



## **2018 ANNUAL REPORT**



**IMC HOLDINGS LTD.**  
**INDEPENDENT AUDITORS' REPORT AND AUDITED CONSOLIDATED FINANCIAL**  
**STATEMENTS OF**  
**IMC HOLDINGS LTD. AND ITS SUBSIDIARIES**  
**FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018**  
**(Canadian dollars in thousands)**

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Kost Forer Gabbay & Kasierer  
144 Menachem Begin Road, Building A,  
Tel-Aviv 6492102, Israel

Tel: +972-3-6232525  
Fax: +972-3-5622555  
ey.com

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF**  
**IMC HOLDINGS LTD.**

*Opinion*

We have audited the consolidated financial statements of IMC Holdings Ltd. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 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 year 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, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

*Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the 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 Matter*

The financial statements of the Company for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on July 5, 2018.

*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.

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.

Tel-Aviv, Israel  
September 5, 2019

  
KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global



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

		<b>December 31,</b>	
	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		\$ 7,591	\$ 239
Trade receivables	5	14	3
Other accounts receivable	6	444	1,436
Biological assets	7	89	-
Inventories	8	5,476	1,446
		<u>13,614</u>	<u>3,124</u>
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment, net	9	1,073	519
Deferred tax assets	14	307	-
		<u>1,380</u>	<u>519</u>
Total assets		<u>\$ 14,994</u>	<u>\$ 3,643</u>

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

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

		<b>December 31,</b>	
	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Trade payables		\$ 609	\$ 225
Other accounts payable and accrued expenses	11	698	1,170
		<u>1,307</u>	<u>1,395</u>
<b>NON-CURRENT LIABILITIES:</b>			
Deferred tax liability	14	847	259
Warrants measured at fair value	12	1,053	-
Employee benefit liabilities, net	10	176	192
		<u>2,076</u>	<u>451</u>
Total liabilities		<u>3,383</u>	<u>1,846</u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:</b>			
	15		
Share capital and premium		7,099	(*)
Translation reserve		43	15
Retained earnings		3,040	1,315
Total equity attributable to shareholders of the Company		<u>10,182</u>	<u>1,330</u>
Non-controlling interests		1,429	467
Total equity		<u>11,611</u>	<u>1,797</u>
Total equity and liabilities		<u>\$ 14,994</u>	<u>\$ 3,643</u>

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

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

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

	Note	Year ended December 31,	
		2018	2017
Revenues		\$ 5,197	\$ 4,393
Cost of revenues		1,775	1,968
<b>Gross profit before fair value adjustments</b>		<u>3,422</u>	<u>2,425</u>
Fair value adjustments:			
Unrealized change in fair value of biological assets		4,373	1,123
Realized fair value adjustments on inventory sold in the period		<u>(1,599)</u>	<u>(745)</u>
Total fair value adjustments		<u>2,774</u>	<u>378</u>
<b>Gross profit after fair value adjustments</b>		6,196	2,803
General and administrative expenses		2,520	1,593
Selling and marketing expenses		510	216
Research and development expenses		83	-
Total operating expenses		<u>3,113</u>	<u>1,809</u>
<b>Operating profit</b>	16	3,083	994
Finance income		439	-
Finance expense		<u>(154)</u>	<u>(26)</u>
Finance income (expense), net		285	(26)
Income before income taxes		3,368	968
Income tax expense	14	741	241
<b>Net income</b>		<u>2,627</u>	<u>727</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Re-measurement gain (loss) on defined benefit plans		57	(25)
Exchange differences on translation to presentation currency		<u>31</u>	<u>36</u>
Total other comprehensive income that will not be reclassified to profit or loss in subsequent periods		<u>88</u>	<u>11</u>
Total comprehensive income		<u>\$ 2,715</u>	<u>\$ 738</u>
Net income attributable to:			
Equity holders of the Company		1,683	538
Non-controlling interests		944	189
		<u>\$ 2,627</u>	<u>\$ 727</u>
Total comprehensive income attributable to:			
Equity holders of the Company		1,753	546
Non-controlling interests		962	192
		<u>\$ 2,715</u>	<u>\$ 738</u>
Net income per share attributable to equity holders of the Company	17		
Earnings per share (in CAD)			
Basic and Diluted		<u>\$ 0.15</u>	<u>\$ 0.05</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						
	Share capital	Share premium	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance as of January 1, 2017	\$ *)	\$ *)	\$ (12)	\$ 796	\$ 784	\$ 275	\$ 1,059
Net income	-	-	-	538	538	189	727
Other comprehensive income	-	-	27	(19)	8	3	11
Total comprehensive income	-	-	27	519	546	192	738
Balance as of December 31, 2017	*)	*)	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

