Abacus Health Products, Inc.

Condensed Interim Consolidated Financial Statements
For the Three-Month Periods Ended March 31, 2019 and 2018
(expressed in U.S. dollars)
(unaudited)

The condensed interim consolidated financial statements which are included in this report have not been subject to a review by the Company's external auditors.

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Abacus Health Products, Inc.

Condensed Interim Consolidated Statements of Financial Position
As at March 31, 2019 and December 31, 2018
(expressed in U.S. dollars)

	Note	March 31, 2019 (unaudited)	December 31, 2018 (audited)
ASSETS			
Current assets			
Cash		$12,885,277	$3,814,489
Trade receivables		2,124,542	912,601
Inventories	*4*	4,140,092	1,003,893
Prepaid expenses and other current assets		401,115	751,222
Income tax receivable		140,000	-
Due from LLC members	*6*	21,633	21,633
Total current assets		19,712,659	6,503,838
Non-current assets			
Deferred taxes		833,331	87,983
Furniture and equipment	*5*	184,308	56,749
Right-of-use assets	*3*	429,213	-
Deposits		18,248	13,673
Total non-current assets		1,465,100	158,405
Total assets		$21,177,759	$6,662,243

See accompanying notes

Approved on behalf of the board

[signed] Philip C. Henderson Director

[signed] Perry Antelman Director

Abacus Health Products, Inc.
Condensed Interim Consolidated Statements of Financial Position
As at March 31, 2019 and December 31, 2018
(expressed in U.S. dollars)

	Note	March 31, 2019 (unaudited)	December 31, 2018 (audited)
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables	*6*	$3,908,226	$2,473,948
Distributions payable to LLC members	*6*	270,822	270,822
Income taxes payable		3,712	7,149
Lease obligations - current portion		144,987	-
Derivative financial liability	*9*	9,239,508	1,847,682
Total current liabilities		13,567,255	4,599,601
Non-current liabilities			
Lease obligations	*3*	283,237	-
Convertible debentures	*9*	2,335,604	2,197,909
Total non-current liabilities		2,618,841	2,197,909
Total liabilities		16,186,096	6,797,510
Commitments	*8*		
Shareholders' capital (deficit)			
Share capital	*12*	17,814,054	4,651
Subscriptions receivable	*11*	-	(11,850,256)
Contributed surplus		1,221,122	13,236,246
Accumulated other comprehensive income		21,185	456
Accumulated deficit		(14,064,698)	(1,526,364)
Total shareholders' capital (deficit)		4,991,663	(135,267)
Total liabilities and shareholders' capital		$21,177,759	$6,662,243
Subsequent events	*17*		

See accompanying notes

Abacus Health Products, Inc.
Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
For the Three Months Ended March 31, 2019 and 2018
(expressed in U.S. dollars)
(unaudited)

	Note	2019	2018
Revenues	*15*	$3,822,207	$1,438,122
Cost of sales and expenses			
Cost of sales		1,401,116	588,334
Shipping and delivery		76,786	25,675
Salaries, wages and benefits		1,280,729	-
Management services		56,916	111,391
Marketing and advertising		2,220,194	79,602
Professional fees		733,558	66,038
Office and general		392,864	2,009
Depreciation and amortization	*3*	24,804	-
Research and development		360,045	765
Total cost of sales and expenses		6,547,012	873,814
Income (loss) before other expenses and income taxes		(2,724,805)	564,308
Other expenses			
Interest and bank charges		192,177	22,976
Foreign exchange loss		65,230	-
Reverse take-over listing expense		1,755,174	-
Loss from change in fair value	*9*	8,531,604	-
Total other expenses		10,544,185	22,976
Income (loss) before income taxes		(13,268,990)	541,332
Tax provision	*14*	(730,656)	-
Net income (loss)		(12,538,334)	541,332
Other comprehensive income			
Foreign currency translation adjustment		20,729	-
Total other comprehensive income		20,729	-
Net and comprehensive income (loss)		$(12,517,605)	$541,332
Attributable to LLC members		-	$541,332
Attributable to shareholders		$(12,517,605)	-
Basic and diluted weighted average number of shares outstanding			
Basic		15,915,335	N/A
Diluted		15,915,335	N/A
Loss per share			
Basic		$(0.79)	N/A
Diluted		$(0.79)	N/A

See accompanying notes

Abacus Health Products, Inc.
Condensed Interim Consolidated Statements of Equity
(expressed in U.S. dollars)
(unaudited)

