Abacus Health Products, Inc.

Condensed Interim Consolidated Financial Statements
For the Three and Six Month Periods Ended June 30, 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 June 30, 2019 and December 31, 2018
(expressed in U.S. dollars)

	Note	June 30, 2019 (unaudited)	December 31, 2018 (audited)
ASSETS			
Current assets			
Cash		$32,269,840	$3,814,489
Trade receivables		2,716,655	912,601
Inventories	*4*	4,372,603	1,003,893
Prepaid expenses and other current assets		1,162,549	751,222
Income tax receivable		140,000	-
Due from LLC members	*6*	22,431	21,633
Total current assets		40,684,078	6,503,838
Non-current assets			
Deposits		22,196	13,673
Property and equipment	*5*	373,084	56,749
Right-of-use assets	*3*	513,486	-
Deferred taxes	*14*	1,843,595	87,983
Total non-current assets		2,752,361	158,405
Total assets		$43,436,439	$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 June 30, 2019 and December 31, 2018
(expressed in U.S. dollars)

	Note	June 30, 2019 (unaudited)	December 31, 2018 (audited)
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables	*6*	$3,510,920	$2,473,948
Distributions payable to LLC members	*6*	-	270,822
Income taxes payable		3,712	7,149
Lease obligations - current portion		183,226	-
Derivative financial liability	*9,12*	5,190,062	1,847,682
Total current liabilities		8,887,920	4,599,601
Non-current liabilities			
Lease obligations	*3*	333,307	-
Convertible debentures	*9*	-	2,197,909
Total non-current liabilities		333,307	2,197,909
Total liabilities		9,221,227	6,797,510
Commitments	*8*		
Shareholders' capital (deficit)			
Share capital	*12*	44,923,700	4,651
Subscriptions receivable	*11*	-	(11,850,256)
Contributed surplus		2,883,310	13,236,246
Accumulated other comprehensive income		33,818	456
Accumulated deficit		(13,625,616)	(1,526,364)
Total shareholders' capital (deficit)		34,215,212	(135,267)
Total liabilities and shareholders' capital		$43,436,439	$6,662,243
Subsequent events	*17*		

See accompanying notes

Abacus Health Products, Inc.
Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
For the Three and Six Month Periods Ended June 30, 2019 and 2018
(expressed in U.S. dollars)
(unaudited)

