



2019 ANNUAL REPORT



IM CANNABIS CORP.
INDEPENDENT AUDITORS' REPORT AND AUDITED CONSOLIDATED FINANCIAL
STATEMENTS OF
IM CANNABIS CORP. AND ITS SUBSIDIARIES
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2019
(Canadian dollars in thousands)

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF
IM CANNABIS CORP.

Opinion

We have audited the consolidated financial statements of IM Cannabis Corp. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years ended, in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other information included in The Group's 2019 Annual Report

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The partner in charge of the audit resulting in this independent auditor's report is Ari Aslan.

Tel-Aviv, Israel

April 20, 2020

Kost Forer Gabbay & Kasierer
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A Member of Ernst & Young Global

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

	<u>Note</u>	<u>December 31,</u>	
		<u>2019</u>	<u>2018</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		\$ 13,926	\$ 7,591
Trade receivables	7	1,810	14
Advances to suppliers	1b	2,565	-
Other accounts receivable	8	516	444
Biological assets	9	52	89
Inventories	10	5,422	5,476
		<u>24,291</u>	<u>13,614</u>
NON-CURRENT ASSETS:			
Property, plant and equipment, net	11	3,392	1,073
Investments	15c	912	-
Right-of-use assets, net	12	1,023	-
Deferred tax assets	17	89	307
Intangible assets, net	6	889	-
Goodwill	6	298	-
		<u>6,603</u>	<u>1,380</u>
Total assets		<u>\$ 30,894</u>	<u>\$ 14,994</u>

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

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

	<u>Note</u>	<u>December 31,</u>	
		<u>2019</u>	<u>2018</u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables		\$ 992	\$ 609
Other accounts payable and accrued expenses	14	1,458	698
Current maturities of lease liabilities	12	159	-
		<u>2,609</u>	<u>1,307</u>
NON-CURRENT LIABILITIES:			
Deferred tax liability, net	17	826	847
Warrants measured at fair value	15	197	1,053
Employee benefit liabilities, net	13	262	176
Lease liabilities	12	891	-
		<u>2,176</u>	<u>2,076</u>
Total liabilities		<u>4,785</u>	<u>3,383</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
	18		
Share capital and premium		25,947	7,099
Translation reserve		309	43
Reserve from share-based payment transactions		2,677	-
Retained earnings (accumulated deficit)		<u>(4,273)</u>	<u>3,040</u>
Total equity attributable to shareholders of the Company		24,660	10,182
Non-controlling interests		1,449	1,429
Total equity		<u>26,109</u>	<u>11,611</u>
Total equity and liabilities		<u>\$ 30,894</u>	<u>\$ 14,994</u>

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

<u>April 20, 2020</u>			
Date of approval of the financial statements	<u>Marc Lustig</u> Chairman of the Board	<u>Oren Shuster</u> Chief Executive Officer	<u>Shai Shemesh</u> Chief Financial Officer

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**
Canadian Dollars in thousands, except per share data

	Note	Year ended December 31,	
		2019	2018
Revenues		\$ 9,074	\$ 5,197
Cost of revenues		4,761	1,775
Gross profit before fair value adjustments		<u>4,313</u>	<u>3,422</u>
Fair value adjustments:			
Unrealized change in fair value of biological assets		5,990	4,373
Realized fair value adjustments on inventory sold in the period		(6,374)	(1,599)
Total fair value adjustments		<u>(384)</u>	<u>2,774</u>
Gross profit after fair value adjustments		3,929	6,196
General and administrative expenses		6,422	2,520
Selling and marketing expenses		1,240	510
Research and development expenses		233	83
Listing cost of reverse acquisition	5	3,632	-
Share-based compensation	18	2,677	-
Total operating expenses		<u>14,204</u>	<u>3,113</u>
Operating profit (loss)		(10,275)	3,083
Finance income	15(a)(b)	3,653	439
Finance expense		(707)	(154)
Finance income, net		<u>2,946</u>	<u>285</u>
Income (loss) before income taxes		(7,329)	3,368
Income tax expense, net	17	90	741
Net income (loss)		<u>(7,419)</u>	<u>2,627</u>
Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:			
Re-measurement gain (loss) on defined benefit plans		(29)	57
Exchange differences on translation to presentation currency		333	31
Total other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods		<u>304</u>	<u>88</u>
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:			
Adjustments arising from translating financial statements of foreign operation		(14)	-
Total other comprehensive income that will be reclassified to profit or loss in subsequent periods		<u>(14)</u>	<u>-</u>
Total other comprehensive income		<u>290</u>	<u>88</u>
Total comprehensive income (loss)		<u>\$ (7,129)</u>	<u>\$ 2,715</u>

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**
Canadian Dollars in thousands, except per share data

	<u>Note</u>	Year ended December 31,	
		<u>2019</u>	<u>2018</u>
Net income (loss) attributable to:			
Equity holders of the Company		(7,292)	1,683
Non-controlling interests		(127)	944
		<u>\$ (7,419)</u>	<u>\$ 2,627</u>
Total comprehensive income (loss) attributable to:			
Equity holders of the Company		(7,047)	1,753
Non-controlling interests		(82)	962
		<u>\$ (7,129)</u>	<u>\$ 2,715</u>
Net income (loss) per share attributable to equity holders of the Company	20		
Earnings per share (in CAD)			
Basic and Diluted		<u>\$ (0.06)</u>	<u>\$ 0.02</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**Canadian Dollars in thousands**

	Attributable to equity holders of the Company							Total equity
	Share capital	Share premium	Reserve from share-based payment transactions	Translation reserve	Retained earnings (accumulated deficit)	Total	Non-controlling interests	
Balance as of January 1, 2018	\$ *)	\$ *)	\$ -	\$ 15	\$ 1,315	\$ 1,330	\$ 467	\$ 1,797
Issue of share capital, net of issuance cost of \$751	45	7,054	-	-	-	7,099	-	7,099
Net income	-	-	-	-	1,683	1,683	944	2,627
Other comprehensive income	-	-	-	28	42	70	18	88
Total comprehensive income	-	-	-	28	1,725	1,753	962	2,715
Balance as of December 31, 2018	\$ 45	\$ 7,054	\$ -	\$ 43	\$ 3,040	\$ 10,182	\$ 1,429	\$ 11,611
Issuance of share capital, net of issuance cost of \$2,913 (see Note 15)	-	15,665	-	-	-	15,665	-	15,665
Issuance of share capital on the reverse acquisition date (see Note 5)	-	3,183	-	-	-	3,183	-	3,183
Share based compensation	-	-	2,677	-	-	2,677	-	2,677
Share based compensation of subsidiary (see Note 6)	-	-	-	-	-	-	102	102
Net loss	-	-	-	-	(7,292)	(7,292)	(127)	(7,419)
Other comprehensive income (loss)	-	-	-	266	(21)	245	45	290
Total comprehensive income (loss)	-	-	-	266	(7,313)	(7,047)	(82)	(7,129)
Balance as of December 31, 2019	\$ 45	\$ 25,902	\$ 2,677	\$ 309	\$ (4,273)	\$ 24,660	\$ 1,449	\$ 26,109

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canadian Dollars in thousands

	Year ended December 31,	
	2019	2018
<u>Cash provided by (used in) operating activities:</u>		
Net income (loss) for the year	\$ (7,419)	\$ 2,627
Adjustments for non-cash items:		
Unrealized gain on changes in fair value of biological assets	(5,990)	(4,373)
Fair value adjustment on sale of inventory	6,374	1,599
Fair value adjustment on warrants measured at fair value	(3,653)	(369)
Depreciation of property, plant and equipment	340	180
Amortization of intangible assets	125	-
Depreciation of right-of-use assets	136	-
Listing cost of reverse acquisition	3,632	-
Finance income, net	707	-
Changes in employee benefit liabilities, net	46	41
Deferred tax expense (benefit), net	(95)	281
Share-based payments expenses for subsidiary	102	-
Share-based payments expenses	2,677	-
	<u>4,401</u>	<u>(2,641)</u>
Changes in non-cash working capital:		
Increase in trade receivables, net	(1,631)	(14)
Decrease (increase) in other accounts receivable and advances to suppliers	(2,556)	1,199
Decrease in biological assets, net of fair value adjustments	5,994	4,286
Increase in inventories, net of fair value adjustments	(5,872)	(5,590)
Increase in trade payables	795	380
Increase (decrease) in other accounts payable and accrued expenses	628	(472)
	<u>(2,642)</u>	<u>(211)</u>
Taxes paid	(299)	(206)
Net cash used in operating activities	<u>(5,959)</u>	<u>(431)</u>
<u>Cash flows from investing activities:</u>		
Purchase of property, plant and equipment	(1,547)	(729)
Acquisition of subsidiary (schedule A)	(1,316)	-
Investments	(912)	-
Net cash used in investing activities	<u>\$ (3,775)</u>	<u>\$ (729)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canadian Dollars in thousands

	Year ended December 31,	
	2019	2018
<u>Cash provided by financing activities:</u>		
Proceeds from issuance of share capital, net of issuance costs (see Note 15b)	\$ 15,570	\$ 7,099
Proceeds from issuance of warrants measured at fair value	2,597	1,278
Repayment of lease liability	(102)	-
Repayment of lease liability interest	(63)	-
Repayment of bank loan	(951)	-
	<u>17,051</u>	<u>8,377</u>
Effect of foreign exchange on cash and cash equivalents	(982)	135
Increase in cash and cash equivalents	6,335	7,352
Cash and cash equivalents at beginning of year	<u>7,591</u>	<u>239</u>
Cash and cash equivalents at end of year	<u>\$ 13,926</u>	<u>\$ 7,591</u>
<u>Supplemental disclosure of non-cash activities:</u>		
Right-of-use asset recognized with corresponding lease liability	<u>\$ (396)</u>	<u>\$ -</u>
<u>Schedule A – Acquisition of a subsidiary:</u>		
The subsidiary's assets and liabilities at date of acquisition:		
Working capital (excluding cash and cash equivalents)	\$ 166	
Bank credit	(321)	
Bank loan	(624)	
Property, plant and equipment	1,074	
Intangible assets	996	
Goodwill	292	
Deferred tax liability	(267)	
	<u>\$ 1,316</u>	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 1:- GENERAL**a. Corporate information:

In November 2018, Navasota Resources Inc. ("Navasota") and IMC Holdings Ltd. ("IMC") entered into a business combination agreement pursuant to which Navasota would issue its Ordinary shares to the shareholders of IMC in consideration for the purchase of the entire share capital of IMC. As additionally described in Note 5, this constituted a Reverse Takeover Transaction of Navasota by the shareholders of IMC (the "RTO").