\*) 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,	
	2018	2017
<u>Cash provided by (used in) operating activities:</u>		
Net income for the year	\$ 2,627	\$ 727
Adjustments for non-cash items:		
Unrealized gain on changes in fair value of biological assets	(4,373)	(1,123)
Fair value adjustment on sale of inventory	1,599	745
Fair value adjustment on warrants measured at fair value	(369)	-
Depreciation of property, plant and equipment	180	81
Changes in employee benefit liabilities, net	41	107
Deferred tax expense, net	281	80
	(2,641)	(110)
Changes in non-cash working capital:		
Decrease (increase) in trade receivables, net	(14)	93
Decrease (increase) in other accounts receivable	1,199	(1,172)
Decrease in biological assets, net of fair value adjustments	4,286	1,123
Increase in inventories, net of fair value adjustments	(5,590)	(1,043)
Increase in trade payables	380	66
Increase (decrease) in other accounts payable and accrued expenses	(472)	918
	(211)	(15)
Taxes paid	(206)	(77)
Net cash provided by (used in) operating activities	(431)	525
<u>Cash flows from investing activities:</u>		
Purchase of property, plant and equipment	(729)	(426)
Net cash used in investing activities	(729)	(426)
<u>Cash provided by financing activities:</u>		
Proceeds from issuance of share capital, net of issuance costs	7,099	-
Proceeds from issuance of warrants measured at fair value	1,278	-
Net cash provided by financing activities	8,377	-
Effect of foreign exchange on cash and cash equivalents	135	4
Increase in cash and cash equivalents	7,352	103
Cash and cash equivalents at beginning of year	239	136
Cash and cash equivalents at end of year	\$ 7,591	\$ 239

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. Information:

IMC Holdings Ltd. (the "Company" or "IMC") was established and incorporated by two shareholders (the "Principal Shareholders") on January 16, 2018, under the laws of the state of Israel as a private company. The Company's main office is located in Kibutz Glil-Yam, Israel.

The Company operates in the field of medical cannabis, through its subsidiary Focus Medical Herbs Ltd. ("Focus") which is licensed under the regulations of medical cannabis by the Israeli Ministry of Health through its Israel Medical Cannabis Agency ("IMCA") to breed, grow and supply medical cannabis product in Israel and all of its operations are performed pursuant to the Israeli DANGEROUS DRUGS ORDINANCE [NEW VERSION], 5733 - 1973 (the "Dangerous Drugs Ordinance"), and the related regulations issued by IMCA. See also note 20(b).

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

- b. In early 2018, shortly after IMC was established, the Principal Shareholders transferred their combined 74% ownership interest in Focus to IMC in consideration for shares issued by IMC ("the Transaction"). As IMC had no significant operations nor assets at the date of the transfer, the Transaction resulted in substance in a continuation of the existing operations and net assets of Focus. Therefore, the Transaction has been accounted for as a recapitalization. Accordingly, the assets, liabilities, and non-controlling interests of Focus are reflected at their carrying amounts at the date of the Transaction. The difference in share capital between IMC and Focus is reflected as an adjustment to share premium in equity. Comparative financial information for the periods prior to the Transaction reflect the assets, liabilities, revenues, expenses, and cash flows of Focus.

Refer to Note 20(b) – Subsequent events.

- c. On November 6, 2018, the Company entered into a definitive business combination agreement (the "Definitive Agreement"), as amended from time to time, with IM Cannabis Corp., formerly: Navasota Resources Inc. ("IM Cannabis"), incorporated under the laws of British Columbia, Canada, and its wholly-owned subsidiary, Navasota Acquisition Ltd., incorporated under the laws of the state of Israel, according to which IM Cannabis will acquire a 100% interest in the Company, which will constitute a Reverse Takeover Transaction of IM Cannabis by the shareholders of the Company (the "RTO Transaction"). The Company intends to apply for a concurrent listing of the common shares of IM Cannabis on the Canadian Securities Exchange.

IM Cannabis has historically engaged in resource exploration activities but ceased operations and shifted focus to identifying and evaluating opportunities for the acquisition of an interest in assets or businesses. IM Cannabis has no business operations or assets, other than cash, and since March 7, 2018, had conducted no business operations except for the identification and evaluation of potential acquisitions.

