revenues in an estimated US\$287 million hemp CBD market).<sup>(4)</sup> With CWB’s current brand leadership position and planned growth strategies, CWB aspires to be a global brand and market leader in the hemp-derived CBD supplements space.

### *Established and Trusted Charlotte’s Web Brand*

CWB believes that Charlotte’s Web is one of the most recognized brands in the hemp-derived CBD supplements segment. Historical media coverage that referenced CWB’s brand includes CNN, CBS, the New York Times and Forbes. This recognition is driven by what CWB believes is the highest quality product in the industry derived only from family farms in the United States (i.e. no imported hemp or hemp extracts). Charlotte’s Web has grown significantly since its humble beginnings with the originating Stanley brothers, but the soul and spirit of the Stanley brothers and their sense of family runs deep within the organization. CWB continues to strive to lead the industry in quality, safety, consistency and social responsibility to support thousands of lives daily through the use of Charlotte’s Web.

(1) Source: Brightfield Report.

(2) Source: Brightfield Report.

(3) Source: Brightfield Report.

(4) Source: Brightfield Report.

### *Positive Industry Trends Support Continued Growth*

CWB competes in a fast-growing hemp-derived CBD supplements market. In the United States, the market is expected to grow from US\$174 million in 2016 to US\$1.6 billion in 2021<sup>(5)</sup> and management believes expansion internationally is expected to have similar growth rates.

The U.S. supplements industry was estimated at US\$41 billion in 2016 and is expected to grow to over US\$50 billion by 2020.<sup>(6)</sup> CWB operates in the hemp-derived CBD supplements category of this market, a fast-growing segment with an estimated compound annual growth rate through 2021 of 55%.<sup>(7)</sup> With an estimated market size of US\$1.6 billion by 2021 for the hemp-derived CBD supplements category and the wider industry continuing to demonstrate steady growth, there is strong support for CWB to continue its growth trajectory.<sup>(8)</sup>

Similarly, as consumers gravitate towards products with ingredients they trust and can easily understand, CWB is well positioned to capitalize on these consumer trends, due to its commitment to quality throughout the supply chain as well as cleaner product formulations that are intended to maximize understanding and acceptance of CWB's products.

### *Continued Innovation to Expand Market Leading Product Portfolio*

CWB understands that R&D, innovation and new product development are key to maintaining its market leading product portfolio. CWB's current product portfolio, combined with planned future products, are expected to cover a wide array of botanical wellness products that provide customers with everyday health and wellness solutions they can trust. Future products include tinctures, capsules, powdered supplements, single-use products, topical products, beverages, sport and professional (dedicated health care practitioner products).

### *Scalable Cultivation and Production Platforms*

CWB has cultivation plans for approximately 300 acres of irrigated farmland from ten farms in three states for the 2018 growing season, of which, 165 acres are expected to be planted with CWB's proprietary hemp genetics during the 2018 calendar year. Management believes these 300 acres will produce an estimated 250,000 to 350,000 pounds of Industrial Hemp during the 2018 harvest period (dependent on the regional yield variables associated with growing Industrial Hemp).

CWB's current cultivation practices have been engineered for scalability to meet sales demand projections. CWB has conducted extensive R&D to demonstrate that it can scale its United States cultivation operations significantly without sacrificing quality and consistency. Future expansion will focus on infrastructure to diversify seed supply and further mechanization of harvest operations.

CWB operates a 40,000-square foot manufacturing and R&D facility and a separate warehouse and distribution center. Management estimates that annually, CWB can produce 3,000 kg of alcohol-extracted hemp extract and 2,900 kg of CO<sub>2</sub>-extracted hemp extract and approximately 16,000 30 mL bottles or 8,000 100 mL bottles per day. CWB operates its finished products manufacturing in accordance with cGMP and strives to exceed these standards to create the highest quality products in the market.

### *Strong Financial Performance*

CWB believes that its high-quality products, brand awareness, consumer loyalty, efficient supply chain and prudent business and financial management have contributed to strong and consistent financial performance.

See "*Financial Highlights*" and "*Business of the Company — Strong Financial Performance*".

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(5) Source: Brightfield Report.

(6) Source: New Hope Network, 20<sup>th</sup> Annual NBJ Summit — Supplement Industry Market Overview 2017.

(7) Source: Brightfield Report.

(8) Source: Brightfield Report.

### *Experienced Management Team to Lead Growth*

CWB leverages the entrepreneurial leadership of its founders and the professional experience of its management team, both of which are deeply committed to CWB's vision, mission and social values. The team works in a collaborative manner that creates a dynamic professional environment. There exists a healthy cross section of extensive experience in distribution, cultivation, sales, technology, finance, customer service, CPG, marketing, business development, acquisitions, capital markets and market analysis, all of which are key to CWB's future success.

### **Growth Strategy**

CWB has a successful history of growing revenue since its first significant product sales began in March 2015. In 2017, revenue grew by 172% over 2016. Adjusted EBITDA grew by 605% over the same period. CWB continues to be a leader by revenue in its segment, and it believes it will continue to realize growth while improving overall profitability.

CWB believes it has an opportunity to achieve the following financial targets for 2018:

- Estimated total annual revenue of US\$65 to US\$80 million, an increase of US\$25 to US\$40 million over 2017
- Estimated total annual Adjusted EBITDA of US\$23 to US\$30 million, an increase from US\$14.1 million in 2017
- Implies Adjusted EBITDA as a percent of revenue of 35% to 37%

CWB believes it has an opportunity to achieve the following financial targets for 2019:

- Estimated total revenue of US\$120 to US\$170 million
- Estimated Adjusted EBITDA margins of 35% to 37%

Depending on the timing of key acquisitions, strategic relationships and international expansion, the above annual revenue amounts and corresponding Adjusted EBITDA amounts could produce additional year-over-year improvement. See “*Notice to Investors — Forward-Looking Statements relating to Growth Strategy*”, “*Business of the Company — Growth Strategy*” and “*Business of the Company — Growth Strategy — Assumptions*”.

Adjusted EBITDA is a non-IFRS financial measure. See “*Notice to Investors — Non-IFRS Financial Measures*” and “*Management's Discussion and Analysis — Adjusted EBITDA*”.

The following are the principal strategies CWB will employ to drive its profitable growth and cash flow generation:

#### *Building Brand Awareness*

Management believes the Charlotte's Web and Stanley Brothers brands are among the strongest in the CBD, hemp and Cannabis industries. Brand recognition will continue to be driven by several factors including: (i) media events similar to what has historically occurred with CWB including CNN, CBS, the New York Times and Forbes; (ii) email, social media and blogs; (iii) use of subject matter experts; (iv) legislative participation; and (v) public speaking engagements at key industry events. In addition to these active outlets to build brand awareness, CWB plans to support word-of-mouth endorsements and testimonials from its customers who are advocates for its brands and products.

#### *Growth from the Existing Product Portfolio Through Marketing Initiatives*

CWB's marketing mix is being optimized in order to connect with more consumers and guide them through the buying process. A collaborative, integrated effort with content and public relations teams is underway with the objective to optimize search engine results and leverage social media and display advertising platforms. CWB is working to segment and analyze customer data in order to enhance the customers' experience to convert browsers into buyers and drive repeat purchases. CWB is also targeting major food and mass market accounts as

additional distribution platforms. These accounts are expected to enable CWB to gain broader distribution, open new consumer segments, and drive growth through increased awareness, consideration and purchase.

#### *Introduction of New, Differentiated Botanical Products*

CWB is currently marketing a variety of hemp-derived CBD tinctures, capsules and topical products under the Charlotte's Web and CW trade names. Through research, CWB has prioritized several new primary and secondary product categories, including tinctures, capsules, powders, sports performance products, topical/cosmetic products, infused beverages and hemp-infused pet products. CWB expects that not all of its future products will contain hemp extracts, but the focus will remain on botanical-based wellness products.

#### *International Expansion*

CWB believes that global distribution is paramount to its growth in the next 24 months, with near-term focus on the European Union, South America and Asia. To achieve this international reach, CWB is planning to either partner with distributors and/or manufacturers in these international locations or create its own foreign licensed subsidiaries to transact business in these regions. CWB will be constantly weighing the trade-off of each option against the impact on sales volume opportunity and profitability ratios in its decision-making process. Expansion into additional jurisdictions will be done in compliance with applicable regulatory requirements in such jurisdictions and the cost and complexity of such compliance will form part of the strategic evaluation process for any proposed expansion. The Company anticipates that it will make final decisions as to its proposed international expansion once its regulatory review of potential jurisdictions is complete.

#### *Improved Distribution*

At the end of 2017, CWB's products were sold in approximately 2,000 locations. Currently, products are sold in approximately 2,700 locations, and are expected to continue to increase. CWB distributes its products in the United States and on a limited basis internationally. Expansion is expected to continue both in the United States and internationally. Future distribution channels are planned to include national retailers (including grocers and drug chains), vitamin and supplement retailers, and natural food stores. CWB believes it will have over 3,000 points of distribution by the end of 2018.

#### *Acquisition of Strategic Complementary Companies*

CWB intends to leverage its global relationships and network of industry participants and advisors to actively source and identify acquisition opportunities. CWB expects to selectively pursue compelling acquisitions that leverage and complement CWB's strengths in sales, marketing, new product development, quality, production and distribution. Certain criteria will be employed in pursuing potential acquisition candidates including: (i) brand, product and channel synergies; (ii) attractiveness of product sector; (iii) integration synergies; (iv) production capabilities; (v) distribution network; (vi) geographic reach; and (vii) financial performance. CWB expects to fund these acquisitions through a combination of cash flow, debt and/or equity, if available.

#### **Industry Overview**

CWB is a market leader in the production and distribution of innovative hemp-based, CBD wellness products. Through its vertically integrated business model, CWB strives to improve customers' lives and meet their demands for stringent product quality, efficacy and consistency.

CWB's products are made from high quality and proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, including CBD. Hemp extracts are produced from Industrial Hemp. Industrial Hemp products have no psychoactive effects.

Hemp extracts contain an assortment of naturally-occurring substances, including phytocannabinoids, terpenes, flavonoids and other minor but valuable hemp compounds. CWB believes the presence of various phytocannabinoids, terpenes and flavonoids work synergistically to heighten the effects of the products, making them superior to single-compound CBD isolates.

While complete scientific corroboration for the uses of CBD are still in their infancy, industry reports suggest consumers are using CBD for various applications including assistance with sleep, daily stress, anxiety, pain relief, cognitive function and immune health, among other applications.<sup>(9)</sup>

In addition to the industry and consumer reported uses of CBD, significant research is currently being conducted on the use of CBD as it relates to the following, among other topics:

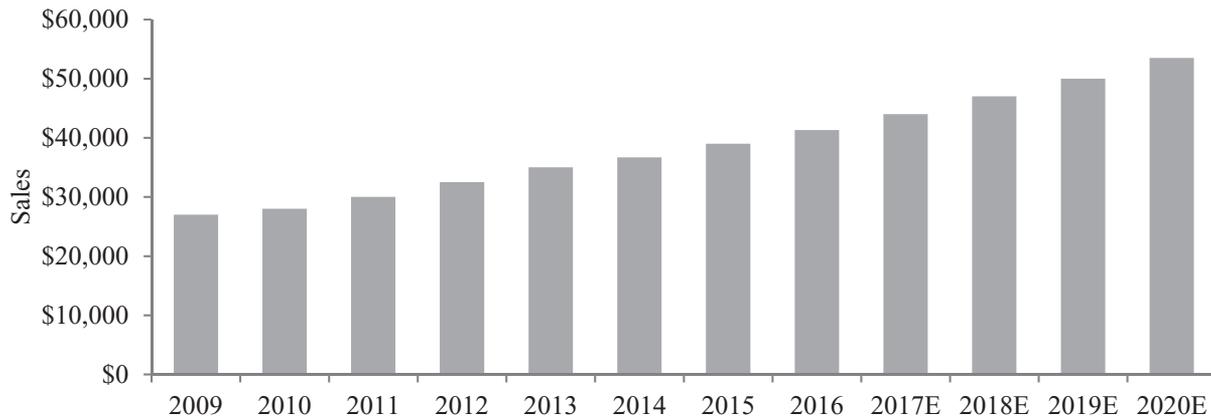
- Epilepsy
- Post-Traumatic Stress Disorder
- Cancer
- Autism
- Neuroprotection
- Anti-Inflammatory Effects
- Anti-Tumor Effects
- Anti-Psychotic Effects

*The United States Supplements Industry Market Size*

In the United States, dietary supplements are generally defined under the Dietary Supplement Health and Education Act of 1994 (“**DSHEA**”) as products that are intended to supplement the diet and contain any of the following dietary ingredients: (i) a vitamin; (ii) a mineral; (iii) an herb or other botanical (excluding tobacco); (iv) an amino acid; or (v) a concentrate, metabolite, constituent, extract, or combination of any of the above. According to the Nutrition Business Journal, the United States supplements industry was estimated at US\$41 billion in 2016 with 6.6% growth over 2015 and is estimated to reach over US\$50 billion by 2020.<sup>(10)</sup> According to the Brightfield Group, by 2021, it is expected that hemp-derived products reach a market size of US\$1.6 billion.<sup>(11)</sup>

**Exhibit 1: U.S. Supplemental Sales**

*(Figures in US\$ millions)*



Source: Nutrition Business Journal

(9) Source: Brightfield Report.

(10) Source: New Hope Network, 20<sup>th</sup> Annual NBJ Summit—Supplement Industry Market Overview 2017. Available at <http://www.newhope.com/sites/newhope360.com/files/Expo-West-2017-Supplements-Today-1.pdf>.

(11) Source: Brightfield Report.

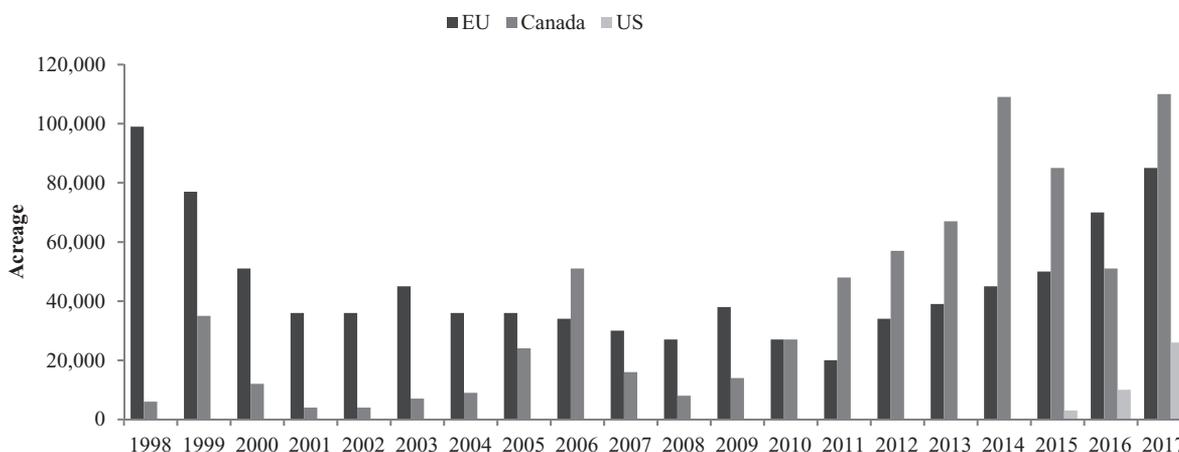
CWB believes that consumers are increasingly searching for products made with high quality, simple ingredients, a trend that is visible in the growth of health food stores like Whole Foods, as well as large CPG brands developing cleaner product lines without unnecessary additives. Nielsen notes that “this purchase behavior confirms the notion that consumers will gravitate toward products with ingredients they trust and can easily understand”.<sup>(12)</sup> CWB is well positioned to capitalize on these consumer trends due to its commitment to quality throughout the supply chain as well as its clean product formulations that are intended to maximize consumer understanding and acceptance of CWB’s products. CWB believes that informed consumers are looking for alternatives to pharmaceutical-based remedies for health and wellness. CWB believes that, in recent years, consumers have expanded their interest in supplements, self-care and homeopathic health.

### *The Hemp-Derived CBD Supplements Sector*

The hemp-derived CBD supplements sector was first created by Section 7606 of the 2014 Farm Bill when it was signed into law on February 7, 2014. The 2014 Farm Bill delegated the authorization to cultivate Industrial Hemp to the individual states of the United States. Since 2014, total acreage of hemp grown in the United States has increased to over 23,000 acres with an estimated 55% of that cultivation dedicated to hemp used in the production of CBD extracts.<sup>(13)</sup>

While United States-based hemp cultivation is a relatively new industry, there is significant international acreage, especially across the European Union and Canada.

### **Exhibit 2: Global Hemp Acreage Comparison**



Source: US state agencies for cultivated acres, nova-Institute and EIHA for EU cultivation, Health Canada for Canadian licensed acreage (acres). 2017 unconfirmed estimates for EU and Canada

According to the Brightfield Group, by 2021, it is expected that hemp-derived CBD products will reach a market size of US\$1.6 billion.<sup>(14)</sup>

As a relatively new industry in the United States, the hemp-derived CBD supplements category is extremely fragmented with more than 200 brands, each capturing insignificant market share in 2016. In 2016, Charlotte’s Web was the dominant brand in the category, accounting for approximately 8% of reported category sales. In 2017, CWB’s market share is approximately 14% (based on CWB’s 2017 revenues in an estimated US\$287 million hemp CBD market).<sup>(15)</sup> In 2016, after the leading two brands in the industry, no other brand in the category had more than a 2% share of sales and 92.9% of brands registered less than US\$1 million in sales or less than 100 distribution points, or both.<sup>(16)</sup>

(12) Source: MediaPost, Nielsen Confirms ‘Clean’ Labels Boosting CPG Sales. August 24, 2017. Available at <https://www.media-post.com/publications/article/306230/nielsen-confirms-clean-labels-boosting-cpg-sales.html>.

(13) Source: New Hope Network. The CBD Summit. March 7, 2018.

(14) Source: Brightfield Report.

(15) Source: Brightfield Report.

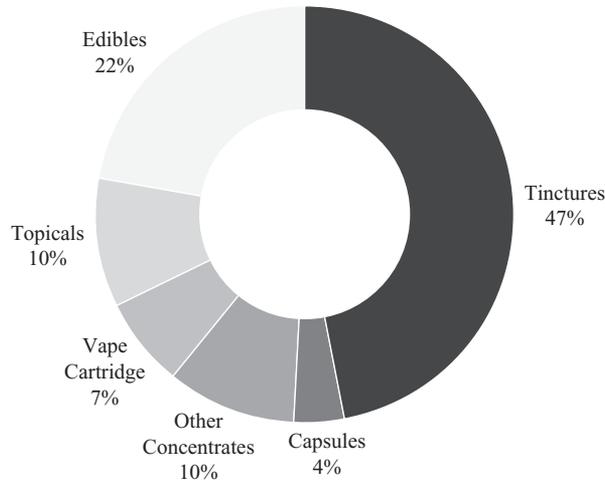
(16) Source: Brightfield Report.

The vast majority of hemp-derived CBD supplements are sold through five main distribution channels — dispensary and delivery services, online, smoke shops, health food stores and doctors’ offices.

Most of the usage within the category is initiated from friend or family referrals who have used hemp or CBD products in their past. The typical customer journey follows one of several common paths that initiates from either (i) a propensity to use dietary supplements or homeopathic aids to help manage their wellness; or (ii) a dissatisfaction with current health and medical options to manage their wellness. Both paths place a high value on validation of the category through in-depth consumer research and inquiry.

Nearly three-quarters of consumers of hemp-derived CBD supplements purchase such products in concentrate form, primarily as tinctures, sublingual oil drops and oral applicator pens.

**Exhibit 3: Hemp CBD Market: Category Analysis**



Source: Brightfield Report

See “Business of the Company — Industry Overview”.

**United States Regulatory Matters**

*General Overview*

Note, the following overview is subject to and qualified by the more detailed descriptions in the following sections entitled “United States Federal Regulation of Industrial Hemp”, “State Regulation Industrial Hemp”, “FDA Regulation”, “Future Uncertainty of Legal Status” and “The Company’s Regulatory Compliance Activities”.

The Company does not produce or sell medicinal or recreational marijuana or products derived therefrom. It sells Industrial Hemp-based CBD products. While such products come from the same plant genus and species, Industrial Hemp and marijuana are legally distinct and are generally regulated, respectively, by two separate overarching bodies of law: the 2014 Farm Bill and the CSA. Industrial Hemp, by legal definition, does not contain sufficient levels of THC to produce a psychoactive effect like marijuana.

Consequently, the Company’s products are not sold pursuant to the rules and regulations governing the cultivation, transportation and sale of medicinal or recreational marijuana. The Company cultivates, processes, transports and sells its products pursuant to the 2014 Farm Bill and in accordance with applicable state and local laws. Internationally, products are sold in accordance with the laws of the importing and exporting jurisdiction.

See “United States Regulatory Matters”.

## THE OFFERING

<b>The Issuer</b>	Charlotte's Web Holdings, Inc.
<b>Offering Price</b>	C\$7.00 per Offered Share.
<b>Offering Size</b>	An aggregate of 14,300,000 Offered Shares, consisting of (i) 13,312,150 Offered Shares pursuant to the Treasury Offering for aggregate gross proceeds to the Company of C\$93,185,050 and (ii) 987,850 Offered Shares pursuant to the Secondary Base Offering for aggregate gross proceeds to the Selling Shareholders of C\$6,914,950 <sup>(17)</sup> (C\$21,929,950 <sup>(18)</sup> assuming the Over-Allotment Option is exercised in full).
<b>Over-Allotment Option</b>	The Company and the Selling Shareholders have agreed to grant to the Underwriters an Over-Allotment Option, exercisable in whole or in part at any time and from time to time for a period of 30 days following the Closing to purchase up to an additional 2,145,000 Common Shares from the Selling Shareholders (representing 15% of the Offered Shares offered pursuant to the Offering), on the same terms as set forth above solely to cover over-allotments, if any, and for market stabilization purposes. See " <i>Plan of Distribution</i> " and " <i>Principal Securityholders and Selling Shareholders</i> ".
<b>Closing</b>	The Closing is expected to occur on or about ● , 2018 or such other date as the Company and the Underwriters may agree, but in any event no later than ● , 2018. See " <i>Plan of Distribution</i> ".
<b>Use of Proceeds</b>	The Company estimates that the net proceeds to the Company from the Treasury Offering will be approximately C\$84,343,947, after deducting the estimated Underwriters' Fees of C\$5,591,103 payable by the Company and the expenses of the Offering, which are expected to be C\$3,250,000. If the Private Placement (as defined below) is fully subscribed the Company anticipates it will receive additional net proceeds of C\$6,125,959. The Company intends to use the net proceeds from the Treasury Offering and the Private Placement for expansion of production capacity, cultivation infrastructure, research and product development, international expansion and working capital, marketing and general corporate purposes. The Company will not receive any proceeds from the Secondary Base Offering or the exercise of the Over-Allotment Option. See " <i>Use of Proceeds</i> ".
<b>Concurrent Private Placement</b>	The Company intends to complete a concurrent non-brokered private placement (the " <b>Private Placement</b> ") of up to 875,137 Common Shares at the same price as the Offered Shares (the " <b>Private Placement Shares</b> ") for aggregate gross proceeds of C\$6,125,959. The Private Placement Shares will be issued separately from the Offered Shares offered hereby. Such Private Placement Shares will be subject to a four month statutory hold period pursuant to Canadian securities laws and have not been, and will not be, registered under the U.S. Securities Act. The Offering is not contingent on the issuance and sale of any of the Private Placement Shares.
<b>Description of Share Capital</b>	Upon completion of the Offering, the Company's authorized share capital will consist of (i) an unlimited number of Common Shares; (ii) an unlimited number of Proportionate Voting Shares; and (iii) an unlimited number of preferred shares, issuable in series. See " <i>Description of Share Capital</i> ".

(17) Represents US\$70,852,380 in respect of the Treasury Offering and US\$5,257,718 in respect of the Secondary Base Offering based on the August 16, 2018, Bank of Canada daily average rate of exchange of US\$1.00 = C\$1.3152.

(18) Represents US\$16,674,232 based on the August 16, 2018, Bank of Canada daily average rate of exchange of US\$1.00 = C\$1.3152.

Generally, the Common Shares and Proportionate Voting Shares have the same rights, are equal in all respects and are treated by the Company as if they were shares of one class only.

**Shares Outstanding**

Immediately after the completion of the Offering and the Reorganization, assuming no exercise of the Over-Allotment Option and that the Private Placement is fully subscribed, an equivalent of 92,846,395 Common Shares (assuming the conversion of all Proportionate Voting Shares to Common Shares on the basis of 400 Common Shares for one Proportionate Voting Share) will be issued and outstanding on a non-diluted basis. See “*Description of Share Capital—Authorized Share Capital Upon Completion of the Offering—Conversion Rights and Transfers*”.

**Shares held by the Selling Shareholders Following Closing**

In the event that the Over-Allotment Option is exercised in full, the Selling Shareholders will, collectively, own an equivalent of 51,060,538 Common Shares (assuming the conversion of all Proportionate Voting Shares to Common Shares on the basis of 400 Common Shares for one Proportionate Voting Share), representing a 55% equity and voting interest in the Company (48.1% on a fully-diluted basis). The foregoing excludes all options that have been or may be issued prior to or upon Closing and assumes the Private Placement is fully subscribed. See “*Principal Securityholders and Selling Shareholders*” and “*Risk Factors*”.

**Shares to be Owned by the former CWB Shareholders Following Closing**

Immediately following the Closing, all of the existing CWB Shareholders will exchange their common stock of CWB for Proportionate Voting Shares pursuant to the Reorganization. See “*Corporate Structure—Reorganization*”.

Immediately after the completion of the Offering and the Reorganization, the former CWB Shareholders, collectively, will own an equivalent of 77,671,258 Common Shares (assuming the conversion of all Proportionate Voting Shares to Common Shares on the basis of 400 Common Shares for one Proportionate Voting Share), representing an 83.7% equity and voting interest in the Company (assuming the Private Placement is fully subscribed) (85.7% on a fully-diluted basis and assuming the Private Placement is fully subscribed), and if the Over-Allotment Option is exercised in full (assuming the Private Placement is fully subscribed), the former CWB Shareholders, collectively, will own an equivalent of 75,526,258 Common Shares (assuming the conversion of all Proportionate Voting Shares to Common Shares on the basis of 400 Common Shares for one Proportionate Voting Share), representing an 81.4% equity and voting interest in the Company (assuming the Private Placement is fully subscribed) (83.7% on a fully-diluted basis and assuming the Private Placement is fully subscribed).

**Conversion Rights**

Proportionate Voting Shares, and any fractions thereof, may at any time, subject to the FPI Condition, at the option of the holder thereof, be converted into Common Shares at a ratio of 400 Common Shares per Proportionate Voting Share. The Proportionate Voting Shares are automatically convertible into Common Shares under certain circumstances. No fractional Common Shares will be issued on any conversion and any fractional Common Shares will be rounded down. Common Shares may at any time, at the option of the holder and with the consent of the Company, be converted into Proportionate Voting Shares on the basis of 400 Common Shares for one Proportionate Voting Share. See “*Description of Share Capital—Authorized Share Capital Upon Completion of the Offering—Conversion Rights and Transfers*”.

The Proportionate Voting Shares are not transferrable without Board approval, except to Permitted Holders and in compliance with U.S. securities laws.

**Voting Rights**

All holders of Shares will be entitled to receive notice of any meeting of shareholders of the Company, and to attend, vote and speak at such meetings, except those meetings at which only holders of a specific class of shares are entitled to vote separately as a class under the BCBCA.

On all matters upon which shareholders of the Company are entitled to vote, each Common Share is entitled to one vote; and each Proportionate Voting Share is entitled to 400 votes per whole Proportionate Voting Share. Each fraction of a Proportionate Voting Share is entitled to the number of votes calculated by multiplying the fraction by 400. See “*Description of Share Capital — Voting Rights*”.

Unless a different majority is required by law or the Articles, resolutions to be approved by holders of Shares require approval by a simple majority of the total number of votes of all Shares cast at a meeting of shareholders at which a quorum is present based on the voting entitlements of each class of Shares as described above.

**Dividend Policy**

The Company intends to retain any future earnings to fund the development and growth of its business and does not currently anticipate paying dividends on the Shares. See “*Dividends or Distributions*”.

**Dividend Rights**

Holders of 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 from time to time determine, subject to any preferential rights of the holders of any outstanding preferred shares, on the following basis, and otherwise without preference or distinction among or between the Shares: each Proportionate Voting Share will be entitled to 400 times the amount paid or distributed per Common Share. See “*Description of Share Capital — Dividend Rights*”.

**Liquidation Rights**

In the event of the liquidation, dissolution or winding-up of the Company or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs, whether voluntarily or involuntarily, the holders of 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, on the following basis, and otherwise without preference or distinction among or between the Shares: each Proportionate Voting Share will be entitled to 400 times the amount distributed per Common Share and each fraction of a Proportionate Voting Share will be entitled to the amount calculated by multiplying the fraction by the amount otherwise payable in respect of a whole Proportionate Voting Share. See “*Description of Share Capital — Liquidation Rights*”.

**Take-Over Bid Protection**

The Articles will provide the holders of Common Shares certain conversion rights in order to ensure that, in the event of a take-over bid for the Proportionate Voting Shares that is not made for the Common Shares on equivalent terms, the holders of Common Shares will be entitled to participate on an equal footing with holders of Proportionate Voting Shares in such an offer. See “*Description of Share Capital — Take-Over Bid Protection*”.

**Lock-up Agreements**

The Company and each of its senior officers, directors and certain shareholders, including the Selling Shareholders, and each such person’s

associates and affiliates, has agreed, subject to certain limited exceptions, not to directly or indirectly offer, issue, sell, grant, secure, pledge, or otherwise transfer, dispose of or monetize, or engage in any hedging transaction, or enter into any form of agreement or arrangement the consequence of which is to alter economic exposure to, or announce any intention to do so, in any manner whatsoever, any Common Shares or securities convertible into, exchangeable for, or otherwise exercisable to acquire Common Shares or other equity securities of the Company for a period of 180 days after the Closing Date, without the prior written consent of the Lead Underwriter, such consent not to be unreasonably withheld, except, as applicable, in the case of the Company or the applicable person, in conjunction with: (i) the grant or exercise of stock options and other similar issuances pursuant to the LTIP and other share compensation arrangements, provided that the exercise price in respect of any stock option grants is not less than the Offering Price; (ii) the exercise of outstanding warrants; (iii) obligations of the Company in respect of existing agreements; (iii) the issuance of securities by the Company in connection with acquisitions in the normal course of business; or (iv) in the case of a person other than the Company, in order to accept a bona fide take-over bid made to all securityholders of the Company or similar business combination transaction.

## Risk Factors

An investment in the Offered Shares should be considered highly speculative due to the nature of the Company's business — in particular, its early stage of development. Pursuant to the Reorganization, the business of the Company will consist solely of the business of CWB. The Company's business will be subject to the risks normally encountered in the consumer-packaged goods industry, as well as risks unique to the Company and its plan of operations. Such risks including risks related to the regulatory environment, including risks of changes to state laws pertaining to Industrial Hemp, international regulatory risks, uncertainty caused by potential changes to the regulatory framework, risk of enforcement or other regulatory action by the FDA in respect of inclusion of CBD as a dietary ingredient, and risk of enforcement action by the DEA in respect of CBD as a controlled substance. The Company's business is subject to other risks, including product viability, reliance on the Stanley Brothers brand, risks relating to industry and intra-industry competition, agricultural operations, dependence on specific strains of plants, management of rapid growth, retention of key personnel, market pressure, changes in consumer behavior and conflicts of interest between shareholders and management.

There are additional risks to purchasers of Offered Shares associated with the nature and structure of the Offering such as: there is no current market for the Offered Shares, and dividends may never be declared.

See “*Notice to Investors — Forward-Looking Statements*”, “*Notice to Investors — Forward-Looking Statements relating to Growth Strategy*” and “*Management's Discussion and Analysis*” for additional information concerning our strategies, assumptions and market outlook in relation to these assessments. See “*Risk Factors*” and the other information in this prospectus for a discussion of the risks that an investor should carefully consider before deciding to invest in the Offered Shares.

**An investment in Offered Shares is suitable for only those investors who are willing to risk a loss of their entire investment and who can afford to lose their entire investment. Investors should consult their own professional advisors to assess the income tax, legal and other aspects of an investment in Offered Shares. See “*Risk Factors*”.**

## Selected Consolidated Financial and Operating Information of CWB

The following table sets out selected historical financial information as at and for the periods indicated. Investors should read the selected historical financial information in conjunction with CWB's management's discussion and analysis, CWB's audited consolidated financial statements and unaudited interim condensed consolidated financial statements and the accompanying notes thereto included in this prospectus under "Management's Discussion and Analysis" and in Appendix "FS". The selected historical financial information has been prepared in accordance with IFRS. This information is presented on a pre-Reorganization basis.

<u>(US\$ millions, except per share amounts)</u>	<u>Three Months Ended June 30, 2018 (unaudited)</u>	<u>Six Months Ended June 30, 2018 (unaudited)</u>	<u>Year Ended Dec 31, 2017 (audited)</u>	<u>Year Ended Dec 31, 2016 (audited)</u>
Total Revenue . . . . .	17.2	30.3	40.0	14.7
Adjusted EBITDA <sup>(1)</sup> . . . . .	6.1	10.7	14.1	2.0
Net Income . . . . .	3.7	6.8	7.5	0.6
Profit Per common share, basic and fully diluted . . . . .	0.42/0.40	0.77/0.73	0.85/0.79	0.07/0.06
<u>(US\$ millions)</u>	<u>June 30, 2018 (unaudited)</u>	<u>Dec 31, 2017 (audited)</u>	<u>Dec 31, 2016 (audited)</u>	
Total Assets . . . . .	27.6	19.5	8.3	
Total Liabilities . . . . .	7.7	6.8	3.6	

**Note:**

- (1) Adjusted EBITDA is a non-IFRS financial measure. See "Notice to Investors — Non-IFRS Financial Measures" and "Management's Discussion and Analysis — Adjusted EBITDA".

## CORPORATE STRUCTURE

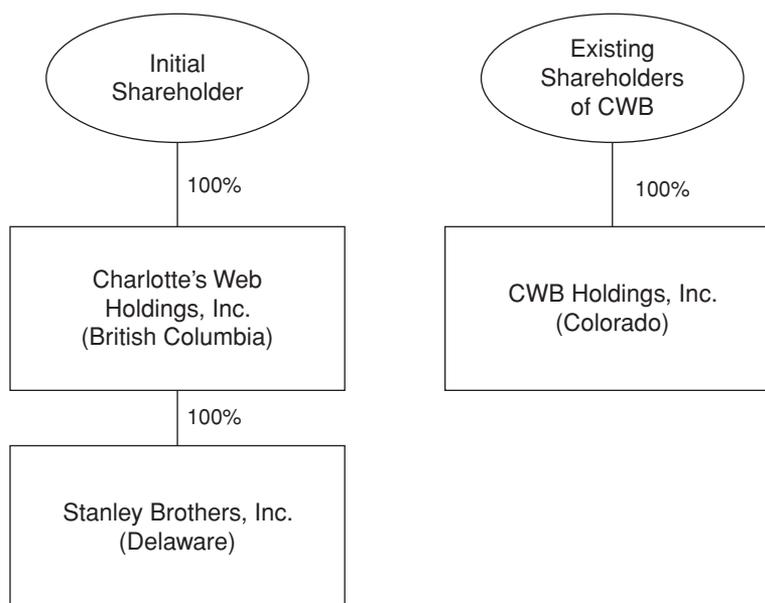
The Company was incorporated on May 18, 2018 under the *Business Corporations Act* (British Columbia) (the “**BCBCA**”) under the name “Stanley Brothers Holdings Inc.” On July 12, 2018, the Company changed its name to “Charlotte’s Web Holdings, Inc.” The Company’s head office is located at 2425 55<sup>th</sup> Street, Suite 200, Boulder, Colorado 80301, United States and its registered and records office is located at 2800 Park Place, 666 Burrard St, Vancouver, British Columbia V6C 2Z7, Canada.

Stanley Brothers, Inc. was incorporated under the laws of Delaware on June 15, 2018 and is a wholly owned subsidiary of the Company. It is anticipated that immediately following the Reorganization, Stanley Brothers, Inc. will change its name to Charlotte’s Web, Inc. The registered office of Stanley Brothers, Inc. is located at Corporation Service Company, 251 Little Falls Drive, City of Wilmington, County of New Castle, Delaware 19808, United States.

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

### Existing Organizational Structure

The Company has been created to indirectly acquire and hold all of the shares of common stock of CWB. The following organizational chart indicates the organizational structure (including jurisdiction of formation or organization of the entities shown) of the Company and CWB prior to the Reorganization.



### Reorganization

Immediately following the Offering, the Company and CWB intend to complete the following reorganization steps (collectively, the “**Reorganization**”) pursuant to a merger agreement (the “**Merger Agreement**”) between the Company, CWB and Stanley Brothers, Inc.

To effect the Reorganization and acquire CWB: (i) CWB will merge into Stanley Brothers, Inc., a newly-formed wholly-owned Delaware subsidiary of the Company, with the surviving Delaware corporation to be

named “Stanley Brothers, Inc.” (the “**Merger**”); and (ii) as consideration for the Merger, the shareholders of CWB will exchange their shares in CWB for shares in the Company as follows:

- the Company’s authorized share capital will be comprised solely of (i) an unlimited number of Common Shares; (ii) an unlimited number of Proportionate Voting Shares; and (iii) an unlimited number of preferred shares, issuable in series. See “*Description of Share Capital*”.
- CWB, a Colorado corporation, will merge with and into Stanley Brothers, Inc., a newly-formed wholly-owned Delaware subsidiary of the Company, pursuant to Colorado and Delaware law. Stanley Brothers, Inc. will be the surviving corporation and continue as Stanley Brothers, Inc. and, through the Merger, CWB will become a wholly-owned subsidiary of the Company and all of the existing shareholders of CWB will exchange their securities as follows (the “**Reorganization Consideration**”):
  - the shares of common stock of CWB owned as of immediately prior to the effective time of the Merger (other than any dissenting shares, as described below) will be converted into the right to receive from the Company one (1) Proportionate Voting Share for every 44.444 shares of common stock of CWB exchanged (the “**Proportionate Exchange Ratio**”), which ratio is intended to give effect to a 9:1 split of the common stock of CWB in connection with the exchange of such stock for Proportionate Voting Shares and any fractional Proportionate Voting Shares shall be rounded down to two decimal places; and
  - all outstanding options or other convertible securities of CWB will be amended or converted into the right to acquire Proportionate Voting Shares from the Company upon materially the same terms, taking into account the Proportionate Exchange Ratio and an adjustment of the exercise price accordingly.
- All of the issued and outstanding shares of CWB will be cancelled and the shareholders of CWB will cease to have any rights in CWB other than the right to receive the Reorganization Consideration or any rights of dissenting shareholders, as applicable.
- The Company shall issue the Reorganization Consideration to the former holders of CWB securities.

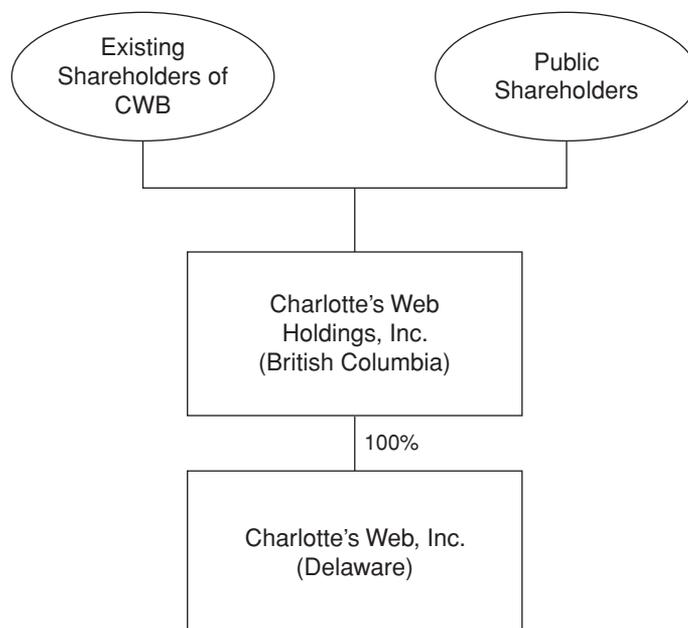
The rights of dissent of the holders of common stock of CWB expired on August 18, 2018, and no notices of dissents have been received.

In order to effect the Reorganization, in accordance with the CBCA, Delaware General Corporation Law and Stanley Brothers Inc.’s restated certificate of incorporation, CWB has obtained the approval of its board of directors and a majority of the outstanding shares of capital stock held by CWB shareholders entitled to vote.

Upon closing of the Offering, the board of directors and management of CWB will be the same as or controlled by the Company.

## Organizational Structure Following Closing

The following organizational chart indicates the Company's organizational structure (including jurisdiction of formation or organization of the entities shown) after giving effect to the Offering and the Reorganization.<sup>(19)</sup>



See “*Business of the Company—History and Development of the Company—The Stanley Brothers*”, “*Directors and Executive Officers*” and “*Principal Securityholders and Selling Shareholders*.”

## Notice of Dissenters’ Rights

Dissenters’ or appraisal rights are statutory rights that, if applicable under law, enable shareholders to dissent from an extraordinary transaction, such as a merger, and to demand that the corporation pay the fair value for their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to shareholders in connection with the extraordinary transaction. Any CWB Shareholder who did not vote in favor of the Merger may dissent from the Merger and obtain payment of the “fair value” of his, her or its shares as determined in accordance with Article 113 of the CBCA, provided that such shareholder strictly complies with all of the provisions of Article 113. To be entitled to exercise dissenters’ rights, the shareholder must deliver, within 30 days after receipt of the written dissenter’s notice from CWB, written notice to CWB of such shareholder’s intent to demand payment for his, her or its shares if the Merger is effectuated. Failure to comply strictly with all of the procedures set forth in Article 113 of the CBCA will result in the loss of a shareholder’s dissenters’ rights.

Among other requirements, to be entitled to exercise dissenters’ rights, the shareholder must deliver, within 30 days after receipt of the written dissenter’s notice from CWB, written notice to CWB of such shareholder’s

(19) It is anticipated that, after giving effect to the Offering and the Reorganization, assuming exercise of the Over-Allotment Option in full and that the Private Placement is fully subscribed, public shareholders will own approximately 18.65% of the issued and outstanding Shares, and the existing shareholders of CWB will own approximately 81.35% of the issued and outstanding Shares on a non-diluted basis. Shares owned, directly or beneficially, by the Stanley brothers will represent approximately 31.7% of the issued and outstanding Shares on a non-diluted basis. It is anticipated that the percentage ownership interest held by each of the Stanley brothers after completion of the Offering and the Reorganization will be as follows (on an as-converted and non-diluted basis, assuming exercise of the Over-Allotment Option in full and that the Private Placement is fully subscribed, including shares beneficially owned pursuant to applicable trusts): Joel Stanley (5.37%), Jared Stanley (5.49%), Jesse Stanley (5.99%), Josh Stanley (3.86%), Jon Stanley (4.24%), Jordan Stanley (5.30%) and J. Austin Stanley (1.45%). The percentage ownership interest that will be held by the other former CWB Shareholders that are not related in any manner to the Stanley brothers (directly and beneficially) following the Offering and assuming the over-allotment option is exercised in full and that the Private Placement is fully subscribed, is approximately 49.64% on an as-converted and non-diluted basis.

intent to demand payment if the Merger is effectuated and his, her or its share certificates to the address provided in the dissenters' notice. A shareholder who does not demand payment or deposit his, her or its certificates by the time specified in the dissenters' notice will not be entitled to payment for his, her or its shares under the dissenters' rights sections of the CBCA and will instead be entitled to receive the Merger consideration pursuant to the Merger Agreement.

The rights of dissent of the holders of common stock of CWB expired on August 18, 2018, and no notices of dissents have been received.

## BUSINESS OF THE COMPANY

Upon completion of the Offering and the Reorganization, the business of the Company will consist solely of the business of CWB, therefore the following “*Business of the Company*” section describes the business of CWB.

### Overview

CWB is a market leader in the production and distribution of innovative hemp-based, CBD wellness products. Through its vertically integrated business model, CWB strives to improve customers’ lives and meet their demands for stringent product quality, efficacy and consistency. CWB does not produce or sell medicinal or recreational marijuana or products derived therefrom.

CWB’s products are made from high quality and proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, including CBD, terpenes, flavonoids and other minor but valuable hemp compounds. CWB believes the presence of these various compounds work synergistically to heighten the effects of the products, making them superior to single-compound CBD isolates.

Hemp extracts are produced from Industrial Hemp, which is generally speaking Cannabis with less than 0.3% THC. THC causes psychoactive effects when consumed and is typically associated with marijuana (i.e., Cannabis with high-THC content). CWB does not produce or sell medicinal or recreational marijuana or products derived from high-THC Cannabis/marijuana plants. Industrial Hemp products have no psychoactive effects.

CWB’s current product categories include tinctures (liquid product), capsules and topical products. Planned product categories include powdered supplements, single-use, beverage, sport and professional (dedicated health care practitioner products). CWB’s products are distributed through its e-commerce website, select wholesalers and a variety of brick and mortar retailers.



CWB grows its proprietary hemp on farms leased in northeastern Colorado and sources high quality hemp through contract farming operations in Kentucky and Oregon, as further described below.

CWB continues to invest in R&D efforts to identify new product opportunities. CWB plans to scale its production capacity and sales and marketing infrastructures as demand for its products continues to increase. Management believes the timing is right to invest in expanded production capacity to address emerging new product opportunities, take further control of the supply chain and proactively define the competitive landscape. CWB intends to capitalize on the rapidly emerging CBD wellness products industry by driving customer acquisition and retention, as well as accelerating national and international retail expansion.

### History and Development of the Company

#### The Stanley Brothers

##### *Background*

Now based in Colorado, CWB’s founders, the seven Stanley brothers, began their lives in Texas and Oklahoma before their family moved north to the mountains of Colorado. The brothers, Josh, Joel, Jesse, Jon, Jordan, Jared and J. Austin (the “**Stanley brothers**”), have committed their professional careers to effectuating

healthcare and environmental related societal change through research into plant-based medicines, responsible agricultural methods and conscientious business practices. Since 2008, the Stanley brothers have been engaged in research into the medicinal properties of all forms of Cannabis. Inspired by the powerful properties of cannabinoids they discovered in their research, the Stanley brothers founded CWB in December 2013.

CWB was initially formed under the CBCA on December 8, 2013 under the name Stanley Brothers Social Enterprises, LLC, and on June 19, 2015 changed its name to CWB Holdings, LLC. On December 30, 2015 it converted from a limited liability company to a corporation pursuant to Colorado law and changed its name to CWB Holdings, Inc. There was no material consideration paid to the Stanley brothers as founders of CWB other than their equity shares.

Between 2016 and 2017, the Stanley brothers made the decision to expand cultivation activities into Kentucky and Oregon to diversify CWB's Industrial Hemp farming operations for the purpose of (i) hedging production against weather-related events, and (ii) accessing services of experienced Industrial Hemp farming operations with a view to maintain access to an additional supply of Industrial Hemp.

In addition to their activities with CWB, the Stanley brothers are, and will continue (post-Offering) to be, involved in outside business activities, primarily in the medicinal and recreational marijuana industries and the brothers may continue to conduct promotional activities in relation to such ventures. Such roles are not expected to materially derogate from the brothers involvement with the Company. See "*Risk Factors — Future Activities of the Stanley Brothers*".

#### *The Decision to Go Public*

To maintain CWB's lead in the marketplace and to satisfy the increasing demand for its products, the Stanley brothers determined that additional investment in CWB's operations may be necessary to take advantage of growth opportunities and to expand CWB's producing capabilities. To that end, the Stanley brothers reviewed various alternatives and, together with the newly appointed management team, decided that an initial public offering on a Canadian public exchange would best facilitate CWB's objectives, and would also serve as an effective platform for global expansion.

#### *Post-Offering*

The Stanley brothers are committed to the vision they put in place over four years ago. All seven of the Stanley brothers are expected to enter into employment agreements with the Company whereby they will continue in the following roles: (i) three of the brothers will be active in the cultivation operations of the Company with one being the primary management person for all cultivation operations and will, over time, transition their focus to the brand-building activities outlined below; (ii) all the brothers will carry out brand ambassador functions on behalf of the Company; (iii) all will continue to play major roles in legislative related activities, brand promotion, public speaking, industry meetings, and other marketing related activities such as podcasts and the development of brand influencers; and (iv) all will continue their involvement in the product development activities of the Company. Two of the brothers (Joel Stanley and Jared Stanley) are members of the Board. See "*Director Compensation*".

The Stanley brothers hold some of their shares in CWB through trusts, which were established primarily for estate planning and family governance purposes. The beneficiaries of these trusts are, for the most part, the brothers and their immediate family members. Subsequent to the completion of the Offering, the ownership interest of the Stanley brothers, as a group and both directly and indirectly, will be reduced by the number of Shares that are sold by these trusts, as dictated by each trust's trustee, as Selling Shareholders under the Secondary Offering. Specifically, prior to completion of the Offering, the Stanley brothers, as a group and both directly and indirectly, hold (assuming completion of the Merger without giving effect to the Offering, the Over-Allotment Option or the Private Placement) approximately 39.9% of the issued and outstanding Shares (assuming full conversion of the Proportionate Voting Shares). This will be reduced to approximately 31.7% after giving effect to the Offering and assuming that the Over Allotment Option is exercised in full and the Private Placement is fully subscribed.

See “Organizational Structure Following Closing”, “Directors and Executive Officers” and “Principal Securityholders and Selling Shareholders”.

### Charlotte’s Story

CWB markets its products under the Charlotte’s Web brand. The inspiration for the brand began in 2012 when the Stanley brothers met five-year old Charlotte Figi. At the time, the Stanley brothers were breeding plants that were high in CBD content and low in THC content. They had fondly named the plants the “Hippie’s Disappointment” due to their lack of psychoactive characteristics. Charlotte has a form of epilepsy called Dravet Syndrome, and as a result she experienced severe frequent daily epileptic seizures. In a final effort to help their daughter, Charlotte’s parents approached the Stanley brothers to see if they could create a high-CBD, low-THC extract that could positively impact Charlotte. After receiving approval from Charlotte’s doctors, Charlotte’s parents administered the extract, and within a week, Charlotte’s well-being had significantly improved.

In 2013, CNN’s Chief Medical Correspondent, Dr. Sanjay Gupta, shared Charlotte’s story in his docu-series, “Weed”. This documentary led to nation-wide exposure of Charlotte’s story. CWB estimates that shortly following the documentary, the wait list for the extract had skyrocketed to more than 15,000 families.

### Key Milestones

Over the last decade, the Stanley brothers and CWB have evolved from the proprietary development of a single Industrial Hemp strain, containing high levels of CBD, to a market leader in the production and distribution of innovative hemp-based, CBD wellness products. Through its vertically integrated business model, CWB strives to improve customers’ lives and meet their demands for stringent product quality, efficacy and consistency.

Set out below are the key events and milestones which have influenced the general development of CWB’s business:

- In 2010, after years of research into meeting consumers’ desire for the wellness benefits of non-psychoactive Cannabis, the Stanley brothers began breeding plants with high-CBD and low-THC content. This led to the development of the Hippie’s Disappointment strain.
- In 2012, Charlotte’s parents approached the Stanley brothers to see if they could create a high-CBD, low-THC extract that could positively impact Charlotte’s well-being. On August 11, 2013, CNN Chief Medical Correspondent and Neurosurgeon Dr. Sanjay Gupta aired a documentary featuring the Stanley brothers and Charlotte Figi. The documentary generated substantial demand for CBD-rich products and created a waitlist for CWB’s products, which CWB estimates grew to more than 15,000 families.
- On December 8, 2013, in anticipation of the passing of the Agricultural Act of 2014 (i.e. the 2014 Farm Bill), CWB was formed under the name Stanley Brothers Social Enterprises, LLC. On February 7, 2014, President Obama signed the 2014 Farm Bill. The law, namely Section 7606, permitted the legal growth, cultivation and marketing of Industrial Hemp under agricultural pilot programs authorized by state law in the United States.
- In March 2014, CWB established its first commercial cultivation operations in northeastern Colorado including greenhouses for propagation and land for outdoor growing of its proprietary Industrial Hemp crops. In June 2014, CWB planted its first outdoor crop in northeastern Colorado, and in July 2014, CWB moved into its first 5,500 square foot manufacturing facility in Boulder, Colorado. In November 2014, CWB completed its first harvest of hemp following its legalization under the 2014 Farm Bill, and in December 2014, CWB opened its Denver headquarters.
- In February 2015, within twelve months of the signing of the 2014 Farm Bill, CWB had produced enough product to eliminate the customer wait list that carried over from the impact of the CNN docu-series.
- In May 2015, CWB introduced an expanded product line to include everyday health and wellness products, in addition to its original high potency product, to serve a more diverse customer base.

- In June 2015, CWB’s first crops were planted in Kentucky for seed production and the development of new harvesting technology to provide improved efficiency in processing wet material from the fields. In December 2015, CWB moved from its original manufacturing facility to its current 40,000 square foot manufacturing facility in Boulder, Colorado to accommodate the increased demand for its products.
- On December 18, 2015, the *Consolidated Appropriations Act, 2016*<sup>(20)</sup> became law after signature by President Obama. This bill reaffirmed the rights of Industrial Hemp producers with respect to the cultivation and sale of their products. In addition, Congress prohibited the DEA from interfering with the interstate sale or transport of hemp products such as CWB’s.
- In November 2016, CWB introduced its first capsule product line. In February 2017, CWB launched a new product called PAWS, for canine use.
- In June 2017, CWB expanded its operations to include a 23,000-square foot product storage, distribution and fulfillment facility in a suburb of Denver, Colorado. In December 2017, CWB launched its first topical product line.
- On March 23, 2018, the *Consolidated Appropriations Act, 2018*<sup>(21)</sup> became law after signature by President Trump. This bill reaffirmed the rights of Industrial Hemp producers with respect to the cultivation and sale of their products.
- On April 12, 2018, U.S. Senate Majority Leader Mitch McConnell (R-KY) introduced the Hemp Farming Act of 2018 (“**HFA**” or “**Senate Bill 2667**”), which would permanently legalize Industrial Hemp, removing it from the purview of the Controlled Substances Act, and classifying it as an agricultural commodity. On April 12, 2018, U.S. Congressmen James Comer (R-KY) and Jared Polis (D-CO) introduced a companion bill, H.R. 5485, in the House of Representatives, sharing the same mission and language as the HFA.
- The HFA was included in its entirety in the Senate version of the proposed 2018 Farm Bill (the “**2018 Farm Bill**”), which was approved by a 20-1 vote in favour by the Senate Agriculture Committee on June 13, 2018. The Senate version of the 2018 Farm Bill was passed on June 28, 2018 by a margin of 86-11.
- On June 25, 2018, the FDA issued to GW Pharmaceuticals plc its approval for Epidiolex, the first Cannabis-derived prescription medicine to be available in the U.S.

## Investment Highlights

### Leading Market Position in a Rapidly Growing Segment

Charlotte’s Web is the #1 brand by market share in the hemp-derived CBD supplements segment. In the U.S., the segment is expected to grow rapidly from US\$174 million in 2016 to US\$1.6 billion in 2021, representing a CAGR of 55% over the period.<sup>(22)</sup> In 2016, Charlotte’s Web accounted for approximately 8% of reported category sales.<sup>(23)</sup> After the leading two brands in the industry, no other brand in the category had more than a 2% share of sales and 93% of brands registered less than US\$1 million in sales or less than 100 distribution points, or both.<sup>(24)</sup> In 2017, CWB’s market share was approximately 14% (based on CWB’s 2017 revenues in an estimated US\$287 million hemp CBD market).<sup>(25)</sup> With CWB’s current brand leadership position and planned growth strategies, CWB aspires to be a global brand and market leader in the hemp-derived CBD supplements space.

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(20) P.L. 114-113

(21) P.L. 115-141

(22) Source: Brightfield Report.

(23) Source: Brightfield Report.

(24) Source: Brightfield Report.

(25) Source: Brightfield Report.

## Established and Trusted Charlotte's Web Brand

CWB believes that Charlotte's Web is one of the most recognized brands in the hemp-derived CBD supplements segment. Historical media coverage that referenced CWB's brand includes CNN, CBS, the New York Times and Forbes. This recognition is driven by what CWB believes is the highest quality product in the industry derived only from family farms in the United States (i.e. no imported hemp or hemp extracts). Charlotte's Web has grown significantly since its humble beginnings with the originating Stanley brothers, but the soul and spirit of the Stanley brothers and their sense of family runs deep within the organization. CWB continues to strive to lead the industry in quality, safety, consistency and social responsibility to support thousands of lives daily through the use of Charlotte's Web products.

## Positive Industry Trends Support Continued Growth

CWB competes in a fast-growing hemp-derived CBD supplements market. In the United States, the market is expected to grow from US\$174 million in 2016 to US\$1.6 billion in 2021<sup>(26)</sup> and management believes expansion internationally is expected to have similar growth rates.

The U.S. supplements industry was estimated at US\$41 billion in 2016 and is expected to grow to over US\$50 billion by 2020.<sup>(27)</sup> CWB operates in the hemp-derived CBD supplements category of this market, a fast-growing segment with an estimated compound annual growth rate through 2021 of 55%.<sup>(28)</sup> With an estimated market size of US\$1.6 billion by 2021 for the hemp-derived CBD supplements category and the wider industry continuing to demonstrate steady growth, there is strong support for CWB to continue its growth trajectory.<sup>(29)</sup>

Similarly, as consumers gravitate towards products with ingredients they trust and can easily understand, CWB is well positioned to capitalize on these consumer trends, due to its commitment to quality throughout the supply chain as well as cleaner product formulations that are intended to maximize understanding and acceptance of CWB's products.

## Continued Innovation to Expand Market Leading Product Portfolio

CWB understands that R&D, innovation and new product development is key to maintaining its market leading product portfolio. CWB's current product portfolio, combined with planned future products, are expected to cover a wide array of botanical wellness products that provide customers with everyday health and wellness solutions they can trust. Future products include tinctures, capsules, powdered supplements, single-use products, topical products, beverages, sport and professional (dedicated health care practitioner products).

## Scalable Cultivation and Production Platforms

CWB has cultivation plans for approximately 300 acres of irrigated farmland from ten farms in three states for the 2018 growing season, of which, 165 acres are expected to be planted with CWB's proprietary hemp genetics during the 2018 calendar year. Management believes these 300 acres will produce an estimated 250,000 to 350,000 pounds of Industrial Hemp during the 2018 harvest period (dependent on the regional yield variables associated with growing Industrial Hemp).

CWB's current cultivation practices have been engineered for scalability to meet sales demand projections. CWB has conducted extensive R&D to demonstrate that it can scale its United States cultivation operations significantly without sacrificing quality and consistency. Future expansion will focus on infrastructure to diversify seed supply and further mechanization of harvest operations.

CWB operates a 40,000-square foot manufacturing and R&D facility and a separate warehouse and distribution center. Management estimates that annually, CWB can produce 3,000 kg of alcohol-extracted hemp extract and 2,900 kg of CO<sub>2</sub>-extracted hemp extract and approximately 16,000 30 mL bottles or 8,000 100 mL

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(26) Source: Brightfield Report.

(27) Source: New Hope Network, 20th Annual NBJ Summit — Supplement Industry Market Overview 2017.

(28) Source: Brightfield Report.

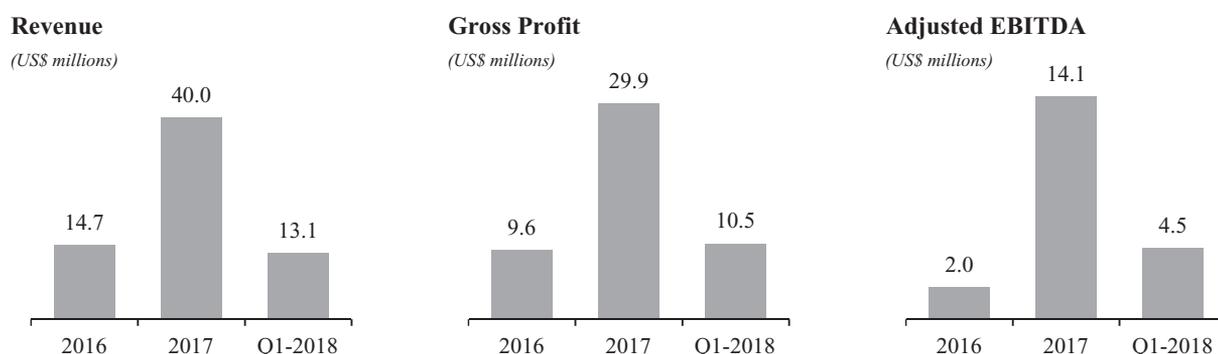
(29) Source: Brightfield Report.

bottles per day. CWB operates its finished products manufacturing in accordance with cGMP and strives to exceed these standards to create the highest quality products in the market.

### Strong Financial Performance

CWB believes that its high-quality products, brand awareness, consumer loyalty, efficient supply chain and prudent business and financial management have contributed to strong and consistent financial performance. Select financial highlights include the following:

- Revenue grew from US\$14.7 million in 2016 to US\$40.0 million in 2017, representing growth of 172% year-over-year
- Gross profit grew from US\$9.6 million in 2016 to US\$29.9 million in 2017, representing growth of 212% year-over-year; gross profit as a percent of revenue was 65% and 75% in 2016 and 2017, respectively
- Adjusted EBITDA grew from US\$2.0 million in 2016 to US\$14.1 million in 2017; Adjusted EBITDA as a percent of revenue was 14% and 35% in 2016 and 2017, respectively
- For the three months ended June 30, 2018, CWB generated revenue of US\$17.2 million (US\$30.3 million for the six months ended), gross profit of US\$13.2 million (US\$23.7 million for the six months ended) and Adjusted EBITDA of US\$6.1 million (US\$10.7 million for the six months ended)



Adjusted EBITDA is a non-IFRS financial measure. See “*Notice to Investors — Non-IFRS Financial Measures*” and “*Management’s Discussion and Analysis — Adjusted EBITDA*”

### Experienced Management Team to Lead Growth

CWB leverages the entrepreneurial leadership of its founders and the professional experience of its management team, both of which are deeply committed to CWB’s vision, mission and social values. The team works in a collaborative manner that creates a dynamic professional environment. There exists a healthy cross section of extensive experience in distribution, cultivation, sales, technology, finance, customer service, CPG, marketing, business development, acquisitions, capital markets and market analysis, all of which are key to CWB’s future success.

### **Growth Strategy**

CWB has a successful history of growing revenue since its first significant product sales began in March 2015. In 2017, revenue grew by 172% over 2016. Adjusted EBITDA grew by 605% over the same period. CWB continues to be a leader by revenue in its segment, and it believes it will continue to realize growth while improving overall profitability.

The Company believes it has an opportunity to achieve the following financial targets for 2018:

- Estimated total annual revenue of US\$65 to US\$80 million, an increase of US\$25 to US\$40 million over 2017
- Estimated total annual Adjusted EBITDA of US\$23 to US\$30 million, an increase from US\$14.1 million in 2017
- Implies Adjusted EBITDA as a percent of revenue of 35% to 37%

The Company believes it has an opportunity to achieve the following financial targets for 2019:

- Estimated total revenue of US\$120 to US\$170 million
- Estimated Adjusted EBITDA margins of 35% to 37%

Depending on the timing of key acquisitions, strategic relationships and international expansion, the above annual revenue amounts and corresponding Adjusted EBITDA amounts could produce additional year-over-year improvement.

Adjusted EBITDA is a non-IFRS financial measure. See “*Notice to Investors — Non-IFRS Financial Measures*” and “*Management’s Discussion and Analysis — Adjusted EBITDA*”

### Assumptions

The foregoing financial targets and guidance are based on the following assumptions, among others:

- Continued incremental growth in the Company’s existing product lines with an average expected CAGR ranging from 43% to 78% for the two-year period ending December 31, 2019.
- The introduction of five to seven new products prior the end of calendar year 2019
- International expansion into western Europe, South America, and Asia with initial efforts beginning in late 2018 and an established presence in one or more of these regions by mid-year 2019. The first region the Company expects to expand into is western Europe. The Company expects revenue in this region to be between 10% and 15% of the Company’s consolidated revenue during the 2019 calendar year.
- The continued increase in brick-and-mortar presence with over 3,000 points of distribution in place by the end of 2018 and continued growth throughout 2019.
- The availability and investment in new and expanded manufacturing and cultivation infrastructure to meet expanding customer demand for the Company’s products.
- Investment in expanded marketing programs to include social media, blogs, print advertising, subject matter experts and public speaking engagements at key industry events

The financial outlook described under “*Management’s Discussion and Analysis — Growth Strategy*” is forward looking information for purposes of applicable securities laws in Canada and readers are therefore cautioned that actual results may vary from those described therein. See “*Notice to Investors — Forward-Looking Statements relating to Growth Strategy*” and “*Risk Factors*” elsewhere in this prospectus for a description of the assumptions underlying the forward-looking statements and of the risks and uncertainties that impact our business and that could cause actual results to vary.

The following are the principal strategies CWB will employ to drive its profitable growth and cash flow generation:

### Building Brand Awareness

Management believes the Charlotte’s Web and Stanley Brothers brands are among the strongest in the CBD, hemp and Cannabis industries. Brand recognition will continue to be driven by several factors including: (i) media events similar to what has historically occurred with CWB including CNN, CBS, the New York Times and Forbes; (ii) email, social media and blogs; (iii) use of subject matter experts; (iv) legislative participation; and (v) public speaking engagements at key industry events. In addition to these active outlets to build brand

awareness, CWB plans to support word-of-mouth endorsements and testimonials from its customers who are advocates for its brands and products.

#### Growth from the Existing Product Portfolio Through Marketing Initiatives

CWB's marketing mix is being optimized in order to connect with more consumers and guide them through the buying process. A collaborative, integrated effort with content and public relations teams is underway with the objective to optimize search engine results and leverage social media and display advertising platforms. CWB is working to segment and analyze customer data in order to enhance the customers' experience to convert browsers into buyers and drive repeat purchases. CWB is also targeting major food and mass market accounts as additional distribution platforms. These accounts are expected to enable CWB to gain broader distribution, open new consumer segments, and drive growth through increased awareness, consideration and purchase.

#### Introduction of New, Differentiated Botanical Products

CWB is currently marketing a variety of hemp-derived CBD tinctures, capsules and topical products under the Charlotte's Web and CW trade names. Through research, CWB has prioritized several new primary and secondary product categories, including tinctures, capsules, powders, sports performance products, topical/cosmetic products, infused beverages and hemp-infused pet products. CWB expects that not all of its future products will contain hemp extracts, but the focus will remain on botanical-based wellness products.

#### International Expansion

CWB believes that global distribution is paramount to its growth in the next 24 months, with near-term focus on the European Union, South America and Asia. To achieve this international reach, CWB is planning to either partner with distributors and/or manufacturers in these international locations or create its own foreign licensed subsidiaries to transact business in these regions. CWB will be constantly weighing the trade-off of each option against the impact on sales volume opportunities and profitability ratios in its decision-making process. Expansion into additional jurisdictions will be done in compliance with applicable regulatory requirements in such jurisdictions and the cost and complexity of such compliance will form part of the strategic evaluation process for any proposed expansion. The Company anticipates that it will make final decisions as to its proposed international expansion once its regulatory review of potential jurisdictions is complete.

#### Improved Distribution

At the end of 2017, CWB's products were sold in approximately 2,000 locations. Currently, products are sold in approximately 2,700 locations, and are expected to continue to increase. CWB distributes its products in the United States and on a limited basis internationally. Expansion is expected to continue both in the United States and internationally. Future distribution channels are planned to include national retailers (including grocers and drug chains), vitamin and supplement retailers and natural food stores. CWB believes it will have over 3,000 points of distribution by the end of 2018.

#### Acquisition of Strategic Complementary Companies

CWB intends to leverage its global relationships and network of industry participants and advisors to actively source and identify acquisition opportunities. CWB expects to selectively pursue compelling acquisitions that leverage and complement CWB's strengths in sales, marketing, new product development, quality, production, and distribution. Certain criteria will be employed in pursuing potential acquisition candidates including: (i) brand, product and channel synergies; (ii) attractiveness of product sector; (iii) integration synergies; (iv) production capabilities; (v) distribution network; (vi) geographic reach; and (vii) financial performance. CWB expects to fund these acquisitions through a combination of cash flow, debt and/or equity, if available.

#### **Business Objectives and Strategy**

CWB is a market leader in the production and distribution of innovative hemp-based, CBD wellness products. Through its vertically integrated business model, CWB strives to improve customers' lives and meet their demands for stringent product quality, efficacy and consistency.

CWB's goals as a subset of its business objectives and strategy include:

- Helping over one million families restore hope and control in their lives by the end of 2020;
- To become a global industry leader in research and innovation including changing perceptions of hemp-based wellness products; and
- Deliver the most consistent and trusted products that improve customers' quality of life.

The above statements capture the essence of CWB's business strategy and pioneering vision of its founders. CWB strives to realize significant growth by expanding further into the health and wellness sector, while capitalizing on CWB's unique differentiators to create sustainable value.

Lastly, in accordance with CWB's social responsibility goals, Charlotte's Web supports several non-profit organizations that utilize its products or that further consumer education, advocacy and research in the hemp and CBD market places.

## **Industry Overview**

CWB is a market leader in the production and distribution of innovative hemp-based, CBD wellness products. Through its vertically integrated business model, CWB strives to improve customers' lives and meet their demands for stringent product quality, efficacy and consistency.

CWB's products are made from high quality and proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, including CBD. Hemp extracts are produced from Industrial Hemp, which is generally speaking Cannabis with less than 0.3% THC. THC causes psychoactive effects when consumed and is typically associated with marijuana (i.e. Cannabis with high-THC content). CWB does not produce or sell medicinal or recreational marijuana or products derived from high-THC Cannabis/marijuana plants. Industrial Hemp products have no psychoactive effects.