On October 11, 2019, upon completion of the RTO, Navasota changed its name to IM Cannabis Corp. (the "Company" or "IMCC") and commenced trading on the Canadian Securities Exchange ("CSE") under the ticker symbol "IMCC". IMCC's main office is located in Kibutz Glil-Yam, Israel.

IMC operates in the field of medical cannabis, through 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 (see Note 1b).

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

b. Strategic Developments:

1. 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.
2. 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 6).
3. On April 2, 2019, IMC undertook a restructuring process (the "IMC Restructuring") to divest its holdings in Focus, IMC Pharma and I.M.C.C. Ltd. (the "Licensed Entities") and sold its interest to the two Principal Shareholders of the Company. In the process, IMC restructured its connection to the Government Issued License, from Direct Ownership to a Business Agreement relationship, according to which IMC will still gain most of the economic values generated from the License, without directly owning it. Furthermore, IMC has the option to buy back the ownership of the license from the two Principal Shareholders. The restructuring process was subject to the prior approval of the Ministry of Health (the "MOH") and became effective on June 24, 2019.

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

Following the IMC Restructuring of the Licensed Entities, the Company does not currently hold, directly or indirectly, any licenses to engage in the cultivation, production, processing, distribution or sale of medical cannabis in Israel.

Subsequent to the IMC Restructuring, according to accounting criteria in IFRS 10, the Company is still viewed as effectively exercising control over Focus, and therefore, the accounts of Focus continue to be consolidated with those of the Company.

4. On May 21, 2019, IMC entered into a supply agreement with an international pharmaceutical company based in Spain (the "Spanish company" or "Spanish cultivator"). The Spanish company specializes in research and development, breeding, cultivation, extraction, purification and preparation of Narcotic Raw Materials ("NRMs") and Active Pharmaceutical Ingredients ("APIs") and holds the necessary Spanish regulatory approvals to operate in this field.

Under the agreement the Spanish cultivator shall work in accordance with IMC's strains, know-how and quality procedures. The products will be distributed to the German market as well as other European markets through the Company's wholly-owned EU GMP and distribution facility of Adjupharm GmbH. As of December 31, 2019, the Company paid, according to the agreement, an advance to the Spanish cultivator for the purchase of products in the total amount of \$2,565.

c. Approval of consolidated financial statements:

These consolidated financial statements of the Group were authorized for issue by the board of directors on April 20, 2020.

d. Definitions:

In these financial statements:

The Company, or IMCC	- IM Cannabis Corp.
The Group	- IM Cannabis Corp., its Subsidiaries and Focus
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
NIS	- New Israeli Shekel
USD	- United States Dollar
EURO or €	- Euro

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

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. Basis of presentation:

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Group's financial statements have been prepared on a cost basis, except for:

- Financial instruments which are presented at fair value through profit or loss.
- Biological assets which are presented at fair value less cost to sell up to the point of harvest.

The Group has elected to present the profit or loss items using the function of expense method.

b. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

As of December 31, 2019 and 2018, major subsidiaries over which the Company has control, directly or indirectly, include:

<u>Subsidiaries</u>	<u>Percentage ownership</u>	
	<u>2019</u>	<u>2018</u>
I.M.C. Holdings Ltd ("IMC")	100%	100%
Focus Medical Herbs Ltd. ("Focus") *)	74%	74%
I.M.C Pharma Ltd. ("IMC Pharma")	100%	100%
I.M.C. Farms Israel Ltd. ("IMC Farms")	100%	100%
I.M.C.C Ltd. ("I.M.C.C")	100%	100%
I.M.C Ventures Ltd. ("IMC Ventures")	75%	75%
I.M.C - International Medical Cannabis Portugal Unipessoal Lda	100%	-
Adjupharm GmbH ("Adjupharm")	95%	-

*) See also Note 1b(3).

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

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

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

The disposal of a subsidiary that does not result in a loss of control is recognized as a change in equity. Upon the disposal of a subsidiary resulting in loss of control, the Company:

- Derecognizes the subsidiary's assets (including goodwill) and liabilities.
- Derecognizes the carrying amount of non-controlling interests.
- Derecognizes the adjustments arising from translating financial statements carried to equity.
- Recognizes the fair value of the consideration received.
- Recognizes the fair value of any remaining investment.
- Reclassifies the components previously recognized in other comprehensive income (loss) on the same basis as would be required if the subsidiary had directly disposed of the related assets or liabilities.
- Recognizes any resulting difference (surplus or deficit) as gain or loss.

c. **Business combinations and goodwill:**

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to the statement of profit or loss as incurred.

In a business combination achieved in stages, equity interests in the acquiree that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value while recognizing a gain or loss resulting from the revaluation of the prior investment on the date of achieving control.

Contingent consideration is recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IFRS 9. Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognizes the resulting gain on the acquisition date.

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

d. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The functional currency of the Company is the New Israeli Shekel ("NIS").
The Group determines the functional currency of each Group entity.

The financial statements are presented in Canadian dollars ("CAD"), the presentation currency, since the Company believes that financial statements in CAD provide more relevant information to the investors and users of the financial statements who are located outside of Israel.

Assets, including fair value adjustments upon acquisition, and liabilities of an investee which is a foreign operation, and of each Group entity for which the functional currency is not the presentation currency are translated at the closing rate at each reporting date. Profit or loss items are translated at average exchange rates for all periods presented. The resulting translation differences are recognized in other comprehensive income (loss).

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation which had been recognized in other comprehensive income is transferred to profit or loss. Upon the partial disposal of a foreign operation which results in the retention of control in the subsidiary, the relative portion of the amount recognized in other comprehensive income is reattributed to non-controlling interests.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalized to qualifying assets or accounted for as hedging transactions in equity, are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

e. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**f. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit.

g. Fair value measurement:

Fair value is 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.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable directly or indirectly.
- Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

The fair value of financial instruments measured at amortized cost (trade and other receivables and trade and other payables) approximates their carrying amounts due to their short-term maturities.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

The Group's biological assets consist of cannabis plants.

The Group capitalizes the direct and indirect costs incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest. The direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2, Inventories. These costs include the direct cost of planting and growing materials as well as other indirect costs such as utilities and supplies used in the cultivation process.

Indirect labor for individuals involved in the cultivation and quality control process is also included, as well as depreciation on growing equipment and overhead costs such as rent to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item cost of revenues on the Group's statements of profit or loss and other comprehensive income in the period that the related product is sold.

The Group then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of inventories after harvest. The fair value is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price per gram and also for any additional costs to be incurred (e.g., post-harvest costs). The net unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the gross profit for the related period and are recorded in a separate line on the face of the Group's statements of profit or loss and other comprehensive income.

Determination of the fair values of the biological assets requires the Group to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle.

The Group accretes fair value on a straight-line basis according to stage of growth (e.g., a cannabis plant that is 50% through its growing cycle would be ascribed approximately 50% of its harvest date expected fair value, subject to wastage adjustments).

The fair value of biological assets is categorized within Level 3 of the fair value hierarchy. For the inputs and assumptions used in determining the fair value of biological assets, see Note 9.

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

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

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. The Group reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written-down to net realizable value.

Inventories of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value.

The direct and indirect costs of inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labor and depreciation expense on equipment involved in packaging, labeling and inspection.

All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within cost of revenues on the Group's statements of profit or loss and other comprehensive income at the time cannabis is sold, except for realized fair value amounts included in inventory sold which are recorded as a separate line item on the face of the statements of profit or loss and other comprehensive income.

The Group must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

j. Property, plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment.

A part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately using the component method.

Depreciation of property, plant and equipment is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgement and calculated on a straight-line basis over the useful lives of the assets at annual rates as follows:

	<u>%</u>	<u>Mainly %</u>
Buildings	3	3
Greenhouse production equipment	7-25	20
Greenhouse Structure	12.5	12.5
Motor vehicles	15	15
Computer, Software & Equipment	20-33	33
Leasehold improvements	See below	See below

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the improvement.

