

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

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

*For the three and six month periods ended November 30, 2019*

(Expressed in Canadian dollars)

(UNAUDITED)

**ISRACANN BIOSCIENCES INC.**

(formerly Atlas Blockchain Group Inc.)

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian dollars)

	AS AT	
	NOVEMBER 30, 2019 (Unaudited)	MAY 31, 2019 (Audited)
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 8,517,423	\$ 4,177,863
Cash – restricted	-	10,152,760
Accounts receivable and other receivables	138,484	181,994
Prepaid expenses (Note 9)	4,162,650	436,616
Promissory notes receivable (Note 5)	-	500,000
<b>Total Current Assets</b>	<b>12,818,557</b>	<b>15,449,233</b>
<b>Deferred acquisition costs</b>	<b>-</b>	<b>29,804</b>
<b>Licenses and intangible assets</b> (Notes 3 and 4)	<b>39,158,233</b>	<b>-</b>
<b>Property and equipment</b> (Note 7)	<b>1,187,314</b>	<b>893,395</b>
<b>Total Assets</b>	<b>\$ 53,164,104</b>	<b>\$ 16,372,432</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 9)	\$ 1,538,320	\$ 1,039,331
Lease liability – short term (Note 11)	119,149	-
<b>Total Current Liabilities</b>	<b>1,657,469</b>	<b>1,039,331</b>
<b>Lease liability – long term</b> (Note 11)	<b>291,188</b>	<b>-</b>
<b>Total liabilities</b>	<b>1,948,657</b>	<b>1,039,331</b>
<b>Equity</b>		
Share capital (Notes 8)	46,651,883	11,743,963
Equity reserves (Note 8)	27,348,035	12,654,369
Subscription receipts (Note 8)	-	10,110,211
Deficit	(23,150,941)	(19,587,595)
Accumulated other comprehensive income	366,619	412,153
<b>Total Equity</b>	<b>51,215,596</b>	<b>15,333,101</b>
<b>Non-controlling interest</b>	<b>(149)</b>	<b>-</b>
<b>Total Equity</b>	<b>51,215,447</b>	<b>15,333,101</b>
<b>Total Liabilities and Equity</b>	<b>\$ 53,164,104</b>	<b>\$ 16,372,432</b>

Basis of presentation (Note 2)

Subsequent events (Note 12)

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)

	THREE MONTH PERIODS ENDED NOVEMBER 30,		SIX MONTH PERIODS ENDED NOVEMBER 30,	
	2019	2018	2019	2018
<b>Income</b>				
Digital assets mined	\$ -	\$ 404,809	\$ -	\$ 892,148
Co-location and cloud services	61,969	54,862	122,326	109,024
Software manufacturing facility rental income	23,400	31,425	62,825	66,450
Interest revenue	126,969	19,655	132,820	43,881
Miscellaneous revenue	96	198	294	386
Fair value loss in digital assets	-	(631,422)	-	(671,784)
<b>Total Income (loss)</b>	<b>212,434</b>	<b>(120,473)</b>	<b>318,265</b>	<b>440,105</b>
<b>General and Administrative Expenses</b>				
Amortization and depreciation (Note 7)	\$ 57,468	\$ 187,740	\$ 162,955	\$ 629,294
Bad debt expense	-	-	-	1,414
Consulting (Note 9)	408,777	303,170	658,151	666,015
Office facilities and administrative services (Note 9)	163,881	225,613	323,409	393,245
Office and sundry	218,488	66,239	341,446	135,677
Property operating expenses (Note 9)	34,514	243,886	73,465	461,187
Professional fees	149,037	209,896	261,757	258,359
Promotion and advertising	936,548	929,882	975,423	1,194,220
Stock-based compensation (Note 9)	672,580	151,700	715,193	982,554
Transfer agent and shareholder information	117,033	57,635	218,124	195,435
Travel and entertainment	43,268	81,908	151,837	126,812
<b>Total Expenses</b>	<b>(2,801,594)</b>	<b>(2,457,669)</b>	<b>(3,881,760)</b>	<b>(5,044,212)</b>
<b>Net Loss before Other Item</b>	<b>(2,589,160)</b>	<b>(2,578,142)</b>	<b>(3,563,495)</b>	<b>(4,604,107)</b>
Impairment loss (Note 7)	-	(570,429)	-	(3,976,429)
<b>Net Loss for the Period</b>	<b>(2,589,160)</b>	<b>(3,148,571)</b>	<b>(3,563,495)</b>	<b>(8,580,536)</b>
Other Comprehensive Income/(Loss)	(15,016)	12,742	(45,534)	69,998
<b>Comprehensive Loss For The Period</b>	<b>\$ (2,604,176)</b>	<b>\$ (3,135,829)</b>	<b>\$ (3,609,029)</b>	<b>\$ (8,510,538)</b>
<b>Comprehensive Loss attributed to:</b>				
Shareholders of the Company	\$ (2,604,027)	\$ (3,135,829)	\$ (3,608,880)	\$ (8,510,538)
Non-controlling interest	(149)	-	(149)	-
	<b>\$ (2,604,176)</b>	<b>\$ (3,135,829)</b>	<b>\$ (3,609,029)</b>	<b>\$ (8,510,538)</b>
<b>Basic and Diluted Loss Per Share</b>	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>	<b>\$ (0.06)</b>	<b>\$ (0.07)</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>73,924,390</b>	<b>38,314,888</b>	<b>59,344,434</b>	<b>38,314,888</b>

