

**ISRACANN BIOSCIENCES INC.**  
(formerly Atlas Blockchain Group Inc.)

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

*For the three month period ended August 31, 2019*

(Expressed in Canadian dollars)

(UNAUDITED)

**NOTICE OF NO AUDITORS' REVIEW OF  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the condensed interim consolidated financial statements.

The accompanying unaudited condensed interim consolidated financial statements of Isracann Biosciences Inc. (formerly Atlas Blockchain Group Inc., the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada ("CPA Canada") for a review of interim financial statements by an entity's auditor.

**ISRACANN BIOSCIENCES INC.**

**ISRACANN BIOSCIENCES INC.**  
(formerly Atlas Blockchain Group Inc.)  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian dollars)  
**(UNAUDITED)**

|   | AS AT                             |                              |
|---|-----------------------------------|------------------------------|
|   | AUGUST 31,<br>2019<br>(Unaudited) | MAY 31,<br>2019<br>(Audited) |
| <b>Assets</b>                                     |                                   |                              |
| <b>Current</b>                                    |                                   |                              |
| Cash  | \$ 2,636,330                      | \$ 4,177,863                 |
| Cash – restricted (Note 6)                        | 10,194,836                        | 10,152,760                   |
| Accounts receivable and other receivables         | 215,525                           | 181,994                      |
| Prepaid expenses                                  | 905,570                           | 436,616                      |
| Promissory notes receivable (Note 3)              | 500,000                           | 500,000                      |
| <b>Total Current Assets</b>                       | <b>14,452,261</b>                 | <b>15,449,233</b>            |
| <b>Deferred acquisition costs</b>                 | <b>79,198</b>                     | <b>29,804</b>                |
| <b>Property and equipment (Note 5)</b>            | <b>831,276</b>                    | <b>893,395</b>               |
| <b>Total Assets</b>                               | <b>\$ 15,362,735</b>              | <b>\$ 16,372,432</b>         |
| <b>Liabilities</b>                                |                                   |                              |
| <b>Current</b>                                    |                                   |                              |
| Accounts payable and accrued liabilities (Note 7) | \$ 984,528                        | \$ 1,039,331                 |
| <b>Total Liabilities</b>                          | <b>984,528</b>                    | <b>1,039,331</b>             |
| <b>Shareholders' Equity</b>                       |                                   |                              |
| Share capital (Notes 6 and 11)                    | 11,743,963                        | 11,743,963                   |
| Equity reserves (Note 6)                          | 12,696,946                        | 12,654,369                   |
| Subscription receipts (Notes 6 and 11)            | 10,110,211                        | 10,110,211                   |
| Deficit   | (20,554,550)                      | (19,587,595)                 |
| Accumulated other comprehensive income            | 381,637                           | 412,153                      |
| <b>Total Shareholders' Equity</b>                 | <b>14,378,207</b>                 | <b>15,333,101</b>            |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$ 15,362,735</b>              | <b>\$ 16,372,432</b>         |

Basis of presentation (Note 2)

Commitment (Note 10)

Subsequent events (Note 11)

Approved on behalf of the Board of Directors:

*"Darryl Jones"*

Director

*"Sean Bromley"*

Director

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

**ISRACANN BIOSCIENCES INC.**

(formerly Atlas Blockchain Group Inc.)

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Expressed in Canadian dollars)

(UNAUDITED)

