Abacus Health Products, Inc.

Interim Management's Discussion and Analysis

For the three and nine months ended September 30, 2019

INTRODUCTION

This management's discussion and analysis ("MD&A") provides a review of the results of operations, financial condition and cash flows of Abacus Health Products, Inc. (the "Company" or "Abacus"), an Ontario corporation, on a consolidated basis, for the three and nine months ended September 30, 2019. This MD&A is supplemental to, and should be read in conjunction with, the Company's condensed interim consolidated financial statements and the accompanying notes for the three and nine months ended September 30, 2019 (the "Q3 2019 Financial Statements"), the audited consolidated financial statements and accompanying notes of Abacus Health Products, Inc., a Delaware corporation now wholly-owned by the Company ("Abacus US"), for the year ended December 31, 2018 (the "2018 Annual Financial Statements") and management's discussion and analysis thereon (the "2018 Annual MD&A"), and the Company's annual information form dated April 12, 2019 (the "AIF," and together with the 2018 Annual Financial Statements and 2018 Annual MD&A, the "2018 Annual Reports"). These documents and additional information regarding the business of the Company are available under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise noted, all financial information presented in this MD&A is presented in United States dollars, and references to "$" and "USD" are to United States dollars and to "CDN" are to Canadian dollars. In this MD&A, unless the context requires otherwise, references to the "Company" or "Abacus" include Abacus Health Products, Inc., an Ontario corporation, and its subsidiaries, individually or collectively.

This MD&A was prepared by management of the Company and approved by its board of directors on November 20, 2019 and, unless otherwise noted, in preparing this MD&A, the Company has considered information available to it up to November 20, 2019.

On January 29, 2019, the Company completed a reverse take-over transaction with Abacus US pursuant to an agreement and plan of merger dated December 21, 2018 (the "RTO"). Additional information relating to the RTO can be found under the Company's profile on SEDAR at www.sedar.com, including in the AIF. This MD&A and the Q3 2019 Financial Statements are a continuation of the MD&A and financial statements of Abacus US, the reverse takeover acquirer in the RTO.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements and forward-looking information (collectively, "forward-looking statements") within the meaning of applicable securities legislation, including statements relating to certain expectations, projections, growth plans and other information related to the Company's business strategy and future plans. Forward-looking statements can, but may not always, be identified by the use of words such as "seek," "anticipate," "plan," "continue," "estimate," "expect," "may," "will," "project," "predict," "potential," "targeting," "intend," "could," "might," "would," "should," "believe," "objective," "ongoing," "imply," "assumes," "goal," "likely" and similar references to future periods or the negatives of these words and expressions and by the fact that these statements do not relate strictly to historical or current matters. These forward-looking statements are based on management's current expectations and are subject to a number of risks, uncertainties, and assumptions, including market and economic conditions, business prospects or opportunities, future plans and strategies, projections and anticipated events and trends that affect the Company and its industry. Although the Company and management believe that the expectations reflected in such forward-looking statements are reasonable and are based on reasonable assumptions and estimates as of the date hereof, there can be no assurance that these assumptions or estimates are accurate or that any of these expectations will prove accurate. Forward-looking statements are inherently subject to significant business, economic and competitive risks, uncertainties and contingencies that could cause actual events to differ materially from those expressed or implied in such statements.

Some of the specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the ability of the Company to execute its growth strategies and grow its business.

Actual results and developments are likely to differ, and may differ materially, from those anticipated by the Company and expressed or implied by the forward-looking statements contained in this MD&A. Such statements are based on a number of assumptions and risks which may prove to be incorrect. Important assumptions relating to the forward-looking statements contained in this MD&A include assumptions concerning the Company's future growth potential, expected capital expenditures, competitive conditions, results of operations, future prospects and opportunities, industry trends remaining unchanged, future levels of indebtedness, the tax laws as currently in effect remaining unchanged and the current economic conditions remaining unchanged. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, without limitation, the risks and uncertainties discussed under the heading "Risks Factors and Uncertainties" in the AIF, elsewhere in this MD&A and the 2018 Annual Reports and in other filings that Company has made and may make in the future with applicable securities authorities.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward-looking statements contained in this MD&A. These factors should be considered carefully, and prospective investors should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what management currently believes to be reasonable assumptions, the Company cannot assure prospective investors that actual results, performance or achievements will be consistent with these forward-looking statements.

These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by law. The Company cannot assure investors that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Investors are cautioned that forward-looking statements are not guarantees of future performance and accordingly investors are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein.

BUSINESS OVERVIEW AND OUTLOOK

The Company is engaged in the development and commercialization of over-the-counter ("OTC") listed topical medications with active pharmaceutical ingredients and which contain organic and natural ingredients, including a cannabinoid-rich hemp extract containing cannabidiol ("CBD"). The Company's products are aimed at the rapidly growing markets for topical pain relief and therapeutic skincare and are based on proprietary patent-pending technologies developed by the Company. The Company's formulations combine advanced science with organic and natural ingredients to provide safe relief. The Company currently offers three lines of products: (i) CBD CLINIC™, marketed to the professional practitioner market, (ii) CBDMEDIC™, marketed to the consumer market, and (iii) private label, marketed under customer brands. The Company's products are offered across the United States and are produced by a contract manufacturer in a cGMP (Good Manufacturing Practices regulations) compliant and audited manufacturing facility. For more information on the business of the Company, refer to the Company's AIF under "Description of the Business."

Recent Corporate and Other Developments

On July 24, 2019 Mr. Hannan Fleiman joined the Board of Directors of the Company. He serves as the Chair of the Company's Auditing Committee and Corporate Governance, Nominating, and Compensation Committee.

On August 27, 2019 the Company had a press conference to announce a spokesperson and licensing agreement with Rob Gronkowski, a sports celebrity. The event produced significant nation-wide media stories in print, television, radio, and online avenues discussing the celebrity's plans and CBDMEDIC products.