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)

**Six Month Periods Ended November 30, 2019 and 2018**

	SHARE CAPITAL		EQUITY RESERVE	SUBSCRIPTION RECEIPTS	AOCI	DEFICIT	NON- CONTROLLING INTEREST	TOTAL
	NUMBER	AMOUNT						
Balance, May 31, 2018	38,314,888	\$ 11,819,185	\$ 11,418,434	\$ -	\$ 105,665	\$ (9,683,419)	\$ -	\$ 13,659,865
Stock-based compensation	-	-	982,554	-	-	-	-	982,554
Net loss for the period	-	-	-	-	-	(8,580,536)	-	(8,580,536)
Other comprehensive income	-	-	-	-	69,998	-	-	69,998
<b>Balance, November 30, 2018</b>	<b>38,314,888</b>	<b>\$ 11,819,185</b>	<b>12,400,988</b>	<b>-</b>	<b>175,663</b>	<b>(18,263,955)</b>	<b>-</b>	<b>6,131,881</b>
Balance, May 31, 2019	38,314,888	11,743,963	12,654,369	10,110,211	412,153	(19,587,595)	-	15,333,101
Issued for cash								
Non-brokered private placement	19,823,944	10,110,211	-	(10,110,211)	-	-	-	-
Warrants exercised	4,690,662	1,526,543	(400,784)	-	-	-	-	1,125,759
Share issue costs - cash	-	(362,817)	-	-	-	-	-	(362,817)
Share issue costs – broker warrants	-	(172,817)	172,817	-	-	-	-	-
Shares issued for Isracann	46,680,000	23,806,800	-	-	-	-	-	23,806,800
Replacement Isracann warrants	-	-	13,046,040	-	-	-	-	13,046,040
Replacement Isracann options	-	-	1,160,400	-	-	-	-	1,160,400
Stock-based compensation	-	-	715,193	-	-	-	-	715,193
Net loss for the period	-	-	-	-	-	(3,563,346)	(149)	(3,563,495)
Other comprehensive loss	-	-	-	-	(45,534)	-	-	(45,534)
<b>Balance, November 30, 2019</b>	<b>109,509,494</b>	<b>\$ 46,651,883</b>	<b>\$ 27,348,035</b>	<b>\$ -</b>	<b>\$ 366,619</b>	<b>\$ (23,150,941)</b>	<b>\$ (149)</b>	<b>\$ 51,215,447</b>

Note: The Company completed a three old for one new share consolidation (the “Consolidation”) effective October 7, 2019. All figures herein are post-consolidation.

**ISRACANN BIOSCIENCES INC.**

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

	<b>SIX MONTH PERIODS ENDED</b>	
	<b>NOVEMBER 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating Activities</b>		
Net loss for the period	\$ (3,563,495)	\$ (8,580,536)
Adjustments for non-cash expenses and income		
Digital assets mined	-	(892,148)
Fair value change in digital assets	-	671,784
Amortization and depreciation	162,955	629,294
Stock-based compensation	715,193	982,554
Impairment loss	-	3,976,429
Accrued interest on leases	21,046	-
Changes in non-cash operating assets and liabilities		
Amounts receivable	37,851	(30,532)
Prepaid expenses	(3,726,035)	(132,306)
Accounts payable and accrued liabilities	541,538	(90,082)
<b>Cash Used In Operating Activities</b>	<b>(5,810,947)</b>	<b>(3,465,543)</b>
<b>Investing Activities</b>		
Licenses and intangible assets acquired	(649,395)	-
Cash acquired on acquisition of Isracann Holdings	34,242	-
Facility upgrades	-	(366,054)
<b>Cash Used In Investing Activities</b>	<b>(615,153)</b>	<b>(366,054)</b>
<b>Financing Activities</b>		
Proceeds from non-brokered private placement	9,747,394	-
Proceeds from warrant exercise	1,125,722	-
Lease payments paid	(61,922)	-
<b>Cash Provided By Financing Activities</b>	<b>10,811,194</b>	<b>-</b>
<b>Currency Translation Adjustment</b>	<b>(45,534)</b>	<b>(103,727)</b>
<b>Change In Cash</b>	<b>4,339,560</b>	<b>(3,935,324)</b>
<b>Cash, Beginning of Period</b>	<b>4,177,863</b>	<b>7,977,883</b>
<b>Cash, End of Period</b>	<b>\$ 8,517,423</b>	<b>\$ 4,042,559</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 AND SIX MONTHS ENDED NOVEMBER 30, 2019 (Unaudited) (Expressed in Canadian dollars)**