Historically, the health and wellness benefits of hemp-based products focused on protein and nutritional oil content. Hemp seeds are known to provide both protein and valuable omega fatty acids. However, beginning with the publication of United States Patent No. 6,630,507 (cannabinoids as antioxidants and neuro-protectants) issued to the United States Department of Health and Human Services on October 7, 2003, consumer interest surrounding the health and wellness benefits of cannabinoids grew significantly. This interest continued until the passage of the 2014 Farm Bill, after which consumers were able to purchase CBD with greater ease.

Hemp extracts contain an assortment of naturally-occurring substances, including phytocannabinoids, terpenes, flavonoids and other minor but valuable hemp compounds. CWB believes the presence of various phytocannabinoids, terpenes and flavonoids work synergistically to heighten the effects of the products, making them superior to single-compound CBD isolates. This assortment of hemp compounds is the basis for the theory known as the "entourage effect" as introduced by Israeli chemists, Shimon Ben-Shabat and Raphael Mechoulam, in 1998.

While complete scientific corroboration for the uses of CBD are still in their infancy, industry reports suggest consumers are using CBD for various applications including assistance with sleep, daily stress, anxiety, pain relief, cognitive function and immune health, among other applications.<sup>(30)</sup>

In addition to the industry and consumer reported uses of CBD, significant research is currently being conducted on the use of CBD as it relates to the following, among other topics:

- Epilepsy
- Post-Traumatic Stress Disorder
- Cancer
- Autism
- Neuroprotection
- Anti-Inflammatory Effects

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(30) Source: Brightfield Report.

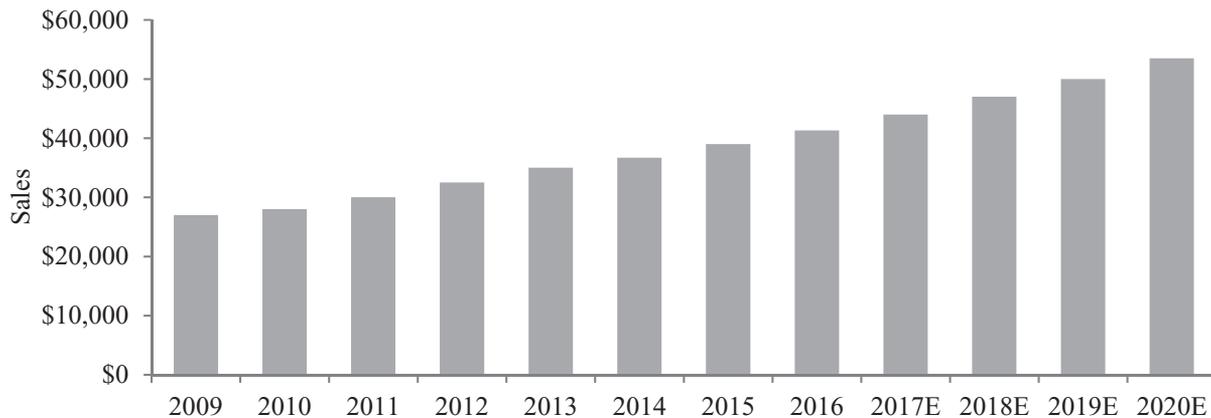
- Anti-Tumor Effects
- Anti-Psychotic Effects

### The United States Supplements Industry Market Size

In the United States, dietary supplements are generally defined under the DSHEA as products that are intended to supplement the diet and contain any of the following dietary ingredients: (i) a vitamin; (ii) a mineral; (iii) a herb or other botanical (excluding tobacco); (iv) an amino acid; or (v) a concentrate, metabolite, constituent, extract, or combination of any of the above. According to the Nutrition Business Journal, the United States Supplements Industry was estimated at US\$41 billion in 2016 with 6.6% growth over 2015 and is estimated to reach over US\$50 billion by 2020.<sup>(31)</sup> According to the Brightfield Group, by 2021, it is expected that hemp-derived products reach a market size of US\$1.6 billion.<sup>(32)</sup>

### **Exhibit 1: U.S. Supplemental Sales**

*(Figures in US\$ millions)*



Source: Nutrition Business Journal

CWB believes that consumers are increasingly searching for products made with high quality, simple ingredients, a trend that is visible in the growth of health food stores like Whole Foods, as well as large CPG brands developing cleaner product lines without unnecessary additives. Nielsen notes that “this purchase behavior confirms the notion that consumers will gravitate toward products with ingredients they trust and can easily understand”.<sup>(33)</sup> CWB is well positioned to capitalize on these consumer trends due to its commitment to quality throughout the supply chain as well as its clean product formulations that are intended to maximize consumer understanding and acceptance of CWB’s products. CWB believes that informed consumers are looking for alternatives to pharmaceutical-based remedies for health and wellness. CWB believes that, in recent years, consumers have expanded their interest in supplements, self-care and homeopathic health.

### The Hemp-Derived CBD Supplements Sector

The hemp-derived CBD supplements sector was first created by Section 7606 of the 2014 Farm Bill when it was signed into law on February 7, 2014. The 2014 Farm Bill delegated the authorization to cultivate Industrial Hemp to the individual states of the United States. Since 2014, total acreage of hemp grown in the United States has increased to over 23,000 acres with an estimated 55% of that cultivation dedicated to hemp used in the production of CBD extracts.<sup>(34)</sup>

(31) Source: New Hope Network, 20<sup>th</sup> Annual NBJ Summit—Supplement Industry Market Overview 2017. Available at <http://www.newhope.com/sites/newhope360.com/files/Expo-West-2017-Supplements-Today-1.pdf>.

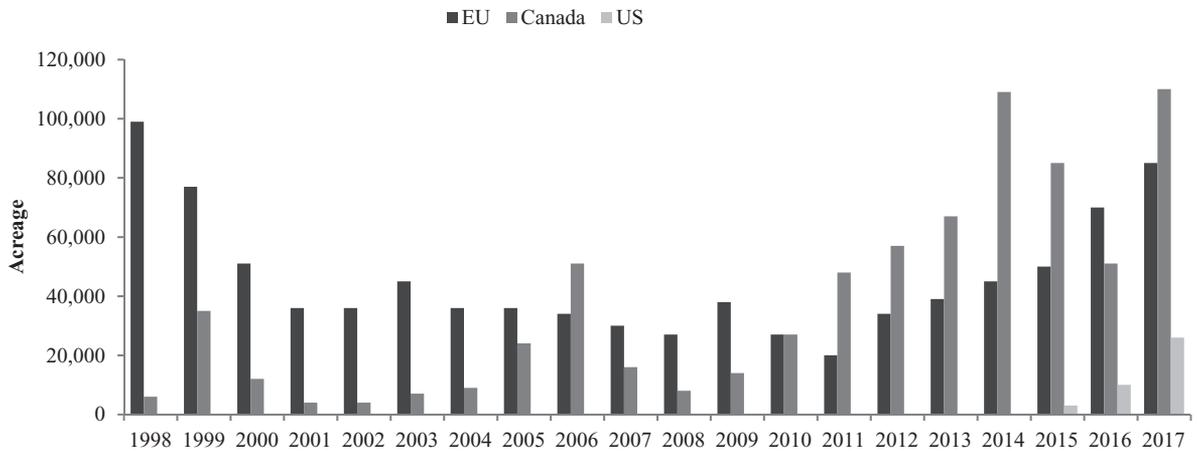
(32) Source: Brightfield Report.

(33) Source: MediaPost, Nielsen Confirms ‘Clean’ Labels Boosting CPG Sales. August 24, 2017. Available at <https://www.mediapost.com/publications/article/306230/nielsen-confirms-clean-labels-boosting-cpg-sales.html>.

(34) Source: New Hope Network, The CBD Summit. March 7, 2018.

While United States-based hemp cultivation is a relatively new industry, there is significant international acreage, especially across the European Union and Canada.

**Exhibit 2: Global Hemp Acreage Comparison**



Source: US state agencies for cultivated acres, nova-Institute and EIHA for EU cultivation, Health Canada for Canadian licensed acreage (acres). 2017 unconfirmed estimates for EU and Canada

According to the Brightfield Group, by 2021, it is expected that hemp-derived CBD products reach a market size of US\$1.6 billion.<sup>(35)</sup>

As a relatively new industry in the United States, the hemp-derived CBD supplements category is extremely fragmented with more than 200 brands, each capturing insignificant market share in 2016.<sup>(36)</sup> In 2016, Charlotte’s Web was the dominant brand in the category, accounting for approximately 8% of reported category sales.<sup>(37)</sup> In 2017, CWB’s market share is approximately 14% (based on CWB’s 2017 revenues in an estimated US\$287 million hemp CBD market).<sup>(38)</sup> In 2016, after the leading two brands in the industry, no other brand in the category had more than a 2% share of sales and 92.9% of brands registered less than US\$1 million in sales or less than 100 distribution points, or both.<sup>(39)</sup>

The vast majority of hemp-derived CBD supplements are sold through five main distribution channels — dispensary and delivery services, online, smoke shops, health food stores and doctors’ offices. According to the Brightfield Group, year-over-year growth projections are expected to peak in all distribution channels in 2018 as several states roll out new recreational and medical markets.<sup>(40)</sup>

Management believes consumer awareness and acceptance of hemp-derived CBD supplements has increased dramatically since 2013 due to national media attention around the story of Charlotte Figi and hemp-derived CBD. Popularity specific to CWB’s products began to garner significant media attention with Dr. Sanjay Gupta’s special “Weed” that aired on August 11, 2013 on CNN, and was followed by many other programs and publications, including *The New York Times* on August 28, 2014; *The View* on October 17, 2014; *Time* magazine on October 22, 2014, and *Dateline* on June 7, 2015.

(35) Source: Brightfield Report.

(36) Source: Brightfield Report.

(37) Based on CWB’s 2016 revenues and an estimated US\$174 billion hemp CBD market.

(38) Source: Brightfield Report.

(39) Source: Brightfield Report.

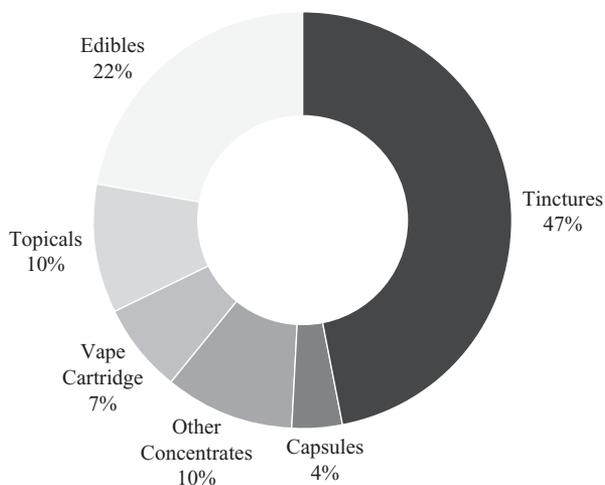
(40) Source: Brightfield Report.

The hemp-derived CBD supplements consumer is typically a millennial female with 64% of users identified as female and approximately two-thirds of users under the age of 35.<sup>(41)</sup> These consumers are also extremely brand loyal with 23% always purchasing the same brand, 29% purchasing the same brand 75% of the time, and another 23% purchasing the same brand 50% of the time.<sup>(42)</sup>

Most of the usage within the category is initiated from friend or family referrals who have used hemp or CBD products in their past. The typical customer journey follows one of several common paths that initiates from either (i) a propensity to use dietary supplements or homeopathic aids to help manage their wellness; or (ii) a dissatisfaction with current health and medical options to manage their wellness. Both paths place a high value on validation of the category through in-depth consumer research and inquiry. This is fulfilled through online research of the category, as well as testimonial and true usage experiences that allow the consumer to verify if hemp or CBD is appropriate for their current wellness needs. From CWB's perspective, importance is therefore given to Search Engine Optimization (“SEO”) and categorical education on owned web platforms. This platform assists the consumer in learning about the general category, as well as specific points of differentiation for the Charlotte’s Web product portfolio.

Nearly three-quarters of consumers of hemp-derived CBD supplements purchase such products in concentrate form, primarily as tinctures, sublingual oil drops and oral applicator pens.

### **Exhibit 3: Hemp CBD Market: Category Analysis**



Source: Brightfield Report

Initial milligram usage is driven by perceived impact that the hemp-derived CBD supplement ties to overall health and wellness. As an example, if the consumer perceives that their mild stresses are a hindrance to their everyday performance, they might choose to take either a greater dosage or higher strength product. Another driver with first-time consumers is the entry price point, with the lower milligram option being less expensive for managing less impactful wellness needs. First-time consumers learning about the category tend to test their way in with lower levels and then increase to meet their desired wellness needs with the minimal strength possible, like usages of typical supplements.

### **Product Overview**

#### **Product Portfolio**

CWB offers a mix of products that have been strategically developed to fit with its objective of delivering a full suite of best-in-class CBD wellness products that meet its customers’ demands for stringent quality, efficacy

(41) Source: Brightfield Report.

(42) Source: Brightfield Report.

and consistency. CWB currently markets its products under the “Charlotte’s Web” and “CW” trade names. As of June 30, 2018, CWB carries 22 SKUs across its product portfolio. CWB’s consumable products range from everyday wellness products such as “Hemp” (formerly “Everyday”) and “Hemp Plus” (formerly “Everyday Plus”), both available in liquid and capsule forms, to a higher dose, advanced product, “Hemp Advanced” (formerly “Everyday Advanced”), available only in liquid form.

### Liquid Products

CWB began with the introduction of CBD delivered in liquid form. A liquid product is a combination of oil and hemp extract containing CBD. CWB’s liquid products are delivered in either coconut-based medium chain triglyceride (“MCT”) oil or olive oil, in some cases with flavor. Liquid products are meant to be consumed by direct ingestion. CWB currently has 12 liquid products as described below.

<u>Product</u>	<u>Bottle Size</u>	<u>Variety</u>	<u>Concentration (per serving)</u>	<u>Servings</u>	<u>Retail Price (US\$)</u>
Hemp . . . . .	30 mL	Olive Oil	6.7 mg CBD	30	\$ 39.99
Hemp . . . . .	30 mL	MCT Oil, Mint Chocolate Flavor	6.7 mg CBD	30	\$ 39.99
Hemp . . . . .	100 mL	Olive Oil	6.7 mg CBD	100	\$ 99.99
Hemp . . . . .	100 mL	MCT Oil, Mint Chocolate Flavor	6.7 mg CBD	100	\$ 99.99
Hemp Plus . . . . .	30 mL	Olive Oil	16.7 mg CBD	30	\$ 74.99
Hemp Plus . . . . .	30 mL	MCT Oil, Mint Chocolate Flavor	16.7 mg CBD	30	\$ 74.99
Hemp Plus . . . . .	100 mL	Olive Oil	16.7 mg CBD	100	\$188.99
Hemp Plus . . . . .	100 mL	MCT Oil, Mint Chocolate Flavor	16.7 mg CBD	100	\$188.99
Hemp Advanced . . . . .	30 mL	Olive Oil	25 mg CBD	60	\$149.99
Hemp Advanced . . . . .	30 mL	MCT Oil, Mint Chocolate Flavor	25 mg CBD	60	\$149.99
Hemp Advanced . . . . .	100 mL	Olive Oil	25 mg CBD	200	\$274.99
Hemp Advanced . . . . .	100 mL	MCT Oil, Mint Chocolate Flavor	25 mg CBD	200	\$274.99

### Capsule Products

CWB’s second product rollout added capsules to its product portfolio. Capsule products have standardized amounts of CBD, in the form of a dry powder, inside a hard-capsule shell. CWB’s capsule products combine hemp extract containing CBD with common industry raw materials, including rice bran, maltodextrin, microcrystalline cellulose and fractionated coconut oil. The capsule itself is derived from hydroxypropyl methylcellulose. Capsule products are meant to be consumed by direct ingestion. CWB currently has four capsule products as described below.

<u>Name</u>	<u>Count</u>	<u>Concentration (per serving)</u>	<u>Servings</u>	<u>Retail Price (US\$)</u>
Hemp . . . . .	30	10.5 mg CBD	30	\$ 34.99
Hemp . . . . .	60	10.5 mg CBD	60	\$ 59.99
Hemp Plus . . . . .	30	25 mg CBD	30	\$ 69.99
Hemp Plus . . . . .	60	25 mg CBD	60	\$119.99

### Canine Products

CWB’s third product rollout added products for canine use. This product is delivered in liquid form and is a combination of oil and hemp extract containing CBD. CWB’s canine products are delivered in coconut-based MCT oil with no flavor. The product is meant to be consumed by direct ingestion or added to food.

<u>Name</u>	<u>Bottle Size</u>	<u>Concentration (per mL)</u>	<u>1 mL Servings</u>	<u>Retail Price (US\$)</u>
PAWS . . . . .	30 mL	18 mg CBD	30	\$ 74.99
PAWS . . . . .	100 mL	18 mg CBD	100	\$188.99

## Topical Products

CWB's fourth and latest product rollout added a topical CBD product line. CWB's topical products are delivered in cream or balm form. These products are combinations of plant-based oil, herbal extracts and other ingredients. They are meant to be applied only externally and by topical application. CWB currently has four topical products as described below.

<u>Name</u>	<u>Size</u>	<u>Variety</u>	<u>Concentration (per gram)</u>	<u>Retail Price (US\$)</u>
Hemp Infused Balm . . . . .	0.5 ounce (14.2 g)	Soothing Scent	7.5 mg CBD	\$14.99
Hemp Infused Balm . . . . .	1.5 ounce (42.5 g)	Soothing Scent	7.5 mg CBD	\$39.99
Hemp Infused Cream . . . . .	2.5 ounce (70.9 g)	Unscented	7.5 mg CBD	\$49.99
Hemp Infused Cream . . . . .	2.5 ounce (70.9 g)	Soothing Scent	7.5 mg CBD	\$49.99

## New Product Pipeline

CWB is actively exploring several new primary and secondary product categories, including oral administration products, a sport line, topical/cosmetic products, infused beverages and hemp-infused pet treats.

Any new product development will be focused on targeted product line extensions that address specific need states, improved delivery systems and packaging updates.

CWB's proposed innovation pipeline through 2019 includes:

- improved liquid delivery system to enhance efficacy, convenience and frequency of use;
- botanical blends targeted at various consumer need states — some potentially hemp-free;
- upgraded bioavailability technology; and
- additional cannabinoid products.

These changes are focused on improving product awareness and facilitating trial usage. The pipeline is poised to capitalize on the strong category growth of hemp and CBD market trends. It also provides expanded opportunities to reach new consumers in the health and wellness space.

Over the next several years, CWB intends to strengthen its competitive advantage by developing a product portfolio that extends CWB's trust and expertise into proprietary botanical wellness products. These products will have a broad health and wellness focus on sleep, mood, stress, sports and many other applications. Certain products may even be completely cannabinoid-free, depending upon whether they fit within the business, product strategy and competitive differentiation. Potential products are being evaluated and developed to expand into new and emerging categories for pet, beauty, beverage, professional (dedicated health care practitioner products) and beyond.

To date, no material work has been performed on individual stated goals however, CWB has hired a graduate-level educated food scientist and has engaged consultants to begin the work necessary to achieve the innovation pipeline goals described above. The Company does not intend for all the new pipeline products to be fully launched by the end of 2019, however the Company currently expects a significant portion to be launched in 2019 with the remainder being launched in 2020. The Company does not anticipate using proceeds from the Offering to directly fund its innovation goals.

## Key Success Factors of Product Offering

CWB's founders, the Stanley brothers, have garnered substantial international media and legislative attention over the past several years. CWB believes that the "Charlotte's Web" strain has become the most recognized high-CBD strain hemp product in the world.

In addition to the power of the Charlotte’s Web brand and substantial goodwill generated from CWB’s legislative efforts and media exposure, the following are also significant competitive advantages of CWB:

- **Cultivation Experience and Capacity** — The Stanley brothers have significant cultivation expertise, with over ten years of experience in plant cultivation. CWB has selected prime farmland to grow its Industrial Hemp with access to substantial additional farmland for future capacity. CWB is also exploring international cultivation and distribution opportunities in South America. CWB believes there is no other entity in the world who has more experience bringing such large-scale, hemp-based Cannabis operations to the market while maintaining impeccable product quality. CWB’s cultivation and intellectual property capabilities were bolstered in August of 2017 with the building of a new laboratory for plant genetics and breeding. This operation is located 20 minutes from CWB’s Boulder, Colorado, manufacturing facility and allows CWB to attract top-tier scientific talent for plant-centric R&D. The expansion encompassed a 2,800-square foot plant breeding facility that includes two flowering seed production rooms, two cross-breeding rooms, one mother genetics and propagation room and secure seed storage. Each cultivation room includes state of the art technology including HEPA air filtration systems, separate climate control and premier lighting technology.
- **Industry-leading Manufacturing Capability** — CWB leases a 40,000-square foot facility in Boulder, Colorado, which houses its primary production and R&D divisions. This facility is staffed with professional personnel responsible for production management, quality control/assurance, analytical chemistry, product development and process engineering to ensure product quality.
- **Control of Supply Chain** — CWB is substantially vertically-integrated and maintains control over its proprietary genetics throughout the entire cultivation and extraction processes — from seed/clone to packaged products.<sup>(43)</sup> Many companies in the CBD industry produce their products from imported hemp pastes of unknown origin and purity.
- **Rigid Quality Management System** — CWB has implemented a rigid quality management system that includes documented internal quality processes and both internal testing laboratories as well as independent third-party testing laboratories which includes Covance Inc. Covance Inc. is a global contract testing laboratory, which is among the largest of its kind in the world with over US\$2 billion in annual revenue.
- **Proprietary Genetics** — The genetics of CWB’s hemp plants commonly referred to as “Charlotte’s Web”, refers to a variety of CBD-rich Industrial Hemp cultivars developed by the Stanley brothers. Currently, there are a limited number of Cannabis strains that approach the CBD:THC ratio of CWB’s proprietary strain. While not present in all of CWB’s products, CWB believes that the positive media exposure surrounding this proprietary strain has made Charlotte’s Web the most sought-after brand in the emerging hemp and CBD markets.
- **United States Patents** — CWB has a portfolio of U.S. plant, utility and design patent applications pending:

Patent Application Title
Hemp Plant Named ‘CW2A’
Cannabinoid Extractor
Cannabidiol/Cannabinoids/CBDA and Diabetes
Apparatuses, methods, and systems for extraction, isolation and conversion of various cannabinoids, and modifications of whole-plant cannabis sativa extracts therewith
Apparatuses, methods, and systems for extraction, isolation and conversion of various cannabinoids, and modifications of whole-plant hemp extracts therewith
Apparatuses, methods and systems for compound-specific supercritical extraction of hemp

(43) The Company currently uses select contract manufacturers for topicals and capsules who manufacture products according to the Company’s specifications and standards.

Apparatuses, methods and systems for compound-specific supercritical extraction of hemp  
Hemp Varieties with Improved Agronomic Characteristics

These patent applications cover the Corporation's most promising plant genetics, as well as proprietary extraction and cannabinoid isolation and conversion processes and designs.

- **Canadian Trademarks** — CWB has pending applications for the following Canadian trademarks:

<u>Application Number</u>	<u>Description</u>
1,782,463	CW
1,782,460	CHARLOTTE'S WEB
1,782,505	CW CHARLOTTE'S WEB BY THE STANLEY BROTHERS logo
1,782,555	CW CHARLOTTE'S WEB BY THE STANLEY BROTHERS logo

- **United States Trademarks** — CWB has pending applications for the following United States trademarks:

<u>Application Number</u>	<u>Description</u>
87/049,355	CHARLOTTE'S WEB BY THE STANLEY BROTHERS
87/049,342	CW CHARLOTTE'S WEB BY THE STANLEY BROTHERS
87/036,930	THE WORLD'S MOST TRUSTED HEMP EXTRACT

- **Confidentiality and Proprietary Rights** — CWB requires all employees and third parties to sign Non-Disclosure Agreements prior to receiving any of CWB's confidential information. Employees are also required to sign proprietary rights agreements regarding intellectual property they create for CWB. CWB uses standard precautions to protect confidentiality, including physical and electronic security measures.

## Cultivation

CWB's proven cultivation practices have been engineered for scalability to meet long-term sales demand projections. CWB has conducted extensive development over the past several years to demonstrate that it can scale its cultivation operations significantly without sacrificing quality and consistency.

Future expansion is planned to provide the infrastructure to diversify the seed supply and further mechanize and automate the harvest operations. CWB believes it will be able to continue to rapidly scale cultivation by: (i) expanding cultivation sites; (ii) diversifying cultivation geographies to extend growing seasons and mitigate crop risk; (iii) increase seed production capabilities; and (iv) mechanizing cultivation processes to ensure that raw material demand is satisfied without sacrificing quality and consistency.

CWB has cultivation plans for approximately 300 acres of irrigated farmland from ten farms in three states for the 2018 growing season, of which, 165 acres are expected to be planted with CWB's proprietary hemp genetics during the 2018 calendar year. Management believes these 300 acres will produce an estimated 250,000 to 350,000 pounds of Industrial Hemp during the 2018 harvest period (dependent on the regional yield variables associated with growing Industrial Hemp). In 2016 and 2017, CWB produced 41,000 lbs. and 63,000 lbs., respectively, of Industrial Hemp. The availability of additional acreage is significant and allows for (i) necessary crop rotation from year-to-year; (ii) ground cover rotation to improve the health of the soil; and (iii) diversity in location to counteract possible adverse weather or growing conditions. CWB is in constant communication with these farms concerning its seasonal growing requirements. The estimated acreage and availability is determined during the year prior to planting and the final acreage for the yearly lease is typically determined in the first quarter of each year and contracted for accordingly.

CWB maintains title to its Industrial Hemp plants throughout the growing process. CWB grows its Industrial Hemp plants outdoors on farms and is therefore subject to seasonal weather patterns in North America. The seeds or propagation are typically planted in the May-June timeframe and have no CBD content until September. The plants are then typically completely harvested and processed by the end of November of each year.

## Cultivation Overview

CWB currently grows its proprietary Industrial Hemp plants in northeastern Colorado, central Kentucky and Oregon on family-owned and/or leased farms. CWB is actively involved in all aspects of genetics development, propagation, cultivation, control over organic herbicide and pesticide application and harvesting. All Industrial Hemp cultivation activities are done under the oversight of, and licensed by, each state's Department of Agriculture, which rigorously tests CWB's crops to ensure compliance with each Department's Industrial Hemp programs (including THC content of less than 0.3%). CWB and its third-party cultivators are in compliance with the regulations as outlined by each applicable department of agriculture and all Industrial Hemp produced and sold by CWB constitutes Industrial Hemp under the 2014 Farm Bill, as well as the laws of the states in which it produces and sells such Industrial Hemp.

CWB also harvested a pilot crop in South America during 2016 with the intent of: (i) diversifying CWB's future hemp supply; (ii) proof of concept in a new region; and (iii) understanding the regulatory import process of Industrial Hemp raw material.

## Colorado

CWB currently leases land upon which it operates multiple farms across northeastern Colorado, allowing for required crop rotation among locations and providing flexibility to expand the number of acres farmed. CWB's first harvest in 2014 proved a new concept in large-scale Industrial Hemp cultivation for the proprietary strain which is used to create the Charlotte's Web products. From 2014 to 2017, CWB continuously scaled and innovated its cultivation techniques and technology. The Colorado farming operations are operated solely by CWB's personnel to provide the lowest cost of goods sold, while at the same time creating plants, seeds and cultivation practices. The cultivation division also operates a small number of greenhouses used for seed and clone production in both northeastern Colorado and southern Colorado.

CWB believes the availability of leased land in northeastern Colorado is sufficient to meet its future growing requirements in the region.

## Kentucky

In 2015, CWB began cultivation in Kentucky, the second leading hemp producing state in the United States, behind Colorado. CWB operates in Kentucky in partnership with best-in-class farmers. During 2015 and 2016, the crops grown were intended for both seed and the development of mechanizing harvest techniques through the modification of current modern agriculture equipment. During 2017, a higher demand contract was put in place, with CWB's quality oversight, for Industrial Hemp production on 33 acres. CWB has contracted for 95 acres in Kentucky to be farmed during the 2018 calendar year, representing a 188% increase in farmed land, in order to meet its growth projections. CWB is in constant communication with these farms concerning its seasonal growing requirements. The estimated acreage and availability is determined during the year prior to planting and the final acreage for the yearly lease is determined early each year and contracted for accordingly. CWB believes the availability of leased land in Kentucky is more than sufficient to meet its future growing requirements. CWB continues to make capital investment in the Kentucky farming operations to create long-term success in the mechanization and scalability of Industrial Hemp cultivation.

## Oregon

CWB established a strategic partnership with a third-generation farming family that has been farming in the region since 1950. The relationship provides the availability of 1,800 acres of farm land, 90,000 square feet of greenhouse space and more than 70,000 square feet of supporting infrastructure. CWB's contract for the 2018 grow season includes 70 acres of farming done with oversight by CWB to ensure quality standards and specifications are met. Acreage for future expansion is readily available.

## South America

In 2016, CWB began research in South America with established hemp producers to determine the feasibility of growing hemp south of the Equator. The crop study was commissioned with the intent of:

(i) diversifying CWB's future hemp supply; (ii) proving concept in a new region for local distribution and export; and (iii) understanding the regulatory export processes for transporting bulk hemp and hemp extract within and outside of South America.

As demand for CWB's products continues to increase, CWB believes the establishment of Industrial Hemp cultivation in South America could increase future supply availability by providing access to at least two growing seasons per year — one north of the Equator and one south of the Equator. If the Company undertakes further activities in South America, any cultivation therein is anticipated to be for local production and distribution and potential export as permitted by law.

### **Cultivation Research & Development**

The cultivation of CBD-based Industrial Hemp in the United States is relatively new. As a result, there is limited technology available in the market related to the planting and harvesting of these crops. Since its first crop production in 2014, CWB has taken a leadership position in advancing the technology surrounding all aspects of Industrial Hemp production. CWB's R&D efforts are being driven by the increasing demand for CWB's products and its desire to create an expanded portfolio of products that serve the customers' needs. CWB's R&D focus is primarily on growing the highest quality product in the industry, and secondly on the scalability and economic cost to produce the crops.

#### Planting

CWB has successfully created a feminized seed protocol, which provides the scalability and standardization of specific plant genetics. Feminized seeds are seeds which have been bred to produce female plants. Prior to this innovation, CWB's plant supply line was limited by both infrastructure and plant propagation (creating plants from mother plants). Although propagation was instrumental to CWB's prior cultivation objectives, it is not a fully scalable process and does not address CWB's objective to continuously lower production costs and remain a leader in the industry. CWB's feminized seed protocol took three years to fully understand, optimize and prove valid through CWB's quality systems. The current focus is on building the supply line to create adequate quantities of seed production to meet expanding future demand for CWB's products. During 2016, the first six acres of feminized seed was planted, and more than 80 acres are planned for the 2018 calendar year. The seeds are currently planted by a global positioning satellite driven tractor and a customized planter for optimal germination and success. With this innovation, CWB's proprietary Industrial Hemp crops can be planted in the same manner as a conventional commercial farming crop.

#### Harvesting

Harvesting continues to be a significant challenge in the broader Industrial Hemp industry with current practices following the processes of the tobacco industry. Once the plants are harvested from the fields, they are hung upside down in outdoor dry structures. The dried plants are then further processed off the plant stalk for final storage. If processed at the correct moisture content, the shelf life of the harvested plants is proven to remain stable for up to, or potentially greater than, three years. However, this method of drying creates scalability issues and can also cause potency loss in the raw material. With this harvesting process, there are limitations applicable to both available infrastructures and labor in agricultural regions. To mitigate these challenges, CWB has focused its Colorado and Kentucky cultivation teams on the development of new, more scalable processes to mechanize harvesting without sacrificing quality.

To address harvest scalability issues, CWB's Colorado cultivation team created a custom harvesting machine that cuts the plants out of the field and then loads them by a conveyor system for transport to drying structures. A modified combine is then used to separate the raw material from the plant stalk. Once this process has been completed, the raw product is then passed through a customized mill for final long-term storage in food grade plastic containers. CWB believes that these modified processes will allow it to scale its capacity to meet projected customer demand for its products.

The Kentucky cultivation operations are focusing on long-term scalability initiatives to meet projected product demand. Some of the steps that are in progress include advanced harvesting methods and state of the art plant drying technology. During 2016, the first field trials to prove concept of harvesting wet plants out of the field were completed. During 2017, final experiments were completed with a new drying technology and the equipment is currently being modified by the manufacturer to meet CWB's quality standards.

## **Manufacturing**

CWB's manufacturing operations are centered around the quality of its products and the efficiency of their production. CWB has proprietary extraction processes currently in use and is developing the next generation of processes and equipment to serve CWB's expanding production requirements and product offerings. The manufacturing of CWB's products is driven by a quality manufacturing system under cGMP.

CWB operates a 40,000-square foot manufacturing and R&D facility and a separate warehouse and distribution center. Management estimates that annually, CWB can produce 3,000 kg of alcohol-extracted hemp extract and 2,900 kg of CO<sub>2</sub>-extracted hemp extract, with a third extraction shift (2017 production was approximately 1,700 kg and 1,600 kg, respectively, with two extraction shifts). With the addition of a second bottling shift, CWB can produce 16,000 30 mL bottles or 8,000 100 mL bottles per day (2017 production was approximately 8,000 30 mL bottles or 3,700 100 mL bottles per day). These facilities are optimized to efficiently execute CWB's core competencies in R&D, product development, quality control, and product delivery. CWB operates its finished products manufacturing in accordance with cGMP and strives to exceed these standards to create the highest quality products in the market.

CWB believes it has sufficient capabilities to meet its production requirements in the near-term. In anticipation of continued growth, CWB has planned for additional production facilities both locally and at key cultivation sites. Each of these new facilities will be constructed using state of the art processes and equipment to deliver superior products to CWB's customers and at the lowest possible cost to produce.

### Extraction and Product Formulation

CWB's harvested hemp is delivered to CWB's production facility in a coarse-ground form. At the facility, the extraction processes do not commence until the raw hemp material passes initial screenings for moisture content and toxic mold by-products (aflatoxins). Upon passing these screenings, the raw hemp material passes through one of two different extraction processes. CWB utilizes both Carbon Dioxide ("CO<sub>2</sub>") Extraction ("SFE") and Alcohol Extraction ("AE") processes. These two processes and the resultant extracts have differing phytochemical profiles, which appeal to different customer bases. Years of R&D and process refinement associated with both of CWB's SFE and AE extraction processes are patent-pending and/or otherwise proprietary.

The SFE extraction process takes advantage of the physical properties of CO<sub>2</sub>, wherein the compound takes on characteristics of both a liquid solvent and a gas when the surrounding temperature and pressure are simultaneously increased above that of standard atmospheric conditions. The SFE process is more selective and somewhat gentler on the extracted phytochemicals and terpenes when compared to the AE process. The SFE process is also "tunable" as pressures and temperatures can be adjusted to create different final ratios of cannabinoids and other phytonutrients. The SFE process is used in certain of CWB's finished products.

By contrast, the AE process uses liquid alcohol as a solvent. The raw hemp is initially soaked in alcohol for a set period of time. Following the soak, alcohol is removed from the product using rotary evaporation, leaving a rich, oily extract containing hundreds of phytochemicals, including cannabinoids. The oil is then heated to decarboxylate the compound, or essentially "activate" the cannabinoids. The heating process also removes any remaining amounts of alcohol residue. The AE process produces a rich, green oil that contains more of the plant constituency as compared to the SFE system. Some customers prefer the alcohol method of extraction as they feel it provides a more complete "whole-plant" extraction containing chlorophyll, terpenes and other phytonutrients, some of which are absent in the SFE process. However, while the SFE process may omit some of the hemp plants phytochemical constituency, the SFE process is thought to be gentler than AE on some of the major phytochemicals of interest. For these reasons of customer preference, CWB continues to offer final products produced through both SFE and AE processes.

### Packaging

After processing, both the SFE and AE extracts are rigorously batch tested both internally and by major third-party laboratories for cannabinoid potency, residual solvents, heavy metals and pesticides. After passing these quality control tests, both the SFE and AE extracts are released into finished products production, where

they are diluted with carrier food oils, either medium chain triglycerides from coconut oil or olive oil. Some of the SFE extract is dedicated to capsule production. The SFE extract is converted to powder at known concentrations for incorporation into dry products.

CWB's liquid products are currently blended, flavored, filled into 30 mL or 100 mL glass bottles, labeled and packaged into consumer cartons at its production facility. CWB is working to qualify third party contract manufacturers for filling, labeling and packaging to handle the increasing demand for CWB's products.

CWB sends its in-house blended powder to a third-party contract manufacturer to encapsulate, bottle and package into consumer cartons. CWB is working to qualify additional third-party contract manufacturers to ensure adequate encapsulation, bottling and packaging capabilities necessary for the increasing demand for CWB's products.

### Quality Management Systems

CWB employs cGMP at each stage of its production. cGMP refers to the current Good Manufacturing Practices regulations enforced by the FDA.<sup>(44)</sup> cGMPs provide for systems that assure proper design, monitoring and control of manufacturing processes and facilities. Adherence to the cGMP regulations assures the identity, strength, quality, purity and composition of products by requiring that manufacturers adequately control manufacturing operations. This includes establishing strong quality management systems, obtaining appropriate quality raw materials, establishing robust, standard operating procedures, detecting and investigating product quality deviations and maintaining reliable testing practices. This formal system of controls helps in preventing instances of contamination, deviations, failures and errors. This assures that products manufactured under cGMP meet quality standards.

To create the highest quality products, CWB, when applicable, closely controls every step in the production process, including propagation, cultivation, harvesting, drying, manufacturing and packaging. The control and visibility maintained through CWB's vertical integration allows for the continual monitoring and refinement of critical processes, resulting in high quality standardized products.

CWB has implemented robust systems that promote high levels of product quality. Further, CWB's products meet or exceed industry guidelines for contaminants and are tested both in-house and by major independent third-party laboratories. CWB's products are tested for, among other items:

- Identity
- Potency
- Residual solvents
- Defined microbial contaminants
- Aflatoxin
- Defined heavy metals
- Pesticides

CWB has worked diligently to perfect and deeply understand quality systems as they apply to Industrial Hemp products and can now use the systems and principles to qualify Industrial Hemp raw materials and extracts grown by or extracted by outside suppliers. This advantage will allow CWB, if necessary, to globally source hemp and hemp extracts from other suppliers while maintaining the high quality its vertically-integrated products are known for today.

### **Sales and Distribution Strategy**

CWB's products are currently sold online through CWB's website ([www.cwhemp.com](http://www.cwhemp.com)), select distributors, and brick and mortar retailers.

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(44) See 21 C.F.R. Part 111.

CWB's products were introduced in late 2014, with 2015 representing the first year of meaningful sales volume, primarily through direct to consumer online sales. After commencing interstate shipping in March 2015, sales have continued to show a steady growth trend. CWB's products are sold in chiropractic and doctors' offices, gyms, massage therapy offices, salons, animal clinics and pet stores. During 2017, CWB added over 900 new independent stores that sell CWB's products. Future distribution channels are planned to include national grocery, drug, mass market, pet and natural/specialty retailers.

CWB distributes its products within the entire United States and on a limited basis internationally. Retail distribution has evolved from a strategy focused on gaining broad distribution within the natural channel, to now focusing on gaining distribution in major food and mass market accounts. Products are currently sold in over 2,700 locations. The retail strategy focuses on gaining distribution in retail brands that align with CWB's corporate social mission, as well as with the target consumer. CWB targets accounts where the brand is most likely to succeed with retail shoppers.

CWB's internal sales team has a two-pronged approach to building distribution: (i) focus on gaining distributors with access to key strategic verticals in the medical and natural channels; and (ii) contracted broker teams that assist in driving brand representation in larger food accounts. CWB believes this model is extremely effective in targeting accounts with the right message to build and capitalize on CWB's brand momentum.

CWB believes broad brand recognition and pent up market demand in the adaptogenic supplements category (where CBD is typically positioned) results in strong brand sales, which helps promote increased category development and new account acquisition. As CWB continues to develop increasingly sophisticated supply and production capabilities, it will target strategic retail accounts that contribute to the broader acceptance of the brand and category. CWB believes these accounts will enable it to achieve broader distribution, opening new consumer segments and driving growth by increasing awareness, consideration and purchase. CWB believes it is leading the way in the category by opening mass market channels that have historically been resistant to place CBD items on their shelves. Key to this success has been the relationships and partnerships with key accounts including: Thrive Market, Lucky's Market, Erewhon, Fresh Thyme, New Seasons, Lassens, Earth Fare and more.

CWB utilizes e-commerce to reach consumers and guide them through the hemp and CBD buying process. This strategy allows access to consumers in the United States and has been instrumental in CWB's success in growing the product line. CWB believes consumers (millennials through baby boomers) rely heavily on digital research. Key to this approach is the ability to access consumers organically who are searching the web for "CBD" or "Charlotte's Web" both on CWB's website as well as through linking from reliable providers of content and education. CWB's website delivers on this through high levels of product purchase and engagement via opting in to CWB's email newsletter subscription. This indicates a higher level of interest in educational resources and product knowledge. CWB's current e-commerce database consists of over 200,000 "opting-in" email customers, with new enrollments averaging over 10,000 customers per month.

CWB is concentrating its activities in the digital space in 2018 through:

- *Search Engine Optimization:* A collaborative, integrated effort with content and public relations teams optimizing search engine results in the category for those seeking both general education and availability to purchase
- *Email:* Growing the current subscriber list, working to develop segmentation processes and delivering relevant and personalized content
- *Social:* Leveraging the passion of CWB and its founders through a dynamic website and branding strategy which will be used to maintain CWB's relevance among consumers
- *Referral:* Utilizing third party influencers during marketing campaigns to amplify brand and product awareness — significant care has been taken to find users organically (prior to approaching) to ensure authentic and real testimonials of their own use
- *Display Advertising:* Developing display advertising strategy and integrating into 360° campaign planning via media buying capabilities

- *Drive direct to “.com”*: Optimizing the customers web experience to convert browsers into buyers and driving repeat purchases via the elimination of consumer friction points

CWB also believes that global distribution is paramount to its growth in the next 24 months, with near-term focus on the European Union, South America and Asia.

CWB’s average monthly sales were US\$4.2 million in the fourth quarter of 2017, growing 150% from the average monthly sales in the fourth quarter of 2016. CWB’s revenue growth is attributable to (i) significant year-over-year e-commerce sales growth of over 60%; (ii) the introduction of new products; and (iii) the continued development of professional internal sales, marketing and innovation teams. Several key retailers have come on board over the past year and commitments have been received for regional accounts for additional placements in 2018. Additionally, sales discussions are in progress with other large brand name retailers that are expected to be added to CWB’s customer portfolio during 2018. A regional sales team has been engaged with direct account focus on major food and drug retailers throughout the United States. For example, CWB recently secured a partnership with Thrive, a leading online retailer of holistic health and wellness products in the United States as one of its distributors in this segment. CWB plans to secure additional retail locations in 2018, expected to bring total domestic brick and mortar distribution to over 3,000 doors by the end of 2018.

CWB’s sales are executed through customized strategies depending on the channel of sale. For example, in specialty food accounts, a combination of sales brokers and reps are strategically located within geographical markets. This provides proximity along with hands-on support at the store level to ensure products are correctly labeled and merchandised. This external sales team is managed by key management personnel within CWB. Depending on the size of the account, some locations are deemed to be “national accounts” that receive additional support from CWB’s internal national accounts team. This allows CWB’s brokers and independent sales teams to manage over 1,000 independent specialty food locations, while still achieving the same level of support that is expected in CWB’s larger chain retail customers.

Large retail customers are covered by CWB’s internal national accounts team with experts assigned to the accounts to develop the specific sales strategies necessary for CWB’s products to succeed in this market. Medical accounts such as doctors, chiropractic, holistic and integrative health groups are supported by distributors directly linked to the industry and managed by CWB’s internal sales team.

Currently, the majority of orders are fulfilled through an CWB-operated fulfillment center located in a suburb of Denver, Colorado. CWB has also begun testing with third party logistics providers to secure a rapidly-scalable fulfillment and business continuity solution.

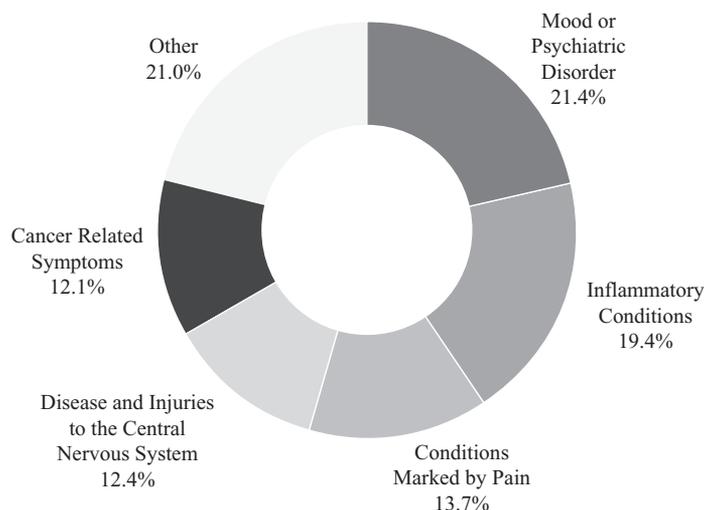
As public familiarity with hemp-derived CBD wellness products continues to increase, CWB will target several new distribution channels that have significant future expansion potential.

*Broad Consumer Market* — Management believes there is a significant emerging opportunity to market premium hemp and botanical wellness products to the mainstream consumer marketplace. Management believes public recognition of the benefits of hemp products has increased dramatically in recent years, and consumers are seeking natural products for their general wellness benefits. Target markets include sports and recreation, holistic health and wellness, healthy aging, and others who seek natural alternatives to traditional pharmaceutical remedies. Initial channel opportunities include vitamin and supplement retailers and natural grocers. Key retail partners will include major food, drug and mass market accounts, general retail accounts and specialty and natural channels.

*Sports Medicine and Recovery Market* — Over the last several years, there has been a significant focus in the National Football League (“NFL”) on concussions and their lingering effects. Chronic Traumatic Encephalopathy (“CTE”) has been a major topic in the sports world, particularly in the NFL. CTE is a degenerative brain disease common in athletes who have experienced repetitive brain trauma, and many professional athletes currently use Cannabis as a means to mitigate symptoms of CTE. In addition, there is a broad and virtually untapped market for active adult and sports enhancement and recovery products, including topical products. Further regulatory approval would be required in order for CWB to access these markets.

*Future Drug Development Potential*— There is a significant body of scientific evidence found within hundreds of published research papers regarding the potential neuro-protective and neuro-generative properties found in cannabinoids. For this reason, the United States government, via the National Institute of Health, has patented cannabinoids as antioxidants and neuro-protectants (United States Patent No. 6630507). CWB intends to explore research and development opportunities for CBD products through pre-clinical and clinical trials and is currently supporting non-profit organizations to accomplish this goal.

#### **Exhibit 4: Survey Results of High CBD Product Treatments**



Source: Care By Design ([www.cbd.org](http://www.cbd.org)) survey results of 704 patients in 2015

#### **Marketing and Promotion**

Data collection and customer analysis from e-commerce sales will continue to be a significant component of CWB's marketing strategy. Direct-to-consumer e-commerce sales give an unprecedented opportunity to gain meaningful insight into how to better support the customer based on data including buying habits, purchase frequency, and in many cases, why the product is being used (general wellness, health conditions, etc.).

Consumer segmentation is being used to transform CWB's consumer activities during 2018 through both valuable understanding of the 200,000+ customer base, as well as the ability to activate and differentially invest in core consumer segments that will assist in developing the strongest lifetime value proposition for customers. Key elements of the segmentation include:

- Driving ability to more effectively motivate trial orders, improve overall product trial experience, promote repeat purchasing patterns and ensure retention through targeted messaging;
- Differentially investing in core segments to attract new users with a high likelihood of repeat conversion; and
- Maximizing customization of email and other messaging channels to improve initial experiences and promote repeat buying.

CWB is working with a prominent advertising agency to solidify brand identity, packaging design, communications, and significant improvement on both aesthetic and overall functionality of its e-commerce experience. It is also positioning CWB as a leading producer and distributor of CBD natural wellness products. The intention of the change was to (i) harmonize and simplify the naming architecture; (ii) cross introduction and use between oils and capsules to tie product features and benefits together; and (iii) create better category navigation and display at the retail shelf. This refresh develops greater communication to the progressing concentration strengths of CWB's products. It also provides the connection of mind and body benefits that

supplement consumers are seeking through subtle and attractive packaging cues. The brand work was completed in Q2 of 2018 and be implemented by Q4 of 2018.

CWB has also launched a subscription program. Through its subscription program, CWB utilizes a nominal discount structure to encourage enrollment with a similar structure to online “subscribe and save” models. This is expected to deliver upside demand and repeat purchases from existing customers by enabling scheduled monthly reorders and improved continuity in consumption. Consumers are able to set their frequency for two week or monthly reorder patterns across the entire product line.

With limitations on mainstream ad placements due to “marijuana” similarities, social media and public relations activities are a vital part of CWB’s marketing activities. A public relations firm has also been engaged to facilitate public relations activities and placements, with an emphasis on stories featuring the Stanley brothers and their mission to encourage and support alternative therapies that improve a person’s quality of life.

CWB is a socially conscious company, as the Stanley brothers are committed to using business as a force for good and a catalyst for innovation. The Company weighs sound business decisions with consideration for how its efforts affect its employees, customers, the environment, and the communities where its employees live and where it does business, while maximizing profits and strengthening its brands. This social awareness includes contributions to non-profits, which are made on an ad hoc basis, concentrating first on those entities that have historically supported the business through education of existing and potential customers. CWB also supports non-profits that it believes can utilize the wellness aspects of its products (i.e. military veterans, children’s hospitals, medical foundations, university research, etc.). CWB management believes that any socially oriented actions it takes will ultimately have a positive impact on the Company, its employees and its shareholders. CWB has historically donated, and plans to continue to donate 2% of its pre-tax earnings to charitable organizations.

## Facilities Overview

CWB operates in the Colorado-based facilities listed below.

<u>Primary Function</u>	<u>Approx. Square Feet</u>	<u>Lease Expiration Date</u>	<u>Full Time Employees as of June 30, 2018</u>
Administrative Office . . . . .	7,100	October 2020	44
HQ / Processing / R&D . . . . .	40,100	May 2021	74
Distribution . . . . .	23,000	September 2022	27
Horticulture / Breeding . . . . .	6,700	February 2023	4
Customer Service . . . . .	3,000	January 2021	17
Greenhouse (2) . . . . .	16,000	December 2018	7
Greenhouse (2) & Office . . . . .	16,000	December 2018	52

## Competition

CWB plans to invest significantly in strengthening the Charlotte’s Web brand in the global marketplace and solidifying the brand as “The World’s Most Trusted Hemp Extract”. CWB has strong vertical integration from seed to packaged product, which helps ensure industry-leading product quality. This vertical integration and focus on quality and standardization creates an important competitive differentiator for CWB. CWB’s deep knowledge of hemp cultivation, combined with its scientific and financial resources, allow it to maintain a leading market position amongst its competitors.

CWB’s principal competitors in the CBD wellness products space include dietary supplement/topical companies such as CV Sciences (PlusCBD), Isodiol, Elixinol, Mary’s Nutritionals and Medical Marijuana Inc., as well as pharmaceutical companies such as GW Pharmaceuticals plc and INSYS Pharmaceuticals.

## Information Systems

CWB's primary ERP system is a cloud-based system well-known for manufacturing, shipping and receiving, inventory control, supply chain management, sales, accounting and finance. In addition to this centralized ERP system, supplemental peripheral software applications are used for specialized activities in finance, human resources, customer support, manufacturing, distribution and marketing.

## Intellectual Property

CWB's intellectual property and proprietary rights are important to its business. In efforts to secure, maintain and protect its intellectual and proprietary rights, CWB relies on a combination of patent, trademark, trade secret and other rights in the United States and Canada. CWB also has confidentiality and/or license agreements with certain employees, contractors and other third parties, which limit access to and use of CWB's proprietary intellectual property.

Pursuant to an agreement (the "**Name and Likeness Agreement**") entered into between the Company, CWB and a company owned by the Stanley brothers (the "**Stanley Brand Company**"), CWB will transfer to the Stanley Brand Company certain rights, including applicable intellectual property rights, associated with the use of the name "Stanley Brothers" in exchange for a 3-year license for CWB and the Company to continue to use this name on a royalty-free basis. Pursuant to the Name and Likeness Agreement, CWB has agreed to enter into a further license agreement with the Stanley Brand Company in respect of granting the Stanley Brand Company the right to use certain intellectual property of CWB in respect of certain non-competitive businesses. During this 3-year period, each party to the Name and Likeness Agreement will have the right to cause the other party to cease use of the name in certain circumstances such as misuse, bad acts, or a corporate acquisition. The Name and Likeness Agreement does not affect the Company's intellectual property rights in connection with its use of "Charlotte's Web". See "*Risk Factors — Reliance on the Stanley Brothers Brand.*"

CWB currently has a portfolio of pending U.S. plant, utility and design patent applications directed to CWB's most promising plant genetics, proprietary extraction technology, cannabinoid isolation methods and cannabinoid conversion processes and industrial designs. CWB also has pending U.S. and Canadian trademark applications. See "*Product Overview — Key Success Factors of Product Offering*" above.

CWB is subject to certain risks related to its intellectual property. For more information, see "*Risk Factors — Risks Related to the Company's Business and Industry*".

## Employees

As of June 30, 2018, CWB had 226 employees and 2 part-time employees. Of these employees, 68 were employed in selling and order fulfillment positions, 68 were employed in manufacturing and processing positions, 63 were employed in cultivation positions and the remaining employees were engaged in other aspects of the business.

CWB prides itself in hiring talented individuals with a complementary mix of professional experience and industry knowledge. CWB believes it has an advantage in attracting these employees with its strong reputation as a leader in the sector. CWB believes in investing in each of its employees and devotes the necessary resources to ensure all employees are given the proper tools and resources to grow in their respective fields. CWB also believes in cultivating a collaborative working environment wherein everyone is valued for their contribution to the team and rewarded for their accomplishments. As of June 30, 2018, all of CWB's employees were non-unionized.

CWB has assembled a management team with significant professional expertise in distribution, cultivation, sales, technology, finance, customer service, CPG, marketing, business development, acquisitions, capital markets and market analysis. CWB's management team includes executives with many years of experience in their respective fields.

See "*Risk Factors — Risks Related to the Company's Business and Industry — Key officers and employees*".

### **Third Party Suppliers, Service Providers and Distribution**

Although CWB is substantially vertically integrated, CWB obtains certain input components, such as packaging components, flavors and certain raw materials, from third party suppliers. None of the third party suppliers are considered to be material to the business on a standalone basis and all are input components that are readily available from other suppliers on the market.

If any given supplier or distributor is lost in a specific region, CWB believes these could be replaced without material disruption as it could contract with multiple alternative suppliers or distributors to provide the requisite service(s) and product(s). CWB is a vertically integrated company that primarily performs its own manufacturing. Certain of the CWB's capsule products are created by a third-party manufacturer, but alternative manufacturer are available.

CWB manages risks that are associated with third-party distributors, manufacturers and suppliers by identifying and qualifying alternative distributors, manufacturers and suppliers. CWB regularly assess its supply chain for threats to business continuity.

See *“Risk Factors — Reliance on Third Party Suppliers, Service Providers and Distributors”*.

## UNITED STATES REGULATORY MATTERS

Upon completion of the Offering and the Reorganization, the business of the Company will consist solely of the business of CWB, therefore when used in this section, references to the “Company” are references to CWB and the Company as a whole unless the context otherwise requires. The Company has retained Frost Brown Todd LLC (Lexington, Kentucky) to provide it with a legal opinion in connection with U.S. regulatory matters in respect of the 2014 Farm Bill and the Company’s Industrial Hemp activities discussed in this prospectus.

### General Overview

Note, the following overview is subject to and qualified by the more detailed descriptions in the following sections entitled “United States Federal Regulation of Industrial Hemp”, “State Regulation Industrial Hemp”, “FDA Regulation”, “Future Uncertainty of Legal Status” and “The Company’s Regulatory Compliance Activities”.

The Company does not produce or sell medicinal or recreational marijuana or products derived therefrom. It sells Industrial Hemp-based CBD products. While such products come from the same plant genus and species, Industrial Hemp and marijuana are legally distinct and are generally regulated, respectively, by two separate overarching bodies of law: the 2014 Farm Bill and the CSA. Industrial Hemp, by legal definition, contains less than 0.3% THC on a dry weight basis, which is not a sufficient level to create a psychoactive effect like marijuana.

Consequently, the Company’s products are not sold pursuant to the rules and regulations governing the cultivation, transportation and sale of medicinal or recreational marijuana. The Company cultivates, processes, transports and sells its products pursuant to the 2014 Farm Bill and in accordance with applicable state and local laws. All Industrial Hemp produced and sold by CWB constitutes Industrial Hemp under the 2014 Farm Bill, as well as the laws of the states in which it produces and sells such Industrial Hemp. If sold internationally, products are sold in accordance with the laws of the importing and exporting jurisdiction.

The 2014 Farm Bill allows Industrial Hemp to be cultivated under agricultural pilot programs conducted by state departments of agriculture and institutions of higher education. The Statement of Principles published by the USDA, the DEA and the FDA in 2016 confirms that state departments of agriculture, and persons licensed, registered, or otherwise authorized by them to conduct research under an agricultural pilot program in accordance with the 2014 Farm Bill, or persons employed by or under a production contract or lease with them to conduct such research, may grow or cultivate industrial hemp as part of the agricultural pilot program. In addition, in connection with a federal court settlement resulting from *Kentucky Dept. of Agriculture v. Drug Enforcement Administration*, No. 3:14-cv-372 (W.D.Ky. 2014) (the “**2014 KDA Decision**”) the DEA has conceded that a fair reading permits cultivation by nominees. In that case, the DEA tried to block the importation of hemp seed for Kentucky’s pilot program and the Kentucky Department of Agriculture sued, asking for a temporary restraining order. The case was settled, and it was established that the Kentucky Department of Agriculture could contract out with private farmers to grow and cultivate the hemp crops. The Company is registered with the Colorado Department of Agriculture (the “**CDA**”) Hemp Registry Program to cultivate and process Industrial Hemp for market research and commercial purposes and takes the position that its activities fall within the definition of an “agricultural pilot program” pursuant to the 2014 Farm Bill.

The Omnibus Appropriations Law (as defined below) prohibits the federal government from using congressionally appropriated funds in contravention of the 2014 Farm Bill or to “prohibit the transportation, processing, sale, or use of industrial hemp, or seeds of such plant, grown or cultivated in accordance with the [Farm Bill] within or outside the State in which the industrial hemp is grown and cultivated.” The 2014 Farm Bill further authorizes the cultivation of Industrial Hemp conducted in accordance with the 2014 Farm Bill, notwithstanding the CSA or any other federal law.

The Company’s activities related to the production, marketing and sale of its products comply with the 2014 Farm Bill. However, certain government agencies (such as the DEA and the FDA) and certain federal officials have challenged the scope of permissible commercial activity which may be conducted pursuant to state agricultural pilot programs. Some DEA representatives, for example, have stated they believe that producers of CBD-based products, including CWB, produce and sell their products in violation of the CSA and the Federal

Food, Drug, and Cosmetic Act (the “FDCA”). Similarly, the FDA has indicated that the Company’s marketing activities fall within FDA jurisdiction and, on occasion, have failed to comply with the FDCA. In addition, the FDA is currently challenging whether the Company’s products can be sold in the U.S. without FDA approvals which have not yet been obtained. This matter is still in active discussion with the FDA and is unresolved as at the date of the prospectus. While the Company disagrees with both the position of the DEA and of the FDA, there is risk that either or both of these agencies could take law enforcement actions against the Company.

Legal barriers applicable to selling hemp and hemp-derived CBD products result from a number of factors, including the fact that hemp and marijuana are both derived from the Cannabis plant, the rapidly changing patchwork of state laws governing hemp and hemp derived CBD, the position of some DEA representatives that CBD is a controlled substance, and the lack of FDA approval for CBD as a lawful food ingredient, food additive or dietary supplement. However, pursuant to the 2014 Farm Bill and the purported derivation of CBD from imported hemp stalk (a part of the cannabis plant exempted from the CSA’s definition of marijuana), U.S. businesses are manufacturing and selling a wide array of hemp-derived CBD products in the U.S. and internationally. Stakeholders take different positions regarding the scope of legal activity in light of the interplay of federal and state law, and recent developments such as the proposed introduction of the HFA (described below), the September 30, 2017 decision of the World Anti-Doping Agency to drop CBD from its list of prohibited substances, the World Health Organization Expert Committee on Drug Dependence preliminary report finding that CBD is safe, well-tolerated and non-addictive,<sup>(45)</sup> recent DEA directives that could be interpreted to permit the sale of hemp-derived CBD products, and recent statements made by DEA representatives to the effect that enforcement of hemp products is not a priority,<sup>(46)</sup> may impact the legal status of Industrial Hemp going forward.

The foregoing is an abbreviated overview of the Company’s position on the legality of CWB’s operations in the United States. Additional background and a more thorough analysis of applicable U.S. and international regulatory regimes are set out in greater detail below. See also “*Risk Factors — Risks Related to the Regulatory Environment*”.

## **United States Federal Regulation of Industrial Hemp**

### Development of Current Regulatory Framework

In addition to customary regulations applicable to any commercial business, the Company’s operations are subject to state and federal regulation in respect of the cultivation of Industrial Hemp and the production, distribution and sale of products intended for human ingestion or topical application and, with respect to certain products, by animals.

Industrial hemp is an agricultural commodity cultivated for use in the production of a wide range of products globally. Among others, hemp is used in the agriculture, textile, recycling, automotive, furniture, food and beverage, paper, construction materials and personal care industries.

Botanically, Industrial Hemp is categorized as *Cannabis sativa L.*, a subspecies of the cannabis genus. Numerous unique, chemical compounds are extractable from hemp, including THC and CBD. These cannabinoids are responsible for a range of potential psychological and physiological effects. Hemp is distinguishable from its cousin marijuana, which also comes from the *Cannabis sativa L.* subspecies, by its absence of more than trace amounts (less than 0.3%) of the psychoactive compound THC. Although international standards vary, other countries, such as Canada, have used the same THC potency standards to define Industrial Hemp.

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(45) World Health Organization Expert Committee on Drug Dependence, Cannabidiol (CBD) Pre-Review Report, November 10, 2017.

(46) Bob Segall, “DEA: Feds won’t arrest CBD oil users, neither should Indiana,” WTHR.COM, <https://www.wthr.com/article/dea-feds-wont-amst-ebd-oil-users-neither-should-indiana> (Nov. 7, 2017).

Historically, the effects of federal tax rendered the domestic farming of hemp impractical. In addition, with the science of distinguishing hemp from marijuana undeveloped, and fearful of hemp as a psychoactive substance, states legally restricted growth and cultivation of the hemp plant. Subsequently, federal legislation scheduled all cannabis grown in the United States as a controlled substance, and as a result, until the passage of the 2014 Farm Bill (discussed below), cultivating hemp for any purpose in the United States without a Schedule I registration with the DEA was illegal. The 2014 Farm Bill opened an approximately four-year window to allow Industrial Hemp to be cultivated within the context of an agricultural pilot program and where permitted by state law.

Put simply, the Cannabis plant is currently being regulated by the federal government as one (and potentially more) of the following: (i) marijuana as defined under the CSA<sup>(47)</sup> and its derivatives as most commonly understood — a Schedule I controlled substance; (ii) parts of the Cannabis plant exempted from the CSA's definition of "marihuana" such as stalks and sterile seeds — which may be identified for lack of a better term as "non-cannabis" or the CSA-exempt components of the Cannabis plant; and (iii) Industrial Hemp cultivated pursuant to, and in accordance with, the 2014 Farm Bill. Rather than distinguishing between "hemp" and "marijuana" based on the CSA's analysis of the part of the plant from which the product is derived, the 2014 Farm Bill distinguishes Industrial Hemp and marijuana on the basis of the concentration of THC. Any plant found to contain a higher concentration of THC than permitted by the 2014 Farm Bill is considered marijuana and a Schedule I substance not protected by the 2014 Farm Bill. Accordingly, a product derived from the Cannabis plant may only be classified as a Schedule I substance under the CSA to the extent that the product is derived from the parts of the Cannabis plant included in the statutory definition and/or which are not derived lawfully from Industrial Hemp grown under the 2014 Farm Bill. Hemp seeds or "hemp hearts" for example, have long been lawfully imported into the U.S. and legally sold in commerce due to the fact that the sterilized seeds are clearly exempt from the definition of marijuana under the CSA and therefore are not controlled substances. However, the CSA exempt status of these components pre-dates, and is legally distinct from, any 2014 Farm Bill-related pre-emption. Therefore, whether CBD is a controlled substance largely depends on the part of the plant the CBD is derived from or whether it is grown pursuant to the 2014 Farm Bill. Where CBD is derived from marijuana, it is regulated as a controlled substance under the CSA. Where CBD is derived from Industrial Hemp lawfully cultivated in the U.S., or is derived from exempted parts of the cannabis plant which are lawfully imported, it is likely not a controlled substance. However, as discussed in more detail below, the DEA does not believe that CBD is generally derived from exempted parts of the Cannabis plant, creating risk for businesses selling imported CBD products derived from such exempted parts of the plant. See "*Risk Factors — Risks Related to the Regulatory Environment*".

#### *HIA v. DEA II (2004 Decision)*

In 2003, the DEA issued two final rules: one that expanded the CSA Schedule I listing of synthetic THC to include THC that is "naturally contained in a plant of the genus Cannabis (cannabis plant)," and a second that exempted hemp fiber, seed and oil products containing THC not intended for human consumption from control (the "**2003 Rules**"). The collective result of the 2003 Rules was to classify all naturally-occurring THC intended for human consumption as a Schedule I controlled substance.

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(47) Pursuant to the CSA, the term "marihuana" means all parts of the plant Cannabis sativa L., whether growing or not; the seeds thereof; the resin extracted from any part of such plant; and every compound, manufacture, salt, derivative, mixture, or preparation of such plant, its seeds or resin. Such term does not include the mature stalks of such plant, fiber produced from such stalks, oil or cake made from the seeds of such plant, any other compound, manufacture, salt, derivative, mixture, or preparation of such mature stalks (except the resin extracted therefrom), fiber, oil, or cake, or the sterilized seed of such plant which is incapable of germination.

The Hemp Industries Association (“HIA”) filed suit seeking to enjoin the DEA from enforcing the 2003 Rules with respect to non-psychoactive hemp or products containing non-psychoactive hemp (“HIA v. DEA II”).<sup>(48)</sup> In this case, the Court of Appeals considered whether an imported hemp seed product derived from the sterilized seed of the cannabis plant was a controlled substance.<sup>(49)</sup> The Court noted that the CSA expressly exempts “the sterilized seed of such plant” and held that if a product is derived from the exempt part of the plant, and does not otherwise contain synthetic THC, it is not a controlled substance, and thus is not subject to the DEA’s control. As a result of the holding, the Court invalidated two regulations that would have banned the manufacture and sale of edible products made from hemp seed and hemp seed oil as substances controlled under the CSA. Never overturned, this holding is binding on the Ninth Circuit and persuasive as applied in other jurisdictions. The holding cites as its reasoning the clear congressional intent to exclude non-psychoactive portions of the cannabis plant (hemp) from regulation as evidenced plain language of the CSA and definition of “marihuana” in the Marijuana Tax Act of 1937, which expressly exempts the non-psychoactive portions of the plant from the definition of marijuana. The Company does not currently import hemp or hemp products. Although the Company does not currently rely on HIA v. DEA II in respect of the importation of hemp or hemp products, it does rely on the decision in regards to the court’s position on congressional intent and the application of that intent to the Company’s own analysis and position regarding the regulatory regime applicable to Industrial Hemp and the Company’s activities.

### *The 2014 Farm Bill*

In 2014, Congress enacted the 2014 Farm Bill which provides for the domestic cultivation of Industrial Hemp as part of agricultural pilot programs adopted by individual states and research by institutions of higher education.<sup>(50)</sup> The 2014 Farm Bill provides, notwithstanding other federal laws such as the CSA, for the domestic cultivation of Industrial Hemp. Forty U.S. states have implemented legislation pursuant to the 2014 Farm Bill.<sup>(51)</sup> The various state Industrial Hemp programs have different requirements regarding the registration of cultivators and processors, the involvement of institutions of higher education and permissible commercialization.<sup>(52)</sup> The 2014 Farm Bill gives significant discretion to states to adopt regulations governing hemp activity, but strictly defines hemp to include any part of the Cannabis plant, whether growing or not, with a delta-9 THC concentration of not more than 0.3% on a dry weight basis (i.e. Industrial Hemp). Any plant found to contain a higher concentration of THC than permitted by the 2014 Farm Bill is considered a Schedule I substance under the CSA (i.e. marijuana) and is not protected by the 2014 Farm Bill. Accordingly, a product derived from the Cannabis plant may only be classified as a Schedule I substance under the CSA to the extent that the product is derived from the parts of the Cannabis plant included in the statutory definition above and/or which are not derived lawfully from Industrial Hemp grown in accordance with the 2014 Farm Bill.

The 2014 Farm Bill’s provisions only permit the cultivation of Industrial Hemp by institutions of higher education or state departments of agriculture (and their designees such as the Company) (i) for research purposes (which includes market research); (ii) as part of an “agricultural pilot program” or other agricultural or academic research; and (iii) where permitted by state law. The Company is registered with the CDA Hemp Registry Program to cultivate and process Industrial Hemp for market research and commercial purposes and takes the position that its activities fall within the definition of an “agricultural pilot program” pursuant to the 2014 Farm Bill. In connection with the KDA Decision the DEA has conceded that a fair reading permits cultivation by nominees. In that case, the DEA tried to block the importation of hemp seed for Kentucky’s pilot program and the Kentucky Department of Agriculture sued, asking for a temporary restraining order. The case

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(48) *Hemp Industries Ass’n v. DEA*, 357 F.3d 1012, 1018 (9th Cir. 2004).