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

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

k. Impairment of non-financial assets:

The Group evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

The following criteria are applied in assessing impairment of these specific assets:

Goodwill in respect of subsidiaries:

The Company reviews goodwill for impairment once a year, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

l. Revenue recognition:

The IASB replaced IAS 18, Revenue, in its entirety with IFRS 15, Revenue from Contracts with Customers. The Group adopted IFRS 15 using the modified retrospective approach where the cumulative impact of adoption is recognized in retained earnings as of January 1, 2018 and comparatives will not be restated. The adoption of this new standard had no material impact on the amounts recognized in the consolidated financial statements.

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

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a 'point in time' or 'over time', the assessment of which requires judgment. The model features the following contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized:

1. Identifying the contract with a customer;
2. Identifying the performance obligations in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations in the contract; and
5. Recognizing revenue when or as the Company satisfies the performance obligations.

Under IFRS 15, revenue from the sale of cannabis is generally recognized at a point in time when control over the goods have been transferred to the customer. Payment is typically due prior to or upon delivery and revenue is recognized upon the satisfaction of the performance obligation. The Group satisfies its performance obligation and transfers control upon delivery and acceptance by the customer, the timing of which is consistent with the Group's previous revenue recognition policy under IAS 18.

m. Leases:

As described in Note 2v, the Company adopted IFRS 16, "Leases" (the "Standard"), commencing from January 1, 2019, using the modified retrospective approach (without restatement of comparative data).

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.

For leases in which the Company is the lessee, the Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For these excluded leases, the Company has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term. In measuring the lease liability, the Company has elected to apply the practical expedient in the Standard and does not separate the lease components from the non-lease components (such as management and maintenance services, etc.) included in a single contract.

Leases which entitle employees to a company car as part of their employment terms are accounted for as employee benefits in accordance with the provisions of IAS 19 and not as subleases.

On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Company's incremental borrowing rate. After the commencement date, the Company measures the lease liability using the effective interest rate method.

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date and initial direct costs incurred. The right-of-use asset is measured applying the cost model and amortized over the shorter of its useful life and the lease term. The periods of amortization are: Land and buildings – 11.5 years; Motor vehicles – 3 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)***Variable lease payments that depend on an index:*

On the commencement date, the Company uses the index rate prevailing on the commencement date to calculate the future lease payments.

For leases in which the Company is the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset, only when there is a change in the cash flows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

Lease extension and termination options:

A non-cancelable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised.

In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Company remeasures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

n. Research and development expenditures:

Research expenditures are recognized in profit or loss when incurred. An intangible asset arising from a development project or from the development phase of an internal project is recognized if the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Group's intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the ability to measure reliably the respective amount of expenses that should be capitalized to an asset during its development.

The asset is measured at cost less any accumulated amortization and any accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. The asset is amortized over its useful life. Testing of impairment is performed annually over the period of the development project.

o. Financial instruments:

In July 2014, the IASB issued the final and complete version of IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement.

The Group elected to early adopt the provisions of the IFRS 9 on January 1, 2017 and apply all of its requirements from that date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data**

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)1. Financial assets:

Financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

The Group classifies and measures debt instruments in the financial statements based on the following criteria:

- The Group's business model for managing financial assets; and
- The contractual cash flow terms of the financial asset.

Debt instruments are measured at amortized cost when:

The Group's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. After initial recognition, the instruments in this category are measured according to their terms at amortized cost using the effective interest rate method, less any provision for impairment.

Debt instruments are measured at fair value through profit or loss when:

A financial asset which is a debt instrument does not meet the criteria for measurement at amortized cost or at fair value through other comprehensive income. After initial recognition, the financial asset is measured at fair value and gains or losses from fair value adjustments are recognized in profit or loss.

Equity instruments:

Investments in equity instruments do not meet the above criteria and accordingly are measured at fair value through profit or loss. Dividends from investments in equity instruments are recognized in profit or loss when the right to receive the dividends is established.

Impairment of financial assets:

The Group evaluates at the end of each reporting period the loss allowance for financial debt instruments measured at amortized cost. The Group has short-term financial assets, principally trade receivables, in respect of which the Group applies a simplified approach and measures the loss allowance in an amount equal to the lifetime expected credit losses. The impairment loss, if any, is recognized in profit or loss with a corresponding allowance that is offset from the carrying amount of the assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**Derecognition of financial assets:

A financial asset is derecognized only when:

- The contractual rights to the cash flows from the financial asset has expired; or
- The Group has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or
- The Group has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

2. Financial liabilities:*Financial liabilities measured at amortized cost:*

Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.

After initial recognition, the Group measures all financial liabilities at amortized cost using the effective interest rate method, except for financial liabilities at fair value through profit or loss.

Financial liabilities measured at fair value through profit or loss:

At initial recognition, the Company measures financial liabilities that are not measured at amortized cost at fair value. Transaction costs incurred at initial recognition are recognized in profit or loss.

After initial recognition, changes in fair value are recognized in profit or loss.

Derecognition of financial liabilities:

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or cancelled or expires. A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

3. Issue of a unit of securities:

The issue of a unit of securities involves the allocation of the proceeds received (before issue expenses) to the securities issued in the unit based on the following order: financial derivatives and other financial instruments measured at fair value in each period. Then fair value is determined for financial liabilities that are measured at amortized cost. The proceeds allocated to equity instruments are determined to be the residual amount. Issue costs are allocated to each component pro rata to the amounts determined for each component in the unit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**p. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered.

A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits:

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans pursuant to section 14 to the Israeli Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services.

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Israeli Severance Pay Law. According to the Severance Pay Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include expected salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Consumer Price Index with a term that is consistent with the estimated term of the severance pay obligation.

In respect of its severance pay obligation to certain of its employees, the Group makes current deposits in pension funds and insurance companies (the "plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets.

Remeasurements of the net liability are recognized in other comprehensive income in the period in which they occur.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data**

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)q. Share-based payment transactions:

The Group's employees and service providers are entitled to remuneration in the form of equity-settled share-based payments.

Equity-settled transactions:

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model.

As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments granted.

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award (the "vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

r. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

s. Taxes on income:

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rate that is expected to apply when the asset is realized, or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

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

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. Deductible carryforward losses and temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

t. Earnings per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary Shares outstanding during the period.

Potential Ordinary Shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Ordinary Shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on its share of earnings per share of the investees multiplied by the number of shares held by the Company.

u. 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.

Amortization is calculated on a straight-line basis over the useful life of the assets as follows:

	<u>Years</u>
Licenses	6
Other intangibles	6-9

The amortization expenses for the year ended December 31, 2019, amounted to \$125.

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

- v. Changes in accounting policies - initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:

Initial application of IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" (the "Standard") which provides guidance on the recognition, measurement, presentation and disclosure of leases, and supersedes IAS 17. The Standard has been applied for the first time in these financial statements. The Company elected to apply the provisions of the Standard using the modified retrospective method.

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 the Company's incremental borrowing rate of interest of 6.7% (NIS denominated operating lease agreement) was used to discount future lease payments in the calculation of the lease liabilities on the date of initial application of the Standard.
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>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data**

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 Interpretation has been initially applied in these financial statements.

The Company has elected to apply the Interpretation retrospectively, without restating comparative data, by recording the cumulative effect as of the date of initial application in the opening balance of retained earnings.

The initial application of the Interpretation did not have a material effect on the Company's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 3:- SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS**

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

a. Judgments:

- Determining the fair value of share-based payment transactions:

The fair value of share-based payment transactions is determined upon initial recognition by an acceptable option pricing model. The inputs to the model include share price, exercise price and assumptions regarding expected volatility, expected life of share option and expected dividend yield.

- Discount rate for a lease liability:

When the Company is unable to readily determine the discount rate implicit in a lease in order to measure the lease liability, the Company uses an incremental borrowing rate. That rate represents the rate of interest that the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. When there are no financing transactions that can serve as a basis, the Company determines the incremental borrowing rate based on its credit risk, the lease term and other economic variables deriving from the lease contract's conditions and restrictions. In certain situations, the Company is assisted by an external valuation expert in determining the incremental borrowing rate.

b. Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 3:- SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)***Assessment of going concern:*

The use of the going concern basis of preparation of the financial statements. At each reporting period, management assesses the basis of preparation of the financial statements. These financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

In arriving at this determination, the Company has undertaken a thorough review of the Group's cash flow forecast and potential liquidity risks. Cash flow projections have been prepared which show that the Group's operations will be cash generative during the period of at least 12 months from the date of approval of the consolidated financial statements.

Biological assets and inventory:

In calculating the value of the biological assets and inventory, management is required to make several estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged. See Note 10 for further information.

Legal claims:

In estimating the likelihood of legal claims filed against the Group entities, the Group management rely on the opinion of its legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and legal precedents in respect of the different issues. Since the outcome of the claims may be determined in courts, the results could differ from these estimates.

Deferred tax assets:

Deferred tax assets are recognized for unused carryforward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits, its source and the tax planning strategy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data**

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION*IFRS 3, "Business Combinations":*

In October 2018, the IASB issued an amendment to the definition of a "business" in IFRS 3, "Business Combinations" ("the Amendment"). The Amendment is intended to assist entities in determining whether a transaction should be accounted for as a business combination or as an acquisition of an asset.