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#### **1. NATURE OF OPERATIONS AND 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 1600 – 595 Burrard St, Vancouver, BC, V7X 1L3.

Effective October 7, 2019, the Company acquired Isracann Holdings Inc. and Cannisra Holdings Ltd. (the “Acquisition”) and completed a three old for one new share consolidation (the “Consolidation”), and changed its name to Isracann Biosciences Inc. On completion of the Acquisition the Company changed its business to focus on the production of medical cannabis in Israel and this Acquisition was approved by the Canadian Securities Exchange (“CSE”) under its policies as a fundamental change. The Company resumed trading on the CSE under the symbol IPOT on October 17, 2019 and under the symbol A491 on the Frankfurt Exchange on October 21, 2019. All figures herein are post-consolidation unless otherwise indicated.

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

##### **a. Going Concern**

Although the Company has invested resources into its business, the Company does not yet have any significant cash flow from operations and as such, it must rely on equity financing to fund operations. To date, the Company’s main source of funding has been the issuance of equity securities for cash through private placements. The Company has historically raised operating capital from the sale of equity and will continue to do so.

The interim condensed consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes that the Company will operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred operating losses since inception, does not have positive operating cash flow, and there can be no assurances that sufficient funding, including adequate financing, will be available to develop its business plans and to cover general and administrative expenses necessary for the maintenance of a public company. The ability of the Company to arrange additional financing in the future depends in part, on the prevailing capital market conditions. These factors may cast significant doubt on the Company’s ability to continue as a going concern.

The interim condensed consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments other than in the normal course of business and at amounts different from those in these interim condensed consolidated financial statements.

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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2019 (Unaudited)  
(Expressed in Canadian dollars)**

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**2. BASIS OF PRESENTATION (cont'd...)**

## b. Statement of Compliance

The interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards 34, "Interim Financial Reporting" ("IAS 34"), using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). 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 with the addition of one new accounting policy adopted on a mandatory basis as disclosed in Note 2(g).

The Audit Committee approved these interim condensed consolidated financial statements of the Company on January 28, 2020. 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.

## c. Basis of Measurement

These interim condensed consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for contingent consideration payable that is measured at fair value.

## d. Functional and Presentation Currency

These interim condensed consolidated financial statements are presented in Canadian dollars, which is also the parent Company's functional currency. The functional currency of MKH Electric City Holdings LLC, the Company's wholly-owned subsidiary, is the United States dollar. The functional currency of other subsidiaries is the Canadian dollar.

## e. Basis of Consolidation

These interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated on consolidation. Subsidiaries are those entities over which the Company has control. In turn, control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. As of November 30, 2019, major subsidiaries over which the Company has control are listed below.

<b>SUBSIDIARIES</b>	<b>OWNERSHIP PERCENTAGE</b>	<b>JURISDICTION OF INCORPORATION</b>
Isracann Holdings Inc.	100%	British Columbia, Canada
Atlas Cloud Enterprises (2013) Inc.	100%	British Columbia, Canada
MKH Electric City Holdings, LLC	100%	Washington State, USA
Isracann Biosciences Capital Ltd.	100%	Israel
Isracann Development Ltd.	100%	Israel
Isracann Administrative Services Ltd.	100%	Israel
Isracann Agritech Ltd.	100%	Israel
Cannisra Holdings Ltd.	99%	Israel
Cannisra Crops Ltd.	74%	Israel

## ISRACANN BIOSCIENCES INC.

(formerly Atlas Blockchain Group Inc.)

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2019 (Unaudited) (Expressed in Canadian dollars)

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#### 2. BASIS OF PRESENTATION (cont'd...)