(49) *Hemp Indus. Ass’n. v. Drug Enf’t Admin*, 357 F.3d 1012 (9th Cir. 2004); see also *Hemp Indus. Ass’n. v. Drug Enforcement Admin.*, 333 F.3d 1082 (9th Cir. 2003). Establishment of a New Drug Code for Marihuana Extract, 81 FR 90194-01; Drug Enforcement Administration, Diversion Control Division: Clarification of the New Drug Code (7350) for Marijuana Extract; [https://www.deadiversion.usdoj.gov/schedules/marijuana/m\\_extract\\_7350.html](https://www.deadiversion.usdoj.gov/schedules/marijuana/m_extract_7350.html).

(50) See <http://www.ncsl.org/research/health/state-medical-marijuana-laws.aspx>.

(51) Health and Wellness Versus Non-Health and Wellness Packaged Food and Beverages, Retail Sales 2002-2017; see <http://blog.euromonitor.com/2012/11/health-and-wellness-the-trillion-dollar-industry-in-2017-key-researchhighlights.html>, page 13.

(52) *Ibid.*

was settled, and it was established that the Kentucky Department of Agriculture could contract out with private farmers to grow and cultivate the hemp crops.

Permissible research activities under Section 7606(a)(1) of the 2014 Farm Bill include studies of the marketing of Industrial Hemp. For example, because hemp was criminalized for nearly a century, a critical element of state pilot programs is studying markets in which American farmers can profitably sell hemp products. Since state departments of agriculture are not in the business of selling products, they have contracted with and/or licensed private entities to sell products as part of these marketing studies. In these arrangements, these private businesses act on behalf of the state departments of agriculture to comply with the mandate of Section 7606(b)(1)(B)(i) of the 2014 Farm Bill. There is no requirement or practice under the 2014 Farm Bill for the Federal government to issue specific licenses or approvals to states or any underlying pilot project participants, such authority flows directly from the 2014 Farm Bill itself.

In full, section 7606 states:

“(a) IN GENERAL — Notwithstanding the Controlled Substances Act (21 U.S.C. 801 et seq.), the Safe and Drug-Free Schools and Communities Act (20 U.S.C. 7101 et seq.), chapter 81 of title 41, United States Code, or any other Federal law, an institution of higher education (as defined in section 101 of the Higher Education Act of 1965 (20 U.S.C. 1001)) or a State department of agriculture may grow or cultivate industrial hemp if —

- (1) the industrial hemp is grown or cultivated for purposes of research conducted under an agricultural pilot program or other agricultural or academic research; and
- (2) the growing or cultivating of industrial hemp is allowed under the laws of the State in which such institution of higher education or State department of agriculture is located and such research occurs.

(b) DEFINITIONS. — In this section:

(1) AGRICULTURAL PILOT PROGRAM. — The term “agricultural pilot program” means a pilot program to study the growth, cultivation, or marketing of industrial hemp —

(A) in States that permit the growth or cultivation of industrial hemp under the laws of the State; and

(B) in a manner that

(i) ensures that only institutions of higher education and State departments of agriculture are used to grow or cultivate industrial hemp;

(ii) requires that sites used for growing or cultivating industrial hemp in a State be certified by, and registered with, the State department of agriculture; and

(iii) authorizes State departments of agriculture to promulgate regulations to carry out the pilot program in the States in accordance with the purposes of this section.”

Section 7606 does not explicitly state that private businesses, such as the Company, may conduct commercial sales of Industrial Hemp or products derived therefrom. However, the Company takes the position that its current and proposed activities nevertheless fall within the ambit of Section 7606(a)(1) on the basis that (i) permissible research activities under Section 7606(a)(1) includes cultivation for the purpose of research conducted under an agricultural pilot program; (ii) Section 7606(b)(1) provides that agricultural pilot programs include pilot programs to study the marketing of industrial hemp; (iii) the Company has received the Licenses from the CDA to cultivate significant quantities of Industrial Hemp; and (iv) in connection with obtaining the Licenses the Company has had involved discussions with the CDA and the CDA is aware the Company is cultivating under the CDA license for the purpose of selling Industrial Hemp derived products

Because hemp was criminalized for nearly a century, a critical element of state pilot programs is studying markets in which American farmers can profitably sell Industrial Hemp products. The Company’s marketing and sales activities represent a very small portion of the estimated market for the hemp-derived CBD supplements category (US\$1.6 billion for 2021) and such market size estimates are ongoing and evolving. Since state departments of agriculture are not in the business of selling products, they have contracted with and/or licensed private entities to sell products as part of these marketing studies. The Company’s interpretation of the 2014 Farm Bill is that, in such arrangements, private businesses act on behalf of the state departments of agriculture to comply with the mandate of Section 7606(b)(1)(B)(i) of the 2014 Farm Bill.

As stated above, because the language of Section 7606 does not explicitly state that private business, such as the Company, may conduct commercial sales of Industrial Hemp or products derived therefrom, there is a risk

that the Company's interpretation of Section 7606 is inaccurate or that it will be successfully challenged by federal or state authorities. While the Company believes its interpretation is correct and that its activities fall within the ambit of the 2014 Farm Bill, a successful challenge to such position by the DEA, FDA or other state or federal authority could have a material adverse effect on the Company, including a requirement to cease commercial activities. See "*Risk Factors — Risks related to the Regulatory Environment*".

### *Statement of Principles*

Federal policy guidance issued by the USDA, the DEA and the FDA in 2016 (the "**Statement of Principles**") takes the position that (i) state departments of agriculture, and persons licensed, registered, or otherwise authorized by them to conduct research under an agricultural pilot program in accordance with the 2014 Farm Bill, or persons employed by or under a production contract or lease with them to conduct such research, may grow or cultivate Industrial Hemp as part of the agricultural pilot program; (ii) for the purposes of marketing research by institutions of higher education or state departments of agriculture (including distribution of marketing materials), but not for the purpose of general commercial activity, industrial hemp products may be sold in a state with an agricultural pilot program or among states with agricultural pilot programs but may not be sold in states where such sale is prohibited; and (iii) Industrial Hemp plants and seeds may not be transported across state lines. In the Statement of Principles, the USDA, the DEA and the FDA confirm that the 2014 Farm Bill left open many questions regarding the continuing application of Federal drug control statutes to the growth, cultivation, manufacture, and distribution of Industrial Hemp products, as well as the extent to which growth by private parties and sale of Industrial Hemp products are permissible. Also, the Statement of Principles is silent as to what type or level of activities the USDA, the DEA and the FDA consider as constituting "general commercial activity" as referred to above. It is important to note that the Statement of Principles is merely federal agency guidance, not a matter of federal law. Indeed, the Statement of Principles explicitly states that it "does not establish any binding legal requirements."

The Company has taken the position that certain of the opinions of applicable federal agencies in the Statement of Principles regarding the scope of permissible marketing research (including commercial activities) and the transport of Industrial Hemp plants and seeds is not consistent with the 2014 Farm Bill or its intent. The Company has taken the position that the 2014 Farm Bill allows its current and proposed commercial activity in conjunction with marketing research, and permits Industrial Hemp plants, seeds and hemp products to be transferred amongst states see "*United States Regulatory Matters — United States Federal Regulation of Industrial Hemp — The 2014 Farm Bill*" above. The Company does not consider its activities to be "general commercial activity" within the meaning of the Statement of Principles as the applicable states have clearly been delegated the authority to conduct their pilot program activities at their discretion and the Company and its contract cultivators have been granted the Licenses. The language of the 2014 Farm Bill does not contain any limitation as to the level of commercial activities and therefore leaves such determinations to the applicable state pilot program. Furthermore, the Company's current and proposed activities fall within the plain meaning of a pilot program as they represent (i) 165 acres in 2017 (300 in 2018) out of an estimated 25,713 acres of hemp grown in 19 states (as at 2017); (ii) 10 out of an estimated 1,456 state hemp license issued; and (iii) approximately 2.5% of the estimated hemp-derived CBD market as at 2021 (using CWB's 2017 sales), which overall market estimates are continuing to be conducted and evolve.<sup>(53)</sup> Accordingly, the Company has taken the position that if a CBD product is derived from Industrial Hemp cultivated within the framework established by the 2014 Farm Bill, per the DEA, USDA and FDA, the product could legally be sold commercially among states provided such products comply with the FDCA and other applicable law.

Ann Bartuska, Acting Under Secretary of the USDA, confirmed aspects of this interpretation in an August 25, 2017, letter to Russell Redding, Secretary of Pennsylvania's Department of Agriculture, writing, "We think it is clear that section 7606 contemplated the sale and transport of Industrial Hemp for purposes of the pilot programs authorized by section 7606 under a limited set of circumstances; namely, those involving the study of Industrial Hemp marketing." In addition, the KDA Decision contemplates the transport of seed across state lines. Furthermore, a bipartisan group of 29 congressional members submitted the Amicus Brief (as defined below) arguing the DEA's stance is in contravention of the 2014 Farm Bill and other laws, and that the

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(53) [http://votehemp.com/PR/2017-10-31\\_VoteHemp-releases2017-US-hemp-crop-report.html](http://votehemp.com/PR/2017-10-31_VoteHemp-releases2017-US-hemp-crop-report.html)

intent and plain meaning of the 2014 Farm Bill was to open Industrial Hemp to national commercial activity. See “*United States Regulatory Matters — United States Federal Regulation of Industrial Hemp — DEA Position*”.

Note, there are differing interpretations with respect to whether states must explicitly permit the sale of Industrial Hemp and hemp products in order to comply with the 2014 Farm Bill or the Statement of Principles. The Company takes the position that such activities comply whether or not the state has an agricultural pilot project in place. Certain other stakeholders may take a narrower interpretation, namely that in the absence of explicit state approval or recognition and/or of an agricultural pilot program, such activities are prohibited. Similarly, some DEA spokespersons have taken the position that the interstate commercial sale of consumable CBD products is outside the scope of the 2014 Farm Bill.

### *The Omnibus Appropriations Law*

A key reason why federal agencies have not taken enforcement actions against the sale of Industrial Hemp-derived products is Congress’ clear intent to prohibit agency interference with state agricultural pilot programs. In 2015, Congress enacted the Consolidated and Further Continuing Appropriations Act, 2015,<sup>(54)</sup> which contained provisions to block congressionally appropriated funds from being used to interfere with state implementation of the 2014 Farm Bill, stating that “none of the funds made available” to the U.S. Justice Department and DEA “may be used in contravention” of the 2014 Farm Bill.<sup>(55)</sup> This provision was enacted, in part, in response to DEA enforcement actions, including actions to block seeds imported by some states in order to grow Industrial Hemp and in order to avoid similar DEA actions to stall full implementation of the 2014 Farm Bill.

Similar language was included in the Consolidated Appropriations Act, 2016.<sup>(56)</sup> The Omnibus Appropriations Law further clarified that agencies including the DEA, are blocked from prohibiting the “transportation, processing, sale, or use of Industrial Hemp, or seeds of such plant, grown or cultivated in accordance with the [Farm Bill] within or outside the State in which the Industrial Hemp is grown and cultivated”.<sup>(57)</sup> This language was carried into the Consolidated Appropriations Act, 2017<sup>(58)</sup> and, importantly, provides significant federal protection to compliant hemp activity at the state level.

On March 23, 2018, the Consolidated Appropriations Act, 2018 became law after signature by President Trump. This bill reaffirmed the restrictions imposed by the prior consolidated appropriations acts of 2015, 2016 and 2017 and remains in effect until September 30, 2018, at which point some form of these protections are likely to be reauthorized. The Consolidated Appropriations Act, 2015, Consolidated Appropriations Act, 2016, Consolidated Appropriations Act, 2017, and Consolidated Appropriations Act, 2018, are collectively defined herein as the “**Omnibus Appropriations Law**”.

For purposes of both the 2014 Farm Bill and the Omnibus Appropriations Law, “industrial-hemp” includes any part of the plant *Cannabis sativa L.* having no more than 0.3% concentration of THC on a dry weight basis.

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(54) P.L. 113-235

(55) P.L. 113-235, Division B, §539.

(56) P.L. 114-113

(57) P.L. 114-113, Division A, §763.

(58) P.L. 115-31, Division A, §537.

The Omnibus Appropriations Law has ensured the progress of state hemp programs, effectively protecting the transfer, the transport and — most critically — the sale of Industrial Hemp pursuant to the 2014 Farm Bill from federal interference. In addition, there is precedent that the Omnibus Appropriations Law provides significant protection against potential federal enforcement. In the *United States v McIntosh*,<sup>(59)</sup> the Ninth Circuit Court of Appeals ruled that the Omnibus Appropriations Law prohibiting the use of federal funds to intervene with the implementation of state medical marijuana laws barred a federal enforcement action against a state compliant business. Although this case is only controlling in the Ninth Circuit, it is evidence of the import of appropriations protections.

Both the Omnibus Appropriations Law and the 2014 Farm Bill are set to expire on September 30, 2018, unless reauthorized by Congress. However, given current political developments such as the introduction of the HFA, the recent inclusion of the HFA in the 2018 Farm Bill, the June 13, 2018 approval of the Senate version of the 2018 Farm Bill by the Senate Agriculture Committee by a 20-1 vote, the June 28, 2018 passage of the U.S. Senate's version of 2018 Farm Bill by a margin of 86-11, the September 30, 2017 decision of the World Anti-Doping Agency to drop CBD from its list of prohibited substances, the November 2017 pronouncement by World Health Organization's Expert Committee on Drug Dependence that CBD is generally well tolerated with a good safety profile, and there is no evidence of recreational use of CBD or any public health related problems associated with the use of pure CBD<sup>(60)</sup>, and the increasing number of states choosing to regulate the production of hemp and CBD, the Company believes adoption of permanent hemp legalization in the form of the HFA or reauthorization or extension of the 2014 Farm Bill or passage of a consolidated 2018 Farm Bill is likely.

#### *DEA Position*

In addition to the federal government's guidance with respect to the scope of permissible activity under the 2014 Farm Bill, DEA regulation specific to CBD and other cannabinoids informs the legality of Company's operations. Notwithstanding the Ninth Circuit's holding in *HIA v DEA II*, which, as discussed above, invalidated previous final rules promulgated by the DEA in the early 2000s, the DEA subsequently published a regulation in 2016 (the "**2016 Final Rule**") also referred to as the "Marihuana Extract Rule," which states that all extracts from the cannabis plant are Schedule I controlled substances, regardless of which part of the cannabis plant the extracts are derived from. Although the DEA subsequently issued a clarification to the 2016 Final Rule, explaining that the 2016 Final Rule includes only extracts that fall within the CSA definition of marijuana, and does not include materials excluded from the CSA definition of marijuana, it makes clear that the DEA does not believe CBD can be derived in commercially viable amounts from the parts of the plant exempted from CSA control, noting that the cannabinoids are concentrated in the flower and that CBD present in stalk is generally due to the presence of resin. As defined above, according to the DEA, resin from any part of the plant is clearly included in the CSA definition of "marijuana."

This position is again emphasized in a 2018 Ninth Circuit Court of Appeals case of *Hemp Industries Association, et al., Petitioners, v. Drug Enforcement Administration, et al., Respondents*, Nos. 03-71336; 03-71603, 2017 WL 10721879 (C.A.9) ("*HIA v. DEA III*"). In this case, HIA and other industry petitioners filed a Petition for Review seeking to block the implementation of the DEA's 2016 Final Rule on marihuana extracts, in part, claiming that the 2016 Final Rule conflicted with the 2014 Farm Bill. In response to the case, a bipartisan group of 29 congressional members submitted an amicus brief (the "**Amicus Brief**") arguing the DEA's stance is in contravention of the 2014 Farm Bill and other laws, and that the intent and plain meaning of the 2014 Farm Bill was to open Industrial Hemp to national commercial activity. On April 30, 2018, the Ninth Circuit Court of Appeals denied the HIA's appeal of the 2016 Final Rule based on procedural grounds, but importantly confirmed that the 2014 Farm Bill adequately acknowledges the conflict and preempts the CSA, confirming that the 2016 Final Rule does not apply to Industrial Hemp grown lawfully under the 2014 Farm Bill. Therefore, to the extent products are derived lawfully pursuant to the 2014 Farm Bill, the Company believes they are pre-empted from CSA control.

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(59) 833 F.3d 1163, 1168 (9<sup>th</sup> Cir. 2016).

(60) J. White, D. Poovendran, and S. Kershaw, 'Cannabidiol (CBD) Pre-review Report, Agenda Item 5.2', World Health Organization Expert Committee on Drug Dependence, Thirty-ninth Meeting, Geneva, 6-10 November 2017, p.5.

On May 22, 2018, the DEA issued an internal directive to its agents concerning the legality of hemp and hemp-derived products. The key language stating:

“Products and materials that are made from the cannabis plant and which fall outside the CSA definition of marijuana (such as sterilized seeds, oil or cake made from the seeds, and mature stalks) are not controlled under the CSA. Such products may accordingly be sold and otherwise distributed throughout the United States without restriction under the CSA or its implementing regulations. The mere presence of cannabinoids is not itself dispositive as to whether a substance is within the scope of the CSA; the dispositive question is whether the substance falls within the CSA definition of marijuana.”

Further, they clarified the controversial “marijuana extract” rule:

“This directive does not address or alter DEA’s previous statements regarding the drug code for marijuana extract and regarding resin. See *Establishment of a New Drug Code for Marihuana Extract*, 81 Fed. Reg. 90194 (Dec. 14, 2016); *Clarification of the New Drug Code (7350) for Marijuana Extract*. As DEA has previously explained, the drug code for marijuana extract extends no further than the CSA does, and it thus does not apply to materials outside the CSA definition of marijuana.”

To be clear, the DEA believes that it has no enforcement authority over hemp or hemp products that are excluded from the CSA. This may include any product derived from hemp grown as part of a 2014 Farm Bill-authorized pilot program, which the 2014 Farm Bill explicitly includes “notwithstanding” the CSA. (The Ninth Circuit Court of Appeals stated the 2014 Farm Bill “contemplates potential conflict between the Controlled Substances Act and preempts it”.)

Of course, the DEA did not specifically articulate this exception. As discussed elsewhere, the scope of permitted activity under the 2014 Farm Bill is still the subject of debate, and proposed federal legislation may clarify the scope of permissible activity.

Further, despite the DEA’s concession that it maintains no jurisdiction with regard to 2014 Farm Bill activities, there remains concern over the extent to which other federal, state and local agencies defer to the DEA’s earlier, negative rhetoric towards the 2014 Farm Bill in the Statement of Principles, thereby causing adverse impacts against those acting pursuant to the 2014 Farm Bill including limited, misguided enforcement by state and local authorities that are confused by DEA’s conflicting interpretations of, and misrepresentations of the congressional intent behind, the 2014 Farm Bill’s hemp amendment.

### *The Hemp Farming Act of 2018*

On April 12, 2018, U.S. Senate Majority Leader Mitch McConnell (R-KY) introduced the HFA, which would permanently legalize hemp, removing it from the purview of the Controlled Substances Act, and classifying it as an agricultural commodity. He was joined as an initial co-sponsor by U.S. Senator Ron Wyden (D-OR). Since the introduction, more than two dozen Senators have joined as co-sponsors, a bi-partisan array that includes U.S. Senate Minority Leader Chuck Schumer. The HFA was included in its entirety in the Senate version of the 2018 Farm Bill, which was approved by a 20-1 vote in favour by the Senate Agriculture Committee on June 13, 2018. The senate version of the 2018 Farm Bill was passed on June 28, 2018 by a margin of 86-11. An effort by U.S. Senator Charles Grassley (R-IA) to offer an amendment that would have explicitly excepted hemp extracts like CBD from the Controlled Substances Act exemption was debated and was so unpopular that it was not formally considered. On July 18, 2018, Speaker Paul Ryan and Minority Leader Nancy Pelosi named the Members of the U.S. House of Representatives who will participate in the 2018 Farm Bill Conference committee, which committee includes U.S. Congressmen James Comer (R-KY).

On April 12, 2018, U.S. Congressmen James Comer (R-KY) and Jared Polis (D-CO) introduced a companion bill, H.R. 5485, in the House of Representatives, sharing the same mission and language as the HFA. However, this language is not in the version passed by the House of Representatives. In July 2018, House and Senate leaders appointed members to the joint House/Senate conference committee to resolve the differences between the two versions of the 2018 Farm Bill. The House named 47 conferees, including Congressman James Comer (R-KY), who previously introduced the Hemp Farming Act House companion bill. The Senate named nine members, including U.S. Senate Majority Leader Mitch McConnell, to the conference committee.

This legislation, if passed, would:

- remove hemp (all parts of the Cannabis plant with a concentration of not more than 0.3% THC) from the purview of the CSA. The bill is more expansive than the 2014 Farm Bill in that it specifically de-schedules all derivatives, extracts, cannabinoids and seeds of hemp as long as those portions of the plant remain below the THC threshold. This means that popular hemp food products like hemp-derived CBD would be considered agricultural commodities rather than controlled substances;
- allow U.S. states (and Native American Tribes) to regulate hemp growth and cultivation in their jurisdictions, building off of the 2014 Farm Bill pilot programs. The states would submit a regulatory plan to the USDA, which plan must demonstrate policies to pinpoint locations of hemp production, to test for THC, and to destroy uncompliant plants. Many states have already developed compliant regulatory structures for their pilot programs which the Company believes can be easily transitioned for these purposes;
- make hemp research eligible for competitive grant funding at USDA. Moreover, crop insurance would be made available for hemp farmers; and
- clarify that nothing in the proposed Hemp Farming Act would authorize interference with the interstate transportation or commerce of hemp or hemp products.

As at the date of this prospectus the Company is not aware of any other material developments in respect of the above legislative processes.

#### *FDA Approval of Epidiolex*

On June 25, 2018, the FDA issued to GW Pharmaceuticals plc its approval for Epidiolex, the first Cannabis-derived prescription medicine to be available in the U.S. The active ingredient in Epidiolex is CBD. It is possible that this approval (which acknowledges the medical efficacy of CBD), in addition to an FDA solicitation of public comments on Cannabis safety and medical efficacy and other factors discussed herein, may initiate a rescheduling of marijuana or marijuana derivatives pursuant to the CSA.

#### **State Regulation of Industrial Hemp**

At present, the Company sources only from proprietary operations and contract suppliers located in Colorado, Kentucky and Oregon that are in compliance with state and federal regulations. The Company is not aware of any variations in production limits around Industrial Hemp production permitted by the laws of states in which it cultivates Industrial Hemp products as compared to permissions under the 2014 Farm Bill. However, the Company is aware of variations in certain states' definition of Industrial Hemp as compared with the definition of Industrial Hemp in the 2014 Farm Bill. All Industrial Hemp produced and sold by the Company constitutes Industrial Hemp under the 2014 Farm Bill, as well as the laws of the states in which it produces and sells such Industrial Hemp.

The DEA has made public statements suggesting that CBD remains a controlled substance, and that the retail sale as such would be prohibited. The Company strongly disagrees with this conclusion, but understands that there remains the risk of federal law enforcement action against it. There is also a risk that state law enforcement officials may read the statutes as a whole differently and that such interpretations may change (both favorably and unfavorably) over time.

The fifty U.S. states have fifty different laws (or lack thereof) when it comes to this subject. The Company has reviewed the laws of all fifty states, and has identified no state statutory language which explicitly prohibits the retail sale of hemp-derived CBD. Kentucky, Tennessee, Indiana, Missouri and Colorado have passed laws that explicitly exempt hemp extracts such as CBD from legal prohibitions normally incurred by controlled substances such as marijuana. It is the Company's position that where state law is silent on the subject of hemp-derived CBD's legality, federal law provides protection, particularly in those states that have adopted model legislation that explicitly exempt from control those products and substances that are exempted by federal law. Florida, Georgia and Nebraska have passed laws that explicitly permit the sale of CBD for limited medical purposes, but are silent about their retail sale (and often do not make the distinction between CBD derived from

hemp or marijuana). Approximately 85% of the Company's 2017 revenues were from states where state law is silent on the subject of hemp-derived CBD's legality.

Most states have no laws that mention the word "cannabidiol" and/or do not distinguish between CBD that is derived from hemp or marijuana. Many of these states, however, feature statutory language coming from a model state controlled substances act that offers a broad exemption from control to products or compounds that are exempted under federal law. Since the Company's products are exempted from the CSA by the 2014 Farm Bill, it is the Company's position that such state laws would exempt them as well.

The treatment of the legality of hemp-derived CBD products by state and local law enforcement authorities is broadly disparate. These products have been sold at retail and online in all fifty states for many years, and law enforcement actions have been highly infrequent and in some cases discontinued after initial enforcement actions. For example, in Tennessee — which features strong laws permitting the sale of hemp extracts — a local district attorney raided dozens of local CBD-selling stores, padlocked their doors and arrested the owners for marijuana distribution. The charges were ultimately dismissed. In Texas, a health agency issued draft guidance that would have prohibited the retail sale of hemp-derived CBD, and after a comment period which featured nearly unanimous opposition, decided not to issue any guidance. In May 2018, shortly after expansion of its pilot program, the Wisconsin Statewide Intelligence Center issued a report stating that the sale and possession of CBD was illegal as a matter of state and federal law, and suggested that store owners and purchasers could be subject to arrest. A week later, Wisconsin Attorney General Brad Schimel issued guidance confirming that conclusion. Days after that, the attorney general for Wisconsin reversed course. After meeting with key stakeholders, Mr. Schimel announced that Wisconsin's pilot program allows Wisconsin farmers to grow and sell industrial hemp, as long as they obtain a permit and abide by state requirements, and that products made from Industrial Hemp, including CBD, are lawful. Mr. Schimel also issued new rules clarifying that hemp-derived CBD was lawful. Since the attorney general's announcements, two local prosecutors issued contradictory opinions. The Racine County district attorney soon reversed its position after communicating with the attorney general, and the Walworth County district attorney is currently receiving numerous stakeholder complaints.

In California, a state public health agency recently declared that hemp-derived CBD could not be sold at retail locations, while permitting the sale of marijuana-derived CBD in dispensaries and staying silent in regards to online/mail-order sales.

Accordingly, the sale of CBD at the retail level in most U.S. states remains a gray area of the law. The Company has chosen to sell its products in all fifty states, understanding that there is a risk of state or local law enforcement action, see "*Risk Factors — Risks Related to the Regulatory Environment.*"

The Company has no knowledge about or control over which states its products may transit through once delivered to the applicable carrier

Regulations with respect to the treatment of Industrial Hemp vary from state to state and continue to evolve. The regulations of the particular states most impactful to CWB's business are described below.

Colorado is the only jurisdiction in which the Company directly cultivates Industrial Hemp. The Company has obtained the following licenses issued by the Colorado Department of Agriculture to CWB: (i) Registration issued April 3, 2008 in respect of Indoor Commercial Industrial Hemp Registration — 3,000 sq. ft.; (ii) Registration issued May 2, 2018 in respect of Outdoor Commercial Industrial Hemp Registration — 33 acres; (iii) Registration issued March 13, 2018 in respect of Indoor Commercial Industrial Hemp Registration — 5,600 sq. ft. and Outdoor Commercial Industrial Hemp Registration — 45 acres; (iv) Registration issued April 11, 2018 in respect of Outdoor Commercial Industrial Hemp Registration — 30 acres; (v) Registration issued April 3, 2018 in respect of Outdoor Commercial Industrial Hemp Registration — 15 acres; (vi) Registration issued May 3, 2018 in respect of Outdoor Commercial Industrial Hemp Registration — 60 acres; (vii) Registration issued January 16, 2018 in respect of Indoor Commercial Industrial Hemp Registration — 16,000 sq. ft. and Outdoor Commercial Industrial Hemp Registration — 3 acres; and (viii) Registration issued March 13, 2018 in respect of Indoor Commercial Industrial Hemp Registration — 18,600 sq. ft. The foregoing licenses are in respect of cultivation only as a license from the state of Colorado is not required for the subsequent sale of its products.

The Company's contract cultivation supplier in Kentucky has obtained a "Grower License in respect of a Kentucky Department of Agriculture Industrial Hemp Research Pilot Program" issued on March 7, 2018, and its contract cultivation supplier in Oregon has obtained an "Industrial Hemp Certificate" dated March 13, 2018 (all of the foregoing Colorado, Kentucky and Oregon licenses collectively, the "**Licenses**").

## Colorado

The bulk of the Company's operations are based in Colorado as a result of the state's legalization of Industrial Hemp and mature regulatory program.

Passed in 2012, Amendment 64 to the Colorado Constitution directed the General Assembly to enact legislation governing the cultivation, processing and sale of Industrial Hemp by July 1, 2014.<sup>(61)</sup> In 2013, responsibility for establishing regulations pertaining to the cultivation of Industrial Hemp, including registration and inspection, was delegated to the CDA.<sup>(62)</sup> The CDA adopted rules and regulations that set forth requirements for registration, inspection, and testing.<sup>(63)</sup> Registration requirements include but are not limited to: disclosing the name and address of the entity that will hold the registration, and the name of each officer, director, member, partner or owner of at least 10% of the entity and any other person who has managing or controlling authority over the entity; providing the CDA with GPS coordinates and a map of the land area where the Industrial Hemp will be cultivated; listing the intended use of harvested Industrial Hemp materials; and payment of a non-refundable fee<sup>(64)</sup>. All registrants are subject to routine inspection and sampling by the CDA to verify that the THC concentration of the plants being cultivated does not exceed 0.3% on a dry weight basis, and to ensure registrants are complying with applicable reporting requirements.<sup>(65)</sup> Reporting requirements include a pre-planting report detailing the varieties to be planted, a planting report specifying the exact land areas where planting occurred, and a harvest report documenting the size of the harvest and the anticipated harvest date.<sup>(66)</sup>

After the passage of the 2014 Farm Bill, the Colorado legislature passed the Colorado Industrial Hemp Regulatory Program Act establishing the Colorado Industrial Hemp Regulatory Program.<sup>(67)</sup> The Colorado Industrial Hemp Regulatory Program Act expressly authorizes two distinct categories of Industrial Hemp cultivation registration to be issued and administered by the CDA: (i) R&D; and (ii) commercial. "Research and Development" is defined as the "cultivation of Industrial Hemp by an institution of higher education under the pilot program administered by the CDA for purposes of agricultural or academic research in the development of growing Industrial Hemp."<sup>(68)</sup> In comparison, "Commercial" is defined as "the growth of Industrial Hemp, for any purpose including engaging in commerce, market development and market research, by any person or legal entity other than an institution of higher education or under a pilot program administered by the CDA for purposes of agricultural or academic research in the development of growing Industrial Hemp."<sup>(69)</sup>

The Company believes that cultivation registrations for R&D purposes that operate in compliance with CDA rules and regulations comply with the conditions of the 2014 Farm Bill, and cultivation registrations for commercial purposes operating in compliance with CDA rules and regulations comply with the 2014 Farm Bill.

Finally, on May 30, 2018, the governor of Colorado signed House Bill 18-1295 into law. This legislation modifies the Colorado Food and Drug Act to establish that food, cosmetics, drugs, and devices, as those terms are defined in the act, are not adulterated or misbranded by virtue of containing Industrial Hemp. This law

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(61) Colo. Const. art. XVIII, § 16

(62) Colorado Senate Bill 13-241.

(63) 8 CCR 1203-23.

(64) Id.

(65) Id.

(66) Id.

(67) See C.R.S. §§35-61-101, et seq.

(68) 8 CCR §1203-23(1.12).

(69) 8 CCR §1203-23(1.3).

codified a policy established in 2017 by the Colorado Department of Health and Environment (“CDPHE”) that allowed for the production and sale of food products containing Industrial Hemp, so long as certain express conditions were satisfied. Under applicable legislation, food products containing Industrial Hemp must be produced by a wholesale food manufacturing facility that has registered with the CDPHE, and the finished product must contain a delta-9 THC concentration of no more than three-tenths of one percent (0.3%).

## Kentucky

Kentucky established a robust agricultural pilot program in 2013,<sup>(70)</sup> which it expanded in 2017. Program participants may grow, cultivate, handle, process or market Industrial Hemp and Industrial Hemp products. In 2017, the program covered 3,100 acres and included hundreds of participants. For 2018, the program has approved 14,000 acres for the agricultural pilot program. The Kentucky Department of Agriculture has promulgated regulations<sup>(71)</sup> and issued a policy guide for the program, both of which have served as models for newer Industrial Hemp regimes in other states.

Kentucky adopts the definition of “Industrial Hemp”<sup>(72)</sup> set forth under federal law. Kentucky’s definition of marijuana<sup>(73)</sup> excludes lawful Industrial Hemp and Industrial Hemp products, as well as the stalks, fiber and oil from seeds of the Cannabis plant.

Kentucky’s definition of marijuana specifically exempts Industrial Hemp products that do not contain any living plants, viable seeds, leaf materials or floral materials, as well as CBD products derived from hemp.<sup>(74)</sup>

While the Company itself is not a program participant, it does take steps to ensure that the Kentucky-based suppliers with which it contracts are participants in the Kentucky agricultural pilot program, including requiring suppliers to represent and warrant their compliance with Kentucky law in writing and obtaining a copy of the applicable License issued to such supplier.

## Oregon

Oregon’s Industrial Hemp laws are also evolving. Industrial Hemp extracts and CBD are referred to or defined in Oregon’s Industrial Hemp statutes and the state’s hemp regulations,<sup>(75)</sup> pursuant to which an “industrial hemp commodities or product” includes CBD and other compounds derived from hemp.<sup>(76)</sup> Further, all cannabinoid products from hemp must be tested for their THC and CBD content and microbiological contaminants.<sup>(77)</sup> Only a grower registered with Oregon Department of Agriculture (the “ODA”) may produce Industrial Hemp, and only a handler registered with the ODA may process Industrial Hemp. A separate registration is required to handle Industrial Hemp seed. There are further restrictions on who an Industrial Hemp registrant can sell to<sup>(78)</sup> and the Company’s packaged goods must comply with Oregon’s THC, CBD and microbiological testing requirements.

While the Company itself is not registered in Oregon, it does take steps to ensure the Oregon-based suppliers with which it contracts are appropriately registered with the ODA, including requiring suppliers to represent and warrant such compliance in writing and obtaining a copy of the applicable License issued to such supplier.

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(70) Ky. Rev. Stat. §§ 260.850-.858

(71) 302 Ky. Admin. Regs. 50:010-080

(72) Ky. Rev. Stat. § 260.850(5)

(73) Ky. Rev. Stat. § 218A.010(27)

(74) Ky. Rev. Stat. § 218A.010(27)(c)-(f)

(75) See *Oregon Revised Statutes* § 571.300 et seq.; Oregon Administrative Rules § 603-048-0010 et seq.

(76) OAR § 603-048-0010 (11)(a).

(77) Id. at § 603-048-2320, 603-048-2340.

(78) OAR § 603-048-0100.

## FDA Regulation

The governing food and drug law in the United States is the Federal Food, Drug, and Cosmetic Act (i.e. the FDCA). The purpose of the FDCA is to forbid the movement in interstate commerce of adulterated and misbranded food, drugs, devices and cosmetics.<sup>(79)</sup> The FDA is charged with protecting the integrity of the U.S. food supply and its cosmetic products, as well as monitoring the safety and efficacy of drugs, biological products, and almost any compound intended for human or animal consumption, among other areas.<sup>(80)</sup> To date, the FDA has not approved marijuana, CBD, and other individual cannabinoids as drugs, nor has the FDA deemed any marijuana, CBD, or other individual cannabinoids permissible for use in dietary supplements, as dietary ingredients or as safe for use in food. This creates additional barriers to lawfully selling cannabinoid and cannabinoid-based products in the U.S.

The Dietary Supplement Health and Education Act (the “**DSHEA**”), an amendment to the federal FDCA, established a framework governing the composition, safety, labeling, manufacturing and marketing of dietary supplements in the United States. Generally, under DSHEA, dietary ingredients marketed in the United States prior to October 15, 1994 may be used in dietary supplements without notifying the FDA. “New” dietary ingredients (i.e. dietary ingredients “not marketed in the United States before October 15, 1994”) must be the subject of a new dietary ingredient notification submitted to the FDA unless the ingredient has been “present in the food supply as an article used for food” without being “chemically altered.” Any new dietary ingredient notification must provide the FDA with evidence of a “history of use or other evidence of safety” establishing that use of the dietary ingredient “will reasonably be expected to be safe.”

The FDA has taken the position that CBD cannot be marketed in a dietary supplement because it has been the subject of investigation as a new drug (such restrictions referred to as “**IND Preclusion**”). There is evidence that GW Pharmaceuticals plc received authorization for its investigation as a new drug (“**IND**”) related to CBD in 2006. Excluded from the DSHEA definition of a dietary supplement is: “an article authorized for investigation as a new drug, antibiotic, or biological for which substantial clinical investigations have been instituted and for which the existence of such investigations has been made public, which was not before such approval, certification, licensing, or authorization marketed as a dietary supplement or as a food unless the Secretary, in the Secretary’s discretion, has issued a regulation, after notice and comment, finding that the article would be lawful under this Act.” It is the FDA’s interpretation of the IND Preclusion that the preclusion date is the date in which it authorized the drug for investigation; however, the Company believes there are significant arguments against this position in that all conditions of the statute must be met before the IND Preclusion applies, including (1) authorization for investigation as a new drug; (2) substantial clinical investigations must be instituted; (3) such substantial investigations must be made public; and (4) all of the above must occur prior to the marketing of the article as a food or dietary supplement. As discussed below, the FDA takes the position that CBD was not marketed in a food or dietary supplement prior to all of the conditions for the IND Preclusion rendering effective. The Company disagrees with this position and further believes that its products were sold in interstate commerce prior to the publication of substantial clinical investigations. Thus, the Company takes the position that the IND Preclusion does not apply. As of the date of this prospectus, the Company has not, and does not intend to file an investigational drug application with the FDA, concerning any of its products that contain CBD derived from Industrial Hemp.

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(79) Ky. Rev. Stat. §§ 260.850-858

(80) U.S. Food and Drug Administration, Mission Statement:  
<http://www.fda.gov/downloads/aboutfda/reportsmanualsforms/reports/budgetreports/ucm298331.pdf>

The FDCA similarly does not recognize CBD as safe for use in food products, stating that a substance added to food is unsafe unless the substance is Generally Recognized as Safe (“GRAS”). The FDA has declined to recognize CBD as GRAS for human consumption, although certain hemp seed oils may be considered GRAS.<sup>(81)(82)</sup> Further research is needed to determine if other cannabinoids would be considered GRAS or what steps would be necessary for them to be recognized as GRAS. In the meantime, stakeholders are collecting data to pursue a GRAS determination for CBD. Enforcement of this prohibition has been sporadic at best, with CBD products being sold across the nation with FDA enforcement generally limited to products making unlawful drug or health claims. But such sales of consumable CBD products, even if compliant with the CSA, would not be legal pursuant to the FDCA. While GW Pharmaceuticals plc is currently seeking FDA approval for a Cannabis-based pharmaceutical product, as of the date hereof the FDA has not approved Cannabis, marijuana or CBD as a safe and effective drug for any indication. The Company’s products containing CBD derived from Industrial Hemp are not marketed or sold using claims that their use is safe and effective treatment for disease conditions pursuant to the FDCA.

In October 2017, the Company received a warning letter from FDA regarding claims being made for its products and citing to FDA’s position concerning the IND Preclusion (the “**Warning Letter**”). The Company responded in two phases: (1) one letter identifying corrective actions made to its website and marketing related to product claims; and (2) a separate letter responding to FDA’s comments on IND Preclusion and establishing the Company’s position that CBD is not precluded from being a food or dietary ingredient since it was marketed in a food or dietary supplement prior to substantial clinical investigations being instituted and being made public.

On May 23, 2018, the Company received a response from FDA noting the changes to the Company’s website and marketing, but also indicating the FDA did not agree with the Company’s position that CBD is not precluded from being a food or dietary ingredient since it was marketed in a food or dietary supplement prior to substantial clinical investigations being instituted and being made public. As stated above, the Company does not agree with the FDA’s position. The Company has asked FDA to elaborate on the basis for its position in a July 11, 2018 letter to the agency, since FDA’s May 23, 2018 response did not provide any such basis.

Despite the position taken by the FDA, the Company believes there is substantial uncertainty and different interpretations among state and federal regulatory agencies, legislators, academics and businesses as to whether cannabinoids were present in the food supply and marketed prior to October 15, 1994 or whether such inclusion of cannabinoids is otherwise approved by the FDA as dietary ingredients, notwithstanding that Cannabis and the cannabinoids contained therein have been therapeutically used and consumed as food by human beings for centuries even if not specifically labeled as CBD or other cannabinoids. In addition, the Company believes there is substantial uncertainty and different interpretations as to whether cannabinoids are by definition an impermissible adulterant due to Cannabis being a controlled substance under the CSA. As a result, the Company believes the federal legality regarding the distribution and sale of hemp-based products intended for human consumption or cosmetic use must be considered on a case-by-case basis and that the uncertainties cannot be resolved without further federal legislation, regulation or a definitive judicial interpretation of existing legislation and rules. A determination that hemp products containing cannabinoids were not present in the food supply, marketed prior to October 15, 1994, are not otherwise permissible for use as a dietary ingredient or are adulterants, may have a materially adverse effect upon the Company and its business. Moreover, if the FDA were to enforce the IND Preclusion based on its interpretation of the legislation, this would have a materially adverse effect upon the Company and its business. See “*Risk Factors — Risk Related to the Regulatory Environment*”.

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(81) 21 CFR § § 170.30(b), (c), 170.3(f).

(82) 21 CFR § 1308.35 (a)(2). The DEA’s final rule on legal hemp materials and products specifically excludes materials used for human consumption

Hemp derived products may be legally sold and marketed in the United States where they contain hemp lawfully imported from another country or cultivated pursuant to a state agricultural pilot program, provided the product complies with the FDCA and applicable state and federal law. Textiles, fibers, and certain food and cosmetic products containing hemp seed and hemp seed oils can be lawfully sold in compliance with federal law. Products containing CBD, however, may only be legal to the extent they are lawfully sourced, sold in a state where state law does not prohibit such sale and where they are compliant with the FDCA. Compliance with the FDCA may prove difficult for most CBD products, while other hemp-based products such as hemp seed, hemp seed oils and certain non-consumable products may be able to achieve compliance with FDCA more easily. Regardless of the legality of any CBD product, risk is inherent in any commercial CBD business since the DEA currently takes the position that CBD is regulated as a Schedule I controlled substance, although pending legislation or the pending approval of the first cannabis-based pharmaceutical drug and case law may impact the DEA's position.

Except as described above and elsewhere in this prospectus, the Company is in compliance with applicable law and has not received any citations or notices of violation which may have an impact on the Company's Licenses, business activities or operations.

### **Ability to Access Public and Private Capital and Banking Services**

CWB currently holds a bank account with a regional U.S. institution. CWB also currently has a payment processing agreement in place providing for online/credit card payments in connection with its e-commerce sales. CWB has historically, and continues to have, access to equity and debt financing from the prospectus exempt (private placement) markets in Canada and the United States. The Company's executive team and Board also have relationships with sources of private capital which the Company could investigate. CWB has not attempted to obtain bank financing in the U.S. and has not attempted to access the public capital markets prior to this prospectus. The Company anticipates that funding sources may be available pursuant to private and public offerings of equity and/or debt and bank lending. However, if equity and/or debt financing was not available in the public capital markets in Canada or the United States, then the Company expects that it would have access to raise equity and/or debt financing privately. Commercial banks, private equity firms and venture capital firms have approached the Cannabis industry cautiously to date. However, there have been an increasing number of meaningful investments from both the private and the public capital markets in companies and projects similar to the Company's business. Although there has been an increase in the amount of financing available to companies in the Cannabis industry over the last several years, there is neither a broad nor deep pool of institutional capital that is available to Cannabis industry participants. There can be no assurance that additional financing, if raised privately or publicly, will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability. See "*Risk Factors — Anti money Laundering Laws and Regulations*", "*Risk Factors — Banking*" and "*Risk Factors — Additional Financings*".

### **Future Uncertainty of Legal Status**

There remain a number of considerations and uncertainties regarding the cultivation, sourcing, production and distribution of Industrial Hemp and products containing hemp derivatives. Applicable laws and regulations remain subject to change as there are different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses with respect to the treatment of the importation of derivatives from exempted portions of the Cannabis plant and the scope of operation of 2014 Farm Bill-compliant hemp programs relative to the CSA and the emerging regulation of cannabinoids. These different federal, state and local agency interpretations, as discussed above, touch on the regulation of cannabinoids by the DEA and/or the FDA and the extent to which imported derivatives, and/or 2014 Farm Bill-compliant cultivators and processors may engage in interstate commerce, whether under federal and/or state law. **The uncertainties likely cannot be resolved without further federal and state legislation, regulation or a definitive judicial interpretation of existing legislation and rules.**

Numerous states are adopting laws governing Industrial Hemp and CBD. For example, at the state level, on March 21, 2018, Indiana's Governor signed into law Senate Bill 52, which allows the distribution and retail sale

of “low-THC hemp extract,” defined as a product “(1) derived from *Cannabis sativa L.* that meets the definition of Industrial Hemp; (2) that contains not more than 0.3% delta-9-THC (including precursors); and (3) that contains no other controlled substances.” More recently, on June 1, 2018, Missouri’s Governor signed into law House Bill 2034, a comprehensive hemp-legalization measure which explicitly exempted from law enforcement control “industrial hemp commodities and products and topical or ingestible animal and consumer products derived from industrial hemp with a delta-9 tetrahydrocannabinol concentration of not more than three-tenths of one percent on a dry weight basis.”

While over 40 other states have legalized some form of medical marijuana or CBD for certain approved conditions or with other restrictions on access, the Indiana and Missouri laws, among others, may set precedent for these and additional states to ease restrictions and expand legal access to CBD products, in particular those with low THC content.

Materially all of the Company’s assets, liabilities and operations are exposed to U.S. Cannabis-related activities.

### **The Company’s Regulatory Compliance Activities**

The Company’s senior management team regularly monitors the development of applicable U.S. laws and the Company engages U.S. legal counsel to ensure it is operating in compliance with all applicable laws and permits. These compliance-related activities include efforts affecting the following objectives, when and as applicable:

- ensuring all raw materials are sourced in compliance with the 2014 Farm Bill and applicable state and local laws;
- evaluating supply chain partners for quality standards;
- setting and maintaining quality standards through raw material specifications;
- employing qualified quality assurance personnel; and
- ensuring processing activities performed in Colorado comply with CDPHE Guidance, the Colorado Food and Drug Act, and the Colorado Industrial Hemp Regulatory Program Act.

CWB is a key member of the U.S. Hemp Roundtable. The U.S. Hemp Roundtable is a coalition of dozens of Industrial Hemp companies representing each key link of the product chain, from seed to sale, as well as the Industrial Hemp industry’s major national grassroots organizations. Both CWB’s and the U.S. Hemp Roundtable’s goal is to secure passage of bi-partisan legislation in the U.S. Congress that would establish Industrial Hemp as an agricultural commodity, and permanently remove it from regulation as a controlled substance. CWB is also working closely with the U.S. Hemp Roundtable’s efforts to develop standards, best practices and a self-regulated organization for the industry to give confidence to consumers that Industrial Hemp products are safe, and to law enforcement, that Industrial Hemp products are legal.

## EUROPEAN, ASIAN AND CANADIAN REGULATORY MATTERS

### Europe and Asia

CWB is currently exploring manufacturing partnerships for local production, manufacturing and/or distribution in selected international markets. Products would be tailored with specific attributes to comply with local regulations as applicable. Legislative approaches to the regulation of CBD related products vary country by country, including local regulations with respect to THC content, and continue to evolve. For example, to comply with more restrictive THC content specifications in Europe, products distributed therein must contain no more than 0.2% THC. In connection with its international expansion efforts, CWB has engaged local legal counsel to advise on matters that will be applicable to the proposed expansion activities of CWB. The Company anticipates that it will make final decisions as to its proposed international expansion once its regulatory review of potential jurisdictions is complete.

Historically, CWB has sold its products in Argentina, Australia, Brazil, Canada, the Czech Republic, England, Iceland, Ireland, Italy, Malta, the Netherlands, New Zealand, Poland, Spain and Sweden through third party distributors who take delivery in bulk and manage individual orders. Each of these countries regulates the import of Cannabis-derived products and requires some form of importation license, permit or other documentation for products. The exact nature of the importation documentation varies from country to country, and are affected by various factors including the level of THC content and the intended use of the product. For example, in certain international jurisdictions CBD products may be regulated as a dietary supplement and subject to local packaging and labelling requirements, whereas in certain jurisdictions a prescription from a licensed medical practitioner is required. Management recently determined to cease sales activities in all international jurisdictions pending a comprehensive review of such local regulations, as discussed below. In the event any prior sales or distributions were conducted in contravention of a local law or regulation the Company may be subject to penalties imposed by the applicable jurisdiction. To the knowledge of the Company, it has not breached any substantive foreign law. However, were there such a breach, the Company does not believe such non-compliance would have a material adverse effect on the Company given the limited amount of sales, the fact that all sales were conducted by recognized local distributors for whom the Company' products typically represented a small portion of total sales of hemp-products in the jurisdiction and the lack of notice of regulatory non-compliance to date. See "*Risk Factors — International Regulatory Risks*".

Future international sales activities will require compliance with the THC content limits of the applicable international jurisdiction when CWB sells its U.S.-manufactured products therein, as well as applicable local regulations regarding the sale in such jurisdictions. CWB periodically reviews changes in applicable U.S. export laws, regulations and departmental practices as well as applicable international laws and adjusts its sales practices accordingly, including the temporary suspension of sales, if applicable. In addition to its regulatory review regarding potential international production, manufacturing and distribution activities, the Company is also reviewing the current compliance procedures implemented by its mail-order/online distributors. Such international sales will only resume in an applicable country once the applicable review of current regulatory regimes is complete and applicable compliance procedures have been updated and implemented. Sales of its products in international jurisdictions will be conducted in accordance with local regulatory regimes permitting such sales.

In 2017, aggregate sales from international jurisdictions represented less than 4% of total sales. In connection with the most recent review being conducted by CWB and as a result of sporadic seizure of exports by U.S. customs officials of Cannabis products generally (which seizures are immaterial to CWB), CWB is not currently selling its products outside of the U.S., although it expects certain of such sales to resume. No international sales will be conducted except in compliance with applicable local laws. See "*Risk Factors — International Regulatory Risks*".

### Canada

Although the Company's products are not marijuana, they are listed on Schedule 2 of the CDSA. Therefore, their importation and sale in Canada is governed by Health Canada, which has the authority to grant exemptions from the CDSA and issue importation certificates on a case by case basis. The Company requires each Canadian purchaser to provide such a certificate from Health Canada for each order delivered to Canada,

which certificate allows the legal importation thereof by the purchaser. The Company does not produce any products in Canada.

The Company does not conduct its business with the “intent to conceal or convert” such proceeds as contemplated under Section 462.31 of the *Criminal Code* (Canada). The business of the Company is the lawful production and sale of Industrial Hemp pursuant to applicable regulatory regimes, which business if conducted in Canada, would not be an offence in Canada. The Company has considered the foregoing provisions and is satisfied that its activities will not violate the *Criminal Code* (Canada).

### USE OF PROCEEDS<sup>(83)</sup>

The Company estimates that its net proceeds of the Treasury Offering will be approximately C\$84.3 million (US\$64.1 million), after deducting Underwriters’ Fees of C\$5.6 million (US\$4.3 million) and the expenses of the Offering which are estimated to be C\$3.3 million (US\$2.5 million). Assuming the Private Placement is fully subscribed, the Company estimates that its total net proceeds from the Private Placement would be C\$6.1 million (US\$4.7 million), for total net proceeds to the Company of C\$90.5 million (US\$68.8 million). The Company does not expect to receive any proceeds from the Secondary Base Offering or the exercise of the Over-Allotment Option given that the Selling Shareholders will be selling thereunder. In the event the Over-Allotment Option is exercised the applicable Underwriters’ Fee payable by the Company will be satisfied from the working capital amount below.

The Company intends to use the net proceeds of the Treasury Offering and the Private Placement as follows:

	C\$26.3 million
Expansion of production capacity . . . . .	(US\$20.0 million)
	C\$18.4 million
Cultivation infrastructure . . . . .	(US\$14.0 million)
	C\$6.6 million
Research and product development . . . . .	(US\$5.0 million)
	C\$13.2 million
International expansion . . . . .	(US\$10.0 million)
	C\$26.0 million
Working capital, marketing and general corporate purposes . . . . .	(US\$19.8 million)
	<b>C\$90.5 million</b>
<b>Total . . . . .</b>	<b>(US\$68.8 million)</b>

#### Expansion of production capacity

The expansion of production capacity includes a possible real property acquisition, including engineering, design and construction of a facility suitable for the production of dietary supplement, food and cosmetic/topical products. The purpose of any such acquisition would be to enable CWB to further expand its production capacities to meet expanding customer demand. Development plans are at an early stage, and the land, building and equipment required for any such facility have not yet been identified, nor have costs been determined. If a new facility is not acquired, the Company will lease an existing facility that would have to be reconstructed to fit the Company’s specific manufacturing requirements. The use of a leased facility would include engineering and design, facility buildout, equipment purchases, permits, utilities, moving and all other expenses commensurate with such manufacturing expansion. The expansion is anticipated to take nine to eighteen months depending on the facility selected and the amount of design required, the timing of permits and the amount of construction required. The expanded facility is not required to meet the Company’s target revenue levels for the years 2018 and 2019 as the Company’s current facility can be utilized with multiple shifts to satisfy the production requirements during this period.

(83) Based on the August 16, 2018, Bank of Canada daily average rate of exchange of US\$1.00 = C\$1.3152.

## **Cultivation infrastructure**

Cultivation infrastructure includes investment in (i) processing and drying infrastructure at CWB's Colorado and Kentucky farming operations (US\$7.5M); (ii) leasehold improvements and expansion of CWB's existing horticulture facilities in Colorado (US\$1.0M); (iii) purchase of land (US\$1.5M) and building for a second horticulture facility in Colorado to include two small footprint greenhouses (US\$1.5M) during the fourth quarter of 2018; and (iv) farming related equipment and infrastructure to service CWB's expanding farming operations in Colorado, Kentucky and Oregon (US\$2.5M). The expansion of the cultivation infrastructure is not required to process the Company's expected industrial hemp plant harvest for 2018, however certain elements of the cultivation infrastructure expansion would improve the time required to process the harvest, improve overall plant yields, facilitate storage, and reduce transportation costs.

## **Research and product development**

Research and product development activities, as undertaken by CWB in the ordinary course, are ongoing and are anticipated to include development of new hemp-based products and product formats, new plant genetics and processing equipment creation and modification.

## **International Expansion**

The Company is currently in the process of finding a seasoned executive to spearhead its international business development opportunities intended to enhance the long-term interests of the Company. Currently, the Company is focused on evaluating the United Kingdom, Western Europe, Latin America, Asian and Australian markets. The Company intends to continue to explore and pursue international expansion on an ongoing basis. Additionally, the Company will consider the potential supply of its products from certain international jurisdictions to other international jurisdictions and any future agreement for such supply would depend on regulatory compliance and product availability. The Company may consider an investment in an international entity to supply its products to the international markets. No specific international opportunities or acquisitions have been determined at this time. The Company anticipates that it will make final decisions as to its proposed international expansion once its regulatory review of potential jurisdictions is complete.

## **Working capital, marketing and general corporate purposes**

The proceeds allocated to working capital, marketing and general corporate purposes are anticipated to be used to fund growth opportunities that may arise in respect of CWB's business over time and to expand marketing reach both domestically and internationally. This may include possible strategic acquisitions in the subsequent 18 months. The actual expenditure of such funds will be dependent upon market conditions and competitive pressures which may evolve and develop in the future.

The foregoing represents the Company's current intentions based upon its present plans and business conditions to use and allocate the net proceeds of the Offering. Management, however, will have discretion to modify the allocation of the net proceeds of the Offering. If an unforeseen event occurs, business conditions change, or the Company needs to account for business fluctuations, the Company may use the proceeds of the Offering differently than as described in this prospectus. See, "*Risk Factors — Risks Related to the Offering — Discretion in Use of Proceeds*".

## PRIOR SALES

The only issuance of securities by the Company prior to the date of this prospectus was the issuance of one Common Share for C\$1.00. This Common Share will be cancelled upon Closing for no consideration.

The following table sets forth the issuances by CWB of shares or any securities exchangeable for shares of the Company during the 12-month period before the date of this prospectus, both on a pre-Reorganization basis, and after giving effect to the Reorganization, on an as-converted basis. As part of the Reorganization, shares of common stock of CWB will be exchanged for Proportionate Voting Shares and all convertible securities of CWB will become convertible into Proportionate Voting Shares. See “*Corporate Structure — Reorganization*”.

Date of Issue	Type of Security Issued	Number of Securities Issued	Price Per Share (US\$)	Total Consideration (US\$)
July 19, 2017 <sup>(1)</sup>	Common Shares	62,258 (560,324 Common Shares after giving effect to the Reorganization, on an as-converted basis)	\$0.005 (\$0.00056 after giving effect to the Reorganization)	\$311
August 24, 2017 <sup>(2)</sup>	Options	285,000 (2,565,024 Common Shares after giving effect to the Reorganization, on an as-converted basis)	\$5.00 (\$0.556 after giving effect to the Reorganization)	Nil
January 1, 2018 <sup>(2)</sup>	Options	275,000 (2,475,024 Common Shares after giving effect to the Reorganization, on an as-converted basis)	\$5.00 (\$0.556 after giving effect to the Reorganization)	Nil
May 25, 2018	Common Shares	8,333 (74,996 Common Shares after giving effect to the Reorganization, on an as-converted basis)	\$5.00 (\$0.556 after giving effect to the Reorganization)	\$41,665

**Notes:**

(1) Exercise of Founder’s Options.

(2) Issuance of stock options to employees and consultants pursuant to the Legacy Option Plan.

In addition to stock options issued under the Legacy Option Plan, on January 15, 2015 CWB issued Founder Options to certain non-U.S. resident founders. These Founder Options were issued concurrent with the issue of founder shares to the remainder of the founding shareholder group. The individuals who received Founder Options were restricted from the issue of founder shares on equivalent terms to the rest of the group due to materially adverse tax consequences as a result of their non-U.S. resident status and the Company’s then-current legal status as an S-Corporation. Founder Options are not part of the Legacy Option Plan and were not issued for the purposes of encouraging retention or other factors typically associated with an employee stock option plan. The financial statements treat these instruments as distinct from options listed under the Legacy Option Plan.

For a description of the current and anticipated number of issued and outstanding securities of the Company, see “*Consolidated Capitalization of the Company*”.

## SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

### Lock-Up Arrangements

Under the terms of the Underwriting Agreement, the Company and each of its senior officers, directors and certain shareholders, including the Selling Shareholders, and each such person's associates and affiliates, has agreed, subject to certain limited exceptions, not to directly or indirectly offer, issue, sell, grant, secure, pledge, or otherwise transfer, dispose of or monetize, or engage in any hedging transaction, or enter into any form of agreement or arrangement the consequence of which is to alter economic exposure to, or announce any intention to do so, in any manner whatsoever, any Common Shares or securities convertible into, exchangeable for, or otherwise exercisable to acquire Common Shares or other equity securities of the Company for a period of 180 days after the Closing Date (the "Lock-Up Period"), without the prior written consent of the Lead Underwriter, such consent not to be unreasonably withheld, except, as applicable, in the case of the Company or the applicable person, in conjunction with: (i) the grant or exercise of stock options and other similar issuances pursuant to the share incentive plan of the Company and other share compensation arrangements, provided that the exercise price in respect of any stock option grants is not less than the Offering Price; (ii) the exercise of outstanding warrants; (iii) obligations of the Company in respect of existing agreements; (iii) the issuance of securities by the Company in connection with acquisitions in the normal course of business; or (iv) in the case of a person other than the Company, in order to accept a bona fide take-over bid made to all securityholders of the Company or similar business combination transaction.

To the Company's knowledge as at the date of this prospectus, the number of securities which are anticipated to be subject to a Lock-Up Period following completion of the Offering are set out below:

<u>Designation of class</u>	<u>Number of securities held in escrow or that are subject to a contractual restriction on transfer<sup>(1)(2)</sup></u>	<u>Percentage of class<sup>(1)(2)</sup></u>
Common Shares	77,361,292 Common Shares (193,403.08 Proportionate Voting Shares)	83.33% of Common Shares (98.35% of Proportionate Voting Shares)

**Note:**

- (1) Presented on a post-Reorganization and as-converted basis, excluding the effect of the Secondary Offering.
- (2) 91,876,800 Common Shares (229,692 Proportionate Voting Shares) on a fully-diluted, post-Reorganization and as converted basis, excluding the effect of the Secondary Offering (86.66% of Common Shares and 98.35% of Proportionate Voting Shares).

## PLAN OF DISTRIBUTION

### General

This prospectus qualifies the distribution of an aggregate of 14,300,000 Offered Shares at a price of C\$7.00 per Offered Share, for gross proceeds to the Company from the Offering of C\$93,185,050 and gross proceeds to the Selling Shareholders from the Secondary Base Offering of C\$6,914,950.

The Offering Price of the Offered Shares was determined through negotiations between the Company and the Underwriters. The Offering Price may not be indicative of the market price of the Common Shares after the Offering.

Pursuant to the Underwriting Agreement, the Company and the Selling Shareholders have agreed to sell and the Underwriters have severally agreed to purchase an aggregate of 14,300,000 Offered Shares at a price of C\$7.00 per Offered Share for aggregate gross proceeds of C\$100,100,000, of which C\$93,185,050 is payable in cash to the Company pursuant to the Treasury Offering and C\$6,914,950 is payable in cash to the Selling Shareholders pursuant to the Secondary Base Offering, against delivery of the Offered Shares on the Closing Date or such later date as the Company and the Underwriters agree, but no later than ● , 2018, subject to and in compliance with all of the necessary legal requirements and conditions contained in the Underwriting Agreement.

In consideration for their services in connection with the Offering, the Company and the Selling Shareholders have agreed to pay the Underwriters a fee equal to 6.0% of the aggregate gross proceeds of the Offering (C\$0.42 per Offered Share), for an aggregate cash commission of C\$6,006,000 and the Broker Warrants. The cash commission will be paid by the Company and the Selling Shareholders, respectively, based on the number of Offered Shares sold by each under the Offering, including in respect of any Offered Shares sold under the Over-Allotment Option (an aggregate cash commission of C\$6,906,900 assuming the exercise of the Over-Allotment Option in full). It is estimated that the total expenses of the Offering, not including the Underwriters' Fees, will be approximately C\$3,250,000. All such expenses of the Offering will be paid by the Company.

The Company and the Underwriters agree that the sale of the Secondary Base Shares and the Over-Allotment Shares may be completed as a Secondary Offering by the Selling Shareholders provided that the Underwriters shall receive the Underwriters' Fee in respect of the Secondary Base Shares and any Over-Allotment Shares sold by way of the Secondary Offering. The Company and the Selling Shareholders have agreed to grant to the Underwriters an Over-Allotment Option, exercisable in whole or in part at any time and from time to time for a period of 30 days following the Closing of the Offering, to purchase up to an additional 2,145,000 Common Shares from the Selling Shareholders (representing 15% of the Offered Shares offered pursuant to the Offering), on the same terms as set forth above solely to cover over-allotments, if any, and for market stabilization purposes.

This prospectus also qualifies the grant of the Over-Allotment Option and the Brokers Warrants and the distribution of the Offered Shares upon the exercise of the Over-Allotment Option. A prospective purchaser who acquires Offered Shares forming part of the Over-Allotment Option acquires those Offered Shares under this prospectus, regardless of whether the Over-Allotment Option is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

### Price Stabilization, Short Positions and Passive Market Making

In connection with the Offering, the Underwriters may, subject to applicable law, over-allocate or effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market, including: stabilizing transactions; short sales; purchases to cover positions created by short sales; imposition of penalty bids; and syndicate covering transactions.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Common Shares while the Offering is in progress. These transactions may also include over-allocating or making short sales of the Common Shares, which involves the sale by the Underwriters of a greater number of Common Shares than sold in the Offering. Short sales may be "covered

short sales”, which are short positions in an amount not greater than the Over-Allotment Option, or may be “naked short sales”, which are short positions in excess of that amount.

The Underwriters may close out any covered short position either by exercising the Over-Allotment Option, in whole or in part, or by purchasing Common Shares in the open market. In making this determination, the Underwriters will consider, among other things, the price of Common Shares available for purchase in the open market compared with the price at which they may purchase Common Shares from the Selling Shareholders through the Over-Allotment Option.

The Underwriters must close out any naked short position by purchasing Common Shares in the open market. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the Common Shares in the open market. Any naked short sales will form part of the Underwriters’ over-allocation position. A purchaser who acquires Offered Shares forming part of the Underwriters’ over-allocation position resulting from any covered short sales or naked short sales will, in each case, acquire such Offered Shares under this prospectus, regardless of whether the Underwriters’ over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

In addition, in accordance with rules and policy statements of certain Canadian securities regulatory authorities and the Universal Market Integrity Rules for Canadian Marketplaces (“UMIR”), the Underwriters may not, at any time during the period of distribution, bid for or purchase Common Shares. The foregoing restriction is, however, subject to exceptions where the bid or purchase is not made for the purpose of creating actual or apparent active trading in or raising the price of the Common Shares. These exceptions include a bid or purchase permitted under the by-laws and rules of applicable regulatory authorities and the CSE, including UMIR, relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution.

As a result of these activities, the price of the Common Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. The Underwriters may carry out these transactions on any stock exchange on which the Common Shares are listed, in the over-the-counter market, or otherwise.

### **General Terms of the Underwriting Agreement**

Under the terms of the Underwriting Agreement, the Underwriters may, at their discretion, terminate the Underwriting Agreement upon the occurrence of certain events, including “material change out”, “disaster out”, “proceedings to restrict distribution out” and “market out” clauses. The Underwriters are, however, severally obligated to take up and pay for all of the Offered Shares that they have agreed to purchase if any of the Offered Shares are purchased under the Underwriting Agreement.

Under applicable securities laws in Canada, certain persons and individuals, including the Company, the Selling Shareholders and the Underwriters, have statutory liability for any misrepresentation in this prospectus, subject to available defences. The Company and the Selling Shareholders have severally agreed to indemnify the Underwriters and their respective affiliates, directors, officers, employees and partners (the “**Indemnified Parties**”) against certain liabilities including, without restriction, civil liabilities under applicable securities legislation in Canada and to contribute to any payments that the Underwriters may be required to make in respect thereof. In respect of the Selling Shareholders, such indemnity is limited to the net proceeds actually received by the applicable Selling Shareholder(s) under the Offering.

Prior to the Offering, there has been no public market for the Common Shares. The sale of a substantial number of the Common Shares in the public market after the Offering, or the perception that such sales may occur, could adversely affect the prevailing market price of the Common Shares. See “*Risk Factors — Risks Related to the Offering — No Prior Public Market*”. Furthermore, because the Company has agreed that it will not offer or sell any equity securities of the Company (or other securities convertible into, or exchangeable or exercisable for, equity securities of the Company) during the Lock-Up Period, the sale of a substantial number of Common Shares in the public market after these restrictions lapse could adversely affect the prevailing market price of the Common Shares.

The Offered Shares will be offered in each of the provinces of Canada (other than Québec) through those Underwriters or their affiliates who are registered to offer the Offered Shares for sale in such provinces and such other registered dealers as may be designated by the Underwriters. Subject to applicable laws, the Underwriters may offer the Offered Shares outside of Canada.

The Offered Shares offered hereby have not been and will not be registered under the U.S. Securities Act or any state securities laws and accordingly may not be offered or sold in the United States except in transactions exempt from or not subject to the registration requirements of the U.S. Securities Act and applicable state securities laws. Except as permitted in the Underwriting Agreement and as expressly permitted by applicable laws of the United States, the Underwriters will not offer the Offered Shares within the United States, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriting Agreement permits the Underwriters, as initial purchasers of the Offered Shares, to re-offer and re-sell the Offered Shares to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act) in the United States, provided that such re-offers and re-sales are made in accordance with Rule 144A under the U.S. Securities Act, and applicable state securities laws. The Underwriting Agreement also provides that the Underwriters will offer the Offered Shares outside the United States only in accordance with Regulation S under the U.S. Securities Act (“**Regulation S**”). This prospectus does not constitute an offer to sell or a solicitation or an offer to buy any of the Offered Shares in the United States.

In addition, until 40 days after the commencement of the Offering, an offer or sale of the Offered Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act or another exemption from the registration under the U.S. Securities Act. Certificates representing such Offered Shares sold in the United States may bear a legend to the effect that the Offered Shares they represent are not registered within the meaning of the U.S. Securities Act or any applicable state securities laws in the United States and may only be offered or resold pursuant to an effective registration statement or in reliance on any other available exemption from the registration requirements of the U.S. Securities Act.

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The Offered Shares held by Canadian Shareholders will be settled through the system operated by CDS, the registration name for The Canadian Depository for Securities Limited. Other than Offered Shares sold in the United States which may be represented by individual certificates representing Offered Shares, a purchaser of Offered Shares will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Offered Shares are purchased.

The CSE has conditionally approved the listing of the Common Shares under the symbol “CWEB”. Listing is subject to fulfilling all of the requirements of the CSE on or before ● , 2018.

As of the date of this prospectus, the Company does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, Aequitas NEO Exchange Inc., a U.S. marketplace, or a marketplace outside Canada and the United States of America.

#### **Relationship Between the Company and Certain of the Underwriters**

The terms of the Offering, including the Offering Price, were determined by negotiations between the Lead Underwriter, on their own behalf and on behalf of each of the other Underwriters, and the Company. None of the banks with which any of the Underwriters are affiliates were involved in the determination of the terms of the Offering. As a consequence of the Offering, each of such Underwriters will receive its proportionate share of the Underwriters’ Fee.

#### **Non-Certificated Inventory System**

No certificates representing the Offered Shares to be sold in the Offering will be issued to purchasers under this prospectus. Registration will be made in the depository service of CDS, or to its nominee, and electronically

deposited with CDS on the Closing Date. Each purchaser of Offered Shares will receive only a customer confirmation of purchase from the participant in the CDS depository service (a “CDS Participant”) from or through which such Offered Shares are purchased, in accordance with the practices and procedures of such CDS Participant. Transfers of ownership of Common Shares in Canada will be effected through records maintained by the CDS Participants, which include securities brokers and dealers, banks and trust companies. Indirect access to the CDS book entry system is also available to other institutions that maintain custodial relationships with a CDS Participant, either directly or indirectly.