	Note	Three Months ended June 30, 2019	Three Months ended June 30, 2018	Six Months ended June 30, 2019	Six Months ended June 30, 2018
Revenues	*15*	$3,222,343	$2,076,761	$7,044,550	$3,514,883
Cost of sales and expenses					
Cost of sales		1,246,190	871,452	2,647,306	1,459,786
Shipping and delivery		128,658	30,629	205,444	56,305
Salaries, wages and benefits		1,542,707	17,853	2,823,436	17,853
Management services		37,202	128,225	94,118	239,616
Marketing and advertising		2,165,440	228,369	4,385,634	307,970
Professional fees		965,284	131,955	1,698,842	197,993
Office and general		444,323	16,573	837,187	18,582
Depreciation and amortization	*3*	57,372	341	82,176	341
Research and development		98,347	16,536	458,392	17,301
Total cost of sales and expenses		6,685,523	1,441,933	13,232,535	2,315,747
Income (loss) before other expenses and income taxes		(3,463,180)	634,828	(6,187,985)	1,199,136
Other income (expenses)					
Interest and bank charges		(160,992)	(28,585)	(353,169)	(51,561)
Foreign exchange loss		(95,698)	-	(160,928)	-
Loss on debenture conversion		(572,619)	-	(572,619)	-
Reverse take-over listing expense	*11*	-	-	(1,755,174)	-
Change in fair value income (loss)	*9*	3,721,072	-	(4,810,532)	-
Total other income (expenses)		2,891,763	(28,585)	(7,652,422)	(51,561)
Income (loss) before income taxes		(571,417)	606,243	(13,840,407)	1,147,575
Tax provision	*14*	1,010,499	-	1,741,155	-
Net income (loss)		439,082	606,243	(12,099,252)	1,147,575
Other comprehensive income					
Foreign currency translation adjustment		12,633	-	33,362	-
Total other comprehensive income		12,633	-	33,362	-
Net and comprehensive income (loss)		$451,715	$606,243	$(12,065,890)	$1,147,575
Attributable to shareholders		$451,715	-	$(12,065,890)	-
Attributable to LLC members		-	$606,243	-	$1,147,575
Basic and diluted weighted average number of shares outstanding					
Basic		19,327,052	N/A	17,630,619	N/A
Diluted		21,921,208	N/A	17,630,619	N/A
Earnings (loss) per share					
Basic		$0.02	N/A	$(0.68)	N/A
Diluted		$0.02	N/A	$(0.68)	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		307,282	$ 733,304	-	$ -	$ -	$ -	$ -	$ -	$ -
Membership units granted		3,000	60,000	-	-	-	-	-	-	-
Membership units repurchased		(1,250)	(25,000)	-	-	-	-	-	-	-
Distributions		-	(416,000)	-	-	-	-	-	-	-
Net income attributable to LLC members		-	1,147,575	-	-	-	-	-	-	-
Equity conversion	*10*	(309,032)	(1,499,879)	3,090	3	-	1,499,876	-	-	1,499,879
Balance, June 30, 2018		-	-	3,090	3	-	1,499,876	-	-	1,499,879
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 private placement	*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
Issuance of shares in bought deal	*12*	-	-	2,464,450	22,516,269	-	-	-	-	22,516,269
Derivative liability on issuance of equity	*12*	-	-	-	(2,287,660)	-	-	-	-	(2,287,660)
Issuance of warrants to broker	*12*	-	-	-	-	-	1,537,307	-	-	1,537,307
Conversion of debenture	*9*	-	-	1,047,119	2,983,516	-	-	-	-	2,983,516
Exercise of warrants	*13*	-	-	462,442	5,797,974	-	(247,493)	-	-	5,550,481
Voting share exchange	*12*	-	-	1,357,887	-	-	-	-	-	-
Share-based compensation for services	*13*	-	-	-	-	-	30,409	-	-	30,409
Share-based compensation	*13*	-	-	-	-	-	506,495	-	-	506,495
Other comprehensive income		-	-	-	-	-	-	-	33,362	33,362
Net loss		-	-	-	-	-	-	(12,099,252)	-	(12,099,252)
Balance, June 30, 2019		-	$ -	11,013,549	$ 44,923,700	$ -	$ 2,883,310	$ (13,625,616)	$ 33,818	$ 34,215,212

See accompanying notes

Abacus Health Products, Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the Three and Six Month Periods Ended June 30, 2019 and 2018
(expressed in U.S. dollars)
(unaudited)

