# Abacus Health Products, Inc.
**(formerly Abacus Health Products LLC)**

## Consolidated Financial Statements
## December 31, 2018 and 2017
## (expressed in U.S. dollars)

# Abacus Health Products, Inc.

**(formerly Abacus Health Products LLC)**

**Consolidated Financial Statements**
**December 31, 2018 and 2017**
**(expressed in U.S. dollars)**

**Table of Contents**

RICHTER

# Independent Auditor's Report

To the Shareholders of
**Abacus Health Products, Inc. (formerly Abacus Health Products LLC)**

*Opinion*

We have audited the consolidated financial statements of Abacus Health Products, Inc. and its subsidiary (the Company), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

*Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

MONTRÉAL
1981 McGill College
Montréal QC H3A 0G6
514.934.3400

TORONTO
181 Bay St., #3320
Bay Wellington Tower
Toronto ON M5J 2T3
416.488.2345

CHICAGO
200 South Wacker Dr., #3100
Chicago, IL 60606
312.828.0800

RICHTER.CA

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Marie-Claude Frigon.

Richter LLP[1]

Montréal, Québec
April 29, 2019

[1]CPA auditor, CA, public accountancy permit No. A112505

# Abacus Health Products, Inc.
**(formerly Abacus Health Products LLC)**

## Consolidated Statements of Financial Position
## As at December 31, 2018 and 2017
## (expressed in U.S. dollars)

| | Note | | 2018 | | 2017 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash | | **$** | **3,814,489** | $ | 345,001 |
| Trade receivables | *6* | | **912,601** | | 403,902 |
| Inventories | *7* | | **1,003,893** | | 45,699 |
| Prepaid expenses and other current assets | | | **751,222** | | - |
| Due from LLC members | *9* | | **21,633** | | - |
| Due from a major LLC member | *9* | | **-** | | 34,947 |
| Total current assets | | | **6,503,838** | | 829,549 |
| **Non-current assets** | | | | | |
| Deferred taxes | *16* | | **87,983** | | - |
| Furniture and equipment | *8* | | **56,749** | | - |
| Deposits | | | **13,673** | | - |
| Total non-current assets | | | **158,405** | | - |
| **Total assets** | | **$** | **6,662,243** | $ | 829,549 |

See accompanying notes

**Approved on behalf of the board**

[signed] Philip C. Henderson Director

[signed] Perry Antelman Director

# Abacus Health Products, Inc.
**(formerly Abacus Health Products LLC)**

## Consolidated Statements of Financial Position
## As at December 31, 2018 and 2017
## (expressed in U.S. dollars)

| | Note | | 2018 | | 2017 |
|---|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Trade payables | *9* | **$** | **2,473,948** | $ | 36,245 |
| Distributions payable to LLC members | *9* | | **270,822** | | - |
| Income taxes payable | *16* | | **7,149** | | - |
| Due to ultimate LLC members | *9* | | **-** | | 60,000 |
| Derivative financial liability | *12* | | **1,847,682** | | - |
| Total current liabilities | | | **4,599,601** | | 96,245 |
| **Non-current liabilities** | | | | | |
| Convertible debentures | *12* | | **2,197,909** | | - |
| Total non-current liabilities | | | **2,197,909** | | - |
| **Total liabilities** | | | **6,797,510** | | 96,245 |
| **Commitments** | *11* | | | | |
| **Shareholders' capital (deficit) and members' capital** | | | | | |
| Share capital | *14* | | **4,651** | | - |
| Subscriptions receivable | *14* | | **(11,850,256)** | | - |
| Contributed surplus | | | **13,236,246** | | - |
| Accumulated other comprehensive income | | | **456** | | - |
| Accumulated deficit | | | **(1,526,364)** | | - |
| Members' capital | | | **-** | | 733,304 |
| **Total shareholders' capital (deficit)** | | | **(135,267)** | | 733,304 |
| **Total liabilities and shareholders' capital** | | **$** | **6,662,243** | $ | 829,549 |
| **Subsequent events** | *20* | | | | |

