Abacus Health Products, Inc.

Interim Management's Discussion and Analysis

For the three months ended March 31, 2020

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 months ended March 31, 2020. 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 months ended March 31, 2020 (the "Q1 2020 Financial Statements"), the Company's audited consolidated financial statements and the accompanying notes for the year ended December 31, 2019 (the "2019 Annual Financial Statements") and management's discussion and analysis thereon (the "2019 Annual MD&A"), and the Company's annual information form dated April 27, 2020 (the "AIF," and together with the 2019 Annual Financial Statements and 2019 Annual MD&A, the "2019 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 May 27, 2020 and, unless otherwise noted, in preparing this MD&A, the Company has considered information available to it up to May 27, 2020.

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 economic conditions, 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 and the tax laws as currently in effect 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 2019 Annual Reports and in other filings that the 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 four lines of products: (i) CBD CLINIC™, marketed to the professional practitioner market, (ii) CBDMEDIC™, marketed to the consumer market, (iii) Harmony Hemp, marketed to the consumer market, and (iv) private label, marketed under customer brands. The Company's products are offered across the United States and are produced by contract manufacturers, including in cGMP (Good Manufacturing Practices) audited manufacturing facilities. 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 March 22, 2020, Abacus and Charlotte's Web Holdings, Inc. ("Charlotte's Web") entered into an arrangement agreement (the "Arrangement Agreement") providing for an acquisition by Charlotte's Web, pursuant to a plan of arrangement under the *Business Corporations Act* (Ontario), of all of the issued and outstanding Subordinate Voting Shares of Abacus, after conversion of all outstanding Proportionate Voting Shares of Abacus (the "Transaction"). Under the terms of the Transaction, holders of Subordinate Voting Shares would be entitled to receive 0.85 of a common share of Charlotte's Web in exchange for each Subordinate Voting Share. Completion of the Transaction is currently expected to occur during the second quarter of 2020. The Transaction is subject to, among other things, the approval of shareholders of Abacus at a special meeting of shareholders, receipt of required regulatory and court approvals and other customary conditions of closing. For additional information on the Transaction, see the press release issued by Abacus on March 23, 2020,the material change report filed by Abacus on April 1, 2020 and the Management Information Circular of Abacus dated May 4, 2020, all of which are available under the profile of Abacus on SEDAR at www.sedar.com.

On February 11, 2020, the Company announced the acquisition, through an indirect wholly-owned subsidiary, Abacus Wellness, Inc., of the principal assets of Benefits US, LLC, a Colorado limited liability company, and Harmony Products, LLC, a Utah limited liability company, which are the companies owning the Harmony Hemp™ brand. Prior to the transaction, Benefits US, LLC and Harmony Products, LLC were engaged in the business of production, distribution, and/or retail sale of hemp and CBD infused products, including topical analgesics, beauty, health and wellness products, under the name "Harmony Hemp". Harmony Hemp, established in 2017 and based in Salt Lake City, is a brand of CBD blended personal care products with national distribution to approximately 4,000 locations in major grocery and drugstores. The consideration of $5.5 million payable pursuant to and subject to the terms of the acquisition agreement for the acquired assets consists of (i) $2,743,806 in cash and (ii) $2,791,194 in Subordinate Voting Shares at a price of $3.70, representing the 10-day volume weighted average trading price of the Subordinate Voting Shares (converted to U.S. dollars) for the period ended February 7, 2020, with payment of both the cash and share consideration to be made over a period of 24 months. The fair value of the cash consideration totalled $2,604,698 at net present value. Acquisition related costs of approximately $254,000 were expensed as incurred. Through this strategic acquisition, Abacus will be expanding its retail footprint by approximately 50% to over 12,000 retail locations.