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

The Definitive Agreement is subject to certain closing conditions, including shareholders' meeting approval of each of IM Cannabis and the Company, prior to completion of the RTO Transaction.

d. Approval of consolidated financial statements:

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

e. Definitions:

In these financial statements:

The Company,        - IMC Holdings Ltd.  
                              or IMC

The Group            - IMC Holdings Ltd. and its Subsidiaries.

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

CAD or \$            - Canadian Dollar.

NIS                    - New Israeli Shekel

**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.

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

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company. 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, 2018 and 2017, major subsidiaries over which the Company has control, directly or indirectly, include:

<b>Subsidiaries (all incorporated in Israel)</b>	<b>Percentage ownership</b>	
	<b>2018</b>	<b>2017</b>
Focus Medical Herbs Ltd. ("Focus")	74%	74%
I.M.C Pharma Ltd. ("IMC Pharma")	100%	-
I.M.C. Farms Israel Ltd. ("IMC Farms")	100%	-
I.M.C.C Ltd. ("IMCC")	100%	-
I.M.C Ventures Ltd. ("IMC Ventures")	75%	-

See also Note 20

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.

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.



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

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## 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.

## d. Functional currency, presentation currency and foreign currency:

## 1. Functional currency and presentation currency:

The functional currency of the Company and its Israeli subsidiaries 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).

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

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.

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.

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

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).

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.

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.

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

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, please refer to Note 7.

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.

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.

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

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.

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

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:**

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17.

As a lessee, the Group classified lease agreements as operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

**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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

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**

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**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.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Canadian Dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**3. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

4. 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.

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.

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

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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.

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.

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

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**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.

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.

**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**

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.

*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. After considering the aforementioned, management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern. The estimates and judgment made by management in reaching this conclusion are based on information available as at the date these financial statements were approved for issue. Accordingly, actual circumstances may differ from those estimates and the variation may be material.

*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 7 for further information.

*Fair value of warrants:*

As the fair values of warrant liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using an acceptable option-pricing models. The inputs to this model are based on estimates. The estimates include considerations of model inputs related to items such as discount rates and volatility. Changes in estimates of these factors could affect the reported fair value of the warrants in the statement of financial position and the level where the warrants are disclosed in the fair value hierarchy.

**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.)***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.

**NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION****a. IFRS 16, Leases**

In January 2016, the IASB issued IFRS 16, Leases (the "New Standard"). According to the New Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration .

The principal changes of the new Standard are as follows:

- According to the new Standard, lessees are required to recognize all leases in the statement of financial position (excluding certain exceptions, see below). Lessees will recognize a liability for lease payments with a corresponding right-of-use asset, similar to the accounting treatment for finance leases under the existing standard, IAS 17, "Leases". Lessees will also recognize interest expense and depreciation expense separately.
- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates but are based on performance or use are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.
- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and record the effect of the remeasurement as an adjustment to the carrying amount of the right-of-use asset.
- The accounting treatment by lessors remains substantially unchanged from the existing standard, namely classification of a lease as a finance lease or an operating lease
- The new Standard includes two exceptions which allow lessees to account for leases based on the existing accounting treatment for operating leases - leases for which the underlying asset is of low financial value and short-term leases (up to one year).

The new Standard is effective for annual periods beginning on or after January 1, 2019.

**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 (Cont.)**

The new Standard permits lessees to use one of the following approaches:

1. Full retrospective approach - according to this approach, a right-of-use asset and the corresponding liability will be presented in the statement of financial position as if they had always been measured according to the provisions of the new Standard. Accordingly, the effect of the adoption of the new Standard at the beginning of the earliest period presented will be recorded in equity.

Also, the Company will restate the comparative data in its financial statements. Under this approach, the balance of the liability as of the date of initial application of the new Standard will be calculated using the interest rate implicit in the lease, unless this rate cannot be easily determined in which case the lessee's incremental borrowing rate of interest on the commencement date of the lease will be used.

2. Modified retrospective approach - this approach does not require restatement of comparative data. The balance of the liability as of the date of initial application of the new Standard will be calculated using the lessee's incremental borrowing rate of interest on the date of initial application of the new Standard. As for the measurement of the right-of-use asset, the Company may choose, on a lease-by-lease basis, to apply one of the two following alternatives:
  - Recognize an asset in an amount equal to the lease liability, with certain adjustments.
  - Recognize an asset as if the new Standard had always been applied.

Any difference arising on the date of first-time application of the new Standard as a result of applying the modified retrospective approach will be recorded in equity.