See accompanying notes

# Abacus Health Products, Inc.
**(formerly Abacus Health Products LLC)**

## Consolidated Statements of Comprehensive Income (Loss)
## For the Years Ended December 31, 2018 and 2017
## (expressed in U.S. dollars)

| | Note | | 2018 | | 2017 |
|---|---|---|---|---|---|
| **Revenues** | *17* | **$** | **8,537,024** | $ | 2,575,172 |
| **Cost of sales and expenses** | | | | | |
| Cost of sales | | | **3,483,653** | | 1,248,512 |
| Shipping and delivery | | | **184,722** | | 35,313 |
| Salaries, wages and benefits | | | **891,015** | | 32,000 |
| Management services | | | **569,429** | | 472,954 |
| Marketing and advertising | | | **1,176,583** | | 158,937 |
| Professional fees | | | **909,853** | | 51,447 |
| Office and general | | | **226,669** | | 8,389 |
| Depreciation | *8* | | **5,965** | | - |
| Research and development | | | **118,649** | | 801 |
| **Total cost of sales and expenses** | | | **7,566,538** | | 2,008,353 |
| **Income before other expenses and income taxes** | | | **970,486** | | 566,819 |
| **Other expenses** | | | | | |
| Interest and bank charges | | | **409,696** | | 41,989 |
| Foreign exchange gain | | | **(92,731)** | | - |
| Loss from change in fair value | *12* | | **1,112,981** | | - |
| **Total other expenses** | | | **1,429,946** | | 41,989 |
| **Income (loss) before income taxes** | | | **(459,460)** | | 524,830 |
| Tax provision | *16* | | **(80,671)** | | - |
| **Net income (loss)** | | | **(378,789)** | | 524,830 |
| **Other comprehensive income** | | | | | |
| Foreign currency translation adjustment | | | **456** | | - |
| **Total other comprehensive income** | | | **456** | | - |
| **Net and comprehensive income (loss)** | | **$** | **(378,333)** | $ | 524,830 |
| Attributable to LLC members | | | **1,147,575** | | 524,830 |
| Attributable to shareholders | | | **(1,525,908)** | | - |
| **Basic and diluted weighted average number of shares outstanding** | | | | | |
| Basic | | | **12,993,317** | | N/A |
| Diluted | | | **12,993,317** | | N/A |
| **Income (loss) per share** | | | | | |
| Basic | | **$** | **(0.03)** | | N/A |
| Diluted | | **$** | **(0.03)** | | N/A |

See accompanying notes

# Abacus Health Products, Inc.
**(formerly Abacus Health Products LLC)**

## Consolidated Statements of Equity
## For the Years Ended December 31, 2018 and 2017
## (expressed in U.S. dollars)

| | Note | Member units | Members' capital | Share units | Share capital | Subscriptions receivable | Contributed surplus | Accumulated deficit | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2016** | | **307,282** | **$ 208,474** | **-** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| Net income attributable to LLC members | | - | 524,830 | - | - | - | - | - | - | - |
| **Balance, December 31, 2017** | | **307,282** | **733,304** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Membership units granted | *13* | 3,000 | 60,000 | - | - | - | - | - | - | - |
| Membership units repurchased | *13* | (1,250) | (25,000) | - | - | - | - | - | - | - |
| Distributions | | - | (416,000) | - | - | - | - | - | - | - |
| Net income attributable to LLC members | | - | 1,147,575 | - | - | - | - | - | - | - |
| **Balance, June 29, 2018** | | **309,032** | **1,499,879** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Equity conversion | *13* | (309,032) | (1,499,879) | 3,090 | 3 | - | 1,499,876 | - | - | 1,499,879 |
| Shareholder exchange | *14* | - | - | (2,762) | (3) | - | 3 | - | - | - |
| Stock split | *14* | - | - | 1,378,345 | 1,379 | - | (1,379) | - | - | - |
| Issuance of subscription receipts | *14* | - | - | - | 3,272 | (11,850,256) | 10,761,154 | - | - | (1,085,830) |
| Issuance of warrants to broker | *14* | - | - | - | - | - | 656,726 | - | - | 656,726 |
| Stock-based compensation | *15* | - | - | - | - | - | 319,866 | - | - | 319,866 |
| Other comprehensive income | | - | - | - | - | - | - | - | 456 | 456 |
| Net loss | | - | - | - | - | - | - | (1,526,364) | - | (1,526,364) |
| **Balance, December 31, 2018** | | **-** | **$ -** | **1,378,673** | **$ 4,651** | **$ (11,850,256)** | **$ 13,236,246** | **$ (1,526,364)** | **$ 456** | **$ (135,267)** |

