



IMC HOLDINGS LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2019

(Unaudited)



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Canadian dollars in thousands

(Unaudited)

INDEX

	<u>Page</u>
Interim Condensed Consolidated Statements of Financial Position	2 - 3
Interim Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income	4
Interim Condensed Consolidated Statements of Changes in Equity	5
Interim Condensed Consolidated Statements of Cash Flows	6-7
Notes to Interim Condensed Consolidated Financial Statements	8 - 21

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**Canadian Dollars in thousands**

	<u>Note</u>	<u>March 31, 2019 (Unaudited)</u>	<u>December 31, 2018</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		\$ 4,515	\$ 7,591
Restricted cash		1,090	-
Trade receivables		125	14
Other accounts receivable		519	444
Biological assets	4	1,945	89
Inventories	5	4,260	5,476
		<u>12,454</u>	<u>13,614</u>
NON-CURRENT ASSETS:			
Property, plant and equipment, net		1,936	1,073
Right-of-use assets, net	2d	951	-
Deferred tax assets		294	307
Intangible assets, net	3	1,149	-
Goodwill	3	552	-
		<u>4,882</u>	<u>1,380</u>
Total assets		<u>\$ 17,336</u>	<u>\$ 14,994</u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**Canadian Dollars in thousands**

	Note	March 31, 2019 (Unaudited)	December 31, 2018
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Bank credit		321	-
Current maturities of lease liabilities	2d	109	-
Trade payables		770	609
Bank loan		624	-
Other accounts payable and accrued expenses		<u>1,340</u>	<u>698</u>
		<u>3,164</u>	<u>1,307</u>
NON-CURRENT LIABILITIES:			
Lease liabilities	2d	850	-
Deferred tax liability		1,307	847
Warrants measured at fair value		6,070	1,053
Employee benefit liabilities, net		<u>208</u>	<u>176</u>
		<u>8,435</u>	<u>2,076</u>
Total liabilities		<u>11,599</u>	<u>3,383</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
	8		
Share capital and premium		7,099	7,099
Translation reserve		107	43
Reserve from share-based payment transactions		549	-
Retained earnings (accumulated deficit)		<u>(3,687)</u>	<u>3,040</u>
Total equity attributable to equity holders of the Company		4,068	10,182
Non-controlling interests		<u>1,669</u>	<u>1,429</u>
Total equity		<u>5,737</u>	<u>11,611</u>
Total liabilities and equity		<u>\$ 17,336</u>	<u>\$ 14,994</u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME (UNAUDITED)**
U.S. dollars in thousands, except per share data

	Note	Three months ended March 31,	
		2019	2018
Revenues		\$ 1,955	\$ 1,105
Cost of revenues		1,172	600
Gross profit before fair value adjustments		<u>783</u>	<u>505</u>
Fair value adjustments:			
Unrealized change in fair value of biological assets		1,739	1,152
Realized fair value adjustments on inventory sold in the period		(1,220)	(458)
Total fair value adjustments		<u>519</u>	<u>694</u>
Gross profit		1,302	1,199
General and administrative expenses		1,742	295
Selling and marketing expenses		265	92
Research and development expenses		54	-
Share-based compensation		549	-
Total operating expenses		<u>2,610</u>	<u>387</u>
Operating profit (loss)	9	(1,308)	812
Finance income		11	-
Finance expense		(5,099)	(1)
Finance expenses, net		<u>(5,088)</u>	<u>(1)</u>
Income (loss) before income taxes		(6,396)	811
Income tax expense (benefit)		<u>195</u>	<u>(95)</u>
Net income (loss)		<u>(6,591)</u>	<u>906</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Re-measurement gain on defined benefit plans		-	15
Exchange differences on translation to presentation currency		107	76
Total other comprehensive income that will not be reclassified to profit or loss in subsequent periods		<u>107</u>	<u>91</u>
Total comprehensive income (loss)		<u>\$ (6,484)</u>	<u>\$ 997</u>
Net income (loss) attributable to:			
Equity holders of the Company		(6,727)	664
Non-controlling interests		136	242
		<u>\$ (6,591)</u>	<u>\$ 906</u>
Total comprehensive income (loss) attributable to:			
Equity holders of the Company		(6,663)	746
Non-controlling interests		179	251
		<u>\$ (6,484)</u>	<u>\$ 997</u>
Net income (loss) per share attributable to equity holders of the Company			
Basic and diluted net income (loss) per share (in CAD):	10	<u>\$ (0.56)</u>	<u>\$ 0.07</u>