|  | <b>THREE MONTH PERIODS</b> |                       |
|--|----------------------------|-----------------------|
|  | <b>ENDED AUGUST 31,</b>    |                       |
|  | <b>2019</b>                | <b>2018</b>           |
| <b>Income</b>  |                            |                       |
| Digital assets mined                                   | \$ -                       | \$ 487,339            |
| Co-location and cloud services                         | <b>60,357</b>              | 54,162                |
| Software manufacturing facility rental income          | <b>39,425</b>              | 35,025                |
| Interest revenue                                       | <b>5,851</b>               | 24,216                |
| Miscellaneous revenue                                  | <b>198</b>                 | 198                   |
| Fair value change in digital assets                    | -                          | (40,362)              |
| <b>Total Income</b>                                    | <b>105,831</b>             | 560,578               |
| <b>General and Administrative Expenses</b>             |                            |                       |
| Amortization and depreciation (Note 5)                 | \$ <b>57,143</b>           | \$ 441,554            |
| Bad debt expense                                       | -                          | 1,414                 |
| Consulting (Note 7)                                    | <b>249,374</b>             | 362,845               |
| Office facilities and administrative services (Note 7) | <b>200,405</b>             | 167,632               |
| Office and sundry                                      | <b>123,082</b>             | 69,438                |
| Property operating expenses (Note 7)                   | <b>38,950</b>              | 217,301               |
| Professional fees (Note 7)                             | <b>112,720</b>             | 48,463                |
| Promotion and advertising                              | <b>38,875</b>              | 264,338               |
| Stock-based compensation (Note 7)                      | <b>42,577</b>              | 830,854               |
| Transfer agent and shareholder information             | <b>101,091</b>             | 137,800               |
| Travel and entertainment                               | <b>108,569</b>             | 44,904                |
| <b>Total Expenses</b>                                  | <b>(1,072,786)</b>         | (2,586,543)           |
| <b>Net Loss before Unusual Item</b>                    | <b>(966,955)</b>           | (2,025,965)           |
| Impairment loss (Note 5)                               | -                          | (3,406,000)           |
| <b>Net Loss</b>  | <b>(966,955)</b>           | (5,431,965)           |
| Other Comprehensive Income/(Loss)                      | <b>(30,516)</b>            | 57,526                |
| <b>Net Loss and Comprehensive Loss For The Period</b>  | <b>\$ (997,471)</b>        | <b>\$ (5,374,709)</b> |
| <b>Basic and Diluted Loss Per Share</b>                | <b>\$ (0.01)</b>           | <b>\$ (0.05)</b>      |
| <b>Weighted Average Number of Shares Outstanding</b>   | <b>114,944,923</b>         | 114,944,923           |

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

**ISRACANN BIOSCIENCES INC.**

(formerly Atlas Blockchain Group Inc.)

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Expressed in Canadian dollars)

(UNAUDITED)

**Three Month Periods Ended August 31, 2019 and 2018 and Year Ended May 31, 2019**

|                                  | SHARE CAPITAL      |                      | EQUITY               | SUBSCRIPTION         | AOCI              | DEFICIT                | TOTAL                |
|----------------------------------|--------------------|----------------------|----------------------|----------------------|-------------------|------------------------|----------------------|
|                                  | NUMBER             | AMOUNT               | RESERVE              | RECEIPTS             |                   |                        |                      |
| Balance, May 31, 2018            | 114,944,923        | \$ 11,743,963        | \$ 11,493,656        | \$ -                 | \$ 105,665        | \$ (9,683,419)         | \$ 13,659,865        |
| Stock-based compensation         | -                  | -                    | 830,854              | -                    | -                 | -                      | 830,854              |
| Net loss for the period          | -                  | -                    | -                    | -                    | -                 | (5,431,965)            | (5,431,965)          |
| Currency translation differences | -                  | -                    | -                    | -                    | 57,256            | -                      | 57,256               |
| Balance, August 31, 2018         | 114,944,923        | \$ 11,743,963        | 12,324,510           | -                    | 169,921           | (15,115,384)           | 9,116,010            |
| Stock-based compensation         | -                  | -                    | 329,859              | -                    | -                 | -                      | 329,859              |
| Share subscriptions              | -                  | -                    | -                    | 10,110,211           | -                 | -                      | 10,110,211           |
| Net loss for the period          | -                  | -                    | -                    | -                    | -                 | (4,472,211)            | (4,472,211)          |
| Currency translation differences | -                  | -                    | -                    | -                    | 249,232           | -                      | 249,232              |
| Balance, May 31, 2019            | 114,944,923        | 11,743,963           | 12,654,369           | 10,110,211           | 412,153           | (19,587,595)           | 15,333,101           |
| Stock-based compensation         | -                  | -                    | 42,577               | -                    | -                 | -                      | 42,577               |
| Net loss for the period          | -                  | -                    | -                    | -                    | -                 | (966,955)              | (966,955)            |
| Currency translation differences | -                  | -                    | -                    | -                    | (30,516)          | -                      | (30,516)             |
| <b>Balance, August 31, 2019</b>  | <b>114,944,923</b> | <b>\$ 11,743,963</b> | <b>\$ 12,696,946</b> | <b>\$ 10,110,211</b> | <b>\$ 381,637</b> | <b>\$ (20,554,550)</b> | <b>\$ 14,378,207</b> |

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**ISRACANN BIOSCIENCES INC.**

(formerly Atlas Blockchain Group Inc.)