The Amendment consists of the following:

1. Clarification that to meet the definition of a business, an integrated set of activities and assets must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create output.
2. Removal of the reference to the assessment whether market participants are capable of acquiring the business and continuing to operate it and produce outputs by integrating the business with their own inputs and processes.
3. Introduction of additional guidance and examples to assist entities in assessing whether the acquired processes are substantive.
4. Narrowing the definitions of "outputs" and "business" by focusing on goods and services provided to customers.
5. Introducing an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The Amendment is to be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, with earlier application permitted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 5:- REVERSE TAKEOVER**

As described in Note 1, in November 2018 Navasota and IMC entered into a business combination agreement pursuant to which Navasota would issue its Ordinary shares to the shareholders of IMC in consideration for the purchase of the entire share capital of IMC. As described below, this constituted a Reverse Takeover transaction of Navasota by the shareholders of IMC (the "RTO"). Subsequent to the completion of the RTO in October 2019, Navasota changed its name to IM Cannabis Corp. (the "Resulting Issuer").

In connection with and as a condition precedent for the RTO, on August 29, 2019, Navasota and IMC announced the completion of a private placement offering of 19,460,527 subscription receipts (each a "Subscription Receipt") of a wholly owned subsidiary of Navasota ("Finco") at a price of \$1.05 per Subscription Receipt (after giving effect to a contemplated share split by IMC of 1:10) for aggregate gross proceeds of \$20,433 (the "Financing"). Upon the satisfaction of all of the conditions precedent to the completion of the RTO, each Subscription Receipt was exchanged for one unit of Finco (a "Finco Unit") with each Finco Unit being comprised of one (1) common share of Finco (a "Finco Share") and one-half (1/2) of one (1) common share purchase warrant of Finco (a "Finco Warrant"). Each whole Finco Warrant was exercisable for one Finco Share at an exercise price of \$1.30 (after giving effect to the contemplated share split of 1:10) for a period of 24 months following the closing of the RTO. Upon closing of the RTO, the Finco Shares and Finco Warrants were exchanged for post-Consolidation Resulting Issuer shares and Resulting Issuer warrants on economically equivalent terms on a 1:1 basis (see Note 15b).

On October 11, 2019, upon completion of the RTO, the holders of IMC Ordinary shares hold approximately 84.28% of the issued and outstanding Resulting Issuer shares, holders of Subscription Receipts hold approximately 13.35% of the Resulting Issuer shares and current Navasota shareholders hold 2.37% of the Resulting Issuer shares, in each case, on a non-diluted basis.

Since the holders of IMC shares obtained the largest portion of the voting rights, and thus obtained control, of the combined entities, the transaction is treated as a reverse takeover in which IMC (the legal subsidiary) is considered the acquirer and Navasota (the legal parent) is considered the acquiree for financial accounting and reporting purposes. Accordingly, these consolidated financial statements reflect a continuation of the financial position, operating results and cash flows of IMC and a re-capitalization of the equity of IMC.

As Navasota had no business activities and its net assets were immaterial, the acquisition of Navasota by IMC constitutes a reverse asset acquisition. As a result of this reverse asset acquisition, a listing expense of \$3,632 has been recorded to reflect the fair value of the IMC shares deemed to have been issued to the Navasota shareholders, in addition to the net liabilities of Navasota amounting to \$249 on the date of the reverse acquisition.

The fair value of the Finco Units issued to the Navasota shareholders under reverse takeover accounting is \$3,383 for an aggregate of 3,455,266 Finco Shares and 756,713 Finco Warrants. The fair value per unit is based on the issue price paid for the Finco Units as described above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 6:- 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 €24 thousand (\$1,400) paid in cash.

The Company recognized the fair value of the assets acquired and liabilities assumed in the business combination based on a valuation prepared by an external valuation specialist.

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

	<u>Fair value</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 84
Trade and other receivables	70
Inventories	224
Property, plant and equipment	1,074
Intangible assets	<u>996</u>
Total identifiable assets	<u>2,448</u>
<u>Liabilities</u>	
Bank credit	(321)
Trade payables	(84)
Other payables	(44)
Bank loan	(624)
Deferred tax	<u>(267)</u>
Total identifiable liabilities	<u>(1,340)</u>
Total identifiable assets, net	1,108
Goodwill arising on acquisition	<u>292</u>
Total purchase price	<u>\$ 1,400</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 6:- 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 €80 thousand (approximately \$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. During the three-months period ended June 30, 2019, the funds in escrow were used to repay the bank loan and bank credit.

Cash outflow/inflow on the acquisition:

	<u>CAD in thousands</u>
Cash and cash equivalents acquired with the acquiree at the acquisition date	\$ 84
Cash paid	<u>(1,400)</u>
Net cash outflow	<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 \$63. In addition, Adjupharm's CEO was granted with restricted shares representing 4.98% of the Adjupharm's Ordinary shares, of which, 2.5% and 2.48% shall vest on March 1, 2020 and 2021, respectively, provided Adjupharm's CEO is employed as CEO in each of the respective vesting dates. The fair value of the restricted shares on the date of grant was \$63.

The share-based payment expenses of subsidiary for the year ended December 31, 2019 and 2018, amounted to \$102 and \$ nil, respectively.

NOTE 7:- TRADE RECEIVABLES

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Wholesalers and pharmacies	<u>\$ 1,810</u>	<u>\$ 14</u>

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. As of December 31, 2019 and 2018, there were no material past-due receivables.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 8:- OTHER ACCOUNTS RECEIVABLE**

	December 31,	
	2019	2018
Prepaid expenses	266	6
Government authorities	187	67
Related parties (see Note 21)	63	30
Credit cards receivables	-	291
Other receivables	-	50
	<u> </u>	<u> </u>
Other accounts receivable	<u>\$ 516</u>	<u>\$ 444</u>

NOTE 9:- BIOLOGICAL ASSETS

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

Balance at January 1, 2018	\$ -
Production costs capitalized	1,037
Changes in fair value less cost to sell due to biological transformation	4,373
Transferred to inventory upon harvest	(5,322)
Foreign exchange translation	1
	<u> </u>
Balance at December 31, 2018	<u>\$ 89</u>
Production costs capitalized	1,108
Changes in fair value less cost to sell due to biological transformation	5,990
Transferred to inventory upon harvest	(7,137)
Foreign exchange translation	2
	<u> </u>
Balance at December 31, 2019	<u>\$ 52</u>

As of December 31, 2019, the weighted average fair value less cost to sell was \$2.66 per gram.

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

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 9:- BIOLOGICAL ASSETS (Cont.)**

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:

	December 31,		10% change as at	
	2019	2018	December 31,	2018
	In thousands			
Average selling price per gram of dried cannabis (in CAD)	\$ 3.39	\$ 2.61	\$ 6.2	\$ 10.7
Average post-harvest costs per gram of dried cannabis (in CAD)	\$ 0.73	\$ 0.44	\$ 0.9	\$ 1.8
Attrition rate	6%	0%	\$ 0.4	\$ 8.9
Average yield per plant (in grams)	94	40	\$ 5.2	\$ 8.9
Average stage of growth	5%	37%	\$ 5.2	\$ 8.9

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Group'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 10:- INVENTORIES

	December 31, 2019		
	Capitalized costs	Fair valuation adjustment	Carrying value
Work in progress			
Bulk cannabis	\$ 693	\$ 1,596	\$ 2,289
Finished goods			
Packaged dried cannabis	922	1,849	2,771
Other	362	-	362
Balance as at December 31, 2019	<u>\$ 1,977</u>	<u>\$ 3,445</u>	<u>\$ 5,422</u>

	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	2,965	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>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 10:- INVENTORIES (Cont.)**

During the years ended December 31, 2019 and 2018, inventory expensed to cost of goods sold was \$11,135 and \$3,374, respectively, which included \$6,374 and \$1,599 of non-cash expense, respectively, related to the changes in fair value of inventory sold.

Cost of revenues in 2019 and 2018 also include production overhead not allocated to costs of inventories produced and recognized as an expense as incurred.

NOTE 11:- PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and Improvements	Greenhouse Production Equipment	Greenhouse Structure	Computer, Software & Equipment	Motor Vehicles	Total
<u>Cost:</u>						
Balance at January 1, 2018	\$ -	\$ 478	\$ 371	\$ -	\$ 18	\$ 867
Additions during the year	77	338	309	5	-	729
Foreign currency translation	1	4	3	-	-	8
Balance, December 31, 2018	78	820	683	5	18	1,604
Additions during the year	577	679	174	167	-	1,597
Additions from business combination	1,074	-	-	-	-	1,074
Foreign currency translation	(54)	35	27	2	1	11
Balance December 31, 2019	1,675	1,534	884	174	19	4,286
<u>Accumulated Depreciation:</u>						
Balance at January 1, 2018	-	239	107	-	2	348
Depreciation during the year	2	97	78	1	2	180
Foreign currency translation	-	2	1	-	-	3
Balance, December 31, 2018	2	338	186	1	4	531
Depreciation during the year	44	181	87	25	3	340
Foreign currency translation	-	15	7	-	1	23
Balance, December 31, 2019	46	534	280	26	8	894
<u>Net Book Value:</u>						
December 31, 2018	\$ 76	\$ 482	\$ 497	\$ 4	\$ 14	\$ 1,073
December 31, 2019	\$ 1,631	\$ 1,048	\$ 604	\$ 98	\$ 11	\$ 3,392

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 12:- RIGHT-OF-USE ASSETS**

	Land and buildings (*)	Motor vehicles	Total
Cost:			
Balance as of January 1, 2019	\$ 777	\$ -	\$ 777
Additions during the year:			
New leases	167	229	396
Adjustments arising from translating financial statements from functional currency to presentation currency	11	2	13
Disposals during the year:			
Termination of leases	-	(36)	(36)
Balance as of December 31, 2019	955	195	1,150
Accumulated depreciation:			
Balance as of January 1, 2019	-	-	-
Additions during the year:			
Depreciation and amortization	79	57	136
Adjustments arising from translating financial statements from functional currency to presentation currency	1	-	1
Disposals during the year:			
Termination of leases	-	(10)	(10)
Balance as of December 31, 2019	80	47	127
Depreciated cost at December 31, 2019	\$ 875	\$ 148	\$ 1,023

(*) On August, 2010, Focus signed an agreement with a farmer, located in the south of Israel (the "Farmer"), according to which Focus and the Farmer will jointly operate an area of 7,000 square meters (the "facility") for the cultivation and processing of medical cannabis (the "Venture"). For the purpose of this venture, the parties will operate in the framework of Focus. As part of the agreement, 26% of the share capital of Focus was allocated to the Farmer.