	Note	Member units	Members' capital	Share units	Share capital	Subscriptions receivable	Contributed surplus	Accumulated deficit	Accumulated comprehensive income	Total
Balance, December 31, 2017		07,282	$ 733,304	-	$ -	$ -	$ -	$ -	$ -	$ -
Membership units granted		3,000	60,000	-	-	-	-	-	-	-
Membership units repurchased		(1,250)	(25,000)	-	-	-	-	-	-	-
Net income attributable to LLC members		-	541,332	-	-	-	-	-	-	-
Balance, March 31, 2018		309,032	1,309,636	-	-	-	-	-	-	-
Distributions		-	(416,000)	-	-	-	-	-	-	-
Net income attributable to LLC members		-	606,243	-	-	-	-	-	-	-
Balance, June 29, 2018		309,032	1,499,879	-	-	-	-	-	-	-
Equity conversion		(309,032)	(1,499,879)	3,090	3	-	1,499,876	-	-	1,499,879
Shareholder exchange		-	-	(2,762)	(3)	-	3	-	-	-
Stock split		-	-	1,378,343	1,379	-	(1,379)	-	-	-
Issuance of subscription receipts		-	-	-	3,272	(11,850,256)	10,761,154	-	-	(1,085,830)
Issuance of warrants to broker		-	-	-	-	-	656,726	-	-	656,726
Stock-based compensation		-	-	-	-	-	319,866	-	-	319,866
Other comprehensive income		-	-	-	-	-	-	-	456	456
Net loss		-	-	-	-	-	-	(1,526,364)	-	(1,526,364)
Balance, December 31, 2018		-	-	1,378,671	4,651	(11,850,256)	13,236,246	(1,526,364)	456	(135,267)
Issuance of subscription receipts	*11*	-	-	-	728	(2,688,687)	2,512,393	-	-	(175,566)
Issuance of warrants to broker	*11*	-	-	-	-	-	80,000	-	-	80,000
Issuance of shares in equity financing	*11*	-	-	4,000,000	-	14,538,943	-	-	-	14,538,943
Reverse take-over transaction	*11*	-	-	302,980	15,908,222	-	(14,772,047)	-	-	1,136,175
Exercise of warrants	*14*	-	-	160,790	1,900,453	-	(157,713)	-	-	1,742,740
Shareholder exchange	*12*	-	-	509,850	-	-	-	-	-	-
Stock-based compensation for services	*14*	-	-	-	-	-	30,409	-	-	30,409
Stock-based compensation	*14*	-	-	-	-	-	291,834	-	-	291,834
Other comprehensive income		-	-	-	-	-	-	-	20,729	20,729
Net loss		-	-	-	-	-	-	(12,538,334)	-	(12,538,334)
Balance, March 31, 2019		-	$ -	6,352,291	$ 17,814,054	$ -	$ 1,221,122	$ (14,064,698)	$ 21,185	$ 4,991,663

See accompanying notes

Abacus Health Products, Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2019 and 2018
(expressed in U.S. dollars)
(unaudited)

	2019	2018
Cash provided by (used for) the following activities:		
Operating activities		
Net and comprehensive income (loss)	$(12,517,605)	$541,332
Depreciation and amortization	24,804	-
Stock-based compensation	322,243	-
Foreign exchange on foreign denominated liabilities	45,382	-
Interest accretion on convertible debentures	92,313	-
Loss from change in fair value of derivative financial liability	8,531,604	-
Reverse take-over listing expense	1,136,175	-
Deferred income taxes	(745,348)	-
Changes in working capital accounts:		
Trade receivables	(1,211,941)	(288,661)
Inventories	(3,136,199)	(55,583)
Prepaid expenses and other current assets	350,107	(1,000)
Income tax receivable	(140,000)	-
Trade payables	1,723,789	803,613
Income taxes payable	(3,437)	-
Due from a major LLC member	-	(76,169)
Cash flows provided by (used for) operating activities	(5,528,113)	923,532
Financing activities		
Proceeds from equity financing, net of transaction costs	14,153,866	-
Proceeds from warrant exercises	602,962	-
Lease payments	(15,426)	-
Membership units repurchased	-	(25,000)
Cash flows provided by (used for) financing activities	14,741,402	(25,000)
Investing activities		
Due from LLC members	-	(27,112)
Deposits	(4,575)	-
Additions to furniture and equipment	(137,926)	(3,849)
Cash flows used for investing activities	(142,501)	(30,961)
Increase in cash	9,070,788	867,571
Cash, beginning of the period	3,814,489	345,001
Cash, end of the period	$12,885,277	$1,212,572

See accompanying notes

Abacus Health Products, Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2019 and 2018
(expressed in U.S. dollars)
(unaudited)

	2019	2018
Supplemental disclosure with respect to cash flows		
Interest paid	$100,919	$-
Taxes paid	140,000	-
Supplemental disclosure of non-cash activities		
Lease obligation	(443,650)	-
Right-to-use assets	443,650	-
Transaction fees due	(329,488)	-
Subscriptions receivable	329,488	-
Due to ultimate LLC members	-	60,000
Membership units granted	-	(60,000)

See accompanying notes

1. Incorporation and nature of business

Abacus Health Products, Inc. (the "Company" or "Abacus Canada") is an Ontario corporation governed by the provisions of the Business Corporations Act (Ontario) and results from the October 30, 1996 amalgamation of 1194137 Ontario Inc. and Silver Circle Compact Disc Books Inc. to form World Wide Interactive Discs Inc. The Company changed its name to World Wide Co-Generation Inc. on February 13, 2004 and to World Wide Inc. on July 17, 2007. On January 28, 2019, in connection with the reverse take-over transaction discussed in note 11, the Company changed its name to Abacus Health Products, Inc. and became the parent of Abacus US.