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS****(Expressed in Canadian dollars)****(UNAUDITED)**

|  | <b>THREE MONTH PERIODS</b> |                     |
|--|----------------------------|---------------------|
|  | <b>ENDED AUGUST 31,</b>    |                     |
|  | <b>2019</b>                | <b>2018</b>         |
| <b>Operating Activities</b>                                  |                            |                     |
| Net loss for the period                                      | \$ (966,955)               | \$ (5,431,965)      |
| Adjustments for non-cash expenses and income                 |                            |                     |
| Digital assets mined   | -                          | (487,339)           |
| Fair value change in digital assets                          | -                          | 40,362              |
| Amortization and depreciation                                | 57,143                     | 441,554             |
| Stock-based compensation                                     | 42,577                     | 830,854             |
| Impairment loss  | -                          | 3,406,000           |
| Changes in non-cash operating assets and liabilities         |                            |                     |
| Amounts receivable   | (33,531)                   | (26,765)            |
| Prepaid expenses   | (494,494)                  | (48,651)            |
| Accounts payable and accrued liabilities                     | (96,879)                   | (242,908)           |
| <b>Cash Used In Operating Activities</b>                     | <b>(1,492,139)</b>         | <b>(1,518,858)</b>  |
| <b>Investing Activities</b>                                  |                            |                     |
| Deferred costs of acquisition of Isracann                    | (49,394)                   | -                   |
| Facility upgrades  | -                          | (282,664)           |
| Foreign exchange on the net investment in foreign operations | -                          | (6,367)             |
| <b>Cash Used In Investing Activities</b>                     | <b>(49,394)</b>            | <b>(289,031)</b>    |
| <b>Change In Cash</b>  | <b>(1,541,533)</b>         | <b>(1,807,889)</b>  |
| <b>Cash, Beginning of Period</b>                             | <b>4,177,863</b>           | <b>7,977,883</b>    |
| <b>Cash, End of Period</b>                                   | <b>\$ 2,636,330</b>        | <b>\$ 6,169,994</b> |
| <b>Supplementary Information</b>                             |                            |                     |
| Cash paid for interest                                       | \$ -                       | \$ -                |
| Cash paid for income taxes                                   | \$ -                       | \$ -                |

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

## **ISRACANN BIOSCIENCES INC.**

(formerly Atlas Blockchain Group Inc.)

### **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2019**

(Expressed in Canadian dollars)

(UNAUDITED)

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#### **1. NATURE OF OPERATIONS AND PENDING ACQUISITION**

Isracann Biosciences Inc. (formerly Atlas Blockchain Group Inc., the “Company”), is incorporated under the *Business Corporations Act* (British Columbia). The Company has a registered and records office at Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia V6E 4N7, and a principal place of business at 308 E. 5th Avenue Vancouver, British Columbia V5T 1H4. At August 31, 2019, the Company had two wholly-owned subsidiaries, Atlas Cloud Enterprises (2013) Ltd. and MKH Electric City Holdings LLC.

Atlas Blockchain Group Inc. completed a three old for one new share consolidation (the “Consolidation”), and changed the name to Isracann Biosciences Inc. effective October 7, 2019. The Company resumed trading the Canadian Securities Exchange (“CSE”) under the symbol IPOT on October 17, 2019 and under the symbol WKN on the Frankfurt Exchange on October 21, 2019. All figures herein are pre-Consolidation unless otherwise indicated.

##### **a) Acquisition – Isracann Biosciences Inc. (“Transaction”)**

In March 2019, the Company, Isracann Biosciences Inc. (now Isracann Holdings Inc.) (“Isracann”) and security holders of Isracann entered into the securities exchange agreement. Isracann plans to develop a business as a leading low-cost, quality cannabis cultivator. Isracann intends on providing products for the Israeli medical cannabis market with the long-term goal of exporting to major European markets.