On October 25, 2019 the Company held a press conference with Rob Gronkowski to announce two agreements with both Gillette Stadium and Patriot Place to promote the awareness of CBDMEDIC. The partnership includes elements of branding, activation, and hospitality for the 2019 and 2020 seasons.

The Company continues to build out its team, adding new capabilities to the staff. During the third quarter, the Company hired a marketing director, a customer service representative, a supply chain manager, and a brand manager. During the month of October, the Company hired a customer service supervisor. An information technology director and a vice president of regulatory affairs and compliance were hired in November.

Abacus continues to add new large distributor customers serving healthcare practitioners, retailers, and convenience stores for both CBDMEDIC and CBDCLINIC products such as Valu Merchandisers, Matrix Distributors, E&S International Enterprises, and WBC Group.

Presentations were given at the following recent investor conferences: Eight Capital & Cassels Brock Global Cannabis conference, CanEx Jamaica, Cannapreneur, IC3, Benzinga, and Cowen 2nd Annual Boston Cannabis conference.

FACTORS AFFECTING THE COMPANY'S PERFORMANCE

Regulatory

On December 20, 2018, the President of the United States signed the Agriculture Improvement Act of 2018 ("AIA"), Pub. L. No. 115-334, 132 Stat. 4490. That statute removed hemp and hemp derived ingredients from the prohibitions set forth in the Controlled Substances Act (the "CSA"), 21 U.S.C. § 801 et seq., see AIA § 12619. The AIA defines hemp as the plant *Cannabis sativa L*. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a THC (Tetrahydrocannabinol) concentration of not more than 0.3 percent on a dry weight basis. Thus, interstate commerce in hemp, hemp extracts, and other hemp derived ingredients, such as CBD, may legally be marketed interstate. Id. § 10114. Provided that the hemp-derived ingredient is safe and suitable and does not interfere with the effectiveness of the active ingredient(s) and any tests for the drug product, nothing in the Food, Drug & Cosmetic (FDC) Act precludes the use of such ingredient in OTC monograph products, such as those produced and marketed by Abacus.

Hemp-derived ingredients (including CBD) may be used as cosmetic ingredients in products that are formulated and labeled consistent with an OTC drug monograph. Cosmetic claims for the hemp-derived ingredient are permissible. The presence of health-related claims consistent with the OTC monograph does not cause the inactive cosmetic ingredient to become a drug. All allowable health claims in an OTC drug are attributed to the active pharmaceutical ingredients, per the requirements of the U.S. Food and Drug Administration ("FDA").

In the United States ("US"), each state is establishing its own legislation and rulemaking for growing hemp, retail sales, and labeling of products containing hemp-derivatives. Abacus is monitoring the rulemaking in each state to ensure the Company remains in compliance. As needed, the Company engages in activities to educate legislators and individuals at state authorities to ensure their rulemaking fully supports distribution and retailing of the Company's products.

Intellectual Property and Research and Development

The intellectual property and proprietary rights of Abacus, as well as its research and development ("R&D") efforts, are very important to its business. In efforts to secure, maintain and protect its intellectual property and proprietary rights in the US, European Union ("EU"), Canada and other territories, Abacus relies on a combination of trademarks, trade secrets and other rights. In addition, Abacus has a US patent application pending which covers formulations and methods that combine CBD and analgesic compounds for effectively alleviating pain associated with arthritis, muscle and joint aches, sprains, and strains. Abacus also has confidentiality and/or license agreements with certain employees, contractors and other third parties, which limit access to and use of Abacus' proprietary intellectual property. Abacus has trademark rights on the "CBD CLINIC" and "CBDMEDIC" brand names, their respective leaf logos, taglines "Revolutionary Pain Relief™" and "Experience the Pain Relief Revolution™", and "Active Sport™" and other terms used in marketing. Trademark registration has been approved in the EU for CBD CLINIC, CBDMEDIC, their respective leaf logos, and is pending in the US, Canada, and other countries.

Abacus seeks to develop new OTC non-prescription CBD products addressing additional medical indications within the health and wellness segments and continues to invest in R&D efforts. Abacus' R&D efforts are also focused on reformulations of existing products to offer a wider range of product forms, including roll-on and patch products. Key members of Abacus' leadership team have significant formulation and product development expertise. R&D efforts are conducted with the support of external consultants and companies.

Abacus established an Israel-based subsidiary in 2018 to support, amongst other goals, its efforts to identify and secure unique technologies that have been or are being developed in Israel, a country recognized to be highly active in R&D of technologies involving pharmaceuticals and cannabis-derivatives including CBD. Abacus has an ongoing program in Israel whereby it seeks to maintain ties to key institutions and researchers and thereby give it an earlier window and opportunity to secure technologies which it believes offer good potential for commercialization.

Sales, Customers and Distribution Growth Strategy

Abacus' marketing strategy is focused on supporting its varied sales efforts and growing the CBD CLINIC and CBDMEDIC brands as the most trusted names in the industry as synonyms for "effective" and "safe" topical relief. The CBD CLINIC and CBDMEDIC products benefit greatly by the ability of Abacus to make specific pain relief and therapeutic skin care claims on their packaging—due to their compliance with FDA requirements for OTC drug products.

Abacus employs different sales strategies for its CBD CLINIC and CBDMEDIC product lines.