##### e. Basis of Consolidation (cont'd...)

The Company obtained ownership of 100% of Isracann Holdings Inc. ("Isracann Holdings") and 99.9% of Cannisra Holdings Ltd. on October 7, 2019 (see Note 3). Cannisra Crops Ltd. is 74% owned by Cannisra Holdings Ltd from the date of incorporation in January 2019.

On August 18, 2019, Isracann Holdings incorporated a wholly-owned subsidiary in Israel, Isracann Biosciences Capital Ltd., and on the same day, Isracann Biosciences Capital Ltd. incorporated three wholly-owned subsidiaries in Israel: (i) Isracann Development Ltd., (ii) Isracann Administrative Services Ltd., and (iii) Isracann Agritech Ltd. Isracann Biosciences Capital Ltd. and these three Israeli subsidiaries were inactive as at November 30, 2019.

##### f. Estimates and Critical Judgments by Management

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and contingent liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The interim condensed consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the interim condensed consolidated financial statements, and may require accounting adjustments based on future occurrences.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods. Actual results could differ from those estimates. Significant items that require estimates as the basis for determining the stated amounts include but are not limited to the valuation of digital assets, useful lives of property, plant and equipment and intangible assets, property, plant and equipment and intangible asset impairment, the fair value of identifiable net assets acquired, the fair value of share-based payments, and the fair value of financial instruments. While management believes the estimates are reasonable, actual results could differ materially from those estimates and may impact the future results of operations. Significant items that require judgments are recoverability of the carrying value of intangible assets, recognition of deferred tax assets and liabilities, recognition of revenues from bitcoin mining, and going concern assessment.

##### g. Adoption of New Accounting Standards

The following new accounting standard was adopted by the Company on June 1, 2019:

##### ***IFRS 16 Leases***

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard has been adopted by the Company's effective June 1, 2019.

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether and Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new standard has resulted in the Company recognizing a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2019 (Unaudited)  
(Expressed in Canadian dollars)**

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**2. BASIS OF PRESENTATION (cont'd...)****(g) Adoption of New Accounting Standards (cont'd...)**

The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognized in equity as an adjustment to the opening balance of retained earnings/deficit for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at June 1, 2019, the date of initial application of IFRS 16. At June 1, 2019, the Company has also elected to measure the right-of-use assets at the amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On initial application of IFRS 16, the Company recognized right-of-use assets and lease obligations of \$451,213. The weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 12%.

The Company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The following table reconciles the Company's operating lease obligations at May 31, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at June 1, 2019.

Operating lease commitments at May 31, 2019	\$	588,270
Discounted using the incremental borrowing rate at June 1, 2019		(137,057)
Lease liabilities recognized at June 1, 2019	\$	451,213

**3. ACQUISITION OF ASSETS**

On March 12, 2019, the Company entered into a Securities Exchange Agreement with Isracann Holdings Inc. which resulted in the acquisition of all the issued and outstanding shares of Isracann Holdings, a company incorporated in British Columbia, Canada. The transaction closed on October 7, 2019. Prior to closing the Company converted a \$85,000 of principal under a convertible loan agreement, dated July 16, 2019 with Cannisra Holdings Ltd ("Cannisra"), which was converted into 99.9% ownership of the outstanding shares of Cannisra by the Company. Collectively, the acquisition of the shares of Isracann Holdings and Cannisra form the "Acquisition" as a combined transaction that was undertaken in substance to acquire the assets in Israel.

The Acquisition results in the Company having control of Cannisra and Isracann Holdings, including Isracann Holding's subsidiaries Agritech Ltd., Isracann Development Ltd. and Isracann Administrative Services Ltd.

On January 27, 2019, Cannisra signed an agreement (the "Farm Agreement") with a licensed farmer (the "Farmer") in Nir, Israel to engage in greenhouse cannabis cultivation (the "Venture"). The Venture, Cannisra Crops Ltd ("CCL"), is set up so that the Farmer holds a 26% ownership interest and Cannisra holds a 74% ownership interest. Pursuant to the Farm Agreement, Cannisra and the Farmer will mutually establish a cannabis commercial operation.

## **ISRACANN BIOSCIENCES INC.**

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### **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2019 (Unaudited) (Expressed in Canadian dollars)**

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#### **3. ASSET ACQUISITION (cont'd...)**

Isracann Holdings and Cannisra do not meet the criteria of a business under IFRS 3 Business Combinations, and therefore the Company has accounted for the Acquisition as the acquisition of assets using IFRS guidance for asset acquisitions, under which identifiable assets acquired and liabilities assumed are measured at carrying amounts based on their relative fair values at the acquisition date, no goodwill is recognized, acquisition-related costs are capitalized, and deferred tax assets or liabilities arising from the assets acquired and liabilities assumed are not recognized as a result of the initial recognition exemption.