During the first quarter of 2020, the global emergence of coronavirus ("COVID-19") occurred and has since become an ongoing pandemic, including since March 2020 in the United States ("US"). The long-term repercussions of COVID-19 on the Company's business is presently unknown. The Company will continue to monitor the situation and take measures that alter its business operations as may be required by federal, state or local authorities and/or that the Company deems are in the best interests of its employees, customers, partners, suppliers, shareholders and stakeholders. On March 15, 2020, the Company directed all of its employees to work from home, cancel scheduled business travel, refrain from scheduling future travel, and follow guidelines from the Centers for Disease Control and Prevention. Many US states, Canadian provinces and other jurisdictions have since given stay at home orders. The Company's employees are working well and effectively performing their responsibilities given the challenge of remote work. As a result of the pandemic, the Company began the process of evaluating and changing spending priorities as well as taking direct action to reduce operating expenses to conserve cash. These efforts continue as of the date of this MD&A. Certain states and local governments have made decisions to close non-essential businesses. These government mandated closures and stay at home orders are expected to have consequences on the Company's business. For example, healthcare practitioners have closed their practices or are seeing significantly fewer customers; certain mass merchants have closed their physical stores; pharmacies and grocery stores are open, however, some store traffic is lower, some operating hours have been reduced, and consumer purchasing decisions may have been re-prioritized to other categories. This reality will have a negative impact on the sale of our products. The strain of the retail operating environment may lead retailers to delay adding our product offering, adding new products, or adding additional retail locations all impacting future product sales. The Company relies on distribution partners and freight delivery companies to deliver products to retailers, healthcare practitioners, distributors, and individual consumer orders from our e-commerce sites. Additionally, the Company relies on third party manufacturers, who also rely on other suppliers, to supply raw materials and product to meet customer and consumer demand. If these providers are required to suspend or greatly reduce their operations, there will be a negative impact on the Company and its business. Given the national, state, and local economic strain customers may experience liquidity issues which may negatively impact cash collections.

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 US Food and Drug Administration ("FDA").

In the United States, 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 analgesic compounds for effectively alleviating pain associated with arthritis, muscle and joint aches, sprains, and strains with CBD. 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 also has a number of trademark rights.

Abacus seeks to develop new CBD blended products addressing additional medical indications as well as products aimed at the health and wellness segments and continues to invest in R&D efforts. 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 and Growth Strategy

Abacus' marketing strategy is focused on supporting its varied sales efforts and growing the CBD CLINIC, CBDMEDIC, and Harmony Hemp brands. A significant number of the Company's products benefit by the ability of Abacus to make specific pain relief and therapeutic skin care claims on their packaging—due to the inclusion of active pharmaceutical ingredients and compliance with FDA requirements for OTC drug products. For more information on the sales, customers and distribution growth strategy of Abacus, see the AIF under "Description of the Business – Sales, Customers and Distribution Strategy" and "Description of the Business – Growth Strategy & Business Objectives".

SELECTED FINANCIAL INFORMATION

Selected financial information of the Company for the three months ended March 31, 2020 and 2019 and for the year ended December 31, 2019 is set forth below.

	Three Months Ended March 31		Year Ended December 31
	2020	2019	2019
Total Revenue	$ 4,070,460	$ 3,822,207	$ 15,523,464
Net and Comprehensive Loss	$ (2,349,805)	$ (12,517,605)	$ (16,646,749)
Total Assets	$ 38,943,796	$ 21,177,759	$ 37,163,150
Total Non-current Liabilities	$ 552,922	$ 2,618,841	$ 246,536
Cash Distributions Declared	$ -	$ -	$ -

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.

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Total Revenues	$4,070,460	$4,404,986	$4,073,928	$3,222,343	$3,822,207	$2,958,024	$2,064,117	$2,076,761
Net and Comprehensive Income (Loss)	$(2,349,805)	$(4,639,443)	$58,584	$451,715	$(12,517,605)	$(1,423,046)	$(102,862)	$606,243
Attributable to LLC Members	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$606,243
Attributable to shareholders	$(2,349,805)	$(4,639,443)	$58,584	$451,715	$(12,517,605)	$(1,423,046)	$(102,862)	N/A
Earnings (Loss) per Share – Basic	$(0.11)	$(0.21)	$0.00	$0.02	$(0.79)	$(0.11)	N/A	N/A
Earnings (Loss) per Share – Diluted	$(0.11)	$(0.19)	$0.00	$0.02	$(0.79)	$(0.11)	N/A	N/A
Total Assets	$38,943,796	$37,163,150	$43,583,977	$43,436,439	$21,177,759	$6,662,243	$6,257,326	$2,893,887
Total Non-Current Liabilities	$552,922	$246,536	$288,706	$333,307	$2,618,841	$2,197,909	$2,229,676	$-