The Company is in the process of evaluating the impact of IFRS 16 on the Company's financial statements. The Company believes that it will apply the modified retrospective approach upon the initial adoption of the new Standard whereby the right-of-use asset will be measured at an amount equal to the lease liability.

The Company believes, based on an assessment of the impact of the adoption of the new Standard, that its application will result in an increase in both assets (right-of use asset) and lease liabilities in the amount of approximately \$777.

b. 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 is to be applied in financial statements for annual periods beginning on January 1, 2019. Early adoption is permitted.

The Company does not expect the Interpretation to have any material effect on the financial statements.

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

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Trade receivables - Patients	\$ 14	\$ 3
Trade receivables	<u>\$ 14</u>	<u>\$ 3</u>

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. As of December 31, 2018 and 2017, there were no material past-due receivables.

**NOTE 6:- OTHER ACCOUNTS RECEIVABLE**

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Prepaid expenses	\$ 6	\$ 17
Government authorities	67	-
Related parties - see Note 18	30	1,243
Credit cards receivables	291	146
Other receivables	<u>50</u>	<u>30</u>
Other accounts receivable	<u>\$ 444</u>	<u>\$ 1,436</u>

**NOTE 7:- 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, 2017	\$ -
Production costs capitalized	1,187
Changes in fair value less cost to sell due to biological transformation	1,123
Transferred to inventory upon harvest	(2,310)
Foreign exchange translation	<u>-</u>
Balance at December 31, 2017	<u>-</u>
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	<u>1</u>
Balance at December 31, 2018	<u>\$ 89</u>

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Canadian Dollars in thousands, except share and per share data****NOTE 7:- BIOLOGICAL ASSETS (Cont.)**

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.

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:

	<b>December 31,</b>		<b>10% change as at</b>	
	<b>2018</b>	<b>2017</b>	<b>December 31,</b>	<b>2017</b>
			<b>2018</b>	<b>2017</b>
			<b>In thousands</b>	
Average selling price per gram of dried cannabis (in CAD)	\$ 2.61	---	\$ 10.7	---
Average post-harvest costs per gram of dried cannabis (in CAD)	\$ 0.44	---	\$ 1.8	---
Attrition rate	0%	---	\$ 8.9	---
Average yield per plant (in grams)	40	---	\$ 8.9	---
Average stage of growth	37%	---	\$ 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.



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

	<b>December 31, 2018</b>		
	<b>Capitalized costs</b>	<b>Fair valuation adjustment</b>	<b>Carrying value</b>
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>

	<b>December 31, 2017</b>		
	<b>Capitalized costs</b>	<b>Fair valuation adjustment</b>	<b>Carrying value</b>
Work in progress			
Bulk cannabis	\$ 12	\$ 18	\$ 30
Finished goods			
Packaged dried cannabis	476	924	1,400
Cigarettes	5	10	15
Cannabis oil	1	-	1
Balance as at December 31, 2017	<u>\$ 494</u>	<u>\$ 952</u>	<u>\$ 1,446</u>

During the years ended December 31, 2018 and 2017, inventory expensed to cost of goods sold was \$3,374 and \$2,713 respectively, which included \$1,599 and \$745 of non-cash expense, respectively, related to the changes in fair value of inventory sold.

Cost of revenues in 2018 and 2017 also include production overhead not allocated to costs of inventories produced and recognized as an expense as incurred.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Canadian Dollars in thousands, except share and per share data****NOTE 9:- PROPERTY, PLANT AND EQUIPMENT, NET**

	<b>Leasehold Improvement</b>	<b>Greenhouse Production Equipment</b>	<b>Greenhouse Structure</b>	<b>Computer, Software &amp; Equipment</b>	<b>Motor Vehicles</b>	<b>Total</b>
<u>Cost:</u>						
Balance at January 1, 2017	-	259	166	-	-	425
Additions during the year	-	210	198	-	18	426
Foreign currency translation	-	9	7	-	-	16
Balance, December 31, 2017	-	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
<u>Accumulated Depreciation:</u>						
Balance at January 1, 2017	-	188	71	-	-	259
Depreciation during the year	-	45	34	-	2	81
Foreign currency translation	-	6	2	-	-	8
Balance, December 31, 2017	-	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
<u>Net Book Value:</u>						
December 31, 2017	\$ -	\$ 239	\$ 264	\$ -	\$ 16	519
December 31, 2018	\$ 76	\$ 482	\$ 497	\$ 4	\$ 14	\$ 1,073

**NOTE 10:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES**

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

a. 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.