Abacus Health Products, Inc. ("Abacus US"), a wholly-owned subsidiary of the Company was originally organized under the name Abacus of Colorado LLC in the state of Delaware on September 2, 2014. In April 2017, Abacus US changed its name to Abacus Health Products LLC. On June 29, 2018, Abacus Health Products LLC converted from a Delaware limited liability corporation to a Delaware corporation and changed its name to Abacus Health Products, Inc. All membership units of Abacus Health Products LLC were converted into common stock of Abacus US.

On July 29, 2018, Abacus US incorporated a wholly-owned subsidiary company, CBD Pharmaceuticals Ltd., in Tel Aviv, Israel. The subsidiary performs marketing, customer service and product development services for the Company.

The 2018 comparative amounts presented in these condensed interim consolidated financial statements are those of Abacus US.

The Company’s head office is located at 10 Wanless Avenue, Suite 201, Toronto, Toronto, Ontario, M4N 1V6 Canada. Its corporate office and principal place of business is located at 25 John A. Cummings Way, Woonsocket, RI, 02895 USA.

The Company develops, markets and sells FDA-registered, over-the-counter topical pain relieving products infused with cannabidiol ("CBD"), which is a medicinal, non-psychoactive extract of cannabis. The Company’s products are remedies that combine science with organic and all natural ingredients. Utilizing FDA-approved analgesic ingredients, all products are produced in an FDA-compliant and audited manufacturing facility. The Company’s CBD-infused formulations provide natural and safe pain relief. A patent has been filed (patent pending) with the intention to protect the Company’s core CBD formulations and technology ensuring a safe and healthy delivery of the remedy.

The Company sells two lines of products, CBD CLINIC, marketed to the professional practitioner market, and CBDMEDIC, marketed to the consumer market. CBD CLINIC products are sold exclusively to registered health practitioners such as chiropractors, acupuncturists, massage therapists, physical therapists, naturopaths and osteopaths. CBDMEDIC products are sold directly to consumers through retail outlets, health and fitness locations as well as through an e-commerce platform.

These condensed interim consolidated financial statements have been approved by the Board of Directors for issue on May 30, 2019.

2. Significant accounting policies

The significant accounting policies that have been applied, on a consistent basis, in the preparation of these condensed interim consolidated financial statements are included in Abacus US audited consolidated financial statements for the year ended December 31, 2018. Those accounting policies have been used throughout all periods presented in the condensed interim consolidated financial statements, except for the accounting standards adopted as at January 1, 2019 discussed in note 3.

Statement of compliance and functional currency

These condensed interim consolidated financial statements are for the three month period ended March 31, 2019 and 2018 and are presented in U.S. dollars which is the functional currency of the parent company. They have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all of the information required in annual financial statements and should be read in conjunction with the Abacus US consolidated financial statements for the year ended December 31, 2018.

Basis of consolidation

These condensed interim consolidated financial statements incorporate the financial statements of the Company and its wholly-owned subsidiary, Abacus US, and Abacus US's wholly-owned subsidiary, CBD Pharmaceuticals Ltd. The accounts of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Intercompany transactions, balances and unrealized gains or losses on transactions have been eliminated.

3. New standards adopted as at January 1, 2019

The Company adopted the following accounting standards as at January 1, 2019.

IFRS 16: Leases

IFRS 16 supersedes IAS 17 *Leases* and related interpretations and is effective for periods beginning on or after January 1, 2019. 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. Under IFRS 16, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease.

The Company has elected to apply the retrospective method by setting right-of-use assets based on the lease liability at the date of initial application, adjusted by the amount of any prepaid or accrued lease payments.

(expressed in U.S. dollars)

3. New standards adopted as at January 1, 2019 (continued)

On transition to IFRS 16, the Company recognized a right of use asset and lease liability of $443,650. The recognition of the right of use asset and lease liability are considered non-cash items within the statement of cash flows. When measuring operating lease commitments, the Company used a weighted average rate of 5.5%.

The following table reconciles the Company's operating lease commitments as at December 31, 2018 as previously disclosed in the audited consolidated financial statements of Abacus US, to the lease obligations recognized on initial application of IFRS 16 on January 1, 2019:

Operating lease commitments as at December 31, 2018	$599,000
Effect of discounting using the incremental borrowing rate	(22,597)
Lease contract for where right-to-use has not commenced	(132,753)
Lease liability recognized during period ended March 31, 2019	$443,650

IFRIC 23: Uncertainty over Income Tax Treatments

IFRIC 23 clarifies application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The Interpretation specifically addresses 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 and how an entity considers changes in facts and circumstances.

The amendments are effective for annual periods beginning on or after January 1, 2019. The Company has adopted the new interpretation with no impact on the interim condensed consolidated financial statements.

4. Inventories

	March 31, 2019	December 31, 2018
Raw materials	$ 420,000	$ 420,000
Finished goods	3,720,092	583,893
	$4,140,092	$1,003,893

For the three-month periods ended March 31, 2019 and 2018, inventory recognized as an expense amounted to $1,401,116 and $588,334, respectively.