On December 1, 2016, Focus signed with the Farmer an additional agreement, according to which Focus will operate an additional area of 6,000 square meters (the "facility") for the cultivation and processing of medical cannabis, under the framework of Focus.

On October 29, 2019, Focus signed with the Farmer an additional agreement, according to which Focus will operate an additional area of 7,500 square meters (the "facility") for the cultivation and processing of medical cannabis, under the framework of Focus.

NOTE 13:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits consist of short-term benefits and post-employment benefits.

Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Group is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to Section 14 to the Severance Pay Law, as specified below. The Group's liability is accounted for as a post-employment benefit only for employees not under Section 14. The computation of the Group's employee benefit liability is made in accordance with a valid employment contract or a collective employees agreement based on the employee's salary and employment term which establish the entitlement to receive the compensation.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plans, as detailed below:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 13:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)**1. Defined benefit plans:

The Group accounts for the payment of compensation, that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in a long-term employee benefit fund and in qualifying insurance policies.

2. Expenses recognized in the consolidated statements of profit or loss and other comprehensive income:

	Year ended December 31,	
	2019	2018
Current service cost	\$ 134	\$ 79
Interest expenses	9	5
Total employee benefit expenses	<u>143</u>	<u>84</u>
Interest income on plan assets	<u>\$ 4</u>	<u>\$ 3</u>

3. The defined benefit liability (asset), net:

	December 31,	
	2019	2018
Defined benefit obligation	\$ 390	\$ 261
Fair value of plan assets	(128)	(85)
Net defined benefit liability	<u>\$ 262</u>	<u>\$ 176</u>

4. Changes in the present value of defined benefit liabilities:

	2019	2018
Balance at January 1,	\$ 261	\$ 267
Current service cost	134	79
Interest expenses	9	5
Benefits paid	(54)	(26)
Re-measurement loss (gain) on defined benefit plans	29	(68)
Foreign currency translation effect	11	4
Balance at December 31,	<u>\$ 390</u>	<u>\$ 261</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 13:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)**5. Changes in the fair value of plan assets:

Plan assets comprise assets held by a long-term employee benefit funds and qualifying insurance policies.

	<u>2019</u>	<u>2018</u>
Balance at January 1,	\$ 85	\$ 75
Interest income	4	3
Return, net of interest income - remeasurements losses	(1)	(11)
Benefits paid	(54)	(26)
Amounts deposited	92	43
Foreign currency translation effect	2	1
Balance at December 31,	<u>\$ 128</u>	<u>\$ 85</u>

6. The principal assumptions underlying the defined benefit plan

	<u>2019</u>	<u>2018</u>
	%	
Discount rate	2.87%	3.94%
Salary growth	3.24%	3.59%

Based on reasonably possible changes of the principal assumptions underlying the defined benefit plan as mentioned above, occurring at the end of the reporting period, the changes would have an immaterial effect on the consolidated financial statements.

NOTE 14:- OTHER PAYABLES

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Accrued expenses	\$ 597	\$ 151
Employees and payroll accruals	230	150
Government authorities	450	351
Other payables	181	46
	<u>\$ 1,458</u>	<u>\$ 698</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 15:- FINANCIAL INSTRUMENTS**

The carrying values of the financial instruments as of December 31, 2019, are summarized in the following table:

	Amortized cost	FVTPL	Total	Note
<i>Financial Assets</i>				
Cash and cash equivalents	\$ 13,926	\$ -	\$ 13,926	
Trade receivables	1,810	-	1,810	
Investments	-	912	912	c
Other accounts receivables	516	-	516	
<i>Financial Liabilities</i>				
Trade payables	992	-	992	
Other account payables and accrued expenses	1,458	-	1,458	
Warrants	-	197	197	a, b
Lease liabilities	\$ 1,050	-	\$ 1,050	

- a. In May and June 2018, IMC completed a series of private placements pursuant to which it sold an aggregate of 2,282,749 units (the "Units") at \$4.00 per Unit for gross proceeds of \$9,131 (the "2018 Private Placements"). Each Unit consisted of one IMC Ordinary Share and one-half of one IMC Warrant (the "2018 Warrants"), with each whole 2018 Warrant exercisable for one IMC Ordinary Share at an exercise price of \$5.00 for 24 months following the date of issuance. The gross proceeds amounted to \$9,131 and aggregate net proceeds to the Company from the 2018 Private Placement, after deducting the Placement Agents' (the "Agents") fees and other issuance expenses of \$874, were \$8,257.

The Warrants included in each Unit were determined to be a financial derivative and accordingly were classified as financial liability measured at fair value through profit or loss. Accordingly, the Company allocated the gross proceeds received to the securities issued in the Unit, such that proceeds allocated to the Warrants component based on their fair value at the date of the placements amounted to \$1,278 and proceeds allocated to the Ordinary Share were determined to be the residual amount of \$7,853.

In addition, IMC granted 128,652 Compensation Warrants (the "2018 Compensation Warrants") to the Agents in the same terms as described above.

Issuance expenses in the amount of \$874 were allocated as follows: An amount of \$123 allocated to the 2018 Warrants was expensed in finance expenses in the consolidated statement of profit or loss and other comprehensive income and an amount of \$751 was allocated to the Ordinary shares and recorded as a reduction of share premium.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)**

The fair value of the 2018 Warrants is categorized within Level 3 of the fair value hierarchy. The fair value was measured using the Black & Scholes model with the following key assumptions:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>Sensitivity</u>
Expected volatility	64%	75%	Increase (decrease) in key assumptions would result in increase
Expected life (in years)	0.45	1.45	(decrease) in fair value.
Risk-free interest rate	1.76%	1.82%	Increase (decrease) in key assumptions would result in decrease
Expected dividend yield	0%	0%	(increase) in fair value.
Fair value:			
Per Warrant (Canadian Dollar)	<u>\$ 0.02</u>	<u>\$ 0.82</u>	
Total Warrants (Canadian Dollar in thousands)	<u>\$ 197</u>	<u>\$ 1,053</u>	

As of December 31, 2019, and 2018, there were 11,413,750 (after the effect of the split 1:10), 2018 Warrants outstanding, with fair value in the amount of \$197 and \$1,053, respectively. As a result, for the year ended December 31, 2019 and 2018, the Company recognized a revaluation gain of \$856 and \$369, respectively, in the consolidated statement of profit or loss and other comprehensive income, which unrealized gain is included in finance income.

- b. In August 2019, IMC completed a series of private placements pursuant to which it sold an aggregate of 19,460,527 units (the "Units") at \$1.05 per Unit for gross proceeds of \$20,433 (the "2019 Private Placements"). Each Unit consisted of one IMC Ordinary Share and one-half of one IMC Warrant (the "2019 Warrants"), with each whole 2019 Warrant exercisable for one IMC Ordinary Share at an exercise price of \$1.3 for 24 months following the date of issuance. The gross proceeds amounted to \$20,433 and aggregate net proceeds to the Company from the 2019 Private Placement, after deducting the Placement Agents' (the "Agents") cash fees and other issuance expenses of \$2,596, amounted to \$17,837.

The Warrants included in each Unit were determined to be a financial derivative and accordingly were classified as financial liability measured at fair value through profit or loss. Accordingly, the Company allocated the gross proceeds received to the securities issued in the Unit, such that proceeds allocated to the Warrants component based on their fair value on the date of the placements amounted to \$2,597 and proceeds allocated to the Ordinary Share were determined to be the residual amount of \$17,836.

In addition, IMC granted to the Agents options to acquire 1,199,326 Compensation units (the "2019 Compensation Units") at an exercise price of \$1.05 per unit. Each 2019 Compensation Unit consists of one IMCC Ordinary Share and one half IMCC Warrant, with each whole IMCC Warrant exercisable for one IMC Ordinary Share at an exercise price of \$1.3 for 36 months following the issuance.

Issuance expenses in the amount of \$3,337 (including the FV of the 2019 Compensation Units amounting to \$741) were allocated as follows: An amount of \$424 allocated to the 2019 Warrants was expensed in finance expense in the consolidated statement of profit or loss and other comprehensive income and an amount of \$2,913 was allocated to the Ordinary Shares and recorded as a reduction of share premium.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)**

As of December 31, 2019, there were 9,730,264 2019 Warrants outstanding from the 2019 Private Placements, and the Company re-measured the 2019 Warrants, according to their trading price in the market, in the amount of \$ nil. As a result, for the year ended December 31, 2019, the Company recognized a revaluation gain of \$2,597 in the consolidated statement of profit or loss and other comprehensive income, which unrealized gain is included in finance income.