DISCUSSION OF OPERATIONS

Comparison of the Three Months Ended March 31, 2020 and 2019

	Three Months Ended March 31,			
	2020	2019	Variance	% Change
Revenue	$ 4,070,460	$3,822,207	$ 248,253	6.5%
Cost of Sales	$ 1,980,476	$1,401,116	$ 579,360	41.3%
Gross Profit	$ 2,089,984	$2,421,091	$ (331,107)	(13.7)%
Expenses - General and Administrative	$ 6,362,094	$5,194,718	$ 1,167,376	22.5%
Other Income (Expenses)	$ 831,900	$(10,495,363)	$ 11,327,263	(107.9)%
Net Loss	$ (2,329,805)	$(12,538,334)	$ 10,208,529	(81.4)%
Other Comprehensive Income (Loss)	$ (19,545)	$ 20,729	$ (40,274)	(194.3)%
Net and Comprehensive Loss	$ (2,349,350)	$ (12,517,605)	$ 10,168,255	(81.2)%

Revenue

The Company derives its revenues 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 and Harmony Hemp product lines are 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 and Harmony Hemp products is focused on establishing strong relationships with, and distribution by, food, drug and mass retail chains.

For the three months ended March 31, 2020, approximately 65.5% of revenue was generated from the CBD CLINIC product line compared to 93% for the three months ended March 31, 2019.

Revenue for the three months ended March 31, 2020 was $4,070,460 which represents an increase of $248,253 compared to revenue of $3,822,207 for the three months ended March 31, 2019. The increase in revenue was driven by an increase of CBDMEDIC and Harmony Hemp products sold to pharmacy and supermarket retailers offset by a decrease in CBD CLINIC products. In addition, the Company sold $66,145 of product under a customer brand.

Cost of Sales

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

Cost of sales for the three months ended March 31, 2020 was $1,980,476 an increase of $579,360 compared to the cost of sales for the three months ended March 31, 2019 of $1,401,116, driven by sales of the CBD CLINIC, CBDMEDIC, Harmony Hemp, and customer branded products. Additionally, during the first quarter of 2020, higher costs were incurred for packaging revisions and in-bound freight for finished goods from contract manufacturers.

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 point-of-sale displays.

Gross profit for the three months ended March 31, 2020 was $2,089,984 representing a gross margin of 51.3% from the sale of products. This is compared to a gross profit of $2,421,091 representing a gross margin of 63.3% for the three months ended March 31, 2019. The gross margin decreased in the first quarter due to higher cost of sales driven by packaging revision changes, additional in-bound freight incurred, retailer trade promotions, and one-time introductory pricing incentives for a new major retail chain.

Expenses - General and Administrative

Expenses - General and Administrative include the cost of shipping and delivery; salaries, wages and benefits; officer compensation; management services; marketing and advertising; professional services; office and general; depreciation and amortization; and research and developments expenses. The Company will continue to invest in these areas to support its aggressive expansion and growth plans. Abacus also expects to continue to incur significant share-based 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 March 31, 2020 were $6,362,094 consisting of the following:

> Shipping and delivery: $232,062 an increase of $155,276 compared to $76,786 for the three months ended March 31, 2019 due to increased product sales as well as smaller and more frequent customer deliveries.
>
> Salaries, wages, and benefits: $2,417,054 an increase of $1,136,325 compared to $1,280,729 for three months ended March 31, 2019 due the hiring of management, finance, marketing, and sales staff to support the sales and marketing efforts of the Company's products.
>
> Management services: $53,100 a decrease of $3,598 compared to $56,698 for the three months ended March 31, 2019 due to the direct hiring of management and staff. The services provided by Aidance in 2020 and 2019 consisted of technical and general business support.