(expressed in U.S. dollars)

5. Furniture and equipment

The following table shows the movement in furniture and equipment:

Gross carrying amount		
Balance at December 31, 2017	$	-
Additions		62,714
Balance at December 31, 2018		62,714
Additions		137,926
Balance at March 31, 2019		200,640
Depreciation and impairment		
Balance at December 31, 2017		-
Depreciation		(5,965)
Balance at December 31, 2018		(5,965)
Depreciation		(10,366)
Balance at March 31, 2019		(16,331)
Carrying amount at December 31, 2018	$	56,749
Carrying amount at March 31, 2019	$	184,309

6. Related party transactions

Aidance Skincare & Topical Solutions, LLC ("Aidance") is the manufacturer of nearly all of the Company's products. Prior to 2019, Aidance owned a majority interest in Abacus US. In January 2019, Aidance distributed to its members a significant portion of its Abacus US shares reducing its overall percentage of ownership in Abacus US to less than 10% of the outstanding voting securities. The Company's Chief Executive Officer serves Aidance in a similar capacity and is an Aidance Member and Director. An Abacus Director is also an Aidance Director and Member. Two Company shareholders also serve on Aidance's Board of Directors.

On June 29, 2018, Abacus US signed a manufacturing, fulfillment and business service agreement with Aidance pursuant to which Abacus US shall not order less than 80%, 70% and 50% of the prior annual orders for contract year one, two, three and beyond, respectively. Either Aidance or Abacus US may terminate the agreement at any time. Aidance would continue supplying merchandise for a 12-month period subsequent to the date of termination. In the event that Abacus US terminates the agreement, Abacus US shall pay a one-time lump sum buyout payment equal to 15%, 11%, and 8% of the Abacus US' total net sales in year one, two and three, respectively.

(expressed in U.S. dollars)

6. Related party transactions (cont'd)

The table below summarizes the Company's related party transactions for the following periods:

	Three months ended March 31, 2019	Three months ended March 31, 2018
Aidance		
Inventory purchases	$4,402,526	$620,070
Fulfillment services	20,581	-
Management services received	56,698	111,390
Management services provided	(59,382)	-
	4,420,423	731,460
Other Shareholders		
Marketing and advertising	299,956	6,000
Professional fees	52,887	7,950
	$ 352,953	$ 13,950

As at March 31, 2019 and December 31, 2018, the amounts due to and from related entities are as follows:

	March 31, 2019	December 31, 2018
Trade payables, Aidance	$1,846,734	$ 724,081
Trade payables, other shareholders	48,667	24,157
Distributions payable to LLC members	270,822	270,822
Due from LLC members, non-interest bearing and with no specified repayment terms	21,633	21,633

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior years for bad or doubtful debts in respect of the amounts owed by Aidance.

(expressed in U.S. dollars)

7. Remuneration of directors and key management of the Company

The table below summarizes the Company's remuneration awarded to directors and senior key management for the following periods:

	Three months ended March 31, 2019	Three months ended March 31, 2018
Wages	$118,558	$ -
Director fees	41,250	-
Consulting fees	46,000	12,000
Management fees	56,698	111,390
Share-based compensation	84,812	-
	$347,318	$123,390

Prior to 2019, the Company's Chief Executive Officer provided services to the Company as an employee of Aidance. The cost of his services is included in management fees.

8. Commitments

The Company has entered into two sponsorship agreements which require aggregate payments of $585,000 through January 2020. The remaining minimum annual payments are approximately as follows:

2019	**$510,000**
2020	**$ 75,000**

9. Senior secured convertible debenture units

On August 31, 2018, Abacus US executed senior secured convertible debenture units ("Convertible Debenture Units") agreements with four lenders for gross aggregate proceeds in the amount of CDN$4,000,000 ($3,051,716 at inception).

Each Convertible Debenture Unit of CDN$1,000 initially consisted of CDN$1,000 ($748) principal amount ("Convertible Debenture") and warrants of Abacus US exercisable to purchase common stock equal to CDN$1,000 divided by the applicable conversion price (see below).

The principal amount shall be convertible into common stock at the option of the holder at any time to the maturity date. The conversion price per share shall be equal to the price per security issued by the Abacus US in a qualified financing (at least CDN$5,000,000 ($3,741,675)) multiplied by 0.75. However, in the event that a reverse take-over ("RTO") is undertaken without a prior or concurrent qualified financing, or in the event of an acquisition of Abacus US, the conversion price shall be calculated by dividing CDN$50,000,000 ($37,416,748) by the number of common stock issued and outstanding immediately prior to the RTO or acquisition.

The Convertible Debentures mature on August 31, 2020 and shall bear interest at a rate of 10% per annum and shall be payable quarterly in cash. If the Abacus US has not listed the common stock within 12 months from the date the Convertible Debentures were issued, the Convertible Debentures shall be repaid in equal monthly installments over the course of 12 months.

9. Senior secured convertible debenture units (continued)

The Convertible Debentures can be prepaid at any time upon 30 days' notice with no prepayment penalty.