The securities exchange agreement effectively provides for the acquisition of all of the outstanding Isracann shares by the Company in a transaction pursuant to which Isracann shareholders will receive the Company’s shares in exchange for their Isracann shares. As at August 31, 2019, the transaction had not closed. The Transaction was completed on October 7, 2019 please see Subsequent Events Note 11 for the current status of this transaction as well as the Listing Statement posted on SEDAR.

The policies of the CSE consider the Transaction to be a fundamental change as the Company has changed its business and continues the business of Isracann. The Transaction has been approved by the CSE.

#### **2. BASIS OF PRESENTATION**

##### **a. Statement of Compliance**

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB (“International Accounting Standards Board”) applicable to the preparation of condensed interim consolidated financial statements, including International Accounting Standard (“IAS”) 34 - Interim Financial Reporting. The accounting policies followed in these condensed interim consolidated financial statements are materially the same as those applied in the Company’s audited annual financial statements for the year ended May 31, 2019.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of June 1, 2019. The Audit Committee approved the statements on October 30, 2019. Any subsequent changes to IFRS after this date could result in changes to the condensed interim consolidated financial statements for the three month period ended August 31, 2019. The condensed interim consolidated financial statements do not contain all disclosures required under IFRS and should be read in conjunction with Company’s annual financial statements and the notes thereto for the year ended May 31, 2019.

**ISRACANN BIOSCIENCES INC.**

(formerly Atlas Blockchain Group Inc.)

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED AUGUST 31, 2019**

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**3. PROMISSORY NOTES RECEIVABLE**

On March 6 and April 17, 2019, the Company entered into a bridge loan agreements with Isracann (Note 1) in the principal amounts of \$200,000 and \$300,000, respectively. The bridge loans are secured by a promissory note. In the event closing of the Transaction occurs on or before December 31, 2019, the bridge loans will bear no interest and be forgiven upon closing. In the event closing does not occur on or before December 31, 2019, the bridge loans will become immediately due on demand and will bear interest at a rate of 2% per annum. Please refer to Subsequent Events Note 11.

**4. MKH ACQUISITION**

During the year ended May 31, 2018, the Company announced the acquisition of MKH Electric City Holdings LLC (“MKH”), a Washington State company which owns a 6,600-sq. ft. facility (the “New Facility”) located in Electric City, Washington State. The cost of the acquisition was \$300,000 USD (CDN\$388,440). While the transaction legally closed on March 14, 2018, the Company obtained control of MKH on December 19, 2017, the date the funds were advanced. The acquisition of MKH was considered an asset acquisition, as it did not meet the definition of a business. The purchase price of \$388,440 was allocated to land of \$58,266 and building of \$330,174.

**5. PROPERTY AND EQUIPMENT**

|   | <b>Furniture and<br/>Data Centre<br/>Equipment</b> | <b>Bitcoin Mining<br/>and Computer<br/>Equipment</b> | <b>Building and<br/>Leasehold<br/>Improvements</b> | <b>Land</b>      | <b>Total</b>      |
|---|--|--|--|------------------|-------------------|
| <b>Cost</b>                                 |  |  |  |                  |                   |
| As at May 31, 2018                          | 654,110  | 3,084,761  | 3,081,846  | 58,266           | 6,878,983         |
| Additions (including CTA)                   | 126,804  | 146,926  | 357,064  | 2,605            | 633,399           |
| As at May 31, 2019                          | 780,914  | 3,231,687  | 3,438,910  | 60,871           | 7,512,382         |
| Additions (including CTA)                   | -  | -  | (3,933)  | (1,043)          | (4,976)           |
| <b>As at August 31, 2019</b>                | <b>780,914</b>                                     | <b>3,231,687</b>                                     | <b>3,434,977</b>                                   | <b>59,828</b>    | <b>7,507,406</b>  |
| <b>Accumulated Amortization</b>             |  |  |  |                  |                   |
| As at May 31, 2018                          | 254,550  | 385,399  | 48,694   | -                | 688,643           |
| Depreciation                                | 156,183  | 564,092  | 68,691   | -                | 788,966           |
| As at May 31, 2019                          | 410,733  | 949,491  | 117,385  | -                | 1,477,609         |
| Depreciation                                | 39,156   | 1,533  | 16,454   | -                | 57,143            |
| <b>As at August 31, 2019</b>                | <b>449,889</b>                                     | <b>951,024</b>                                       | <b>133,839</b>                                     | <b>-</b>         | <b>1,534,752</b>  |
| <b>Accumulated Impairment</b>               |  |  |  |                  |                   |
| As at May 31, 2018                          | -  | 477,657  | 522,343  | -                | 1,000,000         |
| Impairment (including CTA)                  | -  | 1,798,324  | 2,343,054  | -                | 4,141,378         |
| As at May 31, 2019                          | -  | 2,275,981  | 2,865,397  | -                | 5,141,378         |
| Impairment (including CTA)                  | -  | -  | -  | -                | -                 |
| <b>As at August 31, 2019</b>                | <b>-</b>   | <b>2,275,981</b>                                     | <b>2,865,397</b>                                   | <b>-</b>         | <b>5,141,378</b>  |
| Net Book Value as at May 31, 2019           | 370,181  | \$ 6,214   | \$ 456,128   | \$ 60,872        | \$ 893,395        |
| <b>Net Book Value as at August 31, 2019</b> | <b>\$ 331,025</b>                                  | <b>\$ 4,682</b>                                      | <b>\$ 435,741</b>                                  | <b>\$ 59,828</b> | <b>\$ 831,276</b> |