Via Abacus' inside sales team, the CBD CLINIC product line is sold only to professional practitioners through a distributor network that serves this market as well as through Abacus' e-commerce platform. Abacus' sales activities in this market are focused on maximizing the breadth and quality of its distributor network as well as maximizing direct sales to practitioners who have registered accounts with Abacus. Abacus believes its dual channel approach to healthcare practitioners will allow it to efficiently reach the majority of healthcare practitioners in the US who treat pain. CBD CLINIC has an advertising program in leading professional publications, both on-line and print, such as Dynamic Chiropractor, Chiropractic Economics, The American Chiropractor, Acupuncture Today, Massage Magazine, and Massage and Bodywork. Abacus continues to evaluate additional opportunities to further broaden availability of its CBD CLINIC products inside and outside the US.

The CBDMEDIC product line is marketed by brokers as well as an inside and field sales team to pharmacies, supermarkets, mass retailers and online direct to consumers through the e-commerce platform of Abacus.

Abacus is expanding brand awareness among retail accounts by attending several key industry trade shows and conferences in 2019 such as NACDS Total Store Expo, GMDC, Natural Products Expo East and ECRM Hemp/CBD & Healthcare. Throughout 2019, the Company has been featured in leading retailer trade journals to help build brand name recognition and position the brand as the #1 choice for retailers' shelves.

Abacus is promoting its brands and products through a combination of owned, earned and paid media, and marketing opportunities supported by a leading advertising agency and public relations firm.

The Company continues to invest in packaging, displays, and collateral materials for its products to ensure they best represent its brand values of effectiveness, safety and credibility. The CBDMEDIC and CBD CLINIC websites play an integral role both in serving as additional points of sale and educating consumers and business owners.

Abacus is engaging social media influencers, as well as traditional and digital marketing partners, to support its marketing efforts. Abacus is continuing to build out a digital marketing department to connect with its consumers online. By hiring specialists in traditional and experimental social media campaigns, pay-per-click advertising, media buying opportunities, search engine optimization, and online written/video content creation, Abacus intends to capitalize on the curiosity surrounding alternative pain relief methods as well as CBD.

During the month of August, the Company entered into a spokesperson and licensing agreement with Rob Gronkowski, a sports celebrity. The Company and the celebrity had a press conference on August 27, 2019 to announce the agreement. The press conference produced significant nation-wide media stories in print, television, radio and online avenues discussing the celebrity's plans, the Company, and the Company's CBDMEDIC products. Additional interviews on national television have occurred driving further awareness of the Company and its products.

SELECTED FINANCIAL INFORMATION

Selected financial information of the Company for the three and nine months ended September 30, 2019 and 2018 is set forth below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Total Revenue	$ 4,073,928	$ 2,064,117	$ 11,118,478	$5,579,000
Net and Comprehensive Income (Loss)	$ 58,584	$ (102,862)	$(12,007,306)	$1,044,713
Total Assets	$ 43,583,977	$ 6,257,326	$ 43,583,977	$6,257,326
Total Non-current Liabilities	$ 288,706	$ 2,229,676	$ 288,706	$2,229,676
Cash Distributions Declared	$ -	$ 325,000	$ -	$ 416,000

For additional information, see "Discussion of Operations" below.

SUMMARY OF QUARTERLY RESULTS

The following financial data for each of the eight most recently completed quarters has been prepared in accordance with IFRS.

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Total Revenues	$4,073,928	$3,222,343	$3,822,207	$2,958,024	$2,064,117	$2,076,761	$1,438,122	$1,226,067
Net and Comprehensive Income (Loss)	$58,584	$451,715	$(12,517,605)	$(1,423,046)	$(102,862)	$606,243	$541,332	$411,448
Attributable to LLC Members	N/A	N/A	N/A	N/A	N/A	$606,243	$541,332	$411,448
Attributable to shareholders	$58,584	$451,715	$(12,517,605)	$(1,423,046)	$(102,862)	N/A	N/A	N/A
Earnings (Loss) per Share – Basic	$0.00	$0.02	$(0.79)	$(0.11)	N/A	N/A	N/A	N/A
Earnings (Loss) per Share – Diluted	$0.00	$0.02	$(0.79)	$(0.11)	N/A	N/A	N/A	N/A
Total Assets	$43,583,977	$43,523,332	$21,177,759	$6,662,243	$6,257,326	$2,893,887	$2,122,383	$829,549
Total Non-Current Liabilities	$288,706	$333,307	$2,618,841	$2,197,909	$2,229,676	$-	$-	$-

DISCUSSION OF OPERATIONS

Comparison of the Three Months Ended September 30, 2019 and 2018

	Three Months Ended September 30,			
	2019	2018	Variance	% Change
Revenue	$ 4,073,928	$2,064,117	$ 2,009,811	97.4%
Cost of Sales	$ 1,623,984	$ 839,168	$ 784,816	93.5%
Gross Profit	$ 2,449,944	$1,224,949	$ 1,224,995	100.0%
Expenses - General and Administrative	$ 7,722,027	$1,183,481	$ 6,538,546	552.5%
Other Income (Expenses)	$ 3,067,478	$ (144,330)	$ 3,211,808	2,225.3%
Net Income (Loss)	$ 6,656	$ (102,862)	$ 109,518	106.5%
Other Comprehensive Income	$ 51,928	$ -	$ 51,928	-%
Net and Comprehensive Income (Loss)	$ 58,584	$ (102,862)	$ 161,446	157.0%

Comparison of the Nine Months Ended September 30, 2019 and 2018

	Nine Months Ended September 30,			
	2019	2018	Variance	% Change
Revenue	$ 11,118,478	$5,579,000	$ 5,539,478	99.3%
Cost of Sales	$ 4,271,290	$2,298,954	$ 1,972,336	85.8%
Gross Profit	$ 6,847,188	$3,280,046	$ 3,567,142	108.8%
Expenses - General and Administrative	$ 18,307,256	$2,039,442	$ 16,267,814	797.7%
Other Income (Expense)	$ (4,584,944)	$ (195,891)	$ 4,389,053	(2,240.6)%
Net Income (Loss)	$ (12,092,596)	$1,044,713	$ (13,137,309)	(1,257.5)%
Other Comprehensive Income (Loss)	$ 85,290	$ -	$ 85,290	-%
Net and Comprehensive Income (Loss)	$ (12,007,306)	$1,044,713	$ (13,052,019)	(1,249.3)%

Revenue

The Company derives its revenues primarily from sales of its CBD CLINIC product line sold to professional practitioners through a distributor network that serves this market as well as through Abacus' e-commerce platform. Abacus' sales activities in this market are focused on maximizing the breadth and quality of its distributor network as well as maximizing direct sales to practitioners who have registered with Abacus through an inside-sales team. Abacus believes its dual channel approach to healthcare practitioners will allow it to efficiently reach the majority of healthcare practitioners that treat muscle and joint pain in the US. Abacus continues to evaluate additional distributors to further broaden availability of its products to this market.