The Convertible Debentures are secured by a first ranking security on all assets of Abacus US, however, the security shall be subordinated to existing and future loans from bank lenders to a maximum of CDN$5,000,000 ($3,741,675); provided that the lender is a bank, the loan does not include any equity component and Abacus US has net assets in place as of the date of the commencement of the loan. The convertible debenture holders have agreed that the indebtedness owed to each of them shall be treated as equal to the indebtedness owing to all other convertible debenture holders in right of priority for all purposes.

Following the completion of a qualified financing, each warrant can be exercised to acquire one common stock for an exercise price equal to the financing price at any time up to two years following the commencement of trading of the Company's common stock. However, in the event that a RTO is undertaken without a prior or concurrent qualified financing, or in the event of an acquisition of Abacus US the conversion price shall be CDN$50,000,000 ($37,416,748) divided by the number of issued and outstanding common stock immediately prior to the transaction.

As discussed in note 11, Abacus US completed a qualified financing transaction and RTO in January 2019. Abacus US Convertible Debentures and Warrants were exchanged for similar instruments of Abacus Canada. The Convertible Debentures may be converted into 1,048,371 Subordinate Voting Shares. The warrants may be exercised for an equal number of Subordinate Voting Shares for $3.75 per share.

At the closing of the financing in August 2018, the number of common shares issuable upon exercise of the warrant and the exercise price were subject to the completion of a future financing. Based on analysis provided by an independent valuation firm, Management initially valued these warrants at $734,701.

As a result of the completion of the first tranche of the financing transaction in December 2018 the debenture warrants became exercisable for the purchase of 1,048,371 common stock exercisable at $3.75 per share. Management calculated a fair market value of $1,847,682 as of December 31, 2018 for the warrants and recorded a fair value adjustment of $1,112,981.

During the three month period ended March 31, 2019, a holder exercised warrants for the purchase of 118,800 Subordinated Voting Shares for $445,500. Management calculated a fair market value of $1,139,778 and recorded a fair value adjustment of $930,401. The fair value and warrant exercise proceeds were transferred to share capital. Management calculated a fair market value of $9,239,508 as of March 31, 2019 for the remaining 929,571 warrants and recorded a fair value adjustment of $7,601,203.

(expressed in U.S. dollars)

9. Senior secured convertible debenture units (continued)

Fair value at March 31, 2019 and December 31, 2018 was calculated using a Black-Scholes valuation model using the assumptions presented in the following table:

		Black-Scholes valuation assumptions				
	Fair Value	Exercise price	Market price	Expected volatility	Risk-free interest rate	Expected life
At loan inception	$ 734,701					
Fair value adjustment	1,112,981	$3.75	$3.75	85.74%	2.63%	2.00
Balance at December 31, 2018	1,847,682					
Fair value adjustment	930,401	$3.75	$12.62	89.91%	2.24%	1.83
Transfer to share capital	(1,139,778)					
Fair value adjustment	7,601,203	$3.75	$12.98	89.91%	2.24%	1.83
Balance at March 31, 2019	$ 9,239,508					

The components of the Convertible Debentures are as follows:

Face value of the Convertible Debentures at inception	$3,051,716
Transaction costs	(143,420)
Derivative financial liability – warrants	(734,701)
Convertible Debentures at August 31, 2018	2,173,595
Interest accretion	112,623
Foreign exchange adjustment	(88,309)
Convertible Debentures at December 31, 2018	2,197,909
Interest accretion	92,313
Foreign exchange adjustment	45,382
Convertible Debentures at March 31, 2019	$2,335,604

As discussed in note 17, on May 15, 2019, the Company gave notice to the holders of the Convertible Debentures of its intent to pay cash to settle the outstanding principal balance on June 17, 2019. Holders may exercise their right of conversion prior to June 7, 2017 and elect to receive Subordinate Voting Shares.

10. Equity conversion

On June 29, 2018, Abacus US converted from a Delaware limited liability corporation to a Delaware corporation and changed its name to Abacus Health Products, Inc. All membership units of Abacus US were converted into common stock of Abacus US. Membership units were exchanged at a ratio of one hundred membership units for one share of common stock in Abacus US, resulting in 309,032 membership units being exchanged for 3,090 shares, of which 30,000 membership units were converted into 300 Class C common stock and the remaining 279,032 were converted into 2,790 Class A common stock.

Prior to the equity conversion, Abacus US issued 3,000 units in settlement of the due to ultimate LLC members, and 1,250 units were repurchased by Abacus US for $25,000.

11. Private placement and reverse take-over

Private placement

In 2018, Abacus US began a brokered private placement offering of a total of 4,000,000 subscription receipts at $3.75 per receipt (the "Financing"). In connection with this Financing, Abacus US issued subscription receipts in two tranches, one in 2018 and one in 2019, with proceeds less certain expenses and commissions held in escrow pursuant to the terms of a subscription receipt agreement. The escrow release conditions, among other items, required the completion of a qualified financing transaction.