### CONSOLIDATED CAPITALIZATION OF THE COMPANY

The following table sets forth (i) the Company’s capitalization as at June 30, 2018; (ii) the consolidated capitalization of CWB as at June 30, 2018 and immediately prior to the Reorganization; and (iii) the Company’s pro forma consolidated capitalization after giving effect to the Offering and the Reorganization, assuming no exercise of the Over-Allotment Option and assuming the Private Placement is fully subscribed. This table is presented and should be read in conjunction with the audited consolidated financial statements and unaudited interim condensed consolidated financial statements and the related notes of CWB and the audited financial statements of the Company included in this prospectus, together with the information included under “Selected Consolidated Financial Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and “Corporate Structure — Reorganization”.

	Charlotte’s Web Holdings, Inc. as at June 30, 2018	CWB Holdings, Inc. immediately prior to the Reorganization <sup>(1)</sup>	After giving effect to the Offering and the Reorganization <sup>(2)(3)(4)</sup>
<b>Basic</b>			
Common Shares / Common Stock . . . . .	1	8,739,828 (78,659,108) <sup>(7)</sup>	92,846,395
Proportionate Voting Shares . . . . .	N/A	N/A	194,178.15
Share Capital . . . . .	C\$1	US\$5,772,996 <sup>(8)</sup> (C\$7,592,644) <sup>(4)</sup>	C\$106,903,653
Founder Options <sup>(5)</sup> . . . . .	N/A	576,429 (5,187,904) <sup>(7)</sup>	5,187,904 <sup>(7)</sup>
Preferred Shares . . . . .	Nil	Nil	Nil
Convertible Note <sup>(6)</sup> . . . . .	N/A	Nil	N/A

**Notes:**

- (1) 8,739,828 shares of common stock of CWB are expected to be outstanding immediately prior to the Reorganization. Each 44.444 shares of common stock of CWB will be exchanged for one Proportionate Voting Share and any fractional Proportionate Voting Shares shall be rounded down to two decimal places.
- (2) Before deducting the Underwriters’ Fee of C\$5,591,103.
- (3) See “Options to Purchase Common Shares”, “Prior Sales” and “Executive Compensation — Options”.
- (4) Calculated using an exchange rate of US\$1.00 : C\$1.3152 as at August 16, 2018.
- (5) Founder Options issued in lieu of common stock of CWB at nominal exercise price.
- (6) The Convertible Note outstanding as at March 31, 2018, was repaid in cash on May 31, 2018.
- (7) Common Shares after giving effect to the Reorganization on as-converted basis.
- (8) US\$5,772,996 as of June 30, 2018.

## DESCRIPTION OF SHARE CAPITAL

The following describes the material terms of the Company's share capital and the number of Shares anticipated to be issued and outstanding upon completion of the Offering and the Reorganization. The following description may not be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of our notice of articles and articles (as amended, the "Articles").

Although the Company has applied for certain exemptions, see "*Exemption From National Instruments*", the Common Shares may be considered "restricted securities" within the meaning of such term under applicable Canadian Securities Laws. As such, the Company has elected to have the CWB Shareholders approve certain matters pursuant to Section 12.3 of NI 41-101. CWB has received shareholder approval for, among other things, the Reorganization including the exchange of the common stock of CWB for the Proportionate Voting Shares so as to comply with the requirements of Section 12.3 of NI 41-101 prior to the Closing Date.

### Authorized Share Capital Upon Completion of the Offering

Upon completion of the Offering and the Reorganization, the Company's authorized share capital will consist of (i) an unlimited number of Common Shares, (ii) an unlimited number of Proportionate Voting Shares, and (iii) an unlimited number of preferred shares, issuable in series. For further details on the Reorganization, see "*Corporate Structure — Reorganization*".

Immediately upon completion of the Offering and the Reorganization, assuming no exercise of the Over-Allotment Option and assuming the Private Placement is fully subscribed, 92,846,395 Common Shares will be issued and outstanding, as fully-paid and non-assessable Common Shares, 194,178.15 Proportionate Voting Shares will be issued and outstanding, as fully-paid and non-assessable Proportionate Voting Shares and no preferred shares will be issued and outstanding.

If the Proportionate Voting Shares were converted immediately upon completion of the Offering and Reorganization, an equivalent of 77,671,258 Common Shares would be issued and outstanding, no Proportionate Voting Shares would be issued and outstanding and no preferred shares would be issued and outstanding. See "*Conversion Rights and Transfers*" below. All of the Proportionate Voting Shares will be owned or controlled, directly or indirectly, by the former CWB Shareholders. See "*Corporate Structure — Reorganization*".

Generally, the Common Shares and Proportionate Voting Shares have the same rights, are equal in all respects and are treated by the Company as if they were shares of one class only.

### Conversion Rights and Transfers

Issued and outstanding Proportionate Voting Shares, including fractions thereof, may at any time, subject to the FPI Condition, at the option of the holder, be converted into Common Shares at a ratio of 400 Common Shares per Proportionate Voting Share. Further, the Board of Directors may determine in the future that it is no longer advisable to maintain the Proportionate Voting Shares as a separate class of shares (a "**Conversion Event**") and may cause all of the issued and outstanding Proportionate Voting Shares to be converted into Common Shares at a ratio of 400 Common Shares per Proportionate Voting Share and the Board of Directors shall not be entitled to issue any more Proportionate Voting Shares under the Articles thereafter.

The Proportionate Voting Shares are not transferrable without Board approval, except to Permitted Holders and in compliance with U.S. securities laws.

### Conversion Conditions

The right of the Proportionate Voting Shares to convert into Common Shares is subject to certain conditions in order to maintain the Company's status as a "foreign private issuer" under U.S. securities laws. Unless otherwise waived by the Company, the right to convert the Proportionate Voting Shares is subject to the condition that the aggregate number of Common Shares and Proportionate Voting Shares (calculated as a single class) held of record, directly or indirectly, by residents of the United States (as determined in accordance with Rules 3b-4 and 12g3-2(a) under the Securities Exchange Act of 1934, as amended) (the "**Exchange Act**") may not exceed forty percent (40%) of the aggregate number of Common Shares and Proportionate Voting Shares

issued and outstanding after giving effect to such conversions (calculated as a single class) (the “**FPI Condition**”).

A holder of Common Shares may at any time, at the option of the holder and with the consent of the Company, convert such Common Shares into Proportionate Voting Shares on the basis of 400 Common Shares for one Proportionate Voting Share.

No fractional Common Shares will be issued on any conversion of any Proportionate Voting Shares and any fractional Common Shares will be rounded down to the nearest whole number.

For the purposes of the foregoing:

“**Affiliate**” means, with respect to any specified Person, any other Person which directly or indirectly through one or more intermediaries controls, is controlled by, or is under common control with such specified Person.

“**Permitted Holders**” means (i) the initial holders of Proportionate Voting Shares, as applicable, on Closing; and (ii) any Affiliate or Person controlled, directly or indirectly, by one or more of the Persons referred to in clause (i) above.

“**Person**” means any individual, partnership, corporation, company, association, trust, joint venture or limited liability company.

A Person is “**controlled**” by another Person or other Persons if: (i) in the case of a company or other body corporate wherever or however incorporated: (A) securities entitled to vote in the election of directors carrying in the aggregate at least a majority of the votes for the election of directors and representing in the aggregate at least a majority of the participating (equity) securities are held, other than by way of security only, directly or indirectly, by or solely for the benefit of the other Person or Persons; and (B) the votes carried in the aggregate by such securities are entitled, if exercised, to elect a majority of the board of directors of such company or other body corporate; or (ii) in the case of a Person that is not a company or other body corporate, at least a majority of the participating (equity) and voting interests of such Person are held, directly or indirectly, by or solely for the benefit of the other Person or Persons; and “controls”, “controlling” and “under common control with” shall be interpreted accordingly.

### Voting Rights

All holders of Shares will be entitled to receive notice of any meeting of shareholders of the Company, and to attend, vote and speak at such meetings, except those meetings at which only holders of a specific class of shares are entitled to vote separately as a class under the BCBCA. A quorum for the transaction of business at a meeting of shareholders is present if shareholders who, together, hold not fewer than 25% of the votes attaching to the outstanding voting shares entitled to vote at the meeting are present in person or represented by proxy.

On all matters upon which holders of Shares are entitled to vote:

- each Common Share is entitled to one vote per Common Share; and
- each Proportionate Voting Share is entitled to 400 votes per Proportionate Voting Share, and each fraction of a Proportionate Voting Share is entitled to the number of votes calculated by multiplying the fraction by 400.

The number of votes represented by fractional Proportionate Voting Shares will be rounded down to the nearest whole number. Unless a different majority is required by law or the Articles, resolutions to be approved by holders of Shares require approval by a simple majority of the total number of votes of all Shares cast at a meeting of shareholders at which a quorum is present based on the voting entitlements of each class of Shares described above.

Immediately after the completion of the Offering and the Reorganization (assuming no exercise of the Over-Allotment Option and assuming the Private Placement is fully subscribed), the former CWB Shareholders, including the Selling Shareholders, will collectively own an equivalent of 77,671,258 Common Shares (assuming the conversion of all Proportionate Voting Shares to Common Shares on the basis of 400 Common Shares for one Proportionate Voting Share) on a non-diluted basis, representing an 83.7% equity and voting interest in the Company (85.7% on a fully-diluted basis), and if the Over-Allotment Option is exercised in full and assuming the Private Placement is fully subscribed, the former CWB Shareholders, including the Selling Shareholders, will collectively own an equivalent of 75,526,258 Common Shares (assuming the conversion of all Proportionate Voting Shares to Common Shares on the basis of 400 Common Shares for one Proportionate Voting Share), representing an 81.4% equity and voting interest in the Company (83.7% on a fully-diluted basis).

#### Dividend Rights

Holders of Shares are entitled to receive dividends out of the assets available for the payment or distribution of dividends at such times and in such amount and form as the Board of Directors may from time to time determine, subject to any preferential rights of the holders of any outstanding preferred shares, on the following basis, and otherwise without preference or distinction among or between the Shares: each Proportionate Voting Share will be entitled to 400 times the amount paid or distributed per Common Share (including by way of share dividends, which holders of Proportionate Voting Shares will receive in Proportionate Voting Shares, unless otherwise determined by the Board of Directors) and each fraction of a Proportionate Voting Share will be entitled to the applicable fraction thereof. See “*Conversion Rights and Transfers*” above.

#### Liquidation Rights

In the event of the liquidation, dissolution or winding-up of the Company or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs, whether voluntarily or involuntarily, the holders of 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, on the basis that each Proportionate Voting Share will be entitled to 400 times the amount distributed per Common Share (and each fraction of a Proportionate Voting Share will be entitled to the amount calculated by multiplying the fraction by the amount otherwise payable in respect of a whole Proportionate Voting Share), and otherwise without preference or distinction among or between the Shares. See “*Conversion Rights and Transfers*” above.

#### Pre-emptive and Redemption Rights

Holders of Shares will not have any pre-emptive or redemption rights.

#### Subdivision or Consolidation

No subdivision or consolidation of any class of Shares may be carried out unless, at the same time, the Common Shares and Proportionate Voting Shares, as the case may be, are subdivided or consolidated in the same manner and on the same basis, so as to preserve the relative rights of the holders of each class of Shares.

#### Certain Amendments

In addition to any other voting right or power to which the holders of Common Shares and Proportionate Voting Shares shall be entitled by law or regulation or other provisions of the Articles from time to time in effect, but subject to the provisions of the Articles, holders of Common Shares and Proportionate Voting Shares shall each be entitled to vote separately as a class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment of our Articles which would adversely affect the rights or special rights of the holders of Common Shares or Proportionate Voting Shares, or which would affect the rights of the holders of the Common Shares and the holders of Proportionate Voting Shares differently, on a per share basis, including an amendment to the terms of the Articles that provide that any Proportionate Voting Shares sold or transferred to a Person that is not a Permitted Holder shall be automatically converted into Common Shares.

Pursuant to the Articles, holders of Shares will be treated equally and identically, on a per share basis, in certain change of control transactions that require approval of our shareholders under the BCBCA, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of the Common Shares and Proportionate Voting Shares, each voting separately as a class.

#### Issuance of Additional Proportionate Voting Shares

The Company may issue additional Proportionate Voting Shares upon the approval of the Board of Directors. Approval is not required in connection with a subdivision or consolidation on a pro rata basis as between the Common Shares and the Proportionate Voting Shares.

#### Take-Over Bid Protection

If an offer is being made for Proportionate Voting Shares (a “**PVS Offer**”) where: (i) by reason of applicable securities legislation or stock exchange requirements, the offer must be made to all holders of the class of Proportionate Voting Shares; and (ii) no equivalent offer is made for the Common Shares, the holders of Common Shares have the right, pursuant to the Articles, at their option, to convert their Common Shares into Proportionate Voting Shares for the purpose of allowing the holders of the Common Shares to tender to such PVS Offer, provided that such conversion into Proportionate Voting Shares will be solely for the purpose of tendering the Proportionate Voting Shares to the PVS Offer in question and that any Proportionate Voting Shares that are tendered to the PVS Offer but that are not, for any reason, taken up and paid for by the offeror will automatically be reconverted into the Common Shares that existed prior to such conversion.

In the event that holders of Common Shares are entitled to convert their Common Shares into Proportionate Voting Shares in connection with a PVS Offer pursuant to (ii) above, holders of an aggregate of Common Shares of less than 400 (an “**Odd Lot**”) will be entitled to convert all but not less than all of such Odd Lot of Common Shares into an applicable fraction of one Proportionate Voting Share, provided that such conversion into a fractional Proportionate Voting Share will be solely for the purpose of tendering the fractional Proportionate Voting Share to the PVS Offer in question and that any fraction of a Proportionate Voting Share that is tendered to the PVS Offer but that is not, for any reason, taken up and paid for by the offeror will automatically be reconverted into the Common Shares that existed prior to such conversion.

#### **Preferred Shares**

The preferred shares may at any time and from time to time be issued in one or more series. Subject to the provisions of the BCBCA and our Articles, the Board of Directors may, by resolution, from time to time before the issue thereof determine the maximum number of shares of each series, create an identifying name for each series, attach special rights or restrictions to the preferred shares of each series including, without limitation, any right to receive dividends (which may be cumulative or non-cumulative and variable or fixed) or the means of determining such dividends, the dates of payment thereof, any terms or conditions of redemption or purchase, any conversion rights, any retraction rights, any rights on our liquidation, dissolution or winding up and any sinking fund or other provisions, the whole to be subject to filing a Notice of Alteration to our Notice of Articles to create the series and altering our Articles to include the special rights or restrictions attached to the preferred shares of the series. Except as provided in any special rights or restrictions attaching to any series of preferred shares issued from time to time, the holders of preferred shares will not be entitled to receive notice of, attend or vote at any meeting of shareholders.

Preferred shares of each series, if and when issued, will, with respect to the payment of dividends, rank *pari passu* with the preferred shares of every other series and be entitled to preference over the Common Shares, the Proportionate Voting Shares and any other shares of the Company ranking junior to the preferred shares with respect to payment of dividends.

In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of preferred shares will be entitled to preference with respect to distribution of the property or assets of the Company over the Common Shares, the Proportionate Voting Shares and any other shares of the Company ranking junior to the preferred shares with respect to the repayment of capital paid up on and the payment of unpaid dividends accrued on the preferred shares.

## **Advance Notice Provisions**

The Company has included certain advance notice provisions with respect to the election of its directors in the Articles (the “**Advance Notice Provisions**”). The Advance Notice Provisions are intended to: (i) facilitate orderly and efficient annual general meetings or, where the need arises, special meetings; (ii) ensure that all shareholders receive adequate notice of Board of Director nominations and sufficient information with respect to all nominees; and (iii) allow shareholders to register an informed vote. Only persons who are nominated by shareholders in accordance with the Advance Notice Provisions will be eligible for election as directors at any annual meeting of shareholders, or at any special meeting of shareholders if one of the purposes for which the special meeting was called was the election of directors.

Under the Advance Notice Provisions, a shareholder wishing to nominate a director would be required to provide the Company notice, in the prescribed form, within the prescribed time periods. These time periods include, (i) in the case of an annual meeting of shareholders (including annual and special meetings), not fewer than 30 days prior to the date of the annual meeting of shareholders; provided, that if the first public announcement of the date of the annual meeting of shareholders (the “**Notice Date**”) is less than 50 days before the meeting date, not later than the close of business on the 10th day following the Notice Date; and (ii) in the case of a special meeting (which is not also an annual meeting) of shareholders called for any purpose which includes electing directors, not later than the close of business on the 15th day following the Notice Date, provided that, in either instance, if notice-and-access (as defined in National Instrument 54-101 — *Communication with Beneficial Owners of Securities of a Reporting Issuer*) is used for delivery of proxy related materials in respect of a meeting described above, and the Notice Date in respect of the meeting is not fewer than 50 days prior to the date of the applicable meeting, the notice must be received not later than the close of business on the 40th day before the applicable meeting.

## **Forum Selection**

The Company has included a forum selection provision in its Articles that provides that, unless the Company consents in writing to the selection of an alternative forum, the Supreme Court of British Columbia, Canada and the appellate courts therefrom, will be the sole and exclusive forum for (i) any derivative action or proceeding brought on the Company’s behalf; (ii) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any of the Company’s directors, officers or other employees to the Company; (iii) any action or proceeding asserting a claim arising pursuant to any provision of the BCBCA or the Articles; or (iv) any action or proceeding asserting a claim otherwise related to the relationships among the Company, its Affiliates and their respective shareholders, directors and/or officers, but excluding claims related to the Company’s business or such Affiliates. The forum selection provision also provides that the Company’s securityholders are deemed to have consented to personal jurisdiction in the Province of British Columbia and to service of process on their counsel in any foreign action initiated in violation of the foregoing provisions.

## **DIVIDENDS OR DISTRIBUTIONS**

Neither the Company nor CWB has paid any dividends on any of its securities, and subsequent to the completion of the Offering and the Reorganization, the Company currently intends to reinvest any earnings (including those of CWB) to fund the development and growth of its business. Any future payments of dividends will be at the discretion of the Board and will depend on many factors, including, among other things, the Company’s financial condition, current and anticipated capital requirements, contractual requirements, solvency tests imposed by applicable corporate law and other factors it may deem relevant.

## **OPTIONS TO PURCHASE COMMON SHARES**

CWB has previously granted to directors, officers, employees and consultants certain stock options under the Legacy Option Plan. In connection with the Reorganization, the Legacy Option Plan will be assumed by the Company. The Company intends to amend the Legacy Option Plan to provide that existing securities under the Legacy Option Plan will be exercisable for Proportionate Voting Shares following the Reorganization with applicable adjustments to the exercise price thereof to reflect the Reorganization, no further stock options will be granted under the Legacy Option Plan, and the Legacy Option Plan will be terminated when all stock options

thereunder have been exercised or have expired. See “*Executive Compensation — Legacy Option Plan*”. Prior to the Closing, the Company will adopt the LTIP. See “*Executive Compensation — Long Term Incentive Plan*”. The following table sets forth, as of the date hereof, the aggregate number of stock options under the Legacy Option Plan that are expected to be outstanding immediately after the Closing, assuming completion of the Reorganization.

In addition to stock options issued under the Legacy Option Plan, on January 15, 2015, CWB issued Founder Options to certain non-U.S. resident founders. These Founder Options were issued concurrent with the issue of founder shares to the remainder of the founding shareholder group. The individuals who received Founder Options were restricted from the issue of founder shares on equivalent terms to the rest of the group due to materially adverse tax consequences as a result of their non-U.S. resident status and the Company’s then-current legal status as an S-Corporation. Founder Options were not issued under the Legacy Option Plan and were not issued for the purposes of encouraging retention or other factors typically associated with an employee stock option plan. The financial statements treat these instruments as distinct from options listed under the Legacy Option Plan.

<u>Category</u>	<u>Number of Options to Acquire Common Stock of CWB Holdings, Inc. (Pre-Reorganization)</u>	<u>Exercise Price (Pre-Reorganization)</u>	<u>Number of Options to Acquire Proportionate Voting Shares (Post-Reorganization)</u>	<u>Exercise Price to Acquire Proportionate Voting Share (Post-Reorganization)<sup>(3)</sup></u>	<u>Expiration Date</u>
All of the Company’s executive officers and past executive officers, and all of the Company’s directors and past directors who are not also executive officers, as a group (4 in total) . . . . .	450,000 (4,050,040) <sup>(2)</sup>	US\$5.00	10,125.10	US\$222.22 C\$292.26	December 31, 2025
All of CWB’s executive officers and past executive officers, and all of CWB’s directors and past directors who are not also executive officers, as a group (Nil in total) . . . . .	Nil	N/A	N/A	N/A	N/A
All other of CWB’s past consultants and founders, as a group . . . . .	576,429 <sup>(1)</sup> (5,187,904) <sup>(2)</sup>	US\$0.005	12,969.78	US\$0.222 C\$0.29	January 15, 2020
	100,000 (900,008) <sup>(2)</sup>	US\$5.00	2,250.02	US\$222.22 C\$292.26	December 31, 2025
All other of CWB’s employees and past employees, as a group . . . . .	242,192 (2,179,748) <sup>(2)</sup>	US\$5.00	5,449.37	US\$222.22 C\$292.26	December 31, 2025
Consultants to the Company and its subsidiaries . . . . .	100,000 (900,008) <sup>(2)</sup>	US\$5.00	2,250.02	US\$222.22 C\$292.26	December 31, 2025

**Notes:**

- (1) Includes the Founder Options.
- (2) Common Shares after giving effect to the Reorganization, on an as-converted basis.
- (3) Calculated using an exchange rate of US\$1.00 : C\$1.3152 as at August 16, 2018.

## **STATUTORY HOLD PERIODS**

Securities legislation imposes certain resale restrictions on Common Shares issued within four months prior to an initial public offering. The legislation which imposes and governs these hold periods is NI 45-102.

## **PRINCIPAL SECURITYHOLDERS AND SELLING SHAREHOLDERS**

To the knowledge of Management, after due inquiry, subsequent to the Offering and the Reorganization, no Person will be the direct or indirect beneficial owner of, or exercises control or direction over, more than 10% of the Common Shares and/or Proportionate Voting Shares on an as-converted basis.

Pursuant to the Secondary Base Offering and in the event that the Over-Allotment Option is exercised, the Selling Shareholders will distribute Common Shares under the Offering. Each of the Selling Shareholders will enter into a lock-up agreement with the Underwriters which will preclude the Selling Shareholders from selling any Common Shares for a period of 180 days after Closing, as more fully described under “*Securities Subject to*

*Contractual Restriction on Transfer — Lock-up Arrangements*". The following table outlines certain information about each of the Selling Shareholders, each of whom owns the shares indicated both of record and beneficially:

Selling Shareholder	Prior to Closing of the Offering <sup>(1)</sup>		After Closing of the Offering <sup>(1)(2)</sup>	
	Number of Proportionate Voting Shares owned, controlled or directed by the Selling Shareholder and Common Share Equivalent	Number of Common Shares being distributed pursuant to the Secondary Base Offering and the Over-Allotment Option <sup>(2)</sup>	Number of Proportionate Voting Shares owned, controlled or directed by the Selling Shareholder and Common Share Equivalent	Percentage of Proportionate Voting Shares owned, controlled or directed by the Selling Shareholder and Common Share Equivalent <sup>(3)(4)</sup>
Aiko Trust <sup>(5)</sup> . . . . .	9,653.42 (3,861,368 Common Shares)	278,571	8,956.99 (3,582,797 Common Shares)	(4.7% of Proportionate Voting Shares) (3.9% of Common Shares)
CK&J Irrevocable Trust <sup>(6)</sup> . . . . .	13,223.89 (5,289,556 Common Shares)	371,428	12,295.32 (4,918,128 Common Shares)	(6.5% of Proportionate Voting Shares) (5.3% of Common Shares)
Master and A Hound Irrevocable Trust <sup>(7)</sup> . . . . .	14,216.47 (5,686,588 Common Shares)	278,571	13,520.04 (5,408,017 Common Shares)	(7.2% of Proportionate Voting Shares) (5.8% of Common Shares)
Paulina Irrevocable Trust <sup>(8)</sup> . . . . .	9,676.40 (3,870,560 Common Shares)	278,571	8,979.97 (3,591,989 Common Shares)	(4.8% of Proportionate Voting Shares) (3.9% of Common Shares)
Tristan 2 Arlo Irrevocable Trust <sup>(9)</sup> . . . . .	9,306.81 (3,722,724 Common Shares)	278,571	8,610.38 (3,444,153 Common Shares)	(4.6% of Proportionate Voting Shares) (3.7% of Common Shares)
Blue Water Irrevocable Trust <sup>(10)</sup> . . . . .	13,532.13 (5,412,852 Common Shares)	371,428	12,603.56 (5,041,424 Common Shares)	(6.7% of Proportionate Voting Shares) (5.4% of Common Shares)
J. Austin Stanley . . . . .	3,502.02 (1,400,808 Common Shares)	57,142	3,359.17 (1,343,666 Common Shares)	(1.8% of Proportionate Voting Shares) (1.4% of Common Shares)
Arvesa Corp. <sup>(14)</sup> . . . . .	11,346.45 (4,538,580 Common Shares)	428,571	10,275.03 (4,110,012 Common Shares)	(5.4% of Proportionate Voting Shares) (4.4% of Common Shares)
Kristi Fontenot . . . . .	5,603.25 (2,241,300 Common Shares)	185,714	5,138.97 (2,055,586 Common Shares)	(2.7% of Proportionate Voting Shares) (2.2% of Common Shares)
Little Sis Trust <sup>(11)</sup> . . . . .	3,031.09 (1,212,436 Common Shares)	28,571	2,959.66 (1,183,865 Common Shares)	(1.6% of Proportionate Voting Shares) (1.3% of Common Shares)
Lynn Kehler <sup>(12)</sup> . . . . .	9,559.69 (3,823,876 Common Shares)	371,428	8,631.12 (3,452,448 Common Shares)	(4.6% of Proportionate Voting Shares) (3.7% of Common Shares)
Proverbs 31 Woman Irrevocable Trust <sup>(12)</sup> . . . . .	18,000.18 (7,200,072 Common Shares)	92,857	17,768.04 (7,107,215 Common Shares)	(9.4% of Proportionate Voting Shares) (7.7% of Common Shares)
M, C and C Special Needs Trust <sup>(13)</sup> . . . . .	6,062.23 (2,424,892 Common Shares)	46,428	5,946.16 (2,378,464 Common Shares)	(3.1% of Proportionate Voting Shares) (2.6% of Common Shares)
Graham Carlson . . . . .	6,750.06 (2,700,024 Common Shares)	46,428	6,633.99 (2,653,596 Common Shares)	(3.5% of Proportionate Voting Shares) (2.9% of Common Shares)
Old Faithful Special Needs Trust . . . . .	2,019.37 (807,748 Common Shares)	18,571	1,972.95 (789,178 Common Shares)	(1.0% of Proportionate Voting Shares) (0.8% of Common Shares)

**Notes:**

- (1) Common Shares after giving effect to the Reorganization, on an as-converted basis.
- (2) Assuming exercise of the Over-Allotment Option in full and satisfaction thereof by the Selling Shareholders.
- (3) On a fully converted basis with respect to the Proportionate Voting Shares. Common Share equivalent percentage assumes the Private Placement is fully subscribed.

- (4) None of the Selling Shareholders hold any securities convertible into Proportionate Voting Shares or Common Shares. The percentage of Common Shares (calculated on an as-converted basis and fully diluted basis and assuming the Private Placement is fully subscribed) to be held by each Selling Shareholder immediately after Closing is: Aiko Trust (3.4%), CK&J Irrevocable Trust (4.6%), Master and A Hound Irrevocable Trust (5.1%), Paulina Irrevocable Trust (3.4%), Tristan 2 Arlo Irrevocable Trust (3.2%), Blue Water Irrevocable Trust (4.8%), J. Austin Stanley (1.3%), Arvesa Corp. (3.9%), Kristi Fontenot (1.9%), Little Sis Trust (1.1), Lynn Kehler (3.3%), Proverbs 31 Woman Irrevocable Trust (6.7%), M, C and C Special Needs Trust (2.2%), Graham Carlson (2.5%) and Old Faithful Special Needs Trust (0.7%).
- (5) A trust controlled by Joel Stanley and Jesse Stanley.
- (6) A trust controlled by Jared Stanley.
- (7) A trust controlled by Matthew Lindsey, and whose beneficiaries include Jesse Stanley.
- (8) A trust controlled by Jared Stanley.
- (9) A trust controlled by Jesse Stanley.
- (10) A trust controlled by Joel Stanley.
- (11) A trust controlled by Joel Stanley and Jared Stanley.
- (12) A trust controlled by Michelle D. Bennett-Funnell.
- (13) A trust controlled by Heather Jackson.
- (14) A corporation controlled by Juan Sartori.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2017 and the three and six months ended June 30, 2018.

The following management's discussion and analysis provides information concerning the financial condition and results of operations of CWB. This MD&A is provided as of August 22, 2018, and should be read together with CWB's audited consolidated financial statements and the accompanying notes for the years ended December 31, 2017 and 2016, and CWB's unaudited interim condensed consolidated financial statements and the accompanying notes as at and for the three and six months ended June 30, 2018. The results reported herein have been prepared in accordance with IFRS and, unless otherwise noted, are expressed in United States dollars. Neither Charlotte's Web Holdings, Inc. or its subsidiary Stanley Brothers, Inc. has carried on any business or transactions since incorporation. Upon completion of the Offering and the Reorganization, the business of the Company will consist solely of the business of CWB, therefore when used in this MD&A, references to the "Company" are references to CWB. The information presented in this MD&A is on a pre-Reorganization basis.

Prospective investors should read the following discussion in conjunction with the selected consolidated financial information and the consolidated financial statements and the accompanying notes contained elsewhere in this prospectus.

### Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. The Company uses non-IFRS measures including "EBITDA" and "Adjusted EBITDA" which may be calculated differently by other companies. These non-IFRS measures and metrics are used to provide investors with supplemental measures of our operating performance and liquidity and thus highlight trends in our business that may not otherwise be apparent when relying solely on IFRS measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of companies in similar industries. Management also uses non-IFRS measures and metrics, in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of executive compensation. For a discussion of the use of "EBITDA" and "Adjusted EBITDA" and

reconciliations thereof to the most directly comparable IFRS measures, see “*Management’s Discussion and Analysis — Adjusted EBITDA*”.

### **Forward-Looking Statements**

Some of the information contained in this MD&A contains forward-looking information. This information is based on Management’s reasonable assumptions and beliefs in light of the information currently available and are made as of the date of this MD&A. However, the Company does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada. Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of various factors, including those described in “*Risk Factors*” and elsewhere in this prospectus.

The Company cautions that the list of risk factors and uncertainties is not exhaustive and other factors could also adversely affect our results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information. See “*Notice to Investors — Forward-looking Statements*” and “*Risk Factors*” elsewhere in this prospectus for a discussion of the uncertainties, risks and assumptions associated with these statements.

### **Business Overview**

CWB is a market leader in the production and distribution of innovative hemp-based, CBD wellness products. Through its vertically integrated business model, CWB strives to improve customers’ lives and meet their demands for stringent product quality, efficacy and consistency. CWB does not produce or sell medicinal or recreational marijuana or products derived from high-THC Cannabis/marijuana plants.

CWB’s products are made from high quality whole-plant hemp extracts containing a full spectrum of phytocannabinoids, including CBD. Hemp extracts are produced from Industrial Hemp and have no psychoactive effects. THC causes psychoactive effects when consumed and is typically associated with marijuana (i.e. Cannabis with high-THC content).

Hemp extracts contain an assortment of phytocannabinoids, terpenes, flavonoids and other minor but valuable hemp compounds (cannabinoids occur naturally in Industrial Hemp). CWB believes the presence of various phytocannabinoids, terpenes and flavonoids work synergistically to heighten the effects of the products, making them superior to single-compound CBD isolates.

CWB’s current product categories include tinctures (liquid product), capsules and topical products. Planned product categories include powdered supplements, single-use, beverage, sport and professional (dedicated health care practitioner products). CWB’s products are distributed through its e-commerce website, select wholesalers and a variety of brick and mortar retailers.

CWB grows its proprietary Industrial Hemp on farms leased in eastern Colorado and sources high quality Industrial Hemp through contract farming operations in Kentucky and Oregon, as further described below.

### **Factors Affecting the Company’s Performance**

The Company’s performance and future success depends on a number of factors. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below. See “*Notice to Investors — Forward-looking Information*” and “*Risk Factors*” elsewhere in this prospectus.

### **Branding**

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

## Regulation

The Company is subject to the local and federal laws in the jurisdictions in which it operates. Outside of the United States, the Company's products may be subject to tariffs, treaties and various trade agreements as well as laws affecting the importation of consumer goods. The Company holds all required licenses for the production and distribution of its products in the jurisdictions in which it operates and continuously monitors changes in laws, regulations, treaties and agreements.

## Competition

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

## Growth Strategies

The Company has a successful history of growing revenue and it believes it has a strong domestic and international growth strategy aimed at exceeding industry growth rates. The Company's future depends, in part, on Management's ability to implement its growth strategy including (i) product innovations; (ii) penetration into international markets; (iii) growth in retail, wholesale and distributor partnerships; (iv) growth in e-commerce distribution; and (v) improvements in operating income, gross profit and operating expense margins. The ability of the Company to implement this growth strategy depends, among other things, on its ability to develop new products that appeal to consumers, maintain and expand brand loyalty and brand recognition, maintain and improve competitive position in the markets, and identify and successfully enter and market products in new geographic areas and segments.

## Product Innovation and Consumer Trends

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

## Business Acquisitions

The Company believes that it needs to actively identify and source future acquisition opportunities. The Company will pursue strategic acquisitions that will enable it to further broaden and diversify its product offerings, leverage current and future production and distribution facilities for new products and expand its intellectual property portfolio.

## Customer Relationships

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

## **Corporate Highlights**

- In March 2016, the Company recorded its first US\$1 million revenue month.
- In November 2016, the Company introduced its first capsule product line.

- In February 2017, the Company launched a new product called PAWS, for canine use.
- In June 2017, the Company expanded its operations to include a 23,000-square foot product storage, distribution and fulfillment facility in a suburb of Denver, Colorado.
- In the third quarter of 2017, the Company recorded its first US\$10 million revenue quarter.
- In December 2017, the Company launched its first topical product line.
- On March 23, 2018, the Consolidated Appropriations Act, 2018 (the “**2018 Spending Bill**”) became law after signature by President Trump. This bill reaffirmed the rights of Industrial Hemp producers with respect to the cultivation and sale of their products.
- On April 12, 2018, U.S. Senate Majority Leader Mitch McConnell (R-KY) introduced the HFA, which would permanently legalize Industrial Hemp, removing it from the purview of the Controlled Substances Act, and classifying it as an agricultural commodity. On April 13, 2018, U.S. Congressmen Jamie Comer (R-KY) and Jared Polis (D-CO) introduced a companion bill, H.R. 5485, in the House of Representatives, sharing the same mission and language as the HFA.

## Financial Information

The following table sets forth selected financial information as at December 31 for 2017 and 2016 and as at June 30 for 2018 and 2017.

### Selected Annual and Quarterly Financial Information

US\$ millions, except per share data	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	December 31, 2017	December 31, 2016
Revenue . . . . .	17.2	9.1	30.3	16.2	40.0	14.7
Gross Profit . . . . .	13.2	6.3	23.7	11.6	29.9	9.6
IPO Costs Expensed . . . . .	0.8	—	0.9	—	—	—
Net income . . . . .	3.7	1.4	6.8	3.0	7.5	0.6
EPS basic . . . . .	0.42	0.16	0.77	0.34	0.85	0.07
EPS diluted . . . . .	0.40	0.16	0.73	0.32	0.79	0.06
Adjusted EBITDA <sup>(1)</sup> . . . . .	6.1	2.4	10.7	4.9	14.1	2.0

#### Notes:

(1) Adjusted EBITDA is a non-IFRS financial measure. See “*Notice to Investors — Non-IFRS Financial Measures*” and “*Management’s Discussion and Analysis — Adjusted EBITDA*”.

US\$ millions	June 30, 2018	March 31, 2018	December 31, 2017	December 31, 2016
<b>Assets:</b>				
Cash and cash equivalents . . . . .	10.8	10.4	7.1	1.1
Total assets . . . . .	27.6	24.3	19.5	8.3
<b>Liabilities:</b>				
Long-term liabilities . . . . .	0.4	0.4	0.5	0.5
Total liabilities . . . . .	7.7	8.3	6.8	3.6

### Revenue

Consolidated revenue for the year ended December 31, 2017 totaled US\$40.0 million, compared to US\$14.7 million for the same period in 2016, representing a 172% year-over-year increase. This increase was driven primarily from e-commerce sales through expanded marketing programs, increased industry awareness of the Company’s products, social media and word of mouth advertising. In addition to the above, increases in

wholesale, distributor and retail revenue were the result of expanded sales staffing, both internal and external, allowing for greater access to brick and mortar outlets.

In November 2016, the Company introduced its CW Simply line of capsule products and in February of 2017 the Company introduced two new product lines including its CW PAWS line of products in February, and its topical line of products (hemp infused cream and balm) in November. The combined revenue from these product introductions was instrumental in the year-over-year increase in revenue during the year.

#### *Quarterly Revenue*

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

<u>US\$ millions</u>	<u>Q3</u> <u>2016</u>	<u>Q4</u> <u>2016</u>	<u>Q1</u> <u>2017</u>	<u>Q2</u> <u>2017</u>	<u>Q3</u> <u>2017</u>	<u>Q4</u> <u>2017</u>	<u>Q1</u> <u>2018</u>	<u>Q2</u> <u>2018</u>
Total revenue . . . . .	\$3.6	\$5.0	\$7.1	\$9.1	\$11.3	\$12.5	\$13.1	<b>\$17.2</b>

Revenue for the quarter ended June 30, 2018 (Q2-2018) totaled US\$17.2 million, compared to US\$9.1 million for the same period in 2017, representing an 89% increase. On a year-over-year basis for Q2-2018, e-commerce revenue grew by 59% and wholesale, distributor and retail ("WDR") revenue grew by 205%. On a year-over-year basis for Q2-2018, revenue from human consumption products and canine products grew by 98% and 205%, respectively (the Company's canine products were introduced in February of 2017). The Company's topical products were introduced during the fourth quarter of 2017 and such products accounted for approximately 4% of total revenue during Q2-2018.

#### *Year-to-date Revenue*

Revenue for the year-to-date period ended June 30, 2018 (1H-2018) totaled US\$30.3 million, compared to US\$16.2 million for the same period in 2017, representing an 87% increase. On a year-over-year basis for 1H-2018, e-commerce revenue grew by 56% and WDR revenue grew by 183%. On a year-over-year basis for 1H-2018, revenue from human consumption products and canine products grew by 92% and 316%, respectively. The Company's topical products accounted for approximately 3% of total revenue during 1H-2018.

The increases in year-over-year WDR revenue for Q2-2018 and 1H-2018 was driven by expanded sales staffing, both internal and external, allowing for greater access to brick and mortar outlets. Improvements in e-commerce sales for the same periods were achieved through expanded marketing programs, increased industry awareness of the Company's products, social media and word of mouth advertising.

#### Gross Profit

Gross profit increased by 212%, or US\$20.3 million, to US\$29.9 million for the year ended December 31, 2017 compared to the same period in 2016. The increase was primarily due to an increase in revenue from both e-commerce sales and wholesale, distributor and retail sales. As a percent of revenue, gross profit for the years ended December 31, 2017 and 2016 was 75% and 65%, respectively.

Gross profit totaled US\$13.2 million for the quarter ended June 30, 2018, compared to US\$6.3 million for the same period in 2017, a year-over-year increase of 110%. As a percent of total revenue, gross profit in Q2-2018 was 77%, compared to 69% for the same period in 2017.

Gross profit totaled US\$23.7 million for the year-to-date period ended June 30, 2018, compared to US\$11.6 million for the same period in 2017, a year-over-year increase of 104%. As a percent of total revenue, gross profit for 1H-2018 was 78% compared to 72% for the same period in 2017.

These year-over-year improvements in gross profit are primarily attributed to improved manufacturing efficiencies achieved throughout the 2017 and 2018 periods from increased quantities of products manufactured.

## Cost of Sales

Cost of sales includes production costs expensed, the cost of inventory sold and the revaluation of biological assets. Direct and indirect production costs include direct labor, processing, testing, packaging, quality assurance, security, inventory, shipping, depreciation of production equipment (in 2018), production management and other related expenses.

Cost of sales for 2017 was US\$10.1 million (2016 — US\$5.1 million). As a percent of revenue, costs of sales for the years ended December 31, 2017 and 2016 was 25% and 35%, respectively. The lower cost of sales percentage in 2017, compared to 2016, is primarily related to lower production costs resulting from efficiencies gained from higher production rates during 2017. The components of cost of sales are as follows:

<u>US\$ millions</u>	<u>2017</u>	<u>2016</u>
Cost of sales . . . . .	10.1	5.1
Inventory expensed to cost of sales . . . . .	3.8	0.8
Other production costs . . . . .	5.5	4.2
Revaluation of biological assets . . . . .	0.8	0.1

<u>US\$ millions</u>	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Cost of sales . . . . .	<b>\$ 4.0</b>	\$ 2.8	<b>\$ 6.6</b>	\$ 4.6
Inventory expensed to cost of sales . . . . .	<b>3.1</b>	2.2	<b>5.2</b>	2.9
Other production costs . . . . .	<b>0.9</b>	0.7	<b>1.4</b>	1.8
Depreciation and amortization . . . . .	<b>0.3</b>	—	<b>0.5</b>	—
Revaluation of biological assets . . . . .	<b>(0.3)</b>	(0.1)	<b>(0.5)</b>	(0.1)

Cost of sales for the quarter ending June 30, 2018 was US\$4.0 million compared to US\$2.8 million for the same period in 2017. As a percent of revenue, cost of sales for the quarter ending June 30, 2018 was 23% compared to 31% for the same period in 2017.

Cost of sales for the six-month period ending June 30, 2018 was US\$6.6 million compared to US\$4.6 million for the same period in 2017. As a percent of revenue, cost of sales for the six-month period ending June 30, 2018 was 22% compared to 28% for the same period in 2017.

For the three and six-month periods ended June 30, 2018, the year-over-year lower cost of sales percentage is primarily related to lower production costs resulting from efficiencies gained from higher production rates during 2017 and 2018.

## Classification of Operating Expenses

The composition of the operating costs classification on the Consolidated Statements of Income and Other Comprehensive Income is as follows:

<u>US\$ millions</u>	<u>2017</u>	<u>2016</u>
General and Administrative . . . . .	<u>11.5</u>	<u>5.1</u>
Personnel . . . . .	7.6	4.5
Facilities and other expenses . . . . .	2.8	0.2
Accretion, depreciation and amortization . . . . .	0.8	0.2
Travel and entertainment . . . . .	<u>0.3</u>	<u>0.2</u>
Sales and marketing . . . . .	<u>5.9</u>	<u>3.1</u>
Advertising, promotions and selling costs . . . . .	2.8	1.1
Personnel . . . . .	2.6	1.3
Facilities and other expenses . . . . .	0.1	0.5
Travel and entertainment . . . . .	<u>0.4</u>	<u>0.1</u>
Research and development . . . . .	<u>0.5</u>	<u>0.4</u>
Personnel . . . . .	0.3	0.2
Other . . . . .	0.2	0.2

<u>US\$ millions</u>	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
General and administrative . . . . .	<u>\$4.9</u>	<u>\$2.6</u>	<u>\$9.0</u>	<u>\$4.1</u>
Personnel . . . . .	<u>3.0</u>	<u>1.4</u>	<u>5.2</u>	<u>2.4</u>
Facilities and other expenses . . . . .	<u>1.6</u>	<u>0.9</u>	<u>3.4</u>	<u>1.3</u>
Accretion, depreciation and amortization . . . . .	<u>0.1</u>	<u>0.2</u>	<u>0.1</u>	<u>0.3</u>
Travel and entertainment . . . . .	<u>0.2</u>	<u>0.1</u>	<u>0.3</u>	<u>0.1</u>
Sales and marketing . . . . .	<u>\$2.4</u>	<u>\$1.3</u>	<u>\$4.5</u>	<u>\$2.7</u>
Advertising, promotions and selling costs . . . . .	<u>1.2</u>	<u>0.6</u>	<u>2.0</u>	<u>1.5</u>
Personnel . . . . .	<u>0.9</u>	<u>0.6</u>	<u>2.0</u>	<u>1.0</u>
Facilities and other expenses . . . . .	<u>0.2</u>	<u>0.0</u>	<u>0.2</u>	<u>0.0</u>
Travel and entertainment . . . . .	<u>0.1</u>	<u>0.1</u>	<u>0.3</u>	<u>0.2</u>
Research and development . . . . .	<u>\$0.1</u>	<u>\$0.1</u>	<u>\$0.3</u>	<u>\$0.2</u>
Personnel . . . . .	<u>0.1</u>	<u>0.1</u>	<u>0.3</u>	<u>0.2</u>
Initial Public Offering related costs . . . . .	<u>\$0.8</u>	<u>\$ —</u>	<u>\$0.9</u>	<u>\$ —</u>

## Personnel

Personnel expense includes all employee compensation, employee benefits and employee commissions. Consolidated active employee headcount was 168 at December 31, 2017, a 37% increase from 123 at December 31, 2016.

Personnel expense for the years ended December 31, 2017 and 2016, totaled US\$10.5 million and US\$6.0 million, respectively. The 75% year-over-year increase in personnel expense is primarily due to commissions paid to sales staff on increased revenue and increased personnel in all of the Company's locations to support its year-over-year revenue growth.

Consolidated active employee headcount was 226 at June 30, 2018, a 52% increase from 149 at June 30, 2017. On a comparative basis, personnel count increased by 117% in cultivation (increase of 34 personnel), 26% in production and fulfillment (increase of 19 personnel), 54% in sales and marketing (increase of 14 personnel) and 59% in general and administrative (increase of 10 personnel).

Gross personnel expense for the quarter ended June 30, 2018, totaled US\$4.0 million (year-to-date US\$7.5 million) and for the same period in 2017, gross personnel expense totaled US\$2.1 million (year-to-date US\$3.6 million).

Non-cash compensation expense is included in operating costs and relates to the Company's share stock options. Non-cash share-based compensation for the years ended December 31, 2017 and 2016, totaled US\$0.5 million and US\$0.3 million, respectively. Non-cash share-based compensation for the quarter ended June 30, 2018, totaled US\$0.2 million (year-to-date US\$0.4 million) compared to US\$0.1 million (year-to-date US\$0.2 million) for the same period in 2017.

#### Facilities and Other Expenses

Facilities and other expenses include (i) facilities rents, utilities and maintenance; (ii) professional and consulting services; (iii) banking and credit card processing fees; (iv) legal fees; (v) third-party software expenses (including maintenance and support); and (vi) taxes, permits and other fees (other than income taxes), net of overhead allocations.

For the years ended December 31, 2017 and 2016, facilities and other expense were US\$2.9 million and US\$0.7 million, respectively. The increase was primarily due to increases in (i) credit card processing fees associated with higher levels of e-commerce sales; (ii) transaction taxes and fees; and (iii) legal expenditures, all of which were associated with year-over-year increases in the revenue growth of the Company.

For the quarter ended June 30, 2018, facilities and other expenses were US\$1.8 million (year-to-date US\$3.6 million) compared to US\$0.9 million (year-to-date US\$1.3 million) for the same period in 2017. The primary reasons for the increase in facilities and other expenses for the periods ending June 30, 2018 over the same periods in 2017 were expanded facility leases for product fulfillment and office space, and merchant fees associated with higher levels of e-commerce sales.

#### Advertising, Promotions and Selling Costs

For the years ended December 31, 2017 and 2016, advertising, promotions and selling costs were US\$2.8 and US\$1.1 million, respectively. As a percent of revenue, advertising, promotions and selling costs for the years ended December 31, 2017 and 2016 was 7% and 7%, respectively. The overall increase on a year-over-year basis is primarily due to expanded marketing activities to increase the visibility of the Company and its products through print and online advertising, social influencers and trade shows.

For the quarters ended June 30, 2018 and 2017, advertising, promotions and selling costs were US\$1.2 million and US\$0.6 million, respectively (year-to-date US\$2.0 million and US\$1.5 million, respectively). As a percent of revenue, advertising, promotions and selling costs for the quarters ending June 30, 2018 and 2017 were 7% for each period and for the year to date periods ending June 30, 2018 and 2017 were 7% and 9%, respectively. The year-to-date decrease is primarily the result of the allocation of marketing related costs over a higher level of revenue during 2018, compared to the same periods in 2017.

#### Travel

For the years ended December 31, 2017 and 2016, travel expense was US\$0.7 million and US\$0.3 million, respectively. The increase is primarily due to increased travel associated with the Company's sales, marketing and business development efforts to support increased levels of revenue.

For the quarters ended June 30, 2018 and 2017, travel expense was US\$0.3 million (year-to-date US\$0.6 million) and US\$0.2 million (year-to-date US\$0.3 million), respectively. This amount is primarily from travel associated with the Company's sales, marketing and business development efforts to support the revenue growth of the Company.

#### Initial Public Offering Related Costs

The Company incurred various legal, consulting, professional and regulatory costs in connection with its pending initial public offering ("IPO"). Legal, professional and consulting fees associated with the Company's

IPO of US\$0.1 million was offset against common share capital, net of estimated incomes taxes during the six-month period ended June 30, 2018. In addition, the Company expensed and included in IPO related costs for the three and six months ended June 30, 2018, US\$0.8 million and US\$0.9 million, respectively, in connection with the listing of the Company's shares on the Canadian Securities Exchange.

#### Adjusted EBITDA

Adjusted earnings before interest, taxes, depreciation and amortization (“**Adjusted EBITDA**”) is not a recognized performance measure under IFRS. The term EBITDA consists of net income and excludes interest (financing costs), taxes and depreciation. The term EBITDA consists of net income and excludes interest (financing costs), taxes and depreciation. Adjusted EBITDA also excludes share-based compensation, IPO related costs, impairment of assets and adjustments for fair valuing of biological assets. Adjusted EBITDA is included as a supplemental disclosure because Management believes that such measurement provides a better assessment of the Company's operations on a continuing basis by eliminating certain non-cash charges and charges or gains that are nonrecurring. The most directly comparable measure to Adjusted EBITDA calculated in accordance with IFRS is net income (loss). The following is a reconciliation of the Company's net income to Adjusted EBITDA.

<u>US\$ millions</u>	<u>2017</u>	<u>2016</u>
Net Income . . . . .	7.5	0.6
Depreciation of property and equipment . . . . .	0.7	0.2
Financing costs . . . . .	0.2	0.0
Income taxes . . . . .	4.3	0.3
EBITDA . . . . .	<u>12.7</u>	<u>1.2</u>
Share-based compensation . . . . .	0.5	0.3
Impairment of assets . . . . .	0.1	0.4
Fair value adjustment on convertible note . . . . .	0.1	0.0
Net impact, fair value of biological assets . . . . .	0.8	0.1
Adjusted EBITDA . . . . .	<u>14.1</u>	<u>2.0</u>

Adjusted EBITDA for the year ended December 31, 2017 was US\$14.1 million, compared to US\$2.0 million for the same period in 2016. As a percent of revenue, Adjusted EBITDA for the years ended December 31, 2017 and 2016 was 35% and 14%, respectively. The difference in Adjusted EBITDA is primarily attributable to the year-over-year increase in revenue totaling US\$25.3 million and additional operational efficiencies gained through the allocation of base operating costs over a larger revenue base.

<u>US\$ millions</u>	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net income . . . . .	\$ 3.7	\$ 1.4	\$ 6.8	\$ 3.0
Depreciation of property and equipment . . . . .	0.3	0.2	0.6	0.3
Financing costs . . . . .	0.1	0.1	0.1	0.1
Income taxes . . . . .	1.2	0.8	2.3	1.5
EBITDA . . . . .	5.3	2.4	9.8	4.9
Share-based compensation . . . . .	0.2	0.1	0.4	0.2
IPO costs . . . . .	0.8	—	0.9	—
Impairment of assets . . . . .	0.1	—	0.1	—
Net impact, fair value of biological assets . . . . .	(0.3)	(0.1)	(0.5)	(0.1)
Adjusted EBITDA . . . . .	\$ 6.1	\$ 2.4	\$10.7	\$ 4.9

Adjusted EBITDA as a percentage of consolidated revenue for the quarters ended June 30, 2018 and 2017 was 35% and 26%, respectively. For the year-to-date period ended June 30, 2018 and 2017, Adjusted EBITDA as a percentage of consolidated revenue was 35% and 30%, respectively.

### Financing Costs

Financing costs for the year ended December 31, 2017 totaled US\$246,734, compared to US\$39,074 for the same period in 2016. The increase in year-over-year financing costs is primarily attributable to interest incurred on an outstanding US\$1.0 million convertible note that was entered into during January 2017 and interest incurred on financing leases that were put in place during 2017.

Financing costs for the quarters ended June 30, 2018 and 2017, totaled US\$65,902 and US\$74,998, respectively. Financing costs for the year-to-date periods ended June 30, 2018 and 2017, totaled US\$129,563 and US\$111,673, respectively. The increase was primarily the result of additional manufacturing and cultivation equipment acquired under finance lease arrangements during calendar year 2017.

### Depreciation of Property and Equipment

Depreciation expense for the year ended December 31, 2017 and 2016 was US\$0.7 million and US\$0.2 million, respectively. The increase in depreciation expense is primarily the result of an increase in assets purchased that are dedicated to the Company's cultivation and manufacturing operations.

Depreciation expense for the quarter ended June 30, 2018 and 2017 was US\$0.3 million (year-to-date period US\$0.6 million) and US\$0.2 million (year-to-date US\$0.3 million), respectively. The increase in depreciation is primarily the result of the purchase of new production related equipment during the calendar years 2017 and 2018.

### Income Tax

Current income tax expense of US\$4.3 million was incurred during the year ended December 31, 2017, compared to an expense of US\$0.3 million during the same period in 2016. The year-over-year increase was directly attributable to the revenue and profitability growth achieved from the operations of the Company.

Current income tax expense of US\$1.2 million (year-to-date US\$2.3 million) was incurred during the quarter ended June 30, 2018, compared to US\$0.8 million (year-to-date US\$1.5 million) for the same period in 2017. The combined income tax rate used in 2018 is 24.9%, compared to 33.9% in 2017, the reduction of which is the result of the passing of the U.S. Tax Cut and Jobs Act of 2017 that went into effect in early 2018.

### Accounts Receivable

Accounts receivable increased from US\$0.8 million at December 31, 2016, to US\$2.1 million at December 31, 2017 as a result of higher wholesale and distributor revenue recorded during the year-over-year period. Accounts receivable increased to US\$2.8 million at June 30, 2018, as a result of higher revenue recorded during the second quarter when compared to the fourth quarter of 2017. The Company reviews the accounts receivable aging monthly and monitors the payment status of each outstanding invoice. The Company communicates with its customers on a regular basis regarding the schedule of future payments, as required. At the balance sheet date for the 2017 financial statements, US\$76,096 has been booked as an expected credit loss based on individual account review and overall customer payment history. At the balance sheet date for the Q2 2018 financial statements, US\$0.2 million has been booked as an expected credit loss based on individual account review and overall customer payment history.

### Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities generally include trade payables, revenue-based tax accruals, personnel-related costs and interest on outstanding debt obligations. Accounts payable and accrued liabilities

increased to US\$4.3 million at December 31, 2017 from US\$1.8 million at December 31, 2016. Accounts payable and accrued liabilities increased to US\$6.7 million at June 30, 2018 from US\$4.3 million at December 31, 2017.

<u>US\$ millions</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts payable . . . . .	1.4	1.0	0.4
Accrued liabilities . . . . .	<u>5.3</u>	<u>3.3</u>	<u>1.3</u>
Total . . . . .	6.7	4.3	1.8

The accounts payable balance increased from US\$0.4 million at December 31, 2016 to US\$0.9 million at December 31, 2017. The increase is due primarily to the Company’s business growth and the timing of payments on trade payables. The accrued liabilities balance increased from US\$1.3 million at December 31, 2016 to US\$3.3 million at December 31, 2017. The increase is primarily due to increased revenue-based tax liability associated with the Company’s e-commerce business.

The accounts payable balance increased from US\$0.9 million at December 31, 2017 to US\$1.4 million at June 30, 2018. The increase is due primarily to timing of payments on trade payables and an increase in the levels of production and operations. The accrued liabilities balance increased from US\$3.3 million at December 31, 2017 to US\$5.3 million at June 30, 2018. The increase is primarily due to increased revenue-based tax liability associated with the Company’s e-commerce business and accrued IPO costs.

#### Convertible Note

The convertible note balance of US\$1.0 million at December 31, 2017 reflects the proceeds from a convertible debt financing that closed in January 2017.

The private placement debt financing occurred on January 12, 2017 for US\$1.0 million and included (i) an interest only payment of US\$273.97 per day paid through January 31, 2017; (ii) a monthly interest only payment of 10% per annum was due and payable on the first day of each month commencing May 1, 2017 and continuing through May 31, 2017; and (iii) a monthly interest only payment of 14% per annum was due and payable monthly starting on June 1, 2017 and continuing through maturity of the note on December 30, 2018. The outstanding debt is convertible into common shares of the Company at the lenders option at (i) the conversion price per share equal to the price per share realized by the Company on its most recent (prior to lender’s conversion) sale of common stock; or if no such transaction has occurred (ii) a price per share of US\$6.68. The Convertible Note was repaid in its entirety on May 31, 2018.

#### Notes Payable

The notes payable balance at December 31, 2017 and 2016 was US\$43,000 and US\$377,000, respectively, the details of which are as follows:

- The Company financed the purchase of equipment in May 2017 for US\$46,600; simple interest at an annual rate of 4.00% with a 48-month term.
- The debt financing on the farm vehicle occurred on November 4, 2014 for US\$32,700; simple interest at an annual rate of 5.19% with a 60-month term. The note was repaid in its entirety in February 2018.

The Company entered into an interim financing agreement in September 2016 for the purchase of manufacturing equipment in the amount of US\$357,700 at simple interest of 16%. The agreement terminated in April 2017 and a financing lease was entered into for the underlying equipment in May 2017.

#### Finance Lease Obligations

Finance lease obligations at December 31, 2017 increased to US\$0.7 million from US\$0.2 million at December 31, 2016, due primarily to the termination of the interim financing agreement noted above in Notes Payable and the entering into a permanent financing lease in the amount of US\$0.4 million, together with a second financing lease in the amount of US\$0.2 million, both of which were offset by recurring payments on the lease obligations during the year.

Finance lease obligations at June 30, 2018 decreased to US\$0.5 million from US\$0.7 million at December 31, 2017 due to recurring payments on outstanding finance lease obligations.

### Contractual Obligations

Contractual obligations include (i) operating leases on office locations, land and manufacturing equipment; (ii) notes payable; and (iii) finance leases on processing equipment. Principal repayments of these obligations as at December 31, 2017 are as follows:

Contractual obligations US\$ thousands	Total	Within 1 Year	1 - 5 Years
Operating leases . . . . .	2,007	666	1,341
Convertible and other notes payable . . . . .	1,040	1,040	0
Finance leases . . . . .	696	299	397
Total . . . . .	3,743	2,005	1,738

Principal repayments of these obligations as at June 30, 2018 are as follows:

Contractual obligations US\$ thousands	Total	Within 1 Year	1 - 5 Years	>5 Years
Operating leases . . . . .	3,187	1,039	1,942	206
Convertible and other notes payable . . . . .	25	10	15	—
Finance leases . . . . .	543	283	260	—
Total . . . . .	3,755	1,332	2,217	206

### Liquidity and Capital Resources

The Company's primary liquidity and capital requirements are for capital expenditures, inventory, working capital and general corporate purposes. The Company currently has a material cash balance and along with cash flows from operations and proceeds from the Offering, will provide capital to support the growth of the business and for general corporate purposes.

The Company's ability to fund operating expenses and capital expenditures will depend on its future operating performance which will be affected by general economic, financial and other factors including factors beyond the Company's control (See "*Risk Factors*"). From time to time, Management reviews acquisition opportunities and if suitable opportunities arise, may make selected acquisitions to implement the Company's business strategy.

Management continually assesses liquidity in terms of the ability to generate sufficient cash flow to fund the business. Net cash flow is affected by the following items: (i) operating activities, including the level of amounts receivable, accounts payable, accrued liabilities and unearned revenue and deposits; (ii) investing activities, including the purchase of property and equipment; and (iii) financing activities, including debt financing and the issuance of capital stock.

Cash provided by operations during the year ended December 31, 2017 totaled US\$7.5 million, compared to US\$21,000 during the same period in 2016. The year-over-year increase in cash provided by operations of US\$7.5 million is due primarily to the rapid growth in revenue and profitability of the Company.

Cash provided by operations during the six-month period ended June 30, 2018 totaled US\$6.1 million, compared to US\$2.3 million for the same period in 2017. The increase in cash provided by operations is due primarily to the growth in revenue and profitability of the Company.

Net cash used in investing activities totaled US\$2.4 million for the year ended December 31, 2017, compared to US\$0.7 million during the same period in 2016. Net cash used in investing activities for the year ended December 31, 2017, was primarily for the purchase of equipment used in the Company's cultivation and production operations. Net cash used in investing activities during the year ended December 31, 2016, was for the purchase of computer related equipment, cultivation equipment and manufacturing equipment.

Net cash used in investing activities totaled US\$1.1 million for the six-month period ended June 30, 2018 compared to US\$1.1 million for the same period in 2017. Net cash used in investing activities for the six-month period was primarily for the purchase ERP software and equipment used in the Company's cultivation and manufacturing operations.

Net cash generated from financing activities totaled US\$0.8 million for the years ended December 31, 2017 and 2016. The net cash generated from financing activities during the year ended December 31, 2017 resulted from the closing of a convertible debt financing arrangement from which US\$1.0 million in proceeds was received by the Company less US\$0.2 million for the repayment of finance leases. The net cash generated from financing activities during the year ended December 31, 2016 resulted from the closing of a private placement common stock offering totaling US\$0.6 million and the proceeds from a note payable totaling US\$0.4 million; less US\$0.1 million for the repayment of finance lease obligations.

Net cash used in financing activities totaled US\$1.3 million for the six-month period ended June 30, 2018 compared to net cash provided of US\$0.9 million for the same period in 2017. The net cash used in financing activities during the six-month period ended June 30, 2018 resulted primarily from the repayment of a convertible note payable of US\$1.0 million and payments on finance lease obligations.

The cash position of the Company at December 31, 2017 (cash and cash equivalents) was US\$7.1 million, compared to US\$1.1 million at December 31, 2016. Working capital increased to US\$8.1 million as of December 31, 2017 from US\$2.3 million as of December 31, 2016 primarily due to the profitable growth of the Company.

The cash position of the Company at June 30, 2018 (cash and cash equivalents) was US\$10.8 million, compared to US\$7.1 million at December 31, 2017. Working capital increased to US\$14.4 million as of June 30, 2018 from US\$8.1 million as of December 31, 2017 primarily due to the profitable growth of the Company.

During the year ended December 31, 2017, the Company generated an operating profit of US\$12.0 million, incurred Adjusted EBITDA of US\$14.1 million, and cash flow from operations of US\$7.5 million. Revenue for the year ended December 31, 2017 was US\$40.0 million, which represents a 172% increase (US\$25.3 million) in revenue from the year ended December 30, 2016. The Company has shareholders' equity of US\$12.6 million and working capital of US\$8.1 million. The Company has a scheduled debt repayment of US\$1.0 million within twelve months of the balance sheet date upon the contractual maturity of a convertible note. The convertible note is subject to conversion into common stock of the Company at the holder's option. The note was repaid in its entirety on May 31, 2018.

During the six-month period ended June 30, 2018, the Company generated an operating profit of US\$9.2 million, incurred positive Adjusted EBITDA of US\$10.7 million, and positive cash flow from operations of US\$6.1 million. Revenue for the six-month period ended June 30, 2018 was US\$30.3 million. The Company has shareholders' equity of US\$19.8 million and positive working capital of US\$14.4 million.

## **Related Party Transactions**

### Related Party Receivable

At December 31, 2017 and 2016, and at June 30, 2018 the Company had a non-interest bearing, unsecured, receivable due from Joel Stanley in the amount of US\$107,000. The loan was made to assist one of the founders of the Company with costs incurred in the development of the business prior to its original incorporation. This amount is included in other long-term assets in the consolidated statement of financial position. The Company expects the receivable to be fully collectible.

## **Critical Accounting Policies and Estimates**

### Revenue Recognition

The Company recognizes revenue when products are shipped, and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Freight revenue is generally exempt from state sales taxes.

Sales tax collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of profit and loss.

### Use of Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts; the valuation of deferred tax assets, fixed assets, inventory, share-based compensation and reserves for other contingencies.

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

#### *Depreciation and amortization rates*

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

#### *Amounts receivable*

The Company uses historical trends and performs specific account assessments when determining the allowance for doubtful accounts. These accounting estimates are in respect to the accounts receivable line item in the Company's consolidated statements of financial position. At December 31, 2017, accounts receivable represented 11% of total assets. At June 30, 2018, accounts receivable represented 10% of total assets.

The estimate of the Company's allowance for doubtful accounts could change from period to period due to the allowance being a function of the balance and composition of amounts receivable.

#### *Biological assets and inventory*

In calculating the value of biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the Industrial Hemp plants to the point of harvest, yield, harvesting costs and selling costs. In calculating final inventory values, management is required to determine an estimate of obsolete inventory and compares the inventory cost to estimated net realizable value.

#### *Share-based compensation*

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

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

#### *Revenue*

Changes to the assumptions used to measure revenue could impact the amount of revenue recognized in the consolidated financial statements.

### **New and Future Accounting Standards and Interpretations**

The standards and interpretations that have been issued, but are not yet effective, up to the date of the issuance of the consolidated financial statements are discussed below. The Company intends to adopt these standards on the required effective date.

### IFRS 16, “Leases”

In January 2016, the IASB issued IFRS 16, “Leases”, which replaces IAS 17, “Leases”, and its associated interpretative guidance. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if entities have also applied IFRS 15. The Company is currently evaluating the impact of these new standards, interpretations and amendments on the consolidated financial statements.

### IFRS 9 “Financial Instruments: Classification and Measurement”

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment and a new hedge accounting model with corresponding disclosures about risk management activity. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Management adopted the new standard on the effective date, including the new hedge accounting guidance. The adoption of IFRS 9 is not expected to have a significant impact on the classification and measurement of its financial instruments.

### IFRS 15 “Revenue from Contracts with Customers”

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers” (“**IFRS 15**”), which replaces IAS 18, “Revenue”, IAS 11 “Construction Contracts” and various revenue related interpretations. IFRS 15 establishes a new control-based revenue recognition model where revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is effective for annual periods beginning on or after January 1, 2018. The Company’s contracts are primarily short-term in nature and generally do not include significant multiple deliverables. The Company adopted the new standard on January 1, 2018 using the modified retrospective method, without restatement of the comparative figures. The Company does not expect the financial performance or disclosure to be materially affected by the application of the standard.

### IFRS 2 “Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2”

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. The adoption of IFRS 2 is not expected to have a significant impact on the classification and measurement of its share-based payments.

### IFRIC Interpretation 23 “Uncertainty over Income Tax Treatment”

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available.

### **Outstanding Share Data**

CWB is authorized by its certificate of incorporation to issue 10 million preferred shares and 50 million common shares. The par value of the preferred and common shares is US\$0.0001 per share.

At the close of business on August 22, 2018, 8,739,828 shares of CWB were issued and outstanding. There are no preferred shares currently issued and outstanding.

As of August 22, 2018, potential dilutive securities include (i) 576,429 outstanding Founder Options with a weighted average exercise price of US\$0.005; and (ii) 892,192 outstanding options in the Legacy Option Plan with a weighted average exercise price of US\$5.00. Each option entitles the holder to purchase one common share of CWB.

In connection with the Reorganization, it is anticipated that these securities will be exchanged for Proportionate Voting Shares and securities exercisable into Proportionate Voting Shares on substantially the same terms after giving effect to the Reorganization.

## DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out the names and municipalities of residence of each director and officer of the Company, their principal occupation and their position within the Company as anticipated at Closing.

Name and Municipality of Residence	Position with the Company	Principal Occupation for Last Five Years	Director/Officer Since
Hesaam Moallem <sup>(1)</sup> . . . . . <i>Boulder, Colorado, USA</i>	Chief Executive Officer and Director	Chief Executive Officer of CWB since January 2018. General Counsel of Onnit Labs, LLC from 2015 through 2017.	May 18, 2018
Joel Stanley <sup>(2)</sup> . . . . . <i>Denver, Colorado, USA</i>	Director	Chairman of the Board of CWB Holdings, Inc. since December 2013. Manager of Indy 1 LLC from 2010 through 2014.	July 9, 2018
Jared Stanley . . . . . <i>Denver, Colorado, USA</i>	Director	Vice-President, Cultivation of CWB Holdings, Inc. since 2014. Director of Operations of Indy 2 & 3 LLC from 2010 through 2014.	July 9, 2018
Juan Sartori <sup>(3)</sup> . . . . . <i>Switzerland</i>	Director	Founder and President of Union Group since 2012.	May 18, 2018
John Held <sup>(1)(4)(5)</sup> . . . . . <i>Houston, Texas, USA</i>	Director	General Counsel of Omega Protein Corporation since 2000.	May 18, 2018
William West <sup>(3)(4)</sup> . . . . . <i>Laguna Beach, California, USA</i>	Director	Co-Founder and President of Tesseract Medical Research, LLC since 2016. Co-founder and CFO / COO of ACRE LLC since 2012.	May 18, 2018
Shane Hoynes <sup>(3)</sup> . . . . . <i>Hampton, Middlesex, United Kingdom</i>	Director	Chief Marketing Officer of Quintessential Brands Group Ltd. since March 2018. Previously Chief Marketing Officer Europe of Bacardi Global Brands Limited from 2015 to December 2017. Previously Global Brand Director of Williams Grant & Sons Limited from 2011 to 2015.	May 18, 2018
Richard Mohr . . . . . <i>Monument, Colorado, USA</i>	Chief Financial Officer	Chief Financial Officer of CWB since September 2017.	May 18, 2018

**Notes:**

- (1) Member of the Governance and Nominating Committee. Mr. Held is the Chairman of the Governance and Nominating Committee.
- (2) Chairman of the Board.
- (3) Member of the Audit Committee. Mr. West is the Chairman of the Audit Committee.
- (4) Member of the Compensation Committee. Mr. Held is the Chairman of the Compensation Committee.
- (5) Lead Independent Director.