See accompanying notes

# Abacus Health Products, Inc.
**(formerly Abacus Health Products LLC)**

## Consolidated Statements of Cash Flows
## For the Years Ended December 31, 2018 and 2017
## (expressed in U.S. dollars)

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **Cash provided by (used for) the following activities:** | | | | |
| **Operating activities** | | | | |
| Net and comprehensive income (loss) | **$** | **(378,333)** | $ | 524,830 |
| Depreciation | | **5,965** | | - |
| Stock-based compensation | | **319,866** | | - |
| Foreign exchange on foreign denominated liabilities | | **(88,308)** | | - |
| Interest accretion on convertible debentures | | **112,623** | | - |
| Loss from change in fair value of derivative financial liability | | **1,112,981** | | - |
| Deferred income taxes | | **(87,983)** | | - |
| Changes in working capital accounts: | | | | |
| Trade receivables | | **(508,699)** | | (403,902) |
| Inventories | | **(958,194)** | | (45,699) |
| Prepaid expenses and other current assets | | **(751,222)** | | - |
| Trade payables | | **2,008,598** | | (69,859) |
| Income taxes payable | | **7,149** | | - |
| Due from a major LLC member | | **34,947** | | (34,947) |
| **Cash flows provided by (used for) operating activities** | **$** | **829,390** | $ | (29,577) |
| **Financing activities** | | | | |
| Convertible debentures, net of transaction costs | | **2,908,296** | | - |
| Membership units repurchased | | **(25,000)** | | - |
| Distributions paid | | **(145,178)** | | - |
| **Cash flows provided by financing activities** | | **2,738,118** | | - |
| **Investing activities** | | | | |
| Due from LLC members | | **(21,633)** | | - |
| Deposits | | **(13,673)** | | - |
| Additions to furniture and equipment | | **(62,714)** | | - |
| **Cash flows used for investing activities** | | **(98,020)** | | - |
| **Increase (decrease) in cash** | | **3,469,488** | | (29,577) |
| **Cash, beginning of the year** | | **345,001** | | 374,578 |
| **Cash, end of the year** | **$** | **3,814,489** | $ | 345,001 |
| **Non-cash financing activities include:** | | | | |
| Distributions payable to LLC members | **$** | **(270,822)** | $ | - |
| Distributions | | **270,822** | | - |
| Transaction fees due | | **429,105** | | - |
| Subscriptions receivable | | **(429,105)** | | - |
| 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 Inc.") was originally organized under the name Abacus of Colorado LLC in the state of Delaware on September 2, 2014. In April 2017, the Company 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 the Company.

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

The head office of the Company 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 consolidated financial statements have been approved by the Board of Directors for issue on April 29, 2019.

## 2. Basis of preparation

### Compliance with IFRS

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board ("IASB").

### Basis of consolidation

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

## 2. Basis of preparation (continued)

**Measurement basis**

The consolidated financial statements have been prepared on a historical cost basis. Other measurement bases used are described in the applicable notes.

**Functional and presentation currency**

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in United States dollar ("USD"), which is the Company's functional and presentation currency.

The Company's subsidiary, CBD Pharmaceutical Ltd., conducts its operations using the Israeli New Shekel. The assets and liabilities are translated into USD currency units using the exchange rates at the reporting date. The expenses are translated into USD currency units using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income (loss) through the foreign currency translation adjustment in equity.

**Critical accounting estimates and judgments**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below:

*Share-based payment transactions*

The Company measures the cost of equity-settled transactions with employees and non-employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

*Allowance for expected credit losses*

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

## 2. Basis of preparation (continued)

**Critical accounting estimates and judgments (continued)**

*Provision for impairment of inventories*

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

*Income tax*

The Company is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

*Fair value measurement hierarchy*

The Company is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

## 3. New Standards adopted as at January 1, 2018

The Company has adopted the new accounting pronouncements which have become effective this year, and are as follows:

**IFRS 9: Financial Instruments**

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement*. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit loss" model for the impairment of financial assets. The new standard also addresses classification and measurement of financial assets and replaced the multiple category and measurement models for debt instruments in IAS 39 with a new measurement model having only two categories: amortized cost and fair value through profit or loss.

## 3. New Standards adopted as at January 1, 2018 (continued)

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedge items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

The Company has adopted this standard and concluded that it does not have an impact on the annual consolidated financial statements.