On December 21, 2018, the first tranche was completed and a total of 3,272,350 subscription receipts were issued for gross proceeds of $12,271,313. In connection with this tranche, Abacus US incurred costs totaling $1,506,889 for fees and commissions. The costs include $656,726 for the value of warrants issued as a commission. The warrants are exercisable for 174,927 Class A common stock at a per share price of $3.75. The warrants expire two years from the closing of the RTO. At December 31, 2018, Abacus US recorded a subscription receivable in the amount of $11,850,256 for the expected net cash proceeds of this tranche.

On January 7, 2019, the second tranche was completed and Abacus US issued a total of 727,650 subscription receipts for gross proceeds of $2,728,687. In connection with this tranche, Abacus US incurred costs totaling $103,620 for fees and commissions. The costs include $80,000 for the value of warrants issued as a commission. The warrants are exercisable for 21,000 Class A common shares at per share price $3.75. The warrants expire two years from the closing of the RTO. Abacus US recorded a subscription receivable in the amount of $2,688,687 for the expected net cash proceeds of this tranche.

Following the satisfactory completion of the escrow release conditions on January 29, 2019, each subscription receipt was converted immediately prior to the closing of the RTO into one share of Class A common stock of Abacus US.

Reverse take-over

On January 29, 2019, Abacus US completed, pursuant to an agreement and plan of merger, its RTO transaction (the "Transaction") with Abacus Health Products, Inc., an Ontario corporation formerly known as World Wide Inc. ("Abacus Canada"), a largely inactive mineral exploration company located in Canada. Pursuant to the Transaction:

a) A subsidiary of Abacus Canada was merged with and into Abacus US with Abacus US surviving as a wholly-owned subsidiary of Abacus Canada.

b) Each outstanding share of Class A common stock of Abacus US, including shares issued upon conversion of the subscription receipts, and shares of Class C common stock of Abacus US was exchanged on a one-for-one basis into Subordinate Voting Shares of Abacus Canada ("Subordinate Voting Shares"). Each outstanding share of Class B common stock of Abacus US was exchanged on a one-to-one basis into Proportionate Voting Shares of Abacus Canada ("Proportionate Voting Shares").

c) The 2018 Equity Incentive Plan was assumed by Abacus Canada and amended to provide that existing options under the plan will be exercisable for Subordinate Voting Shares.

d) Each outstanding Abacus US warrant was exchanged for an Abacus Canada warrant exercisable for Subordinate Voting Shares.

e) Each outstanding Abacus US debenture was exchanged for an Abacus Canada debenture convertible into Subordinate Voting Shares.

(expressed in U.S. dollars)

11. Private placement and reverse take-over (continued)

Immediately after the closing of the RTO, the shareholders of Abacus US held 5,261,351 Subordinate Voting Shares and 117,320 Proportionate Voting Shares representing 98% of the Company's aggregate voting securities while shareholders of Abacus Canada immediately prior to the closing held 302,980 Subordinate Voting Shares representing 2% of the Company's voting securities. Since Abacus Canada did not meet the definition of a business under IFRS 3 *Business Combinations*, the acquisition was accounted for as a purchase of Abacus Canada's net assets by Abacus US. The consideration paid was determined as an equity-settled share-based payment under IFRS 2 *Share-Based Payment* at the fair value of the equity retained by Abacus Canada shareholders, which was determined to be $3.75 per share based on Abacus US' recent private placement transaction.

The Company recorded a listing expense of $1,755,174 in other expense in the condensed interim consolidated statement of comprehensive loss for the three month period ended March 31, 2019. The details of the listing expense are as follows:

Fair value of consideration paid:	
302,980 Subordinated Voting Shares at $3.75 per share	$1,136,175
Fair value of net liabilities of Abacus Canada	14,487
	1,150,662
Transaction costs	604,512
RTO listing expense	$1,755,174

The net liabilities of Abacus Canada consisted of trade payables of $23,858 less other current assets of $9,371.

12. Share capital

The Company's authorized share capital consists of an unlimited number of Subordinate Voting Shares and Proportionate Voting Shares. The two classes generally have the same rights, are equal in all respects and are treated if they were shares of one class only. Rights and preferences include the following:

Conversion rights

Each Proportionate Voting Share is convertible at the option of the holder into 100 Subordinate Voting Shares. The Board may elect to convert all Proportionate Voting Shares into Subordinate Voting Shares. The right of conversion is subject to certain conditions in order to maintain Abacus Canada's status as a foreign private issuer under U.S. securities laws.

Voting rights

Each Subordinate Voting Share is entitled to one vote. Each Proportionate Share is entitled to 100 votes.

Dividend rights

Holders of Proportionate Voting Shares and Subordinate Voting Shares are entitled to receive dividends when and if declared by the Board of Directors. Holders of Proportionate Voting Shares are entitled to receive 100 times the amount paid per Subordinate Voting Share.

12. Share capital (continued)

Liquidation rights

In the event of a liquidation, shareholders will be entitled to receive on a pro rata basis any net proceeds after settlement of all liabilities.

During the period ended March 31, 2019, holders of 5,150 Proportionate Voting Shares converted their shares into 515,000 Subordinate Voting Shares. At March 31, 2019, 112,170 Proportionate Voting Shares and 6,240,121 Subordinate Voting Shares were issued, outstanding and fully paid.