The CBDMEDIC product line is sold directly and indirectly to pharmacy and supermarket retailers and to consumers through the e-commerce platform of Abacus. Abacus' sales strategy for its CBDMEDIC products is focused on establishing strong relationships with, and distribution by, food, drug and mass retail chains.

For the three and nine months ended September 30, 2019, approximately 70.6% and 79.7% of revenue was generated from the CBD CLINIC product line compared to 97.6% and 98.7% for the three and nine months ended September 30, 2018.

Revenue for the three months ended September 30, 2019 was $4,073,928 which represents an increase of $2,009,811 compared to revenue of $2,064,117 for the three months ended September 30, 2018. The increase in revenue was driven by an increase in sales to distributors that sold the Company's CBD CLINIC products in the chiropractic and massage therapist markets as well as CBDMEDIC products to pharmacy and supermarket retailers.

Revenue for the nine months ended September 30, 2019 was $11,118,478 which represents an increase of $5,539,478 compared to revenue of $5,579,000 for the nine months ended September 30, 2018. The increase in revenue was driven by an increase in sales to distributors that sold the Company's CBD CLINIC products in the chiropractic and massage therapist markets as well as CBDMEDIC products to pharmacy and supermarket retailers. In addition, the Company sold $93,280 of product under a customer brand.

Cost of Sales

Cost of sales includes the cost of the Company's products manufactured by Aidance Skincare & Topical Solutions, LLC ("Aidance") and third-party manufacturers. These costs include charges for product, packaging, samples and displays.

Cost of sales for the three months ended September 30, 2019 was $1,623,984, an increase of $784,816 compared to the cost of sales for the three months ended September 30, 2018 of $839,168, driven by sales of its CBD CLINIC and CBDMEDIC products.

Cost of sales for the nine months ended September 30, 2019 was $4,271,290, an increase of $1,972,336 compared to the cost of sales for the nine months ended September 30, 2018 of $2,298,954, driven by sales of its CBD CLINIC and CBDMEDIC products.

Gross Profit

Gross profit is revenue less cost of sales. Cost of sales includes the cost of the Company's products manufactured by Aidance and third-party manufacturers. These costs include charges for product, packaging, samples and displays.

Gross profit for the three months ended September 30, 2019 was $2,449,944 representing a gross margin of 60.1% from the sale of products. This is compared to a gross profit of $1,224,949 representing a gross margin of 59.3% for the three months ended September 30, 2018. The gross margin improved as the Company's purchase price declined over the period as Aidance passed along economies of scale and lower raw material costs.

Gross profit for the nine months ended September 30, 2019 was $6,847,188 representing a gross margin of 61.6% from the sale of products. This is compared to a gross profit of $3,280,046 representing a gross margin of 58.8% for the nine months ended September 30, 2018. The gross margin improved as the Company's purchase price declined over the period as Aidance passed along economies of scale and lower raw material costs.

Expenses - General and Administrative

Expenses - General and Administrative include the cost of shipping and delivery, salaries, wages, benefits, officer compensation, management services, marketing and advertising, professional services, office, legal, accounting, depreciation, and R&D expenses. The Company will continue to invest in these areas to support its aggressive expansion and growth plans. Abacus also expects to incur significant increases in stock and cash compensation, recruiting, legal and accounting and professional fees associated with being a publicly traded company.

Expenses - General and Administrative for the three months ended September 30, 2019 were $7,722,027 consisting of the following:

> Shipping and delivery: $220,192 an increase of $164,279 compared to $55,913 for the three months ended September 30, 2018 due to increased product sales.
>
> Salaries, wages, and benefits: $1,508,471 an increase of $1,397,328 compared to $111,143 for three months ended September 30, 2018 due the hiring of management, finance, marketing, and sales staff to support the sales and marketing efforts of the Company's products.
>
> Management services: $(17,100) a decrease of $170,304 compared to $153,204 for the three months ended September 30, 2018 due to the direct hiring of management and staff. The services provided by Aidance in 2019 consisted of technical and general business support. Abacus provided services in excess of services provided by Aidance during the third quarter. The services provided by Abacus to Aidance consisted of CEO leadership, administrative, and technical research. Prior to 2019, the Company's CEO was an Aidance employee. The cost of his services was charged to Abacus.
>
> Marketing and advertising: $4,361,625 an increase of $3,999,563 compared to $362,062 for the three months ended September 30, 2018 due to a ramp up in activities to promote the Company's products. For example, during the quarter the Company participated in events targeting consumers and healthcare practitioners. Additionally, the company began targeted television and radio advertising to promote the CBDMEDIC product line. During the quarter, the Company incurred expenses associated with its new partnership with three-time professional football champion, Rob Gronkowski. Also, during the quarter, the Company incurred expenses associated with its two new agreements with Gillette Stadium and Patriot Place, respectively for branding, activation, and hospitality opportunities.
>
> Professional fees: $998,514 an increase of $580,274 compared to $418,240 for the three months ended September 30, 2018 due to increased accounting, tax, legal, public relations, and other professional fees associated with the Company's growth and becoming a reporting issuer listed on a stock exchange.
>
> Office and general: $514,845 an increase of $458,452 compared to $56,393 for the three months ended September 30, 2018 due to organizational growth. The expenses include expenditures for telecommunications, IT services, supplies, fees, business insurance, investor relations services, director compensation, and employee recruitment fees.
>
> Depreciation and amortization: $72,913 an increase of $71,937 compared to $976 for the three months ended September 30, 2018 due to purchases of office furniture, computers, and leasehold improvements.
>
> Research and development: $62,567 an increase of $37,017 compared to $25,550 for the three months ended September 30, 2018 due to the increase of R&D activities and projects. The Company conducted testing and evaluation to help support the new skincare line as well as pending patent application, performed evaluations and tests on potential ingredients, and ingredients from potential suppliers. Abacus engaged a researcher in Israel to identify and research pipeline products.