As consideration for all of common shares issued and outstanding of Isracann Holdings, the Company issued 46,680,000 common shares with an estimated fair value of \$0.51 per share for a total amount of \$23,806,800. The fair value of the shares issued was estimated based on the closing share price of the non-brokered private placement financing completed by the Company on September 30, 2019 at a post-consolidation price of \$0.51 per share.

Included in 46,680,000 shares are 2,300,000 shares issued by Isracann Holdings to eligible finders. As consideration for acquisition-related services, including legal costs and finder's fees, the Company paid \$281,374 and issued 2,300,000 common shares with a fair value of \$0.51, determined based on the fair value of the services received. The Company is also required to issue 500,000 shares upon commencement of the construction of its proposed cannabis growth facility in Israel. The Company has not recognized the value of this share payment at October 7, 2019 or November 30, 2019 as it has not been made yet, and the timing of the issuance of these shares is a future event that cannot be reasonably determined yet.

As part of the Acquisition, the Company agreed to replace Isracann Holdings' existing share-based payment awards, resulting in additional purchase consideration with an estimated fair value of \$14,206,440, comprised of \$13,046,040 in estimated fair value of 28,000,000 share purchase warrants and \$1,160,400 in estimated fair value of 4,000,000 stock options. The average fair value of 4,000,000 Isracann Holdings stock options of \$0.29 per option was determined using the Black-Scholes option pricing model with the following weighted average assumptions: a 1.58 year expected life; share price at the grant date of \$0.51 (post share consolidation by Isracann Biosciences); an exercise price of \$0.51 (post share consolidation by Isracann Biosciences); 124% volatility; risk free interest rate of 1.45%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the options. The average fair value of 28,000,000 Isracann warrants of \$0.47 was determined using the Black-Scholes option pricing model with the following weighted average assumptions: a 1.46 year expected life; share price at the grant date of \$0.51 (post share consolidation by Isracann Biosciences); an exercise price of \$0.05 (post share consolidation by Isracann Biosciences); 124% volatility; risk free interest rate of 1.45%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the warrants.

In May, April and August 2019, Isracann Biosciences entered into three bridge loan agreements with Isracann Holdings in the aggregate principal amount of \$650,000. The loans were forgiven upon closing of the Acquisition and included in the total consideration paid by Isracann Biosciences.

Prior to closing the Company advanced \$85,000 under a convertible loan agreement to Cannisra, which was converted into 99.9% ownership of the outstanding shares of Cannisra by the Company. Upon receipt of \$85,000, Cannisra transferred this amount to the Farmer in order for the Farmer to pay for certain outstanding obligations for the permits. \$85,000 paid to the Farmer was included in the total consideration paid by Isracann Biosciences.

As a result of the Acquisition, the Company obtained binding agreements over cannabis cultivation license rights in the form of preliminary breeding and cultivation license, design permits and related intangible assets. The Company allocated \$39,158,233 to these assets upon completion of Acquisition. The Company is currently in the process of transferring of the cannabis license rights held by the Farmer to Cannisra Crops Ltd.

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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2019 (Unaudited)****(Expressed in Canadian dollars)****3. ASSET ACQUISITION (cont'd...)****Total consideration paid**

48,680,000 common shares at \$0.51 per share	\$	23,806,800
Replacement share-based payment awards		14,206,477
Forgiven loan to Isracann Holdings		650,000
Conversion of loan into shares of Cannisra		85,000
Transaction costs payable in cash		281,374

**Net purchase consideration paid** \$ **39,029,651****Fair value of identifiable net assets acquired**

Cash	\$	34,242
Sales tax recoverable		21,505
Licenses, permits and intangible assets		39,158,233
Accounts payable and accrued liabilities		(184,329)

**Net assets acquired** \$ **39,029,651****4. LICENSES, PERMITS AND INTANGIBLE ASSETS**

The Company records acquired license rights, permits and intangible assets at cost less accumulated amortization and accumulated impairment losses. Initial acquisition cost is based on the fair value of the consideration paid or payable, and is amortized on a straight-line basis over the estimated useful life of the underlying license rights, permits and intangible assets. In the Acquisition (see Note 3), the Company acquired licenses, permits and intangible assets which are in a preliminary phase and require additional approvals by Israeli regulators in order to complete the construction of the cannabis cultivation facilities and commence cannabis operations. Once the Company receives final licenses and permits amortization starts to be recorded over estimated useful lives.