**ISRACANN BIOSCIENCES INC.**

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FOR THE THREE MONTHS ENDED AUGUST 31, 2019**

(Expressed in Canadian dollars)

(UNAUDITED)

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**5. PROPERTY AND EQUIPMENT (cont'd...)**

During the year ended May 31, 2019, impairment indicators were identified for the Company's crypto mining cash generating unit. As a result, management has impaired the assets included in the mining cash generating unit to higher of their value in use or fair value. During the year ended May 31, 2019, impairment loss of \$4,141,378 (2018 – \$1,000,000) was recognized. The management assessed the indicators of possible impairment to Bitcoin mining equipment and building and leasehold improvement in MKH, collectively the cash-generating unit ("CGU") during the year ended May 31, 2019, and resolved that impairment indicators exist. Due to the decline in the market value of servers and weakening prices of cryptocurrencies during the year ended May 31, 2019, along with the corresponding decline in projected cash flows over the life of the assets within the CGU, an impairment test was completed. In December 2018, the mining operation was suspended due to adverse market conditions, increase in Bitcoin network mining difficulty and decrease in the price of Bitcoin. As Bitcoin mining is not profitable under current economic conditions as at May 31, 2019, Bitcoin mining equipment and leasehold improvements have been fully impaired at that time.

**6. SHARE CAPITAL****Authorized share capital**

Unlimited common shares, without par value

**Share issuances**

As at August 31, 2019: 114,944,923 (May 31, 2019 – 114,944,923) shares were issued and outstanding.

There were no shares issued during the three month period ended August 31, 2019. Please refer to Subsequent Events Note 11 for subsequent share transactions.

**Subscription Receipts**

During the year ended May 31, 2019, the following subscription receipts were received:

On January 14, 2019, the Company closed the first tranche of the non-brokered offering consisting of 30,588,236 subscription receipts at \$0.17 per subscription receipt for a total amount of \$5,200,100. Each subscription receipt entitles the holder to receive, upon satisfaction of certain escrow release conditions, and without payment of additional consideration, one unit in the capital of the Company. Each unit will be comprised of one common share of the Company and one purchase warrant. Each warrant will entitle the holder thereof to acquire one common share of the Company at \$0.34 for two years following the date of issuance. The Company will pay eligible finders a cash commission in the aggregate of approximately \$224,895, on the Offering within the amount permitted by the policies of the CSE. In addition, 1,322,909 non-transferable broker's warrants will be issued to eligible finders to purchase an aggregate of 1,322,909 common shares of the Company.

On May 21, 2019, the Company closed the second tranche of the non-brokered offering consisting of 28,883,596 subscription receipts at \$0.17 per subscription receipt for a total amount of \$4,910,211. Each subscription receipt entitles the holder to receive, upon satisfaction of certain escrow release conditions, and without payment of additional consideration, one unit in the capital of the Company. Each unit will be comprised of one common share of the Company and one purchase warrant. Each warrant will entitle the holder thereof to acquire one common share of the Company at \$0.34 for two years following the date of issuance. The Company will pay eligible finders a cash commission in the aggregate of \$137,822 on the Offering upon satisfaction of certain escrow release conditions. In addition, 760,034 non-transferable broker's warrants will also be issued to eligible finders to purchase an aggregate of 760,034 common shares of the Company at the price of \$0.34 per share.