In addition as of December 31, 2019, there were 756,713 2019 Warrants outstanding from the issuance to the Navasota shareholders in the RTO (see Note 5). The Company remeasured these Warrants according to their trading price in the market, in the amount of \$ nil. As a result, the Company recognized in 2019 a revaluation gain of \$200 which unrealized gain is included in finance income.

- c. On December 26, 2019, IMC entered into a share purchase agreement (the "SPA") with Xinteza API Ltd. ("Xinteza"), a company with a unique biosynthesis technology, whereby the Company has committed to acquire, in a number of installments, a total of approximately 38,000 convertible preferred shares ("Preferred Shares") of Xinteza for an aggregate consideration of US\$1.7 million. The first installment in the amount of US\$ 700 thousand (\$912) for the purchase of approximately 15,700 Preferred Shares was made on the date of the SPA. The remaining installments amounting to US\$ 1 million are to be paid through June 2020.

The Preferred Shares are convertible, at the option of the Company at any time, into Ordinary shares of Xinteza at a conversion ratio of 1:1. The conversion ratio is to be adjusted pursuant to anti-dilution and other provisions of the SPA. As of the date of the SPA, the total Preferred Shares to be acquired by the Company represents, on an if-converted and fully diluted basis, approximately 25.4% of the outstanding share capital of Xinteza. The Preferred Shares have preference in dividends and other distributions and entitle their holder to certain voting and veto rights.

The investment in the Preferred Shares is accounted for as financial asset measured at fair value through profit or loss. At December 31, 2019, the fair value is identical to the amount paid upon initial recognition.

Under an exclusive license from Yeda Research & Development Company Ltd. ("Yeda"), the commercial arm of the Weizmann Institute of Science, Xinteza is developing advanced proprietary technologies related to the production of cannabinoid-based active pharmaceutical ingredients ("API") for the pharmaceutical and food industries using biosynthesis and bio-extraction technologies. Should the Company not pay the remaining installments by June 2020, Yeda has the right to cancel the license.

Financial risk management:

The Group has exposure to the following risks from its use of financial instruments:

Credit risk:

The maximum credit exposure at December 31, 2019, is the carrying amount of cash and cash equivalents, accounts receivable and other current assets. The Group does not have significant credit risk with respect to customers. All cash and cash equivalents are placed with major Israeli financial institutions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)***Liquidity risk*

As at December 31, 2019, the Group's financial liabilities consist of accounts payable and other accounts payable which has contractual maturity dates within one year. The Group manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Group's working capital position at December 31, 2019, management considers liquidity risk to be low.

December 31, 2019:

	<u>Less than one year</u>	<u>1 to 5 years</u>	<u>6 to 10 years</u>	<u>>10 years</u>
Lease liabilities	\$ 229	\$ 566	\$ 553	\$ 46

The maturity profile of the Company's other financial liabilities (trade payables, other account payable and accrued expenses, and warrants) as of December 31, 2019 and 2018, are less than one year.

Currency rate risk

As at December 31, 2019, a portion of the Group's financial assets and liabilities held in CAD consist of cash and cash equivalents. The Group's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by transacting, to the greatest extent possible, with third parties in NIS. The Group does not currently use foreign exchange contracts to hedge its exposure of its foreign currency cash flows as management has determined that this risk is not significant at this point of time.

d. Changes in liabilities arising from financing activities:

	<u>Short-term loans</u>	<u>Lease liabilities</u>	<u>Warrants</u>	<u>Total liabilities arising from financing activities</u>
Balance as of January 1, 2019	\$ -	\$ -	\$ 1,053	\$ 1,053
Additions due to acquisition of subsidiary	945	-	-	945
Issuance of new warrants	-	-	2,797	2,597
Initial application of IFRS 16	-	777	-	777
Additions for new leases	-	396	-	396
Cash flows	(951)	(165)	-	(1,116)
Other changes	6	42	-	48
Effect of changes in fair value	-	-	(3,653)	(3,453)
Balance as of December 31, 2019	<u>\$ -</u>	<u>\$ 1,050</u>	<u>\$ 197</u>	<u>\$ 1,247</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 16:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES**

Legal proceedings:

Municipal Taxes Demand

On January 15, 2018, IMC, six other medical cannabis growers and Abarbanel Mental Health Center received a municipal tax demand from the municipality of Bat-Yam, ordering them to pay approximately NIS 2.8 million (\$911), for operating a medical cannabis distribution center in Bat-Yam. On May 15, 2018, IMC filed an objection to the demand on the basis that it does not operate nor conduct business of any kind in the jurisdiction of Bat-Yam. On June 2019, the Company, the Growers and Abarbanel signed a settlement agreement, according to which, 200,000 NIS will be paid, by Abarbanel and 4 of the Growers (the "Liable Growers") to Bat-Yam municipality to eliminate the claim. On February and March 2020, the Liable Growers paid their part of the settlement. The Company is not a Liable Grower. Following the aforementioned, the tax claim procedure has ended.

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 (\$50,633).

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. In an evidentiary hearing held on September 9, 2019, the petitioners and the Growers testified and it was decided to remove the plaintiffs' second and last expert opinion from the motion. On December 31, 2019, the applicants submitted their summaries. On April 12, 2020, the court approved the Growers request, in which their response to the Motion will be submitted until April 23, 2020.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 16:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES
(Cont.)***Class Action T.Z. 35676-08-19*

On August 19, 2019, a motion was filed for approval of a class action (the "Motion") against 17 companies (the "Companies") operating in the field of medical cannabis in Israel, including Focus. The applicant's argument is that Companies did not accurately mark the concentration of active ingredients in their products. The personal suit sum for every class member stands at NIS 15,585 (\$5.9); the total amount of the class action suit is estimated at NIS 686 million (\$261,000). On February 20, 2020, the court approved the Companies' request, in which their response to the Motion will be submitted until March 29, 2020. Due to the Coronavirus situation, the Companies' response to the Motion will be submitted until May 3, 2020.

At this preliminary stage, Focus' management believes, based on the opinion of its legal counsel, that it is not possible to assess the prospects of the proceeding. Therefore, no provision has been recorded in respect thereof.

Supreme Court of Justice 2335/19

On October 6, 2019, Focus received a decision regarding a petition that was filed against the Ministry on Health ("MOH"), concerning the new regulatory framework of the cannabis market and demanding that the court resolve as follow:

- That the MOH immediately suspends the implementation of the new regulation that harms, disproportionately, the medical cannabis patients;
- That the implementation of the new regulation, as is, would cause violation of constitutional rights of the medical cannabis patients;
- That the MOH amends the flaws of the new regulation, prior to becoming effective, and to establish new regulations regarding labeling and use of pesticides.

According to the decision, Focus has been attached to the proceedings and filed its response on November 12, 2019.

On March 8, 2020, the Court decided to extend, at this time, the validity of the interim injunction, so that the medical cannabis use licenses, which were extended under the decision, will continue to be valid until May 15, 2020, or 10 days after the date the MOH comes to a conclusion regarding the price control of medical cannabis products, whichever comes first, or until another Court decision.

The Court also decided that as further extension of the period of the interim injunction was granted beyond May 15, 2020, to the extent required, it would be subject to medical surveillance by the attending physician, that his details of which were included in the patient's existing use license.

As to the continuation of the legal process, the Court held that the respondents represented by the Israeli State Attorney's Office shall submit an updated notice to the Court regarding the progress of the proceedings before the Price Committee until May 1, 2020.

At this preliminary stage, Focus' management believes, based on the opinion of its legal counsel, that it is not possible to assess the proceeding's outcome. Therefore, no provision has been recorded in respect thereof.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 16:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES (Cont.)***Class Action T.Z. 31805-10-19*

On October 30, 2019, Focus was served with a Motion for approval of a class action against it, the Medical Cannabis Unit in Ministry of Health (MCU), and five other companies related to the cannabis market in Israel. The Motion was filed in connection to a stopping of supplies of medical cannabis by way of direct supply. The legal causes alleged in the Motion are the following: Discrimination in violation of the Equal Rights for Persons with Disabilities Act, 1988; Restrictive arrangement contrary the Economic Competition Law, 1988. The motion argues that the class action group incurred damages at the amount of NIS 656 Million (\$250,000). On March 20, 2020 the court approved the Company's request, in which its response to the Motion will be submitted until May 17, 2020 and the pre-hearing is scheduled to October 25, 2020.

At this preliminary stage, Focus' management believes, based on the opinion of its legal counsel, that it is not possible to assess the prospects of the proceeding. Therefore, no provision has been recorded in respect thereof.

NOTE 17:- TAXES ON INCOME

a. Tax rates applicable to the Group:

1. The Company is subject to tax rates applicable in Canada. The combined federal and provincial rate for 2019 and 2018 is 26.5%.
2. The Israeli subsidiaries are subject to Israeli corporate income tax rate of 23% in 2019 and 2018.
3. The German subsidiary, AdjuPharm, is subject to weighted tax rate of approximately 27% (composed of Federal and Municipal tax).

b. Tax assessments:

The Company has tax assessments that are deemed final through 2013.