**Hesaam Moallem**

Hesaam Moallem is a consumer-packaged goods industry executive and attorney with a diverse background that includes leadership and C-level positions in sales, marketing, supply chain, manufacturing, business development, international expansion/operations and legal/regulatory roles. Mr. Moallem holds an undergraduate degree from the University of Texas in Chemistry and a Juris Doctor degree from California Western School of Law. Prior to practicing law, Mr. Moallem spent time as a chemist in the pharmaceutical industry. Until recently, Mr. Moallem served as General Counsel and Chief Compliance Officer for a fast-growing dietary supplement, fitness and apparel company, where he was responsible for the company's legal

and regulatory functions as well as supply chain, quality, manufacturing and product development operations. Mr. Moallem has been the Chief Executive Officer of CWB since January 2018.

#### Joel Stanley

Joel Stanley has served as the former CEO and is the current Chairman of CWB since its inception in 2013. Mr. Stanley is an entrepreneur having started several small businesses in his career, with the most notable being CWB. In late 2017, Mr. Stanley stepped down from his CEO role after Mr. Moallem joined CWB as President and CEO. In addition to his multiple business activities, Mr. Stanley is considered to be one of the most knowledgeable and well-known professionals in the cannabis industry, both domestically and internationally. He has also been very active at the legislative level educating state and federal officials on the virtues of the cannabis plant and its benefits to society.

#### Jared Stanley

Jared Stanley is CWB's Vice President of Cultivation Operations and has served as a Director of CWB since its inception in 2013. Jared graduated from Colorado State University with a degree in Applied Human Sciences with a concentration in Construction Management. Since 2014, Jared and his brothers have built the extensive cultivation operations of CWB with locations in three states. Mr. Stanley also plays an active role outside of CWB promoting its products and technologies at public events around the world. He also plays a significant role in CWB's legislative activities at the state and federal level.

#### Juan Sartori

Mr. Sartori is the Chairman and founder of Union Group, a privately-owned investment and private equity management firm with significant strategic Latin American interests. These cover the agricultural, energy, forestry, infrastructure, minerals, oil & gas and real estate sectors. Mr. Sartori established Union Group in 2007. In 2008, he formed UAG, one of the first companies affiliated with Union Group to consolidate agricultural assets. UAG has grown to become the largest agricultural company in Uruguay, and one of the largest in Latin America, with a subsidiary listed on the Montevideo Stock Exchange. Since its incorporation, Union Group and its subsidiaries have performed numerous transactions across Latin America, continuously growing its portfolio of private and public companies. Mr. Sartori is a regular speaker about Latin American issues in worldwide conferences and media. Mr. Sartori began his career as a financial services entrepreneur in 2002 launching Union Capital Group, a Geneva based multi-strategy asset manager, selling its control in 2008. Mr. Sartori received a Bachelor's degree in Business and Economics from École des Hautes Études Commerciales de Lausanne. Mr. Sartori has been a director of CWB since February of 2018.

#### John Held

Mr. Held is a legal executive with extensive expertise in mergers and acquisitions, corporate and securities laws and corporate governance. Mr. Held currently serves as Executive Vice President, General Counsel and Secretary of Omega Protein Corporation, a nutritional specialty oils and proteins products company, and has served in those positions since June 2006. Mr. Held has also served as General Counsel and various other positions with Omega Protein since 2000. In 2014, Mr. Held founded The Byzantium Group, a private security and investigations firm where he served as Chairman of the Board. In 1999, Mr. Held was a co-founder of Red Hawk Industries, a consolidator of the bank equipment services industry. In 1995, Mr. Held was a key founding team member of American Residential Services, a consolidator of the air conditioning, plumbing and electrical services industries. Prior thereto, Mr. Held practiced corporate and securities law with a large international law firm. Mr. Held holds a B.A. in Economics and International Relations from Bucknell University and a Juris Doctor degree from Cornell Law School.

#### William West

Mr. West is a strategic finance and operations executive with extensive experience with large scale, multi-national businesses. Mr. West began his career in business finance, venture capital, and management consulting. Thereafter, Mr. West held numerous roles with HID Corporation, a global leader in security identity solutions.

While at HID, Mr. West rose to serve as HID's Senior Vice President and Global Chief Financial Officer. In this role, Mr. West grew the business 300% to \$900M in 6 years through strong organic development and numerous acquisitions. Mr. West then co-founded and served as Chief Financial Officer and Chief Operating Officer of ACRE, LLC. In four years, Mr. West grew ACRE into a global player in security and identity access control solution through strategic domestic and international mergers and acquisitions, creating more than \$350MM in equity value. Currently, Mr. West serves as Co-Founder and President of Tesseract Medical Research, a California based life sciences company focused on novel drug delivery systems. Mr. West holds an undergraduate degree from Harvard University, as well as an MBA with emphasis on international finance, from Harvard Business School.

#### Shane Hoyne

Mr. Hoyne is a marketing executive with extensive experience leading marketing and strategy for well-known global brands. Mr. Hoyne began his career in marketing with Grants of Ireland, an Irish producer of wines and spirits. Thereafter, Mr. Hoyne held various marketing and communications positions with The Heineken Company, including serving as the company's Senior Brand Director for the United States Market. Mr. Hoyne then served as Global Brand Director for William Grant & Sons, the world's third largest producer of Scotch whiskey, which produces beverages under brands including Glenfiddich, Grant's, Balvenie, Kininvie, Monkey Shoulder, Tullamore Dew and Hendrick's Gin. Mr. Hoyne later served as Chief Marketing Officer — Europe for Bacardi. Currently, Mr. Hoyne serves as Chief Marketing Officer of Quintessential Brands Group, a London based producer and global distributor of spirits. Mr. Hoyne holds an undergraduate degree from Trinity College Dublin as well as an MBA from the University of Strathclyde Business School.

#### Richard Mohr

Richard Mohr has more than 25 years of leadership experience in both public and private companies. Mr. Mohr has an extensive background in finance and operations management, primarily in technology-based companies including software, manufacturing, remote sensing, semiconductors, optical storage and green energy. His public company experience includes ten years as CFO with a Nasdaq company including an IPO, and over ten years as CFO with a Toronto Stock Exchange company. Mr. Mohr holds an MBA from Regis University and a Bachelor's degree in Accounting from Colorado State University. Mr. Mohr is a licensed CPA in the state of Colorado. Mr. Mohr has been the CFO of CWB since September of 2017.

#### **Security Holding by Directors and Officers**

Immediately after Closing, assuming the Over-Allotment Option is fully exercised and the Private Placement is fully subscribed, the directors and executive officers, as a group, will beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of 35,494.33 Proportionate Voting Shares (14,197,732 Common Shares on an as-converted basis), representing approximately 18.7% of the issued and outstanding Proportionate Voting Shares (15.3% of the Common Shares on an as-converted basis).

#### **Cease Trade Orders**

To the knowledge of the Company, no director or executive officer as at the date hereof, is or was within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any corporation (including the Company), that (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer. For the purposes hereof, "order" means (a) a cease trade order, (b) an order similar to a cease trade order, or (c) an order that denied the relevant corporation access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days.

## **Bankruptcies**

To the knowledge of the Company, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company (a) is, as at the date hereof, or has been within the 10 years before the date hereof, a director or executive officer of any corporation (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

## **Penalties or Sanctions**

To the knowledge of the Company, no director, executive officer or Shareholder holding a sufficient number of securities of the Company to materially affect the control of the Company has been (i) subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **Conflicts of Interest**

A director who has a material interest in a matter before the Company's Board or any committee on which he or she serves is required to disclose such interest as soon as the director becomes aware of it. In situations where a director has a material interest in a matter to be considered by the Company's Board or any committee on which he or she serves, such director may be required to absent himself or herself from the meeting while discussions and voting with respect to the matter are taking place. Directors will also be required to comply with the relevant provisions of applicable corporate laws regarding conflicts of interest.

## **Insurance Coverage and Indemnification**

The Company will acquire prior to Closing of the Offering and maintain liability insurance for its directors and officers with coverage and terms that are customary for a Company of its size and industry. In addition, the Company will enter into indemnification agreements with its directors and officers. The indemnification agreements will generally require that the Company indemnify and hold the indemnitees harmless to the greatest extent permitted by law for liabilities arising out of the indemnitees' service to the Company as directors and officers, so long as the indemnitees acted honestly and in good faith with a view to the best interests of the Company and, with respect to criminal or administrative actions or proceedings that are enforced by monetary penalty, if the indemnitee had no reasonable grounds to believe that his or her conduct was unlawful. The indemnification agreements also provide for the advancement of defence expenses to the indemnitees by the Company.

## **EXECUTIVE COMPENSATION**

### Introduction

The following discussion describes the significant elements of the compensation of the Company's Chief Executive Officer, Chief Financial Officer and Chairman of the Board (collectively, the "NEOs"), namely:

- Hesaam Moallem, President and Chief Executive Officer
- Richard Mohr, Chief Financial Officer
- Joel Stanley, Chairman of the Board

## Role and Composition of the Compensation Committee

The Company's executive compensation program will be administered by the Compensation Committee (the "**Compensation Committee**") of the Board. The Compensation Committee's mandate will include reviewing and making recommendations to the Board in respect of the compensation matters relating to the Company's executive officers, employees and directors, including the NEOs. The Compensation Committee is composed of Messrs. Held (chair) and West, both of whom are independent within the meaning of applicable Canadian securities legislation.

The responsibilities of the Compensation Committee in respect of compensation matters will include reviewing and recommending to the Board the compensation policies and guidelines for supervisory Management and personnel, corporate benefits, bonuses and other incentives, reviewing and approving corporate goals and objectives relevant to CEO compensation; non-CEO officer and director compensation; the review of executive compensation disclosure; succession plans for officers and for key employees; and material changes and trends in human resources policy, procedure, compensation and benefits.

The Compensation Committee will have unrestricted access to the Company's personnel and documents and is provided with the resources necessary, including, as required, the engagement and compensation of outside advisors, to carry out its responsibilities.

## Compensation Principles and Objectives

The Company's compensation program will support its commitment to delivering strong performance for its shareholders. The compensation policies will be designed to attract, recruit and retain quality and experienced people. In addition, the compensation program will be intended to create an alignment of interests between the Company's executive officers and other employees with the long-term interests of the Company's shareholders, and enhance share value. In this way, a significant portion of each executive's compensation will be linked to maximizing shareholder value.

At the same time, the Compensation Committee will operate under the recognition that the executive compensation program must be sufficiently flexible in order to adapt to unexpected developments in the CPG and Cannabis industry and the impact of internal and market related occurrences from time to time and as such, the Compensation Committee will be given the discretion to award compensation absent attainment of specific performance goals and to increase or reduce the size of any such payouts in alignment with the overall pay-for-performance philosophy.

The compensation program will support the Company's long-term growth strategy and be designed to accomplish the following objectives:

- align executive compensation with corporate performance and appropriate peer group comparisons;
- produce long-term, positive results for the Company's shareholders;
- provide market competitive compensation and benefits to attract and retain highly qualified Management; and
- provide incentives that encourage superior corporate performance to support the Company's overall business strategy and objectives.

The Compensation Committee will adopt a compensation program that covers the following key short-term elements: (i) a base fixed amount of salary and benefits; (ii) a performance-based cash bonus for the CEO; and the following key long-term element: (iii) awards granted under the LTIP.

The Company will review the public disclosure available for other comparable CPG, cannabis industry companies, and/or similar market cap companies in Canada to assist in determining the competitiveness of base salary, bonuses, benefits and stock options paid to each of the executive officers of the Company. In particular, the management of CWB has identified the following potential peer group as measured by market capitalization and business sector: Jamieson Wellness, CanniMed, MedReleaf, Kinaxis and Dirtt. The Company will select a peer group that is comprised of companies that have similar characteristics in common with the Company and

that would compete for similar executive talent and as such, provides a good basis for assessing the competitiveness of the Company's compensation.

While the Compensation Committee is not intended to formally consider the implications of the risks associated with the Company's compensation policies and practices, the Compensation Committee will take into consideration the various components of the Company's compensation program when assessing whether the program supports the Company's principles and objectives and reviews the Company's compensation policies on a regular basis.

All of the Company's executives, other employees and directors will be subject to the Company's Insider Trading and Reporting Policy, which will prohibit trading in the Company's securities while in possession of material undisclosed information about the Company. Under this policy, such individuals will also be prohibited from entering into hedging transactions involving securities of the Company, such as short sales, puts and calls. Furthermore, we will permit executives, including the NEOs, to trade in the Company's securities, only during prescribed trading windows. Notwithstanding these prohibitions, the Company's directors, officers and employees will be able to sell a security which such person does not own if such person owns another security convertible into the security sold or an option or right to acquire the security sold and, within 10 days after the sale, such person: (i) exercises the conversion privilege, option or right and delivers the security so associated to the purchaser; or (ii) transfers the convertible security, option or right, if transferable, to the purchaser.

#### Base Salary

The objective of base salary compensation will be to reward and retain NEOs. The program will be designed to reward NEOs for maximizing shareholder value in a volatile commodity-based business in a regulatory compliant and ethical manner. In setting base compensation levels, consideration will be given to such factors as level of responsibility, experience, expertise and the amount of time devoted to the affairs of the Company. Subjective factors such as leadership, commitment and attitude will also be considered. The goal of the Company will be to pay base salary compensation to retain the NEOs in the range of industry peers, while maintaining the overall goal that total compensation should be weighted toward variable and long-term performance-based components as well.

#### Equity-Based Compensation

The Company's equity-based compensation will be an important component of its balanced total compensation program. Equity-based compensation is intended to create an ownership culture among executives that will provide an incentive to contribute to the continued growth and development of the Company's business and aligns the interests of its executive officers with those of its shareholders.

#### Option-Based Awards

The LTIP will permit the granting of Options to purchase Common Shares to NEOs. The objective of granting Options to the NEOs will be to incent the maximization of shareholder value on a long-term basis as stock options closely link the interests of the Participants (as defined in the LTIP) to those of the Company.

#### **Legacy Option Plan**

CWB has previously granted to directors, officers, employees and consultants certain stock options under the Legacy Option Plan. In connection with the Reorganization, the Legacy Option Plan, and all outstanding stock options thereunder, will be assumed by the Company. The Company intends to amend the Legacy Option Plan to provide for the existing stock options outstanding under the Legacy Option Plan to be exercisable in accordance with the terms of the existing Legacy Option Plan for Proportionate Voting Shares following the Reorganization with applicable adjustments to the exercise price thereof to reflect the Reorganization. Upon Closing, no further stock options will be granted under the Legacy Option Plan, and the Legacy Option Plan will be terminated when all stock options thereunder have been exercised or have expired.

CWB granted an aggregate of 175,000 stock options under the Legacy Option Plan to its officers and directors during the financial year ended December 31, 2017. The allocation of the number of these option-

based awards granted among the directors and officers of CWB was determined by the board of directors of CWB.

As of the date hereof, prior to giving effect to the Reorganization, 892,192 options to acquire common shares of CWB are issued and outstanding under the Legacy Option Plan (representing 10.2% of the issued and outstanding common shares of CWB, or 8.7% of the common shares of CWB on a fully-diluted basis, and representing 8.7% of the issued and outstanding Common Shares assuming completion of the Offering, on a non-diluted basis and assuming conversion of the Proportionate Voting Shares, the exercise of the Over-Allotment in full and that the Private Placement is fully subscribed) and were granted to directors, officer, employees and consultants of CWB. In addition, CWB has issued 576,429 Founder Options to acquire 576,429 common shares of CWB (representing 6.6% of the issued and outstanding common shares of CWB, or 5.6% of the common shares of CWB on a fully-diluted basis, and representing 5.6% of the issued and outstanding Common Shares assuming completion of the Offering, on a non-diluted basis and assuming conversion of the Proportionate Voting Shares, the exercise of the Over-Allotment in full and that the Private Placement is fully subscribed).

### **Long Term Incentive Plan**

Prior to completion of the Offering, the Company anticipates that the Board of Directors will approve and adopt the 2018 Long-Term Incentive Plan (the “**LTIP**”), pursuant to which the Company will be able to issue equity-based compensation in the form of stock options, stock appreciation rights, unrestricted shares or restricted shares, deferred share units, restricted stock units, performance shares, performance units, and other stock-based awards to eligible participants. The purpose of the LTIP is to enable the Company and certain of its affiliates to obtain and retain services of these individuals, which is essential to the Company’s long-term success. In connection with the adoption of the LTIP and the Reorganization, the securities granted under the Legacy Option Plan will be exchanged for comparable securities under the LTIP and the Legacy Option Plan will be terminated.

The granting of awards under the LTIP (“**Grants**”) is intended to promote the long-term financial interests and growth of the Company and its subsidiaries by attracting and retaining management and other personnel and key service providers with the training, experience and ability to enable them to make a substantial contribution to the success of the Company’s business. Moreover, the LTIP aims to align the interests of eligible participants with those of the shareholders of the Company through opportunities of increased equity-based ownership in the Company.

The maximization of shareholder value is encouraged by the granting of incentives under the LTIP. The objective of the LTIP is to reward and retain NEOs. The program is designed to reward NEOs for maximizing shareholder value in a volatile commodity-based business in a regulatory compliant and ethical manner. Increasing the value of Common Shares increases the value of the stock options. This incentive closely links the interests of the officers and directors to shareholders of the Company and encourages a long-term commitment to the Company.

Eligible participants under the plan include directors, officers (including the NEOs), employees and consultants of the Company and its subsidiaries. The LTIP will be administered by the Board of Directors or a committee thereof appointed by the Board of Directors. The following discussion is qualified in its entirety by the text of the LTIP.

The terms and conditions attaching to the Grants will be determined by the Board of Directors (or a committee thereof), in its sole discretion, and will be set forth in grant agreements. The Board of Directors will have the power and discretionary authority to determine the terms and conditions of the Grants, including the individuals who will receive the Grants, the type and number of awards subject to each Grant, the terms of settling the Granted awards, the form of consideration payable on settlement of awards and the timing of the Grants.

Participants will be required to pay any withholding tax obligations to the Company or its affiliate.

The exercise price of any Options shall be determined by the Board of Directors, subject to CSE approval (if required), at the time such Options are granted. In no event shall such exercise price be lower than the

greater of the closing market prices of the underlying securities on: (a) the trading day prior to the date of grant of the Options, and (b) the date of grant of the Options. Subject to any vesting restrictions imposed by the CSE, the Board of Directors may, in its sole discretion, determine the time during which Options shall vest and the method of vesting, or that no vesting restriction shall exist.

The terms of an Option may not be amended once issued. If an Option is cancelled prior to its expiry date, the Company must post notice of the cancellation and shall not grant new Options to the same person until 30 days have elapsed from the date of cancellation.

Subject to adjustment provisions as provided in the LTIP, the maximum number of Common Shares issuable pursuant to Grants under the LTIP shall be equal to 13,500,000 Common Shares (1,500,000 prior to giving effect to the Reorganization) less any Common Shares that are issuable pursuant to the Legacy Option Plan, as may be adjusted from time to time. At the discretion of the Board, Grants may be awarded using the applicable Proportionate Voting Share equivalent on the basis of one Proportionate Voting Share for every 400 Common Shares which are the subject of the applicable Grant.

After giving effect to the Reorganization and the Proportionate Exchange Ratio, immediately after Closing the Company will have Options outstanding under the LTIP and the Legacy Option Plan to acquire an aggregate of 20,074.47 Proportionate Voting Shares (8,029,788 Common Shares on an as-converted basis, representing 8.7% of the issued and outstanding Common Shares on an as-converted basis and assuming the exercise of the Over-Allotment in full and that the Private Placement is fully subscribed). Immediately after Closing, 13,675.68 Proportionate Voting Shares (5,470,272 Common Shares on an as-converted basis, representing 5.9% of the issued and outstanding Common Shares on an as-converted basis and assuming the exercise of the Over-Allotment in full and that the Private Placement is fully subscribed) will remain available for Grants pursuant to the LTIP.

### Summary Compensation Table

To the extent determinable on the date hereof, the following table sets forth the expected compensation for the financial year ended December 31, 2018 for services in all capacities to the Company and its subsidiaries, if any, in respect of individual(s) who were acting as, or were acting in a capacity similar to, a CEO, CFO and the most highly compensated executive officer whose total compensation exceeded C\$150,000 per annum (previously defined as the “NEOs”).

Name and Principal Position	Year Ended December 31	Consulting Fees/ Salary (US\$)	Share-Based Awards <sup>(1)</sup> (US\$)	Option-Based Awards <sup>(2)</sup> (US\$)	Non-Equity Incentive Stock Option Plan Compensation <sup>(3)</sup> (US\$)			All Other Compensation <sup>(5)</sup> (US\$)	Total Compensation (US\$)
					Annual Compensation Plans	Long-Term Incentive Stock Option Plans	Pension Value <sup>(4)</sup> (US\$)		
Hesaam Moallem . <i>President and CEO</i>	2018	325,000	Nil	522,500	Nil	Nil	Nil	199,392	1,046,892
Richard Mohr . . . <i>CFO</i>	2018	210,000	Nil	Nil	Nil	Nil	Nil	9,809	219,809
Joel Stanley . <i>Chairman</i>	2018	197,917	Nil	Nil	Nil	Nil	Nil	13,744	211,661

#### Notes:

- (1) The Company does not have any Share-Based Awards. “Share-Based Award” means an award under an equity incentive plan of equity-based instruments that do not have option-like features, including, for greater certainty, common shares, restricted shares, restricted share units, deferred share units, phantom shares, phantom share units, common share equivalent units and stock.
- (2) “Option-Based Award” means an award under an equity incentive plan of options, including, for greater certainty, share options, share appreciation rights and similar instruments that have option-like features. Represents the value of Options granted prior to the date of this prospectus assuming the value of US\$1.90 per Option.
- (3) The Company does not currently have any non-equity long-term incentive plans.
- (4) The Company does not currently have any pension plans or pension awards.
- (5) Includes CEO bonus program at 100% attainment and Company paid health and life insurance benefits.

## Incentive Stock Option Plan Awards

### Outstanding Share-Based Awards and Option-Based Awards

The following table sets forth details of awards that the Company expects to be outstanding upon completion of the Offering for each NEO of the Company.

Option-Based Awards				
Name and Title	Number of Proportionate Voting Shares and Common Shares Underlying Unexercised Option-Based Awards (#)	Exercise Price (US\$)	Expiration Date	Value of Unexercised In-the-Money Option-Based Awards <sup>(1)</sup> (US\$)
Hesaam Moallem . . . . .	6,187.56 Proportionate Voting Shares (2,475,024 Common Shares after giving effect to the Reorganization, on an as-converted basis)	\$222.22 per Proportionate Voting Share (\$0.556 per Common Share after giving effect to the Reorganization)	December 31, 2025	N/A
Richard Mohr . . . . .	3,937.53 Proportionate Voting Shares (1,575,012 Common Shares after giving effect to the Reorganization, on an as-converted basis)	\$222.22 per Proportionate Voting Share (\$0.556 per Common Share after giving effect to the Reorganization)	December 31, 2025	N/A

**Notes:**

(1) The value of the unexercised in-the-money Options is calculated based on the Offering Price of C\$7.00.

### Incentive Plan Awards — Value Vested or Earned During the Year

Options vest quarterly beginning March 31, 2018 over a period of three years. For Mr. Moallem, vesting of 517.51 Proportionate Voting Shares (207,000 Common Shares after giving effect to the Reorganization on an as-converted basis) occurs for each of the first two quarters of 2018, and 515.26 Proportionate Voting Shares for each successive quarter for the remaining two and a half years. For Mr. Mohr, vesting of 331.88 Proportionate Voting Shares (132,750 Common Shares after giving effect to the Reorganization on an as-converted basis) occurs for each quarter during 2018, and 326.25 Proportionate Voting Shares for each successive quarter for the remaining two years. The Options have a maximum expiry date of December 31, 2025.

### Employment Agreements, Termination and Change of Control Benefits

The Company has entered into an executive employment agreement with the Chief Executive Officer (the “**Employment Agreement**”), namely Hesaam Moallem with such Employment Agreement bearing an effective date of January 1, 2018. The Employment Agreement provides for his annual base salary, bonus and benefits. The Employment Agreement has entitlements on a termination without cause and change of control as follows: Mr. Moallem is entitled to six (6) months of compensation, plus any bonus that has been earned but that has not been paid as of the termination date, in the event of termination without cause during the first year of employment and twelve (12) months, plus any bonus that has been earned but that has not been paid as of the termination date, thereafter.

The incremental payments that would be made to the Company’s Chief Executive Officer under the terms of the Employment Agreement upon termination without cause, if such events were to occur immediately following the Closing would be US\$162,500, plus any bonus that had been earned but not paid as of the termination date. In addition, Mr. Moallem has entered into a 12-month non-competition and non-solicitation agreement with the Company.

The Company expects to enter into an employment agreement with Joel Stanley in respect of his engagement as a Brand Ambassador, effective as of the Closing Date and having a term of three years (the

“**Employment Period**”). The employment agreement provides for an annual base salary of US\$225,000 (the “**Base Salary**”) and customary employee benefits.

If the Company terminates the employee’s employment under the agreement prior to the end of the Employment Period, without Cause (as defined in the employment agreement), conditioned upon the employee signing a Separation Agreement (as defined in the employment agreement) and a Full and Final Release of Claims (as defined in the employment agreement), the Company will pay to the employee his Base Salary for the entire remaining Employment Period, as if employment had not been terminated. Payment shall be made either pursuant to the Company’s regular payroll schedule over the remaining Employment Period, or, at the Company’s sole discretion, may be accelerated and paid over a shorter period of time. If the Company terminates the employee’s employment under the agreement prior to the end of the Employment Period with Cause, the employee will be paid his regular Base Salary through his separation date, after which no further monies shall be owed to the employee under the agreement.

If the employee terminates the agreement for Good Reason (as defined in the employment agreement) prior to the end of the Employment Period, conditioned upon the employee signing a Separation Agreement and Full and a Final Release of Claims, the Company will pay to the employee the Base Salary for the next twelve months of the Employment Period or, the remaining Employment Period, whichever is shorter. Payment shall be made either pursuant to the Company’s regular payroll schedule over the remaining Employment Period, or, at the Company’s sole discretion, may be accelerated and paid over a shorter period of time.

### **DIRECTOR COMPENSATION**

The Company has seven directors. Hesaam Moallem is also the Chief Executive Officer of the Company and Joel Stanley is also the Chairman of the Board.

Employees of the Company who also act as directors of the Company are not anticipated to receive any additional compensation for services rendered in such capacity; however, all directors will be reimbursed for any out-of-pocket expenses incurred in connection with attending Board or committee meetings. For a description of the compensation paid to the NEOs of the Company who also act as director of the Company, see “*Statement of Executive Compensation*” section above.

The main objectives of the Company’s directors’ compensation program are to:

- compensate the directors in a manner that is commensurate with the risks and responsibilities assumed in respect of Board and committee membership, and competitive with other comparable issuers; and
- align the interests of the directors with the Company’s shareholders.

The chart below outlines the Company’s director compensation program for its non-employee directors (the “**Non-Executive Directors**”).

<u>Type of Fee</u>		<u>Amount</u>
Board Retainer . . . . .	Board Member	US\$50,000 / year
Additional Retainer . . . . .	Lead Independent Director	US\$20,000 / year
Committee Retainer . . . . .	Audit Committee Chair	US\$10,000 / year
	Compensation Committee Chair	US\$5,000 / year
	Governance and Nominating Committee Chair	US\$5,000 / year
Stock Option Grant . . . . .	Board Member	US\$40,000 / year

Annual option grants will be determined using the Black-Scholes value of the subject options and vest as to 25% each quarter.

The Company expects to enter into an employment agreement with Joel Stanley pursuant to which Joel Stanley is expected to receive an annual salary of US\$225,000, see “*Executive Compensation*”. The Company expects to enter into an employment agreement with Jared Stanley pursuant to which Jared Stanley is expected

to receive an annual salary of US\$225,000 upon the same terms as the employment agreement to be entered into by Joel Stanley described in this prospectus.

### Incentive Stock Option Plan Awards

#### *Directors' Outstanding Share-Based Awards and Option-Based Awards*

The following table sets forth details of awards that the Company expects to issue after completion of the Offering and the Reorganization for each Non-Executive Director of the Company.

Name	Option-Based Awards				Share-Based Awards		
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (C\$)	Option Expiration Date	Value of Unexercised in-the-money Options (C\$) <sup>(1)</sup>	Number of Shares that have not vested (#)	Market or Payout Value of Share-Based Awards that have not vested (C\$)	Market or Payout Value of vested Share-Based Awards not paid out or distributed (C\$)
John Held . . . . .	11,100	7.00	December 31, 2025	N/A	Nil	Nil	Nil
Shane Hoyne . . . . .	11,100	7.00	December 31, 2025	N/A	Nil	Nil	Nil
Juan Sartori . . . . .	11,100	7.00	December 31, 2025	N/A	Nil	Nil	Nil
William West . . . . .	11,100	7.00	December 31, 2025	N/A	Nil	Nil	Nil

**Notes:**

(1) The value of the unexercised in-the-money Options is calculated based on the Offering Price of C\$7.00.

None of the awards disclosed in the table above will be transferred at other than fair market value.

### **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

None of the Company's directors, executive officers, employees, former directors, former executive officers or former employees or any of its subsidiaries, and none of their respective associates, is or has within 30 days before the date of this prospectus or at any time since the beginning of the most recently completed financial year been indebted to the Company or any of its subsidiaries or another entity whose indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar agreement or understanding provided to us or any of our subsidiaries except for Joel Stanley, Chairman and a director of the Company and CWB's current Chairman, who has a loan outstanding with CWB in the amount of US\$107,409.

### **AUDIT COMMITTEE DISCLOSURE**

The Audit Committee is comprised of Messrs. West, Sartori and Hoyne, and is chaired by Mr. West. The Board has determined that each of these directors meets the independence requirements, including the heightened independence standards for members of the Audit Committee, pursuant to NI 52-110. The Board has determined that each of these directors is financially literate within the meaning of NI 52-110. Each of the Audit Committee members has an understanding of the accounting principles used to prepare financial statements and varied experience as to the general application of such accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting. For additional details regarding the education and experience of each member of the Audit Committee, see "*Directors and Executive Officers*".

#### **Audit Committee Charter**

The Board has adopted a written charter setting forth the responsibilities, powers and operations of the Audit Committee consistent with NI 52-110, a copy of which is attached hereto as Appendix "A". The principal duties and responsibilities of the Audit Committee are to assist the Board in discharging the oversight of the nature and scope of the annual audit, management's reporting on internal accounting standards and practices, the review of financial information, accounting systems and procedures, and financial reporting and financial

statements. The Board has charged the Audit Committee with the responsibility of recommending, for approval by the Board, the audited financial statements, interim financial statements and other mandatory disclosure releases containing financial information.

The Audit Committee has access to all books, records, facilities and personnel and may request any information about the Company as it may deem appropriate. It also has the authority to retain and compensate special legal, accounting, financial and other consultants or advisors to advise the Audit Committee. The Audit Committee reviews and approves all related-party transactions and prepares reports for the Board on related-party transactions. The Audit Committee is also responsible for the pre-approval of all non-audit services to be provided by the Company’s auditors.

**Reliance on Certain Exemptions**

At no time since the Company’s incorporation has the Company relied on the exemption from NI 52-110, including Section 2.4 of NI 52-110 (*De Minimis Non-audit Services*), or an exemption granted under Part 8 of NI 52-110.

**Audit Committee Oversight**

At no time since the Company’s incorporation was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board.

**Pre-Approval Policies and Procedures**

The Audit Committee has not adopted specific policies and procedures for the engagement of non-audit services. The Audit Committee must pre-approve any non-audit services to the Company and the fees for those services.

**External Auditor Service Fees**

The aggregate fees billed by the Company’s external auditors since the Company’s incorporation are as follows:

<u>Date</u>	<u>Audit Fees (C\$)<sup>(1)</sup></u>	<u>Audit Related Fees (US\$)<sup>(2)</sup></u>	<u>Tax Fees (US\$)<sup>(3)</sup></u>	<u>All Other Fees (US\$)<sup>(4)</sup></u>
Since May 18, 2018 . . . . .	9,550	Nil	Nil	Nil

**Notes:**

- (1) “**Audit Fees**” include fees necessary to perform the annual audit and quarterly reviews of the Company’s financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.
- (2) “**Audit-Related Fees**” for assurance and related services that are reasonably related to the performance of the audit or review of the Company’s financial statements and are not reported as audit fees. The services provided in this category include due diligence assistance, accounting consultations on proposed transactions, and consultation on International Financial Reporting Standards conversion.
- (3) “**Tax Fees**” include fees for all tax services other than those included in “Audit Fees” and “Audit-Related Fees”. This category includes fees for tax compliance, tax planning and tax advice.
- (4) “**All Other Fees**” include all other non-audit services.

The aggregate fees billed by CWB’s external auditors in each of the two fiscal years noted below for audit and other fees are as follows:

<u>Financial Year Ending</u>	<u>Audit Fees (US\$)<sup>(1)</sup></u>	<u>Audit Related Fees (US\$)<sup>(2)</sup></u>	<u>Tax Fees (US\$)<sup>(3)</sup></u>	<u>All Other Fees (US\$)<sup>(4)</sup></u>
2017 . . . . .	106,119	Nil	65,000	Nil
2016 . . . . .	126,716	Nil	10,000	Nil

**Notes:**

- (1) “**Audit Fees**” include fees necessary to perform the annual audit and quarterly reviews of the Company’s financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.
- (2) “**Audit-Related Fees**” for assurance and related services that are reasonably related to the performance of the audit or review of the Company’s financial statements and are not reported as audit fees. The services provided in this category include due diligence assistance, accounting consultations on proposed transactions, and consultation on International Financial Reporting Standards conversion.
- (3) “**Tax Fees**” include fees for all tax services other than those included in “Audit Fees” and “Audit-Related Fees”. This category includes fees for tax compliance, tax planning and tax advice.
- (4) “**All Other Fees**” include all other non-audit services.

**DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES**

The Canadian Securities Administrators have issued corporate governance guidelines pursuant to National Policy 58-201 — *Corporate Governance Guidelines* (the “**Corporate Governance Guidelines**”) together with certain related disclosure requirements pursuant to NI 58-101. The Corporate Governance Guidelines are recommended as “best practices” for issuers to follow. The Company recognizes that good corporate governance plays an important role in its overall success and in enhancing shareholder value and, accordingly, the Company will be adopting in connection with the Closing, certain corporate governance policies and practices which reflect the Company’s consideration of the recommendations made in the Corporate Governance Guidelines.

The disclosure set out below includes disclosure required by NI 58-101 describing the Company’s approach to corporate governance in relation to the Corporate Governance Guidelines.

**Composition of the Board**

The Board of Directors is composed of seven directors: Messrs. Hesaam Moallem, Joel Stanley, Jared Stanley, Juan Sartori, John Held, William West and Shane Hoyne. The mandate of the Board is attached to this prospectus as Appendix “B”.

Under the BCBCA, a director may be removed with or without cause by a resolution passed by an ordinary majority of the votes cast by shareholders present in person or by proxy at a meeting and who are entitled to vote. The directors will be elected by shareholders at each annual meeting of shareholders, and all directors will hold office for a term expiring at the close of the next annual meeting or until their respective successors are elected or appointed. The Articles of the Company provide that, between annual general meetings of shareholders, the directors may appoint one or more additional directors, but the number of additional directors may not at any time exceed one-third of the number of current directors who were elected or appointed other than as additional directors.

**Director Independence**

Under applicable Canadian Securities Laws, the Company’s Board has determined that, at Closing, a majority of the members of the Board will be considered independent within the meaning of NI 52-110. Pursuant to NI 52-110, Mr. Hesaam Moallem is not considered to be independent as he is the CEO of the Company and Messrs. Joel Stanley and Jared Stanley are not considered to be independent as they are

employees of the Company. Messrs. Sartori, Held, West and Hoyne are considered independent for the purposes of NI 58-101.

Mr. Joel Stanley has been appointed as the Chairman of the Board and as such the Board does not have an independent chairperson. However, Mr. John Held has been appointed as lead independent director by the Board and is responsible for ensuring that the directors who are independent have opportunities to meet without management present, as required. Discussions are led by the lead independent director who provides feedback subsequently to the Chairman of the Board and to the Board.

**Other Directorships**

The following directors are presently directors of other issuers that are reporting issuers (or the equivalent):

<u>Name</u>	<u>Name of Reporting Issuer</u>
Juan Sartori . . . . .	Union Acquisition Corp. (NYSE) UAG S.A. (Montevideo Stock Exchange)

**Board Meetings**

The Board will hold ad hoc meetings from time to time. The Board will adopt the practice of following each meeting with an independent directors’ discussion. Open and candid discussion among the independent directors will be facilitated by the relatively small size of the Board and great weight will be attributed to the views and opinions of the independent directors. In addition, the Board ensures open and candid discussion among its independent directors by continuously monitoring situations where a conflict of interest or perceived conflict of interest with respect to a director may exist. In cases where such a conflict of interest or perceived conflict of interest is identified, it is addressed in accordance with the BCBCA and the Board Mandate. The Board may determine that it is appropriate to hold an in-camera session excluding a director with a conflict of interest or perceived conflict of interest or such director may consider that it is appropriate to recuse themselves from considering and voting with respect to the matter under consideration.

**Position Descriptions**

The Board will develop and implement a written position description for the Chairman and the lead independent director prior to Closing. The Company has no written description for its committee chair positions; however, the Company has a mandate for each committee and the roles and responsibilities of each committee chair position are implied therein.

The Board, with the input of the CEO of the Company, has developed a written position description for the CEO.

**Orientation and Continuing Education**

The Company does not currently have a formal orientation and education program for new recruits to the Board, and instead will provide such orientation and education on an informal basis. As new directors join the Board, Management will provide these individuals with corporate policies, historical information about the Company and CWB, as well as information on the Company’s and CWB’s performance and its strategic plan with an outline of the general duties and responsibilities entailed in carrying out their duties.

No formal continuing education program currently exists for the directors of the Company. The Company will encourage directors to attend, enrol or participate in courses and/or seminars dealing with financial literacy, corporate governance and related matters and will pay the cost of such courses and seminars. Each director of the Company will have the responsibility for ensuring that they maintain the skill and knowledge necessary to meet their obligations as a director.

The Company may, following Closing, adopt formal orientation and continuing education programs for the directors of the Company.

The Company may, following Closing, adopt a formal director evaluation process to assess its effectiveness and contribution, among other matters, to be conducted on an annual basis.

### **Ethical Business Conduct**

The Company will implement a Code of Business Conduct and Ethics (the “**Ethics Code**”) prior to Closing for its directors, officers and employees, which will be made available under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The Governance and Nominating Committee will be responsible for administering the Ethics Code. The day-to-day responsibility for administering and interpreting the Ethics Code will be delegated to the CFO, who is responsible for reporting to the Governance and Nominating Committee.

In accordance with the BCBCA, directors who are a party to, or are a director or an officer of a person which is a party to, a material contract or material transaction or a proposed material contract or proposed material transaction are required to disclose the nature and extent of their interest and not to vote on any resolution to approve the contract or transaction. In addition, the Company will have a lead independent director and in certain cases, an independent committee of the Board may be formed to deliberate on such matters in the absence of the interested party.

The Board will adopt a “Whistleblower Policy” prior to Closing, wherein employees and consultants of the Company are provided with the mechanics by which they may raise concerns with respect to falsification of financial records, unethical conduct, harassment and theft in a confidential, anonymous process.

### **Nomination of Directors**

The Company will adopt Terms of Reference for the Governance and Nominating Committee prior to Closing. These Terms of Reference will outline that the Governance and Nominating Committee will be tasked with identifying qualified persons to serve as directors of the Company should the need or a vacancy arise. The Governance and Nominating Committee may engage a candidate search firm in assisting with identifying potential nominees. In selecting a candidate for recommendation to the Board, the Governance and Nominating Committee will consider the following attributes: high standards of personal and professional ethics, integrity and values, commitment to representing the long-term interest of shareholders, broad experience at the policy-making level in business, government, education, technology or public interest, and sufficient time to effectively fulfill duties as a Board member.

The Governance and Nominating Committee is comprised of Messrs. Held (chair) and Moallem.

### **Term Limits**

The Company has not implemented a policy mandating term limits for directors, which the Board believes is in the best interest of the Company. The Company values the comprehensive knowledge of the Company and its operations that long serving directors possess and the contribution that this makes to the Board as a whole. Tenure will be determined on the basis of contribution and continued evidence of the exercise of independent judgment.

### **Compensation**

For a discussion on the determination of the compensation for the Company’s directors and officers, see “*Executive Compensation — Compensation Principles and Objectives*” in respect of officers and “*Director Compensation*” in respect of directors.

The Compensation Committee’s responsibility will be to formulate and make recommendations to the Board in respect of compensation issues relating to directors and employees of the Company. Without limiting the generality of the foregoing, the Compensation Committee will review and provide recommendations to the Board on the following matters:

- (a) compensation policies and guidelines for supervisory and management personnel of the Company and its related entities;

- (b) corporate benefits, bonuses and other incentives, including stock options;
- (c) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives and determining the CEO's compensation level based on this evaluation;
- (d) non-CEO officer and director compensation, incentive compensation plans and equity-based plans;
- (e) the review of executive compensation disclosure before the Company publicly discloses such information;
- (f) succession plans for the officers and for key employees of the Company; and
- (g) any material changes or trends in human resources policy, procedure, compensation and benefits.

The Compensation Committee is composed of Messrs. Held (chair) and West, both of whom are independent within the meaning of applicable Canadian securities legislation.

### **Diversity**

The Board has not adopted any policies that address the identification and nomination of women directors of the Company. The Board believes that Board nominations and executive officer appointments should be made on the basis of the skills, knowledge, experience and character of individual candidates and the requirements of the Board and Management at the time. The Company is committed to a meritocracy and believes that considering the broadest group of individuals who have the skills, knowledge, experience and character required to provide leadership needed to achieve the Company's business objectives, without reference to their age or gender, is in the best interests of the Company and all of its stakeholders.

The Board does, however, recognize the benefits of diversity within the Board and as a result, the Board encourages the consideration of women who have the necessary skills, knowledge, experience and character when considering new potential candidates for the Board. The Governance and Nominating Committee also intends to review the number of women considered or brought forward as potential nominees for Board positions and the skills, knowledge, experience and character of any such women candidates relative to other candidates to ensure that women candidates are being fairly considered relative to other candidates. The Governance and Nominating Committee also intends to review the number of women actually appointed and serving on the Board to evaluate whether it is desirable to adopt requirements or policies in the future with respect to the diversity of the Board.

Although the Board encourages the consideration of women who have the necessary, skills, knowledge, experience and character when evaluating new potential candidates for the Board, it does not consider the level of representation of women on the Board when identifying and nominating potential candidates for election or re-election to the Board. In keeping its commitment to meritocracy, the Board feels that the best and most qualified individual in all respects should be the individual that is nominated. The Company has not imposed quotas or targets regarding the representation of women on the Board or in executive officer positions. The Board believes that imposing quotas or targets regarding the representation of women on the Board and in executive officer positions would compromise the principles of meritocracy. There are presently no women serving on the Board, and no women serving in executive officer positions.

## CERTAIN UNITED STATES TAX CONSIDERATIONS

The following is a general summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the Common Shares that are applicable to U.S. Holders and certain Non-U.S. Holders (as defined below) that acquire the Common Shares pursuant to the Offering. This discussion is based on the Code, Treasury regulations promulgated under the Code (“**Treasury Regulations**”), administrative pronouncements or practices and judicial decisions, all as of the date hereof. Future legislative, judicial, or administrative modifications, revocations, or interpretations, which may or may not be retroactive, may result in U.S. federal income tax consequences significantly different from those discussed herein. This discussion is not binding on the IRS. No ruling has been or will be sought or obtained from the IRS with respect to any of the U.S. federal tax consequences discussed herein. There can be no assurance that the IRS will not challenge any of the conclusions described herein or that a U.S. court will not sustain such a challenge. This summary assumes that the Common Shares are held as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment), in the hands of a shareholder at all relevant times and are treated as equity of the Company for U.S. federal income tax purposes.

This summary does not address U.S. federal income tax consequences to U.S. Holders subject to special rules, including U.S. Holders that (i) are banks, financial institutions, or insurance companies; (ii) are regulated investment companies or real estate investment trusts; (iii) are brokers, dealers, or traders in securities or currencies; (iv) are tax-exempt organizations; (v) hold the Common Shares as part of hedges, straddles, constructive sales, conversion transactions, or other integrated investments; (vi) acquire the Common Shares as compensation for services or through the exercise or cancellation of employee stock options or warrants; (vii) have a functional currency other than the U.S. dollar; (viii) own or have owned directly, indirectly, or constructively 10% or more of the voting power or value of the Company; or (ix) are U.S. expatriates. In addition, this discussion does not address any U.S. federal estate, gift, or other non-income tax, or any state, local, or non-U.S. tax consequences of the ownership and disposition of the Common Shares or the impact of the alternative minimum tax or the Medicare contribution tax on net investment income.

If an entity classified as a partnership for U.S. federal income tax purposes holds the Common Shares, the U.S. federal income tax treatment of a partner in such partnership generally will depend on the status of such partner and on the activities of the partner and the partnership. A person that is a partner of an entity classified as a partnership for U.S. federal income tax purposes where such entity holds the Common Shares is urged to consult its tax advisor.

**THIS DISCUSSION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL, AND NON-U.S. TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF COMMON SHARES.**

### **U.S. Holders**

The discussion in this section is addressed to a Holder of Common Shares acquired pursuant to the Offering that is a “U.S. Holder” for U.S. federal income tax purposes. As used herein, “U.S. Holder” means a beneficial owner of the Common Shares that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States; (ii) a corporation created or organized under the laws of the United States or any political subdivision thereof, including any State thereof and the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source; or (iv) a trust that (a) is subject to the primary jurisdiction of a court within the United States and for which one or more U.S. persons have authority to control all substantial decisions or (b) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

### **Tax Classification of the Company as a U.S. Domestic Corporation**

As a result of the Reorganization, pursuant to Section 7874(b) of the Code and the Treasury Regulations promulgated thereunder, notwithstanding that the Company is organized under the provisions of the BCBCA, solely for U.S. federal income tax purposes, it is anticipated that the Company will be treated as converting to a

U.S. domestic corporation at the end of the day immediately preceding the effective date of the merger of Stanley Brothers, Inc. undertaken pursuant to the Reorganization under a tax-deferred reorganization under Code Section 368(a). The Company should not recognize any gain or loss as a result of the Merger.

The Company anticipates that it will experience a number of significant and complicated U.S. federal income tax consequences as a result of being treated as a U.S. domestic corporation for U.S. federal income tax purposes, and this summary does not attempt to describe all such U.S. federal income tax consequences. Section 7874 of the Code and the Treasury Regulations promulgated thereunder do not address all the possible tax consequences that arise from the Company being treated as a U.S. domestic corporation for U.S. federal income tax purposes. Accordingly, there may be additional or unforeseen U.S. federal income tax consequences to the Company that are not discussed in this summary.

Generally, the Company will be subject to U.S. federal income tax on its worldwide taxable income (regardless of whether such income is “U.S. source” or “foreign source”) and will be required to file a U.S. federal income tax return annually with the IRS. The Company anticipates that it will also be subject to tax in Canada. It is unclear how the foreign tax credit rules under the Code will operate in certain circumstances, given the treatment of the Company as a U.S. domestic corporation for U.S. federal income tax purposes and the taxation of the Company in Canada. Accordingly, it is possible that the Company will be subject to double taxation with respect to all or part of its taxable income. It is anticipated that such U.S. and Canadian tax treatment will continue indefinitely and that the Shares will be treated indefinitely as shares in a U.S. domestic corporation for U.S. federal income tax purposes, notwithstanding future transfers. The remainder of this summary assumes that the Company will be treated as a U.S. domestic corporation for U.S. federal income tax purposes. If, pursuant to a change in law or otherwise, Section 7874(b) of the Code no longer applied to treat the Company as a U.S. domestic corporation, the U.S. federal income tax consequences to holders of Common Shares would be materially different than as described below, and such differences could be adverse to certain holders of Common Shares. Because the Company will be treated as a U.S. domestic corporation for all purposes of the Code, the Company will not be treated as a “passive foreign investment company,” as such rules apply only to non-U.S. corporations for U.S. federal income tax purposes. Moreover, because the Company’s shares will be treated as shares of a U.S. domestic corporation, the U.S. gift, estate and generation-skipping transfer tax rules generally apply to a non-U.S. holder of the Common Shares.

## **Tax Considerations for U.S. Holders**

### Distributions

As discussed above in the section entitled “*Dividends or Distributions*,” the Company does not anticipate declaring or paying dividends to holders of Common Shares in the foreseeable future. However, if the Company decides to make any such distributions, such distributions with respect to Common Shares will be taxable as dividend income when paid to the extent of the Company’s current or accumulated earnings and profits as determined for U.S. federal income tax purposes. To the extent that the amount of a distribution with respect to the Company’s Common Shares exceeds its current and accumulated earnings and profits, such distribution will be treated first as a tax-free return of capital to the extent of the U.S. Holder’s adjusted tax basis in the Common Shares, and thereafter as a capital gain which will be a long-term capital gain if the U.S. Holder has held such stock at the time of the distribution for more than one year. Distributions on the Company’s Common Shares constituting dividend income paid to U.S. Holders that are U.S. corporations may qualify for the dividends received deduction, subject to various limitations. Distributions on Company’s Common Shares constituting dividend income paid to U.S. Holders that are individuals may qualify for the reduced rates applicable to qualified dividend income.

### Sale or Redemption

A U.S. Holder will generally recognize capital gain or loss on a sale, exchange, redemption (other than a redemption that is treated as a distribution) or other disposition of the Company’s Common Shares equal to the difference between the amount realized upon the disposition and the U.S. Holder’s adjusted tax basis in the shares so disposed. Such capital gain or loss will be a long-term capital gain or loss if the U.S. Holder’s holding period for the shares disposed of exceeds one year at the time of disposition. Long-term capital gains of

non-corporate taxpayers are generally taxed at a lower maximum marginal tax rate than the maximum marginal tax rate applicable to ordinary income. The deductibility of net capital losses by individuals and corporations is subject to limitations.

#### Foreign Tax Credit Limitations

Because it is anticipated that the Company will be subject to tax both as a U.S. domestic corporation and as a Canadian corporation, a U.S. Holder may pay, through withholding, Canadian tax, as well as U.S. federal income tax, with respect to dividends paid on its Shares. For U.S. federal income tax purposes, a U.S. Holder may elect for any taxable year to receive either a credit or a deduction for all foreign income taxes paid by the holder during the year. Complex limitations apply to the foreign tax credit, including a general limitation that the credit cannot exceed the proportionate share of a taxpayer's U.S. federal income tax that the taxpayer's foreign source taxable income bears to the taxpayer's worldwide taxable income. In applying this limitation, items of income and deduction must be classified, under complex rules, as either foreign source or U.S. source. The status of the Company as a U.S. domestic corporation for U.S. federal income tax purposes will cause dividends paid by the Company to be treated as U.S. source rather than foreign source for this purpose. As a result, a foreign tax credit may be unavailable for any Canadian tax paid on dividends received from the Company. Similarly, to the extent a sale or disposition of the Shares by a U.S. Holder results in Canadian tax payable by the U.S. Holder (for example, because the Shares constitute taxable Canadian property within the meaning of the Tax Act), a U.S. foreign tax credit may be unavailable to the U.S. Holder for such Canadian tax. In each case, however, the U.S. Holder should be able to take a deduction for the U.S. Holder's Canadian tax paid, provided that the U.S. Holder has not elected to credit other foreign taxes during the same taxable year. The foreign tax credit rules are complex, and each U.S. Holder should consult its own tax advisor regarding these rules.

#### Foreign Currency

The amount of any distribution paid to a U.S. Holder in foreign currency, or the amount of proceeds paid in foreign currency on the sale, exchange or other taxable disposition of Shares, generally will be equal to the U.S. dollar value of such foreign currency based on the exchange rate applicable on the date of receipt (regardless of whether such foreign currency is converted into U.S. dollars at that time). A U.S. Holder will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Any U.S. Holder who converts or otherwise disposes of the foreign currency after the date of receipt may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss, and generally will be U.S. source income or loss for foreign tax credit purposes. Different rules apply to U.S. Holders who use the accrual method of tax accounting. Each U.S. Holder should consult its own U.S. tax advisors.

#### Information Reporting and Backup Withholding

Information returns will be filed with the IRS in connection with payments of dividends and the proceeds from a sale or other disposition of Common Shares payable to a U.S. Holder that is not an exempt recipient, such as a corporation. Certain U.S. Holders may be subject to backup withholding with respect to the payment of dividends on the Common Shares and to certain payments of proceeds on the sale or redemption of Common Shares unless such U.S. Holders provide proof of an applicable exemption or a correct taxpayer identification number, and otherwise comply with applicable requirements of the backup withholding rules.

Any amount withheld under the backup withholding rules from a payment to a U.S. Holder is allowable as a credit against such U.S. Holder's U.S. federal income tax, which may entitle the U.S. Holder to a refund, provided that the U.S. Holder timely provides the required information to the IRS. Moreover, certain penalties may be imposed by the IRS on a U.S. Holder who is required to furnish information but does not do so in the proper manner. U.S. Holders should consult their tax advisors regarding the application of backup withholding in their particular circumstances and the availability of and procedure for obtaining an exemption from backup withholding under current Treasury Regulations.

## **Non-U.S. Holders**

The discussion in this section is addressed to Holders of the Company's Common Shares that are "Non-U.S. Holders" that do not hold Common Shares in connection with the conduct of a trade or business in the United States. For purposes of this discussion, a "Non-U.S. Holder" is any beneficial owner of the Company's Common Shares that is neither a "U.S. Holder" nor an entity treated as a partnership for U.S. federal income tax purposes.

### Distributions

Generally, distributions treated as dividends as described above under "U.S. Holders — Distributions" paid to a Non-U.S. Holder of the Company's Common Shares will be subject to U.S. federal withholding tax at a rate of 30% of the gross amount of the dividends (or such lower rate specified by an applicable income tax treaty, provided the Non-U.S. Holder furnishes a valid IRS Form W-8BEN or W-8BEN-E, or other applicable documentation, certifying qualification for the lower treaty rate). A Non-U.S. Holder that does not timely furnish the required documentation for a reduced treaty rate, but that qualifies for a reduced treaty rate, may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. Non-U.S. Holders should consult their tax advisors regarding their entitlement to benefits under any applicable income tax treaty.

### Sale or Redemption

Subject to the discussions below under "*Non-U.S. Holders — Information Reporting and Backup Withholding*" and "*Non-U.S. Holders — Additional Withholding Tax on Payments Made to Foreign Accounts*", a Non-U.S. Holder will not be subject to U.S. federal income tax on any gain realized upon the sale or other taxable disposition of the Company's Common Shares unless:

- the Non-U.S. Holder is a non-resident alien individual present in the United States for 183 days or more during the taxable year of the disposition and certain other requirements are met; or
- Common Shares constitutes a U.S. real property interest, or USRPI, by reason of Company's status as a U.S. real property holding corporation, or USRPHC, for U.S. federal income tax purposes.

Gain described in the first bullet point above will be subject to U.S. federal income tax at a rate of 30% (or such lower rate specified by an applicable income tax treaty), which may be offset by U.S. source capital losses of the Non-U.S. Holder (even though the individual is not considered a resident of the United States), provided the Non-U.S. Holder has timely filed U.S. federal income tax returns with respect to such losses.

With respect to the second bullet point above, the Company believes it currently is not, and does not anticipate becoming, a USRPHC. Because the determination of whether the Company is a USRPHC depends, however, on the fair market value of Company's USRPIs relative to the fair market value of the Company's non-U.S. real property interests and other business assets, there can be no assurance the Company currently is not a USRPHC or will not become one in the future. Even if the Company is or were to become a USRPHC, gain arising from the sale or other taxable disposition by a Non-U.S. Holder of the Company's Common Shares will not be subject to U.S. federal income tax if the Common Shares are "regularly traded," as defined by applicable Treasury Regulations, on an established securities market, and such Non-U.S. Holder owned, actually and constructively, 5% or less of the Common Shares throughout the shorter of the five-year period ending on the date of the sale or other taxable disposition or the Non-U.S. Holder's holding period.

Non-U.S. Holders should consult their tax advisors regarding potentially applicable income tax treaties that may provide for different rules.

### Information Reporting and Backup Withholding

Payments of dividends on the Company's Common Shares will not be subject to backup withholding, provided the applicable withholding agent does not have actual knowledge or reason to know the holder is a United States person and the holder either certifies its non-U.S. status, such as by furnishing a valid IRS Form W-8BEN or W-8BEN-E, or otherwise establishes an exemption. However, information returns are

required to be filed with the IRS in connection with any dividends on the Company's Common Shares paid to the Non-U.S. Holder, regardless of whether any tax was actually withheld. In addition, proceeds of the sale or other taxable disposition of the Company's Common Shares within the United States or conducted through certain U.S.-related brokers generally will not be subject to backup withholding or information reporting, if the applicable withholding agent receives the certification described above and does not have actual knowledge or reason to know that such holder is a United States person, or the holder otherwise establishes an exemption. Proceeds of a disposition of Common Shares conducted through a non-U.S. office of a non-U.S. broker generally will not be subject to backup withholding or information reporting.

Copies of information returns that are filed with the IRS may also be made available under the provisions of an applicable treaty or agreement to the tax authorities of the country in which the Non-U.S. Holder resides or is established.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a Non-U.S. Holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

#### Additional Withholding Tax on Payments Made to Foreign Accounts

Withholding taxes may be imposed under Sections 1471 to 1474 of the Code (such Sections commonly referred to as the Foreign Account Tax Compliance Act, or "FATCA"), on certain types of payments made to non-U.S. financial institutions and certain other non-U.S. entities. Specifically, a 30% withholding tax may be imposed on dividends on, or gross proceeds from the sale or other disposition of, the Company's Common Shares paid to a "foreign financial institution" or a "non-financial foreign entity" (each as defined in the Code), unless (1) the foreign financial institution undertakes certain diligence and reporting obligations, (2) the non-financial foreign entity either certifies it does not have any "substantial United States owners", as defined in the Code, or furnishes identifying information regarding each substantial United States owner, or (3) the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from these rules. If the payee is a foreign financial institution and is subject to the diligence and reporting requirements in (1) above, it must enter into an agreement with the U.S. Department of the Treasury requiring, among other things, that it undertake to identify accounts held by certain "specified United States persons" or "United States-owned foreign entities" (each as defined in the Code), annually report certain information about such accounts, and withhold 30% on certain payments to non-compliant foreign financial institutions and certain other account holders. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the United States governing FATCA may be subject to different rules.

Under the applicable Treasury Regulations and administrative guidance, withholding under FATCA generally applies to payments of dividends on the Company's Common Shares, and will apply to payments of gross proceeds from the sale or other disposition of such stock on or after January 1, 2019.

Prospective investors should consult their tax advisors regarding the potential application of withholding under FATCA to their investment in Common Shares.

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of DLA Piper (Canada) LLP, counsel to the Company, and Stikeman Elliott LLP, counsel to the Underwriters, the following is a general summary, as of the date hereof, of the principal Canadian federal income tax considerations under the Tax Act generally applicable to a shareholder who acquires Common Shares pursuant to the Offering and who at all relevant times, for purposes of the Tax Act holds the Common Shares as capital property and deals at arm's length with the Company and the Underwriters and is not affiliated with the Company or the Underwriters (a "**Holder**"). Generally, the Common Shares will be considered to be capital property to a Holder unless they are held or acquired in the course of carrying on a business of trading in or dealing in securities or as part of an adventure or concern in the nature of trade.

This summary is based on the facts set out in this prospectus, the current provisions of the Tax Act (including the regulations thereunder), all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) ("**Tax Proposals**") before the date of this prospectus, the current published administrative policies and assessing practices of the Canada Revenue Agency and the Canada-United States Tax Convention (1980), as amended (the "**Treaty**"). No assurance can be made that the Tax Proposals will be enacted in the form proposed or at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except as mentioned above, does not take into account or anticipate any changes in law or administrative policy or assessing practice, whether by legislative, regulatory, administrative or judicial decision or action, nor does it take into account provincial, or foreign income tax legislation or considerations, which may differ significantly from the Canadian federal income tax considerations discussed herein.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder of a Common Share, and no representation concerning the tax consequences to any particular Holder or prospective Holder are made. This summary does not address the deductibility of interest on any funds borrowed by a Holder to purchase Common Shares. Accordingly, prospective Holders of Common Shares should consult their own tax advisors with respect to an investment in the Common Shares having regard to their particular circumstances.**

### Holders Resident in Canada

This portion of the summary applies to a Holder who, for purposes of the Tax Act and at all relevant times, is or is deemed to be a resident of Canada (a "**Resident Holder**"). Resident Holders whose Common Shares do not otherwise qualify as capital property may in certain circumstances make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have their Common Shares and every other "Canadian security" (as defined in the Tax Act) owned by such Resident Holder in the taxation year of the election and in all subsequent taxation years deemed to be capital property. Resident Holders should consult their own tax advisors with respect to whether the election is available and advisable in their particular circumstances.

This summary is not applicable to: (a) a Resident Holder that is a "financial institution", as defined in the Tax Act for purposes of the mark-to-market rules, (b) a Resident Holder an interest in which would be a "tax shelter investment" as defined in the Tax Act, (c) a Resident Holder that is a "specified financial institution" as defined in the Tax Act, or (d) a Resident Holder which has made an election under the Tax Act to determine its Canadian tax results in a foreign currency. This summary does not apply to a Resident Holder who has entered or will enter into a "derivative forward agreement" under the Tax Act with respect to Common Shares. This summary does not address the possible application of the "foreign affiliate dumping" rules that may be applicable to a Resident Holder that is a corporation resident in Canada (for the purposes of the Tax Act) and is, or becomes, or does not deal at arm's length with a corporation resident in Canada that is, or that becomes as part of a transaction or event or series of transactions or events that includes the acquisition of the Common Shares, controlled by a non-resident corporation for purposes of the rules in section 212.3 of the Tax Act. Any such Resident Holder to which this summary does not apply should consult its own tax advisor with respect to the tax consequences of the Offering.

## Dividends on Common Shares

In the case of a Resident Holder who is an individual, dividends received or deemed to be received on the Common Shares will be included in computing the Resident Holder's income and will be subject to the gross-up and dividend tax credit rules that apply to taxable dividends received from taxable Canadian corporations. Provided that appropriate designations are made by the Company, any such dividend will be treated as an "eligible dividend" for the purposes of the Tax Act and a Resident Holder who is an individual will be entitled to an enhanced dividend tax credit in respect of such dividend. There may be limitations on the Company's ability to designate dividends and deemed dividends as eligible dividends.

Dividends received or deemed to be received on the Common Shares by a Resident Holder that is a corporation will be required to be included in computing the corporation's income for the taxation year in which such dividends are received, but such dividends will generally be deductible in computing the corporation's taxable income. In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. Resident Holders that are corporations should consult their own tax advisors having regard to their own circumstances.

A Resident Holder that is a "private corporation" or a "subject corporation" (each as defined in the Tax Act) may be liable under Part IV of the Tax Act to pay a refundable tax on dividends received or deemed to be received on the Common Shares to the extent that such dividends are deductible in computing the Resident Holder's taxable income for the taxation year.

Dividends received by a Resident Holder who is an individual (including certain trusts) may result in such Resident Holder being liable for minimum tax under the Tax Act. Resident Holders who are individuals should consult their own tax advisors in this regard.

A Resident Holder may be subject to United States withholding tax on dividends received on the Common Shares (see "*Certain United States Tax Considerations*"). Any United States withholding tax paid by or on behalf of a Resident Holder in respect of dividends received on the Common Shares by a Resident Holder may be eligible for foreign tax credit or deduction treatment where applicable under the Tax Act. Generally, a foreign tax credit in respect of a tax paid to a particular foreign country is limited to the Canadian tax otherwise payable in respect of income sourced in that country. Dividends received on the Common Shares by a Resident Holder may not be treated as income sourced in the United States for these purposes. Resident Holders should consult their own tax advisors with respect to the availability of any foreign tax credits or deductions under the Tax Act in respect of any United States withholding tax applicable to dividends on the Common Shares.

## Dispositions of Common Shares

Upon a disposition or deemed disposition of Common Shares, a capital gain (or loss) will generally be realized by a Resident Holder to the extent that the proceeds of disposition are greater (or less) than the aggregate of the adjusted cost base of the Common Shares to the Resident Holder immediately before the disposition and any reasonable costs of disposition. The adjusted cost base of a Common Share to a Resident Holder will be determined in accordance with the Tax Act by averaging the cost to the Resident Holder of a Common Share with the adjusted cost base of all other Common Shares held by the Resident Holder as capital property. Such capital gain (or capital loss) will be subject to the treatment described below under "*Holders Resident in Canada — Taxation of Capital Gains and Capital Losses*".

## Taxation of Capital Gains and Capital Losses

One-half of a capital gain (a "**taxable capital gain**") must be included in a Resident Holder's income. One-half of a capital loss (an "**allowable capital loss**") will generally be deductible by a Resident Holder against taxable capital gains realized in that year and allowable capital losses in excess of taxable capital gains for the year may be carried back and deducted in any of the three preceding taxation years or in any subsequent year (against taxable capital gains realized in such years) to the extent and under the circumstances described in the Tax Act. If the Resident Holder is a corporation, any such capital loss realized on the sale of shares may in certain circumstances be reduced by the amount of any dividends, including deemed dividends, which have been received on such shares. Analogous rules apply to a partnership or certain trusts of which a corporation is a

member or beneficiary. Taxable capital gains realized by a Resident Holder who is an individual may give rise to alternative minimum tax depending on the Resident Holder's circumstances. A "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay a refundable tax on certain investment income, including an amount in respect of a taxable capital gain arising from the disposition of a Common Share.

A Resident Holder may be subject to United States tax on a gain realized on the disposition of a Common Share (see "*Certain United States Tax Considerations*"). United States tax, if any, levied on any gain realized on a disposition of a Common Share may be eligible for a foreign tax credit under the Tax Act to the extent and under the circumstances described in the Tax Act. Generally, a foreign tax credit in respect of a tax paid to a particular foreign country is limited to the Canadian tax otherwise payable in respect of income sourced in that country. Gains realized on the disposition of a Common Share by a Resident Holder may not be treated as income sourced in the United States for these purposes. Resident Holders should consult their own tax advisors with respect to the availability of a foreign tax credit, having regard to their own particular circumstances.

### **Non-Resident Holders**

This section of the summary applies to a Holder who, for the purposes of the Tax Act and any applicable income tax treaty or convention, and at all relevant times, is not, and is not deemed to be, resident in Canada, and does not use or hold, and is not deemed to use or hold, the Common Shares in the course of carrying on a business in Canada (a "**Non-Resident Holder**"). This section does not apply to an insurer who carries on an insurance business in Canada and elsewhere. Such Non-Resident Holders should consult their own tax advisors.

### Dividends on Common Shares

Dividends paid or credited or deemed to be paid or credited to a Non-Resident Holder on the Common Shares will be subject to Canadian withholding tax. The Tax Act imposes withholding tax at a rate of 25% on the gross amount of the dividend, although such rate may be reduced by virtue of an applicable tax treaty. For example, under the Treaty, where dividends on the Common Shares are considered to be paid to a Non-Resident Holder that is the beneficial owner of the dividends and is a U.S. resident for the purposes of, and is entitled to all of the benefits of, the Treaty, the applicable rate of Canadian withholding tax is generally reduced to 15%. The Company will be required to withhold the applicable withholding tax from any dividend and remit it to the Canadian government for the Non-Resident Holder's account.

### Dispositions of Common Shares

A Non-Resident Holder who disposes of or is deemed to have disposed of a Common Share will not be subject to income tax under the Tax Act unless the Common Share is, or is deemed to be, "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable income tax treaty or convention between Canada and the country of residence of the Non-Resident Holder.

Generally, provided that the Common Shares are, at the time of disposition, listed on a "designated stock exchange" (which currently includes the CSE), the Common Shares will not constitute taxable Canadian property of a Non-Resident Holder unless, at any time during the 60-month period immediately preceding the disposition the following two conditions were met: (i) 25% or more of the issued Common Shares of any class or series of the capital stock of the Company were owned by one or any combination of (a) the Non-Resident Holder, (b) persons with whom the Non-Resident Holder did not deal at arm's length (for the purposes of the Tax Act), and (c) partnerships in which the Non-Resident Holder or a person described in (b) holds a membership interest directly or indirectly through one or more partnerships; and (ii) more than 50% of the fair market value of the Common Shares was derived, directly or indirectly, from one or any combination of: (a) real or immovable property situated in Canada, (b) Canadian resource property (as defined in the Tax Act), (c) timber resource property (as defined in the Tax Act) or (d) options in respect of, or interests in any of, the foregoing property, whether or not such property exists. Non-Resident Holders for whom the Common Shares are, or may be, taxable Canadian property should consult their own tax advisors.

In the event that a Common Share constitutes taxable Canadian property of a Non-Resident Holder and any capital gain that would be realized on the disposition thereof is not exempt from tax under the Tax Act pursuant to an applicable income tax treaty or convention, the income tax consequences discussed above for Resident Holders under "Dispositions of Common Shares" will generally apply to the Non-Resident Holder. Non-Resident Holders should consult their own tax advisor in this regard.

## **RISK FACTORS**

References to the Company are presented on the basis of the risks applicable to the Company and CWB as a whole after completion of the Offering unless otherwise stated.