The Company reviews the estimated useful lives and carrying values of its intangible assets as part of its periodic assessment for impairment of non-financial assets. Any carrying amounts for license rights, technology and intangible assets do not necessarily reflect present or future value and the ultimate amounts recoverable will be dependent upon the successful commercialization of products based on these underlying license rights, technology and intangible assets.

**Cost**

Balance, May 31, 2019	\$	-
Acquired on the acquisition of assets (Note 3)		39,158,233
Additions		-
<b>Balance, November 30, 2019</b>	<b>\$</b>	<b><u>39,158,233</u></b>

**Accumulated Amortization**

Balance, May 31, 2019	\$	-
Additions		-
<b>Balance, November 30, 2019</b>	<b>\$</b>	<b><u>-</u></b>

**Net book value, November 30, 2019** \$ **39,158,233**

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On March 6, April 17, and September 5, 2019, the Company entered into bridge loan agreements with Isracann (Note 3) in the principal amounts of \$200,000, \$300,000 and \$150,000 respectively. The bridge loans were secured by a promissory note. The Acquisition closed on October 7, 2019 and in accordance with the terms of the agreement, the bridge loans bore no interest and were forgiven upon closing.

**6. 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 located in Electric City, Washington State. The cost of the acquisition was \$388,440 (USD\$300,000). 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.

**7. PROPERTY AND EQUIPMENT**

	<b>Furniture and Data Centre Equipment</b>	<b>Bitcoin Mining and Computer Equipment</b>	<b>Building and Leasehold Improvements</b>	<b>Right-of- use Assets</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)	10,838	-	(4,107)	451,214	(1,071)	456,874
<b>As at November 30, 2019</b>	<b>791,752</b>	<b>3,231,687</b>	<b>3,434,803</b>	<b>451,214</b>	<b>59,800</b>	<b>7,969,256</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	78,637	3,065	32,909	48,344	-	162,955
<b>As at November 30, 2019</b>	<b>489,370</b>	<b>952,556</b>	<b>150,294</b>	<b>48,344</b>	<b>-</b>	<b>1,640,564</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 November 30, 2019</b>	<b>-</b>	<b>2,275,981</b>	<b>2,865,397</b>	<b>-</b>	<b>-</b>	<b>5,141,378</b>
Net Book Value as at May 31, 2019	\$ 370,181	\$ 6,215	\$ 456,128	\$ -	\$ 60,871	\$ 893,395
<b>Net Book Value as at November 30, 2019</b>	<b>\$ 302,382</b>	<b>\$ 3,150</b>	<b>\$ 419,112</b>	<b>\$ 402,870</b>	<b>\$ 59,800</b>	<b>\$ 1,187,314</b>

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

The Company assessed the indicators of possible impairment to Bitcoin mining equipment and building and leasehold improvement in MKH, collectively the cash-generating unit (“CGU”) the six month period ended November 30, 2018, and resolved that impairment indicators exist. Due to the decline in the market value of servers and weakening prices of cryptocurrencies along with the corresponding decline in projected cash flows over the life of the assets within the CGU, an impairment test was completed. During the six month period ended November 30, 2018, an impairment loss of \$3,976,429 was recognized.

**8. SHARE CAPITAL**

On October 7, 2019, Isracann Biosciences completed a share consolidation of three old Isracann Biosciences Shares for one new Isracann Biosciences Share. All figures herein are presented on a post-consolidation basis.

**Authorized share capital**

Unlimited common shares, without par value

**Share issuances**

As at November 30, 2019: 109,509,494 (May 31, 2019 – 38,314,888) shares were issued and outstanding.