**IFRS 15: Revenue from Contracts with Customers**

IFRS 15 *Revenue from Contracts with Customers* and the related *Clarifications to IFRS 15 Revenue from Contracts with Customers* (herein referred to as "IFRS 15") replace IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and several revenue-related interpretations.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer;
Step 2: Identify the performance obligations in the contract;
Step 3: Determine the transaction price;
Step 4: Allocate the transaction price to the performance obligations in the contract; and
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company has adopted this standard using the modified retrospective method and concluded that it does not have an impact on the annual consolidated financial statements.

## 4. Significant accounting policies

**Revenue recognition**

The Company recognises revenue as follows:

*Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Company: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

## 4. Significant accounting policies (continued)

**Revenue recognition (continued)**

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Revenue from the sale of goods is recognized when the Company transfers control of the assets to the customer. Control transfers at the point in time the customers take undisputed delivery of the goods. The Company does not extend warranties or rights of return in excess of statutory requirements.

*Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

For the year ended December 31, 2017, the Company's revenue recognition policy was as follows:

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Revenue from the sale of goods is recognized when the goods are delivered, and titles have passed, at which time, all of the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with the ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect to the transaction can be measured reliably.

**Cash and cash equivalents**

Cash includes cash on hand and deposits held at call with financial institutions. Cash equivalents include other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

## 4. Significant accounting policies (continued)

### Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

### Inventories

Raw materials and finished goods are stated at the lower of cost and net realizable value. Cost of inventory is determined on a first-in first-out ("FIFO") basis. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable. Net realizable value represents the estimated selling price for inventory less all estimated costs necessary to make the sale.

### Furniture and equipment

Furniture and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is recorded to recognize the cost of assets over their useful lives, using the straight-line method over three to four years. The estimated useful lives and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any item of furniture and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales and proceeds and the carrying amount of the asset and is recognized in profit or loss.

Repairs and maintenance costs that do not improve or extend productive life are recognized in profit or loss in the period in which the costs are incurred.

### Trade payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

## 4. Significant accounting policies (continued)

**Income taxes**

Income tax expenses are comprised of current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantially enacted at the reporting date.

Deferred tax is recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized, or the liability is settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment dates. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Changes in recognition or measurement are reflected in the period in which the change in judgement occurs.

**Foreign currency**

Transactions entered into by the Company in a currency other than the functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in profit or loss

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

**Provisions**

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

## 4. Significant accounting policies (continued)

**Leases (continued)**

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

**Fair value measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

## 4. Significant accounting policies (continued)

### Financial instruments

a) *Recognition and derecognition*

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

b) *Classification and initial measurement of financial assets*

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost;
- fair value through profit or loss (“FVTPL”); and
- fair value through other comprehensive income (“FVOCI”).

The classification is determined by both:

- the entity’s business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which are presented within other expenses.

c) *Subsequent measurement of financial assets*

<u>Financial assets at amortized cost</u>

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 4. Significant accounting policies (continued)

**Financial instruments (continued)**

This category includes non-derivative financial assets like loans and receivables with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash, trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets that are held within a different business model than 'hold to collect' or 'hold to collect and sell', and financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. The Company does not hold any financial assets at FVTPL.

Financial assets at fair value through other comprehensive income ("FVOCI")

The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is to hold to collect the associated cash flows and sell, and;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognized in other comprehensive income will be recycled upon derecognition of the asset. The Company does not hold any financial assets at FVOCI.

d) *Impairment of financial assets*

IFRS 9's new impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit loss' (ECL) model. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortized cost and FVOCI, trade receivables, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

## 4. Significant accounting policies (continued)

**Financial instruments (continued)**

Financial assets at amortized cost

The Company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

e) *Classification and measurement of financial liabilities*

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Company's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

f) *Derivative financial instruments and hedge accounting*

Derivative financial instruments are accounted for at FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment.

**Compound instruments and embedded derivatives**

The convertible debentures issued by the Company are considered to be a compound financial instrument that can be converted into common stock of the Company at the option of the holder, where the number of shares to be issued varies depending on different scenarios of future financings.

The compound financial instrument is recognized as a liability, with the initial carrying value of the debenture (host) being the residual amount of the proceeds, after separating the derivative component, which is recognized at fair value, and also the warrants issued with the instruments. Any directly attributable transaction costs are allocated to the host and to the warrants issued.