13. Share-based compensation

Stock Options

On December 5, 2018, the Company adopted the Long Term Incentive Plan (the "LTIP") which provides for the issuance of equity-based compensation in the form of stock options, stock appreciation rights, stock awards, stock units, restricted stock units, performance shares, performance units, and other stock-based awards to eligible participants. Eligible participants under the plan include directors, officers, employees and certain consultants of the Company and any of its subsidiaries. The LTIP is administered by the Board of Directors. The terms and conditions of the stock options are determined by the Board.

The aggregate number of Subordinate Voting Shares issuable pursuant to stock option grants is 1,729,625 less any shares issuable under the Legacy Plan. The exercise price of stock option granted under the LTIP shall not be lower than the exercise price permitted by the Canadian Securities Exchange. As of March 31, 2019, an aggregate 881,896 shares may be issued under this plan.

On June 30, 2018, Abacus US adopted the 2018 Equity incentive plan (the "Legacy Plan"), which provided for grants of stock options, incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units or other rights under the Legacy Plan to employees, officers, directors, agents, consultants, advisors and independent contractors of the Company or any parent or subsidiary. The Abacus US Board of Directors established the terms and conditions of any grants under the Legacy Plan.

On October 16, 2018, a total of 802,206 stock options were granted under the Legacy Plan at an exercise price of $3.0865 per option. These options vest on a quarterly basis over two and three years and expire ten years after grant.

On January 10, 2019, a total of 85,337 stock options were granted under the Legacy Plan at an exercise price of $3.75 per option. These options vest on a quarterly basis over two and three years and expire ten years after grant. The Company recognizes compensation expense for option grants based on the fair value at the date of grant using the Black-Scholes valuation model. The following assumptions were used to determine the fair value of these option grants: Market price $3.75, exercise price $3.75, expected volatility (based on comparables) 92.6% to 97.7%, a risk-free interest rate of 2.54% to 2.59% and an expected life of one to three years.

Share-based compensation cost recognized for the three month period ended March 31, 2019 was $291,834 (2018 - $Nil).

(expressed in U.S. dollars)

13. Share-based compensation (continued)

The following table summarizes information regarding the option grants outstanding as of March 31, 2019:

	Number of options	Weighted average exercise price
Balance at December 31, 2017	-	$-
Granted	802,206	$3.0865
Balance at December 31, 2018	802,206	$3.0865
Granted	85,337	$3.7500
Forfeited	(39,814)	$3.6420
Balance at March 31, 2019	847,729	$3.1272
Exercisable at March 31, 2019	78,690	$3.0865

The weighted average remaining contractual life is 9.6 years. The weighted average grant-date fair value of options granted was $1.74.

Warrants

On February 20, 2019, the Company agreed to issue warrants to a consultant to purchase 35,000 Subordinate Voting Shares for $8.43 (CDN $11.10) per warrant. The warrants will vest quarterly from the grant date and will expire in five years.

The Company recognized compensation expense of $30,409 during the period ended March 31, 2019 based on the fair value at the date of grant using the Black-Scholes valuation model. The following assumptions were used to determine the fair value: Market price $8.43, exercise price $8.43, expected volatility (based on comparables) 87.2%, a risk-free interest rate of 2.50% and an expected life of two years.

In March 2019, holders of warrants issued in connection with the private placement discussed in note 11 exercised warrants for the purchase of 41,990 Subordinate Voting Shares in exchange for cash proceeds of $157,462 or $3.75 per share.

The following table summarizes information regarding the warrants outstanding as of March 31, 2019:

	Note	**Number of warrants**	**Weighted average exercise price**
Balance at December 31, 2017		-	$ -
Granted – debenture warrants	9	1,048,371	$3.75
Granted – broker commission warrants	11	174,927	$3.75
Balance at December 31, 2018		1,223,298	$3.75
Granted – broker commission warrants	11	21,000	$3.75
Granted – warrant for services		35,000	$8.43
Exercise – debenture warrant	9	(118,800)	$3.75
Exercise – broker commission warrants	11	(41,990)	$3.75
Balance at March 31, 2019		1,118,508	$3.90

(expressed in U.S. dollars)

14. Income taxes

Prior to the equity conversion discussed in note 10, the net and comprehensive income constituted the income of the previous LLC members. As such, no provisions were made in the three month period ended March 31, 2018 for any income taxes which may be assessable to the previous LLC members.

Income taxes reported in 2019 differ from the amount computed by applying the statutory rates to the loss before income tax because permanent differences of approximately $2,793,000. As of March 31, 2019, there were approximately $2,668,000 tax losses available in the United States for which a deferred tax asset of approximately $743,000 was recorded. These tax losses may be applied against earnings of future years through 2040, subject to certain limitations following a change in ownership.

15. Revenues

Revenues from product sales have been recognized at a point in time and result from sales within the United States. The Company’s revenues, disaggregated by product line, are as follows:

	Three months ended March 31, 2019	Three months ended March 31, 2018
Product Lines		
CBD CLINIC	$ 3,553,751	$ 1,433,243
CBDMEDIC	268,456	4,879
	$ 3,822,207	$ 1,438,122

16. Financial instruments and risk management

The Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them.