	Three Months ended June 30,		Six Months ended June 30,	
	2019	2018	2019	2018
Cash provided by (used for) the following activities:				
Operating activities				
Net and comprehensive income (loss)	$451,715	$606,243	$(12,065,890)	$1,147,575
Depreciation and amortization	57,372	341	82,176	341
Stock-based compensation	214,661	-	536,904	-
Foreign exchange on foreign denominated liabilities	52,826	-	98,208	-
Interest accretion on convertible debentures	82,978	-	175,291	-
Loss on debenture conversion	572,619	-	572,619	-
Loss (gain) from change in fair value of derivative liability	(3,721,072)	-	4,810,532	-
Reverse take-over listing expense	-	-	1,136,175	-
Deferred income taxes	(1,010,264)	-	(1,755,612)	-
Changes in working capital accounts:				
Trade receivables	(592,113)	(367,561)	(1,804,054)	(656,222)
Inventories	(232,511)	(82,248)	(3,368,710)	(137,831)
Prepaid expenses and other current assets	(761,434)	(83,268)	(411,327)	(84,268)
Income tax receivable	-	-	(140,000)	-
Trade payables	(396,270)	67,834	1,327,519	871,447
Income taxes payable	-	-	(3,437)	-
Due from a major LLC member	-	111,116	-	34,947
Cash flows provided by (used for) operating activities	(5,281,493)	252,457	(10,809,606)	1,175,989
Financing activities				
Proceeds from equity financings, net of transaction costs	24,053,576	-	38,207,442	-
Proceeds from warrant exercises	1,131,195	-	1,734,157	-
Lease payments	(36,446)	-	(51,872)	-
Distributions paid	(270,822)	(29,513)	(270,822)	(29,513)
Membership units repurchased	-	-	-	(25,000)
Cash flows provided by (used for) financing activities	24,877,503	(29,513)	39,618,905	(54,513)
Investing activities				
Due from LLC members	(798)	27,112	(798)	-
Deposits	(3,948)	-	(8,523)	-
Additions to furniture and equipment	(206,701)	(7,240)	(344,627)	(11,089)
Cash flows provided by (used for) investing activities	(211,447)	19,872	(353,948)	(11,089)
Increase in cash	19,384,563	242,816	28,455,351	1,110,387
Cash, beginning of the period	12,885,277	1,212,572	3,814,489	345,001
Cash, end of the period	$32,269,840	$1,455,388	$32,269,840	$1,455,388

See accompanying notes

Abacus Health Products, Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the Three and Six Month Periods Ended June 30, 2019 and 2018
(expressed in U.S. dollars)
(unaudited)

	Three Months ended June 30,		Six Months ended June 30,	
	2019	2018	2019	2018
Supplemental disclosure with respect to cash flows				
Interest paid	$138,652	$ -	$239,571	$ -
Taxes paid	-	-	140,000	-
Supplemental disclosure of non-cash activities				
Lease obligation	(121,843)	-	(565,493)	-
Right-to-use assets	121,843	-	565,493	-
Share capital	(2,983,516)	-	(2,983,516)	-
Convertible debenture	2,983,516	-	2,983,516	-
Distributions payable to members	-	(386,487)	-	(386,487)
Distributions	-	386,487	-	386,487
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 Canadian 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 as a result of the RTO (as defined herein), 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 over-the-counter ("OTC") topical medications with active pharmaceutical ingredients and which contain organic and natural ingredients, including a cannabinoid-rich hemp extract containing cannabidiol ("CBD") from the Cannabis sativa L plant. Abacus' products are aimed at the rapidly growing markets for topical pain relief and therapeutic skincare. Utilizing analgesic ingredients approved by the U.S. Food and Drug Administration ("FDA"), all OTC products are produced in FDA-compliant and audited manufacturing facilities. 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 primarily 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 August 26, 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 and six month periods ended June 30, 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 as at January 1, 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

	June 30, 2019	December 31, 2018
Raw materials	$ 420,000	$ 420,000
Finished goods	3,952,603	583,893
	$4,372,603	$1,003,893

For the three month periods ended June 30, 2019 and 2018, inventory recognized as an expense amounted to $1,246,190 and $871,452, respectively. For the six month periods ended June 30, 2019 and 2018, inventory recognized as an expense amounted to $2,647,306 and $1,459,786, respectively.

(expressed in U.S. dollars)

5. Property and equipment

The following table shows the movement in property and equipment:

Gross carrying amount		
Balance at December 31, 2017	$	-
Additions		62,714
Balance at December 31, 2018		62,714
Additions		344,627
Balance at June 30, 2019		407,341
Depreciation and impairment		
Balance at December 31, 2017		-
Depreciation		(5,965)
Balance at December 31, 2018		(5,965)
Depreciation		(28,292)
Balance at June 30, 2019		(34,257)
Carrying amount at December 31, 2018	$	56,749
Carrying amount at June 30, 2019	$	373,084