The embedded derivative that constitutes the convertible debentures (derivative) is recorded at fair value separately from the host contract, as its economic characteristics and risks are not clearly and closely related to those of the host contract.

Subsequent to initial recognition, the host component of the compound financial instrument is measured at amortized cost using the effective interest method. The derivative component of the compound financial instrument is measured at fair value through profit and loss. Subsequent changes in fair value are recorded in the statement of comprehensive income (loss) in finance costs.

## 4. Significant accounting policies (continued)

### Compound instruments and embedded derivatives (continued)

On the conversion date, the value of the host contract component of the financial instrument measured at amortized cost and the value of the derivative component measured at fair value are transferred to equity.

### Share-based compensation

The Company has a share option plan for employees, officers, directors, and other advisors from which options to purchase common stock of the Company are issued. Share-based compensation costs are accounted for on a fair value basis, as measured at the grant date, using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee. In situations where options have been issued to non-employees and some or all of the services received by the Company cannot be specifically identified, the options are measured at the fair value of the options issued.

All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to contributed surplus. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Any adjustment to cumulative share-based compensation resulting from a revision is recognized in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of share options, the proceeds received, net of any attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as contributed surplus.

### Share capital

Share capital represents the nominal (par) value of shares that have been issued.

Contributed surplus includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of related income tax benefits.

### Income (loss) per share

Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of common stock outstanding during the year.

Diluted income (loss) per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common stock outstanding, adjusted for the effects of all dilutive potential common stock. The weighted average number of common stock outstanding is increased by the number of additional common stock that would have been issued by the Company assuming exercise of all stock options and warrants with exercise prices below the average market price for the year.

## 4. Significant accounting policies (continued)

**Impairment of non-financial assets**

The carrying amounts of the Company's non-financial assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the asset group to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or asset group is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately as additional depreciation or amortization. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined had impairment not previously been recognized. A reversal is recognized as a reduction in the depreciation or amortization charge for the period. No impairment was recognized for the periods ended December 31, 2018 and 2017.

## 5. Future accounting standards issued but not yet effective

**IFRS 16: Leases**

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.

IFRS 16 supersedes IAS 17 *Leases* and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 *Revenue from Contracts with Customers* has also been applied. The Company is currently evaluating the impact of adopting this new standard.

**(expressed in U.S. dollars)**

## 5. Future accounting standards issued but not yet effective (continued)

**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, with early adoption permitted. The Company has assessed the potential impact on its financial statements resulting from the amendments and concluded that they will not have an impact on the financial statements.

## 6. Trade receivables

Trade receivables include amounts that are past due at the end of the reporting periods. During 2018, the Company recognized a provision for expected credit losses of $28,853 (2017 - $Nil).

As at December 31, 2018 and 2017, trade receivables of $626,770 and $149,094, respectively were past due but not impaired. They relate to customers with no default history. The aging analysis of these receivables is as follows:

| | **2018** | 2017 |
|---|---|---|
| 0 - 30 | **$ 336,185** | $ 3,839 |
| 31 - 60 | **65,923** | 69,813 |
| 61 - 90 | **8,047** | 46,219 |
| 91 - 120 | **-** | 1,880 |
| Over 121 | **216,615** | 27,343 |
| | **$ 626,770** | $ 149,094 |

**(expressed in U.S. dollars)**

## 7. Inventories

| | **2018** | 2017 |
|---|---|---|
| Raw materials | **$ 420,000** | $ - |
| Finished goods | **583,893** | 45,699 |
| | **$ 1,003,893** | $ 45,699 |

For the years 2018 and 2017, inventory recognized as an expense amounted to $3,483,653 and $1,248,512, respectively.

## 8. 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** |
| **Depreciation and impairment** | | |
| Balance at December 31, 2017 | | - |
| Depreciation | | (5,965) |
| **Balance at December 30, 2018** | | **(5,965)** |
| **Carrying amount at December 31, 2018** | **$** | **56,749** |

## 9. Related party transactions

The Company’s majority shareholder, Aidance Skincare & Topical Solutions, LLC (“Aidance”) is the manufacturer of nearly all of the Company’s products. On June 29, 2018, the Company signed a manufacturing, fulfillment and business service agreement with Aidance. The Company 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 the Company 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 the Company terminates the agreement, the Company shall pay a one-time lump sum buyout payment equal to 15%, 11%, and 8% of the Company's total net sales in year one, two and three, respectively.