Fair value

As at March 31, 2019, the Company’s financial assets include cash, trade receivables, prepaid expenses and other current assets and amounts due from LLC members. Financial liabilities include trade payables, distributions payable to LLC members, convertible debentures and derivative financial liability. The carrying amounts of current assets and liabilities approximate their fair value due to their short period to maturity. The carrying value of the convertible debentures approximates its fair value due to its terms and conditions approximating market terms and conditions. The derivative financial liability is measured at FVTPL.

The fair value measurement of the Company’s financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted);

- Level 2: Observable direct or indirect inputs other than Level 1 inputs; and

- Level 3: Unobservable inputs (i.e. not derived from market data).

(expressed in U.S. dollars)

16. Financial instruments and risk management (continued)

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

The Company's cash is subject to level 1 valuation. The derivative financial liability is subject to level 3 valuation.

The basis of the valuation of the derivative financial liability is fair value. The derivative financial liability is revalued each period using the Black-Scholes valuation model and quoted market rates. This valuation technique maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates.

Movement in level 3 liabilities during the current year are as follows:

Derivative financial liability at December 31, 2017	$ -
Additions	734,701
Loss from change in fair value	1,112,981
Derivative financial liability at December 31, 2018	1,847,682
Transfer to share capital	(1,139,778)
Loss from change in fair value	8,531,604
Derivative financial liability at March 31, 2019	$ 9,239,508

The unobservable input with regards to the derivative financial liability is expected volatility. The Company used a rate of 89.91%.Assuming a 10% change in volatility, the resulting fair value would increase by approximately $152,000.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterpart to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and trade receivables. The Company limits its exposure to credit loss on cash by only accepting banks and financial institutions with a minimum "A" rating. As at March 31, 2019, five (2018 - three) of the Company's customers account for 95% (2018 - 76%) of the Company's trade receivables. The Company does not obtain collateral or other security to support the accounts receivable subject to credit risk but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Company is exposed to liquidity risk primarily from its trade payables and convertible debentures. The Company believes that its recurring financial resources are adequate to cover all its expenditures. The trade payables will be repaid within the next 12 months.

16. Financial instruments and risk management (continued)

Maturities of the Company's financial liabilities are as follows:

	Contractual cash flows	**Less than one year**	**1-3 years**	**Greater than 3 years**
March 31, 2019				
Trade payables	$3,908,226	$3,908,226	$ -	$-
Distributions payable to LLC members	270,822	270,822	-	-
Lease obligations	596,400	207,161	389,239	-
Convertible debentures	2,993,340	-	2,993,340	-
Total	7,768,788	4,386,209	3,382,570	-
December 31, 2018				
Trade payables	2,473,948	2,473,948	-	-
Distributions payable to LLC members	270,822	270,822	-	-
Convertible debentures	2,932,121	-	2,932,121	
Total	$5,676,891	$2,744,770	$2,932,121	$-

Interest rate risk

The Company is exposed to fair value risk on its fixed rate convertible debentures.

Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company has certain monetary liabilities denominated in Canadian dollars. The United States equivalent carrying amounts of these liabilities are as follows:

	March 31, 2019	December 31, 2018
Trade payables	$ 262,121	$ 371,917
Convertible debentures	2,335,604	2,197,909
Net monetary liability	$2,597,725	$2,569,826

16. Financial instruments and risk management (continued)

The Company has certain monetary assets and liabilities denominated in New Israeli Shekels. The United States equivalent carrying amounts are as follows:

	March 31, 2019	December 31, 2018
Cash	$148,299	$319,062
Trade payables	222,103	204,248
Net monetary liability	$(73,804)	$114,814

Assuming all other variables remain constant, a fluctuation of +/- 1.0 percent in the exchange rate between the United States dollar and the foreign currencies would impact loss before taxes by less than $20,000 during the three months ended March 31, 2019.

To date, the Company has not entered into financial derivative contracts to manage exposure to fluctuations in foreign exchange rates.

17. Subsequent events

Warrant exercises

In April and May 2019, holders exercised warrants for the purchase of 301,652 Subordinate Voting Shares in exchange for total exercise proceeds of $1,131,195 or $3.75 per share.

Public offering

On May 8, 2019, the Company completed an offering of 2,464,450 units at a price of CDN$14.00 per unit (the "Units"), for gross proceeds of approximately CDN$34,502,300 ($25,621,788). Each Unit consists of one Subordinate Voting Share and one half of one Subordinate Voting Share warrant, each whole warrant entitling the holder to purchase one Subordinate Voting Share of the Company at an exercise price of CDN$18.00 per share. The warrants are exercisable immediately upon issuance and would expire on the third anniversary of the date of their issuance.

Notice to settle convertible debentures

On May 15, 2019, the Company gave notice to the four holders of the Convertible Debentures of its intent to pay cash to settle the outstanding principal balance on June 17, 2019. Holders may exercise their right of conversion prior to June 7, 2019 and elect to receive Subordinate Voting Shares. As of May 25, 2019, two holders elected to convert their Convertible Debentures into equity.