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Canadian Dollars in thousands

	Attributable to equity holders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Reserve from share-based payment transactions	Translation reserve	Retained earnings	Total			
Balance as of January 1, 2019	\$ 45	\$ 7,054	\$ -	\$ 43	\$ 3,040	\$ 10,182	\$ 1,429	\$ 11,611	
Share based payment	-	-	549	-	-	549	-	549	
Share based compensation of subsidiary (see Note 3)	-	-	-	-	-	-	61	61	
Net loss	-	-	-	-	(6,727)	(6,727)	136	(6,591)	
Other comprehensive income (loss)	-	-	-	64	-	64	43	107	
Balance as of March 31, 2019	<u>45</u>	<u>7,054</u>	<u>549</u>	<u>107</u>	<u>(3,687)</u>	<u>4,068</u>	<u>1,669</u>	<u>5,737</u>	
Balance as of January 1, 2018	(*	(*	-	15	1,315	1,330	467	1,797	
Issue of share capital	35	(35)	-	-	-	-	-	-	
Net loss	-	-	-	-	664	664	242	906	
Other comprehensive loss	-	-	-	71	11	82	9	91	
Balance as of March 31, 2018	<u>\$ 35</u>	<u>\$ (35)</u>	<u>\$ -</u>	<u>\$ 86</u>	<u>\$ 1,990</u>	<u>\$ 2,076</u>	<u>\$ 718</u>	<u>\$ 2,794</u>	

*) Represents an amount of less than \$1.

The accompanying notes are an integral part of interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**Canadian Dollars in thousands**

	Three months ended	
	March 31,	
	2019	2018
<u>Cash provided by (used in) operating activities:</u>		
Net income (loss) for the period	\$ (6,591)	\$ 906
Adjustments for non-cash items:		
Unrealized gain on changes in fair value of biological assets	(1,739)	(1,152)
Fair value adjustment on sale of inventory	1,220	458
Fair value adjustment on warrants measured at fair value	4,933	-
Depreciation of property, plant and equipment	54	35
Depreciation of right-of-use assets	24	-
Share-based payment	607	-
Changes in employee benefit liabilities, net	(6)	38
Deferred tax benefit, net	136	(146)
	<u>5,229</u>	<u>(767)</u>
Changes in working capital:		
Increase in trade receivables, net	(72)	(9)
Decrease (increase) in other accounts receivable	(87)	863
Increase in biological assets, net of fair value adjustments	(91)	(273)
Decrease in inventories, net of fair value adjustments	294	237
Increase in trade payables	67	386
Increase (decrease) in other accounts payable and accrued expenses	620	(893)
	<u>731</u>	<u>311</u>
Taxes paid	(42)	(42)
Net cash used in (provided by) operating activities	<u>(675)</u>	<u>408</u>
<u>Cash flows from investing activities:</u>		
Purchase of property, plant and equipment	(194)	(449)
Acquisition of subsidiary (schedule A)	(1,316)	-
Increase in restricted cash	(1,077)	-
Net cash used in investing activities	<u>\$ (2,587)</u>	<u>\$ (449)</u>

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**Canadian Dollars in thousands**

	Three months ended	
	March 31,	
	2019	2018
<u>Cash flow from financing activities:</u>		
Repayment of lease liability	(28)	-
Interest paid - lease liability	(20)	-
Net cash used in financing activities	(48)	-
Effect of foreign exchange on cash and cash equivalents	234	3
Increase in cash and cash equivalents	(3,076)	(38)
Cash and cash equivalents at beginning of the period	7,591	239
Cash and cash equivalents at end of the period	<u>\$ 4,515</u>	<u>\$ 201</u>

Schedule A – Acquisition of a subsidiary:

The subsidiary's assets and liabilities at date of acquisition:

Working capital deficit (excluding cash and cash equivalents)	\$ 166
Bank credit	(321)
Bank loan	(624)
Property, plant and equipment	702
Intangible assets	1,149
Goodwill	552
Deferred tax liability	(308)
	<u>1,316</u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 1:- GENERAL**

a. Nature of Operations:

IMC Holdings Ltd. (the "Company" or "IMC") operates in the field of medical cannabis, through its subsidiary Focus Medical Herbs Ltd. ("Focus") which is licensed under the regulations of medical cannabis by the Israeli Ministry of Health through its Israel Medical Cannabis Agency ("IMCA") to breed, grow and supply medical cannabis product in Israel and all of its operations are performed pursuant to the Israeli DANGEROUS DRUGS ORDINANCE [NEW VERSION], 5733 - 1973 (the "Dangerous Drugs Ordinance"), and the related regulations issued by IMCA.

On February 20, 2019, IMC established IMC - International Medical Cannabis Portugal Unipessoal Lda., a 100% owned subsidiary aimed at obtaining a license to cultivate medical cannabis in Portugal.

The Company and its subsidiaries (the "Group") operates in one reporting segment. For all reporting periods presented, the revenues of the Group were generated from sales of medical cannabis products to customers in Israel. IMC and its subsidiaries do not engage in any U.S. cannabis-related activities as defined in Canadian Securities Administrators Staff Notice 51-352.

b. Approval of Interim Condensed Consolidated Financial Statements:

These interim condensed consolidated financial statements of the Company were authorized for issue by the board of directors on September 5, 2019.

c. Business combination:

On March 15, 2019, IMC acquired Adjupharm GmbH ("Adjupharm"), incorporated in Germany, a licensed GMP producer with wholesale, narcotics handling and import licenses for medical cannabis. As part of its global expansion and penetration plan into the European market, IMC acquired 100% of Adjupharm's issued and outstanding shares. See Note 3.

d. Definitions:

In these financial statements:

The Company, or
IMC - IMC Holdings Ltd.

The Group - IMC Holdings Ltd. and its Subsidiaries.

Subsidiaries - Companies that are controlled by the Company (as defined in IFRS 10) and whose accounts are consolidated with those of the Company.

CAD or \$ - Canadian Dollar.

EURO or € - Euro

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

a. Basis of Presentation and Measurement:

The interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34").

The interim condensed consolidated financial statements are presented in Canadian dollars and are prepared in accordance with the same accounting policies (except as described below), critical estimates and methods described in the Company's annual consolidated financial statements, except for the adoption of new accounting standards identified in Note 2(c).

Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired.

The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the asset is tested for impairment. Commencing from that date, the asset is amortized systematically over its useful life.

Given that certain information and footnote disclosures, which are included in the annual audited consolidated financial statements, have been condensed or excluded in accordance with IAS 34, these interim financial statements should be read in conjunction with the Company's annual audited consolidated financial statements as at and for the year ended December 31, 2018, including the accompanying notes thereto.

b. Significant Accounting Judgements, Estimates and Assumptions:

The preparation of the Company's interim condensed consolidated financial statements under IFRS requires management to make judgements, estimates, and assumptions about the carrying amounts of certain assets and liabilities. Estimates and related assumptions are based on historical experience and other relevant factors. Actual results may differ from these estimates.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Estimates and underlying assumptions are reviewed on an ongoing basis for reasonableness and relevancy. Where revisions are required, they are recognized in the period in which the estimate is revised as well as future periods that are affected.

c. Leases:

As detailed in paragraph d below regarding the initial adoption of IFRS 16, "Leases" ("the Standard"), the Company chose to adopt the provisions of the Standard using the modified retrospective approach (without restatement of comparative figures).

Policy applicable before January 1, 2019:

For contracts entered into before January 1, 2019, the Company determined whether the arrangement was or contained a leases based on the assessment of whether:

- Fulfilment of the arrangements was dependent on the use of a specific asset or assets; and
- The arrangement had conveyed the right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - * The arrangement had conveyed a right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - * The purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - * Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price unit of output.