In addition to all other information set out in this prospectus, the following information describes certain significant risks and uncertainties inherent in the Company's business and the Offering. Prospective investors should take these risks into account in evaluating the Company and in deciding whether to purchase Common Shares. Other risks and uncertainties that the Company does not presently consider to be material, or of which the Company is not presently aware, may become important factors that affect the Company's financial condition and results of operations. The occurrence of any of these risks discussed below could materially adversely affect the Company's business, prospects, financial condition, results of operations or cash flow.

An investment in the Common Shares is highly speculative and involves a high degree of risk. Before making any investment decision, prospective investors should carefully consider all the information contained in this document including, in particular, the risk factors described below.

### **Risks Related to the Regulatory Environment**

#### Changes to State Laws Pertaining to Industrial Hemp

As of the date hereof, forty states have authorized Industrial Hemp programs pursuant to the 2014 Farm Bill. Continued development of the Industrial Hemp industry will be dependent upon new legislative authorization of Industrial Hemp at the state level, and further amendment or supplementation of legislation at the federal level. Any number of events or occurrences could slow or halt progress all together in this space. While progress within the Industrial Hemp industry is currently encouraging, growth is not assured. While there appears to be ample public support for favorable legislative action at the state and federal levels, numerous factors may impact or negatively affect the legislative process(es) within the various states the Company has business interests in. Any one of these factors could slow or halt use of Industrial Hemp or CBD, which would negatively impact the Company's business or growth, including possibly causing us to discontinue operations as a whole.

#### Changes to Federal Laws Pertaining to Industrial Hemp

Both the 2014 Farm Bill and the Omnibus Appropriations Law expire on September 30, 2018. There is no guarantee that such legislation will be renewed or that any such renewal will occur on favorable terms. Should the Company lose any of the protections currently afforded by either or both the 2014 Farm Bill and/or the Omnibus Appropriations Law, such would have a material adverse effect on the Company's business, financial condition and results of operations.

#### Risks Associated with Numerous Laws and Regulations

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

The Company is subject to regulation by the DEA and other agencies as a result of the manufacture and sale of its CBD products. The shifting compliance environment and the need to build and maintain robust systems to comply with different regulations in multiple jurisdictions increases the possibility that the Company may violate one or more of the requirements. If the Company's operations are found to be in violation of any of such laws or any other governmental regulations, or perceived to be in violation, the Company may be subject to penalties or other negative effects, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures and the denial of regulatory applications (including those regulatory regimes outside of the scope of DEA and FDA jurisdiction, but which may rely on the positions of the DEA and FDA in the application of their respective regimes), any of which could adversely affect the Company's business and financial results.

Failure to comply with FDA requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. The Company's advertising is subject to regulation by the Federal Trade Commission ("FTC") under the *Federal Trade Commission Act* as well as subject to regulation by the FDA under the DSHEA. In recent years, the FTC has initiated numerous investigations of dietary and nutritional supplement products and companies based on allegedly deceptive or misleading claims. At any point, enforcement strategies of a given agency can change as a result of other litigation in the space or changes in political landscapes, and could result in increased enforcement efforts, which would materially impact the Company's business. Additionally, some states also permit advertising and labeling laws to be enforced by state attorney generals, who may seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Company. Private litigations may also seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Company. Any actions against the Company by governmental authorities or private litigants could have a material adverse effect on the Company's business, financial condition and results of operations.

#### Incorrect Interpretation of the 2014 Farm Bill

The Company's position is that its activities fall within the relief from federal interference provided by the Section 7606 of the 2014 Farm Bill. However, Section 7606 does not explicitly state that private businesses, such as the Company, may conduct commercial sales of Industrial Hemp or products derived therefrom. As such, there is a risk that the Company's interpretation of the Section 7606 is inaccurate or that it will be successfully challenged by federal or state authorities. A successful challenge to such position by the DEA, FDA or other state or federal authority could have a material adverse effect on the Company, including civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures and the denial of regulatory applications.

#### International Regulatory Risks

CWB has conducted sales in various international jurisdictions and the Company intends to expand internationally. As a result, it is and will become further subject to the laws and regulations of (as well as international treaties among) the foreign jurisdictions in which it operates or imports or exports products or materials. In addition, the Company may avail itself of proposed legislative changes in certain jurisdictions to expand its product portfolio, which expansion may include business and regulatory compliance risks as yet undetermined. Failure by the Company to comply with the current or evolving regulatory framework in any jurisdiction could have a material adverse effect on the Company's business, financial condition and results of operations. There is the possibility that any such international jurisdiction could determine that CWB was not or is not compliant with applicable local regulations. If CWB's historical or current sales or operations were found to be in violation of such international regulations CWB and/or the Company may be subject to enforcement actions in such jurisdictions including, but not limited to civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures and the denial of regulatory applications.

#### Uncertainty Caused by Potential Changes to Regulatory Framework

There is substantial uncertainty and different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses as to the importation of derivatives from exempted portions of the Cannabis plant and the scope of 2014 Farm Bill-compliant hemp programs relative to the CSA, the 2014 Farm Bill and the emerging regulation of cannabinoids. These different opinions include, but are not limited to, the regulation of cannabinoids by the DEA and or the FDA and the extent to which manufacturers of products containing imported raw materials and/or 2014 Farm Bill-compliant cultivators and processors may engage in interstate commerce. The uncertainties cannot be resolved without further federal, and perhaps even state-level, legislation, regulation or a definitive judicial interpretation of existing legislation and rules. If these uncertainties continue, they may have an adverse effect upon the introduction of the Company's products in different markets.

### NDI Objection by FDA

There is substantial uncertainty and different interpretations among state and federal regulatory agencies, legislators, academics and businesses as to whether cannabinoids were present in the food supply and marketed prior to October 15, 1994, or whether such inclusion of cannabinoids is otherwise approved by the FDA as dietary ingredients. In addition, there is substantial uncertainty and different interpretations as to whether cannabinoids are by definition an impermissible adulterant due to marijuana being a controlled substance under the CSA. The uncertainties cannot be resolved without further federal legislation, regulation or a definitive judicial interpretation of existing legislation and rules. A determination that hemp products containing cannabinoids were not present in the food supply, marketed prior to October 15, 1994, are not otherwise permissible for use as a dietary ingredient or are adulterants would have a materially adverse effect upon the Company and its business. The Company could be required to submit a New Dietary Ingredient (“NDI”) notification to the FDA with respect to hemp extracts. If FDA objects to the Company’s NDI notification, this would have a materially adverse effect upon the Company and its business.

### FDA Interpretation of IND Preclusion

The FDA has taken the position that CBD cannot be marketed as a dietary supplement because it has been the subject of investigation as a new drug (previously defined as “IND Preclusion”). There is evidence that GW Pharmaceuticals plc received authorization for its IND related to CBD in 2006. It is the FDA’s interpretation of the IND Preclusion that the preclusion date is the date in which it authorized the drug for investigation. The FDA has asserted its IND Preclusion position in a Warning Letter to the Company. The Company responded to the Warning Letter with its position that CBD was marketed in a dietary supplement or food prior to substantial clinical investigations being instituted and being made public. If the FDA were to enforce the IND Preclusion based on its interpretation of the legislation, this would materially and adversely impact the Company’s business and financial condition.

### Regulatory Approval and Permits

The Company may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are licensed. There can be no assurance that the Company will be able to obtain or maintain any necessary licenses, permits or approvals. Moreover, the Company and/or third-party suppliers of CBD hemp oil products could be required to obtain a CSA permit, which would likely not be a feasible option for retail products. Any material delay or inability to receive these items is likely to delay and/or inhibit the Company’s ability to conduct its business, and would have an adverse effect on its business, financial condition and results of operations.

### DEA Jurisdiction Over Hemp Extracts or CBD

DEA representatives have taken the position that CBD is subject to the CSA and classified as a controlled substance thereunder. While the Company cannot be certain of the basis of such position, given that compliance with the 2014 Farm Bill exempts a pilot project participant from the purview of the CSA and the FDCA, the Company suspects the DEA is either concerned that industry CBD products and/or the Company’s products are not in fact Industrial Hemp-based, or that the 2014 Farm Bill does not apply as broadly as the Company believes. If the DEA takes action against the Company or the CBD industry, this could have a material adverse effect on the Company’s business, financial condition and results of operations including the cessation of operations entirely.

### Environmental, Health and Safety Laws

The Company is subject to environmental, health and safety laws and regulations in each jurisdiction in which the Company operates. Such regulations govern, among other things, emissions of pollutants into the air, wastewater discharges, waste disposal, the investigation and remediation of soil and groundwater contamination, and the health and safety of the Company’s employees. For example, the Company’s products and the raw materials used in its production processes are subject to numerous environmental laws and regulations. The Company may be required to obtain environmental permits from governmental authorities for certain of its

current or proposed operations. The Company may not have been, nor may it be able to be at all times, in full compliance with such laws, regulations and permits. If the Company violates or fails to comply with these laws, regulations or permits, the Company could be fined or otherwise sanctioned by regulators.

As with other companies engaged in similar activities or that own or operate real property, the Company faces inherent risks of environmental liability at its current and historical production sites. Certain environmental laws impose strict and, in certain circumstances, joint and several liability on current or previous owners or operators of real property for the cost of the investigation, removal or remediation of hazardous substances as well as liability for related damages to natural resources. In addition, the Company may discover new facts or conditions that may change its expectations or be faced with changes in environmental laws or their enforcement that would increase its liabilities. Furthermore, its costs of complying with current and future environmental and health and safety laws, or the Company's liabilities arising from past or future releases of, or exposure to, regulated materials, may have a material adverse effect on its business, financial condition and results of operations.

### Anti-money Laundering Laws and Regulations

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. *Currency and Foreign Transactions Reporting Act of 1970* (commonly known as the Bank Secrecy Act), as amended by Title III of the *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* (USA PATRIOT Act), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), the *Criminal Code* (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In February 2014, the Financial Crimes Enforcement Network (“FCEN”) of the U.S. Department of the Treasury issued a memorandum providing instructions to banks seeking to provide services to marijuana related businesses (the “FCEN Memo”). The FCEN Memo states that in some circumstances, it may not be appropriate to prosecute banks that provide services to marijuana-related businesses for violations of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on Cannabis-related violations of the CSA. It is unclear at this time whether the current administration will follow the guidelines of the FCEN Memo. Under U.S. federal law, banks or other financial institutions that provide a Cannabis-related business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

If any of the Company's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States or Canada were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its Common Shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

### Banking

Since the production and possession of Cannabis is currently illegal under U.S. federal law and the Company relies on exemptions promulgated pursuant to the 2014 Farm Bill, it is possible that banks may refuse to open bank accounts for the deposit of funds from businesses involved with the Cannabis industry. The inability to open bank accounts with certain institutions could materially and adversely affect the business of the Company.

### Denial of Deductibility of Certain Expenses

The Company may incur significant tax liabilities if the IRS continues to determine that certain expenses of businesses working with the cannabis plant are not permitted tax deductions under section 280E of the Code.

Section 280E of the Code prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the CSA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses.

### Liability for Actions of Employees, Contractors and Consultants

The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company.

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) U.S. federal fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on its business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, the curtailment of the Company's operations or asset seizures, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

### **Risks Related to the Company's Business and Industry**

#### Product Viability

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

#### Success of Quality Control Systems

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

### Reliance on the Stanley Brothers Brand

The Company's brand (and those brands associated with the Company, such as Charlotte's Web) is closely associated with the Stanley brothers. Any act, omission or occurrence which negatively affects the reputation of or goodwill associated with the Stanley brothers may have a commensurate impact on the Company. The Company does not control or otherwise exert any meaningful influence upon any of the Stanley brothers and has no effective means of mitigating such risks. In addition, and pursuant to the Name and Likeness Agreement, the Stanley brothers may cause the Company to cease using the "Stanley Brothers" brand in certain circumstances. See "*Business of the Company — Intellectual Property*".

### Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Recall of products could lead to adverse publicity, decreased demand for the Company's products and could have significant reputational and brand damage. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by regulatory agencies, requiring further management attention and potential legal fees and other expenses.

### Product Liability

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

### Positive Test for THC or Banned Substances

The Company's products are made from Cannabis, which contains THC. As a result, certain of the Company's products contain low levels of THC. THC is considered a banned substance in many jurisdictions. Moreover, regulatory framework for legal amounts of consumed THC is evolving. Whether or not ingestion of THC (at low levels or otherwise) is permitted in a particular jurisdiction, there may be adverse consequences to end users who test positive for trace amounts of THC attributed to use of the Company's products. In addition, certain metabolic processes in the body may cause certain molecules to convert to other molecules which may negatively affect the results of drug tests. Positive tests may adversely affect the end user's reputation, ability to obtain or retain employment and participation in certain athletic or other activities. A claim or regulatory action against the Company based on such positive test results could adversely affect the Company's reputation and could have a material adverse effect on its business and operational results.

## Product Returns

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

## Weather Patterns and Agricultural Operations Risks

The Company's business can be effected by unusual weather patterns. The production of some of the Company's products relies on the availability and use of live plant material, which is grown in Colorado, Kentucky and Oregon and may be grown in South America. Growing seasons, yields and harvesting operations can be impacted by weather patterns. In addition, severe weather, including drought and hail, can destroy a crop, which could result in the Company having no or limited Industrial Hemp to process. If the Company is unable to harvest Industrial Hemp through its proprietary operations or contract farming arrangements, its ability to meet customer demand, generate sales, and maintain operations will be impacted. Given the proprietary nature of the Company's crops, it may not be practicable for the Company to source adequate, or any, replacement Industrial Hemp to produce its downstream products.

The Company's business is dependent on the outdoor growth and production of Industrial Hemp, an agricultural product. As such, the risks inherent in engaging in agricultural businesses apply. Potential risks include low yields, the risk that crops may become diseased or victim to insects or other pests and contamination, or subject to extreme weather conditions such as excess rainfall, freezing temperature, or drought, all of which could result in low crop yields, decreased availability of Industrial Hemp, and higher acquisition prices. The Company's ability to obtain adequate (or any) insurance relating to the foregoing risks may be limited. There can be no guarantee that an agricultural event will not adversely affect the Company's business and operating results.

## Availability of Adequate Crop Insurance

The Company may not be able to obtain crop insurance at economically feasible rates, on acceptable terms or at all. As a result, the Company may have limited or no recourse in the event of a failed crop or other event that standard crop insurance would typically insure against. Such inability may adversely affect the Company's business and operating results.

## Risks Related to Obtaining Farmland

The Company may not be able to maintain or obtain high quality farmland in sufficient acreage to support production levels or sustained accelerated growth. Moreover, where farmland is available in sufficient acreage, it may not be available at rental rates or otherwise on acceptable economic terms. Inability to obtain sufficient farmland for operations (with or without significant product demand growth) could negatively affect the Company's operations and financial condition.

## Other Agricultural Production Risks

Agricultural production by its nature contains elements of risks and uncertainties which may adversely affect the business and operations of the Company, including but not limited to the following: (i) any future climate change with a potential shift in weather patterns leading to droughts and associated crop losses; (ii) potential insect, fungal and weed infestations resulting in crop failure and reduced yields; (iii) wild and domestic animal conflicts; and (iv) crop-raiding, sabotage or vandalism. Adverse weather conditions represent a significant operating risk to the Company, affecting quality and quantity of production and the levels of farm inputs.

The Company may also encounter difficulties with the importation of agro-inputs and securing a supply of spares and maintenance items. In the event of a delay in the delivery from suppliers of agro-inputs and machinery, the Company may be unable to achieve its production targets.

### Hemp Plant Specific Agricultural Risks

Hemp plants can be vulnerable to various pathogens including bacteria, fungi, viruses and other miscellaneous pathogens. Such instances often lead to reduced crop quality, stunted growth and/or death of the plant. Moreover, hemp is phytoremediative meaning that it may extract toxins or other undesirable chemicals or compounds from the ground in which it is planted. Various regulatory agencies have established maximum limits for pathogens, toxins, chemicals and other compounds that may be present in agricultural materials. If the Company's hemp is found to have levels of pathogens, toxins, chemicals or other undesirable compounds that exceed established limits, the Company may have to destroy the applicable portions of its hemp crop. Should the Company's crops be lost due to pathogens, toxins, chemicals or other undesirable compounds, it may have a material adverse effect on its business and financial condition.

### Transportation Risk

In order for customers of the Company to receive their product, the Company relies on third party transportation services. This can cause logistical problems with, and delays in, end users obtaining their orders which the Company has no control over. Any delay by third party transportation services may adversely affect the Company's financial performance.

Moreover, transportation to and from the Company's facilities is critical. A breach of security during transport could have material adverse effects on the Company's business, financials and prospects. Any such breach could impact the Company's operations and financial performance.

### Domestic Supply Risk

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

### Reliance on Third Party Suppliers, Service Providers and Distributors

The Company intends to maintain a full supply chain for the material portions of the production and distribution process of its products. The Company's suppliers, service providers and distributors may elect, at any time, to breach or otherwise cease to participate in supply, service or distribution agreements, or other relationships, on which the Company's operations rely. Loss of its suppliers, service providers or distributors would have a material adverse effect on the Company's business and operational results. The Company currently relies on a single production facility in Colorado. Disruption of operations at the facility could adversely affect inventory supplies and the Company's ability to meet product delivery deadlines.

### Industry Competition

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

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

### Intra-Industry Competition

The number of competitors in the Company's market segment is expected to increase, both nationally and internationally, which could negatively impact the Company's market share and demand for products.

The introduction of a recreational model for marijuana production and distribution in various jurisdictions may cause producers in those jurisdictions to expand beyond the medical marijuana market and compete with the Company's products. The impact of this potential development may be negative for the Company and could result in increased levels of competition in its existing market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

The Company also faces competition from producers who may not comply with applicable regulations. As a result, such producers may have lower operating costs, make impermissible claims and utilize other competitive advantages based on circumvention of regulatory requirements. To remain competitive, the Company will require continued significant investment in research and development, marketing, sales and customer support. The Company may not have sufficient resources to maintain research and development, marketing, sales and customer support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

As well, the legal landscape for the Company's products is changing internationally. More countries have passed laws that allow for the production and distribution of Cannabis in some form or another. Increased international competition might lower the demand for the Company's products on a global scale.

### Future Activities of the Stanley Brothers

The Stanley brothers and certain affiliates and parties associated with the Stanley brothers currently, and may in the future, conduct business which conflicts with the business of the Company. The mechanisms available to the Company to effectively deal with such conflicts (which may include competition) may be limited. The Company relies on the name, likeness and assistance of the Stanley brothers. Should the Stanley brothers take action which separates or otherwise distances their name, likeness or brand from, or association with, the Company, it could result in marketplace confusion, loss of goodwill and/or similar negative consequences. Should any of such scenarios arise, it could have a material adverse impact on the Company's business and financial condition.

### Other Conflicts of Interest

Certain of the employees and directors of the Company may also be directors, officers, consultants or stakeholders of other companies or enterprises, some of which may be in similar sectors, and conflicts of interest may arise between their duties to the Company and their duties to or interests in such other companies or enterprises. Certain of such conflicts may be required to be disclosed in accordance with, and subject to, such procedures and remedies as applicable under the BCBCA and applicable securities laws, however, such procedures and remedies may not fully protect the Company.

### Changing Consumer Preferences and Customer Retention

As a result of changing consumer preferences, many dietary supplements and other innovative products attain financial success for a limited period of time. Even if the Company's products find retail success, there can be no assurance that any of its products will continue to see extended financial success. The Company's success will be significantly dependent upon its ability to develop new and improved product lines. Even if it is successful in introducing new products or developing its current products, a failure to gain consumer acceptance or to update products with compelling content could cause a decline in its products' popularity that could reduce revenues and harm the Company's business, operating results and financial condition. Failure to introduce new features and product lines and to achieve and sustain market acceptance could result in the Company being

unable to meet consumer preferences and generate revenue which would have a material adverse effect on its profitability and financial results from operations.

The Company's success depends on its ability to attract and retain customers. There are many factors which could impact the Company's ability to attract and retain customers, including but not limited to the Company's ability to continually produce desirable and effective product, the successful implementation of the Company's customer acquisition plan and the continued growth in the aggregate number of people selecting CBD wellness products. The Company's failure to acquire and retain customers could have a material adverse effect on the Company's business, operating results and financial position.

#### Maintaining and Promoting the Company's Brand

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

#### Unfavourable Publicity or Consumer Perception

The Company believes its industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of its products and perceptions of regulatory compliance. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the CBD market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of CBD products in general, or the Company's products specifically, or associating the consumption of CBD products with illness or other negative effects or events, could have such a material adverse effect. Consumers, vendors, landlords/lessors, industry partners or third-party service providers may incorrectly perceive hemp products as marijuana thereby applying the unfavourable stigma of marijuana to the Company's products. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

#### Inability to Sustain Pricing Models

Significant price fluctuations or shortages in the cost of materials may increase the Company's cost of goods sold and cause its results of operations and financial condition to suffer. If the Company is unable to secure materials at a reasonable price, it may have to alter or discontinue selling some of its products or attempt to pass along the cost to its customers, any of which could adversely affect its results of operations and financial condition.

Additionally, increasing costs of labour, freight and energy could increase its and its suppliers' cost of goods. If its suppliers are affected by increases in their costs of labour, freight and energy, they may attempt to pass these cost increases on to the Company. If the Company pays such increases, it may not be able to offset them through increases in its pricing, which could adversely affect its results of operations and financial condition.

### Reliance on Key Inputs

The Company's business is dependent on a number of key inputs and their related costs, including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Company.

The ability of the Company to compete and grow will be dependent on having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining the required supply of skilled labour, equipment, parts and components. It is also possible that the expansion plans contemplated by the Company may cost more than anticipated, in which circumstance the Company may curtail, or extend timeframes for completing the expansion plans. This could have a material adverse effect on the financial results and operations of the Company.

### Effectiveness and Efficiency of Advertising and Promotional Expenditures

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

### Key Officers and Employees

The Company's success and future will depend, to a significant degree, on the continued efforts of its directors, officers and key employees, including certain technical individuals, and sales and marketing personnel, the retention of which cannot be guaranteed. The loss of key personnel could materially adversely affect the Company's business. The loss of any such personnel could harm or delay the plans of the Company's business either while Management time is directed to finding suitable replacements (who, in any event, may not be available), or, if not, covering such vacancy until suitable replacements can be found. In either case, this may have a material adverse effect on the future of the Company's business.

Competition for such personnel can be intense, and the Company cannot provide assurance that it will be able to attract or retain highly qualified technical, sales, marketing and management personnel in the future. From time to time, share-based compensation may comprise a significant component of the Company's compensation for key personnel, and if the price of the Common Shares declines, it may be difficult to recruit and retain such individuals.

### Inability to Renew Material Leases

The Company may be unable to renew or maintain its leases (commercial, real property or farmland) on commercially acceptable terms or at all. An inability to renew its leases, or a renewal of its leases with a rental rate higher than the prevailing rate under the applicable lease prior to expiration, may have an adverse impact on the Company's operations, including disruption of its operations or an increase in its cost of operations. In addition, in the event of non-renewal of any of the Company's leases, the Company may be unable to locate suitable replacement properties for its facilities or it may experience delays in relocation that could lead to a disruption in its operations. Any disruption in the Company's operations could have an adverse effect on its financial condition and results of operations.

### Obtaining Insurance

Due to the Company's involvement in the hemp industry, it may have a difficult time obtaining the various insurances that are desired to operate its business, which may expose the Company to additional risk and

financial liability. Insurance that is otherwise readily available, such as general liability, and directors and officer's insurance, may be more difficult to find, and more expensive, because of the regulatory regime applicable to the industry. There are no guarantees that the Company will be able to find such insurance coverage in the future, or that the cost will be affordable. If the Company is forced to go without such insurance coverage, it may prevent it from entering into certain business sectors, may inhibit growth, and may expose the Company to additional risk and financial liabilities.

#### Additional Financings

If the Company is not able to sustain profitability or if it requires additional capital to fund growth or other initiatives, it may require additional equity or debt financing. There can be no assurances that the Company will be able to obtain additional financial resources on favorable commercial terms or at all. Failure to obtain such financial resources could affect the Company's plan for growth or result in the Company being unable to satisfy its obligations as they become due, either of which could have a material adverse effect on the business, results of operations and the financial condition of the Company.

#### Management of Growth

The Company may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

#### Risks Related to Acquiring Companies

The Company may acquire other companies in the future and there are risks inherent in any such acquisition. Specifically, there could be unknown or undisclosed risks or liabilities of such companies for which the Company is not sufficiently indemnified. Any such unknown or undisclosed risks or liabilities could materially and adversely affect the Company's financial performance and results of operations. The Company could encounter additional transaction and integration related costs or other factors such as the failure to realize all of the benefits from such acquisitions. All of these factors could cause dilution to the Company's earnings per share or decrease or delay the anticipated accretive effect of the acquisition and cause a decrease in the market price of the Company's securities. The Company may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of any such acquired company with its existing operations. If integration is not managed successfully by the Company's management, the Company may experience interruptions in its business activities, deterioration in its employee and customer relationships, increased costs of integration and harm to its reputation, all of which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company may experience difficulties in combining corporate cultures, maintaining employee morale and retaining key employees. The integration of any such acquired companies may also impose substantial demands on the Management. There is no assurance that these acquisitions will be successfully integrated in a timely manner.

#### Inability to Protect Intellectual Property

The Company's success is heavily dependent upon its intangible property and technology. The Company relies upon copyrights, patents, trade secrets, unpatented proprietary know-how and continuing innovation to protect the intangible property, technology and information that is considered important to the development of the business. The Company relies on various methods to protect its proprietary rights, including confidentiality agreements with consultants, service providers and management that contain terms and conditions prohibiting unauthorized use and disclosure of confidential information. However, despite efforts to protect intangible property rights, unauthorized parties may attempt to copy or replicate intangible property, technology or processes. There can be no assurances that the steps taken by the Company to protect its intangible property, technology and information will be adequate to prevent misappropriation or independent third-party development of the Company's intangible property, technology or processes. It is likely that other companies can duplicate a production process similar to the Company's. Other companies may also be able to materially

duplicate the Company's proprietary plant strains. To the extent that any of the above would occur, revenue could be negatively affected, and in the future, the Company may have to litigate to enforce its intangible property rights, which could result in substantial costs and divert management's attention and other resources.

The Company's ability to successfully implement its business plan depends in part on its ability to obtain, maintain and build brand recognition using its trademarks, service marks, trade dress, domain names and other intellectual property rights, including the Company's names and logos. If the Company's efforts to protect its intellectual property are unsuccessful or inadequate, or if any third party misappropriates or infringes on its intellectual property, the value of its brands may be harmed, which could have a material adverse effect on the Company's business and might prevent its brands from achieving or maintaining market acceptance.

The Company may be unable to obtain registrations for its intellectual property rights for various reasons, including refusal by regulatory authorities to register trademarks or other intellectual property protections, prior registrations of which it is not aware, or it may encounter claims from prior users of similar intellectual property in areas where it operates or intends to conduct operations. This could harm its image, brand or competitive position and cause the Company to incur significant penalties and costs.

On April 20, 2018 the U.S. Patent and Trademark Office ("USPTO") issued a Final Office Action refusing registration of two trademark applications submitted by CWB based on the Trademark Examiner's interpretation that the marks were not in lawful use in commerce under Sections 1 and 45 of the United States Trademark Act and because the goods identified in the application were not in compliance with either the CSA or the FDCA. CWB may file a Request for Reconsideration of the refusals and/or file an Appeal of the refusals with the Trademark Trial and Appeal Board, during which CWB will be given an opportunity to file supplemental arguments and evidence relative to the issues raised in the Office Action. CWB may file a Request for Reconsideration and/or appeal the refusal to the Trademark Trial and Appeal Board within a period of 6 months from the date of the ruling. Despite USPTO's aforementioned position and refusal for registration, CWB may rely on common law theories of trademark protection and enforcement in cases of actual or suspected trademark infringement of the trademarks it wishes to protect.

### Intellectual Property Claims

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

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

### Litigation

The Company is, and may from time to time become, party to litigation in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company is, or becomes, involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for the Common Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant Company resources. Litigation may also create a negative perception of the Company's brand.

### Trade Secrets may be Difficult to Protect

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

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

### Use of Customer Information and Other Personal and Confidential Information

The Company collects, process, maintains and uses data, including sensitive information on individuals, available to the Company through online activities and other customer interactions with its business. The Company's current and future marketing programs may depend on its ability to collect, maintain and use this information, and its ability to do so is subject to evolving international, U.S. and Canadian laws and enforcement trends. The Company strives to comply with all applicable laws and other legal obligations relating to privacy, data protection and customer protection, including those relating to the use of data for marketing purposes. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another, conflict with other rules, conflict with the Company's practices or fail to be observed by its employees or business partners. If so, the Company may suffer damage to its reputation and be subject to proceedings or actions against it by governmental entities or others. Any such proceeding or action could hurt the Company's reputation, force it to spend significant amounts to defend its practices, distract its management or otherwise have an adverse effect on its business.

Certain of the Company's marketing practices rely upon e-mail, social media and other means of digital communication to communicate with consumers on its behalf. The Company may face risk if its use of e-mail, social media or other means of digital communication is found to violate applicable laws. The Company posts its privacy policy and practices concerning the use and disclosure of user data on its websites. Any failure by the Company to comply with its posted privacy policy or other privacy-related laws and regulations could result in proceedings which could potentially harm its business. In addition, as data privacy and marketing laws change, the Company may incur additional costs to ensure it remains in compliance. If applicable data privacy and marketing laws become more restrictive at the international, federal, provincial or state levels, the Company's compliance costs may increase, its ability to effectively engage customers via personalized marketing may decrease, its investment in its e-commerce platform may not be fully realized, its opportunities for growth may be curtailed by its compliance burden and its potential reputational harm or liability for security breaches may increase.

### Data Security Breaches

The Company or its third-party service providers collect, process, maintain and use sensitive personal information relating to its customers and employees, including customer financial data (e.g. credit card information) and their personally identifiable information, and rely on third parties for the operation of its e-commerce site and for the various social media tools and websites it uses as part of its marketing strategy. Any perceived, attempted or actual unauthorized disclosure of customer financial data (e.g. credit card information)

or personally identifiable information regarding the Company's employees, customers or website visitors could harm its reputation and credibility, reduce its e-commerce sales, impair its ability to attract website visitors, reduce its ability to attract and retain customers and could result in litigation against the Company or the imposition of significant fines or penalties.

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

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

### Global Economic Uncertainty

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

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

### Risks Related to the Company's Social Responsibility Goals

The Company may place a focus on creating social good and the benefits of a socially responsible corporate culture. This may involve making charitable donations to further its social responsibility goals.

In addition, the Company may, in future and subject to required regulatory and stakeholder approvals, pursue certification as a "Certified B Corporation™", a certification granted by B Lab, an independent non-profit organization. B Corporations are required to adhere to rigorous standards of social and environmental performance, accountability and transparency.

### Emerging Industry

As a pioneer in a new industry, the Company has limited access to industry benchmarks in relation to the Company's business. Industry-specific data points such as operating ratios, research and development projects, debt structures, compliance and other financial and operational related data is limited and accordingly, Management will be required to make decisions in the absence of such data points.

### **Risks Related to the Offering**

#### Forward-Looking Information

The forward-looking information included in this prospectus relating to, among other things, the Company's future results, performance, achievements, prospects, targets, intentions or opportunities or the markets in which we operate (including, in particular, the information contained in "Summary", "Business of the Company", "The Offering" and "Plan of Distribution") and the other statements listed in "Notice to Investors — Forward-Looking Statements", and "Notice to Investors — Forward-Looking Statements relating to Growth

*Strategy*” is based on opinions, assumptions and estimates made by the Company’s management in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct. The Company’s actual results in the future may vary significantly from the historical and estimated results and those variations may be material. We make no representation that its actual results in the future will be the same, in whole or in part, as those included in this prospectus. See “*Notice to Investors — Forward-Looking Statements*” and “*Notice to Investors — Forward-Looking Statements relating to Growth Strategy*”.

#### No Prior Public Market

The CSE has conditionally approved the listing of the Common Shares under the symbol “CWEB”. However, there is currently no market through which the Common Shares may be sold and, if a market for the Common Shares does not develop or is not sustained, you may not be able to resell the Common Shares purchased in the Offering. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares and the extent of issuer regulation. The Offering Price of the Offered Shares was determined through negotiations between the Company and the Underwriters. The Offering Price may not be indicative of the market price of the Common Shares after the Offering. In the absence of an active trading market for the Common Shares, investors may have difficulty selling their Common Shares. The Company cannot predict the prices at which the Common Shares will trade.

#### Potential Volatility of Common Share Price

The market price of the Common Shares could be subject to significant fluctuations after the Offering, and it may decline below the Offering Price. Some of the factors that may cause the market price of the Common Shares to fluctuate include:

- (a) the public’s reaction to the Company’s press releases, announcements and filings with regulatory authorities and those of its competitors;
- (b) fluctuations in broader stock market prices and volumes;
- (c) changes in market valuations of similar companies;
- (d) investor perception of the Company, its prospects or the industry in general;
- (e) additions or departures of key personnel;
- (f) commencement of or involvement in litigation;
- (g) changes in the regulatory landscape applicable to the Company, the dietary supplement and/or the hemp industry;
- (h) media reports, publications or public statements relating to, or public perceptions of, the regulatory landscape applicable to the Company, the dietary supplement and/or the hemp industry, whether correct or not;
- (i) announcements by the Company or its competitors of strategic alliances, significant contracts, new technologies, acquisitions, commercial relationships, joint ventures or capital commitments;
- (j) variations in the Company’s quarterly results of operations or cash flows or those of other comparable companies;
- (k) revenues and operating results failing to meet the expectations of securities analysts or investors in a particular quarter;
- (l) changes in the Company’s pricing policies or the pricing policies of its competitors;
- (m) future issuances and sales of Common Shares, including as a result of the conversion of Proportionate Voting Shares and the sale of the Common Shares issuable thereunder;

- (n) sales of Common Shares by insiders of the Company;
- (o) third party disclosure of significant short positions;
- (p) demand for and trading volume of Common Shares;
- (q) changes in securities analysts' recommendations and their estimates of the Company's financial performance;
- (r) short-term fluctuation in stock price caused by changes in general conditions in the domestic and worldwide economies or financial markets; and
- (s) the other risk factors described in this section of the prospectus.

The realization of any of these risks and other factors beyond the Company's control could cause the market price of the Common Shares to decline significantly.

In addition, broad market and industry factors may harm the market price of the Common Shares. Hence, the price of the Common Shares could fluctuate based upon factors that have little or nothing to do with the Company, and these fluctuations could materially reduce the price of the Common Shares regardless of the Company's operating performance. In the past, following a significant decline in the market price of a company's securities, there have been instances of securities class action litigation having been instituted against that company. If the Company were involved in any similar litigation, it could incur substantial costs, Management's attention and resources could be diverted and it could harm the Company's business, operating results and financial condition.

#### Dissent or Appraisal Rights in Respect of the Merger

Under Article 113 of the CBCA, CWB Shareholders who did not vote in favor of the Merger will, within 30 days of receipt of the written dissenters' notice from CWB, have the right to dissent to the proposed merger. If any such CWB Shareholders properly exercise their right to dissent, such shareholders will be entitled to be paid the judicially determined or other mutually agreed "fair value" of their CWB shares, plus accrued interest. Although the Company and CWB believe that the value of the Reorganization Consideration offered in exchange for the CWB shares pursuant to the Merger is equal to or exceeds the "fair value" of the CWB shares, there can be no assurance that a court would agree with this assessment and, consequently, the amount that any properly dissenting CWB Shareholders receive could be less than, the same as or more than the Reorganization Consideration to which those shareholders would have been entitled under the Agreement and Plan of Merger. In addition, should the fair value of the CWB shares be determined to be materially greater than the Reorganization Consideration, CWB may be required to pay dissenting CWB Shareholders all or a portion of the value of their CWB shares in cash, which would reduce the cash available to the Company, as the parent company of CWB, and which could materially adversely affect the cash flows and results of operations of the Company. See "*Corporate Structure — Notice of Dissenters' Rights*" in this prospectus for a description of dissenters' rights under the CBCA.

#### Dividends to Shareholders

The Company does not anticipate paying cash dividends on the Shares in the foreseeable future. The Company currently intends to retain all future earnings to fund the development and growth of its business. Any payment of future dividends will be at the discretion of the directors and will depend on, among other things, the Company's earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends, and other considerations that the directors deems relevant. Investors must rely on sales of their Common Shares after price appreciation, which may never occur, as the only way to realize a return on their investment.

#### Holding Company Structure

The Company is a holding company and substantially all of its assets consist of shares of CWB. As a result, investors are subject to the risks attributable to CWB and any and all future affiliates. The Company does not have any significant assets and conducts substantially all of its business through CWB, which generates all or

substantially all of the Company's revenues. The ability of CWB to distribute funds to the Company will depend on its operating results, tax considerations (both domestic and cross-border) and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by CWB and contractual restrictions contained in the instruments governing its debt, existing or if incurred. In the event of a bankruptcy, liquidation or reorganization of CWB or any other future subsidiary, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the Company.

#### Future Sales of Common Shares by the CWB Shareholders, Directors or Officers

Subject to compliance with applicable securities laws and the terms of any lock-up arrangements described under "*Plan of Distribution*", the Company's officers, directors, the holders of Proportionate Voting Shares and their affiliates may sell some or all of their Common Shares in the future. No prediction can be made as to the effect, if any, such future sales of Common Shares will have on the market price of the Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by our officers, directors, the holders of Proportionate Voting Shares and their affiliates, or the perception that such sales could occur, could materially adversely affect prevailing market prices for the Common Shares.

Additional Common Shares issuable upon the exercise of stock options or the conversion of Proportionate Voting Shares may also be available for sale in the public market after the date of the listing of the Common Shares, which may also cause the market price of the Common Shares to fall. Accordingly, if substantial amounts of Common Shares are sold in the public market, the market price could fall.

#### Risks Related to Potential Changes in Definition of Foreign Private Issuer

The transactions contemplated by the Reorganization were structured so that the Company would be a foreign private issuer as defined in Rule 405 under the U.S. Securities Act and Rule 3b-4 under the Exchange Act, following Closing. The term "foreign private issuer" is defined as any non-U.S. issuer, other than a non-U.S. government, *except* any issuer meeting the following conditions:

- (a) more than 50 percent of the outstanding voting securities of such issuer are, directly or indirectly, held of record by residents of the United States; and
- (b) any one of the following: (i) the majority of the issuer's executive officers or directors are United States citizens *or* residents; (ii) more than 50 percent of the assets of the issuer are located in the United States; or (iii) the business of the issuer is administered principally in the United States.

In December 2016, the SEC issued a Compliance and Disclosure Interpretation to clarify that issuers with multiple classes of voting stock carrying different voting rights may, for the purposes of calculating compliance with the 50 percent U.S. resident threshold, examine either (i) the combined voting power of its share classes, or (ii) the number of voting securities, in each case held of record by U.S. residents. Based on this interpretation, each issued and outstanding Proportionate Voting Share is counted as one voting security and each issued and outstanding Common Share is counted as one voting security for the purposes of determining the 50 percent U.S. resident threshold and the Company is expected to be a "foreign private issuer" upon completion of the Offering and the Reorganization.

Should the SEC's guidance and interpretation change, the Company may lose its foreign private issuer status.

#### Risks Related to the Company's Loss of Foreign Private Issuer Status in the United States

The Company is expected to be a foreign private issuer. If, as of the last business day of the Company's second fiscal quarter for any year, the Company determines that more than 50% of its outstanding voting securities (as determined under Rule 405 under the U.S. Securities Act, as further described under "*Risks Related to Potential Changes in Definition of Foreign Private Issuer*") are directly or indirectly held of record by residents of the United States, effective on the first day of its fiscal year immediately succeeding such determination the Company will no longer meet the definition of a foreign private issuer, which may have adverse consequences on the Company's ability to raise capital in private placements or Canadian prospectus

offerings. In addition, the loss of the Company's foreign private issuer status would result in the Company becoming subject to U.S. domestic reporting requirements and, as such, the Company would be subject to the increased reporting and disclosure requirements imposed on U.S. domestic reporting companies, likely resulting in increased audit, legal and administration costs and a significant diversion of the Company's time and resources. These increased costs may significantly affect the Company's business, financial condition and results of operations.

#### Increased Cost as a Result of Becoming a Reporting Issuer

The Company will incur significant legal, accounting, insurance and other expenses as a result of being a public company, which may negatively impact its performance and could cause its results of operations and financial condition to suffer. Compliance with applicable securities laws in Canada and the rules of the CSE substantially increases the Company's expenses, including its legal and accounting costs, and makes some activities more time-consuming and costly. Reporting obligations as a public company and the Company's anticipated growth may place a strain on the Company's financial and management systems, processes and controls, as well as on personnel.

The Company also expects these laws, rules and regulations to make it more expensive to obtain director and officer liability insurance, and the Company may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for the Company to attract and retain qualified persons to serve on its Board or as officers. As a result of the foregoing, the Company expect a substantial increase in legal, accounting, insurance and certain other expenses in the future, which could negatively impact the Company's financial performance and could cause results of operations and financial condition to suffer.

#### Financial Reporting and Other Public Company Requirements

Upon receiving a final receipt for this prospectus, the Company will become subject to reporting and other obligations under applicable Canadian Securities Laws and rules of any stock exchange on which the Common Shares are then-listed. These reporting and other obligations will place significant demands on the Management, administrative, operational and accounting resources. If the Company is unable to accomplish any such necessary objectives in a timely and effective manner, the Company's ability to comply with its financial reporting obligations and other rules applicable to reporting issuers could be impaired. Moreover, any failure to maintain effective internal controls could cause the Company to fail to satisfy its reporting obligations or result in material misstatements in our financial statements. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially adversely effected which could also cause investors to lose confidence in the Company's reported financial information, which could in turn result in a reduction in the trading price of the Common Shares.

It is anticipated that the Company will be a "venture issuer" as defined in NI 52-109. In contrast to the certificate required for non-venture issuers under NI 52-109, the certificates filed by the Company's officers will not be required to include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers will not be required to make any representations relating to the establishment and maintenance of i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

Inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### Impact on Resales into the United States

The Offered Shares have not been, and will not be, registered under the U.S. Securities Act. The Offered Shares are being offered only to non-U.S. persons (as defined in Regulation S) outside the United States in transactions exempt from the registration requirements of the Securities Act in reliance on Regulation S, to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act) in the United States pursuant to Rule 144A under the U.S. Securities Act as permitted by the Underwriting Agreement, and otherwise in transactions that are exempt from the registration requirements set forth under the U.S. Securities Act. Accordingly, the Offered Shares are “restricted securities” as defined in Rule 144 under the U.S. Securities Act. Except with respect to the Underwriters’ re-offer and re-sale of Offered Shares to qualified institutional buyers in the United States pursuant to Rule 144A under the U.S. Securities Act, the Offered Shares may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, unless the transfer is registered under the U.S. Securities Act. The Company has no current intention to register the Offered Shares under the U.S. Securities Act. If the Company does not register the Offered Shares under the U.S. Securities Act, its shareholders will face restrictions in re-sale of the Offered Shares, particularly in the United States or to U.S. persons. The Offered Shares may bear a legend describing restrictions on transfer to U.S. persons and prohibiting hedging transactions in the Offered Shares unless in compliance with the U.S. Securities Act.

### Risk Related to Non-Compliance with Regulation S Under the U.S. Securities Act

Because the Offered Shares are being offered and sold in an offshore transaction (as defined under Rule 902 of the U.S. Securities Act), no directed selling efforts (as defined under Rule 902 of the U.S. Securities Act) are being made by the Company and the Company is an issuer organized under the laws of a jurisdiction outside of the United States, the Offered Shares qualify as Category 1 securities under Rule 903 of Regulation S. Should the SEC determine that the Company did not comply with the requirements of Regulation S, the secondary market in the Common Shares could be adversely affected. The Company may be required to register its Common Shares with the SEC, which would entail significant expense to the Company and a significant amount of time on behalf of the Company’s directors and senior management. Furthermore, the Company and its directors could also be subject to criminal, civil or administrative proceedings.

### Impact of Future Sales by Existing Shareholders

If the Company’s shareholders sell substantial amounts of the Common Shares in the public market, the market price of the Common Shares could decrease. The perception among investors that these sales will occur could also produce this effect. All of the Offered Shares the Company will issue under the Offering and all currently outstanding Common Shares other than those subject to lock-up agreements executed by certain existing shareholders will, subject to applicable securities laws, generally be immediately available for resale in the public markets.

### Influence of the Significant Shareholders

Upon completion of the Offering, the Company will have a small number of shareholders who will own, in the aggregate, approximately a 31.7% equity interest of the Company, assuming completion of the Offering and that the Over-Allotment Option is fully exercised, on a non-diluted basis. As a result, although such shareholders may not have any agreement to act in concert, such shareholders will have the ability to exercise significant influence over matters submitted to the Shareholders for approval, whether subject to approval by a majority of the Shareholders or subject to a class vote or special resolution.

### Limited Control Over the Company’s Operations

Holders of the Common Shares will have limited control over changes in the Company’s policies and operations, which increases the uncertainty and risks of an investment in the Company. The Board will determine major policies, including policies regarding financing, growth, debt capitalization and any future dividends to Shareholders. Generally, the Board may amend or revise these and other policies without a vote of the holders of the Common Shares. Holders of the Common Shares will only have a right to vote, as a class, in

the limited circumstances described elsewhere in this prospectus. The Board's broad discretion in setting policies and the limited ability of holders of the Common Shares to exert control over those policies increases the uncertainty and risks of an investment in the Company.

#### Working Capital and Future Issuances

The Company may issue additional Common Shares in the future which may dilute a shareholder's holdings in the Company. The Articles permit the issuance of an unlimited number of Common Shares, an unlimited number of Proportionate Voting Shares, and an unlimited number of preferred shares issuable in series, and Shareholders will have no pre-emptive rights in connection with any further issuances. The directors of the Company have the discretion to determine the provisions attaching to the Common Shares and the Proportionate Voting Shares and the price and the terms of issue of further Common Shares and Proportionate Voting Shares.

Additional equity financing may be dilutive to Shareholders and could contain rights and preferences superior to those of the Offered Shares issued pursuant to the Offering. Debt financing may involve restrictions on the Company's financing and operating activities. Debt financing may be convertible into other securities of the Company which may result in immediate or resulting dilution. In either case, additional financing may not be available to the Company on acceptable terms or at all. If the Company is unable to raise additional funds as needed, the scope of its operations or growth may be reduced and, as a result, the Company may be unable to fulfil its long-term goals. In this case, investors may lose all or part of their investment. Any default under such debt instruments could have a material adverse effect on the Company, its business or the results of operations.

#### Securities or Industry Analysts

The trading market for Common Shares could be influenced by the research and reports that industry and/or securities analysts may publish about the Company, its business, the market or competitors. If any of the analysts who may cover the Company's business change their recommendation regarding the Common Shares adversely, or provide more favourable relative recommendations about its competitors, the share price would likely decline. If any analyst who may cover the Company's business were to cease coverage or fail to regularly publish reports on the Company, it could lose visibility in the financial markets, which in turn could cause the share price or trading volume to decline.

#### Immediate Dilution

The Offering Price of the Offered Shares will significantly exceed the net tangible book value per share of the Offered Shares. Accordingly, a purchaser of Offered Shares in the Offering will incur immediate and substantial dilution of his, her or its investment. If outstanding options and warrants to purchase Common Shares are exercised or securities convertible into Common Shares are converted, additional dilution will occur.

#### Discretion in the Use of Proceeds

Management will have broad discretion concerning the use of the proceeds of the Offering, as well as the timing of their expenditure. See "*Use of Proceeds*". As a result, purchasers will be relying on the judgment of Management for the application of the proceeds of the Offering. Management may use the net proceeds of the Offering in ways that purchasers may not consider desirable. The results and the effectiveness of the application of the net proceeds are uncertain. If the proceeds are not applied effectively, the results of the Company's operations may suffer.

Management currently intends to allocate the net proceeds received from the Offering as described under "*Use of Proceeds*", however, management may elect to allocate the net proceeds differently from that described under "*Use of Proceeds*" if it believes it would be in the Company's best interest to do so. Shareholders may not agree with the manner in which management chooses to allocate and spend the net proceeds of the Offering.

## U.S. Domestic Corporation for U.S. Federal Income Tax Purposes

It is anticipated that the Company will be treated as a U.S. domestic corporation for U.S. federal income tax purposes under Section 7874(b) of the Code. As a result, it is anticipated that the Company will be subject to U.S. income tax on its worldwide income and that any dividends paid by the Company to Non-U.S. Holders (as defined in the discussion under “*Certain United States Tax Considerations — Non-U.S. Holders*”) will be subject to U.S. federal income tax withholding at a 30% rate or such lower rate as provided in an applicable treaty. The Company will continue to be treated as a U.S. domestic corporation for U.S. federal tax purposes.

In addition, Section 382 of the Code contains rules that limit for U.S. federal income tax purposes the ability of a corporation that undergoes an “ownership change” to utilize its net operating losses (and certain other tax attributes) existing as of the date of such ownership change. Under these rules, a corporation is treated as having had an “ownership change” if there is more than a 50% increase in stock ownership by one or more “five percent shareholders,” within the meaning of Section 382 of the Code, during a rolling three-year period. The Company does not have any net operating loss carry forwards or research and development credit carry forwards as of December 31, 2017 that would be subject to Section 382 of the Code.

Furthermore, the Company will be subject to Canadian income tax on its worldwide income. Consequently, it is anticipated that the Company will be liable for both U.S. and Canadian income tax, which could have a material adverse effect on its financial condition and results of operations.

## Withholding Tax on Dividends

Dividends received by holders of Common Shares who are residents of Canada for purposes of the Tax Act will be subject to U.S. withholding tax. A foreign tax credit under the Tax Act in respect of such U.S. withholding taxes may not be available to such holder. See “*Certain Canadian Federal Income Tax Considerations — Holders Resident in Canada — Dividends on Common Shares*”.

Dividends received by Non-Resident Holders of Common Shares who are U.S. Holders will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax. It is anticipated that the Company will be considered to be a U.S. domestic corporation for U.S. federal income tax purposes. As such, dividends paid by the Company will be characterized as U.S. source income for purposes of the foreign tax credit rules under the Code. See “*Certain United States Tax Considerations*”.

**A holder that is both a Non-Resident Holder and a Non-U.S. Holder may be subject to (a) Canadian withholding tax (see “*Certain Canadian Federal Income Tax Considerations*”), and (b) United States withholding tax (see “*Certain United States Tax Considerations*”) on dividends received on the Common Shares. Non-Resident Holders and Non-U.S. Holders should consult their own tax advisors with respect to the availability of any foreign tax credits or deductions in respect of any Canadian or United States withholding tax applicable to dividends on the Common Shares.**

The foregoing discussion is subject in its entirety to the summaries set forth in “*Certain Canadian Federal Income Tax Considerations*” and “*Certain United States Tax Considerations*”.

## U.S. Tax Classification

The Company is treated as a U.S. domestic corporation for U.S. federal income tax purposes under Section 7874 of the Code. As a U.S. domestic corporation for U.S. federal income tax purposes, the taxation of the Company’s Non-U.S. Holders upon a disposition of Common Shares generally depends on whether the Company is classified as a United States real property holding corporation (a “USRPHC”) under the Code. The Company believes that it is not currently, and has never been, a USRPHC. However, the Company has not sought and does not intend to seek formal confirmation of its status as a non-USRPHC from the IRS. If the Company ultimately is determined by the IRS to constitute a USRPHC, its Non-U.S. Holders may be subject to U.S. federal income tax on any gain associated with the disposition of the Common Shares. See “*Certain United States Tax Considerations*”.

## **MATERIAL CONTRACTS**

This prospectus includes a summary description of certain material contracts. Each summary description discloses all attributes material to an investor in the Common Shares but is not complete and is qualified by reference to the terms of the material contracts, which will be filed with the Canadian securities regulatory authorities and available on SEDAR at [www.sedar.com](http://www.sedar.com) under the Company's profile.

The following are the Company's only material contracts that will be in effect on Closing (other than certain agreements entered into in the ordinary course of business):

- (a) the Underwriting Agreement;
- (b) the Merger Agreement;
- (c) the Name and Likeness Agreement;
- (d) the Licenses; and
- (e) the CDPHE registration.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as described below or elsewhere in this prospectus, there is no material interest, direct or indirect, of: (i) any director or executive officer of the Company; (ii) any person or Company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Common Shares; or (iii) an associate or any affiliate of any persons or companies referred to above in (i) or (ii), in any transaction within the three years before the date of this prospectus that has materially affected or is reasonably expected to materially affect the Company. Joel Stanley and Jared Stanley, through a company owned by them and the other Stanley brothers, are expected to become parties to the Name and Likeness Agreement.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

The Company is, from time to time, involved in legal proceedings of a nature considered normal to its business. The Company believes that none of the litigation in which it is currently involved or have been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to the Company's consolidated financial condition or results of operations.

## **EXEMPTION FROM NATIONAL INSTRUMENTS**

In connection with the filing of this prospectus, the Company has applied to the Canadian provincial securities regulatory authorities for an exemption from the provisions of NI 41-101 relating to restricted securities.

In connection with the Offering, the Company has also applied for exemptive relief from the requirements under Part 10 of National Instrument 51-102 — *Continuous Disclosure Obligations*, and from the requirements under Parts 2 and 3 of OSC Rule 56-501 — *Restricted Shares*. Such exemptive relief is required prior to the issuance of a receipt for the final prospectus.

## **EXPERTS**

Certain legal matters relating to the Offering will be passed upon by DLA Piper (Canada) LLP and by DLA Piper LLP (US) on behalf of the Company, and by Stikeman Elliott LLP and Goodwin Procter LLP on behalf of the Underwriters. Frost Brown Todd LLC (Lexington, Kentucky) has acted as U.S. regulatory counsel to the Company in respect of certain matters. As at the date hereof, the partners and associates of each of DLA Piper (Canada) LLP, DLA Piper LLP (US), Frost Brown Todd LLC, Stikeman Elliott LLP and Goodwin Procter LLP, as respective groups, beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares.

## AUDITOR, TRANSFER AGENT AND REGISTRAR

The independent auditor of the Company is MNP LLP, located at 111 Richmond Street West, Suite 300, Toronto, ON M5H 2G4, and has confirmed that it is independent of the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants.

The transfer agent and registrar for the Common Shares is Odyssey Trust Company, located at 350 — 300 5<sup>th</sup> Avenue SW, Calgary, Alberta.

## ENFORCEMENT OF JUDGEMENTS

All of the Company's operations and assets are located outside of Canada and (i) its directors and officers, including its Chief Executive Officer and Chief Financial Officer; and (ii) the Selling Shareholders and each of the promoters reside outside of Canada. Although the directors and officers who reside outside of Canada have appointed DLA Piper (Canada) LLP, 2800 Park Place, 666 Burrard St, Vancouver, BC V6C 2Z7, Canada, as their agent for service of process in Canada, it may not be possible for investors to enforce against such person's judgements obtained in Canadian courts predicated on the civil liability provisions of applicable securities laws in Canada. Investors are advised that it may not be possible for them to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

## PROMOTERS

Joel Stanley, a director and employee of the Company and Jared Stanley, a director and employee of the Company, Jesse Stanley, Josh Stanley, Jon Stanley, Jordan Stanley and J. Austin Stanley may be considered promoters of the Company within the meaning of Canadian securities legislation. Upon completion of the Offering, each of these individuals, either directly or indirectly, will (assuming the Over-Allotment Option is exercised in full) own, control or direct the number of Proportionate Voting Shares of the Company set forth in the table below. Except as disclosed in this prospectus, none of these individuals currently own, nor will they own upon completion of the Offering, any options to purchase Proportionate Voting Shares.

<u>Promoter</u>	<u>Number of Proportionate Voting Shares owned, controlled or directed by the Promoter and Common Share Equivalent</u>
Joel Stanley . . . . .	12,475.77 (4,990,308 Common Shares)
Jared Stanley . . . . .	12,743.53 (5,097,412 Common Shares)
Jesse Stanley . . . . .	13,909.67 (5,563,869 Common Shares)
Josh Stanley . . . . .	12,306.80 (4,922,721 Common Shares)
Jon Stanley . . . . .	9,833.78 (3,933,513 Common Shares)
Jordan Stanley . . . . .	3,359.16 (1,343,666 Common Shares)
J. Austin Stanley . . . . .	8,956.99 (3,582,797 Common Shares)

Each of these individuals is expected to enter into employment agreements with the Company, pursuant to which they will be entitled to receive the following compensation from the Company, on an annual basis for a

term of three years. Each employment agreement is expected to be upon the same terms as the employment agreement to be entered into by Joel Stanley, see “*Executive Compensation*”, except as described below.

<b>Promoter</b>	<b>Annual Compensation pursuant to Employment Agreement (US\$)</b>
Joel Stanley . . . . .	225,000
Jared Stanley . . . . .	225,000
Jesse Stanley . . . . .	225,000
Josh Stanley . . . . .	225,000
Jon Stanley . . . . .	175,000
Jordan Stanley . . . . .	175,000
J. Austin Stanley . . . . .	175,000

See “*Principal Securityholders and Selling Shareholders*”, “*Options to Purchase Common Shares*” and “*Executive Compensation*”.

### **RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal advisor.

**APPENDIX FS**  
**FINANCIAL STATEMENTS**

**Audited Interim Financial Statements for the Company as of June 30, 2018**

• Report of Independent Auditors . . . . .	FS-3
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**Charlotte's Web Holdings, Inc.**

**Financial Statements**

**As at June 30, 2018**

## Independent Auditors' Report

To the Shareholders of Charlotte's Web Holdings, Inc.:

We have audited the accompanying financial statements of Charlotte's Web Holdings, Inc., (the "Company"), which comprise the statement of financial position as at June 30, 2018 and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes assessing the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2018, in accordance with International Financial Reporting Standards.

*MNP LLP*

Toronto, Ontario  
August 22, 2018

Chartered Professional Accountants  
Licensed Public Accountants

**MNP**

**Charlotte's Web Holdings, Inc.**  
**Statement of Financial Position**  
**As at June 30, 2018**  
(in Canadian Dollars)

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<b>Assets</b>	
Cash	\$ 1
	\$ 1
<b>Shareholders' Equity</b>	
Share capital (Note 3)	\$ 1
	\$ 1

*The accompanying notes are an integral part of these financial statements.*

**Approved by the Board:** /S/ William West  
Director (Signed)

/S/ John Held  
Director (Signed)

**1. INCORPORATION**

Charlotte's Web Holdings, Inc. (the "Corporation") was incorporated under the Business Corporations Act (British Columbia) on May 18, 2018, as Stanley Brothers Holdings Inc. On July 12, 2018, the Corporation changed its name to Charlotte's Web Holdings, Inc.

The head office and the registered head office of the Corporation is located at 2800 Park Place, 666 Burrard St, Vancouver, British Columbia V6C 2Z7, Canada.

On August 22, 2018, the Board of Directors approved these financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of Compliance**

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

**Basis of Presentation**

The financial statements are presented in Canadian dollars ("CAD"). The Corporation's ongoing functional and presentation currency will be in United States dollars ("USD"). The financial statements are prepared on a historical cost basis except for certain financial instruments classified as fair value through profit or loss ("FVPTL"), which are stated at their fair value. The accounting policies have been applied consistently throughout the entire period presented in these financial statements.

**Statement of Changes in Equity**

The Statement of Changes in Equity has not been included in these financial statements as there were no transactions from the date of incorporation to June 30, 2018.

**Statement of Operations and Comprehensive Income**

The Statement of Operations has not been included in these financial statements as there were no transactions from the date of incorporation to June 30, 2018.

**Statement of Cash Flows**

The Statement of Cash Flows has not been included in these financial statements as there were no transactions from the date of incorporation to June 30, 2018.

### **Earnings and Loss Per Share**

Basic earnings and loss per common share is determined by dividing loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per common share is calculated in accordance with the treasury stock method and is based on the weighted average number of common shares and dilutive common share equivalents outstanding.

### **Financial Instruments**

All financial instruments are recorded initially at fair value. In subsequent periods, all financial instruments are measured based on the classification adopted for the financial instrument: held to maturity, loans and receivables, fair value through profit or loss ("FVTPL"), available for sale, FVTPL liabilities or other liabilities.

FVTPL assets and liabilities are subsequently measured at fair value with the change in the fair value recognized in net income (loss) during the period.

Held to maturity assets, loans and receivables, and other liabilities are subsequently measured at amortized cost using the effective interest rate method.

Available for sale assets are subsequently measured at fair value with the changes in fair value recorded in other comprehensive income (loss), except for equity instruments without a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

The Corporation has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash	Loans and receivables

Additional fair value measurement disclosure includes classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements which are as follows:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

There are no financial instruments measured at fair value on the balance sheet.

### **Income Taxes**

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the intention is to settle on a net basis, or to realize the asset and settle the liability simultaneously. Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of operations and comprehensive income.

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to be recovered or settled. Deferred tax assets are recognized to the extent that realization of such benefits is probable.

### **Estimates**

The preparation of financial statements in conformity with IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates used in the financial statements. The Company does not have any significant estimates or assumptions impacting the financial statements for the period May 18, 2018 through June 30, 2018.

### **New Accounting Standards, Amendments and Interpretations Not Yet Adopted**

The standards and interpretations that have been issued, but are not yet effective, up to the date of the issuance of these consolidated financial statements are discussed below. If applicable, the Company intends to adopt these standards on the required effective date.

*IFRS 9, "Financial Instruments: Classification and Measurement"*, addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Company adopted the new standard on May 18, 2018.

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

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

**Notes to the Financial Statements**  
**As at June 30, 2018**  
(In Canadian Dollars)

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

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

The Company adopted the new standard on incorporation on May 18, 2018 and accordingly there are no comparative figures. The Company does not currently have any revenues.

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

In January 2016, the IASB issued *IFRS 16, "Leases"* which replaces IAS 17 "Leases" and its associated interpretative guidance. Leases will be recorded in the statement of financial position in the form of a right-of-use assets and a lease liability. This standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of these new standards, interpretations and amendments on its consolidated financial statements.

In June 2016, the International Accounting Standards Board (IASB) issued amendments to IFRS 2 to clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments to IFRS 2 are effective prospectively for annual periods beginning on or after January 1, 2018. The Company has adopted the standard and there were no changes to its current recognition policies.

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS 12, which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting

**Charlotte's Web Holdings, Inc.**  
**Notes to the Financial Statements**  
**As at June 30, 2018**  
(In Canadian Dollars)

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Standards Board (AcSB) in April 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The amendments clarify the following aspects around the recognition of deferred tax assets for unrealized losses:

- Decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity give rise to a deductible temporary difference if the debt instrument is measured at fair value and its tax base remains at cost.
- An entity's estimate of future taxable profit may include amounts from assets it expects to recover in excess of their carrying amounts if there is sufficient evidence that it is probable the entity will achieve this.
- An entity's estimate of future taxable profit excludes tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses whether to recognize the tax effect of a deductible temporary difference as a deferred tax asset in combination with other deferred tax assets. If tax law restricts the utilization of tax losses so that an entity can only deduct tax losses against income of a specified type(s) (e.g. if it can deduct capital losses only against capital gains), the entity must still recognize a deferred tax asset in combination with other deferred tax assets, but only with deferred tax assets of the appropriate type.

The amendments to IAS 12 are effective prospectively for annual periods beginning on or after January 1, 2017. The Company has adopted the standard and there were no changes to its current recognition policies.

### **3. SHARE CAPITAL**

Authorized:

Unlimited common shares

Unlimited preferred shares, issuable in series

Issued:

1 common share	\$	1
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### **4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

#### **Capital Management**

The Corporation's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Corporation includes equity, comprised of share capital and retained earnings, in the definition of capital.

**Charlotte's Web Holdings, Inc.**  
**Notes to the Financial Statements**  
**As at June 30, 2018**  
(In Canadian Dollars)

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The Corporation's primary objective with respect to its capital management is to ensure that it has sufficient cash for the funding of the operations of the business. To secure the additional capital necessary to pursue these plans, the Corporation may attempt to raise additional funds through the issuance of equity (see note 6 – Subsequent Event).

The proceeds raised from the issuance of common shares may only be used for operations of its business and its subsidiaries, if any.

**Risk Disclosures and Fair Values**

The Corporation's financial instruments, consisting of cash held in trust and accounts payable and accrued liabilities approximate fair value due to the relatively short-term maturity of the instruments. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments.

**5. RELATED PARTY TRANSACTIONS**

There was no remuneration paid to key management personnel during the period May 18, 2018 through June 30, 2018.

**CWB HOLDINGS, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in US Dollars)

CONSOLIDATED FINANCIAL  
STATEMENTS  
For the Years Ended December 31, 2017 and 2016

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## **Independent Auditors' Report**

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To the Shareholders of CWB Holdings Inc.:

We have audited the accompanying consolidated financial statements of CWB Holdings Inc. and its subsidiaries, (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2017 and 2016, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes assessing the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016, in accordance with International Financial Reporting Standards.

*MNP LLP*

Toronto, Ontario  
August 22, 2018

Chartered Professional Accountants  
Licensed Public Accountants

**MNP**

**CWB HOLDINGS, INC.**

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of United States dollars)

	December 31, 2017	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash	\$ 7,056	\$ 1,090
Trade and other receivables (note 4)	2,129	849
Inventories (note 6)	4,808	3,323
Prepaid expenses and other current assets	436	206
	14,429	5,468
Non-current assets:		
Property and equipment (note 7)	3,373	1,429
Deferred tax assets (note 13)	549	403
Loan due from related party (note 5)	107	107
Other long-term assets (note 2(k))	996	866
	\$ 19,454	\$ 8,273
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 948	\$ 444
Accrued liabilities	3,343	1,344
Deferred revenue	490	430
Income taxes payable	157	730
Convertible note and derivative liability (note 9 and 18)	1,040	-
Current portion of notes payable (note 10)	15	64
Current portion of finance lease obligations (note 8)	299	99
	6,292	3,111
Non-current liabilities:		
Long-term note payable (note 10)	28	313
Long-term finance lease obligations (note 8)	397	57
Deferred rent	98	88
	6,815	3,569
Shareholders' equity:		
Share capital (note 11)	5,835	5,835
Contributed surplus (note 11)	787	327
Shares to be issued	-	-
Retained earnings (deficit)	6,017	(1,458)
	12,639	4,704
	19,454	\$ 8,273

Commitments (note 8, 9,10)

Approved by the Board of Directors

\_\_\_\_\_  
Director (signed)\_\_\_\_\_  
Director (signed)

**CWB HOLDINGS, INC.**

## CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

(In thousands of United States dollars)

	Years ended December 31,	
	2017	2016
Revenue	\$ 40,007	\$ 14,730
Cost of sales (note 12)	9,024	4,913
Gross profit before loss on fair value of biological assets	30,983	9,817
Effect of unrealized changes in fair value of biological assets (note 6)	(1,040)	(208)
Gross profit	29,943	9,609
Operating expenses:		
General and administrative (note 12)	11,472	5,105
Sales and marketing (note 12)	5,941	3,075
Research and development	508	449
	17,921	8,629
Operating income	12,022	980
Financing costs (notes 8,9 and 10)	(247)	(39)
Interest income	20	-
Income before taxes	11,795	941
Income taxes (note 13)	(4,320)	(327)
Net income and comprehensive income	\$ 7,475	\$ 614
Weighted average number of common shares - basic (note 11)	8,805,409	8,924,006
Weighted average number of common shares - diluted (note 11)	9,443,346	9,561,969
Earnings per share - basic (note 11)	\$ 0.85	\$ 0.07
Earnings per share - diluted (note 11)	\$ 0.79	\$ 0.06

**CWB HOLDINGS, INC.**

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of United States dollars)

Year ended December 31, 2016	Share capital	Contributed surplus	Shares to be issued - \$	Retained (deficit)	Total
Balance - December 31, 2015	\$ 4,836	\$ 4	\$ 445	\$ (2,072)	\$ 3,213
Sale of common shares	1,000	-	(445)	-	555
Repurchase of common shares	(1)	-	-	-	(1)
Share-based compensation expense	-	323	-	-	323
Net income	-	-	-	614	614
Balance - December 31, 2016	\$ 5,835	\$ 327	\$ -	\$ (1,458)	\$ 4,704

Year ended December 31, 2017	Share capital	Contributed surplus	Shares to be issued - \$	Retained earnings (deficit)	Total
Balance - December 31, 2016	\$ 5,835	\$ 327	\$ -	\$ (1,458)	\$ 4,704
Exercise of common share options	-	-	-	-	-
Share-based compensation expense	-	460	-	-	460
Net income	-	-	-	7,475	7,475
Balance - December 31, 2017	\$ 5,835	\$ 787	\$ -	\$ 6,017	\$ 12,639

**CWB HOLDINGS, INC.**

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of United States dollars)

	Years ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 7,475	\$ 614
Items not involving cash:		
Depreciation	696	242
Loss from change in fair value of biological assets	816	95
Accretion on convertible note	145	-
Loss from change in fair value of convertible note	(90)	-
Allowance for doubtful accounts	50	24
Obsolete inventory	76	369
Deferred rent	10	88
Stock-based compensation	460	323
Loss on disposal of property and equipment	4	41
Deferred income taxes	(146)	(403)
Changes in working capital:		
Accounts receivable	(1,330)	(724)
Inventory	(2,377)	(2,134)
Prepaid expenses and other current assets	(230)	(168)
Accounts payable	504	(38)
Accrued liabilities	1,999	820
Income taxes payable	(573)	730
Deferred revenue	60	142
	7,549	21
Cash flows from investing activities:		
Purchases of property and equipment	(1,922)	(847)
Other long-term assets	(445)	183
	(2,367)	(664)
Cash flows from financing activities:		
Payments on notes payable	(14)	(8)
Payments on finance lease obligations	(240)	(92)
Proceeds from sale of common stock	-	555
Proceeds from convertible note	1,000	-
Proceeds from note payable	38	358
Purchase of treasury stock	-	(1)
	784	812
Increase in cash and cash equivalents	5,966	169
Cash and cash equivalents, beginning of year	1,090	921
Cash and cash equivalents, end of year	\$ 7,056	\$ 1,090
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 133	\$ 28
Supplemental disclosure of non-cash investing and financing activities:		
Purchase equipment through financing lease	(722)	-
Note payable converted to financing lease	(358)	-
Deposit applied to financing lease	300	-
Loan issuance costs	15	-
Issuance of common stock upon note conversions	-	2,858
Issuance of common stock upon license agreement settlement	-	2,500

**1. Company overview**

(a) Organization

CWB Holdings, Inc. (the “Company”) was incorporated under the laws of Colorado, United States. The Company was initially formed December 8, 2013 under the name Stanley Brothers Social Enterprises, LLC, and on June 19, 2015 changed its name to CWB Holdings, LLC. On December 30, 2015 the Company converted from an LLC to a C-Corp and changed its name to CWB Holdings, Inc.