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 (continued)

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

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Aidance				
Inventory purchases	$1,180,139	$879,134	$5,582,665	$1,507,454
Fulfillment services	17,384	-	37,965	-
Management services received	66,480	123,769	123,178	235,160
Management services provided	(41,349)	-	(100,731)	-
	1,222,654	1,002,903	5,643,077	1,742,614
Other Shareholders				
Marketing and advertising	92,457	12,000	392,413	18,000
Professional fees	49,107	3,750	98,244	11,700
	$141,564	$15,750	$490,657	$29,700

As at June 30, 2019 and December 31, 2018, the amounts due to and from related entities are as follows:

	June 30, 2019	December 31, 2018
Trade payables, Aidance	$906,772	$724,081
Trade payables, other shareholders	47,392	24,157
Distributions payable to LLC members	-	270,822
Due from LLC members, non-interest bearing and with no specified repayment terms	22,431	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		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Wages	$134,452	$ -	$253,010	$ -
Director fees	41,633	-	82,883	-
Consulting fees	52,500	22,000	98,500	34,000
Management fees	66,480	123,769	123,178	235,160
Share-based compensation	84,812	-	169,624	-
	$379,877	$145,769	$727,195	$269,160

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 a sponsorship agreement which require aggregate payments of $200,000 through December 2019.

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). The Convertible Debentures (as defined below) mature on August 31, 2020 and shall bear interest at a rate of 10% per annum and shall be payable quarterly in cash.

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. The holders exercised their right to receive equity upon settlement. Accordingly, on June 17, 2019, the Company issued 1,047,119 Subordinate Shares in full repayment of the principal of the Convertible Debentures of $2,983,516. This amount was transferred to share capital.

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. The principal amount shall be convertible into common stock at the option of the holder at any time prior to the maturity date. The conversion price per share shall be equal to the price per security issued by Abacus US in a qualified financing (at least CDN$5,000,000 ($3,820,585)) multiplied by 0.75.

The Convertible Debentures were secured by a first ranking security on all assets of Abacus US, however, the security was subordinated to existing and future loans from bank lenders to a maximum of CDN$5,000,000 ($3,741,675).

(expressed in U.S. dollars)

9. Senior secured convertible debenture units (continued)

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 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 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 were converted into 1,048,371 Subordinate Voting Shares in accordance with their terms. The warrants may be exercised for an equal number of Subordinate Voting Shares for $3.75 per share ("Debenture Warrants").

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. Fair value has been subsequently calculated using a Black-Scholes valuation model with 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					
Fair value adjustment	(41,039)	$3.75	$12.66	89.91%	2.24%	1.83
Transfer to share capital	(2,676,545)					
Fair value adjustment	(3,412,719)	$3.75	$7.47	94.46%	1.84%	1.58
Balance at June 30, 2019	$ 3,109,205					

(expressed in U.S. dollars)

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
Interest accretion	82,978
Foreign exchange adjustment	(7,685)
Loss on debenture conversion	572,619
Debenture settlement	(2,983,516)
Convertible Debentures at June 30, 2019	$ -

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 were exercisable for 174,927 Class A common stock at a per share price of $3.75 (“Commission Warrants”). 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.

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

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 were exercisable for 21,000 Class A common shares of Abacus US 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 reverse take-over transaction ("RTO") 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 RTO:

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 for 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 for 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.

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' Financing.

(expressed in U.S. dollars)

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

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 Subordinate 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.

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.

Bought deal offering

On May 8, 2019, the Company issued 2,464,450 units by way of a prospectus offering completed on a bought deal basis at CDN$14.00 ($10.40) per unit for total gross consideration of $25,621,788. Each unit consisted of one Subordinate Voting Share and one-half of one Subordinate Voting Share purchase warrant ("Purchase Warrant"). Each Purchase Warrant will be exercisable for one Subordinate Voting

12. Share capital (continued)

Share at an exercise price of CDN$18.00 ($13.75) for a period of 36 months. In connection with this offering, the Company incurred costs totalling $3,105,519 for fees and commissions. The costs include $1,537,307 of warrants issued as a commission. These warrants are exercisable for 147,867 Subordinate Voting Shares at a per share price of CDN$14.00 ($10.70) for a period of 36 months following closing.