The Israeli subsidiaries, excluding Focus, have not received final tax assessments or assessments that are deemed final since inception. Focus has tax assessments that are deemed final through 2013.

AdjuPharm has tax assessments that are deemed final through 2009.

c. Carryforward losses for tax purposes:

Carryforward operating tax losses of the Israeli subsidiaries total approximately \$5,876, as of December 31, 2019. These losses can be carried forward to future years and offset against taxable income in the future without any time limitation. Deferred tax assets of approximately \$23, relating to these losses were recognized in the financial statements. Deferred tax assets relating to carryforward operating losses of approximately \$5,776, were not recognized because their utilization in the foreseeable future is not probable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 17:- TAXES ON INCOME (Cont.)**

Carryforward operating tax losses of Adjupharm as of December 31, 2019, amounted to approximately \$803. Accumulated tax losses can be carried forward without time restrictions and can be deducted from future profits and capital gains unless they exceed €1,000,000 (\$1,459). Losses carried forward that exceed €1,000,000 (\$1,459) can only be deducted to the amount of 60% of the profits or capital gains that exceed €1,000,000 (\$1,459) (minimum taxation). Those parts that cannot be deducted on the basis of the minimum taxation can be carried forward again and are subject to minimum taxation in the following years. Deferred tax assets of approximately \$217, relating to carryforward operating losses were recognized in the financial statements.

d. Income tax expense (benefit):

	Year ended December 31	
	2019	2018
Current	\$ 183	\$ 443
Deferred, net	(93)	281
Income tax from previous years	-	17
	<u>\$ 90</u>	<u>\$ 741</u>

e. Deferred taxes:

	Statements of financial position		Statements of profit or loss	
	December 31,		Year ended December 31,	
	2019	2018	2019	2018
Deferred tax assets:				
Carry-forward tax losses and other	\$ 306	\$ 307	\$ 12	\$ 307
	<u>306</u>	<u>307</u>	<u>12</u>	<u>307</u>
Deferred tax liabilities:				
Inventory and biological assets	805	847	(72)	588
Intangible assets	238	-	(33)	-
	<u>1,043</u>	<u>847</u>	<u>(105)</u>	<u>588</u>
Deferred tax expenses, net			<u>\$ (93)</u>	<u>\$ 281</u>
Deferred tax assets (liabilities), net	<u>\$ (737)</u>	<u>\$ (540)</u>		

The deferred taxes are reflected in the statement of financial position as follows:

	December 31,	
	2019	2018
Non-current assets	\$ 89	\$ 307
Non-current liabilities	<u>\$ 826</u>	<u>\$ 847</u>

The deferred taxes are computed based on the tax rates that are expected to apply upon realization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 17:- TAXES ON INCOME (Cont.)**

- f. Reconciliation of tax expense and the accounting profit multiplied by the Company's domestic tax rate for 2019 and 2018:

	The year ended	
	December 31,	
	2019	2018
Income (loss) before income tax	\$ (7,329)	\$ 3,368
Statutory tax rate in Canada 26.5% (in 2018, the Israeli tax rate was 23%)	(1,942)	775
Increase (decrease) in income tax due to:		
Non-deductible expenses for tax purposes	1,489	2
Unrecognized tax benefit in respect of loss for the year	315	-
Adjustments in respect of current income tax of previous years	78	17
Effect of different tax rate of subsidiaries	104	-
Other adjustments	46	(53)
Income tax expense	\$ 90	\$ 741

NOTE 18:- EQUITY

- a. Composition of share capital:

	December 31,			
	2019		2018	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
Ordinary shares without par value	Unlimited	145,743,283	Unlimited	730,050

Ordinary shares confer upon their holders the right to participate in the general meeting where each Ordinary share has one voting right in all matters, receive dividends if and when declared and to participate in the distribution of surplus assets in case of liquidation of the Company. In addition, the issued and outstanding share capital is represented retrospectively after split of 1:10.

- b. Changes in issued and outstanding share capital:

As a result of the RTO described in Note 5, the capital structure (number of shares and par value) remains that of Navasota (the legal acquirer) while the components of the equity (share premium, other reserves and accumulated deficit) are those of IMC (the legal acquiree). Accordingly, the number of shares in the following table have been retroactively adjusted to reflect the exchange ratio used in the issuance of shares by Navasota in the RTO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 18:- EQUITY (Cont.)**

	<u>Number of shares</u>
Balance as at January 1, 2018	100,000,000
Issuance of shares in connection with IMC 2018 private placement	<u>22,827,490</u>
Balance as at December 31, 2018	<u>122,827,490</u>
Issuance of shares in connection with 2019 private placement (1)	19,460,527
Issuance of shares in connection with reverse acquisition (1)	3,455,266
	<u>145,743,283</u>
Balance as at December 31, 2019	<u>145,743,283</u>

- (1) As described in Note 5, in August 2019, as part of the RTO a series of private placements were completed pursuant to an aggregate of 19,460,527 units (the "Units"), including 19,460,527 shares, were issued at \$1.05 per Unit for gross proceeds of \$20,433 (the "2019 Private Placements") (see Note 15). Also, as part of the RTO, in October 2019 there was a deemed issuance of 3,455,266 shares to the then existing shareholders of Navasota.

c. 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 12,250,000 Ordinary shares are reserved for issuance.

In August 2019, as part of the RTO, the Company updated the 2018 plan and set the total Ordinary shares reserved for issuance to a maximum of 10% of the Ordinary shares issued and outstanding. As of December 31, 2019, a maximum of 14,574,328 Ordinary shares are reserved for issuance.

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 66.7% of the awards vest in twelve equal installments upon the lapse of each three-month period thereafter. Subject to the discretion of the 2018 Plan administrator, if an award has not been exercised within seven years after the date of the grant, the award expires. As of December 31, 2019, 2,814,328 Ordinary shares are available for future grants under the 2018 plan.

The fair value for options granted during the year ended December 31, 2019, to the Group's employees, directors and advisors was estimated using the Black & Scholes option pricing model with the following assumptions:

Exercise price (in CAD)	\$0.40
Dividend yield (%)	-
Expected life of share options (Years)	4.7-10
Volatility (%)	79
Annual risk-free rate (%)	1.18-1.78
Share price (in CAD)	0.34

The weighted average fair value of each option on the grant date amounted to \$0.492 (after 1:10 split).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 18:- EQUITY (Cont.)**

The following table lists the number of share options and the weighted average exercise prices of share options in the 2018 Plan (after 1:10 split):

	December 31, 2019	
	Number of options	Weighted average exercise price in CAD
Options outstanding at the beginning of the period	-	\$ -
Options granted during the year *)	12,300,000	0.40
Options exercised during the year	-	-
Options forfeited during the year	(540,000)	0.40
Options outstanding at the end of year	<u>11,760,000</u>	<u>\$ 0.40</u>
Options exercisable at the end of year	<u>-</u>	<u>\$ -</u>

*) Includes 5,110,000 options granted to key management personnel.

The weighted average remaining contractual life for the share options outstanding as of December 31, 2019, was 9.18 years.

On July 4, 2019, as part of the RTO, the Company entered into an agreement with a service provider, according to which, upon the RTO, the Company will grant the service provider fully vested options to purchase 350,000 Ordinary shares, at an exercise price of \$1.05 per option. The option will expire within seven years from the grant date. As of December 31, 2019, the options grant is contingent upon the Company's Board of Directors approval.

The share-based payment expenses for the year ended December 31, 2019 and 2018, amounted to \$2,677 and \$ nil, respectively.

d. Other convertible securities:

As of December 31, 2019, the following other convertible securities are outstanding:

- 2018 Compensation warrants (see Note 15a) - 1,286,510 warrants for the purchase of Ordinary shares at an exercise price of \$0.50 (adjusted for the effect of 1:10 split). These warrants are exercisable at any time until June 2020.
- 2019 Compensation Units (see Note 15b) - Options to acquire 1,199,326 Compensation Units at a price of \$1.05 per unit. Each Compensation Unit consists of one IMCC Ordinary Share and one half IMCC Warrant, with each whole IMCC Warrant exercisable for one IMC Ordinary Share at an exercise price of \$1.3. These Units are exercisable at any time until August 2022.

NOTE 19:- SELECTED STATEMENTS OF PROFIT OR LOSS DATA

	Year ended December 31,	
	2019	2018
Salaries and related expenses	<u>\$ 3,867</u>	<u>\$ 1,413</u>
Professional fees	<u>\$ 1,624</u>	<u>\$ 1,368</u>
Depreciation and amortization	<u>\$ 601</u>	<u>\$ 180</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 20:- NET EARNINGS (LOSS) PER SHARE**

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

	Year ended December 31,			
	2019		2018	
	Weighted number of shares (in thousands)	Net income (loss) attributable to equity holders of the Company	Weighted number of shares (in thousands)	Net income attributable to equity holders of the Company
For the computation of basic net earnings	127,913	\$ (7,292)	112,690	\$ 1,683
Effect of potential dilutive Ordinary shares	-	-	-	-
For the computation of diluted net earnings	<u>127,913</u>	<u>\$ (7,292)</u>	<u>112,690</u>	<u>\$ 1,683</u>

(*) For 2019, and 2018, all potentially dilutive securities (Warrants and share options) were excluded from the calculation of diluted earnings per share as they are antidilutive.