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

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

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:

	<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Current service cost	\$ 79	\$ 101
Interest expenses	5	3
Total employee benefit expenses	84	104
Interest income on plan assets	\$ 3	\$ 2

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

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Defined benefit obligation	\$ 261	\$ 267
Fair value of plan assets	(85)	(75)
Net defined benefit liability	\$ 176	\$ 192

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

	<b>2018</b>	<b>2017</b>
Balance at January 1,	\$ 267	\$135
Current service cost	79	101
Interest expenses	5	3
Benefits paid	(26)	(1)
Re-measurement loss (gain) on defined benefit plans	(68)	23
Foreign currency translation effect	4	6
Balance at December 31,	\$ 261	\$ 267

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Canadian Dollars in thousands, except share and per share data****NOTE 10:- 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>2018</u>	<u>2017</u>
Balance at January 1,	\$ 75	\$ 43
Interest income	3	2
Return, net of interest income - remeasurements gain (losses)	(11)	(2)
Benefits paid	(26)	(1)
Amounts deposited	43	33
Foreign currency translation effect	1	-
Balance at December 31,	<u>\$ 85</u>	<u>\$ 75</u>

6. The principal assumptions underlying the defined benefit plan

	<u>2018</u>	<u>2017</u>
	%	
Discount rate	3.94%	3.18%
Salary growth	3.59%	3.27%

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 11:- OTHER PAYABLES**

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Accrued expenses	\$ 151	\$ 17
Employees and payroll accruals	150	84
Related parties - see Note 18	-	705
Government authorities	351	336
Other payables	46	28
	<u>\$ 698</u>	<u>\$ 1,170</u>

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

In May and June 2018, IMC completed a series of private placements pursuant to which it sold an aggregate of 2,282,750 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, with each whole IMC 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 a \$8,257.

The Warrants underlying each Unit were determined to include 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 amounted to \$1,278 and proceeds allocated to the Ordinary Share were determined to be the residual amount of \$7,853.

In addition, IMC has granted 128,651 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 Warrants was expensed in finance expense 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.

The fair value of 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:

	<b>December 31, 2018</b>	<b>Issuance date</b>	<b>Sensitivity</b>
Risk-free interest rate	1.82%	1.81%	Increase (decrease) in key assumptions would result increase (decrease) in fair value.
Expected volatility	75%	78.4%	
Expected life (in years)	1.45	2	
Expected dividend yield	0%	0%	
Fair value:			
Per Warrant (Canadian Dollar)	<u>\$ 0.82</u>	<u>\$ 1.12</u>	
Total Warrants (Canadian Dollar in thousands)	<u>\$ 1,053</u>	<u>\$ 1,422</u>	

As of December 31, 2018, there were 1,270,026 Warrants outstanding, and the Company re-measured the Warrants to their fair value in the amount of \$1,053. As a result, for the year ended December 31, 2018, the Company recognized a revaluation gain of \$369 in the consolidated statement of profit or loss and other comprehensive income, which unrealized gain is included in finance income.

*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, 2018, 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 12:- FINANCIAL INSTRUMENTS (Cont.)***Liquidity risk*

As at December 31, 2018, 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, 2018, management considers liquidity risk to be low.

The maturity profile of the Company's financial liabilities (trade payables, other account payable and accrued expenses) as of 31 December 2018, and 2017, are less than one year.

*Currency rate risk*

As at December 31, 2018, 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.

**NOTE 13:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES**

- 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.

According to the agreements, Focus will be responsible for transferring to the Farmer payments for the rental of the facility. The future minimum non-cancellable payments (including option periods expected to be exercised) based on the exchange rate for NIS as of December 31, 2018, are as follows:

<b>Year ended December 31,</b>	<b>Canadian Dollars in thousands</b>
2019	106
2020	106
2021	106
2022	106
2023 and thereafter	680

- Total rent expenses for the years ended December 31, 2018 and 2017, amounted to approximately \$194 and \$164, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Canadian Dollars in thousands, except share and per share data****NOTE 13:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES (Cont.)**

## 3. 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. The procedure remains in process and no outcome has been reached.

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

*Class Action T.Z. 8394-11-16*

On November 3, 2016, a motion was filed for approval of a class action against Focus and seven other Israeli cannabis growers (collectively, the "Growers"), for (1) alleged use of chemical pesticides in the cannabis growing process, in contradiction to the Plant Protection Regulations (Compliance with Packaging Label Instructions) (the "Label Regulations") and to the Protection of Public Health Regulations (Food) (Residues of Pesticides) (the "Residues Regulations"), and the misleading of their customers, thus violating the Consumer Protection Law (the "Consumer Law") (hereafter: the "usage of pesticides claim") (2) selling cannabis product with lower concentration of active ingredients than publicized; and (3) marketing products in defective packaging – allegedly causing violation of Autonomy and unjust enrichment. The personal suit sum for every class member stands at NIS 5,000 (\$2); the total amount of the class action suit is estimated at NIS 133 million (\$47,945).