The head office of the Company is located at 2425 55<sup>th</sup> Street, Suite 200, Boulder, Colorado 80301.

The Company has one wholly owned subsidiary which operates under the name of Stanley Brothers Social Enterprises, LLC (“SBSE”).

(b) Nature of operations

The Company is a market leader in the production and distribution of innovative hemp-based, CBD wellness products. Through its vertically integrated business model, the Company strives to improve customers’ lives and meet their demands for stringent product quality, efficacy and consistency. The Company does not produce or sell medicinal or recreational marijuana or products derived therefrom.

The Company’s products are made from high quality and proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, including CBD, terpenes, flavonoids and other minor but valuable hemp compounds. The Company believes the presence of these various compounds work synergistically to heighten the effects of the products, making them superior to single-compound CBD isolates.

Hemp extracts are produced from Industrial Hemp, which is defined as Cannabis with less than 0.3% THC. THC causes psychoactive effects when consumed and is typically associated with marijuana (i.e. Cannabis with high-THC content). The Company does not produce or sell medicinal or recreational marijuana or products derived from high-THC Cannabis/marijuana plants. Industrial Hemp products have no psychoactive effects.

The Company’s current product categories include tinctures (liquid product), capsules and topical products. Planned product categories include powdered supplements, beverage, sport and professional (dedicated health care practitioner products). The Company’s products are distributed through its e-commerce website, select wholesalers and a variety of brick and mortar retailers.

The Company grows its proprietary hemp on farms leased in northeastern Colorado and sources high-quality hemp through contract farming operations in Kentucky and Oregon.

## **2. Basis of preparation**

### **(a) Statement of compliance**

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

The consolidated financial statements for the years ended December 31, 2017 and 2016 were approved and authorized for issue by the board of directors on August 22, 2018.

### **(b) Measurement basis**

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

### **(c) Basis of consolidation**

The Company's financial statements consolidate those of the parent company and its wholly owned subsidiary, SBSE, as of December 31, 2017 and 2016. Inter-company balances and transactions are eliminated in preparing the consolidated financial statements. The accounting policies of the subsidiary are consistent with the Company's policies.

### **(d) Critical accounting estimates and judgments**

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

#### **i. Biological assets and inventory**

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the industrial hemp plants to the point of harvest, harvesting costs, and selling costs. In calculating final inventory values, management is required to determine an estimate of obsolete inventory and compares the inventory cost to estimated net realizable value to determine if additional provision is required.

#### **ii. Useful lives of depreciable assets**

In calculating the depreciation expense, management is required to make estimates of the expected useful lives of property and equipment.

#### **iii. Share-based compensation**

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

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

**(e) Functional and presentation currency**

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

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

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

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

All other assets are classified as non-current.

A liability is current when:

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

All other liabilities are classified as non-current.

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

**3. Summary of significant accounting policies**

**(a) Cash and cash equivalents**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company did not have any cash equivalents as of December 31, 2017 or 2016. The Company maintains its cash in accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

**(b) Biological assets**

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

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

In determining the fair value of hemp plants, the Company used its average purchase price of \$27 per pound from third-party farmers as a proxy for fair value as the Company's strains of hemp do not have an active market as the Company does not sell its harvested hemp plants. One of the Company's strains of industrial hemp includes a 16% premium because of its estimated increased value due to its prime genetics. The premium is based on the hemp extract cost differential between products containing such prime genetics compared to other genetics used in the manufacture of its finished products. Processing costs after harvest include drying, stripping, hammermilling and packaging of the raw material and are estimated at \$2.64 per pound developed from historical cost breakdowns. Costs to sell are estimated at 20% and are reflective of typical cannabis industry costs to sell rates which include shipping, order fulfillment and other incremental selling costs. These costs are reductions from the average purchase price of \$27 per pound. The net fair value is then capitalized into inventory and becomes a raw material element of finished goods sold.

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

- (a) The cost to complete the hemp plant post-harvest and cost to sell;
- (b) The stage of plant growth; and
- (c) Expected yields by plant.

A 10% increase or decrease in the estimated yield would result in an increase or decrease in the fair value of biological assets by 10%. Additionally, an increase or decrease of 10% in the costs of production would increase or decrease the fair value of biological assets by \$2.70 per pound.

Fair value pricing can result in a decrease in the value of biological assets as a result of seasonal crop yields, and the reduction of processing and estimated costs to sell from the average purchase price. The implication of this is that if the Company was in the business of selling harvested hemp plants, it would be selling the product at a loss based on its fair value relative to the costs to produce; however, the Company's finished goods (hemp oil, hemp capsules and hemp topical products) commands a significantly higher price, and thus is profitable at the final sale level.

The Company capitalizes the direct and indirect costs associated with the production of its biological assets as incurred, less estimated yield losses and fair value adjustments. Any adjustments to capitalized biological asset costs are expensed to cost of sales. Depreciation on equipment used in the cultivation process is expensed as an indirect cost to operating expenses under the classification of general and administrative.

**(c) Inventories**

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Cost is determined by use of the first-in, first-out method. The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions.

Inventories of harvested hemp are transferred from biological assets at their fair value less cost to sell at harvest, which becomes deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than the net realizable value.

**(d) Property and equipment**

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

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

<u>Assets</u>	<u>Years</u>
Software	3-5 years
Vehicles	5-7 years
Equipment	3-10 years
Furniture and fixtures	2-7 years
Leasehold improvements	Shorter of useful life or term of lease

**(e) Leases**

Leases are classified as either finance or operating in nature. Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset.

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

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

**(f) Revenue recognition**

The Company recognizes revenue when products are shipped, the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an

arrangement exists and the sales price is fixed or determinable. Freight revenue is generally exempt from state sales taxes. Sales tax collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the statements of income.

**(g) Research and development**

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

**(h) Income taxes**

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

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

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

**(i) Share-based compensation**

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

All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to contributed surplus. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Any adjustment to cumulative share-based compensation resulting from a revision is recognized in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of share options, the proceeds received, net of any attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as contributed surplus.

**(j) Earnings per share**

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

**(k) Long-lived assets**

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison of their carrying amounts to future undiscounted net cash flows expected to be generated from the operation and sale of the long-lived assets. If such assets are considered impaired, the impairment to be recognized is measured by the amount in which the carrying amount of the long-lived assets exceeds their fair values. No impairment was recorded for the years ended December 31, 2017 or 2016.

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

**(l) Financial instruments**

Recognition, initial measurement and derecognition

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

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

Classification and subsequent measurement of financial assets and liabilities

For the purpose of subsequent measurement of financial assets and liabilities, other than those designated and effective as hedging instruments, are classified into the following categories upon initial recognition:

- loans and receivables
- other liabilities
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets

All financial assets are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

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

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

*Other liabilities*

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

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

<u>Financial instrument</u>	<u>Classification</u>
Cash	Loans and receivables
Trade and other receivables	Loans and receivables
Related party loans	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Obligations under finance lease	Other liabilities
Notes payable	Other liabilities

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

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

*HTM investments*

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Company has the intention and ability to hold them until maturity. HTM investments are measured subsequently at

amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes in the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

*AFS financial assets*

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All other AFS financial assets are measured at fair value. Gains and losses are recognized in other comprehensive income and reported within the AFS reserve within equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified from the equity reserve to profit or loss. Interest calculated using the effective interest method and dividends are recognized in profit or loss within finance income. Reversals of impairment losses for AFS debt securities are recognized in profit or loss if the reversal can be objectively related to an event occurring after the impairment loss was recognized. For AFS equity investments, impairment reversals are not recognized in profit loss and any subsequent increase in fair value is recognized in other comprehensive income.

**(m) Share capital**

Share capital represents the nominal (par) value of shares that have been issued.

Contributed surplus includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of related income tax benefits.

**(n) Convertible note payable**

The proceeds received on issue of the Company's convertible note payable have been recorded as a liability on the consolidated statement of financial position. The convertible note payable contains an embedded derivative. The Company has designated the derivative as a financial liability at fair value through profit or loss. The Company revalues the convertible derivative liability using recent arm's length market transactions and option pricing models at each reporting period.

**(o) Segments**

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

All property and equipment are located in the United States.

Revenues were principally generated in the United States during the years ended December 31, 2017 and 2016, except for \$1,631 and \$905, respectively, that were generated outside the United States.

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

The standards and interpretations that have been issued, but are not yet effective, up to the date of the issuance of these consolidated financial statements are discussed below. If applicable, the Company intends to adopt these standards on the required effective date.

IFRS 9, "Financial Instruments: Classification and Measurement"

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

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

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

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

IFRS 15, "Revenue from Contracts with Customers"

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

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

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

IFRS 16, “Leases”

In January 2016, the IASB issued IFRS 16, “Leases” which replaces IAS 17 “Leases” and its associated interpretative guidance. Leases will be recorded in the statement of financial position in the form of a right-of-use assets and a lease liability. This standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of this new standard, interpretations and amendments on its consolidated financial statements.

IFRS 2, “Share-based Payment (Amendment)”

In June 2016, the International Accounting Standards Board (IASB) issued amendments to IFRS 2 to clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments to IFRS 2 are effective prospectively for annual periods beginning on or after January 1, 2018. The Company has completed its assessment of the standard and does not anticipate significant changes to its current recognition policies.

IFRS 12, “Income Taxes (Amendment)”

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS 12, which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The amendments clarify the following aspects around the recognition of deferred tax assets for unrealized losses:

- Decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity give rise to a deductible temporary difference if the debt instrument is measured at fair value and its tax base remains at cost.
- An entity’s estimate of future taxable profit may include amounts from assets it expects to recover in excess of their carrying amounts if there is sufficient evidence that it is probable the entity will achieve this.
- An entity’s estimate of future taxable profit excludes tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses whether to recognize the tax effect of a deductible temporary difference as a deferred tax asset in combination with other deferred tax assets. If tax law restricts the utilization of tax losses so that an entity can only deduct tax losses against income of a specified type(s) (e.g. if it can deduct capital losses only against capital gains), the entity must still recognize a deferred tax asset in combination with other deferred tax assets, but only with deferred tax assets of the appropriate type.

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The amendments to IFRS 12 are effective prospectively for annual periods beginning on or after January 1, 2017. The Company has completed its assessment of the standard and does not anticipate significant changes to its current recognition policies.

**4. Trade and other receivables**

Trade and other receivables consist of the following:

	December 31, 2017	December 31, 2016
Trade	\$ 2,126	\$ 834
Other miscellaneous receivables	79	41
Allowance for doubtful accounts	(76)	(26)
	\$ 2,129	\$ 849

The Company maintains an allowance for doubtful accounts that represents its estimates of the uncollectible amounts based on specific losses estimated on individual exposures and provisions based on historical experience.

The aging of receivables is as follows:

	December 31, 2017	December 31, 2016
Current	\$ 1,561	\$ 479
Aged 1-30 days past due	466	181
Aged 31-60 days past due	45	60
Aged >60 days past due	133	155
Allowance for doubtful accounts	(76)	(26)
	\$ 2,129	\$ 849

**5. Loan due from related party**

At December 31, 2017, and 2016, the Company had a non-interest bearing, unsecured, receivable due from one of the founders of the Company in the amount of \$107. The Company has assessed the receivable as fully collectible.

**6. Inventories**

Inventories consist of the following:

	December 31, 2017	December 31, 2016
Harvested hemp	\$ 1,582	\$ 1,429
Raw materials	1,622	772
Finished goods	1,857	1,491
	5,061	3,692
Less: inventory reserve	(253)	(369)
	\$ 4,808	\$ 3,323

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An inventory provision is estimated by management and is included in cost of sales. For the years ended, December 31, 2017 and 2016, inventory reserves of \$76 and \$369, respectively, were expensed through cost of sales. In addition, for the year ended December 31, 2017, the Company had inventory write offs of \$192. The amounts of inventory expensed during the years ended December 31, 2017 and 2016, is \$4,567 and \$925, respectively.

Harvested hemp consists of the following:

	Year ended December 31,	
	2017	2016
Purchased hemp	\$ 724	\$ -
Materials	326	209
Labor	1,105	1,336
Rent and warehousing	283	192
Utilities	87	49
Equipment	185	119
Other	88	91
Fair value adjustment	(1,216)	(567)
	\$ 1,582	\$ 1,429

The Company grows its industrial hemp (i) on leased farms operated entirely by Company personnel; and (ii) through third-party farming operations with oversight by the Company. The grow season for the Company's hemp products is generally from May through September of each year. All harvesting of plants is complete prior to year-end. 100% of the Company's hemp is consumed internally for its finished goods products and is not sold in its raw or processed form.

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

	Biological assets
Carrying amount, December 31, 2016	\$ -
Production costs	1,487
Purchases	724
Changes in fair value due to sale of inventory	224
Changes in fair value less costs to sell due to biological transformation	(1,040)
Transferred to inventories upon harvest	(1,395)
Carrying amount, December 31, 2017	\$ -

The effect of changes in fair value of biological assets and inventory during the year include:

	2017	2016
Unrealized change in fair value of biological assets	\$ 1,040	\$ 208
Realized fair value increments on inventory sold during the year	(224)	(113)
Net effect of changes in fair value of biological assets and inventory	\$ 816	\$ 95

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**7. Property and equipment**

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

	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Software	Under construction	Total
<b>Cost</b>						
At January 1, 2016	882	52	27	19	-	980
Additions	449	158	240	-	-	847
Disposals	(29)	-	(31)	-	-	(60)
At December 31, 2016	1,302	210	236	19	-	1,767
Additions	2,055	102	171	174	142	2,644
Disposals	-	(5)	-	-	-	(5)
At December 31, 2017	\$ 3,357	\$ 307	\$ 407	\$ 193	\$ 142	\$ 4,406

	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Software	Under construction	Total
<b>Accumulated depreciation</b>						
At January 1, 2016	(98)	(8)	(5)	(4)	-	(115)
Additions	(167)	(33)	(38)	(4)	-	(242)
Disposals	12	-	7	-	-	19
At December 31, 2016	(253)	(41)	(36)	(8)	-	(338)
Additions	(575)	(55)	(58)	(8)	-	(696)
Disposals	-	1	-	-	-	1
At December 31, 2017	\$ (828)	\$ (95)	\$ (94)	\$ (16)	\$ -	\$ (1,033)

	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Software	Under construction	Total
<b>Net book value</b>						
At December 31, 2016	\$ 1,049	\$ 169	\$ 200	\$ 11	\$ -	\$ 1,429
At December 31, 2017	\$ 2,529	\$ 212	\$ 313	\$ 177	\$ 142	\$ 3,373

The Company has certain equipment held under finance lease agreements. As of December 31, 2017, and 2016, the net carrying amount included in machinery and equipment is \$1,205 and \$299, respectively. In addition, as of December 31, 2016, the Company had equipment secured by a note payable. The net carrying value of this equipment is included in machinery and equipment as of December 31, 2016 in the amount of \$301.

The Company financed the purchase of a vehicle under a note payable. As of December 31, 2017, and 2016, the net carrying amount included in machinery and equipment is \$22, and \$34, respectively.

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**8. Leases**

**(a) Obligations under finance leases**

The Company has certain equipment held under finance lease agreements. The lease terms extend through 2020, require monthly payments of \$36 and carry interest rates ranging from 6.75% - 16%. The leases are secured by the underlying equipment.

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

	within 1 year	1 to 5 years	Total
<b>December 31, 2017</b>			
Future minimum lease payments	\$ 386	\$ 444	\$ 830
Finance charges	(87)	(47)	(134)
Present value of minimum lease payments	\$ 299	\$ 397	\$ 696
<b>December 31, 2016</b>			
Future minimum lease payments	\$ 107	\$ 59	\$ 166
Finance charges	(8)	(2)	(10)
Present value of minimum lease payments	\$ 99	\$ 57	\$ 156

**(b) Obligations under operating leases**

The Company has non-cancelable operating leases for facilities and equipment. The Company also enters into short-term operating leases for land, equipment and housing to facilitate its agricultural operations. The leases expire on various dates through 2022. Each of the leases are subject to renewal at the option of the Company.

The following table presents the future minimum lease payments for leases having an initial or remaining non-cancelable lease term in excess of one year.

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

	within 1 year	1 to 5 years	Total
December 31, 2017	\$ 666	\$ 1,341	\$ 2,007
December 31, 2016	\$ 544	\$ 1,058	\$ 1,602

Rent expense for 2017 and 2016 was approximately \$848 and \$642, respectively.

**9. Convertible note**

On January 12, 2017, the Company executed a convertible loan agreement with a lender, which provides a line of credit of \$2.0 million for working capital purposes. Interest on the borrowings is charged at a rate of 14% per annum. From the closing date through April 30, 2017, 4% of the interest is deferred until converted to common stock or paid in full at the loan maturity. The loan matures on December 31, 2018, with the

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option to extend for one year upon payment of a fee of 2.0% of the outstanding principal and accrued interest.

At the closing of the loan, the Company borrowed \$1 million. The Company can prepay the loan in whole or in part with a 1.0% prepayment penalty prior to December 31, 2017 or with no prepayment penalty thereafter. The loan is secured by raw material inventories.

The deferred interest, all outstanding loan principal and any accrued interest are convertible into the Company's common stock at any time prior to maturity. The conversion price per share will be equal to the price per share realized by the Company on its most recent (prior to Lender's conversion) sale of common stock. If the Company does not sell any common stock between the date of the loan and the date of conversion, the conversion will be based upon a price of \$6.68 per share of common stock.

The loan agreement restricts the payment of dividends or distributions, except relating to tax liabilities attributable to the Company, and redemption of outstanding equity interests.

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

		Total
January 1, 2017	\$	-
Conversion option liability		314
Derivative liability		671
Accretion		145
Fair value adjustment		(90)
December 31, 2017	\$	1,040

For the year ending December 31, 2017, total interest paid and expensed, related to the convertible note, was \$92.

#### 10. Notes payable

Note 1 - The Company financed the purchase of a vehicle under a note payable. The note requires monthly principal and interest payments extending through November 2019 and carries an interest rate of 5.19%. The note is secured by the underlying asset.

Note 2 - The Company financed the purchase of equipment under a note payable. The note requires monthly principal and interest payments of \$846 extending through May 2021 and carries an interest rate of 4.00%. The note is secured by the underlying asset.

Note 3 - In November 2016 an interim financing agreement was executed prior to commencement of a financing lease to allow time for delivery and installation of all the equipment to be included under a future lease. The Company's accounts receivable and inventory were pledged as security under the interim financing agreement. The interim financing agreement was extinguished on April 30, 2017 and a financing lease was entered into for the underlying equipment on May 1, 2017.

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

	December 31, 2017	December 31, 2016
Equipment notes payable	\$ 43	\$ 377
Less: current portion	(15)	(64)
	<u>\$ 28</u>	<u>\$ 313</u>

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

	Long-term borrowings	Short-term borrowings	Total
January 1, 2017	\$ 313	\$ 64	\$ 377
Proceeds from issuance	38	-	38
Repayment	-	(14)	(14)
Conversion to financing lease	(300)	(58)	(358)
Conversion to short-term borrowings	(23)	23	-
December 31, 2017	<u>\$ 28</u>	<u>\$ 15</u>	<u>\$ 43</u>

	Long-term borrowings	Short-term borrowings	Total
January 1, 2016	\$ 20	7	\$ 27
Proceeds from issuance	300	58	358
Repayment	-	(8)	(8)
Conversion to short-term borrowings	(7)	7	-
December 31, 2016	<u>\$ 313</u>	<u>64</u>	<u>\$ 377</u>

Scheduled maturities of notes payable were as follows:

	within 1 year	1 to 5 years	Thereafter	Total
December 31, 2017	\$ 15	\$ 28	\$ -	\$ 43
December 31, 2016	\$ 64	\$ 313	\$ -	\$ 377

## 11. Shareholders' Equity

### (a) Authorized

The Company is authorized by its certificate of incorporation to issue 10,000,000 preferred shares and 50,000,000 common shares. The par value of the preferred and common shares is \$0.0001 per share.

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**(b) Issued and outstanding**

Each holder of issued and outstanding common shares is entitled to one vote per share. Holders of common shares are entitled to vote on substantially all major business decisions including: amendments of the articles of incorporation; issuance or amendment of equity interests; the sale, lease or transfer of Company assets; the sale, and the liquidation or reorganization of the Company. Preferred share holders only have voting rights with respect to the election of directors or other matters as may be stated in the resolutions of the Board of Directors.

	Number of shares outstanding	Treasury shares	Number of shares issued
January 1, 2016	8,781,022	-	8,781,022
Sale of common shares	200,000	-	200,000
Repurchase common shares	-	(203,928)	(203,928)
December 31, 2016	8,981,022	(203,928)	8,777,094

	Number of shares outstanding	Treasury shares	Number of shares issued
January 1, 2017	8,981,022	(203,928)	8,777,094
Exercise of stock options	62,258	-	62,258
December 31, 2017	9,043,280	(203,928)	8,839,352

In December 2017, the Company issued 62,258 common shares, valued at \$0.005, as a result of share option exercises.

In February and March 2016, the Company issued 200,000 common shares, valued at \$5.00 a share, to seven investors for cash proceeds of \$1.0 million.

In November 2016, the Company repurchased 203,928 common shares, valued at \$0.005 a share, from a former employee. At December 31, 2016, these shares were held as treasury shares.

**(c) Contributed surplus**

	December 31, 2017	December 31, 2016
Balance, beginning of period	\$ 327	\$ 4
Share-based compensation expense	460	323
Balance, end of period	\$ 787	\$ 327

**(d) Dividends**

The common shareholders shall be entitled to receive dividends in cash at such rate as is determined by the Board of Directors and only if declared by the Board of Directors. Whether declared or not, the right to such dividends is not cumulative and is not accrued for. No dividends were approved and paid in the periods presented.

CWB HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2017 and 2016

**(e) Earnings per share**

Basic and diluted earnings per share have been calculated using net income.

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

	December 31,	
	2017	2016
Weighted average number of common shares - basic	8,805,409	8,924,006
Shares deemed to be issued in respect to share-based payments	637,937	637,963
Weighted average number of common shares - diluted	9,443,346	9,561,969
Earnings per share - basic	\$ 0.85	\$ 0.07
Earnings per share - diluted	\$ 0.79	\$ 0.06

**(f) Option shares**

**i. Founder options**

On January 15, 2015, the Company issued nonqualified share options, in lieu of common stock, to a limited number of consultants ("Founder Options"). Each of these option holders did not qualify for the issuance of common stock under the Company's then existing S-Corporation status due to their residence standing. Issued Founder Options were for 638,687 underlying common shares and were fully vested after one year. The exercise price and the fair value at grant date was \$0.005 per share.

For the year ending December 31, 2016, the number of shares under option and exercisable was 638,687. In December 2017, the Company issued 62,258 common shares valued at \$0.005 as a result of share option exercises. For the year ending December 31, 2017, the number of shares under option was 576,429. Weighted average remaining contractual life is 3.04 years as of December 31, 2016 and 2.04 years as of December 31, 2017.

**ii. 2015 Stock Option 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 share options and nonqualified share 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 share options may be granted only to employees. The aggregate number of common shares of the Company as to which options may be granted from time to time under the 2015 Plan shall not exceed 1,500,000 shares. The maximum exercise period of any option grant shall not exceed ten years from the date of grant. The options generally vest over a period of one to five years.

Share-based compensation cost recognized for the years ended December 31, 2017 and 2016, was \$460 and \$323, respectively.

CWB HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2017 and 2016

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

	2017	2016
Valuation assumptions:		
Expected volatility	54.0%	56.0%
Expected term (years)	4.64	6.00
Risk-free interest rate	2.2%	2.9%
Exercise/strike price	\$5.00	\$5.00

The following tables summarize information regarding the share options outstanding:

	Number of shares under option	Weighted average exercise price (USD)
Balance at January 1, 2016	-	\$ -
Granted	367,192	5.00
Exercised	-	-
Forfeited	-	-
Expired	-	-
Balance at December 31, 2016	367,192	\$ 5.00
Exercisable at December 31, 2016	156,064	\$ 5.00

Weighted average remaining contractual life is 9.01 years. The weighted average grant-date fair value of options granted during the year ended December 31, 2016 was \$2.17.

	Number of shares under option	Weighted average exercise price (USD)
Balance at January 1, 2017	367,192	\$ 5.00
Granted	385,000	5.00
Exercised	-	-
Forfeited	(25,000)	5.00
Expired	-	-
Balance at December 31, 2017	727,192	\$ 5.00
Exercisable at December 31, 2017	220,461	\$ 5.00

Weighted average remaining contractual life is 8.01 years. The weighted average grant-date fair value of options granted during the year ended December 31, 2017 was \$2.07.

CWB HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2017 and 2016

**12. Expenses by nature**

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

	Year ended December 31,	
	2017	2016
Cost of sales	\$ 10,064	\$ 5,121
Inventory expensed to cost of sales	3,751	830
Other production costs	5,497	4,196
Revaluation of biological assets	816	95
General and administrative	\$ 11,472	\$ 5,105
Personnel	7,564	4,464
Facilities and other expenses	2,774	220
Accretion, depreciation and amortization	842	242
Travel and entertainment	292	179
Sales and marketing	\$ 5,941	\$ 3,075
Advertising, promotions and selling costs	2,818	1,126
Personnel	2,578	1,320
Facilities and other expenses	101	496
Travel and entertainment	444	133

**13. Income taxes**

**(a) Components of income taxes**

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

	Current	Deferred	Total
Year ended December 31, 2017:			
U.S federal	\$ 3,908	\$ (124)	\$ 3,784
State and local	558	(22)	536
	\$ 4,466	\$ (146)	\$ 4,320
Year ended December 31, 2016:			
U.S federal	\$ 639	\$ (351)	\$ 288
State and local	91	(52)	39
	\$ 730	\$ (403)	\$ 327

CWB HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2017 and 2016

**(b) Tax Rate Reconciliation**

Income tax expense attributable to income from continuing operations for the years ended December 31, 2017 and 2016, differed from the amounts computed by applying the U.S. federal income tax rate of 34% as a result of the following:

	2017	2016
Computed "expected" tax expense	34.0%	34.0%
State income taxes, net of federal tax benefit	2.8%	2.7%
Permanent items	-2.7%	-3.7%
Change in tax rate	2.3%	-
Other, net	0.2%	1.8%
	36.6%	34.8%

A change in federal corporate income tax rate from 34% to 21% was enacted in 2017 and effective January 1, 2018. For the year ending December 31, 2017, the rate does not impact the calculation of current income tax liability but does require the future rate to be applied to deferred income tax assets and liabilities. As a result of the reduction of tax rate, the Company revalued its ending net deferred tax assets and liabilities at December 31, 2017 and recognized approximately \$276 as tax expense for the year ending December 31, 2017.

**(c) Component of deferred taxes**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2017 and 2016 are presented below.

	2017	2016
Deferred tax assets:		
Accrued expenses	\$ 579	\$ 310
Change in fair value of inventory	202	-
Stock based compensation	114	120
Inventory reserve	62	137
Accrued employee paid time off	38	33
Deferred rent	31	40
Allowance for doubtful accounts	19	9
Other	3	-
	1,048	649
Deferred tax liabilities:		
Property and equipment	(499)	(246)
Net deferred tax asset	\$ 549	\$ 403

**14. Financial risk management**

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

**(a) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of it holding financial instruments.

The Company conducts sales transactions with foreign entities. The transactions are denominated in USD, the functional currency, and therefore the Company does not have exposure to foreign exchange rate risk.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates. The Company's trade receivables and accounts payable are non-interest bearing. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not have any debt instruments outstanding with variable interest rates at December 31, 2017 or 2016. Changes in market interest rates cause the fair value of long term debt with fixed interest rates to fluctuate but does not impact net income as the Company records debt at amortized cost and the carrying value does not change as interest rates change.

**(b) Credit risk**

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

	December 31, 2017	December 31, 2016
Trade and other receivables	\$ 2,129	\$ 849
Other long-term assets	996	866
	\$ 3,125	\$ 1,715

**i. Trade and other receivables**

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

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

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

See Note 4 for information about the aging of trade and other receivables.

**ii. Deposits**

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

**iii. Related party note**

A related party note was issued to one of the founders of the Company. This note is non-interest bearing and unsecured. The Company assessed the receivable as fully collectible.

**(c) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company manages liquidity risk by evaluating working capital and forecasting long-term financial liabilities as well as forecast cash inflows and outflows from business operations. The Company's cash balances at December 31, 2017, and 2016 were \$7,056, and \$1,090, respectively. Net working capital at December 31, 2017, and 2016 was \$8,137, and \$2,357, respectively.

**15. Fair value measurement**

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist.

Cash is classified as Level 1 financial instrument. Obligations under finance lease and convertible note are classified as Level 2 financial instruments. The Company's other financial instruments, including accounts receivable, loan due from related party, accounts payable and accrued liabilities and notes payable are carried at cost which approximates fair value due to the relatively short maturity of those instruments.

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

CWB HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2017 and 2016

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Loans and receivables:				
Cash	\$ 7,056	\$ 7,056	\$ 1,090	\$ 1,090
Accounts receivable	2,129	2,129	849	849
Loan due from related party	107	107	107	107
	<u>\$ 9,185</u>	<u>\$ 9,185</u>	<u>\$ 1,939</u>	<u>\$ 1,939</u>
<b>Financial liabilities</b>				
Other financial liabilities:				
Accounts payable and accrued liabilities	\$ 4,291	\$ 4,291	\$ 1,788	\$ 1,788
Obligations under finance lease	696	696	156	156
Convertible note	1,040	1,040	-	-
Notes payable	43	43	377	377
	<u>\$ 6,070</u>	<u>\$ 6,070</u>	<u>\$ 2,321</u>	<u>\$ 2,321</u>

## 16. Capital management

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

December 31, 2017	\$ 12,639
December 31, 2016	\$ 4,704

The Company's principal objectives in managing capital are:

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

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

The Company does not have any externally imposed capital compliance requirements at December 31, 2017. There were no changes in the Company's approach to capital management during the year.

CWB HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2017 and 2016

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**17. Remuneration of directors and key management of the Company**

The remuneration awarded to directors and senior key management includes the following:

	2017	2016
Wages	\$ 474	\$ 271
Consulting fees	77	-
Share based compensation	333	-
	\$ 884	\$ 271

**18. Subsequent Events**

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

Grant of share options. On January 1, 2018, the Company granted 275,000 stock options to an executive of the Company. The fair value at the date of grant was \$1.90 and they vest over three years.

Forfeiture of shares. On June 4, 2018, an existing employee and shareholder of the Company forfeited 107,857 shares due to a change in employment status.

Exercise of stock options. On May 25, 2018, 8,333 stock options were exercised from a former consultant of the Company.

**CWB HOLDINGS, INC.**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

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

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

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## CWB HOLDINGS, INC.

### UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of United States dollars)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash	\$ 10,784	\$ 7,056
Trade and other receivables (note 4)	2,804	2,129
Inventories (note 6)	6,264	4,808
Prepaid expenses and other current assets	1,265	436
Income taxes receivable	687	-
	<u>21,804</u>	<u>14,429</u>
Non-current assets:		
Property and equipment, net (note 7)	4,111	3,373
Deferred tax assets (note 14)	734	549
Loan due from related party (note 5)	107	107
Other long-term assets (note 8)	799	996
	<u>\$ 27,555</u>	<u>\$ 19,454</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,413	\$ 948
Accrued liabilities	5,253	3,343
Deferred revenue	403	490
Income taxes payable	-	157
Convertible note (note 10)	-	1,040
Current portion of notes payable (note 11)	10	15
Current portion of finance lease obligations (note 9)	283	299
	<u>7,362</u>	<u>6,292</u>
Non-current liabilities:		
Long-term note payable (note 11)	15	28
Long-term finance lease obligations (note 9)	260	397
Deferred rent	87	98
	<u>7,724</u>	<u>6,815</u>
Shareholders' equity:		
Share capital	5,773	5,835
Contributed surplus (note 12)	1,208	787
Retained earnings	12,850	6,017
	<u>19,831</u>	<u>12,639</u>
Commitments (note 9,10,11)		<u>12,639</u>
	<u>\$ 27,555</u>	<u>\$ 19,454</u>

Approved by the Board of Directors

\_\_\_\_\_  
Director (signed)

\_\_\_\_\_  
Director (signed)

**CWB HOLDINGS, INC.**

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

(In thousands of United States dollars)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue	\$ 17,217	\$ 9,059	\$ 30,309	\$ 16,179
Cost of sales (note 13)	4,013	2,783	6,568	4,559
Gross profit	13,204	6,276	23,741	11,620
Expenses:				
General and administrative (note 13)	4,915	2,560	8,981	4,059
Sales and marketing (note 13)	2,411	1,335	4,474	2,737
Research and development	129	134	255	222
Initial public offering related costs (note 13)	752	-	859	-
	8,207	4,029	14,569	7,018
Operating income	4,997	2,247	9,172	4,602
Financing costs	(66)	(75)	(130)	(112)
Interest income	33	2	54	2
Income before taxes	4,964	2,174	9,096	4,492
Income taxes (note 14)	(1,234)	(751)	(2,263)	(1,519)
Net income and comprehensive income	\$ 3,730	\$ 1,423	\$ 6,833	\$ 2,973
Weighted average number of common shares - basic (note 12)	8,811,832	8,777,094	8,825,516	8,777,094
Weighted average number of common shares - diluted (note 12)	9,388,261	9,415,781	9,401,945	9,415,781
Earnings per share - basic (note 11)	\$ 0.42	\$ 0.16	\$ 0.77	\$ 0.34
Earnings per share - diluted (note 11)	\$ 0.40	\$ 0.16	\$ 0.73	\$ 0.32

## CWB HOLDINGS, INC.

### UNAUDITED INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of United States dollars)

Six months ended June 30, 2017	Share capital	Contributed surplus	Retained earnings (deficit)	Total
Balance - December 31, 2016	\$ 5,835	\$ 327	\$ (1,458)	\$ 4,704
Share-based compensation expense	-	158	-	158
Net income	-	-	2,973	2,973
Balance - June 30, 2017	\$ 5,835	\$ 485	\$ 1,515	\$ 7,835

Six months ended June 30, 2018	Share capital	Contributed surplus	Retained earnings (deficit)	Total
Balance - December 31, 2017	\$ 5,835	\$ 787	\$ 6,017	\$ 12,639
Exercise of stock options	42	-	-	42
Share-based compensation expense	-	421	-	421
Share issuance costs	(104)	-	-	(104)
Net income	-	-	6,833	6,833
Balance - June 30, 2018	\$ 5,773	\$ 1,208	\$ 12,850	\$ 19,831

**CWB HOLDINGS, INC.**

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands of United States dollars)

	Six months ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 6,833	\$ 2,973
Items not involving cash:		
Depreciation	576	255
Loss from change in fair value of biological assets	(453)	(118)
Accretion on convertible note	71	66
Loss from change in fair value of convertible note	(66)	(42)
Allowance for doubtful accounts	152	(13)
Write down obsolete inventory	115	-
Deferred rent	(11)	(15)
Stock-based compensation	421	158
Gain on sale of assets	(28)	-
Deferred income taxes	(184)	237
Changes in working capital:		
Accounts receivable	(827)	(252)
Inventory	(1,118)	(507)
Prepaid expenses and other current assets	(829)	(116)
Accounts payable	465	61
Accrued liabilities	1,909	577
Income taxes	(844)	(819)
Deferred revenue	(87)	(132)
	6,095	2,313
Cash flows from investing activities:		
Purchases of property and equipment	(1,324)	(950)
Proceeds from sale of assets	38	-
Other long-term assets	197	(161)
	(1,089)	(1,111)
Cash flows from financing activities:		
Proceeds from convertible note	-	1,000
Payments on notes payable	(18)	(6)
Payments on finance lease obligations	(153)	(82)
Payments on convertible note	(1,000)	-
Debt settlement	(45)	-
Proceeds from sale of common stock	42	-
Share issuance costs	(104)	-
	(1,278)	912
Increase in cash and cash equivalents	3,728	2,113
Cash and cash equivalents, beginning of year	7,056	1,090
Cash and cash equivalents, end of period	\$ 10,784	\$ 3,203
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 130	\$ 73

CWB HOLDINGS, INC.  
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
For the Three and Six Months Ended June 30, 2018 and 2017

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**1. Company overview**

CWB Holdings, Inc. (the “Company”) was incorporated under the laws of Colorado, United States. The Company was initially formed December 8, 2013 under the name Stanley Brothers Social Enterprises, LLC, and on June 19, 2015 changed its name to CWB Holdings, LLC. On December 30, 2015 it changed its name to CWB Holdings, Inc.

The head office of the Company is located at 2425 55<sup>th</sup> Street, Suite 200, Boulder, Colorado 80301.

The Company has one wholly owned subsidiary which operates under the name of Stanley Brothers Social Enterprises, LLC (“SBSE”).

**2. Basis of preparation**

**(a) Statement of compliance**

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

These unaudited interim condensed consolidated financial statements include only significant events and transactions occurring since the Company’s last fiscal year-end. They do not include all the information and notes required by IFRS for annual financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements and notes for the Company’s fiscal year ended December 31, 2017.

The unaudited interim condensed consolidated financial statements for the six months ended June 30, 2018 and 2017 were approved and authorized for issue by the board of directors on August 21, 2018.

**(b) Measurement basis**

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

**(c) Basis of consolidation**

The Company’s unaudited interim condensed consolidated financial statements consolidate those of the parent company and its wholly owned subsidiary, SBSE, through dissolution date of April 17, 2018. Inter-company balances and transactions are eliminated in preparing the consolidated financial statements. The accounting policies of the subsidiary are consistent with the Company’s policies.

**(d) Use of estimates**

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

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

**(e) Functional and presentation currency**

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

**3. Adoption of new accounting standards and policies**

IFRS 9, "Financial Instruments: Classification and Measurement"

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

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

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

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

IFRS 15, "Revenue from Contracts with Customers"

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

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

The Company reviewed its accounting policies and practices to identify potential differences that would result from applying the guidance. The new guidance requires the Company to estimate variable consideration and include in revenue amounts for which it is probable that a significant revenue

CWB HOLDINGS, INC.  
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
For the Three and Six Months Ended June 30, 2018 and 2017

reversal will not occur. The adoption of the guidance did not have a material impact on the timing or measurement of the Company's revenue recognition.

**4. Trade and other receivables**

Trade and other receivables consist of the following:

	June 30, 2018	December 31, 2017
Trade	\$ 2,571	\$ 2,126
Other miscellaneous receivables	460	79
Expected credit losses ("ECLs, see Note 15)	(227)	(76)
	<u>\$ 2,804</u>	<u>\$ 2,129</u>

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

The aging of receivables is as follows:

	June 30, 2018	December 31, 2017
Current	\$ 2,461	\$ 1,561
Aged 1-30 days past due	282	466
Aged 31-60 days past due	69	45
Aged >60 days past due	219	133
Expected credit losses	(227)	(76)
	<u>\$ 2,804</u>	<u>\$ 2,129</u>

**5. Loan due from related party**

At June 30, 2018 and December 31, 2017, the Company had a non-interest bearing, unsecured, receivable due from one of the founders of the Company in the amount of \$107. The Company assesses the receivable as fully collectible.

**6. Inventories**

Inventories consist of the following:

	June 30, 2018	December 31, 2017
Harvested hemp	\$ 956	\$ 1,582
Raw materials	2,871	1,622
Finished goods	1,854	1,857
Immature biological assets	774	-
	<u>6,455</u>	<u>5,061</u>
Less: inventory reserve	(191)	(253)
	<u>\$ 6,264</u>	<u>\$ 4,808</u>

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An inventory provision is estimated by management and is included in cost of sales. For the six-month period ended, June 30, 2018, there were \$115 additional reserves and \$177 of write offs against the reserve. For the six-month period ended, June 30, 2017, there were no changes to the inventory reserves and no inventory write offs. The amounts of inventory expensed during the six-month periods ended June 30, 2018 and 2017 is \$5,172 and \$2,903, respectively.

The Company grows its industrial hemp (i) on leased farms operated entirely by Company personnel, and (ii) through third-party farming operations with oversight by the Company. The grow season for the Company's hemp products is generally from May through September of each year. All harvesting of plants is complete prior to year-end. 100% of the Company's hemp is consumed internally for its finished goods products and is not sold in its raw or processed form.

The Company capitalizes the direct and indirect costs associated with the production of its biological assets as incurred, less estimated yield losses and fair value adjustments. Any adjustments to capitalized biological asset costs are expensed to cost of sales. As little biological transformation has taken place since the beginning of the cultivation process the carrying value approximates the fair value of the biological assets as of June 30, 2018.

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

	Immature biological assets
Carrying amount, December 31, 2017	\$ -
Production costs	416
Purchases	358
Carrying amount, June 30, 2018	\$ 774

	Immature biological assets
Carrying amount, December 31, 2016	\$ -
Production costs	407
Purchases	198
Carrying amount, June 30, 2017	\$ 605

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**7. Property and equipment**

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

	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Software	Under construction	Total
<b>Cost</b>						
At December 31, 2016	\$ 1,302	\$ 210	\$ 236	\$ 19	\$ -	\$ 1,767
Additions	2,055	102	171	174	142	2,644
Disposals	-	(5)	-	-	-	(5)
At December 31, 2017	3,357	307	407	193	142	4,406
Additions	664	24	191	404	41	1,324
Disposals	(38)	-	-	-	-	(38)
Transfer under construction	-	-	142	-	(142)	-
At June 30, 2018	\$ 3,983	\$ 331	\$ 740	\$ 597	\$ 41	\$ 5,692

	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Software	Under construction	Total
<b>Accumulated depreciation</b>						
At December 31, 2016	\$ (253)	\$ (41)	\$ (36)	\$ (8)	\$ -	\$ (338)
Depreciation for the year	(575)	(55)	(58)	(8)	-	(696)
Disposals	-	1	-	-	-	1
At December 31, 2017	(828)	(95)	(94)	(16)	-	(1,033)
Depreciation for the period	(457)	(38)	(61)	(20)	-	(576)
Disposals	28	-	-	-	-	28
At June 30, 2018	\$ (1,257)	\$ (133)	\$ (155)	\$ (36)	\$ -	\$ (1,581)

	Machinery and equipment	Furnitures and fixtures	Leasehold improvements	Software	Under construction	Total
<b>Net book value</b>						
At December 31, 2017	\$ 2,529	\$ 212	\$ 313	\$ 177	\$ 142	\$ 3,373
At June 30, 2018	\$ 2,726	\$ 198	\$ 585	\$ 561	\$ 41	\$ 4,111

Depreciation expense for the three months ended June 30, 2018 and 2017 was \$307 and \$168, respectively. Depreciation expense for the six months ended June 30, 2018 and 2017 was \$576 and \$255, respectively. The Company has certain equipment held under finance lease agreements. As of June 30, 2018, and December 31, 2017, the net carrying amount included in machinery and equipment is \$1,027 and \$1,205, respectively.

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

**8. Other long – term assets**

Other long-term assets consist of long-term deposits on various leases for equipment and premises. No impairment was recorded for the six months ended June 30, 2018.

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**9. Leases**

**(a) Obligations under finance leases**

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

	within 1 year	1 to 5 years	Total
June 30, 2018			
Future minimum lease payments	\$ 348	\$ 280	\$ 628
Finance charges	(65)	(20)	(85)
Present value of minimum lease payments	\$ 283	\$ 260	\$ 543

**(b) Obligations under operating leases**

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

	within 1 year	1 to 5 years	> 5 years	Total
June 30, 2018	\$ 1,039	\$ 1,942	\$ 206	\$ 3,187

Rent expense for the six months ended 2018 was approximately \$680.

**10. Convertible note**

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

	Total
January 1, 2018	\$ 1,040
Accretion	71
Fair value adjustment	(66)
Payment	(1,000)
Debt settlement	(45)
June 30, 2018	\$ -

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

For the three months ending June 30, 2018 and 2017, total interest paid and expensed, related to the convertible note was \$42 and \$43, respectively. For the six months ending June 30, 2018 and 2017, total interest paid and expensed, related to the convertible note was \$80 and \$71, respectively.

**11. Notes payable**

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

	June 30, 2018	December 31, 2017
Equipment notes payable	\$ 25	\$ 43
Less current portion	(10)	(15)
	\$ 15	\$ 28

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

		Long-term borrowings	Short-term borrowings		Total
January 1, 2018	\$	28	15	\$	43
Repayment		(7)	(11)		(18)
Conversion to short-term borrowings		(6)	6		-
June 30, 2018	\$	15	10	\$	25

For the three months ending June 30, 2018, total interest paid and expensed, related to the notes payable was less than \$1. For the three months ending June 30, 2017, total interest paid and expensed, related to the notes payable was \$12. For the six months ending June 30, 2018 and 2017, total interest paid and expensed, related to the notes payable was \$1 and \$18, respectively.

Scheduled maturities of notes payable were as follows:

		within 1 year	1 to 5 years		Total
June 30, 2018	\$	10	15	\$	25

## 12. Shareholders' Equity

### (a) Issued and outstanding

	Number of shares outstanding	Treasury shares	Number of shares issued
January 1, 2018	9,043,280	(203,928)	8,839,352
Exercise of stock options	8,333	-	8,333
Cancelled	(107,857)	-	(107,857)
June 30, 2018	8,943,756	(203,928)	8,739,828

On May 25, 2018, 8,333 stock options were exercised from a former consultant of the Company.

On June 4, 2018, an existing employee and shareholder of the Company forfeited 107,857 shares due to a change in employment status.

### (b) Contributed surplus

	June 30, 2018	December 31, 2017
Balance, beginning of period	\$ 787	\$ 327
Share-based compensation expense	421	460
Balance, end of period	\$ 1,208	\$ 787

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**(c) Earnings per share**

Basic and diluted earnings per share have been calculated using net income.

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

	June 30, 2018	June 30, 2017
Weighted average number of common shares - basic	8,825,516	8,777,094
Shares deemed to be issued in respect to share-based payments	576,429	638,687
Weighted average number of common shares - diluted	9,401,945	9,415,781
Earnings per share - basic	\$ 0.77	\$ 0.34
Earnings per share - diluted	\$ 0.73	\$ 0.32

**(d) Founder options**

At June 30, 2018 and December 31, 2017, the number of shares under option and exercisable was 576,429. Weighted average remaining contractual life is 1.55 years as of June 30, 2018 and 4.04 years as of December 31, 2017.

**(e) 2015 Stock Option Plan**

Share-based compensation expense recognized for the three months ended June 30, 2018, and 2017, was \$162 and \$83, respectively. Share-based compensation expense recognized for the six months ended June 30, 2018, and 2017, was \$421 and \$158, respectively.

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

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

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

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The following tables summarize information regarding the share options outstanding:

	Number of shares under option	Weighted average exercise price (USD)
Balance at January 1, 2018	727,192	\$ 5.00
Granted	275,000	5.00
Exercised	(8,333)	5.00
Forfeited	(77,500)	5.00
Expired	(7,500)	5.00
Balance at June 30, 2018	908,859	\$ 5.00
Exercisable at June 30, 2018	331,632	\$ 5.00

Weighted average remaining contractual life is 8.95 years. The weighted average grant-date fair value of options granted during the six months ended June 30, 2018 was \$1.91.

### 13. Expenses by nature

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Cost of sales	\$ 4,013	\$ 2,783	\$ 6,568	\$ 4,559
Inventory expensed to cost of sales	3,104	2,195	5,172	2,903
Other production costs	905	686	1,334	1,774
Depreciation and amortization	268	-	515	-
Revaluation of biological assets	(264)	(98)	(453)	(118)
General and administrative	\$ 4,915	\$ 2,560	\$ 8,981	\$ 4,059
Personnel	2,987	1,350	5,201	2,367
Facilities and other expenses	1,649	923	3,367	1,236
Accretion, depreciation and amortization	68	205	131	321
Travel and entertainment	211	82	282	135
Sales and marketing	\$ 2,411	\$ 1,335	\$ 4,474	\$ 2,737
Advertising, promotions and selling costs	1,163	609	1,950	1,451
Personnel	914	575	2,024	1,038
Facilities and other expenses	227	20	227	41
Travel and entertainment	107	131	273	207

On June 25, 2018 the Company filed its prospectus with the securities regulatory authorities in connection with an initial public offering. The Company incurred, and continues to incur, various legal, consulting, and professional fees in connection with its filing. For the three and six months ended June 30, 2018 costs related to initial public offering were \$752 and \$859, respectively.

**14. Income taxes**

**(a) Components of income taxes**

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
U.S. federal	994	657	1,830	1,327
State and local	240	94	433	192
	1,234	751	2,263	1,519

**(b) Tax Rate Reconciliation**

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

	2018	2017
Computed "expected" tax expense	21.0%	34.0%
State income taxes, net of federal tax benefit	3.7%	3.1%
Permanent items	0.2%	-2.1%
Change in rate	0.0%	-1.1%
	24.9%	33.9%

**15. Financial risk management**

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

**(a) Credit risk**

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

	June 30, 2018		December 31, 2017	
	\$		\$	
Trade and other receivables	\$	2,804	\$	2,129
Other long-term assets		799		996
	\$	3,603	\$	3,125

The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables

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and contract assets. The loss allowance provision is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. The provision matrix below shows the expected credit loss rate at each aging category of receivables.

	Aging Category			
	Current	Aged 1-30 days past due	Aged 31-60 days past due	Aged > 60 days past due
Expected loss rate	4.19%	4.69%	9.42%	48.12%
Gross carrying amount	2,461	282	69	219
Loss allowance provision, end of the period	103	13	6	105

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company manages liquidity risk by evaluating working capital and forecasting long-term financial liabilities as well as forecast cash inflows and outflows from business operations. Cash balances at June 30, 2018 and December 31, 2017 were \$10,784 and \$7,056, respectively. Net working capital at June 30, 2018 and December 31, 2017 was \$14,442 and \$8,137, respectively.

**16. Fair value measurement**

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

	June 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Loans and receivables:				
Cash	\$ 10,784	\$ 10,784	\$ 7,056	\$ 7,056
Accounts receivable	2,804	2,804	2,129	2,129
Loan due from related party	107	107	107	107
	\$ 13,695	\$ 13,695	\$ 9,292	\$ 9,292
<b>Financial liabilities</b>				
Other financial liabilities:				
Accounts payable and accrued liabilities	\$ 6,666	\$ 6,666	\$ 4,291	\$ 4,291
Obligations under finance lease	543	543	696	696
Convertible note	-	-	1,040	1,040
Notes payable	25	25	43	43
	\$ 7,234	\$ 7,234	\$ 6,070	\$ 6,070

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**17. Capital management**

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

June 30, 2018	\$19,831
December 31, 2017	\$12,639

The Company's principal objectives in managing capital are:

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

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

**18. Remuneration of directors and key management of the Company**

The remuneration awarded to directors and senior key management, for the six months ended June 2018, includes the following:

	For the six months ending June 30,	2018	2017
Wages	\$	259	\$ 61
Share based compensation		325	-
	\$	584	\$ 61

	For the three months ending June 30,	2018	2017
Wages	\$	137	\$ 36
Share based compensation		136	-
	\$	273	\$ 36

**APPENDIX A**  
**AUDIT COMMITTEE CHARTER**  
(attached)



# CHARLOTTE'S WEB

STANLEY BROTHERS

## AUDIT COMMITTEE CHARTER

August 22, 2018

## CHARLOTTE'S WEB HOLDINGS, INC.

**1. Role and Objective**

The Audit Committee (the “**Committee**”) is a committee of the board of directors (the “**Board**”) of Charlotte's Web Holdings, Inc. (the “**Company**”) to which the Board has delegated its responsibility for the oversight of the following:

- nature and scope of the annual audit;
- management's reporting on internal accounting standards and practices;
- the review of financial information, accounting systems and procedures;
- financial reporting and financial statements,

and has charged the Committee with the responsibility of recommending, for approval of the Board, the audited financial statements, interim financial statements and other mandatory disclosure releases containing financial information.

The primary objectives of the Committee, with respect to the Company and its subsidiaries, are as follows:

- to assist the directors of the Company (the “**Directors**”) in meeting their responsibilities in respect of the preparation and disclosure of the financial statements of the Company and related matters;
- to provide an open avenue of communication among the Company's auditors, financial and senior management and the Board;
- to enhance the external auditors' independence and review and appraise their performance;
- to increase the credibility and objectivity of financial reports; and
- to strengthen the role of the outside Directors by facilitating in depth discussions between Directors on the Committee, management and external auditors.

**2. Composition**

The Committee will be comprised of at least three Directors or such greater number as the Board may determine from time to time and all members of the Committee shall be “independent” (as such term is used in National Instrument 52-110 — *Audit Committees* (“**NI 52-110**”)) unless the Board determines that an exemption contained in NI 52-110 is available and determines to rely thereon. “**Independent**” generally means free from any business or other direct or indirect material relationship with the Company that could, in the view of the Board, reasonably interfere with the exercise of the member's independent judgment.

All of the members of the Committee must be “financially literate” (as defined in NI 52-110) unless the Board determines that an exemption under NI 52-110 from such requirement in respect of any particular member is available and determines to rely thereon in accordance with the provisions of NI 52-110. Being “**financially literate**” means members have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements.

The Board shall from time to time designate one of the members of the Committee to be the chairperson of the Committee (the “**Chair**”).

**3. Meetings and Administrative Matters**

- (a) The Committee shall meet at least four times per year and/or as deemed appropriate by the Committee Chair. As part of its job to foster open communication, the Committee will meet at least annually with management and the external auditors in separate sessions, and at such other times as the external auditor and/or the Committee consider appropriate. The Chief Financial Officer of the Company shall attend meetings of the Committee, unless otherwise excused from all or part of any such meeting by the Chair.

- (b) Agendas, with input from management and approved by the Chair, shall be circulated to Committee members and relevant management personnel along with background information on a timely basis prior to the Committee meetings.
- (c) A quorum for meetings of the Committee will be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Committee will be the same as those governing the Board unless otherwise determined by the Committee or the Board.
- (d) The Chair will preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee that are present will designate from among such members the Chair for purposes of the meeting.
- (e) At all meetings of the Committee, every resolution shall be decided by a majority of the votes cast. In case of an equality of votes, the Chair of the meeting shall be entitled to a second or casting vote.
- (f) The minutes of the Committee meetings shall accurately record the decisions reached and shall be distributed to the Committee members with copies to the Board, the Chief Financial Officer or such other officer acting in that capacity, and the external auditor.
- (g) The Committee may invite such officers, directors and employees of the Company and its subsidiaries, if any, as it sees fit from time to time to attend at meetings of the Committee and assist in the discussion and consideration of the matters being considered by the Committee.
- (h) The Committee may retain persons having special expertise and/or obtain independent professional advice to assist in fulfilling its responsibilities at the expense of the Company as determined by the Committee without any further approval of the Board.
- (i) Any members of the Committee may be removed or replaced at any time by the Board and will cease to be a member of the Committee as soon as such member ceases to be a Director. The Board may fill vacancies on the Committee by appointment from among its members. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, following appointment as a member of the Committee each member will hold such office until the Committee is reconstituted.
- (j) Any issues arising from these meetings that bear on the relationship between the Board and management should be communicated to the Chairman of the Board by the Committee Chair.

#### **4. Mandate and Responsibilities**

To fulfill its responsibilities and duties, the Committee shall:

- (a) undertake annually a review of this mandate and make recommendations to the Corporate Governance and Nominating Committee as to proposed changes;
- (b) satisfy itself on behalf of the Board with respect to the Company's internal control systems, including, where applicable, relating to derivative instruments:
  - (i) identifying, monitoring and mitigating business risks; and
  - (ii) ensuring compliance with legal, ethical and regulatory requirements;
- (c) review the Company's financial statements and reports and any related management's discussion and analysis ("MD&A"), any annual earnings, interim earnings and press releases before the Company publicly discloses this information and any reports or other financial information (including quarterly financial reports), which are submitted to any governmental body, or to the public, including any certification, report, opinion, or review rendered by the external auditors; the process should include but not be limited to:
  - (i) reviewing changes in accounting principles and policies, or in their application, which may have a material impact on the current or future years' financial statements;
  - (ii) reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;

- (iii) reviewing accounting treatment of unusual or non-recurring transactions;
  - (iv) ascertaining compliance with covenants under loan agreements;
  - (v) reviewing financial reporting relating to asset retirement obligations;
  - (vi) reviewing disclosure requirements for commitments and contingencies;
  - (vii) reviewing adjustments raised by the external auditors, whether or not included in the financial statements;
  - (viii) reviewing unresolved differences between management and the external auditors;
  - (ix) obtain explanations of significant variances with comparative reporting periods; and
  - (x) determine through inquiry if there are any related party transactions and ensure the nature and extent of such transactions are properly disclosed;
- (d) review the financial reports and related information included in prospectuses, MD&A, information circular-proxy statements and annual information forms and all public disclosure containing audited or unaudited financial information (including, without limitation, annual and interim press releases and any other press releases disclosing earnings or financial results) before release and prior to Board approval. The Committee must be satisfied that adequate procedures are in place for the review of the Company's disclosure of all other financial information and will periodically assess the adequacy of those procedures;
- (e) with respect to the appointment of external auditors by the Board:
- (i) require the external auditors to report directly to the Committee;
  - (ii) review annually the performance of the external auditors who shall be ultimately accountable to the Board and the Committee as representatives of the shareholders of the Company;
  - (iii) obtain annually, a formal written statement of external auditors setting forth all relationships between the external auditors and the Company and confirming their independence from the Company;
  - (iv) review and discuss with the external auditors any disclosed relationships or services that may impact the objectivity and independence of the external auditors;
  - (v) be directly responsible for overseeing the work of the external auditors engaged for the purpose of issuing an auditors' report or performing other audit, review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting;
  - (vi) review management's recommendation for the appointment of external auditors and recommend to the Board appointment of external auditors and the compensation of the external auditors;
  - (vii) review the terms of engagement of the external auditors, including the appropriateness and reasonableness of the auditors' fees;
  - (viii) when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change;
  - (ix) take, or recommend that the full Board take, appropriate action to oversee the independence of the external auditors;
  - (x) at each meeting, consult with the external auditors, without the presence of management, about the quality of the Company's accounting principles, internal controls and the completeness and accuracy of the Company's financial reports;
- (f) review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Company;

- (g) review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial reports of the Company and its subsidiaries;
- (h) review and pre-approve all audit and audit-related services and the fees and other compensation related thereto, and any non-audit services, provided by the Company's external auditors and consider the impact on the independence of the auditors; The pre-approval requirement is waived with respect to the provision of non-audit services if:
  - (i) the aggregate amount of all such non-audit services provided to the Company constitutes not more than five percent (5%) of the total amount of fees paid by the Company to its external auditors during the fiscal year in which the non-audit services are provided;
  - (ii) such services were not recognized by the Company at the time of the engagement to be non-audit services; and
  - (iii) such services are promptly brought to the attention of the Committee by the Company and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board to whom authority to grant such approvals has been delegated by the Committee;

provided the pre-approval of the non-audit services is presented to the Committee's first scheduled meeting following such approval, such authority may be delegated by the Committee to one or more independent members of the Committee;

- (i) review any other matters that the Audit Committee feels are important to its mandate or that the Board chooses to delegate to it;
- (j) with respect to the financial reporting process:
  - (i) in consultation with the external auditors, review with management the integrity of the Company's financial reporting process, both internal and external;
  - (ii) consider the external auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting;
  - (iii) consider and approve, if appropriate, changes to the Company's auditing and accounting principles and practices as suggested by the external auditors and management;
  - (iv) review significant judgments made by management in the preparation of the financial reports and the view of the external auditors as to appropriateness of such judgments;
  - (v) following completion of the annual audit, review separately with management and the external auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information;
  - (vi) review any significant disagreement among management and the external auditors regarding financial reporting;
  - (vii) review with the external auditors and management the extent to which changes and improvements in financial or accounting practices have been implemented; and
  - (viii) review the certification process,
- (k) review financial reporting relating to risk exposure and risk management policies and procedures of the Company (i.e., hedging, litigation and insurance),
- (l) establish a procedure for:
  - (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
  - (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

**5. Authority**

Following each meeting, in addition to a verbal report, the Committee will report to the Board by way of providing copies of the minutes of such Committee meeting at the next Board meeting after a meeting is held (these may still be in draft form).

Supporting schedules and information reviewed by the Committee shall be available for examination by any director.

The Committee shall have the authority to investigate any financial activity of the Company and to communicate directly with the internal and external auditors. All employees are to cooperate as requested by the Committee.

The Committee may retain, and set and pay the compensation for, persons having special expertise and/or obtain independent professional advice to assist in fulfilling its duties and responsibilities at the expense of the Company.

**APPENDIX B**  
**BOARD OF DIRECTORS' MANDATE**  
(attached)



# CHARLOTTE'S WEB

STANLEY BROTHERS

## **BOARD MANDATE**

August 22, 2018

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

The Board of Directors (the “**Board**”) of Charlotte's Web Holdings, Inc. (the “**Company**”) is responsible under law to supervise the management of the business and affairs of the Company. The Board has the statutory authority and obligation to protect and enhance the assets of the Company.

The principal mandate of the Board is to oversee the management of the business and affairs of the Company, and monitor the performance of management.

In keeping with generally accepted corporate governance practices and the recommendations contained in National Policy 58-201 adopted by the Canadian Securities Administrators, and the requirements of any stock exchange on which the Company's securities are listed, the Board assumes responsibility for the stewardship of the Company and, as part of the overall stewardship responsibility, explicitly assumes responsibility for the following:

**1. Independence**

The Board retains the responsibility for managing its own affairs, including planning its composition, selecting its Chairman and/or Lead Director, appointing Board committees and determining directors' compensation. While it is appropriate to confer with the management on the selection of candidates to be nominated as members of the Board, the ultimate selection shall be determined by the existing independent members of the Board. The Chairman of the Board should be an independent director, and where this is not appropriate, an independent director should be appointed to act as Lead Director.

In that the Board must develop and voice objective judgment on corporate affairs, independently of the management, practices promoting Board independence will be pursued. This includes constituting the Board with a majority of independent and unrelated directors. Certain tasks suited to independent judgments will be delegated to specialized committees of the Board that are comprised exclusively of outside directors and at least a majority of unrelated directors.

The Board will evaluate its own performance in a continuing effort to improve. For this purpose, the Board will establish criteria for Board and Board member performance, and pursue a self-evaluation process for evaluating both overall Board performance and contributions of individual directors.

**2. Leadership in Corporate Strategy**

The Board ultimately has the responsibility to oversee the development and approval of the mission of the Company, its goals and objectives, and the strategy by which these objectives will be reached. In guiding the strategic choices of the Company, the Board must understand the inherent prospects and risks of such strategic choices.

While the leadership for the strategic planning process comes from the management of the Company, the Board shall bring objectivity and a breadth of judgment to the strategic planning process and will ultimately approve the strategy developed by management as it evolves.

The Board is responsible for monitoring management's success in implementing the strategy and monitoring the Company's progress to achieving its goals; revising and altering direction in light of changing circumstances.

The Board has the responsibility to ensure congruence between the strategic plan and management's performance.

**3. Management of Risk**

The Board shall understand the principal risks of all aspects of the business in which the Company is engaged, recognizing that business decisions require the incurrence of risk. The Board is responsible for providing a balance between risks incurred and the potential returns to shareholders of the Company. This requires that the Board ensure that systems are in place to effectively monitor and manage risks with a view to the long-term viability of the Company and its assets, and conduct an annual review of the associated risks.

#### 4. Approach to Corporate Governance

The Company is committed to effective practices in corporate governance. The Company consistently assesses and adopts corporate governance measures. The Corporate Governance and Nominating Committee shall be responsible for disclosing the Company's approach to corporate governance in public disclosure documents.

#### 5. Oversight of Management

As the Board functions, the Board must ensure the execution of plans and operations are of the highest caliber. The key to the effective discharge of this responsibility is the approval of the appointment of the senior officers of the Company and the assessment of each senior officer's contribution to the achievement of the Company's strategy. In this respect, performance against objectives established by the Board is important, as is a formal process for determining the senior officers' compensation, in part, by using established criteria and objectives for measuring performance. To the extent feasible, the Board should also satisfy itself as to the integrity of the chief executive officer and other executive officers, and that such officers create a culture of integrity throughout the Company. "**Executive officer**" has the meaning set out in National Instrument 51-102 — *Continuous Disclosure Obligations*.

#### 6. Succession Planning

On a regular basis, the Board shall review a succession plan, developed by management, addressing the policies and principles for selecting a successor to the Chief Executive Officer ("CEO") and other key senior management positions, both in an emergency situation and in the ordinary course of business. The succession plan should include an assessment of the experience, performance, skills, training and planned career paths for possible successors to the CEO currently in the Company's senior management.

#### 7. Expectations and Responsibilities of Board Members

##### (a) *Commitment and Attendance*

All members of the Board should make every effort to attend all meetings of the Board and meetings of committees of which they are members, if any. Although attendance in person is encouraged, members may attend by telephone to mitigate schedule conflicts.

##### (b) *Participation in Meetings*

Each member of the Board should be sufficiently familiar with the business of the Company, including its financial statements and capital structure, and the risks and competition it faces, to facilitate active and effective participation in the deliberations of the Board and of each committee on which he or she serves.

##### (c) *Financial Knowledge*

One of the most important roles of the Board is to monitor financial performance. Each member of the Board should know how to read financial statements, and should understand the use of financial ratios and other indices for evaluating financial performance.

##### (d) *Other Directorships*

The Company values the experiences Board members bring from other boards on which they serve, but recognizes that those boards may also present demands on a member's time and availability, and may also present conflicts of interest or other legal issues. Members of the Board should advise the Chair of the Corporate Governance and Nominating Committee before accepting any new membership on other boards of directors or any other significant commitment involving an affiliation with other related businesses or governmental units.

##### (e) *Contact with Management*

All members of the Board are invited to contact the CEO at any time to discuss any aspect of the Company's business. While respecting organizational relationships and lines of communication, members of

the Board have complete access to other members of management. There shall be afforded frequent opportunities for members of the Board to meet with the CEO, CFO and other members of management in Board and committee meetings and in other formal or informal settings.

(f) *Confidentiality*

The proceedings and deliberations of the Board and its committees are confidential. Each member of the Board shall maintain the confidentiality of information received in connection with his or her services.

(g) *Preparation for Meetings*

All members of the Board should make every effort to review all meeting materials prior to meetings of the Board and meetings of committees of which they are members.

## **8. Shareholder Communications and Disclosure**

The Board is responsible to ensure that the Company has policies in place to ensure effective and timely communication and disclosure to the shareholders of the Company, other stakeholders and the public in general. This communication and disclosure policy must effectively and fairly present the operations of the Company to shareholders and should accommodate feedback from shareholders, which should be considered into future business decisions.

The Board has the responsibility for ensuring that the financial performance of the Company is reported to shareholders on a timely and regular basis and for ensuring that such financing results are reported fairly, in accordance with generally accepted accounting principles.

The Board has the responsibility for ensuring that procedures are in place to effect the timely reporting of any developments that have a significant and material impact on the value of shareholder assets.

The Board has the responsibility for reporting annually to shareholders on its stewardship for the preceding year.

## **9. Integrity of Corporate Control and Management Information Systems**

To effectively discharge its duties, the Board shall ensure that the Company has in place effective control and information systems so that it can track those criteria needed to monitor the implementation of the Company's strategy.

Similarly, in reviewing and approving financial information, the Board shall ensure that the Company has an audit system, which can inform the Board of the integrity of the data and compliance of the financial information with generally accepted accounting principles.

The Board's management of the important areas of corporate conduct, such as the commitment of the Company's assets to different businesses or material acquisitions, shall also be supported by effective control and information systems.

## **10. Legal Requirements**

The Board is responsible for ensuring that routine legal requirements, documents, and records have been properly prepared, approved and maintained by the Company.

## **11. Board Delegation to Committees**

The Board may delegate specific responsibilities to committees of the Board in order to effectively manage the affairs of the Company.

## **12. Limitation**

The foregoing is (i) subject to and without limitation of the requirement that in exercising their powers and discharging their duties, the members of the Board act honestly and in good faith with a view to the best interests of the Company; and (ii) subject to, and not in expansion of the requirement, that in exercising their

powers and discharging their duties the members of the Board exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**13. Assessments**

The members of the Board will collectively assess the performance of the Board as a whole, the committees of the Board and all directors with reference to their respective mandates, charters or terms of reference. Individual directors will be assessed with reference to any applicable position descriptions, as well as the competencies and skills that each director is expected to bring to the Board.

Unless otherwise determined by the Board, such assessment will occur informally and on an annual basis, with an emphasis on the overall effectiveness and contributions made by the Board as a whole, the committees of the Board and all directors individually.

**APPENDIX C**  
**LONG TERM INCENTIVE PLAN**  
(attached)

**CHARLOTTE’S WEB HOLDINGS, INC.  
2018 LONG-TERM INCENTIVE PLAN**

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1. **History; Effective Date.**

Charlotte's Web Holdings, Inc., a global company formed under the laws of the Province of British Columbia ("CWHI"), has established the CHARLOTTE'S WEB HOLDINGS, INC. 2018 LONG-TERM INCENTIVE PLAN, as set forth herein, and as the same may be amended from time to time (the "Plan"). The Plan was adopted by the Board of Directors of CWHI (the "Board") on and is effective as of ● , 2018 (the "Effective Date").