Marketing and advertising: $1,596,802 a decrease of $667,392 compared to $2,264,194 for the three months ended March 31, 2019 due to a reprioritising of activities to promote the Company's products as well as reducing the overall spending level. During the quarter, the Company participated in events targeting consumers and healthcare practitioners.

Professional fees: $1,140,827 an increase of $407,269 compared to $733,558 for the three months ended March 31, 2019 due to increased accounting, tax, legal, public relations, and other professional fees associated with the Company's growth. During the 2020 quarter, the Company also incurred Harmony Hemp acquisition related costs related of approximately $254,000.

Office and general: $726,424 an increase of $333,560 compared to $392,864 for the three months ended March 31, 2019 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: $100,475 an increase of $75,671 compared to $24,804 for the three months ended March 31, 2019 due to purchases of office furniture, computers, and leasehold improvements. In addition, the Company recorded increased amortization expenses related to right-of-use assets as well as amortization of acquired intangible assets.

Research and development: $95,350 a decrease of $269,735 compared to $365,085 for the three months ended March 31, 2019 due to a decrease of R&D spending during the quarter. The Company conducted testing and evaluations on potential ingredients and ingredients from potential suppliers.

Other Income (Expenses)

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

Other Income (Expenses) for the three months ended March 31, 2020 was a gain of $831,900, consisting of the following:

Management service income: income of $23,700, a decrease of $25,122 compared to $48,822 for the three months ended March 31, 2019 due to decreasing management services charged to Aidance. The services provided by Abacus to Aidance consisted of CEO leadership, administrative, and technical research.

Interest income: income of $33,189, a decrease of $10,079 compared to $43,268 for the three months ended March 31, 2019 due to decreased interest rates as well as decreases in the cash balances earning interest.

Interest and bank charges: an expense of $61,127, a decrease of $174,318 compared to $235,445 for the three months ended March 31, 2019 due to bank service fees and lower credit card processing fees resulting from a new service provider. Additionally, interest expense decreased due to the conversion of the Company's convertible debentures in June 2019.

Foreign exchange: income of $12,011 – an increase of $77,241 compared to expense of $65,230 for the three months ended March 31, 2019 due to foreign denominated purchase transactions.

Fair Value Adjustment: income of $824,127 – an increase of $9,355,731 compared to expense of $8,531,604 for the three months ended March 31, 2019 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.

Net Loss

Net Loss for three months ended March 31, 2020 was a loss of $(2,329,805) consisting of the following:

> Loss before taxes was $(3,440,210) an increase of $9,828,780 compared to a loss of $(13,268,990) for three months ended March 31, 2019.
>
> Tax Provision: $(1,110,405) (benefit)/expense - a benefit of $1,110,405 compared to a benefit of $730,656 for the three months ended March 31, 2019.

Other Comprehensive Loss

Total other comprehensive loss for the three months ended March 31, 2020 was a loss of $19,545, consisting of the following:

> Foreign exchange: $19,545 gain/(loss) - a loss of $19,545 compared to a gain of $20,729 for the three months ended March 31, 2019 due to currency translation of foreign denominated purchase transactions.

Net and Comprehensive Loss

Net and comprehensive loss for the three months ended March 31, 2020 was $(2,349,350) a decrease of $10,168,255 compared to a net and comprehensive loss of $(12,517,605) for the three months ended March 31, 2019. The decrease in net and comprehensive loss was driven by gains from the change in fair value and tax benefit derived from deferred tax assets offset by increased operating costs.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2020, the Company has total current liabilities of $4,758,681 (December 31, 2019 - $4,371,059) and cash of $17,264,024 (December 31, 2019- $22,191,563) to meet its current obligations.