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

On September 6, 2018 the Ministry of Health and the Ministry of Agriculture submitted their official opinion to the court. The second preliminary hearing took place on October 29, 2018 and subsequently an evidentiary hearing was set for September 9, 2019. At the current stage of the litigation process, its outcomes cannot yet be predicted.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Canadian Dollars in thousands, except share and per share data****NOTE 14:- TAXES ON INCOME**

- a. Tax rates applicable to the Group:

The Israeli corporate tax rate was 23% in 2018 and 24% in 2017.

- b. Tax assessments:

The Company and its Israeli subsidiaries, excluding Focus, have not received final tax assessments or assessments that are deemed final since inception. Focus has assessments that are deemed final until 2012.

- c. Carryforward losses for tax purposes:

Carryforward operating tax losses of the Company and its Israeli subsidiaries total approximately \$636, as of December 31, 2018. These losses can be carried forward to future years and offset against taxable income in the future without any time limitation.

- d. Income tax benefit (expense):

	<b>Year ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Current	\$ (443)	\$ (145)
Deferred, net	(281)	(80)
Income tax from previous years	(17)	(16)
	<u>\$ (741)</u>	<u>\$ (241)</u>

- e. Deferred taxes:

	<b>Statements of financial position</b>		<b>Statements of profit or loss</b>	
	<b>December 31,</b>		<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Deferred tax assets:				
Carry-forward tax losses and other	\$ 307	\$ -	\$ 307	\$ -
	<u>307</u>	<u>-</u>	<u>307</u>	<u>-</u>
Deferred tax liabilities:				
Inventory and biological assets	<u>847</u>	<u>259</u>	<u>588</u>	<u>80</u>
	<u>847</u>	<u>259</u>	<u>588</u>	<u>80</u>
Deferred tax expenses, net			<u>\$ 281</u>	<u>\$ 80</u>
Deferred tax assets (liabilities), net	<u>\$ (540)</u>	<u>\$ (259)</u>		



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Canadian Dollars in thousands, except share and per share data****NOTE 14:- TAXES ON INCOME (Cont.)**

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

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Non-current assets	\$ 307	\$ -
Non-current liabilities	\$ 847	\$ 259

The deferred taxes are computed at the tax rate of 23% based on the tax rates that are expected to apply upon realization.

- f. Reconciliation of tax expense and the accounting profit multiplied by the Company's domestic tax rate for 2018 and 2017:

	<b>The year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Income before income tax</b>	<b>\$ 3,368</b>	<b>\$ 968</b>
Income tax at Israeli statutory income tax rate of 23% (2017: 24%)	775	232
Increase (decrease) in income tax due to:		
Non-deductible expenses for tax purposes	2	1
Adjustments in respect of current income tax of previous years	17	16
Other adjustments	(53)	(8)
<b>Income tax expense</b>	<b>\$ 741</b>	<b>\$ 241</b>

**NOTE 15:- EQUITY**

- a. Composition of share capital:

	<b>December 31,</b>			
	<b>2018</b>		<b>2017</b>	
	<b>Authorized</b>	<b>Issued and outstanding</b>	<b>Authorized</b>	<b>Issued and outstanding</b>
<b>Ordinary shares of NIS 0.01 par value each</b>	<b>20,000,000</b>	<b>12,282,750</b>	<b>20,000,000</b>	<b>10,000,000</b>

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

## NOTE 15:- EQUITY (Cont.)

In order to comply with the terms of the Company's licenses under applicable Israeli cannabis regulations, the Company will adopt restrictions in its Articles causing the Ordinary Shares to become "dormant", and all of these rights will cease to apply to dormant Ordinary Shares, if and for so long as they are held by any holder or group of holders that beneficially owns, or has control or direction over, 5% or more of the total number of Ordinary Shares outstanding (from which number any dormant Ordinary Shares held by other shareholders may be required to be excluded), without having first obtained certain regulatory approvals.

## b. Movement in share capital:

Ordinary shares issued during the year ended December 31,		Number of shares	Amount
	2018 *)	12,282,750	\$ 6,976

\*) In May and June 2018, IMC completed a series of private placements pursuant to which it sold an aggregate of 2,282,750 units (the "Units") at \$4.00 per Unit for gross proceeds of \$9,131 (the "2018 Private Placements"). For further information, see Note 12.