Expenses - General and Administrative for the nine months ended September 30, 2019 were $18,307,256 consisting of the following:

Shipping and delivery: $425,636 an increase of $313,419 compared to $112,217 for the nine months ended September 30, 2018 due to increased product sales.

Salaries, wages, and benefits: $4,331,907 an increase of $4,202,911 compared to $128,996 for nine months ended September 30, 2018 due the hiring of management, finance, marketing, and sales staff to support the sales and marketing efforts of the Company's products.

Management services: $77,018 a decrease of $315,802 compared to $392,820 for the nine months ended September 30, 2018 due to the direct hiring of management and staff. The services provided by Aidance consisted of management and leadership services for several areas across the Company. Prior to 2019, the Company's CEO was an Aidance employee. The cost of his services was charged to Abacus.

Marketing and advertising: $8,747,259 an increase of $8,077,226 compared to $670,033 for the nine months ended September 30, 2018 due to a ramp up in activities to promote the Company's products. For example, in January the Company had a major presence and sponsorship at the Wodapalooza Lifestyle Fitness Festival in Miami, Florida. Additionally, the Company exhibited at the Outdoor Retailer Snow Show, the Integrative Healthcare Symposium, the ECRM Hemp/CBD Health & Beauty Care EPPS, Florida Chiropractic Association show, National Association of Chain Drug Stores show, C-Store Expo, and Natural products Expo. Throughout the first nine months of 2019, the Company has been featured in leading retailer trade journals to help build brand name recognition and position the brand as the #1 choice for retailers' shelves. Print and on-line advertising in several magazine, business trade journals, and their respective websites were placed throughout the quarter. Abacus entered into contracts with a leading Chicago advertising agency as well as a New York public relations firm to develop plans and tactics to grow consumer awareness and stimulate product trial. Additionally, in the third quarter, the Company began targeted television and radio advertising to promote the CBDMEDIC product line. Also, during the third quarter, the Company incurred expenses associated with its two new agreements with Gillette Stadium and Patriot Place, respectively for branding, activation, and hospitality opportunities.

Professional fees: $2,697,356 an increase of $2,081,123 compared to $616,233 for the nine months ended September 30, 2018 due to increased accounting, tax, legal, public relations, and other professional fees associated with the Company's growth and becoming a reporting issuer listed on a stock exchange.

Office and general: $1,352,032 an increase of $1,277,057 compared to $74,975 for the nine months ended September 30, 2018 due to organizational growth. The expenses include expenditures for telecommunications, IT services, supplies, fees, business insurance, investor relations services, director compensation, and employee recruitment fees.

Depreciation and amortization: $155,089 an increase of $153,772 compared to $1,317 for the nine months ended September 30, 2018 due to purchases of office furniture, computers, and leasehold improvements.

Research and development: $520,959 an increase of $478,108 compared to $42,851 for the nine months ended September 30, 2018 due to the commencement of R&D activities and projects. The Company conducted testing and evaluation to help support the new skincare line as well as pending patent application, performed evaluations and tests on potential ingredients, and ingredients from potential suppliers. Abacus engaged a researcher in Israel to identify and research pipeline products. The Company also entered into a development agreement with a third party for a uniquely activated product delivery system for consumer and professional use.

Other Income (Expenses)

Other Income (Expenses) include interest income, interest and bank charges, foreign exchange, reverse take-over listing expense and fair value adjustment.

Other Income (Expenses) for the three months ended September 30, 2019 was a gain of $3,067,478, consisting of the following:

> Interest income: income of $116,903, an increase of $116,903 compared to $Nil for the three months ended September 30, 2018 due to interest income from cash balances held at a bank.
>
> Interest and bank charges: an expense of $60,143, a decrease of $46,833 compared to $106,976 for the three months ended September 30, 2018 due to credit card processing fees and bank service fees.
>
> Foreign exchange: an expense of $44,463 – an increase of $7,109 compared to a loss of $37,354 for the three months ended September 30, 2018 due to increase in foreign denominated purchase transactions.
>
> Fair Value Adjustment: income of $3,055,181 - a gain from change in fair value of $3,055,181 compared to $Nil for the three months ended September 30, 2018 due to financial derivatives (warrants) issued in conjunction with the convertible debentures financing and purchase warrants issued in connection with the 2019 Public Offering (as defined below). Fair value of the derivatives decreased as a result of the change in the Company's stock price during the quarter.