As of March 31, 2020, the Company has trade receivables of $3,999,830 (December 31, 2019 - $3,693,093), inventory of $2,222,396 (December 31, 2019 - $1,497,900), prepaid expenses and other current assets of $1,864,139 (December 31, 2019 - $2,025,911), income tax receivable of $35,000 (December 31, 2019 - $35,000).

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 “RTO Financing”). In connection with the RTO 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 RTO 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 subsequently exchanged for warrants of the Company as a result of the closing of the Company's reverse take-over transaction (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 RTO 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 subsequently 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 13 in the 2019 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 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 March 31, 2020:

	Payments Due by Period		
Contractual Obligations as of March 31, 2020	**Total**	**Less than 1 year**	**1-3 years**
Trade payables	$2,315,543	$2,315,543	$ -
Lease obligations	385,000	205,250	179,750
Vendor commitments	1,350,000	1,350,000	-
Business acquisition payable	2,191,086	1,747,163	443,923
Total Contractual Obligations	$6,241,629	$5,617,956	$623,673

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

	Contractual cash flows	Less than one year	1-3 years	Greater than 3 years
March 31, 2020				
Trade payables	$2,315,543	$2,315,543	$ -	$ -
Total	**$2,315,543**	**$2,315,543**	**$ -**	**$ -**

In addition to the above obligations, in connection with Charlotte's Web's definitive agreement dated March 22, 2020 to acquire all of the Company's outstanding equity, the Company will be required to pay transactional costs of CND$3,400,000 upon closing of the transaction. See note 21 of the 2019 Annual Financial Statements.

As a result of COVID-19, the Company has begun the process of evaluating and changing spending priorities. Management has taken direct action to reduce operating expenses where possible to conserve cash.

CASH FLOWS

Comparison of the Three Months Ended March 31, 2020 and 2019

The table below outlines a summary of cash inflows and outflows by activity for the three months ended March 31, 2020 and 2019.

	Three Months Ended March 31,		
	2020	**2019**	**Variance**
Net cash used for operating activities	$(3,880,081)	$ (5,528,113)	$ (1,648,032)
Net cash provided by (used for) financing activities	$ (46,406)	$ 14,741,402	$ (14,787,808)
Net cash used for investing activities	$ (1,001,052)	$ (142,501)	$ 858,551

Cash flows used for Operating Activities

Net cash flows used for operating activities was $(3,880,081) for the three months ended March 31, 2020, a decrease of $1,648,032 compared to $(5,528,113) of cash used for operating activities for the three months ended March 31, 2019. The decrease in cash used for operating activities was primarily due to relative changes in trade receivables and inventories offset by increases in operational costs and relative changes in trade payables.

Cash flows provided by (used for) Financing Activities

For the three months ended March 31, 2020, cash used for financing activities was $(46,406) a decrease of $14,787,808 compared to $14,741,402 provided by financing activities for the three months ended March 31, 2019. The decrease is primarily due to the 2019 RTO Financing net of transaction costs of $14,153,866 as well as proceeds from 2019 warrant exercises of $602,962.

Cash flows used for Investing Activities

Net cash used for investing activities was $(1,001,052) for the three months ended March 31, 2020, an increase of $858,551 compared to $(142,501) for the three months ended March 31, 2019. The increase was primarily due to the acquisition of Harmony Hemp and increased deposits.

TRANSACTIONS WITH RELATED PARTIES

The following tables summarize the Company's related party transactions for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,	
	2020	**2019**
Aidance		
Inventory purchases	$ 1,721,581	$ 4,402,526
Fulfillment services	$ 38,050	$ 20,581
Management services expense	$ 53,100	$ 56,698
Management services income	$ (23,700)	$ (48,822)
Total	**$ 1,789,031**	**$4,430,983**
Other Shareholders		
Marketing and advertising[1]	$ -	$ 299,956
Professional fees[2]	$ 25,000	$ 52,887
Total	**$ 25,000**	**$ 352,843**

At March 31, 2020 and December 31, 2019, amounts due to and from related parties consisted of:

	March 31, 2020	**December 31, 2019**
Trade payables, Aidance	$ 385,896	$ 403,947
Trade receivables, Aidance	$ 410,240	$ 410,688
Trade payables, shareholders[3]	$ -	$ 15,046

Aidance is the manufacturer of nearly all of the Company's CBDMEDIC and CBDCLINIC products. On June 29, 2018, the Company (then Abacus US) signed a manufacturing, fulfillment and business service agreement with Aidance, which was amended and restated on January 1, 2020. During the first year of the agreement, which was initially entered into in June 2018, the Company was required to purchase from Aidance at least 80% of the products purchased from Aidance the year before. During the second and third years of the agreement, the Company is required to purchase from Aidance at least 70% and 50%, respectively, of the products purchased during the year preceding the applicable year. The Company also has the option to terminate the agreement with Aidance by paying 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. See note 13 of the Q1 2020 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 2019 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

[1] Fees paid for marketing and advertising services to Rhonda Attar, a shareholder and 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) Ronald Lang, a trustee of the Ronald Lang Revocable Trust, a shareholder for management consulting, (ii) David Goldsmith, a shareholder for trademark and lobbying consulting (2020 only), and (iii) Jonathan Conforti, a shareholder for corporate development and investor relations consulting services (2019 only).

[3] Trade payables to Ron Lang, a consultant, and Moti Hemo, a shareholder.

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 11,991,471 Subordinate Voting Shares and 95,873.66 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 1,706,321 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

Property 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 property 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.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease Obligations

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. Interest accretion is recorded as interest expense in finance costs.

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*

Financial assets at amortized cost

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.

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 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.

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.

Share-based compensation

Stock options

The Company has a share option plan for employees, officers, directors, and other advisors from which options to purchase Subordinate Voting Shares 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.

Stock appreciation rights

Stock appreciation rights issued under the share option plan are settled in cash. As such, any excess value over the exercise price for vested rights are accounted for as a liability. The total liability is revalued at each reporting date, with changes reported in profit and loss.

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-month periods ended March 31, 2020 and 2019.

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, Abacus Wellness, Inc. 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 Company measures the cost of equity-settled transactions with non-employees by reference to the fair value of services provided. In situations where the fair value of such services can not be reasonably estimated, the Company measures the costs based upon the equity instruments 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.

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a business comprises the fair value of assets transferred; liabilities incurred to the former owners; equity interests issued by the Company; fair value of assets and liabilities resulting from a contingent consideration arrangement; and the fair value of any pre-existing equity interest in the acquired business.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit and loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as of the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes to fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Impairment

Long-lived assets such as property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison of their carrying amounts to future undiscounted net cash flows expected to be generated from the operation and sale of the long-lived assets. If such assets are considered impaired, the impairment to be recognised measured by the amount of in which the carrying amount of the long-lived asset exceeds their fair values.

Goodwill is not amortized but is reviewed whenever there is an indication that the asset may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Company’s cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

New accounting standards

The Company adopted the following accounting standards as at January 1, 2020.

IFRS 3: Business combinations

In October 2018, the IASB issued amendments to IFRS 3, *Business Combinations*. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and apply prospectively. The amendments clarify the definition of a business, with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. A transaction should be accounted for as a business combination if the acquired assets and liabilities constitute a business, and related acquisition costs are to be expensed as incurred. A transaction should be accounted for as an asset acquisition if an acquired set of activities and assets is a group of assets rather than a business, and related acquisition costs are typically capitalized.

The Company’s asset purchase agreement with the sellers of Harmony Hemp entered into February 10, 2020 is deemed a business combination. As a result, acquisition costs related to this business combinations of approximately $254,000 were expensed as incurred during the three months ended March 31, 2020.

Future accounting standards issued but not yet effective

In January 2020, the IASB issued amendment to IAS 1, Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. The amendments are effective for annual periods beginning on or after January 1, 2022. Adoption thereof is not expected to have a material impact on the presentation of the Company's financial statements.