Policy applicable from January 1, 2019:

At inception of a contract, the Company assess whether the contract is, or contains, a lease. A lease is a contract, or part of a contract, that conveys the right to use an asset, for a fixed period of time, in exchange for consideration. To assess whether a contract conveys the right to control the use of identified asset, the Company assesses whether:

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases, where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
 - * The Company has the right to operate the asset; or
 - * The Company designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At inception or on assessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

As a lessee:

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-to-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise and penalties for early termination of the lease unless the Company is reasonably certain not to terminate early.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under the residual value guarantee, or if the Company changes its assessment of whether it will exercise purchase, extension or termination options.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or it is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero.

Short-term leases and leases of low-value assets:

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company leases assets which mainly include land, buildings and motor-vehicles.

d. New or Amended Standards Effective January 1, 2019:

IFRS 16, "Leases"

The Company adopted IFRS 16, "Leases" (the "Standard"), commencing from January 1, 2019, using the modified retrospective approach.

According to the Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a fixed period in exchange for consideration.

The principal effects of the Standard are as follows:

- According to the Standard, lessees are required to recognize all leases in the statement of financial position (excluding certain exceptions, see below). Lessees will recognize a liability for lease payments with a corresponding right-of-use asset, similar to the accounting treatment for finance leases under the existing standard, IAS 17, "Leases". Lessees will also recognize interest expense and depreciation expense separately.
- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or usage are recognized as an expense by the lessees as incurred or recognized as income by the lessors as earned.
- In the event of changes in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and record the effect of the remeasurement as an adjustment to the carrying amount of the right-of-use asset.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- The Standard includes two exceptions which allow lessees to account for leases based on the existing accounting treatment for operating leases - leases for which the underlying asset is of low financial value and short-term leases (up to one year).
- The accounting treatment by lessors remains substantially unchanged from the existing standard, namely classification of a lease as a finance lease or an operating lease.

As permitted by the Standard, the Company elected to adopt the Standard using the modified retrospective approach and measuring the right-of-use asset at an amount equal to the lease liability. This approach does not require restatement of comparative data. The balance of the liability as of the date of initial application of the Standard is measured using the Company's incremental borrowing rate of interest on the date of initial adoption of the Standard. The right-of-use asset is recognized in an amount equal to the recognized liability.

The principal effects of the initial application of the Standard are in respect of existing lease contracts in which the Company is the lessee. According to the Standard, excluding certain exceptions, the Company recognizes a lease liability and a corresponding right-of-use asset for each lease in which it is the lessee. This accounting treatment is different than the accounting treatment applied under IAS 17 according to which lease payments in respect of leases contracts for which substantially all the risks and rewards incidental to ownership of the underlying asset are not transferred to the lessee are recognized in profit or loss on a straight-line basis over the lease term.

1. Effects of the initial application of the Standard on the Company's financial statements as of January 1, 2019:

	<u>According to the previous accounting policy</u>	<u>Change</u>	<u>As presented according to IFRS 16</u>
As of January 1, 2019:			
Non-current assets:			
Right-of-use assets	\$ -	777	\$ 777
Current liabilities:			
Current maturity of lease liabilities	\$ -	42	\$ 42
Non-current liabilities:			
Lease liabilities	\$ -	735	\$ 735

2. A weighted average of incremental interest rate of 8.2% was used to discount future lease payments in the calculation of the lease liabilities on the date of initial application of the Standard.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

3. Reconciliation of total commitment for future minimum lease payments as disclosed in Note 13 to the annual financial statements as of December 31, 2018, to the lease liability as of January 1, 2019:

	<u>January 1, 2019</u>
Total undiscounted future minimum lease payments for non-cancellable leases as per IAS 17, according to the financial statements as of December 31, 2018	\$ 1,104
Effect of discount of future lease payments at the Company's incremental interest rate on initial date of application	<u>(327)</u>
Total lease liabilities as per IFRS 16 at January 1, 2019	<u>\$ 777</u>

4. Practical expedients applied in the initial application of the Standard:
- The Company elected not to reassess, based on the principles in the Standard, whether contracts are or contain a lease, and instead continued to classify contracts as leases that were previously identified as leases under IAS 17.
 - The Company elected to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments (the "Interpretation"). The Interpretation clarifies the accounting for recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12, Income Taxes, in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement of the effects of uncertainty involving income taxes on the financial statements and accounting for changes in facts and circumstances in respect of the uncertainty.