Other Income (Expenses) for the nine months ended September 30, 2019 was an expense of $4,584,944, consisting of the following:

> Interest income: income of $246,550, an increase of $246,550 compared to $Nil for the nine months ended September 30, 2018 due to interest income from cash balances held at a bank.
>
> Interest and bank charges: an expense of $499,278, an increase of $340,741 compared to $158,537 for the nine months ended September 30, 2018 due to interest charges from the convertible debentures as well as increased credit card processing fees incurred due to growth in sales volume.
>
> Foreign exchange: an expense of $249,072 - a loss of $249,072 compared to a loss of $37,354 for the nine months ended September 30, 2018 due to increase in foreign denominated purchase transactions and liabilities such as the convertible debentures.
>
> Loss on debenture conversion: an expense of $572,619 – a loss of $572,619 compared to $Nil for the nine months ended September 30, 2018. See note 9 of the Q3 2019 Financial Statements for additional details.
>
> Reverse take-over listing expense: an expense of $1,755,174, an increase of $1,755,174 compared to $Nil for the nine months ended September 30, 2018 due to fees, fair value of consideration paid, and professional services associated with the RTO. See note 11 of the Q3 2019 Financial Statements for additional details.
>
> Fair Value Adjustment: an expense of $1,755,351 - a loss from change in fair value of $1,755,351 compared to $Nil for the nine months ended September 30, 2018 due to financial derivatives (warrants) issued in conjunction with the convertible debentures financing and purchase warrants issued in connection with the 2019 Public Offering. Fair value of the derivatives increased as a result of the change in the Company's stock price during the period.

Net Income

Net Income for three months ended September 30, 2019 was $6,656, consisting of the following:

> Income (Loss) before taxes was $(2,204,605) an increase of $(2,101,743) compared to a loss of $(102,862) for three months ended September 30, 2018.
>
> Tax Provision: $(2,211,261) (benefit)/expense - a benefit of $2,211,261 compared to $Nil for the three months ended September 30, 2018. As discussed in note 15 of the Q3 Financial Statements, prior to September 30, 2018 the Company recorded no provision for taxes as its legal structure was a pass-through entity.

Net Income (Loss) for the nine months ended September 30, 2019 was $(12,092,596), consisting of the following:

> Income (Loss) before taxes was $(16,045,012) a decrease of $(17,089,725) compared to income of $1,044,713 for the nine months ended September 30, 2018.
>
> Tax Provision: $(3,952,416) (benefit)/expense - a benefit of $3,952,416 compared to $Nil for the nine months ended September 30, 2018. As discussed in note 15 of the Q3 Financial Statements, prior to September 30, 2018 the Company recorded no provision for taxes as its legal structure was a pass-through entity.

Other Comprehensive Loss

Total other comprehensive loss for the three months ended September 30, 2019 was a gain of $51,928, consisting of the following:

> Foreign exchange: $(51,928) (gain)/loss - a gain of $51,928 compared to $Nil for the three months ended September 30, 2018 due to currency translation upon consolidation of CBD Pharmaceuticals, LTD. with Abacus US’ subsidiary.

Total other comprehensive loss for the nine months ended September 30, 2019 was a gain of $85,290, consisting of the following:

> Foreign exchange: $(85,290) (gain)/loss - a gain of $85,290 compared to $Nil for the nine months ended September 30, 2018 due to currency translation upon consolidation of CBD Pharmaceuticals, LTD. with Abacus US’ subsidiary.

Net and Comprehensive Income (Loss)

Net and comprehensive income for the three months ended September 30, 2019 was $58,584 an increase of $161,446 compared to a net and comprehensive loss of $(102,862) for the three months ended September 30, 2018. The decrease in net and comprehensive income (loss) was driven by increased operating costs offset by gains from the change in fair value and tax benefit derived from deferred tax assets.

Net and comprehensive income loss for the nine months ended September 30, 2019 was $(12,007,306) a decrease of $13,052,019 compared to a net and comprehensive income of $1,044,713 for the nine months ended September 30, 2018. The decrease in net and comprehensive income (loss) was driven by increased operating costs, the change in fair value and the RTO listing expense.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2019, the Company has total current liabilities of $6,997,192 (December 31, 2018 - $4,599,601) and cash of $28,239,971 (December 31, 2018- $3,814,489) to meet its current obligations.

As of September 30, 2019, the Company has trade receivables of $2,727,244 (December 31, 2018 - $912,601), inventory of $2,163,232 (December 31, 2018 - $1,003,893), prepaid expenses and other current assets of $1,043,648 (December 31, 2018 - $751,222), income tax receivable of $140,000 (December 31, 2018 $Nil), due from LLC members of $Nil (December 31, 2018 - $21,633) and advances to supplier of $2,340,000 (December 31, 2018 $Nil).

The Company is an early stage growth company. It is generating cash from sales and deploying its capital reserves to acquire additional customers and distribution channels, as well as funding continuing product development.

In 2018, Abacus US, now a wholly-owned subsidiary of the Company, began a brokered private placement offering of a total of 4,000,000 subscription receipts at a price of $3.75 per subscription receipt (the "Financing"). In connection with the Financing, Abacus US issued subscription receipts in two tranches, one in 2018 and one in the first quarter of 2019, with proceeds less fees 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 of the Financing 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, Abacus US incurred costs totaling $1,506,889 for fees and commissions. The costs included $656,726 for the value of warrants issued as a commission. The warrants were exercisable for 174,927 Class A common stock of Abacus US at a per share price of $3.75 and were exchanged for warrants of the Company as a result of the RTO. The warrants expire two years from the closing of the RTO. At December 31, 2018, Abacus US recorded a subscription receivable in the amount of $11,850,256 for the expected net cash proceeds of this tranche.

On January 7, 2019, the second tranche of the Financing was completed and a total of 727,650 subscription receipts were issued by Abacus US for gross proceeds of $2,728,687. In connection with this second tranche, warrants for the purchase of 21,000 Class A common stock were issued by Abacus US with an exercise price of $3.75 per share. The warrants were exchanged for warrants of the Company as a result of the RTO. 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 of Abacus US.

On January 29, 2019, the Company completed the RTO with Abacus US. Prior to the closing of the RTO, the Company was a largely inactive mineral exploration company located in Canada and formerly known as World Wide Inc. For more information on the treatment of the securities of Abacus US under the RTO, see note 11 in the Q3 Financial Statements.