The exercise price of the Purchase Warrant was denominated in a price other than the Company's functional currency. In accordance with IAS 32, a share warrant denominated in a price other than an entity's functional currency fails to meet the definition of equity. Accordingly, such an instrument would be accounted for as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of comprehensive income at each period-end. On May 8, 2019, the Purchase Warrants commenced trading on the Canadian Securities Exchange under the ticker "ABCS.WT". The fair value of the 1,232,225 Purchase Warrants was determined using the closing price on the date of issuance of CDN$2.50 ($1.86) for a total fair value of $2,287,660. At June 30, 2019, using the closing price of CDN$2.21 ($1.69), Management calculated the fair value at $2,080,857 and recorded income from change in fair value of $267,314 offset by foreign currency expense of $60,511.

Voting share conversion

During the six months ended June 30, 2019, holders of 13,716 Proportionate Voting Shares converted their shares into 1,371,603 Subordinate Voting Shares. At June 30, 2019, 103,604 Proportionate Voting Shares and 10,909,945 Subordinate Voting Shares are issued and outstanding, all as 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.

On June 18, 2019, the shareholders approved a change in LTIP to provide for a 10% "rolling" limit under which the aggregate number of Subordinate Voting Shares reserved for issuance under the LTIP is equal to 10% of the number of Subordinate Voting Shares issued and outstanding from time to time (and calculated assuming the conversion of the Proportionate Voting Shares), less any Subordinate Voting Shares issuable under the Legacy Plan (as defined below). 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 at June 30, 2019, the aggregate number of Subordinate Voting Shares issuable pursuant to stock option grants is 1,279,306 after giving effect for any shares issuable under the Legacy 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.

(expressed in U.S. dollars)

13. Share-based compensation (continued)

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 and six month periods ended June 30, 2019 was $214,661 and $506,495 (2018 - $Nil).

The following table summarizes information regarding the option grants outstanding as of June 30, 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 June 30, 2019	847,729	$3.1272
Exercisable at June 30, 2019	162,046	$3.1056

The weighted average remaining contractual life is 9.4 years. The weighted average grant-date fair value of options granted was $1.74.

Stock appreciation rights

On June 12, 2019, the Company issued 139,989 stock appreciation rights under the LTIP to certain employees and consultants. These awards expire ten years after grant and vest on a quarterly basis over three years. The base price of the awards is CDN$9.70 ($7.29 at grant). Holders of the awards may exercise vested amounts and receive cash representing the fair market value less base price. Management has recorded an immaterial liability at June 30, 2019 for the 8,224 vested awards.

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

(expressed in U.S. dollars)

13. Share-based compensation (continued)

volatility (based on comparables) 87.2%, a risk-free interest rate of 2.50% and an expected life of two years.

During the three month period ended March 31, 2019, holders of Commission Warrants exercised warrants for the purchase of 41,990 Subordinate Voting Shares in exchange for cash proceeds of $157,462 or $3.75 per share. A Debenture Warrant 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 loss from the change in fair value of $7,601,203.

During the three month period ended June 30, 2019, a holder of Commission Warrants exercised warrants for the purchase of 23,906 Subordinate Voting Shares in exchange for cash proceeds of $89,648 or $3.75 per share. A Debenture Warrant holder exercised warrants for the purchase of 277,746 Subordinated Voting Shares for $1,041,548. Management calculated a fair market value of $2,676,545 and recorded a gain from the change in fair value adjustment of $41,039. The fair value and warrant exercise proceeds were transferred to share capital. Management calculated a fair market value of $3,109,205 as of June 30, 2019 for the remaining 651,825 warrants and recorded a gain from the change in fair value of $3,412,719.