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. In January 2019, Aidance distributed to its members a significant portion of its Abacus shares reducing its overall percentage of ownership to less than 10% of the outstanding voting securities.

## (expressed in U.S. dollars)

## 9. Related party transactions (continued)

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

| | **2018** | 2017 |
|---|---|---|
| Aidance – Majority Shareholder | | |
| Inventory purchases | **$ 4,152,918** | $ 1,190,246 |
| Fulfillment services | **21,845** | - |
| Management services received | **574,273** | 454,954 |
| Management services provided | **(10,560)** | - |
| | **4,738,476** | 1,645,200 |
| Other Shareholders | | |
| Marketing and advertising | **87,008** | 9,100 |
| Professional fees | **26,235** | 14,855 |
| Officer compensation | **-** | 32,000 |
| | **$ 113,243** | $ 55,955 |

At the end of the year, the amounts due to and from related entities are as follows:

| | **2018** | 2017 |
|---|---|---|
| Trade payables, majority shareholder | **$ 724,081** | $ - |
| Trade payables, other shareholder | **24,157** | - |
| Distributions payable to LLC members | **270,822** | - |
| Due from LLC members, non-interest bearing and with no specified repayment terms | **21,633** | - |
| Due from a major LLC member, non-interest bearing and with no specified repayment terms | **-** | 34,947 |
| Due to ultimate LLC members, non-interest bearing and with no specified repayment terms | **-** | 60,000 |

The amounts outstanding are unsecured and will be settled in cash except as disclosed below. 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 the majority shareholder.

On January 1, 2018, 3,000 membership units were issued to settle the amounts due to ultimate LLC members.

(expressed in U.S. dollars)

## 10. Remuneration of directors and key management of the Company

The remuneration awarded to directors and senior key management includes the following:

| | **2018** | 2017 |
|---|---|---|
| Wages | **$ 66,637** | $ - |
| Consulting fees | **94,000** | 32,000 |
| Management fees | **574,273** | 454,954 |
| Share-based compensation | **70,677** | - |
| | **$ 805,587** | $ 486,954 |

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.

## 11. Commitments

The Company has entered two sponsorship agreements which require aggregate payments of $675,000 through January 2020. The remaining minimum annual payments are approximately as follows:

| | |
|---|---|
| 2019 | **$ 600,000** |
| 2020 | **75,000** |

The Company and its subsidiary have each entered lease agreements for office space which require aggregate payments of approximately $599,000. The minimum annual payments are approximately as follows:

| | |
|---|---|
| 2019 | **$ 164,000** |
| 2020 | **205,000** |
| 2021 | **205,000** |
| 2022 | **25,000** |

## 12. Senior secured convertible debenture units

On August 31, 2018, the Company executed senior secured convertible debenture units ("Convertible Debenture Units") agreements with 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 consists of CDN$1,000 ($733) principal amount ("Convertible Debenture") and warrants of the Company exercisable to purchase common stock equal to CDN$1,000 divided by the 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 Company in a qualified financing (at least CDN$5,000,000 ($3,665,152)) 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 the Company, the conversion price shall be calculated by dividing CDN$50,000,000 ($36,651,517) 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 Company 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.

The Company can prepay the Convertible Debentures 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 the Company, however, the security shall be subordinated to existing and future loans from bank lenders to a maximum of CDN$5,000,000 ($3,665,152); provided that the lender is a bank, the loan does not include any equity component and the Company 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 the Company, the conversion price shall be CDN$50,000,000 ($36,651,517) divided by the number of issued and outstanding common stock immediately prior to the transaction.

As discussed in note 20, in January 2019, the Company completed a qualified financing transaction and RTO. Accordingly, the Convertible Debentures may be converted into 1,048,371 common shares. The warrants may be exercised for an equal number of common 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.

## (expressed in U.S. dollars)

## 12. Senior secured convertible debenture units (continued)

The completion of the first tranche of the financing transaction in December 2018 resulted in the issuance of the debenture warrants for the purchase of 1,048,371 common shares 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. Fair value was calculated using a Black-Scholes valuation model with the following assumptions: Market price $3.75, exercise price $3.75, expected volatility (based on comparables) 85.74%, a risk-free interest rate of 2.63% and an expected life of two years.