## 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 1,225,000 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, 2018, 1,225,000 Ordinary Shares are available for future grant under the 2018 plan.

There were no grants during 2018 under the 2018 plan. See Note 20(d).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Canadian Dollars in thousands, except share and per share data****NOTE 16:- SELECTED STATEMENTS OF PROFIT OR LOSS DATA**

	<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Salaries and related expenses	\$ 378	\$ 210
Depreciation	\$ 180	\$ 81

**NOTE 17:- NET EARNINGS (LOSS) PER SHARE**

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

	<b>Year ended December 31,</b>			
	<b>2018</b>		<b>2017</b>	
	<b>Weighted number of shares (in thousands)</b>	<b>Net income attributable to equity holders of the Company</b>	<b>Weighted number of shares (in thousands)</b>	<b>Net income attributable to equity holders of the Company</b>
For the computation of basic net earnings	11,269	\$ 1,683	10,000	\$ 538
Effect of potential dilutive Ordinary shares	-	-	-	-
For the computation of diluted net earnings	11,269	\$ 1,683	10,000	\$ 538

(\*) As of December 31, 2018, all potentially dilutive securities (Warrants) were excluded from the calculation of diluted earnings per share as they are antidilutive (2017 - no potentially dilutive securities).

**NOTE 18:- RELATED PARTY BALANCES AND TRANSACTIONS**

## a. Balances and Transactions:

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

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Other accounts receivables	\$ 30	\$ 1,243
Other accounts payable and accrued liabilities	\$ -	\$ 705

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

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

	<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
General and administrative expenses	\$ 420	\$ 762

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:

	<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Payroll and related expenses	\$ 517	\$ 173
Professional fees *)	\$ 346	\$ 466

\*) Includes payments to shareholders for the years ended 2018 and 2017 of \$346 and \$466, respectively.

**NOTE 19:- SUMMARIZED FINANCIAL INFORMATION FOR SUBSIDIARY**

Summarized financial information for Focus as follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Statement of financial position at reporting date (as presented in Focus financial statements):		
Current assets	6,447	3,125
Non-current assets	981	519
Current liabilities	(878)	(1,395)
Non-current liabilities	(1,025)	(451)
Total equity	5,525	1,798

	<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Focus operating results (as presented in Focus financial statements):		
Revenues	5,197	4,393
Net income	3,632	727
Other comprehensive income	71	11
Total comprehensive income	3,703	738

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Canadian Dollars in thousands, except share and per share data****NOTE 19:- SUMMARIZED FINANCIAL INFORMATION FOR SUBSIDIARY (Cont.)**

	<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Focus cash flows (as presented in Focus financial statements):		
From operating activities	388	524
From investing activities	(620)	(427)
From financing activities	-	-
Net increase (decrease) in cash and cash equivalents	(232)	97

**NOTE 20:- SUBSEQUENT EVENTS**

- a. On December 25, 2018, the Israeli Dangerous Drug Ordinance was amended to allow the export of medical cannabis products by authorized exporters, following which, in January 2019, the Israeli Government approved the export of medical cannabis products from Israel, subject to additional regulations.
- b. Understanding that the forthcoming Israel Minister Of Health ("MOH") regulatory reform will allow many new Israeli medical cannabis entrants to apply for licenses and operate as Licensed Producers ("LPs"), IMC identified an opportunity to generate revenue by offering consulting services and licensing IMC's IP to a wide range of new entrants to the Israeli medical cannabis industry.

On April 2, 2019, IMC undertook a restructuring process (the "IMC Restructuring") to divest its holdings in Focus, IMC Pharma and IMCC (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 is subject to the prior approval of the MOH and became effective on June 24, 2019.

Following the IMC Restructuring of the Licensed Entities, IMC is not subject to any regulations in Israel applicable to the medical cannabis industry nor is it a direct or indirect holder of a licensed entity.