The following table summarizes information regarding the warrants outstanding as of June 30, 2019:

	Note	Number of warrants	Weighted average exercise price
Balance at December 31, 2017		-	$ -
Granted – debenture warrants	9	1,048,371	$3.75
Granted – commission warrants	11	174,927	$3.75
Balance at December 31, 2018		1,223,298	$3.75
Granted – commission warrants	11	21,000	$3.75
Granted – warrant for services		35,000	$8.43
Granted – commission warrants	12	147,867	$10.70 (CDN$14)
Issued – purchase warrants	12	1,232,225	$13.75 (CDN$18)
Exercise – debenture warrants	9	(396,546)	$3.75
Exercise – commission warrants	11	(65,896)	$3.75
Balance at June 30, 2019		2,196,948	$12.28

All outstanding warrants are exercisable.

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 and six month periods ended June 30, 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 of permanent differences totalling approximately $7,553,000. As at

(expressed in U.S. dollars)

14. Income taxes (continued)

June 30, 2019, there were approximately $6,088,000 tax losses available in the United States for which a deferred tax asset of approximately $1,606,000 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 June 30,		Six Months ended June 30,	
	2019	2018	2019	2018
Product Lines				
CBD CLINIC	$2,431,110	$2,059,238	$5,984,861	$3,492,481
CBDMEDIC	697,804	17,523	966,260	22,402
Private label	93,429	-	93,429	-
	$3,222,343	$2,076,761	$7,044,550	$3,514,883

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 June 30, 2019, the Company’s financial assets include cash, trade receivables and amounts due from LLC members. Financial liabilities include trade payables and derivative financial liability. The carrying amounts of current assets and liabilities approximate their fair value due to their short period to maturity. 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).

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.

(expressed in U.S. dollars)

16. Financial instruments and risk management (continued)

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	(3,816,323)
Additions	2,287,660
Foreign currency adjustment	60,511
Loss from change in fair value	4,810,532
Derivative financial liability at June 30, 2019	$ 5,190,062

The unobservable input with regards to the derivative financial liability is expected volatility. The Company used a rate of 94.46%. Assuming a 10% change in volatility, the resulting fair value would increase by approximately $110,000.

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 June 30, 2019, five (2018 - three) of the Company's customers account for 90% (2018 - 70%) 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. 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
June 30, 2019				
Trade payables	$3,510,920	$3,510,920	$ -	$ -
Lease obligations	562,243	209,257	352,986	-
Total	4,073,163	3,720,177	352,986	-
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:

	June 30, 2019	December 31, 2018
Trade payables	$ 179,524	$ 371,917
Derivative liability	2,080,857	-
Convertible debentures	-	2,197,909
Net monetary liability	$2,260,381	$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:

	June 30, 2019	December 31, 2018
Cash	$ 164,546	$ 319,062
Trade payables	277,225	204,248
Net monetary liability	$ (112,679)	$ 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 six months ended June 30, 2019.

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

17. Subsequent events

Stock appreciation right

On August 15, 2019, the Company awarded 8,881 stock appreciation rights to an employee. This award expires in ten years after grant and vest on a quarterly basis over three years. The base price of the awards is CDN$7.50 ($5.63 at grant).

Spokesperson and license agreement

On August 26, 2019, the Company entered into a spokesperson and license agreement with a sports celebrity. The agreement and related agreements include payment of an upfront fee, royalties to be derived from a new sports-oriented nutrition & wellness brand that is planned to be launched in 2020, and an issuance of 302,835 subordinate voting shares in the Company and warrants to acquire 35,666 subordinate voting shares at a price of $15.00 per share. Additional warrants are issuable on an annual basis during the initial 5-year term of the agreement. The agreement includes a commitment by the sports celebrity to collaborate with the Company in the development of new products as well as support the Company's existing products.