The components of the Convertible Debentures are as follows:

| | | |
|---|---|---|
| Face value of the Convertible Debentures | $ | **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, 2019** | **$** | **2,197,909** |

## 13. Equity conversion

On June 29, 2018, the Company converted from a Delaware limited liability corporation to a Delaware corporation and changed its name to Abacus Health Products, Inc. All membership units of the Company were converted into common stock of Abacus Inc. Membership units were exchanged at a ratio of one hundred membership units for one share of common stock in Abacus Inc., 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 equity conversion, the Company issued 3,000 units in settlement of the due to ultimate LLC members, and 1,250 units were repurchased by the Company for $25,000.

(expressed in U.S. dollars)

## 14. Share capital

As at December 31, 2018, the Company is authorized to issue 21,500,000 shares of common stock, $0.001 par value.

**Authorized -**

20,070,467 Class A common stock, one vote per share
168,180 Class B common stock, one hundred votes per share and convertible into one hundred Class A common stock
1,261,353 Class C common stock, non-voting and convertible into one Class A common stock

| | | | **December 31, 2018** |
|---|---|---|---|
| **Issued -** | | | |
| - | Class A common stock | $ | **-** |
| 117,320 | Class B common stock | | **117** |
| 1,261,353 | Class C common stock | | **1,262** |
| 3,272,350 | Subscription receipts | | **3,272** |
| | | $ | **4,651** |

In December 2018, all holders of Class A common stock exchanged their shares for shares of Class B common stock at a ratio of 100:1.

On December 19, 2018, the Board of Directors and a majority shareholder approved a stock split of 4,204.51 shares for each outstanding share. All share amounts listed above reflect this split.

In 2018, the Company 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, the Company 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 the first tranche, the Company 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, the Company recorded a subscription receivable in the amount of $11,850,256 for the expected net cash proceeds of this tranche.

**(expressed in U.S. dollars)**

## 15. Share-based compensation

On June 30, 2018, the Company adopted the 2018 Equity incentive plan (the "2018 Plan"), which provides 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 2018 Plan to employees, officers, directors, agents, consultants, advisors and independent contractors of the Company or any parent or subsidiary. The Company's Board of Directors establishes the terms and conditions of any grants under the 2018 Plan. The exercise price shall not be less than the fair market value per share of the common stock at the time of grant.

The aggregate number of common stock of the Company as to which options may be granted under the 2018 Plan shall not exceed 2,102,255 shares. The maximum exercise period of any option granted shall not exceed ten years from the date of grant. The options generally vest over a period of 2 to 3 years.

Incentive share options may be granted only to employees. The term of incentive stock options granted under the 2018 Plan to employees who own more than 10% of the total combined voting power of all classes of stock of the Company shall not exceed five years and the exercise price shall not be less than 110% of the fair market value of the common stock at the time of the grant.

On October 16, 2018, a total of 802,206 stock options were granted 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. Share-based compensation cost recognized for the year ended December 31, 2018 was $319,866.

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 the option grants: Market price $3.02, exercise price $3.0865, expected volatility (based on comparables) 89.2% to 96%, a risk-free interest rate of 2.66% to 2.95% and an expected life of one to three years.

The following table summarizes information regarding the option grants outstanding as of December 31, 2018:

| | **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** |
| Exercisable at December 31, 2018 | **-** | **-** |

The weighted average remaining contractual life is 9.8 years. The weighted average grant-date fair value of options granted was $1.72.

**(expressed in U.S. dollars)**

## 16. Income taxes

Prior to the equity conversion discussed in note 13, the net and comprehensive income constituted the income of the previous LLC members. As such, no provisions were made in these consolidated financial statements for any income taxes which may be assessable to the previous LLC members.

Income taxes reported differ from the amount computed by applying the statutory rates to the loss before income tax. The reasons are as follows:

| | | |
|---|---|---|
| Statutory tax rate | | **26.52%** |
| Statutory income taxes | **$** | **(121,849)** |
| Permanent differences | | **33,866** |
| Other | | **7,312** |
| Effective income taxes | **$** | **(80,671)** |

**Deferred income tax asset**

| | Balance December 31, 2017 | Recognized in profit (loss) | **Balance December 31, 2018** |
|---|---|---|---|
| **Temporary differences** | | | |
| Difference in timing of recognition of expenses | $ - | $ 54,745 | **$ 54,745** |
| Premises and equipment | - | (14,231) | **(14,231)** |
| Financing fees | - | 2,024 | **2,024** |
| | - | 42,538 | **42,538** |
| Tax losses | - | 45,445 | **45,445** |
| Deferred income tax asset | $ - | $ 87,983 | **$ 87,983** |

As of December 31, 2018, there were approximately $171,000 tax losses available in the United States. These tax losses may be applied against earnings of future years through 2039, subject to certain limitations following a change in ownership.