NOTE 21:- RELATED PARTY BALANCES AND TRANSACTIONS

a. Balances and Transactions:

The following table summarizes balances with related parties in the statements of financial position:

	December 31,	
	2019	2018
Other accounts receivables	<u>\$ 64</u>	<u>\$ 30</u>

The following table summarizes the transactions with related parties in the consolidated statements of profit or loss and other comprehensive income:

	Year ended December 31,	
	2019	2018
General and administrative expenses	<u>\$ 464</u>	<u>\$ 420</u>

Transactions with related parties mainly includes compensation for management services and bonus in the ordinary course of business and lease rental payments.

b. Compensation of key management personnel of the Group:

	Year ended December 31,	
	2019	2018
Payroll and related expenses *)	<u>\$ 1,537</u>	<u>\$ 517</u>
Professional fees **)	<u>\$ 359</u>	<u>\$ 346</u>

*) Includes one-time bonus payment to AdjuPharm's CEO in the amount of \$358.

***) Includes payments to shareholders for the years ended 2019 and 2018 of \$359 and \$346, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 22:- SUMMARIZED FINANCIAL INFORMATION FOR PARTLY OWNED SUBSIDIARY**

Summarized financial information for Focus as follows:

	December 31,	
	2019	2018
Statement of financial position at reporting date (as presented in Focus' financial statements):		
Current assets	\$ 7,723	\$ 6,447
Non-current assets	3,027	981
Current liabilities	(3,247)	(878)
Non-current liabilities	(1,853)	(1,025)
Total equity	<u>\$ 5,650</u>	<u>\$ 5,525</u>
	Year ended December 31,	
	2019	2018
Operating results (as presented in Focus' financial statements):		
Revenues	\$ 8,421	\$ 5,197
Net income (loss)	(324)	3,632
Other comprehensive income	(29)	71
Total comprehensive income	<u>\$ (353)</u>	<u>\$ 3,703</u>
	Year ended December 31,	
	2019	2018
Cash flows (as presented in Focus' financial statements):		
From operating activities	\$ 2,357	\$ 388
From investing activities	(1,308)	(620)
From financing activities	(129)	-
Effect of foreign exchange on cash and cash equivalents	10	-
Net increase (decrease) in cash and cash equivalents	<u>\$ 930</u>	<u>\$ (232)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 23:- SUBSEQUENT EVENTS**

- a. On January 23, 2020, IMC signed definitive agreements to establish a medical cannabis cultivation and processing joint venture in Greece (the "Joint Venture") with Galen Industries Single Member Societe Anonyme, a Greek company established by a consortium of investors in Greece with extensive experience in the pharmaceutical, media, finance and energy sectors ("Galen").

IMC will own 25% of the Joint Venture and the remaining 75% of the Joint Venture will be owned by Galen. Each party is committed to fund the initial capital expenditures, totaling approximately up to €8,000,000 (\$11,675) to fund the construction of an EU-GMP certified cultivation and processing facility in Greece. IMC will invest up to €1,500,000 (\$2,189) into the Joint Venture, with the balance funded by Galen. Execution of the Joint Venture's business plan will start immediately and construction of greenhouses as well as the EU-GMP facility is expected to begin upon receiving the Establishment Approval from the Greek medical cannabis regulatory authorities. The Joint Venture land plot size is expected to be 100,000 to 180,000 square meters (or 1,076,000 to 1,938,000 square feet).

In addition, the Joint Venture and IMC have signed a preferred supply agreement (the "Supply Agreement"). Under the Supply Agreement, IMC has the right to purchase up to 25% of the total production from the Joint Venture at a preferred price as determined in the agreement, for an initial period of five years. IMC expects to gain commercial and competitive advantages by supplying the German market and other emerging markets across Europe with EU-GMP medical cannabis products from the Joint Venture's facility in Greece at preferred terms.

- b. On March 23, 2020, Focus signed a Supply agreement with Intelicanna Ltd. ("Intelicanna") (TASE:INTL) for a minimum of 500kg and up to 1,000kg of medical cannabis. Additional purchases may be made by Focus under the agreement without a change to the contracted price paid to Intelicanna. The finished products will be sold to pharmacies in Israel under the IMC brand. The Supply Agreement is for a term of 12 months from the date of the first planting in Intelicanna's facility is contingent on Intelicanna receiving IMC-GAP approval by June 15, 2020.

Intelicanna will obtain access to Focus Medical's unique and proprietary genetics for the purpose of delivering product under the Supply Agreement but the genetics will remain the exclusive property of Focus Medical. Intelicanna may not sell, transfer or perform research with the genetics it accesses through this Supply Agreement without consent from Focus Medical. Under the Supply Agreement, Intelicanna is responsible for all production activities under Focus' supervision and quality control practices throughout the growing process at Intelicanna's site.

- c. On March 30, 2020, Focus signed a binding three-year Sale agreement for the sale of medical cannabis (the "Sale Agreement") to three pharmacies in Jerusalem operating under the Oranim Pharm and Medi Plus banners (the "Pharmacies").

Focus will supply the Pharmacies a total of 800kg of medical cannabis annually for a period of three years. The total quantity of medical cannabis to be delivered under the Sale Agreement is 2,400kg and the Pharmacies are obligated to purchase the entire quantity at a contracted price pursuant to the Sale Agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data****NOTE 23:- SUBSEQUENT EVENTS (Cont.)**

- d. On March 31, 2020, Focus signed a three-year definitive Supply agreement (the "Supply Agreement") with Way of Life Ltd. and Cannation Ltd. ("Way of Life" and "Cannation", respectively, or the "Suppliers") to purchase a total of approximately 2,600kg of medical cannabis per year, for a total of up to 7,800kg of medical cannabis over three years. All finished products under the Supply agreement will bear the IMC brand and be sold to pharmacies in Israel.

Way of Life is an IMC-GAP certified cultivator and is dedicating a 1,301 square meters (14,000 square feet). space at its facility for the cultivation of Focus' proprietary medical cannabis strains. The Supply Agreement with Cannation calls for a 5,017 square meters (54,000 square feet) area for the cultivation of Focus' proprietary medical cannabis strains, with the option to increase the dedicated area by an additional 10,034 square meters (108,000 square feet), and is contingent on Cannation receiving IMC-GAP certification by August 22, 2020.

The Suppliers will obtain access to Focus Medical's unique and proprietary genetics for the purpose of delivering products under the Supply Agreement but the genetics will remain the exclusive property of Focus. The Suppliers may not sell, transfer or perform research with the genetics it accesses through this Supply Agreement without consent from Focus. Under the Supply Agreement, Focus will have access to the Suppliers' growing facilities to monitor the entire growing process.

- e. On April 6, 2020, Focus signed a binding two-year sales agreement for the sale of IMC branded medical cannabis with Shor Tabachnik pharmacies ("Tabachnik") (the "Tabachnik Sale Agreement"). According to the Tabachnik Sale agreement, Focus will supply Tabachnik 1,000Kg of IMC branded medical cannabis products annually through the duration of the Tabachnik Sale Agreement at a contracted price pursuant to the Tabachnik Sale Agreement.
- f. On April 13, 2020, Focus signed a binding three-year agreement for the sale of 13,575kg of IMC branded medical cannabis products to Super-Pharm (Israel) Ltd. ("Super-Pharm") (the "SP Sale Agreement"). According to the SP Sale Agreement, Focus will sell to Super-Pharm with a total 13,575Kg of IMC branded medical cannabis over the next three years as follows: 2,270kg in 2020, 4,980kg in 2021, and 6,325kg in 2022. Medical cannabis products sold under the Sales Agreement will include both dry flower and extract products at a contracted price pursuant to the SP Sale Agreement.
- g. On April 13, 2020, Focus signed a one-year binding agreement for the sale of 1,000kg IMC branded medical cannabis to Panaxia Labs Israel, Ltd. ("Panaxia") (TASE:PNAX) (the "Panaxia Sale Agreement"). Under the Panaxia Sale Agreement, Panaxia will have deliveries beginning in April 2020 with 1,000kg contracted for sale over the next 12 months at a contracted price pursuant to the Panaxia Sale Agreement.
- h. On April 14, 2020, Focus signed an agreement for the sale of up to 1,500kg over three years of IMC branded medical cannabis to Max Pharm Ltd. ("Max Pharm") (the "MP Sale Agreement"). Under the MP Sale Agreement, Max Pharm will have deliveries beginning in 2021 with annual 500kg at a contracted price pursuant to the MP Sale Agreement. Max Pharm has an option to increase the annual capacity in 2021, 2022 and 2023 for an additional 500kg in each year, for a total potential volume of 1,500kg over three years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian Dollars in thousands, except share and per share data**

NOTE 23:- SUBSEQUENT EVENTS (Cont.)

- i. Since December 31, 2019, the outbreak of the novel strain of coronavirus (“COVID-19”) and the ongoing pandemic, has resulted in governments worldwide enacting various emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, closing of non-essential businesses and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. In addition, global equity markets have experienced significant volatility and weakness.

To date, the COVID-19 pandemic has not had a material negative impact on the Company’s results of operations. The Company, well as its distribution channels are considered essential businesses (food and drug retailers) that continue to operate during this period. However, the duration and severity of the COVID-19 pandemic is unknown at this time and the Company is unable to predict the effect should the situation continue for a prolonged period.