On April 17, 2019, the Company entered into an underwriting agreement and filed a preliminary short form prospectus for the distribution on a bought deal basis of 2,143,000 units of the Company at a price of CDN$14.00 per unit (the "Units"), for gross proceeds of approximately CDN$30,002,000, excluding the over-allotment option granted to the underwriters (the "2019 Public Offering"). The Company filed the final short form prospectus for the offering on May 3, 2019 (the "2019 Final Prospectus"). On May 8, 2019, the Company closed the 2019 Public Offering and, as a result of the full exercise by the underwriters of their over-allotment option, a total of 2,464,450 Units for CDN$34,502,300 were distributed. From the gross proceeds, CDN$2,534,384 were deducted for the costs of the offering, including the commission payable to the underwriters, resulting in CDN$31,967,916 or US$23,706,287 of net proceeds to the Company under the 2019 Public Offering. Each Unit consisted of one subordinate voting share of the Company ("Subordinate Voting Shares") and one half of one Subordinate Voting Share purchase warrant, each whole warrant entitling the holder to purchase one Subordinate Voting Share at an exercise price of CDN$18.00 per share. The warrants are exercisable and expire on the third anniversary of the date of their issuance.

As disclosed under "Use of Proceeds" in the 2019 Final Prospectus, the Company intends to use the net proceeds of the 2019 Public Offering to accelerate the Company's marketing and sales programs to seek to increase retail pharmacy store locations; for working capital to support the associated increase in sales; to advance the international distribution of its products and other general corporate purposes.

On May 15, 2019, the Company gave notice that the entire aggregate principal amount of the convertible debentures outstanding would be pre-paid on June 17, 2019 along with accrued interest. Debenture holders exercised their right to receive equity upon conversion. Accordingly, a total of 1,047,119 Subordinate Voting Shares were issued upon conversion of the convertible debentures. The accrued interest due was paid in cash.

Contractual Obligations

The following is a summary of the Company's contractual obligations at September 30, 2019:

	Payments Due by Period		
Contractual Obligations as of September 30, 2019	**Total**	**Less than 1 year**	**1-3 years**
Trade payables	$4,696,147	$4,696,147	$ 0
Lease obligations	513,423	212,040	301,383
Vendor commitments	2,650,000	1,300,000	1,350,000
Total Contractual Obligations	$7,859,570	$6,208,187	$1,651,383

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

	Contractual cash flows	**Less than one year**	**1-3 years**	**Greater than 3 years**
September 30, 2019				
Trade payables	$4,696,147	$4,696,147	$ -	$-
Total	**$4,696,147**	**$4,696,147**	**$ -**	**$-**

CASH FLOWS

Comparison of the Three and Nine Months Ended September 30, 2019 and 2018

The table below outlines a summary of cash inflows and outflows by activity for the three and nine months ended September 30, 2019 and 2018.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2019	**2018**	**2019**	**2018**
Net cash provided by (used for) operating activities	$(3,986,077)	$ 171,944	$(14,795,683)	$1,347,923
Net cash provided by (used for) financing activities	$ (23,655)	$ 2,792,630	$39,595,250	$ 2,738,117
Net cash provided by (used for) investing activities	$ (20,137)	$ (48,597)	$ (374,085)	$ (59,676)

Cash flows provided by (used for) Operating Activities

Net cash flows used for operating activities was $(3,986,077) for the three months ended September 30, 2019, a decrease of $4,158,021 compared to $171,944 of cash provided by operating activities for the three months ended September 30, 2018. The decrease in cash provided by operating activities was primarily due to the fair value change of the derivative liability, deferred income taxes, advances to supplier, and prepaid services, offset by increases in trade payables, and decreases in inventory and prepaid expenses.

Net cash flows used for operating activities was $(14,795,683) for the nine months ended September 30, 2019, a decrease of $16,143,606 compared to $1,347,923 of cash provided by operating activities for the nine months ended

September 30, 2018. The decrease in cash provided by operating activities was primarily due to an increase in sales volume, marketing, advertising, and other expenses as well as an increase in trade receivables, advances to supplier, prepaid services and inventories, offset by increases in trade payables.

Cash flows provided by (used for) Financing Activities

For the three months ended September 30, 2019, cash provided by financing activities was ($23,655) a decrease of $2,816,285 compared to $2,792,630 for the three months ended September 30, 2018. The decrease is primarily due to the net proceeds received from the Convertible Debenture issued in 2018.

For the nine months ended September 30, 2019, cash provided by financing activities was $39,595,250 an increase of $36,857,133 compared to $2,738,117 for the nine months ended September 30, 2018. The increase is primarily due to the net proceeds received from the Financing and the 2019 Public Offering totaling $38,207,442 as well as proceeds from warrant exercises of $1,755,521, less lease payments of $96,891, and less distributions paid to former LLC members of $270,822.

Cash flows provided by (used for) Investing Activities

Net cash used for investing activities was $(20,137) for the three months ended September 30, 2019, an increase of $28,460 compared to $(48,597) for the three months ended September 30, 2018. The increase was primarily due to payment from former LLC members.

Net cash used for investing activities was $(374,085) for the nine months ended September 30, 2019, a decrease of $314,409 compared to $(59,676) for the nine months ended September 30, 2018. The decrease was primarily due to additions to furniture and equipment.