The initial application of the interpretation did not have an impact on the interim condensed consolidated financial statements of the Company.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 3:- BUSINESS COMBINATIONS**

On March 15, 2019, IMC acquired Adjupharm GmbH (“Adjupharm”), a licensed GMP producer with wholesale, narcotics handling and import licenses for medical cannabis. As part of its global expansion and penetration plan into the European market, IMC acquired 100% of Adjupharm’s issued and outstanding shares for €924 thousand (\$1,400) paid in cash.

The Company recognized the fair value of the assets acquired and liabilities assumed in the business combination according to a provisional measurement. As of the date of the approval of the financial statements, a final valuation for the fair value of the identifiable assets acquired and liabilities assumed by an external valuation specialist has not been obtained. The purchase consideration and the fair value of the acquired assets and liabilities may be adjusted within 12 months from the acquisition date.

The fair value of the identifiable assets acquired and liabilities assumed of Adjupharm on the acquisition date (provisional measurement):

	<u>Fair value</u>
<u>Assets</u>	
Cash and cash equivalents	84
Trade and other receivables	70
Inventories	224
Property, plant and equipment	702
Intangible assets	1,149
Total identifiable assets	<u>2,229</u>
<u>Liabilities</u>	
Bank credit	(321)
Trade payables	(84)
Other payables	(44)
Bank loan	(624)
Deferred tax	(308)
Total identifiable liabilities	<u>(1,381)</u>
Total identifiable assets, net	848
Goodwill arising on acquisition	<u>552</u>
Total purchase cost	<u>\$ 1,400</u>

Acquisition costs that are directly attributable to the transaction of approximately \$104 were recorded in profit or loss.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 3:- BUSINESS COMBINATIONS (Cont.)**

As part of the acquisition, the Company agreed to either (i) arrange for the release of the security provided by the sellers for the bank loan and bank credit of Adjupharm in the amount of €680 thousand (\$1,026) or (2) repay the aforementioned bank loan and bank credit. In that connection, the Company deposited €720 thousand (approximately \$1,090) in escrow (restricted cash) to secure the Company's aforementioned obligation. Subsequent to the date of the financial statements, the funds in escrow were used to repay the bank loan and bank credit.

Cash outflow/inflow on the acquisition:

	CAD in thousands
Cash and cash equivalents acquired with the acquiree at the acquisition date	\$ 84
Cash paid	<u>1,400</u>
Net cash	<u>\$ 1,316</u>

From the acquisition date, and if the business combination had taken place at the beginning of the year, Adjupharm's results of operations (i.e., net loss and revenues) were immaterial to the consolidated net loss and consolidated revenues.

The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Company and Adjupharm.

The goodwill recognized is not expected to be deductible for income tax purposes.

On March 21, 2019, following the acquisition, the Company granted to Adjupharm's CEO 5% of Adjupharm's Ordinary shares. As a result, the Company recorded an expense in the amount of \$61.

NOTE 4:- BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants. The changes in the carrying value of biological assets are as follows:

Balance at January 1, 2019	\$ 89
Production costs capitalized	333
Changes in fair value less cost to sell due to biological transformation	1,739
Transferred to inventory upon harvest	(242)
Foreign exchange translation	<u>26</u>
Balance at March 31, 2019	<u>\$ 1,945</u>

As of March 31, 2019, and December 31, 2018, the weighted average fair value less cost to sell was \$2.65 and \$2.17 per gram, respectively.

The fair value of biological assets is categorized within Level 3 of the fair value hierarchy.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 4:- BIOLOGICAL ASSETS (Cont.)**

The following inputs and assumptions were used in determining the fair value of biological assets:

1. Selling price per gram - calculated as the weighted average historical selling price for all strains of cannabis sold by the Group, which is expected to approximate future selling prices.
2. Post-harvest costs - calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest, consisting of the cost of direct and indirect materials, depreciation and labor as well as labelling and packaging costs.
3. Attrition rate - represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested.
4. Average yield per plant - represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant.
5. Stage of growth - represents the weighted average number of weeks out of the average weeks growing cycle that biological assets have reached as of the measurement date. The growing cycle is approximately 12 weeks.