As a result of the IMC Restructuring, the Company offers consulting, marketing and other related services to the Israeli medical cannabis industry through the licensing of IMC's IP, including IMC's Brand, IMC's Technology and IMC's Know-How. Currently, IMC primarily offers services to Focus pursuant to Commercial Agreements (the "Commercial Agreements") and has a number of proprietary medical cannabis products bearing IMC's Brand currently in distribution in Israel.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Canadian Dollars in thousands, except share and per share data****NOTE 20:- SUBSEQUENT EVENTS (Cont.)**

According to the Commercial Agreements between the Company and Focus, IMC will provide certain services to Focus in exchange for fees and royalties:

1. Under the Services Agreement, IMC will provide Focus with the following services based on Cost + 25%, payable quarterly:
  - i. Business development and identification of collaboration opportunities in international jurisdictions;
  - ii. Financial analysis services; and
  - iii. Assistance with innovation projects, including identification of potential partners and service providers for such projects.
2. Under the License Agreement, IMC grants Focus a limited, non-exclusive, non-assignable license to use IMC's IP for the purposes of cultivation of cannabis plants in the State of Israel and for the sale of any plant and/or product produced by Focus, either alone or together with other sub-contractors to be engaged with by Focus, in accordance with the terms and conditions of the License or New License, as applicable, issued to Focus by the Israeli Ministry of Health ("MOH"), applicable laws and regulations and subject to the terms of the License Agreement. As consideration for the use of IMC's IP and for certain maintenance services to be provided by IMC, Focus shall pay to IMC an amount equal to 25% of Focus' total revenues, payable quarterly.

Under the Commercial Agreements, Focus has represented and warranted to IMC that it has received and shall maintain in good standing the License issued by the MOH. The current License permits Focus to produce and sell cannabis and cannabis oil for medical purposes.

As part of the IMC Restructuring, IMC entered into the Option Agreements with the Principal Shareholders pursuant to which IMC shall have the Option to re-acquire Focus, IMC Pharma and IMCC valid for a term of ten years for an aggregate exercise price of NIS 2,757 thousands (approximately \$1,002).

The exercise of the options are subject to the prior approval of the change in the ownership of the aforementioned companies by the IMCA approval or any other Israeli regulatory authority that will be authorized to supervise and enforce the provisions of the License at the time of such exercise.

Subsequent to the 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Canadian Dollars in thousands, except share and per share data****NOTE 20:- SUBSEQUENT EVENTS (Cont.)**

- d. On March 15, 2019, IMC acquired a German company Adjupharm GmbH ("Adjupharm"), a licensed GMP producer with wholesale, narcotics handling and import licenses for medical cannabis. As part of its global expansion and penetration plan into the European market, IMC acquired 100% of Adjupharm's issued and outstanding shares for €924 thousand (approximately \$1,400) with additional obligations to the sellers including repayment of bank loans of up to €680 thousand (approximately \$1,030). As of the approval date of the financial statements these bank loans were repaid by the Company. The Company is in the process of identifying and measuring the assets and liabilities of Adjupharm.

Recognizing Germany as the largest and most advanced market in Europe, Adjupharm will begin to develop IMC brand presence in Germany along with distribution leadership in this growing medical cannabis market.

- e. Through the consolidated financial statements approval date, IMC issued 1,206,000 share options to its employees and consultants in accordance with the 2018 Plan, of which 430,000 share options were granted to key management employees, at an exercise price of \$4 (see Note 15c).
- f. On May 21, 2019, IMC has 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 hold the necessary Spanish regulatory approvals to operate in this field.

Under the agreement the Spanish cultivator shall work according 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 Adjupharm GmbH.

- g. In connection with the November 6, 2018, definitive business combination agreement, with Navasota Resources Inc. ("Navasota") and IMC, which will constitute a Reverse Takeover Transaction of Navasota by the shareholders of the Company (the "Proposed Transaction"), Navasota and IMC announced on 29 August, 2019, the completion of a private placement offering of 19,048,326 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 affect to a contemplated share split of 1:10) for aggregate gross proceeds of \$20,000 (the "Financing"). Upon the satisfaction or waiver of, among other things, all of the condition precedents to the completion of the Proposed Transaction, each Subscription Receipt will be 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 will be exercisable for one Finco Share at an exercise price of \$1.30 (after giving affect to a contemplated share split of 1:10) for a period of 24 months following the closing of the Proposed Transaction. Upon closing of the Proposed Transaction, the Finco Shares and Finco Warrants will be exchanged for post-Consolidation Resulting Issuer shares and Resulting Issuer warrants on economically equivalent terms on a 1:1 basis.

Immediately following the completion of the Proposed Transaction, it is expected that holders of IMC Ordinary shares will hold approximately 84.52% of the issued and outstanding Resulting Issuer shares, holders of Subscription Receipts will hold approximately 13.11% of the Resulting Issuers and current Navasota shareholders will hold 2.38% of the Resulting Issuers, in each case, on a non-diluted basis.

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