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**6. SHARE CAPITAL (cont'd...)**

The gross proceeds from the subscription receipts have been deposited with the escrow agent in escrow (the "Escrowed Proceeds") pursuant to the subscription receipt escrow agreement (the "Escrow Agreement"). The Escrowed Proceeds will be released by the escrow agent to the Company upon receipt of a notice to the Escrow Agent from the Company on or prior to 5:00 pm (Vancouver time) on September 30, 2019). As at August 31, 2019, the Company had restricted cash of \$10,152,760 (May 31, 2019 - \$10,152,760) held in the escrow account pursuant to the Escrow Agreement. Please refer to Subsequent Events Note 11.

**Share purchase warrants**

The Company may issue share purchase warrants to acquire its common shares either in combination with share offerings, or on a stand-alone basis to its consultants and advisors. The terms of warrants issued are determined by the Company's Board of Directors.

The continuity of warrants for the period ended August 31, 2019 and year ended May 31, 2019 is summarized below:

|   | <b>NUMBER OF<br/>WARRANTS</b> | <b>WEIGHTED<br/>AVERAGE<br/>EXERCISE<br/>PRICE</b> |
|---|-------------------------------|--|
| Balance, May 31, 2018                     | 89,073,690                    | 0.40   |
| Cancelled                                 | (14,285)                      | 0.75   |
| Balance, May 31, 2019 and August 31, 2019 | <b>89,059,405</b>             | <b>0.40</b>  |

The following table summarizes the warrants outstanding and exercisable at August 31, 2019:

| <b>NUMBER OF<br/>WARRANTS</b> | <b>EXERCISE<br/>PRICE</b> | <b>EXPIRY DATE</b> |
|-------------------------------|---------------------------|--------------------|
| 47,133,330                    | \$0.08                    | October 30, 2019   |
| 41,506,933                    | \$0.75                    | December 13, 2019  |
| 419,142                       | \$0.75                    | December 15, 2019  |
| <b>89,059,405</b>             |                           |                    |

As at August 31, 2019, the weighted average remaining contractual life of all warrants outstanding was 0.22 years (May 31, 2019 – 0.47 years).

Please refer to Subsequent Events Note 11 for subsequent warrant issuances.

**Stock options**

The Company adopted an incentive stock option plan (the "Option Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with CSE requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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**6. SHARE CAPITAL (cont'd...)****Stock options (cont'd...)**

In connection with the foregoing, the number of common shares reserved for issuance to any technical consultant will not exceed two percent of the issued and outstanding common shares in any twelve-month period. The number of common shares reserved for issuance to individuals providing investor relation services will not exceed two percent of the issued and outstanding common shares in any twelve-month period. Further, these options must vest over twelve months with a maximum of one quarter of the options vesting in any three-month period. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company, provided that if cessation of office, directorship or technical consulting arrangement by reason of death, the option may be exercised within a maximum period of one year after such death subject to the expiry date of such option.

During the three month period ended August 31, 2019, stock-based compensation in the amount of \$42,577 (August 31, 2019 - \$830,854) was recognized on the issuance and vesting of stock options to directors, officers and consultants.

The continuity of stock options for the period ended August 31, 2019 and year ended May 31, 2019 is summarized below:

|  | <b>NUMBER OF<br/>OPTIONS</b> | <b>WEIGHTED<br/>AVERAGE<br/>EXERCISE<br/>PRICE</b> |
|--|------------------------------|--|
| Balance, May 31, 2018                            | 4,575,000                    | 0.94   |
| Cancelled  | (2,675,000)                  | 1.00   |
| Forfeited  | (1,500,000)                  | 1.00   |
| Granted  | 6,125,000                    | 0.40   |
| <b>Balance, May 31, 2019 and August 31, 2019</b> | <b>6,525,000</b>             | <b>0.39</b>  |

The following table summarizes the stock options outstanding and exercisable at August 31, 2018:

| <b>NUMBER OF OPTIONS</b> |                    | <b>EXERCISE<br/>PRICE</b> | <b>EXPIRY DATE</b> |
|--------------------------|--------------------|---------------------------|--------------------|
| <b>OUTSTANDING</b>       | <b>EXERCISABLE</b> |                           |                    |
| 400,000                  | 400,000            | \$0.25                    | September 5, 2024  |
| 6,125,000                | 5,000,000          | \$0.40                    | June 21, 2023      |
| <b>6,525,000</b>         | <b>5,400,000</b>   |                           |                    |

As at August 31, 2019, the weighted average remaining contractual life of all options outstanding was 3.88 years (May 31, 2019 – 4.13 years).