**(expressed in U.S. dollars)**

## 17. 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:

| | **2018** | 2017 |
|---|---|---|
| Product Lines | | |
| CBD CLINIC | **$ 8,392,527** | $ 2,530,728 |
| CBDMEDIC | **144,497** | 44,444 |
| | **$ 8,537,024** | $ 2,575,172 |

## 18. 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 December 31, 2018, 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).

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)**

## 18. 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** |

The unobservable input with regards to the derivative financial liability is expected volatility. The Company used a rate of 85.74%. Assuming a 10% change in volatility, the resulting fair value would increase by approximately $151,000.

**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 December 31, 2018, two (2017 - three) of the Company's customers account for 67% (2017 - 84%) 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.

## (expressed in U.S. dollars)

## 18. Financial instruments and risk management (continued)

### 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.

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

| | Contractual cash flows | Less than one year | 1-3 years | Greater than 3 years |
|---|---|---|---|---|
| **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** | **-** |
| **December 31, 2017** | | | | |
| Trade payables | 36,245 | 36,245 | - | - |
| Due to ultimate LLC members | 60,000 | 60,000 | - | - |
| **Total** | **$ 96,245** | **$ 96,245** | **$ -** | **$ -** |

### Interest rate risk

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

## 18. Financial instruments and risk management (continued)

### 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:

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Trade payables | **$ 371,917** | $ - |
| Convertible debentures | **2,197,909** | - |
| **Net monetary liability** | **$ 2,569,826** | $ - |

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

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Cash | **$ 319,062** | $ - |
| Trade payables | **204,248** | - |
| **Net monetary liability** | **$ 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 $40,000 during the year ended December 31, 2018.

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

## 19. Capital disclosures

The Company monitors "adjusted capital" which comprises share capital.

The Company's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company manages and adjusts its capital structure considering changes in economic conditions. To maintain or adjust its capital structure, the Company may issue debt or new shares. Financing decisions are generally made on a specific transaction basis and depend on such things as the Company's needs, capital markets and economic conditions at the time of the transaction. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable, given the size of the Company.

The Company does not have any externally imposed capital compliance requirements at December 31, 2018.

## 20. Subsequent events

**Private placement and reverse take-over**

On January 7, 2019 in connection with the Financing discussed in note 14, the Company issued a total of 727,650 subscription receipts for gross proceeds of $2,728,687. In connection with this tranche, warrants for the purchase of 21,000 Class A common shares were issued with an exercise price of $3.75 per share. The warrants expire two years from the closing of the RTO.

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.

On January 29, 2019, the Company 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 Inc. with Abacus Inc. surviving as a wholly-owned subsidiary of Abacus Canada.

## 20. Subsequent events (continued)

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

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

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

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

Abacus Canada'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 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.

## 20. Subsequent events (continued)

### Issuance of stock options

On January 10, 2019, the Company issued stock options to employees and consultants of the Company and its subsidiary to purchase 85,337 shares of Class A common stock for $3.75 per option. The stock options vest quarterly from the grant date over two and three years and expire ten years after grant.

### Warrants granted

On February 20, 2019, the Company granted Subordinate Voting Share warrants to a consultant to purchase 35,000 Subordinate Voting Shares for $11.10 per warrant. The warrants vest quarterly from the grant date and expire five years after grant.

### Warrant exercises

In March and April 2019, holders of warrants of Abacus Canada exercised warrants for the purchase of 438,536 Subordinate Voting Shares in exchange for total exercise proceeds of $1,644,510 or $3.75 per share.

### Public offering

On April 17, 2019, Abacus Canada filed a preliminary short form prospectus which qualifies the distribution of 2,143,000 units at a price of CDN$14.00 per unit (the “Units”), for gross proceeds of approximately CDN$30,002,000. 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 would be exercisable immediately upon issuance and would expire on the third anniversary of the date of their issuance.