2. **Purpose.**

The Purpose of the Plan is to:

- (a) promote the long-term financial interests and growth of CWHI and its Subsidiaries (together, the "Company") by attracting and retaining management and other personnel and key service providers with the training, experience and ability to enable them to make a substantial contribution to the success of the Company's business;
- (b) motivate management personnel by means of growth-related incentives to achieve long-range goals; and
- (c) further the alignment of interests of Participants with those of the shareholders of CWHI through opportunities for increased stock or stock-based ownership in CWHI.

Toward these objectives, the Administrator may grant stock options, stock appreciation rights, stock awards, stock units, performance shares, performance units, and other stock-based awards to eligible individuals on the terms and subject to the conditions set forth in the Plan.

3. **Definitions.**

Except as otherwise specifically provided in an Award Agreement, capitalized words and phrases used in the Plan or an Award Agreement shall have the following meanings:

"**Administrator**" means the Compensation Committee, or such other committee(s) or officer(s) duly appointed by the Board or the Compensation Committee to administer the Plan or delegated limited authority to perform administrative actions under the Plan, and having such powers as shall be specified by the Board or the Compensation Committee; provided, however, that at any time the Board may serve as the Administrator in lieu of or in addition to the Compensation Committee or such other committee(s) or officer(s) to whom administrative authority has been delegated. With respect to any Award to which Section 16 of the Exchange Act applies, the Administrator shall consist of either the Board or a committee of the Board, which committee shall consist of two or more directors, each of whom is intended to be, to the extent required by Rule 16b-3 of the Exchange Act, a "non-employee director" as defined in Rule 16b-3 of the Exchange Act and an "independent director" to the extent required by the rules of the national securities exchange that is the principal trading market for the Common Shares; provided, that with respect to Awards made to a member of the Board who is not an employee of the Company, "Administrator" means the Board. Any member of the Administrator who does not meet the foregoing requirements shall abstain from any decision regarding an Award and shall not be considered a member of the Administrator to the extent required to comply with Rule 16b-3 of the Exchange Act.

"**Affiliate**" means any entity, whether now or hereafter existing, which controls, is controlled by, or is under common control with, CWHI or any successor to CWHI. For this purpose, "control" (including the correlative meanings of the terms "controlled by" and "under common control with") shall mean ownership, directly or indirectly, of 50% or more of the total combined voting power of all classes of voting securities issued by such entity, or the possession, directly or indirectly, of the power to direct the management and policies of such entity, by contract or otherwise.

"**Award**" means any stock option, stock appreciation right, stock award, stock unit, Performance Share, Performance Unit, and/or Other Stock-Based Award, granted under this Plan.

“**Award Agreement**” means the written document(s), including an electronic writing acceptable to the Administrator, and any notice, addendum or supplement thereto, memorializing the terms and conditions of an Award granted pursuant to the Plan and which shall incorporate the terms of the Plan.

“**Board**” means the Board of Directors of CWHI.

“**Business Day**” means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open in the City of Toronto, or the City of New York for the transaction of banking business.

“**Change in Control**” means the first of the following to occur: (i) a Change in Ownership of CWHI, (ii) a Change in Effective Control of CWHI, or (iii) a Change in the Ownership of Assets of CWHI, as described herein and construed in accordance with Code section 409A.

- (a) A “**Change in Ownership of CWHI**” shall occur on the date that any one Person acquires, or Persons Acting as a Group acquire, ownership of the capital stock of CWHI that, together with the stock held by such Person or Group, constitutes more than 50% of the total fair market value or total voting power of the capital stock of CWHI. However, if any one Person is, or Persons Acting as a Group are, considered to own more than 50%, on a fully diluted basis, of the total fair market value or total voting power of the capital stock of CWHI, the acquisition of additional stock by the same Person or Persons Acting as a Group is not considered to cause a Change in Ownership of CWHI or to cause a Change in Effective Control of CWHI (as described below). An increase in the percentage of capital stock owned by any one Person, or Persons Acting as a Group, as a result of a transaction in which CWHI acquires its stock in exchange for property will be treated as an acquisition of stock.
- (b) A “**Change in Effective Control of CWHI**” shall occur on the date either (A) a majority of members of CWHI’s Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of CWHI’s Board before the date of the appointment or election, or (B) any one Person, or Persons Acting as a Group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons) ownership of stock of CWHI possessing 50% or more of the total voting power of the stock of CWHI.
- (c) A “**Change in the Ownership of Assets of CWHI**” shall occur on the date that any one Person acquires, or Persons Acting as a Group acquire (or has or have acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons), assets from CWHI that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of CWHI immediately before such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of CWHI, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

The following rules of construction apply in interpreting the definition of Change in Control:

- (i) A “**Person**” means any individual, entity or group within the meaning of Section 13(d)(3) or 14(d)(2) of the *Securities Exchange Act* of 1934, as amended, other than employee benefit plans sponsored or maintained by CWHI and by entities controlled by CWHI or an underwriter, initial purchaser or placement agent temporarily holding the capital stock of CWHI pursuant to a registered public offering.
- (ii) Persons will be considered to be Persons Acting as a Group (or Group) if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a Person owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a Group with other shareholders only with respect to the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation. Persons will not be considered to be acting as a Group solely because they purchase assets of the same corporation at the same time or purchase or own stock of the same corporation at the same time, or as a result of the same public offering.
- (iii) A Change in Control shall not include a transfer to a related person as described in Code section 409A or a public offering of capital stock of CWHI.

- (iv) For purposes of the definition of Change in Control, Section 318(a) of the Code applies to determine stock ownership. Stock underlying a vested option is considered owned by the individual who holds the vested option (and the stock underlying an unvested option is not considered owned by the individual who holds the unvested option). For purposes of the preceding sentence, however, if a vested option is exercisable for stock that is not substantially vested (as defined by Treasury Regulation §1.83-3(b) and (j)), the stock underlying the option is not treated as owned by the individual who holds the option.

“**Code**” means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto, the Treasury Regulations thereunder and other relevant interpretive guidance issued by the Internal Revenue Service or the Treasury Department. Reference to any specific section of the Code shall be deemed to include such regulations and guidance, as well as any successor section, regulations and guidance.

“**Common Shares**” means common shares in the capital of CWHI, without par value, and any capital securities into which they are converted.

“**Company**” means CWHI and its Subsidiaries, except where the context otherwise requires. For purposes of determining whether a Change in Control has occurred, Company shall mean only CWHI.

“**Compensation Committee**” means the Corporate Governance and Compensation Committee of the Board.

“**CWHI**” means Charlotte’s Web Holdings Inc., a company organized under the laws of the province of British Columbia, Canada.

“**Dividend Equivalent**” means a right, granted to a Participant, to receive cash, Common Shares, stock Units or other property equal in value to dividends paid with respect to a specified number of Common Shares.

“**Effective Date**” means ● , 2018.

“**Eligible Individuals**” means (i) officers and employees of, and other individuals, including non-employee directors, who are natural persons providing bona fide services to or for, CWHI or any of its Subsidiaries, provided that such services are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for CWHI’s securities and (ii) CWHI consultants who are natural persons providing bona fide services to or for, CWHI or any of its Subsidiaries, provided that such services are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for CWHI’s securities.

“**Exchange**” means the Canadian Stock Exchange or any such exchange in Canada or the United States on which Common Shares are listed and posted for trading.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto. Reference to any specific section of the Exchange Act shall be deemed to include such regulations and guidance issued thereunder, as well as any successor section, regulations and guidance.

“**Fair Market Value**” means, on a per share basis as of any date, unless otherwise determined by the Administrator:

- (a) if the principal market for the Common Shares (as determined by the Administrator if the Common Shares are listed or admitted to trading on more than one exchange or market) is a national securities exchange or an established securities market, the official closing price per Common Share for the regular market session on that date on the principal exchange or market on which the Common Shares are then listed or admitted to trading or, if no sale is reported for that date, on the last preceding day on which a sale was reported, all as reported by such source as the Administrator may select;
- (b) if the principal market for the Common Shares is not a national securities exchange or an established securities market, but the Common Shares are quoted by a national quotation system, the average of the highest bid and lowest asked prices for the Common Shares on that date as reported on a national quotation system or, if no prices are reported for that date, on the last preceding day on which prices were reported, all as reported by such source as the Administrator may select; or

- (c) if the Common Shares are neither listed or admitted to trading on a national securities exchange or an established securities market, nor quoted by a national quotation system, the value determined by the Administrator in good faith by the reasonable application of a reasonable valuation method, which method may, but need not, include taking into account an appraisal of the fair market value of the Common Shares conducted by a nationally recognized appraisal firm selected by the Administrator.

Notwithstanding the preceding, for foreign, federal, state and local income tax reporting purposes and for such other purposes as the Administrator deems appropriate, the Fair Market Value shall be determined by the Administrator in accordance with uniform and non-discriminatory standards adopted by it from time to time.

**“Full Value Award”** means an Award that results in CWHI transferring the full value of a Common Share under the Award, whether or not an actual share of stock is issued. Full Value Awards shall include, but are not limited to, stock awards, stock units, Performance Shares, Performance Units that are payable in Common Shares, and Other Stock-Based Awards for which CWHI transfers the full value of a Common Share under the Award, but shall not include Dividend Equivalents.

**“Incentive Stock Option”** means any stock option that is designated, in the applicable Award Agreement or the resolutions of the Administrator under which the stock option is granted, as an “incentive stock option” within the meaning of Section 422 of the Code and otherwise meets the requirements to be an “incentive stock option” set forth in Section 422 of the Code.

**“Legacy Option Plan”** means the CWB Holdings, Inc. 2015 Stock Option Plan, as amended from time to time, which will be assumed by CWHI, until all stock options existing thereunder have been exercised or have expired.

**“Non-qualified Option”** means any stock option that is not an Incentive Stock Option.

**“Other Stock-Based Award”** means an Award of Common Shares or any other Award that is valued in whole or in part by reference to, or is otherwise based upon, Common Shares, including without limitation Dividend Equivalents.

**“Participant”** means an Eligible Individual to whom one or more Awards are or have been granted pursuant to the Plan and have not been fully settled or cancelled and, following the death of any such person, his successors, heirs, executors and administrators, as the case may be.

**“Performance Award”** means a Full Value Award, the grant, vesting, lapse of restrictions or settlement of which is conditioned upon the achievement of performance objectives over a specified Performance Period and includes, without limitation, Performance Shares and Performance Units.

**“Performance Criteria”** means the Performance Criteria established by the Administrator in connection with the grant of Awards based on Performance Metrics or other performance criteria selected by the Administrator.

**“Performance Period”** means that period established by the Administrator during which any Performance Criteria specified by the Administrator with respect to such Award are to be measured.

**“Performance Metrics”** means criteria established by the Administrator relating to any of the following, as it may apply to an individual, one or more business units, divisions, or Affiliates, or on a company-wide basis, and in absolute terms, relative to a base period, or relative to the performance of one or more comparable companies, peer groups, or an index covering multiple companies:

- (a) Earnings or Profitability Metrics: any derivative of revenue; earnings/loss (gross, operating, net, or adjusted); earnings/loss before interest and taxes (“EBIT”); earnings/loss before interest, taxes, depreciation and amortization (“EBITDA”); profit margins; operating margins; expense levels or ratios; provided that any of the foregoing metrics may be adjusted to eliminate the effect of any one or more of the following: interest expense, asset impairments or investment losses, early extinguishment of debt or stock-based compensation expense;
- (b) Return Metrics: any derivative of return on investment, assets, equity or capital (total or invested);
- (c) Investment Metrics: relative risk-adjusted investment performance; investment performance of assets under management;

- (d) Cash Flow Metrics: any derivative of operating cash flow; cash flow sufficient to achieve financial ratios or a specified cash balance; free cash flow; cash flow return on capital; net cash provided by operating activities; cash flow per share; working capital;
- (e) Liquidity Metrics: any derivative of debt leverage (including debt to capital, net debt-to-capital, debt-to-EBITDA or other liquidity ratios);
- (f) Stock Price and Equity Metrics: any derivative of return on shareholders' equity; total shareholder return; stock price; stock price appreciation; market capitalization; earnings/loss per share (basic or diluted) (before or after taxes);
- (g) Strategic Metrics: product research and development; completion of an identified special project; clinical trials; regulatory filings or approvals; patent application or issuance; manufacturing or process development; sales or net sales; market share; market penetration; economic value added; customer service; customer satisfaction; inventory control; balance of cash, cash equivalents and marketable securities; growth in assets; key hires; employee satisfaction; employee retention; business expansion; acquisitions, divestitures, joint ventures or financing; legal compliance or safety and risk reduction; and/or
- (h) Any such personal performance objectives as determined by the Plan Administrator.

“**Performance Shares**” means a grant of stock or stock Units the issuance, vesting or payment of which is contingent on performance as measured against predetermined objectives over a specified Performance Period.

“**Performance Units**” means a grant of dollar-denominated Units the value, vesting or payment of which is contingent on performance against predetermined objectives over a specified Performance Period.

“**Plan**” means this 2018 Long-Term Incentive Plan, as set forth herein and as it may be amended from time to time.

“**Restricted Stock**” means an Award of Common Shares to a Participant that may be subject to certain transferability and other restrictions and to a risk of forfeiture (including by reason of not satisfying certain Performance Criteria).

“**Restricted Stock Unit**” means a right granted to a Participant to receive Common Shares or cash at the end of a specified deferral period, which right may be conditioned on the satisfaction of certain requirements (including the satisfaction of certain Performance Criteria).

“**Restriction Period**” means, with respect to Full Value Awards, the period commencing on the date of grant of such Award to which vesting or transferability and other restrictions and a risk of forfeiture apply and ending upon the expiration of the applicable vesting conditions, transferability and other restrictions and lapse of risk of forfeiture and/or the achievement of the applicable Performance Criteria (it being understood that the Administrator may provide that vesting shall occur and/or restrictions shall lapse with respect to portions of the applicable Award during the Restriction Period in accordance with Section 7(b)).

“**Subsidiary**” means any corporation or other entity in an unbroken chain of corporations or other entities beginning with CWHI if each of the corporations or other entities, or group of commonly controlled corporations or other entities, other than the last corporation or other entity in the unbroken chain then owns stock or other equity interests possessing 50% or more of the total combined voting power of all classes of stock or other equity interests in one of the other corporations or other entities in such chain or otherwise has the power to direct the management and policies of the entity by contract or by means of appointing a majority of the members of the board or other body that controls the affairs of the entity; provided, however, that solely for purposes of determining whether a Participant has a Termination of Service that is a “separation from service” within the meaning of Section 409A of the Code or whether an Eligible Individual is eligible to be granted an Award that in the hands of such Eligible Individual would constitute a “nonqualified deferred compensation plan” within the meaning of Section 409A of the Code, a “Subsidiary” of a corporation or other entity means all other entities with which such corporation or other entity would be considered a single employer under Sections 414(b) or 414(c) of the Code.

“**Tax Withholding Obligation**” means any federal, state, local or foreign (non-United States) income, employment or other tax or social insurance contribution required by applicable law to be withheld in respect of Awards.

“**Termination of Service**” means the termination of the Participant’s employment or consultancy with, or performance of services for, CWHI and its Subsidiaries. Temporary absences from employment because of illness, vacation or leave of absence and transfers among CWHI and its Subsidiaries shall not be considered Terminations of Service. With respect to any Award that constitutes a “nonqualified deferred compensation plan” within the meaning of Section 409A of the Code, “**Termination of Service**” shall mean a “**separation from service**” as defined under Section 409A of the Code to the extent required by Section 409A of the Code to avoid the imposition of any tax or interest or the inclusion of any amount in income pursuant to Section 409A of the Code. A Participant has a separation from service within the meaning of Section 409A of the Code if the Participant terminates employment with CWHI and all Subsidiaries for any reason. A Participant will generally be treated as having terminated employment with CWHI and all Subsidiaries as of a certain date if the Participant and the entity that employs the Participant reasonably anticipate that the Participant will perform no further services for CWHI or any Subsidiary after such date or that the level of bona fide services that the Participant will perform after such date (whether as an employee or an independent contractor) will permanently decrease to no more than 20 percent (20%) of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of services if the Participant has been providing services for fewer than 36 months); provided, however, that the employment relationship is treated as continuing while the Participant is on military leave, sick leave or other bona fide leave of absence if the period of leave does not exceed six months or, if longer, so long as the Participant retains the right to reemployment with CWHI or any Subsidiary.

“**Total and Permanent Disability**” means, with respect to a Participant, except as otherwise provided in the relevant Award Agreement, that a Participant is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to last until the Participant’s death or result in death, or (ii) determined to be totally disabled by the Social Security Administration or other governmental or quasi-governmental body that administers a comparable social insurance program outside of the United States in which the Participant participates and which conditions the right to receive benefits under such program on the Participant being unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to last until the Participant’s death or result in death. The Administrator shall have sole authority to determine whether a Participant has suffered a Total and Permanent Disability and may require such medical or other evidence as it deems necessary to judge the nature and permanency of the Participant’s condition.

“**Unit**” means a bookkeeping entry used by CWHI to record and account for the grant of the following types of Awards until such time as the Award is paid, cancelled, forfeited or terminated, as the case may be: stock units, Restricted Stock Units, Performance Units, and Performance Shares that are expressed in terms of units of Common Shares.

#### 4. **Administration.**

- (a) **Administration of the Plan.** The Plan shall be administered by the Administrator.
- (b) **Powers of the Administrator.** The Administrator shall, except as otherwise provided under the Plan, have full authority, in its sole and absolute discretion, to grant Awards pursuant to the terms of the Plan to Eligible Individuals and to take all other actions necessary or desirable to carry out the purpose and intent of the Plan. Among other things, the Administrator shall have the authority, in its sole and absolute discretion, subject to the terms and conditions of the Plan to:
  - (i) determine the Eligible Individuals to whom, and the time or times at which, Awards shall be granted;
  - (ii) determine the types of Awards to be granted any Eligible Individual;
  - (iii) determine the number of Common Shares to be covered by or used for reference purposes for each Award or the value to be transferred pursuant to any Award;

- (iv) determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (A) the purchase price of any Common Shares, (B) the method of payment for shares purchased pursuant to any Award, (C) the method for satisfying any tax withholding obligation arising in connection with any Award, including by the withholding or delivery of Common Shares, (D) subject to Section 5(f) and 7(b), the timing, terms and conditions of the exercisability, vesting or payout of any Award or any shares acquired pursuant thereto, (E) the Performance Criteria applicable to any Award and the extent to which such Performance Criteria have been attained, (F) the time of the expiration of any Award, (G) the effect of the Participant's Termination of Service on any of the foregoing, and (H) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto as the Administrator shall consider to be appropriate and not inconsistent with the terms of the Plan;
- (v) subject to Sections 7(f), 10(c) and 15, modify, amend or adjust the terms and conditions of any Award;
- (vi) subject to Section 7(b), accelerate or otherwise change the time at or during which an Award may be exercised or becomes payable and waive or accelerate the lapse, in whole or in part, of any restriction, condition or risk of forfeiture with respect to such Award; provided, however, that, except in connection with death, disability or a Change in Control, no such change, waiver or acceleration shall be made to any Award that is considered "deferred compensation" within the meaning of Section 409A of the Code if the effect of such action is inconsistent with Section 409A of the Code;
- (vii) determine whether an Award will be paid or settled in cash, Common Shares, or in any combination thereof and whether, to what extent and under what circumstances cash or Common Shares payable with respect to an Award shall be deferred either automatically or at the election of the Participant;
- (viii) for any purpose, including but not limited to, qualifying for preferred or beneficial tax treatment, accommodating the customs or administrative challenges or otherwise complying with the tax, accounting or regulatory requirements of one or more jurisdictions, adopt, amend, modify, administer or terminate sub-plans, appendices, special provisions or supplements applicable to Awards regulated by the laws of a particular jurisdiction, which sub-plans, appendices, supplements and special provisions may take precedence over other provisions of the Plan, and prescribe, amend and/or rescind rules and regulations relating to such sub-plans, supplements and/or special provisions;
- (ix) establish any "blackout" period, during which transactions affecting Awards may not be effected, that the Administrator in its sole discretion deems necessary or advisable;
- (x) determine the Fair Market Value of Common Shares or other property for any purpose under the Plan or any Award;
- (xi) administer, construe and interpret the Plan, Award Agreements and all other documents relevant to the Plan and Awards issued thereunder, and decide all other matters to be determined in connection with an Award;
- (xii) establish, amend, rescind and interpret such administrative rules, regulations, agreements, guidelines, instruments and practices for the administration of the Plan and for the conduct of its business as the Administrator deems necessary or advisable;
- (xiii) correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award or Award Agreement in the manner and to the extent the Administrator shall consider it desirable to carry it into effect; and
- (xiv) specify that vesting conditions in respect of Awards shall not extend beyond applicable limitations such that the Award complies at all times with the exception in paragraph (k) of the definition of

“salary deferral arrangement” in subsection 248(1) of the *Income Tax Act* (Canada) or comparable legislation of any jurisdiction; and

(xv) otherwise administer the Plan and all Awards granted under the Plan.

- (c) **Delegation of Administrative Authority.** The Administrator may designate officers or employees of the Company to assist the Administrator in the administration of the Plan and, to the extent permitted by applicable law and stock exchange rules, the Administrator may delegate to officers or other employees of the Company any of the Administrator’s duties and powers under the Plan, subject to such conditions and limitations as the Administrator shall prescribe, including without limitation the authority to execute agreements or other documents on behalf of the Administrator; provided, however, that such delegation of authority shall not extend to the granting of, or exercise of discretion with respect to, Awards to Eligible Individuals who are officers under Section 16 of the Exchange Act.
- (d) **Non-Uniform Determinations.** The Administrator’s determinations under the Plan (including without limitation, determinations of the persons to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the Award Agreements evidencing such Awards, and the ramifications of a Change in Control upon outstanding Awards) need not be uniform and may be made by the Administrator selectively among Awards or persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated.
- (e) **Limited Liability; Advisors.** To the maximum extent permitted by law, no member of the Administrator shall be liable for any action taken or decision made in good faith relating to the Plan or any Award thereunder. The Administrator may employ counsel, consultants, accountants, appraisers, brokers or other persons. The Administrator, CWHI, and the officers and directors of CWHI shall be entitled to rely upon the advice, opinions or valuations of any such persons.
- (f) **Indemnification.** To the maximum extent permitted by law, by CWHI’s Notice and Articles of Incorporation, and by any directors’ and officers’ liability insurance coverage which may be in effect from time to time, the members of the Administrator and any agent or delegate of the Administrator who is a director, officer or employee of CWHI or an Affiliate shall be indemnified by CWHI against any and all liabilities and expenses to which they may be subjected by reason of any act or failure to act with respect to their duties on behalf of the Plan.
- (g) **Effect of Administrator’s Decision.** All actions taken and determinations made by the Administrator on all matters relating to the Plan or any Award pursuant to the powers vested in it hereunder shall be in the Administrator’s sole and absolute discretion, unless in contravention of any express term of the Plan, including, without limitation, any determination involving the appropriateness or equitableness of any action. All determinations made by the Administrator shall be conclusive, final and binding on all parties concerned, including CWHI, its shareholders, any Participants and any other employee, consultant, or director of CWHI and its Affiliates, and their respective successors in interest. No member of the Administrator, nor any director, officer, employee or representative of CWHI shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or Awards.

## 5. Shares.

**Number of Shares Available for Awards.** Subject to adjustment as provided in Section 5(b), the number of Common Shares issuable pursuant to Awards that may be granted under the Plan shall be equal to 13,500,000 Common Shares, less any Common Shares that are issuable pursuant to the Legacy Option Plan, as may be adjusted from time to time (the “**Share Pool**”). For greater certainty, the Share Pool shall be calculated from time to time based on the total of 13,500,000 Common Shares, less the number of options outstanding that were previously granted under the Legacy Option Plan and which may still be exercised. Subject to applicable law, the requirements of the Exchange and any shareholder or other approval which may be required, the Administrator may in its discretion amend the Plan to increase such limit without notice to any Participants.

- (a) **Adjustments.** On and after the Effective Date, the Share Pool shall be adjusted, in addition to any adjustments to be made pursuant to Section 10 of the Plan, as follows:
- (i) The Share Pool shall be reduced, on the date of grant, by one share for each stock option or stock appreciation right granted under the Plan and by one share for each stock award, stock unit, Performance Share and/or Other Stock-Based Award granted under the Plan; provided that Awards that are valued by reference to Common Shares but are required to be paid in cash pursuant to their terms shall not reduce the Share Pool;
  - (ii) If and to the extent options or stock appreciation rights originating from the Share Pool terminate, expire, or are canceled, forfeited, exchanged, or surrendered without having been exercised, or if any stock awards, stock units, Performance Shares and/or Other Stock-Based Awards are forfeited, the Common Shares subject to such Awards shall again be available for Awards under the Share Pool, and shall increase the Share Pool by one share for each stock option or stock appreciation right and one share for each stock award, stock unit, Performance Share and/or Other Stock-Based Award issued in connection with such Award or by which the Award is valued by reference;
  - (iii) Notwithstanding the foregoing, the following Common Shares shall not become available for issuance under the Plan: (A) shares tendered by Participants, or withheld by the Company, as full or partial payment to the Company upon the exercise of stock options granted under the Plan, until such Shares are cancelled; (B) shares reserved for issuance upon the grant of stock appreciation rights, to the extent the number of reserved shares exceeds the number of shares actually issued upon the exercise of the stock appreciation rights; and (C) shares withheld by, or otherwise remitted to, the Company to satisfy a Participant's tax withholding obligations upon the lapse of restrictions on stock awards or the exercise of stock options or stock appreciation rights granted under the Plan, until such Shares are cancelled.
- (b) **ISO Limit.** Subject to adjustment pursuant to Section 10 of the Plan, the maximum number of Common Shares that may be issued pursuant to stock options granted under the Plan that are intended to qualify as Incentive Stock Options within the meaning of Section 422 of the Code shall be equal to 13,500,000.
- (c) **Source of Shares.** The Common Shares with respect to which Awards may be made under the Plan shall be shares authorized by CWHI for issuance but unissued, or issued and reacquired, including without limitation shares purchased in the open market or in private transactions.
- (d) **Stock Exchange Limits.**
- (i) The number of Common Shares subject to Awards granted to any one Participant shall be determined by the Board, but no one Participant shall be granted Awards which exceed, in aggregate, the maximum number permitted by the Exchange, if applicable.
  - (ii) Subject to the aggregate limit and adjustment provisions in Section 5 of this Plan, the aggregate number of Common Shares that may be issued pursuant to the exercise of Awards under the Plan and all other security based compensation arrangements of the Company are subject to the following additional limitations:
    - A. in the aggregate, no more than 10% of the issued and outstanding Common Shares (on a non-diluted basis) may be reserved at any time for insiders (as defined in the *Securities Act* (Ontario) and includes an associate and Affiliate, as defined in the *Securities Act* (Ontario) (“**Insider(s)**”) under the Plan, together with all other security based compensation arrangements of the Company; and
    - B. the number of securities of the Company issued to Insiders, within any one year period, under all security based compensation arrangements, cannot exceed 10% of the issued and outstanding Common Shares.

6. **Participation.**

Participation in the Plan shall be open to all Eligible Individuals, as may be selected by the Administrator from time to time.

7. **Awards.**

- (a) **Awards, In General.** The Administrator, in its sole discretion, shall establish the terms of all Awards granted under the Plan consistent with the terms of the Plan. Awards may be granted individually or in tandem with other types of Awards, concurrently with or with respect to outstanding Awards. All Awards are subject to the terms and conditions of the Plan and as provided in the Award Agreement, which shall be delivered to the Participant receiving such Award upon, or as promptly as is reasonably practicable following, the grant of such Award. Unless otherwise specified by the Administrator, in its sole discretion, or otherwise provided in the Award Agreement, an Award shall not be effective unless the Award Agreement is signed or otherwise accepted by CWHI and the Participant receiving the Award (including by electronic delivery and/or electronic signature). Unless the Administrator determines otherwise, any failure by the Participant to sign and return the Award Agreement within such period of time following the granting of the Award as the Administrator shall prescribe shall cause such Award to the Participant to be null and void. The Administrator may direct that any stock certificate evidencing shares issued pursuant to the Plan shall bear a legend setting forth such restrictions on transferability as may apply to such shares pursuant to the Plan.
- (b) **Minimum Restriction Period for Full Value Awards.** Except as provided below and notwithstanding any provision of the Plan to the contrary, each Award granted under the Plan shall be subject to a minimum Restriction Period of 12 months from the date of grant if vesting of or lapse of restrictions on such Award is based on the satisfaction of Performance Criteria and a minimum Restriction Period of 36 months from the date of grant, applied in either pro rata installments or a single installment, if vesting of or lapse of restrictions on such Award is based solely on the Participant's satisfaction of specified service requirements with the Company. If the grant of a Performance Award is conditioned on satisfaction of Performance Criteria, the Performance Period shall not be less than 12 months' duration, but no additional minimum Restriction Period need apply to such Award. Except as provided below and notwithstanding any provision of the Plan to the contrary, the Administrator shall not have discretionary authority to waive the minimum Restriction Period applicable to a Full Value Award, except in the case of death, disability, retirement, or a Change in Control. Notwithstanding the foregoing, the provisions of this Section 7(b) shall not apply and/or may be waived, in the Administrator's sole discretion, with respect to up to the number of Full Value Awards that is equal to 10% of the aggregate Share Pool as of the Effective Date.
- (c) **Stock Options.**
- (i) **Grants.** A stock option means a right to purchase a specified number of Common Shares from CWHI at a specified price during a specified period of time. The Administrator may from time to time grant to Eligible Individuals Awards of Incentive Stock Options or Non-qualified Options; provided, however, that Awards of Incentive Stock Options shall be limited to employees of CWHI or of any current or hereafter existing "parent corporation" or "subsidiary corporation," as defined in Sections 424(e) and 424(f) of the Code, respectively, of CWHI, and any other Eligible Individuals who are eligible to receive Incentive Stock Options under the provisions of Section 422 of the Code. No stock option shall be an Incentive Stock Option unless so designated by the Administrator at the time of grant or in the applicable Award Agreement.
- (ii) **Exercise.** Stock options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator; provided, however, that Awards of stock options may not have a term in excess of ten years' duration unless required otherwise by applicable law. The exercise price per share subject to a stock option granted under the Plan shall not be less than the Fair Market Value of one Common Share on the date of grant of the stock option, except as provided under applicable law or with respect to stock options that are granted in substitution of similar types of awards of a company acquired by CWHI or a Subsidiary or with

which CWHI or a Subsidiary combines (whether in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock, or otherwise) to preserve the intrinsic value of such awards. Should the expiry date of a stock option fall within a period during which the relevant Participant is prohibited from exercising a Nonqualified Option due to trading restrictions imposed by the Company pursuant to any policy of the Company respecting restrictions on trading that is in effect at that time (a “**blackout period**”) or within nine Business Days following the expiration of a blackout period, such expiry date of the Nonqualified Option shall be automatically extended without any further act or formality to that date which is the tenth Business Day after the end of the blackout period (but not beyond the first to occur of the original term of the option or the 10<sup>th</sup> anniversary of the original grant date of the option), such tenth Business Day to be considered the expiry date for such Nonqualified Option for all purposes under the Plan. The ten Business Day period referred to in this paragraph may not be extended by the Board.

- (iii) **Termination of Service.** Except as provided in the applicable Award Agreement or otherwise determined by the Administrator, to the extent stock options are not vested and exercisable, a Participant’s stock options shall be forfeited upon his or her Termination of Service.
  - (iv) **Additional Terms and Conditions.** The Administrator may, by way of the Award Agreement or otherwise, determine such other terms, conditions, restrictions, and/or limitations, if any, of any Award of stock options, provided they are not inconsistent with the Plan.
- (d) **Limitation on Reload Options.** The Administrator shall not grant stock options under this Plan that contain a reload or replenishment feature pursuant to which a new stock option would be granted automatically upon receipt of delivery of Common Shares to CWHI in payment of the exercise price or any tax withholding obligation under any other stock option.
- (e) **Stock Appreciation Rights.**
- (i) **Grants.** The Administrator may from time to time grant to Eligible Individuals Awards of stock appreciation rights. A stock appreciation right entitles the Participant to receive, subject to the provisions of the Plan and the Award Agreement, a payment having an aggregate value equal to the product of (i) the excess of (A) the Fair Market Value on the exercise date of one Common Share over (B) the base price per share specified in the Award Agreement, times (ii) the number of shares specified by the stock appreciation right, or portion thereof, which is exercised. The base price per share specified in the Award Agreement shall not be less than the Fair Market Value on the date of grant, or with respect to stock appreciation rights that are granted in substitution of similar types of awards of a company acquired by CWHI or a Subsidiary or with which CWHI or a Subsidiary combines (whether in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock, or otherwise) such base price as is necessary to preserve the intrinsic value of such awards.
  - (ii) **Exercise.** Stock appreciation rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator; provided, however, that stock appreciation rights granted under the Plan may not have a term in excess of ten years’ duration unless required otherwise by applicable law. The applicable Award Agreement shall specify whether payment by CWHI of the amount receivable upon any exercise of a stock appreciation right is to be made in cash or Common Shares or a combination of both, or shall reserve to the Administrator or the Participant the right to make that determination prior to or upon the exercise of the stock appreciation right. If upon the exercise of a stock appreciation right a Participant is to receive a portion of such payment in Common Shares, the number of shares shall be determined by dividing such portion by the Fair Market Value of a Common Share on the exercise date. No fractional shares shall be used for such payment and the Administrator shall determine whether cash shall be given in lieu of such fractional shares or whether such fractional shares shall be eliminated.

- (iii) Termination of Service. Except as provided in the applicable Award Agreement or otherwise determined by the Administrator, to the extent stock appreciation rights are not vested and exercisable, a Participant's stock appreciation rights shall be forfeited upon his or her Termination of Service.
- (iv) Additional Terms and Conditions. The Administrator may, by way of the Award Agreement or otherwise, determine such other terms, conditions, restrictions, and/or limitations, if any, of any Award of stock appreciation rights, provided they are not inconsistent with the Plan.
- (f) **Repricing.** Notwithstanding anything herein to the contrary, except in connection with a corporate transaction involving CWHI (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, or exchange of shares), the terms of options and stock appreciation rights granted under the Plan may not be amended, after the date of grant, to reduce the exercise price of such options or stock appreciation rights, nor may outstanding options or stock appreciation rights be canceled in exchange for (i) cash, (ii) options or stock appreciation rights with an exercise price or base price that is less than the exercise price or base price of the original outstanding options or stock appreciation rights, or (iii) other Awards, unless such action is approved by CWHI's shareholders.
- (g) **Stock Awards.**
  - (i) Grants. The Administrator may from time to time grant to Eligible Individuals Awards of unrestricted Common Shares or Restricted Stock (collectively, "Stock Awards") on such terms and conditions, and for such consideration, including no consideration or such minimum consideration as may be required by law, as the Administrator shall determine, subject to the limitations set forth in Section 7(b). Stock Awards shall be evidenced in such manner as the Administrator may deem appropriate, including via book-entry registration.
  - (ii) Vesting. Restricted Stock shall be subject to such vesting, restrictions on transferability and other restrictions, if any, and/or risk of forfeiture as the Administrator may impose at the date of grant or thereafter. The Restriction Period to which such vesting, restrictions and/or risk of forfeiture apply may lapse under such circumstances, including without limitation upon the attainment of Performance Criteria, in such installments, or otherwise, as the Administrator may determine. Subject to the provisions of the Plan, the applicable Award Agreement and applicable law, during the Restriction Period, the Participant shall not be permitted to vote sell, assign, transfer, pledge or otherwise encumber shares of Restricted Stock.
  - (iii) Rights of a Shareholder; Dividends. Except to the extent restricted under the Award Agreement relating to the Restricted Stock, a Participant granted Restricted Stock shall have all of the rights of a shareholder of Common Shares including, without limitation, the right to vote Restricted Stock upon the expiry of the Restriction Period. Subject to shareholder approval, cash dividends declared payable on Common Shares shall be paid, with respect to outstanding Restricted Stock, as determined by the Administrator, and shall be paid in cash or as unrestricted Common Shares having a Fair Market Value equal to the amount of such dividends or may be reinvested in additional shares of Restricted Stock as determined by the Administrator; provided, however, that dividends declared payable on Restricted Stock that is granted as a Performance Award shall be held by CWHI and made subject to forfeiture at least until achievement of the applicable Performance Goal related to such shares of Restricted Stock. Stock distributed in connection with a stock split or stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Common Shares or other property has been distributed. As soon as is practicable following the date on which restrictions on any shares of Restricted Stock lapse, CWHI shall deliver to the Participant the certificates for such shares or shall cause the shares to be registered in the Participant's name in book-entry form, in either case with the restrictions removed, provided that the Participant shall have complied with all conditions for delivery of such shares contained in the Award Agreement or otherwise reasonably required by CWHI.

- (iv) Termination of Service. Except as provided in the applicable Award Agreement, upon Termination of Service during the applicable Restriction Period, Restricted Stock and any accrued but unpaid dividends that are at that time subject to restrictions shall be forfeited; provided that, subject to the limitations set forth in Section 7(b), the Administrator may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and the Administrator may in other cases waive in whole or in part the forfeiture of Restricted Stock.
  - (v) Additional Terms and Conditions. The Administrator may, by way of the Award Agreement or otherwise, determine such other terms, conditions, restrictions, and/or limitations, if any, of any Award of Restricted Stock, provided they are not inconsistent with the Plan.
- (h) **Stock Units.**
- (i) Grants. The Administrator may from time to time grant to Eligible Individuals Awards of unrestricted stock Units or Restricted Stock Units on such terms and conditions, and for such consideration, including no consideration or such minimum consideration as may be required by law, as the Administrator shall determine, subject to the limitations set forth in Section 7(b). Restricted Stock Units represent a contractual obligation by CWHI to deliver a number of Common Shares, an amount in cash equal to the Fair Market Value of the specified number of shares subject to the Award, or a combination of Common Shares and cash, in accordance with the terms and conditions set forth in the Plan and any applicable Award Agreement.
  - (ii) Vesting and Payment. Restricted Stock Units shall be subject to such vesting, risk of forfeiture and/or payment provisions as the Administrator may impose at the date of grant. The Restriction Period to which such vesting and/or risk of forfeiture apply may lapse under such circumstances, including without limitation upon the attainment of Performance Criteria, in such installments, or otherwise, as the Administrator may determine. Common Shares, cash or a combination of Common Shares and cash, as applicable, payable in settlement of Restricted Stock Units shall be delivered to the Participant as soon as administratively practicable, but no later than 30 days, after the date on which payment is due under the terms of the Award Agreement provided that the Participant shall have complied with all conditions for delivery of such shares or payment contained in the Award Agreement or otherwise reasonably required by CWHI, or in accordance with an election of the Participant, if the Administrator so permits, that meets the requirements of Section 409A of the Code.
  - (iii) No Rights of a Shareholder; Dividend Equivalents. Until Common Shares are issued to the Participant in settlement of stock Units, the Participant shall not have any rights of a shareholder of CWHI with respect to the stock Units or the shares issuable thereunder. The Administrator may grant to the Participant the right to receive Dividend Equivalents on stock Units, on a current, reinvested and/or restricted basis, subject to such terms as the Administrator may determine provided, however, that Dividend Equivalents payable on stock Units that are granted as a Performance Award shall, rather than be paid on a current basis, be accrued and made subject to forfeiture at least until achievement of the applicable Performance Goal related to such stock Units.
  - (iv) Termination of Service. Upon Termination of Service during the applicable deferral period or portion thereof to which forfeiture conditions apply, or upon failure to satisfy any other conditions precedent to the delivery of Common Shares or cash to which such Restricted Stock Units relate, all Restricted Stock Units and any accrued but unpaid Dividend Equivalents with respect to such Restricted Stock Units that are then subject to deferral or restriction shall be forfeited; provided that, subject to the limitations set forth in Section 7(b), the Administrator may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock Units will be waived in whole or in part in the event of termination resulting from specified causes, and the Administrator may in other cases waive in whole or in part the forfeiture of Restricted Stock Units.

- (v) **Additional Terms and Conditions.** The Administrator may, by way of the Award Agreement or otherwise, determine such other terms, conditions, restrictions, and/or limitations, if any, of any Award of stock Units, provided they are not inconsistent with the Plan.
- (i) **Performance Shares and Performance Units.**
- (i) **Grants.** The Administrator may from time to time grant to Eligible Individuals Awards in the form of Performance Shares and Performance Units. Performance Shares, as that term is used in this Plan, shall refer to Common Shares or Units that are expressed in terms of Common Shares, the issuance, vesting, lapse of restrictions on or payment of which is contingent on performance as measured against predetermined objectives over a specified Performance Period. Performance Units, as that term is used in this Plan, shall refer to dollar-denominated Units valued by reference to designated criteria established by the Administrator, other than Common Shares, the issuance, vesting, lapse of restrictions on or payment of which is contingent on performance as measured against predetermined objectives over a specified Performance Period. The applicable Award Agreement shall specify whether Performance Shares and Performance Units will be settled or paid in cash or Common Shares or a combination of both, or shall reserve to the Administrator or the Participant the right to make that determination prior to or at the payment or settlement date.
- (ii) **Performance Criteria.** The Administrator shall, prior to or at the time of grant, condition the grant, vesting or payment of, or lapse of restrictions on, an Award of Performance Shares or Performance Units upon (A) the attainment of Performance Criteria during a Performance Period or (B) the attainment of Performance Criteria and the continued service of the Participant. The length of the Performance Period, the Performance Criteria to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Criteria have been attained shall be conclusively determined by the Administrator in the exercise of its absolute discretion. Performance Criteria may include minimum, maximum and target levels of performance, with the size of the Award or payout of Performance Shares or Performance Units or the vesting or lapse of restrictions with respect thereto based on the level attained. An Award of Performance Shares or Performance Units shall be settled as and when the Award vests or at a later time specified in the Award Agreement or in accordance with an election of the Participant, if the Administrator so permits, that meets the requirements of Section 409A of the Code.
- (iii) **Additional Terms and Conditions.** The Administrator may, by way of the Award Agreement or otherwise, determine such other terms, conditions, restrictions, and/or limitations, if any, of any Award of Performance Shares or Performance Units, provided they are not inconsistent with the Plan.
- (j) **Other Stock-Based Awards.** The Administrator may from time to time grant to Eligible Individuals Awards in the form of Other Stock-Based Awards. Other Stock-Based Awards in the form of Dividend Equivalents may be (A) awarded on a free-standing basis or in connection with another Award other than a stock option or stock appreciation right, (B) paid currently or credited to an account for the Participant, including the reinvestment of such credited amounts in Common Shares equivalents, to be paid on a deferred basis, and (C) settled in cash or Common Shares as determined by the Administrator; provided, however, that Dividend Equivalents payable on Other Stock-Based Awards that are granted as a Performance Award shall, rather than be paid on a current basis, be accrued and made subject to forfeiture at least until achievement of the applicable Performance Goal related to such Other Stock-Based Awards. Any such settlements, and any such crediting of Dividend Equivalents, may be subject to such conditions, restrictions and contingencies as the Administrator shall establish.
- (k) **Awards to Participants Outside the United States.** The Administrator may grant Awards to Eligible Individuals who are foreign nationals, who are located outside the United States or who are not compensated from a payroll maintained in the United States, or who are otherwise subject to (or could cause CWHI or a Subsidiary to be subject to) tax, legal or regulatory provisions of countries or jurisdictions outside the United States, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Administrator, be necessary or desirable in order that any such

Award shall conform to laws, regulations, and customs of the country or jurisdiction in which the Participant is then resident or primarily employed or to foster and promote achievement of the purposes of the Plan.

- (l) **Limitation on Dividend Reinvestment and Dividend Equivalents.** Reinvestment of dividends in additional Restricted Stock at the time of any dividend payment, and the payment of Common Shares with respect to dividends to Participants holding Awards of stock Units, shall only be permissible if sufficient shares are available under the Share Pool for such reinvestment or payment (taking into account then outstanding Awards). In the event that sufficient shares are not available under the Share Pool for such reinvestment or payment, such reinvestment or payment shall be made in the form of a grant of stock Units equal in number to the Common Shares that would have been obtained by such payment or reinvestment, the terms of which stock Units shall provide for settlement in cash and for Dividend Equivalent reinvestment in further stock Units on the terms contemplated by this Section 7(m).

#### 8. **Withholding of Taxes.**

Participants and holders of Awards shall pay to CWHI or its Affiliate, or make arrangements satisfactory to the Administrator for payment of, any Tax Withholding Obligation in respect of Awards granted under the Plan no later than the date of the event creating the tax or social insurance contribution liability. The obligations of CWHI under the Plan shall be conditional on such payment or arrangements. Unless otherwise determined by the Administrator, and subject always to applicable law, Tax Withholding Obligations may be settled in whole or in part with Common Shares, including unrestricted outstanding shares surrendered to CWHI and unrestricted shares that are part of the Award that gives rise to the Tax Withholding Obligation, having a Fair Market Value on the date of surrender or withholding equal to the statutory minimum amount (or such greater amount permitted under FASB Accounting Standards Codification Topic 718, *Compensation — Stock Compensation*, for equity-classified awards) required to be withheld for tax or social insurance contribution purposes, all in accordance with such procedures as the Administrator establishes. CWHI or its Affiliate may deduct, to the extent permitted by law, any such Tax Withholding Obligations from any payment of any kind otherwise due to the Participant or holder of an Award.

#### 9. **Transferability of Awards.**

- (a) **Requirement for Administrator Permission.** Except as otherwise determined by the Administrator, and in any event in the case of an Incentive Stock Option or a tandem stock appreciation right granted with respect to an Incentive Stock Option, no Award granted under the Plan shall be transferable by a Participant otherwise than by will or the laws of descent and distribution. The Administrator shall not permit any transfer of an Award for value except to the Company or in connection with a Change in Control. An Award may be exercised during the lifetime of the Participant, only by the Participant or, during the period the Participant is under a legal disability, by the Participant's guardian or legal representative, unless otherwise determined by the Administrator. Awards granted under the Plan shall not be subject in any manner to alienation, anticipation, sale, transfer, assignment, pledge, or encumbrance, except as otherwise determined by the Administrator; provided, however, that the restrictions in this sentence shall not apply to the Common Shares received in connection with an Award after the date that the restrictions on transferability of such shares set forth in the applicable Award Agreement have lapsed. Nothing in this paragraph shall be interpreted or construed as overriding the terms of any CWHI stock ownership or retention policy, now or hereafter existing, that may apply to the Participant or Common Shares received under an Award.
- (b) **Administrator Discretion to Permit Transfers Other Than For Value.** Except as otherwise restricted by applicable law, the Administrator may, but need not, permit an Award, other than an Incentive Stock Option or a tandem stock appreciation right granted with respect to an Incentive Stock Option, to be transferred to a Participant's Family Member (as defined below) as a gift or pursuant to a domestic relations order in settlement of marital property rights. The Administrator shall not permit any transfer of an Award for value except to the Company or in connection with a Change in Control. For purposes of this Section 9, "Family Member" means any child, stepchild, grandchild, parent, stepparent,

grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Participant's household (other than a tenant or employee), a trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent (50%) of the voting interests. The following transactions are not prohibited transfers for value: (i) a transfer under a domestic relations order in settlement of marital property rights; and (ii) a transfer to an entity in which more than fifty percent of the voting interests are owned by Family Members (or the Participant) in exchange for an interest in that entity.

10. **Adjustments for Corporate Transactions and Other Events.**

- (a) **Mandatory Adjustments.** In the event of a merger, consolidation, stock rights offering, statutory share exchange or similar event affecting CWHI (each, a “**Corporate Event**”) or a stock dividend, stock split, reverse stock split, separation, spinoff, reorganization, extraordinary dividend of cash or other property, share combination or subdivision, or recapitalization or similar event affecting the capital structure of CWHI (each, a “**Share Change**”) that occurs at any time after adoption of this Plan by the Board (including any such Corporate Event or Share Change that occurs after such adoption and coincident with or prior to the Effective Date), the Administrator shall, with the approval of the Exchange or the shareholders of the Company (if required), make equitable and appropriate substitutions or proportionate adjustments to (i) the aggregate number and kind of Common Shares or other securities on which Awards under the Plan may be granted to Eligible Individuals, (ii) the maximum number of Common Shares or other securities with respect to which Awards may be granted during any one calendar year to any individual, (iii) the maximum number of Common Shares or other securities that may be issued with respect to Incentive Stock Options granted under the Plan, (iv) the number of Common Shares or other securities covered by each outstanding Award and the exercise price, base price or other price per share, if any, and other relevant terms of each outstanding Award, and (v) all other numerical limitations relating to Awards, whether contained in this Plan or in Award Agreements; provided, however, that any fractional shares resulting from any such adjustment shall be eliminated; and, provided further, that in no event shall the exercise price per Common Share of a stock option or stock appreciation right, or subscription price per Common Share or any other Award, be reduced to an amount that is lower than the par value of a Common Share.
- (b) **Discretionary Adjustments.** In the case of a Corporate Event, the Administrator may, with the approval of the Exchange or the shareholders of the Company (if required), make such other adjustments to outstanding Awards as it determines to be appropriate and desirable, which adjustments may include, without limitation, (i) the cancellation of outstanding Awards in exchange for payments of cash, securities or other property or a combination thereof having an aggregate value equal to the value of such Awards, as determined by the Administrator in its sole discretion (it being understood that in the case of a Corporate Event with respect to which shareholders of CWHI receive consideration other than publicly traded equity securities of the ultimate surviving entity, any such determination by the Administrator that the value of a stock option or stock appreciation right shall for this purpose be deemed to equal the excess, if any, of the value of the consideration being paid for each Common Share pursuant to such Corporate Event over the exercise price or base price of such stock option or stock appreciation right shall conclusively be deemed valid and that any stock option or stock appreciation right may be cancelled for no consideration upon a Corporate Event if its exercise price or base price equals or exceeds the value of the consideration being paid for each Common Share pursuant to such Corporate Event), (ii) the substitution of securities or other property (including, without limitation, cash or other securities of CWHI and securities of entities other than CWHI) for the Common Shares subject to outstanding Awards, and (iii) the substitution of equivalent awards, as determined in the sole discretion of the Administrator, of the surviving or successor entity or a parent thereof (“**Substitute Awards**”).
- (c) **Adjustments to Performance Criteria.** The Administrator may, in its discretion, adjust the Performance Criteria applicable to any Awards to reflect any unusual or infrequently occurring event

or transaction, impact of charges for restructurings, discontinued operations and the cumulative effects of accounting or tax changes, each as defined by generally accepted accounting principles or as identified in CWHI's consolidated financial statements, notes to the consolidated financial statements, management's discussion and analysis or other CWHI filings with the Securities and Exchange Commission. If the Administrator determines that a change in the business, operations, corporate structure or capital structure of CWHI or the applicable subsidiary, business segment or other operational unit of CWHI or any such entity or segment, or the manner in which any of the foregoing conducts its business, or other events or circumstances, render the Performance Criteria to be unsuitable, the Administrator may modify such Performance Criteria or the related minimum acceptable level of achievement, in whole or in part, as the Administrator deems appropriate and equitable.

- (d) **Statutory Requirements Affecting Adjustments.** Notwithstanding the foregoing: (A) any adjustments made pursuant to Section 10 to Awards that are considered "deferred compensation" within the meaning of Section 409A of the Code shall be made in compliance with the requirements of Section 409A of the Code; (B) any adjustments made pursuant to Section 10 to Awards that are not considered "deferred compensation" subject to Section 409A of the Code shall be made in such a manner as to ensure that after such adjustment, the Awards either (1) continue not to be subject to Section 409A of the Code or (2) comply with the requirements of Section 409A of the Code; (C) in any event, the Administrator shall not have the authority to make any adjustments pursuant to Section 10 to the extent the existence of such authority would cause an Award that is not intended to be subject to Section 409A of the Code at the date of grant to be subject thereto; and (D) any adjustments made pursuant to Section 10 to Awards that are Incentive Stock Options shall be made in compliance with the requirements of Section 424 (a) of the Code.
- (e) **Dissolution or Liquidation.** Unless the Administrator determines otherwise, all Awards outstanding under the Plan shall terminate upon the dissolution or liquidation of CWHI.

#### 11. Change in Control Provisions.

- (a) **Termination of Awards.** Notwithstanding the provisions of Section 11(b), in the event that any transaction resulting in a Change in Control occurs, outstanding Awards will terminate upon the effective time of such Change in Control unless provision is made in connection with the transaction for the continuation or assumption of such Awards by, or for the issuance therefor of Substitute Awards of, the surviving or successor entity or a parent thereof. Solely with respect to Awards that will terminate as a result of the immediately preceding sentence and except as otherwise provided in the applicable Award Agreement:
  - (i) the outstanding Awards of stock options and stock appreciation rights that will terminate upon the effective time of the Change in Control shall, immediately before the effective time of the Change in Control, become fully exercisable and the holders of such Awards will be permitted, immediately before the Change in Control, to exercise the Awards;
  - (ii) the outstanding shares of Restricted Stock the vesting or restrictions on which are then solely time-based and not subject to achievement of Performance Criteria shall, immediately before the effective time of the Change in Control, become fully vested, free of all transfer and lapse restrictions and free of all risks of forfeiture;
  - (iii) the outstanding shares of Restricted Stock the vesting or restrictions on which are then subject to and pending achievement of Performance Criteria shall, immediately before the effective time of the Change in Control and unless the Award Agreement provides for vesting or lapsing of restrictions in a greater amount upon the occurrence of a Change in Control, become vested, free of transfer and lapse restrictions and risks of forfeiture in such amounts as if the applicable Performance Criteria for the unexpired Performance Period had been achieved at the target level set forth in the applicable Award Agreement;

- (iv) the outstanding Restricted Stock Units, Performance Shares and Performance Units the vesting, earning or settlement of which is then solely time-based and not subject to or pending achievement of Performance Criteria shall, immediately before the effective time of the Change in Control, become fully earned and vested and shall be settled in cash or Common Shares (consistent with the terms of the Award Agreement after taking into account the effect of the Change in Control transaction on the shares) as promptly as is practicable, subject to any applicable limitations imposed thereon by Section 409A of the Code; and
- (v) the outstanding Restricted Stock Units, Performance Shares and Performance Units the vesting, earning or settlement of which is then subject to and pending achievement of Performance Criteria shall, immediately before the effective time of the Change in Control and unless the Award Agreement provides for vesting, earning or settlement in a greater amount upon the occurrence of a Change in Control, become vested and earned in such amounts as if the applicable Performance Criteria for the unexpired Performance Period had been achieved at the target level set forth in the applicable Award Agreement and shall be settled in cash or Common Shares (consistent with the terms of the Award Agreement after taking into account the effect of the Change in Control transaction on the shares) as promptly as is practicable, subject to any applicable limitations imposed thereon by Section 409A of the Code.

Implementation of the provisions of this Section 11(a) shall be conditioned upon consummation of the Change in Control.

- (b) **Continuation, Assumption or Substitution of Awards.** The administrator may specify, on or after the date of grant, in an award agreement or amendment thereto, the consequences of a Participant's Termination of Service that occurs coincident with or following the occurrence of a Change in Control, if a Change in Control occurs under which provision is made in connection with the transaction for the continuation or assumption of outstanding Awards by, or for the issuance therefor of Substitute Awards of, the surviving or successor entity or a parent thereof.
- (c) **Other Permitted Actions.** In the event that any transaction resulting in a Change in Control occurs, the Administrator may take any of the actions set forth in Section 10 with respect to any or all Awards granted under the Plan.
- (d) **Section 409A Savings Clause.** Notwithstanding the foregoing, if any Award is considered to be a "nonqualified deferred compensation plan" within the meaning of Section 409A of the Code, this Section 11 shall apply to such Award only to the extent that its application would not result in the imposition of any tax or interest or the inclusion of any amount in income under Section 409A of the Code.

## 12. Substitution of Awards in Mergers and Acquisitions.

Awards may be granted under the Plan from time to time in substitution for assumed awards held by employees, officers, consultants or directors of entities who become employees, officers, consultants or directors of CWHI or a Subsidiary as the result of a merger or consolidation of the entity for which they perform services with CWHI or a Subsidiary, or the acquisition by CWHI of the assets or stock of the such entity. The terms and conditions of any Awards so granted may vary from the terms and conditions set forth herein to the extent that the Administrator deems appropriate at the time of grant to conform the Awards to the provisions of the assumed awards for which they are substituted and to preserve their intrinsic value as of the date of the merger, consolidation or acquisition transaction. To the extent permitted by applicable law and marketplace or listing rules of the primary securities market or exchange on which the Common Shares are listed or admitted for trading, any available shares under a shareholder-approved plan of an acquired company (as appropriately adjusted to reflect the transaction) may be used for Awards granted pursuant to this Section 12 and, upon such grant, shall not reduce the Share Pool.

**13. Compliance with Securities Laws; Listing and Registration.**

- (a) The obligation of CWHI to sell or deliver Common Shares with respect to any Award granted under the Plan shall be subject to all applicable laws, rules and regulations, including all applicable federal, state or foreign (non-United States) securities laws, or foreign (non-United States) securities laws and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Administrator. If at any time the Administrator determines that the delivery of Common Shares under the Plan is or may be unlawful under the laws of any applicable jurisdiction, or federal, state or foreign (non-United States) securities laws, the right to exercise an Award or receive Common Shares pursuant to an Award shall be suspended until the Administrator determines that such delivery is lawful. If at any time the Administrator determines that the delivery of Common Shares under the Plan would or may violate the rules of any exchange on which CWHI's securities are then listed for trading, the right to exercise an Award or receive Common Shares pursuant to an Award shall be suspended until the Administrator determines that such delivery would not violate such rules. If the Administrator determines that the exercise or nonforfeitability of, or delivery of benefits pursuant to, any Award would violate any applicable provision of securities laws or the listing requirements of any stock exchange upon which any of CWHI's equity securities are listed, then the Administrator may postpone any such exercise, nonforfeitability or delivery, as applicable, but CWHI shall use all reasonable efforts to cause such exercise, nonforfeitability or delivery to comply with all such provisions at the earliest practicable date. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares under the Plan shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained.
- (b) Each Award is subject to the requirement that, if at any time the Administrator determines, in its absolute discretion, that the listing, registration or qualification of Common Shares issuable pursuant to the Plan is required by any securities exchange or under any state, federal or foreign (non-United States) law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the grant of an Award or the issuance of Common Shares, no such Award shall be granted or payment made or Common Shares issued, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions not acceptable to the Administrator.
- (c) In the event that the disposition of Common Shares acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act of 1933, as amended (the "Securities Act"), and is not otherwise exempt from such registration, such Common Shares shall be restricted against transfer to the extent required by the Securities Act or regulations thereunder, and the Administrator may require a person receiving Common Shares pursuant to the Plan, as a condition precedent to receipt of such Common Shares, to represent to CWHI in writing that the Common Shares acquired by such person is acquired for investment only and not with a view to distribution and that such person will not dispose of the Common Shares so acquired in violation of federal, state or foreign securities laws and furnish such information as may, in the opinion of counsel for the Company, be appropriate to permit the Company to issue the Common Shares in compliance with applicable federal, state or foreign securities laws. If applicable, all certificates representing such Common Shares shall bear applicable legends as required by federal, state or foreign securities laws or stock exchange regulation.

**14. Section 409A Compliance.**

It is the intention of CWHI that any Award that constitutes a "nonqualified deferred compensation plan" within the meaning of Section 409A of the Code shall comply in all respects with the requirements of Section 409A of the Code to avoid the imposition of any tax or interest or the inclusion of any amount in income pursuant to Section 409A of the Code, and the terms of each such Award shall be construed, administered and deemed amended, if applicable, in a manner consistent with this intention. Notwithstanding the foregoing, neither CWHI nor any of its Affiliates nor any of its or their directors, officers, employees, agents or other

service providers will be liable for any taxes, penalties or interest imposed on any Participant or other person with respect to any amounts paid or payable (whether in cash, Common Shares or other property) under any Award, including any taxes, penalties or interest imposed under or as a result of Section 409A of the Code. Any payments described in an Award that are due within the “short term deferral period” as defined in Section 409A of the Code shall not be treated as deferred compensation unless applicable law requires otherwise. For purposes of any Award, each amount to be paid or benefit to be provided to a Participant that constitutes deferred compensation subject to Section 409A of the Code shall be construed as a separate identified payment for purposes of Section 409A of the Code. For purposes of Section 409A of the Code, the payment of Dividend Equivalents under any Award shall be construed as earnings and the time and form of payment of such Dividend Equivalents shall be treated separately from the time and form of payment of the underlying Award. Notwithstanding any other provision of the Plan to the contrary, with respect to any Award that constitutes a “nonqualified deferred compensation plan” within the meaning of Section 409A of the Code, any payments (whether in cash, Common Shares or other property) to be made with respect to the Award that become payable on account of the Participant’s separation from service, within the meaning of Section 409A of the Code, while the Participant is a “specified employee” (as determined in accordance with the uniform policy adopted by the Administrator with respect to all of the arrangements subject to Section 409A of the Code maintained by CWHI and its Affiliates) and which would otherwise be paid within six months after the Participant’s separation from service shall be accumulated (without interest) and paid on the first day of the seventh month following the Participant’s separation from service or, if earlier, within 15 days after the appointment of the personal representative or executor of the Participant’s estate following the Participant’s death. Notwithstanding anything in the Plan or an Award Agreement to the contrary, in no event shall the Administrator exercise its discretion to accelerate the payment or settlement of an Award where such payment or settlement constitutes deferred compensation within the meaning of Code section 409A unless, and solely to the extent that, such accelerated payment or settlement is permissible under Treasury Regulation section 1.409A-3(j)(4).

**15. Plan Duration; Amendment and Discontinuance.**

- (a) **Plan Duration.** The Plan shall remain in effect, subject to the right of the Board or the Compensation Committee to amend or terminate the Plan at any time, until the (a) earliest date as of which all Awards granted under the Plan have been satisfied in full or terminated and no Common Shares approved for issuance under the Plan remain available to be granted under new Awards or (b) the tenth anniversary of the Effective Date. No Awards shall be granted under the Plan after such termination date. Subject to other applicable provisions of the Plan, all Awards made under the Plan on or before the tenth anniversary of the Effective Date, or such earlier termination of the Plan, shall remain in effect until such Awards have been satisfied or terminated in accordance with the Plan and the terms of such Awards.
- (b) **Amendment and Discontinuance of the Plan.** The Board or the Compensation Committee may, without shareholder approval, amend, alter or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which would materially impair the rights of a Participant with respect to a previously granted Award without such Participant’s consent, except such an amendment made to comply with applicable law or rule of any securities exchange or market on which the Common Shares are listed or admitted for trading or to prevent adverse tax or accounting consequences to CWHI or the Participant. Notwithstanding the foregoing, no such amendment shall be made without the approval of CWHI’s shareholders to the extent such amendment would (A) materially increase the benefits accruing to Participants under the Plan, (B) materially increase the number of Common Shares which may be issued under the Plan or to a Participant, (C) materially expand the eligibility for participation in the Plan, (D) eliminate or modify the prohibition set forth in Section 7(f) on repricing of stock options and stock appreciation rights, (E) lengthen the maximum term or lower the minimum exercise price or base price permitted for stock options and stock appreciation rights, or (F) modify the prohibition on the issuance of reload or replenishment options. Except as otherwise determined by the Board or Compensation Committee, termination of the Plan shall not affect the Administrator’s ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

- (c) **Amendment of Awards.** Subject to Section 7(f), the Administrator may unilaterally amend the terms of any Award theretofore granted, but no such amendment shall materially impair the rights of any Participant with respect to an Award without the Participant's consent, except such an amendment made to cause the Plan or Award to comply with applicable law, applicable rule of any securities exchange on which the Common Shares are listed or admitted for trading, or to prevent adverse tax or accounting consequences for the Participant or the Company or any of its Affiliates. For purposes of the foregoing sentence, an amendment to an Award that results in a change in the tax consequences of the Award to the Participant shall not be considered to be a material impairment of the rights of the Participant and shall not require the Participant's consent.

16. **General Provisions.**

- (a) **Non-Guarantee of Employment or Service.** Nothing in the Plan or in any Award Agreement thereunder shall confer any right on an individual to continue in the service of CWHI or any Affiliate or shall interfere in any way with any right of CWHI or any Affiliate may have to terminate such service at any time with or without cause or notice and whether or not such termination results in (i) the failure of any Award to vest or become payable; (ii) the forfeiture of any unvested or vested portion of any Award; and/or (iii) any other adverse effect on the individual's interests under any Award or the Plan. No person, even though deemed an Eligible Individual, shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant. To the extent that an Eligible Individual who is an employee of a Subsidiary receives an Award under the Plan, that Award shall in no event be understood or interpreted to mean that CWHI is the Participant's employer or that the Participant has an employment relationship with CWHI.
- (b) **No Trust or Fund Created.** Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between CWHI and a Participant or any other person. To the extent that any Participant or other person acquires a right to receive payments from CWHI pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of CWHI.
- (c) **Status of Awards.** Awards shall be special incentive payments to the Participant and shall not be taken into account in computing the amount of salary or compensation of the Participant for purposes of determining any pension, retirement, death, severance or other benefit under (a) any pension, retirement, profit-sharing, bonus, insurance, severance or other employee benefit plan of CWHI or any Affiliate now or hereafter in effect under which the availability or amount of benefits is related to the level of compensation or (b) any agreement between (i) CWHI or any Affiliate and (ii) the Participant, except as such plan or agreement shall otherwise expressly provide.
- (d) **Subsidiary Employees.** In the case of a grant of an Award to an Eligible Individual who provides services to any Subsidiary, CWHI may, if the Administrator so directs, issue or transfer the Common Shares, if any, covered by the Award to the Subsidiary, for such lawful consideration as the Administrator may specify, upon the condition or understanding that the Subsidiary will transfer the Common Shares to the Eligible Individual in accordance with the terms of the Award specified by the Administrator pursuant to the provisions of the Plan. All Common Shares underlying Awards that are forfeited or canceled after such issue or transfer of shares to the Subsidiary shall revert to CWHI.
- (e) **Governing Law and Interpretation.** The validity, construction and effect of the Plan, of Award Agreements entered into pursuant to the Plan, and of any rules, regulations, determinations or decisions made by the Administrator relating to the Plan or such Award Agreements, and the rights of any and all persons having or claiming to have any interest therein or thereunder, shall be determined exclusively in accordance with the laws of British Columbia and the laws of Canada applicable therein without regard to its conflict of laws principles. The captions of the Plan are not part of the provisions hereof and shall have no force or effect. Except where the context otherwise requires: (i) the singular includes the plural and vice versa; (ii) a reference to one gender includes other genders; (iii) a reference to a person includes a natural person, partnership, corporation, association, governmental or local authority or agency or other entity; and (iv) a reference to a statute, ordinance, code or other law

includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.

- (f) **Use of English Language.** The Plan, each Award Agreement, and all other documents, notices and legal proceedings entered into, given or instituted pursuant to an Award shall be written in English, unless otherwise determined by the Administrator. If a Participant receives an Award Agreement, a copy of the Plan or any other documents related to an Award translated into a language other than English, and if the meaning of the translated version is different from the English version, the English version shall control.
- (g) **Recovery of Amounts Paid.** Except as otherwise provided by the Administrator, Awards granted under the Plan shall be subject to any and all policies, guidelines, codes of conduct, or other agreement or arrangement adopted by the Board or Compensation Committee with respect to the recoupment, recovery or clawback of compensation (collectively, the “**Recoupment Policy**”) and/or to any provisions set forth in the applicable Award Agreement under which CWHI may recover from current and former Participants any amounts paid or Common Shares issued under an Award and any proceeds therefrom under such circumstances as the Administrator determines appropriate. The Administrator may apply the Recoupment Policy to Awards granted before the policy is adopted to the extent required by applicable law or rule of any securities exchange or market on which Common Shares are listed or admitted for trading, as determined by the Administrator in its sole discretion.

**CERTIFICATE OF THE COMPANY**

Dated: August 22, 2018

This amended and restated preliminary prospectus (which includes the marketing materials included or incorporated by reference) constitutes full, true and plain disclosure of all material facts relating to the securities offered by this amended and restated preliminary prospectus as required by the securities legislation of each of the Provinces of Canada (other than Québec).

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

(Signed) HESAAM MOALLEM  
Hesaam Moallem  
Chief Executive Officer

(Signed) RICHARD MOHR  
Richard Mohr  
Chief Financial Officer

(Signed) JOHN HELD  
John Held  
Director

(Signed) WILLIAM WEST  
William West  
Director

## CERTIFICATE OF THE PROMOTERS

Dated: August 22, 2018

This amended and restated preliminary prospectus (which includes the marketing materials included or incorporated by reference) constitutes full, true and plain disclosure of all material facts relating to the securities offered by this amended and restated preliminary prospectus as required by the securities legislation of each of the Provinces of Canada (other than Québec).

(Signed) JOEL STANLEY  
Joel Stanley

(Signed) JARED STANLEY  
Jared Stanley

(Signed) JESSE STANLEY  
Jesse Stanley

(Signed) JOSH STANLEY  
Josh Stanley

(Signed) JON STANLEY  
Jon Stanley

(Signed) JORDAN STANLEY  
Jordan Stanley

(Signed) J. AUSTIN STANLEY  
J. Austin Stanley

**CERTIFICATE OF THE UNDERWRITERS**

Dated: August 22, 2018

To the best of our knowledge, information and belief, this amended and restated preliminary prospectus (which includes the marketing materials included or incorporated by reference) constitutes full, true and plain disclosure of all material facts relating to the securities offered by this amended and restated preliminary prospectus as required by the securities legislation of each of the Provinces of Canada (other than Québec).

**CANACCORD GENUITY CORP.**

(Signed) STEVE WINOKUR  
Steve Winokur

**GMP SECURITIES L.P.**

(Signed) STEVE OTTAWAY  
Steve Ottaway

**PI FINANCIAL CORPORATION**

(Signed) BLAKE CORBET  
Blake Corbet

**CORMARK SECURITIES INC.**

(Signed) ALFRED AVANESSY  
Alfred Avanesy



In league with man and earth, we ride in from Colorado armed with a deep passion and wonder for the science in nature and a strong desire to fearlessly explore uncharted territories. Our field is the power of botanics and, through them, our purpose is to serve humanity and better the planet. Through this new truth, we will promote justice and pioneer a better future. —*The Stanley Brothers*

**CHARLOTTE'S WEB**  
STANLEY BROTHERS