The Company uses the Black-Scholes option pricing model to estimate the fair value of the options granted using the following assumptions:

|                         | <b>THREE MONTH PERIOD<br/>ENDED AUGUST 31,</b> |             |
|-------------------------|--|-------------|
|                         | <b>2019</b>                                    | <b>2018</b> |
| Dividend yield          | N/A  | Nil         |
| Annualized volatility   | N/A  | 128%        |
| Risk-free interest rate | N/A  | 1.97%       |
| Expected life           | N/A  | 5 years     |

Please refer to Subsequent Events Note 11 for subsequent option transactions.

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**7. RELATED PARTY TRANSACTIONS****Key Management Compensation**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and Board of Director members.

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All amounts either due from or due to related parties other than specifically disclosed are non-interest bearing, unsecured and have no fixed terms of repayments.

- a) Related party transactions with directors, subsequent and former directors and companies and entities over which they have significant influence over:

|                   | <b>THREE MONTH PERIODS<br/>ENDED AUGUST 31,</b> |             |
|-------------------|---|-------------|
|                   | <b>2019</b>                                     | <b>2018</b> |
|                   | <b>\$</b>                                       | <b>\$</b>   |
| Consulting fees   | <b>15,000</b>                                   | 60,046      |
| Management fees   | <b>15,000</b>                                   | 15,000      |
| Professional fees | <b>12,366</b>                                   | -           |

- b) Key management compensation:

|   | <b>THREE MONTH PERIODS<br/>ENDED AUGUST 31,</b> |             |
|---|---|-------------|
|   | <b>2019</b>                                     | <b>2018</b> |
|   | <b>\$</b>                                       | <b>\$</b>   |
| Management/Consulting/Professional fees and short-term benefits | <b>47,114</b>                                   | 137,606     |
| Share-based payments  | <b>41,735</b>                                   | 650,079     |

- c) Prepaid expenses - As of August 31, 2019, companies with directors in common were advanced \$13,160 (May 31, 2019 - \$5,250) for management and consulting fees.
- d) Accounts payable - As of August 31, 2019, directors, former directors and companies with directors in common were owed \$63,421 (May 31, 2019 - \$104,528).
- e) Office facilities and administrative services – As of August 31, 2019, the Company incurred \$12,500 (August 31, 2018 – \$9,000) in office facilities and administrative services expenditures related to a former director of the Company.
- f) Property operating expenses – As of August 31, 2019, the Company incurred \$12,500 (August 31, 2018 – \$9,000) in property operating expenses related to a former director of the Company.

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**8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

As at August 31, 2019, the Company's financial instruments are comprised of cash, accounts receivable, accounts payable. The fair values of accounts receivable and accounts payable approximate their carrying values due to their short-term maturity. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Inputs that are not based on observable market data (unobservable inputs).

As at August 31, 2019, the fair value of cash and restricted cash held by the Company was based on Level 1 of the fair value hierarchy. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and accounts receivable. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper. Credit risk is not concentrated with any particular customer. The Company's accounts receivable and other receivables consist primarily of sales taxes receivable. The remaining portion is also made up of rent owing from co-location and co-working clients. In an effort to mitigate credit risk, management monitors its accounts receivable and it has been determined that no bad debts need to be recorded as all amounts are considered to be collectible.

As at August 31, 2019 and May 31, 2019, the Company's aging of trade receivables was as follows:

|                        | Current          | 31 – 60<br>days | 61 – 90 days    | 91 days +       | Total            |
|------------------------|------------------|-----------------|-----------------|-----------------|------------------|
| <b>August 31, 2019</b> | <b>\$ 14,184</b> | <b>\$ -</b>     | <b>\$ 3,759</b> | <b>\$ 2,709</b> | <b>\$ 20,653</b> |
| May 31, 2019           | \$ 16,419        | \$ -            | \$ -            | \$ -            | \$ 16,419        |

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company seeks to ensure there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. As at August 31, 2019, the Company had an unrestricted cash balance of \$2,636,330 (May 31, 2019 - \$4,177,863) to settle current liabilities of \$984,528 (May 31, 2019 - \$1,039,331).