TRANSACTIONS WITH RELATED PARTIES

The following tables summarize the Company's related party transactions for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30,	
	2019	**2018**
Aidance – Former Majority Shareholder		
Inventory purchases	$ 1,794,540	$ 989,567
Advances	$(2,340,000)	$ -
Fulfillment services	$ 46,125	$ -
Management services received	$ 24,900	$ 128,942
Management services provided	$ (42,000)	$ -
Total	**$(516,435)**	**$1,118,509**
Other Shareholders		
Marketing and advertising[1]	$ 22,287	$ 9,000
Professional fees[2]	$ 32,812	$ 8,245
Total	**$ 55,099**	**$ 17,245**

---

1 Fees paid for marketing and advertising services to Rhonda Attar, a relative of the Company's Chief Executive Officer, and Moti Hemo, a shareholder for marketing consulting.

2 Professional fees paid in the ordinary course to: (i) Richon LLC, a shareholder for consulting, (ii) Roy S. Schreiber & Co., a company owned by Roy S. Schreiber, a shareholder for financial accounting services, (iii) Ronald Lang, a trustee of the Ronald Lang Revocable Trust, a shareholder for management consulting, and (iv) Jonathan Conforti, a shareholder for corporate development and investor relations consulting services.

The following tables summarize the Company's related party transactions for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,	
	2019	2018
Aidance – Former Majority Shareholder		
Inventory purchases	$7,377,205	$2,488,786
Inventory advances	$(2,340,000)	$ -
Fulfillment services	$ 84,090	$ -
Management services received	$ 148,078	$ 364,103
Management services provided	$ (142,731)	$ -
Total	**$5,126,642**	**$2,852,889**
Other Shareholders		
Marketing and advertising[3]	$ 185,498	$ 33,000
Professional fees[4]	$ 126,552	$ 18,345
Total	$ 312,050	$ 51,345

At September 30, 2019 and December 31, 2018, amounts due to and from related parties consisted of:

	September 30, 2019	December 31, 2018
Trade payables, Aidance	$ 952,249	$ 724,081
Trade receivables, Aidance	$ 106,958	$ -
Advances to supplier, Aidance[5]	$ 2,340,000	$ -
Trade payables, shareholders[6]	$ 137	$ 24,157
Distribution payable to LLC members[7]	$ -	$ 270,822
Due from LLC members[8]	$ -	$ 21,633

Aidance is the manufacturer of nearly all of the Company's products. On June 29, 2018, the Company (then Abacus US) 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

3 Fees paid for marketing and advertising services to Rhonda Attar, a relative of the Company's Chief Executive Officer, and Moti Hemo, a shareholder for marketing consulting.

4 Professional fees paid in the ordinary course to: (i) Richon LLC, a shareholder for consulting, (ii) Roy S. Schreiber & Co., a company owned by Roy S. Schreiber, a shareholder for financial accounting services, (iii) Ronald Lang, a trustee of the Ronald Lang Revocable Trust, a shareholder for management consulting, and (iv) Jonathan Conforti, a shareholder for corporate development and investor relations consulting services.

5 During the period ended September 30, 2019, the Company discovered that it had been erroneously invoiced for purchases of finished goods during 2019 from Aidance. As a consequence, the inventory balances as of March 31, 2019 and June 30, 2019 were overstated. Management has estimated the value of the invoices for the nine-month period ended September 30, 2019 at $2,340,000 and has reflected this amount as Advances to Supplier in the condensed interim consolidated statement of financial position. Management believes the amounts will be fully settled within twelve months.

6 Trade payables to Ron Lang, a consultant, Rhonda Attar, a relative of the Company's Chief Executive Officer, Moti Hemo, a shareholder, and Jonathan Conforti, a shareholder, for corporate development and investor relations consulting services provided to the Company.

7 Non-interest bearing and with no specified repayment terms.

8 Non-interest bearing and with no specified repayment terms.

8% of the Company’s total net sales in year one, two and three, respectively. See note 7 of the Q3 2019 Financial Statements for additional information.

RISKS AND UNCERTAINTIES

Certain factors may have a material adverse effect on the Company’s business, financial condition and results of operations. Current and prospective investors should carefully consider the risks and uncertainties and other information contained in this MD&A, the Q3 2019 Financial Statements and the 2018 Annual Reports, particularly under the heading “Risk Factors and Uncertainties” in the AIF and in other filings that the Company has made and may make in the future with applicable securities authorities, including those available under the Company’s profile on SEDAR at www.sedar.com. The risks and uncertainties described herein and therein are not the only ones the Company may face. Additional risks and uncertainties that the Company is unaware of, or that the Company currently believes are not material, may also become important factors that could adversely affect the Company’s business, financial condition and results of operations. If any of such risks actually occur, the Company’s business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the trading price of the Subordinate Voting Shares (or the value of any other securities of the Company) could decline, and the Company’s securityholders could lose part or all of their investment.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company has 12,021,473 Subordinate Voting Shares and 95,573.64 Proportionate Voting Shares issued and outstanding. In addition, as of the date of this MD&A, the Company has options to acquire an aggregate of 1,731,729 Subordinate Voting Shares and warrants exercisable to purchase 2,226,917 Subordinate Voting Shares.

SUMMARY OF 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.

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.

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.

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.

Property 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.

Income taxes

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

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

The Company records interest related to unrecognized tax benefits in interest expense and penalties in other expenses.

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.

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, maximising the use of relevant observable inputs and minimising 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.

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 receivable 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.

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.

<u>Financial assets at fair value through profit or loss ("FVTPL")</u>

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.

<u>Financial assets at fair value through other comprehensive income ("FVOCI")</u>

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 OCI 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 receivable, 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.

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

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.

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 shares outstanding is increased by the number of additional common stock that would have been issued by the Company assuming exercise of all stock options with exercise prices below the average market price for the year.

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 three- and nine-months period ended September 30, 2019 and 2018.

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 direct and indirect wholly-owned subsidiaries, Abacus US and 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.

Measurement basis

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

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 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 recognized 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.

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 recognizes 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.

New standards adopted 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.

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%.

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 interpretations with no impact on the interim condensed consolidated financial statements.