The following table quantifies each significant unobservable input, and also provides the impact a 10% increase/decrease in each input would have on the fair value of biological assets:

	March 31, 2019	December 31, 2018	10% change as at	
			March 31, 2019	December 31, 2018
Average selling price per gram of dried cannabis (in CAD)	\$ 3.1	\$ 2.61	\$ 224	\$ 10.7
Average post-harvest costs per gram of dried cannabis (in CAD)	\$ 0.45	\$ 0.44	\$ 32	\$ 1.8
Attrition rate	1%	0%	\$ 1	\$ 8.9
Average yield per plant (in grams)	200	40	\$ 192	\$ 8.9
Average stage of growth	40%	37%	\$ 192	\$ 8.9

The Company's estimates are, by their nature, subject to change including differences in the anticipated yield. These changes will be reflected in the gain or loss on biological assets in future periods.

NOTE 5:- INVENTORIES

The following is a breakdown of inventory at March 31, 2019:

	March 31, 2019		
	Capitalized costs	Fair valuation adjustment	Carrying value
Finished goods:			
Packaged dried cannabis	\$ 1,298	\$ 2,646	\$ 3,944
Cigarettes	30	61	91
Cannabis oil	1	-	1
Other Inventory	224	-	224
Balance as at March 31, 2019	<u>\$ 1,553</u>	<u>\$ 2,707</u>	<u>\$ 4,260</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 5:- INVENTORIES (Cont.)**

The following is a breakdown of inventory at December 31, 2018:

	December 31, 2018		
	Capitalized costs	Fair valuation adjustment	Carrying value
Work in progress:			
Bulk cannabis	\$ 320	\$ 685	\$ 1,005
Finished goods			
Packaged dried cannabis	1,455	2,695	4,420
Cigarettes	16	32	48
Cannabis oil	3	-	3
Balance as at December 31, 2018	<u>\$ 1,794</u>	<u>\$ 3,682</u>	<u>\$ 5,476</u>

During the three months ended March 31, 2019 and 2018, inventory expensed to cost of goods sold was 2,392 and 1,058, respectively, which included 1,220 and 458 of non-cash expense, respectively, related to the changes in fair value of inventory sold.

Cost of revenues in three months period ended March 31, 2019 and 2018, also include production overhead not allocated to costs of inventories produced and recognized as an expense as incurred.

NOTE 6:- FINANCIAL INSTRUMENTS

Financial instruments are measured either at fair value or at amortized cost. The table below lists the valuation methods used to determine fair value of each financial instrument.

<i>Financial Instruments Measured at Fair Value</i>	Fair Value Method
Warrants *)	Black & Scholes model
<hr/>	
<i>Financial Instruments Measured at Amortized Cost</i>	
Cash and cash equivalents, Trade receivables and other account receivables	Carrying amount (approximates fair value due to short-term nature)
Bank credit and loan, trade Payables, other accounts payable and accrued expenses	Carrying amount (approximates fair value due to short-term nature)

*) The fair value of Warrants is categorized within Level 3 of the fair value hierarchy. The fair value was measured using the following key assumptions:

	March 31, 2019	December 31, 2018	Sensitivity
Risk-free interest rate	1.58%	1.82%	Increase (decrease) in key assumptions would result in increase (decrease) in fair value.
Expected volatility	75%	75%	
Expected life (in years)	1.2	1.45	
Expected dividend yield	0%	0%	
Fair value:			
Per Warrant (Canadian Dollar)	<u>\$ 4.78</u>	<u>\$ 0.82</u>	
Total Warrants (Canadian Dollar in thousands)	<u>\$ 5,445</u>	<u>\$ 945</u>	

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 7:- CONTINGENT LIABILITES**

Legal proceeding:

Class Action T.Z. 8394-11-16

On November 3, 2016, a motion was filed for approval of a class action against Focus and seven other Israeli cannabis growers (collectively, the "Growers"), for (1) alleged use of chemical pesticides in the cannabis growing process, in contradiction to the Plant Protection Regulations (Compliance with Packaging Label Instructions) (the "Label Regulations") and to the Protection of Public Health Regulations (Food) (Residues of Pesticides) (the "Residues Regulations"), and the misleading of their customers, thus violating the Consumer Protection Law (the "Consumer Law") (hereafter: the "usage of pesticides claim") (2) selling cannabis product with lower concentration of active ingredients than publicized; and (3) marketing products in defective packaging – allegedly causing violation of Autonomy and unjust enrichment.