As at August 31, 2019, the Company has the following financial obligations:

|                  | < 1 year   | 1 – 3 years | Total      |
|------------------|------------|-------------|------------|
| Accounts payable | \$ 238,370 | \$ -        | \$ 238,370 |

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and equity prices.

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**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)****i. Interest rate risk**

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company's short-term loan payable is subject to interest. Additionally, some of the Company's accounts payable and accrued liabilities are subject to interest on unpaid balances. The Company is not exposed to any material interest rate risk.

**ii. Foreign currency risk**

Foreign currency risk arises from fluctuations in foreign currencies versus the Canadian dollar that could adversely affect reported balances and transactions denominated in those currencies. As at August 31, 2019, a portion of the Company's financial assets are held in USD. The Company'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 Canadian dollars. The Company 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 in time. The Company is not exposed to any material foreign currency risk.

**iii. Equity price risk**

Equity price risk arises from market fluctuations in equity prices that could adversely affect the Company's operations. The Company's current exposure to equity price risk is limited to declines in the values and volumes including those of its own shares, which could impede its ability to raise additional funds when required. The Company is not exposed to any material equity price risk.

**10. COMMITMENT**

As at August 31, 2019, the Company is committed to:

- a) A ten-year operating lease for its 7,400 square foot office with an annual commitment of \$123,840 until November 2024 with an option to renew for an additional ten-year term.

**11. SUBSEQUENT EVENTS**

- In September 2019, the Company issued a promissory note to Isracann in the amount of \$150,000 under the same terms as the two promissory notes issued during the year ended May 31, 2019 and described in Note 3 of the audited consolidated financial statements for the year ended May 31, 2019.
- On September 30, 2019, the Company converted the previously issued 59,471,832 subscription receipts to 59,471,832 units. Each unit is comprised of one common share and one common share purchase warrant. Each such warrant entitles the holder to purchase one common share at an exercise price of \$0.34 until September 30, 2021. In consideration for the completion of the financing, the Company paid a cash commission of \$362,717 and issued 2,082,943 broker warrants. Each broker warrant is exercisable into one common share at a price of \$0.34 until September 30, 2021.
- On October 7, 2019, the Company consolidated its share capital on a 3 old for 1 new share basis and changed its name to Isracann Biosciences Inc. in conjunction with the completion of the Transaction. Completion of the Transaction resulted in the Company issuing an aggregate of 46,680,000 post-Consolidated common shares of the Company to the Isracann shareholders, 28,000,000 post-Consolidation Company common share purchase warrants to the holders of Isracann warrants exercisable at \$0.05 until February 14, 2021 and 4,000,000 post-Consolidation Company replacement options exercisable at \$0.51 until February 14, 2021 to the holders of Isracann options. Certain of the Company common shares held by the current Isracann shareholders will be subject to escrow conditions pursuant to the securities exchange agreement, applicable securities laws and CSE requirements.

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**11. SUBSEQUENT EVENTS (cont'd...)**

- On July 16, 2019, the Company entered into a convertible loan agreement with Cannisra Holdings Ltd. (“Cannisra”) as borrower and Cannisra Crops Limited (“CCL”) as guarantor for the loan of up to CAD\$3,000,000 (the “Convertible Loan”). The Convertible Loan is secured by two general security agreements over all present and after-acquired property of Cannisra and CCL, respectively. The Convertible Loan was convertible at any time, at the option of the Company, into Ordinary Shares of Cannisra comprising approximately 99% of the equity of Cannisra in lieu of partial or whole repayment of the outstanding loan amount. The Issuer converted the Convertible Loan on October 7, 2019, prior to the Closing of the Transaction. On the date of conversion, a total of CAD\$85,000 had been advanced to Cannisra pursuant to the Convertible Loan. Cannisra is now a 99% subsidiary of the Company, and the Company is entitled to elect up to four members of the Cannisra board of directors.