**Shares issued during the six months ended November 30, 2019**

On January 14, 2019, the Company collected subscriptions receipts towards the first tranche of the non-brokered offering and issued 30,588,236 units at \$0.17 per unit (pre-consolidated basis) for a total amount of \$5,200,000. Each unit was comprised of one common share of the Company and one purchase warrant. Each warrant entitles the holder thereof to acquire one common share of the Company at \$0.34 for two years following the date of issuance. On May 21, 2019, the Company collected subscriptions receipts towards the second tranche of the non-brokered offering consisting of 28,883,596 units at \$0.17 per unit (pre-consolidated basis) for a total amount of \$4,910,211. Each unit was comprised of one common share of the Company and one purchase warrant. Each warrant entitles the holder thereof to acquire one common share of the Company at \$0.34 for two years following the date of issuance. The gross proceeds of the two tranches were deposited with Computershare Trust Company of Canada, acting as escrow agent. On September 30, 2019, the escrow release conditions were met and Computershare Trust Company of Canada released the gross proceeds to the Company. The subscription receipts of Isracann Biosciences collected in the total amount of \$10,110,211 were converted to 59,471,832 units of Isracann Biosciences (each a, “Unit”) at \$0.17, on a post-consolidated basis. Each Unit consists of one pre-consolidated Isracann Biosciences Share and one pre-consolidated Isracann Biosciences Share purchase warrant. These securities comprising of the Units were consolidated to 19,823,944 Units at \$0.51 per unit prior to closing of the Acquisition.

Total share issuance costs were \$362,715 in cash and \$172,797 in broker’s warrants. The average fair value of broker’s warrants of \$0.25 per warrant was determined using the Black-Scholes option pricing model with the following weighted average assumptions: a 2 year expected life; share price at the grant date of \$0.51 (post share consolidation by Isracann Biosciences); an exercise price of \$1.02 (post share consolidation by Isracann Biosciences); 124% volatility; risk free interest rate of 1.45%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the warrants.

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As part of the Acquisition described in Note 3, on October 7, 2019, the Company issued 46,680,000 common shares was estimated at approximately \$23,806,800 using the share price of \$0.51 (post share consolidation) of the concurrent private placement completed by Isracann Biosciences (see above).

**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 November 30, 2019 and year ended May 31, 2019 is summarized below:

	<b>NUMBER OF WARRANTS</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>
Balance, May 31, 2018	29,691,230	1.20
Cancelled	(4,762)	2.25
Balance, May 31, 2019	29,686,468	1.20
Issued	48,518,216	0.46
Exercised	(4,690,662)	0.24
Expired	(11,020,448)	0.24
Balance, November 30, 2019	<b>62,493,574</b>	<b>0.86</b>

The following table summarizes the warrants outstanding and exercisable at November 30, 2019:

<b>NUMBER OF WARRANTS</b>	<b>EXERCISE PRICE</b>	<b>EXPIRY DATE</b>
13,835,644	\$0.51	January 13, 2020
139,714	\$0.51	January 13, 2020
20,518,216	\$1.02	September 30, 2021
28,000,000	\$0.05	February 1, 2021
<b>62,493,574</b>		

As at November 30, 2019, the weighted average remaining contractual life of all warrants outstanding was 1.17 years (May 31, 2019 – 0.47 years).

During the six-month period ended November 30, 2019, the Company received the CSE approval for the repricing of 13,835,644 warrants expiring on December 13, 2019, and 139,714 warrants expiring on December 15, 2019 (the "Warrants"). The exercise price changed from \$2.25 to \$0.51 per share. The Company has also extended the expiry date of the Warrants to January 13, 2020. The repricing and extension of the life of the warrants had no impact on the Company's financial statements as these warrants were originally issued as part of the units and the Company took as election under IAS 32 *Financial Instruments: Presentation* to keep these warrants at the value originally recorded to the share capital and reserves upon their issuance and not make any additional reclassifications.

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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.

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 six-month period ended November 30, 2019, stock-based compensation in the amount of \$715,194 (November 30, 2019 - \$982,554) was recognized on the issuance and vesting of stock options to directors, officers and consultants.

The continuity of stock options for the period ended November 30, 2019 and year ended May 31, 2019 is summarized below:

	<b>NUMBER OF OPTIONS</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>
Balance, May 31, 2018	1,525,000	\$2.82
Cancelled	(891,667)	\$3.00
Forfeited	(500,000)	\$3.00
Granted	2,041,667	\$1.20
<b>Balance, May 31, 2019</b>	<b>2,175,000</b>	<b>\$1.17</b>
Granted	7,500,000	\$0.51
<b>Balance, November 30, 2019</b>	<b>9,675,000</b>	<b>\$0.66</b>

The following table summarizes the stock options outstanding and exercisable at November 30, 2019:

<b>NUMBER OF OPTIONS</b>		<b>EXERCISE PRICE</b>	<b>EXPIRY DATE</b>
<b>OUTSTANDING</b>	<b>EXERCISABLE</b>		
133,333	133,333	\$0.75	September 5, 2024
2,041,667	1,791,667	\$1.20	June 21, 2023
4,000,000	4,000,000	\$0.51	March 29, 2021
3,500,000	3,100,000	\$0.51	November 7, 2021
<b>9,675,000</b>	<b>9,025,000</b>		

As at November 30, 2019, the weighted average remaining contractual life of all options outstanding was 2.07 years (May 31, 2019 – 4.13 years).