The personal suit sum for every class member stands at NIS 5,000 (\$2); the total amount of the class action suit is estimated at NIS 133 million (\$47,945).

The Growers argued in their response that the threshold conditions for approval of a class action were not met, and that they did not violate the Label Regulations and the Residues Regulations. The Growers also argued that they are not liable for any civil wrongdoing, nor did they mislead users regarding usage of pesticides, or had any legal duty regarding cannabis packaging beyond Ministry of Health guidance and therefore did not breach any statutory duty. Additionally, the defense argues that there is no base for an unjust enrichment claim.

On September 6, 2018 the Ministry of Health and the Ministry of Agriculture submitted their official opinion to the court. The second preliminary hearing took place on October 29, 2018 and subsequently an evidentiary hearing was set for September 9, 2019.

At the current stage of the litigation process, Company's management believes, based on the opinion of its legal counsel, that it is not probable (more likely than not) that the motion for a class action against the Company will be approved. Therefore, an accrual in respect of this litigation is not required to be recorded in the financial statements.

NOTE 8:- EQUITY

a Share option plan:

On December 19, 2018, the Board of Directors approved the "2018 Share Incentive Plan" (the "2018 Plan"), for the granting of options, shares, restricted shares and restricted share units, (together "Awards"), in order to provide incentives to Group employees, directors, consultants and/or contractors. In accordance with the 2018 Plan, a maximum of 1,225,000 Ordinary Shares are reserved for issuance.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 8:- EQUITY (Cont.)**

Awards granted under the 2018 Plan are subject to vesting schedules and unless determined otherwise by the administrator of the 2018 Plan, generally vest following a period of three years from the applicable vesting commencement date, such that 33.3% of the awards vest on the first anniversary of the applicable vesting commencement date and 66.6% of the awards vest on quarterly equal installments over 8 quarters as of the first anniversary of the Commencement Date. Subject to the discretion of the 2018 Plan, if an award has not been exercised within ten years after the date of the grant, the award expires.

As of March 31, 2019, 90,000 Ordinary Shares are available for future grant under the 2018 Plan.

The fair value for options granted during the three months ended March 31, 2019, to the Group's employees was estimated using the Black & Scholes option pricing model with the following assumptions:

Exercise price (in CAD)	4
Dividend yield (%)	-
Expected life of share options (Years)	5.5-6.51
Volatility (%)	82.5
Annual risk-free rate (%)	1.87-1.91

The weighted average fair value of each option on the grant date amounted to \$2.53.

The following table lists the number of share options and the weighted average exercise prices of share options in the 2018 Plan:

	March 31, 2019	
	Number of options	Weighted average exercise price CAD
Options outstanding at the beginning of the period	-	
Options granted during the period *)	1,135,000	4
Options exercised during the period	-	
Options forfeited during the period	-	
Options outstanding at the end of period	<u>1,135,000</u>	
Options exercisable at the end of period	<u>-</u>	

*) Includes 400,000 options granted to key management personnel.

The weighted average remaining contractual life for the share options outstanding as of March 31, 2019, was 9.7 years.

The share-based payment expenses for the three months period ended March 31, 2019 and 2018, amounted to \$549 and nil, respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 9:- SELECTED STATEMENTS OF PROFIT OR LOSS DATA**

	Three months ended March 31,	
	2019	2018
Salaries and related expenses	\$ 760	\$ 315
Professional fees	\$ 242	\$ 177
Depreciation	\$ 94	\$ 35

NOTE 10:- NET EARNINGS (LOSS) PER SHARE

Details of the number of shares and income used in the computation of earnings per share:

	Three months ended March 31,			
	2019		2018	
	Weighted average number of shares	Net loss attributable to equity holders of the Company	Weighted average number of shares	Net profit attributable to equity holders of the Company
For the computation of basic net earnings	11,902	\$ (6,727)	10,000	\$ 664
Effect of potential dilutive Ordinary shares	-	-	-	-
For the computation of diluted net earnings	<u>11,902</u>	<u>\$ (6,727)</u>	<u>10,000</u>	<u>\$ 664</u>