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

	<b>SIX MONTH PERIOD ENDED NOVEMBER 30,</b>	
	<b>2019</b>	<b>2018</b>
Dividend yield	Nil	Nil
Annualized volatility	<b>123 - 124%</b>	128%
Risk-free interest rate	<b>1.45 - 1.65%</b>	1.97%
Expected life	<b>1.33 - 2 years</b>	5 years

**9. RELATED PARTY TRANSACTIONS****Key Management Compensation and Related Party Transactions and Balances**

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 PERIOD ENDED NOVEMBER 30,</b>		<b>SIX MONTH PERIOD ENDED NOVEMBER 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Consulting fees	<b>111,500</b>	100,736	<b>141,500</b>	238,342
Professional fees	<b>(501)</b>	-	<b>11,865</b>	-

- b) Key management compensation:

	<b>THREE MONTH PERIOD ENDED NOVEMBER 30,</b>		<b>SIX MONTH PERIOD ENDED NOVEMBER 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Management/consulting and short-term benefits	<b>106,251</b>	100,736	<b>153,365</b>	238,342
Share-based payments	<b>599,494</b>	132,568	<b>621,329</b>	782,747

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- c) Prepaid expenses - As of November 30, 2019, a company with a director in common was advanced \$2,660 (May 31, 2019 - \$5,250) for rent and consulting fees.
- d) Accounts payable - As of November 30, 2019, former directors and companies with a director in common were owed \$146,180 (May 31, 2019 - \$104,528).
- e) Office facilities and administrative services – As of November 30, 2019, the Company incurred \$21,500 (November 30, 2018 – \$18,000) in office facilities and administrative services expenditures related to a former director of the Company.
- f) Property operating expenses – As of November 30, 2019, the Company incurred \$21,500 (November 30, 2018 – \$18,000) in property operating expenses related to a former director of the Company.

**10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

As at November 30, 2019, the Company's financial instruments are comprised of cash, accounts receivable, and 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 November 30, 2019, the fair value of 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 November 30, 2019 and May 31, 2019, the Company's aging of trade receivables was as follows:

	Current	31 – 60 days	61 – 90 days	91 days +	Total
<b>November 30, 2019</b>	<b>\$ 7,644</b>	<b>\$ 868</b>	\$ -	\$ -	<b>\$ 8,512</b>
May 31, 2019	\$ 16,419	\$ -	\$ -	\$ -	\$ 16,419

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**10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)***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 November 30, 2019, the Company had a cash balance of \$8,517,423 (May 31, 2019 - \$4,177,863) to settle current liabilities of \$1,657,657 (May 31, 2019 - \$1,039,331).

As at November 30, 2019, the Company has the following financial obligations:

	<u>&lt; 1 year</u>	<u>1 – 3 years</u>	<u>Total</u>
Accounts payable	\$ 749,960	\$ -	\$ 749,960

*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.

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 November 30, 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.

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The following table presents the lease obligations of the Company:

	November 30, 2019	May 31, 2019
Beginning balance	\$ -	\$ -
Additions	451,213	-
Payment of lease obligations	(61,922)	-
Interest expense on lease obligations	21,046	-
Foreign exchange	-	-
	<u>\$ 410,337</u>	<u>\$ -</u>
Current portion	\$ 119,149	\$ -
Non-current portion	\$ 291,188	\$ -

The following table presents an analysis of the contractual undiscounted cash flows from lease obligations:

	November 30, 2019
Maturity analysis – contractual undiscounted cash flows	
Less than one year	\$ 134,167
One to five years	391,180
More than five years	-
Total undiscounted lease obligations as at November 30, 2019	<u>525,347</u>

The Company's leases are on facilities used for co-location and rental activities.

**12. SUBSEQUENT EVENTS**

Subsequent to November 30, 2019, the Company:

- Issued 13,570,734 common shares for the exercise of 13,570,734 warrants at \$0.05 per share for total proceeds of \$678,537, which resulted in a transfer from share-reserve to share capital of 6,323,012.
- Issued 1,791,053 common shares for the exercise of 1,791,053 warrants at \$0.51 per share for the total proceeds of \$913,427 which resulted in a transfer from share-based payment reserve to share capital of \$3,498,377.
- Issued 56,000 shares and 56,000 broker warrants for a finder's fee for the \$0.17 (pre-consolidation) subscription receipt financing that were erroneously omitted at the time of closing the financing