BioHarvest Ltd.

Consolidated Financial Statements
For the Year Ended December 31, 2019
Expressed in U.S. dollars in thousands

BIOHARVEST LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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Independent Auditors' Report
To the Shareholders of BioHarvest Ltd.

Opinion

We have audited the accompanying consolidated financial statements of BioHarvest Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019, and 2018 and its related consolidated statements of comprehensive loss, changes in shareholders' deficit and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, and 2018 of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standard Board (IASB).

Company Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Israel, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1B to the consolidated financial statements, the Company incurred losses from operations since its inception, and as of December 31, 2019, the Company has an accumulated deficit of $41,455 thousand. In addition, the Company generated negative cash flows from operating activities of $2,383 thousand and loss in the amount of $5,310 thousand for the year ended December 31, 2019, As stated in Note 1B, these events and conditions, along with other matters as set forth in Note 1B, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management and directors are responsible for the other information. The other information comprises the information contained in the Management’s Discussion and Analysis for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor’s report thereon.

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

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the management and directors for the Consolidated Financial Statement

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

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

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

Auditor's responsibilities for the Audit of the Consolidated Financial Statement

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

Tel-Aviv, Israel

April 29, 2020

Ziv haft

Certified Public Accountants (Isr.)

BDO Member Firm

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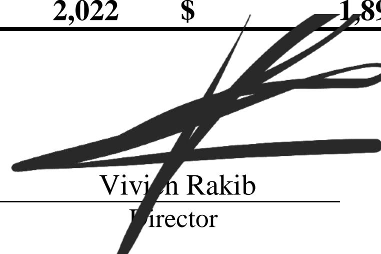
BioHarvest Ltd.

Consolidated Statements of Financial Position
U.S. dollars in thousands

	Notes	December 31, 2019	December 31, 2018
Assets			
Current			
Cash and cash equivalents		$ 911	$ 1,199
Trade accounts receivable		38	44
Other accounts receivable		243	201
Inventory	4	51	131
Total current assets		1,243	1,575
Non-current			
Restricted cash		128	118
Property and equipment, net	5	651	201
Total non-current assets		779	319
Total assets		$ 2,022	$ 1,894
Liabilities			
Current liabilities			
Current portion of long term debt		$ 61	$ 102
Trade accounts payable		260	284
Other accounts payable	10	717	429
Convertible loans	8	23,412	19,082
Derivative liability - Warrants	9	734	1,254
Accrued liabilities	21c	1,284	824
Total current liabilities		26,468	21,975
Non-current liabilities			
Long term debt	7	-	57
Related parties	16	7	22
Lease liability	6	320	-
Liability to Agricultural Research Organization	2o	2,197	2,529
Total non-current liabilities		2,524	2,608
Shareholders' equity			
Share capital	11	39	39
Accumulated deficit		(41,455)	(37,185)
Additional paid-in capital		10,882	10,821
Deficit attributable to owners of the Company		(30,534)	(26,325)
Non-controlling interest		3,564	3,636
Total Shareholders' deficit		(26,970)	(22,689)
Total Liabilities and Shareholders' deficit		$ 2,022	$ 1,894

Nature of Operations and Going Concern (Note 1)
Commitments and Contingencies (Note 21)
Subsequent events (Note 24)



April 29, 2020	Zaki Rakib	Vivian Rakib
Date of approval of the financial statements	Director	Director

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

BioHarvest Ltd.

Consolidated Statement of Comprehensive Loss

U.S. dollars in thousands

	Notes	Year ended December 31, 2019	2018
Revenues	17	$ **218**	$ 449
Cost of revenues		**189**	463
Gross profit (loss)		**29**	(14)
Operating expenses			
Research and development expenses	18	**1,346**	553
Selling and marketing expenses		**145**	484
Listing expenses	1a	**-**	2,784
General and administrative expenses	19	**848**	973
Total operating expenses		**(2,339)**	(4,794)
Loss from operations		**(2,310)**	(4,808)
Finance expenses, net	20	**2,999**	2,664
Net loss before tax		**(5,310)**	(7,472)
Tax expenses		-	-
Net loss and comprehensive loss		$ **(5,310)**	$ (7,472)
Attributable to:			
Owners of the Company		$ **(4,270)**	$ (6,673)
Non-controlling interests		$ **(1,040)**	$ (799)

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

BioHarvest Ltd.

Consolidated Statements of Changes in shareholders' deficit

U.S. dollars in thousands, except per share data

		Ordinary shares		**Ordinary A shares**		**Preferred A-1 shares**		**Preferred A-2 shares**		**Additional paid-in capital**	**Accumulated deficit**	**Non-controlling interests**	**Total**
	Note	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**				
Balance, January 1, 2018		9,431,638	25	1	-*)	4,006,542	$ 9	2,227,043	$ 5	$ 10,791	$ (30,512)	$ -	$ (19,682)
Transaction with Non-controlling interest	**1a**	-	-	-	-	-	-	-	-	-	-	4,193	4,193
Share based compensation in subsidiary	**13**									-	-	242	242
Share based compensation	**13**	-	-	-	-	-	-	-	-	27	-	-	27
Issuance of warrants		-	-	-	-	-	-	-	-	3	-	-	3
Comprehensive loss for the year		-	-	-	-	-	-	-	-	-	(6,673)	(799)	(7,472)
Balance, December 31, 2018		**9,431,638**	**$ 25**	**1**	**$ -*)**	**4,006,542**	**$ 9**	**2,227,043**	**$ 5**	**$ 10,821**	**$ (37,185)**	**$ 3,636**	**$ (22,689)**
Share based compensation in subsidiary	**13**	-	-	-	-	-	-	-	-	-	-	440	440
Issuance of shares in subsidiary		-	-	-	-	-	-	-	-	42	-	528	570
Share based compensation	**13**	-	-	-	-	-	-	-	-	16	-	-	16
Issuance of warrants		-	-	-	-	-	-	-	-	3	-	-	3
Comprehensive loss for the year		-	-	-	-	-	-	-	-	-	(4,270)	(1,040)	(5,130)
Balance, December 31, 2019		**9,431,638**	**$ 25**	**1**	**$ -*)**	**4,006,542**	**$ 9**	**2,227,043**	**$ 5**	**$ 10,882**	**$ (41,455)**	**$ 3,564**	**$ (26,970)**

*) Represent an amount lower than $1 thousand.

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

BioHarvest Ltd.

Consolidated Statement of Cash Flows
U.S. dollars in thousands

	Note	Year ended December 31, 2019	2018
Cash flows from operating activities:			
Net loss for the year		$ (5,310)	$ (7,472)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization		324	70
Listing expenses	1a	-	2,732
Interest on convertible loans		1,682	1,404
Fair value adjustments of convertible loans		767	-
Fair value adjustments of derivative liability - warrants		(692)	625
Re-assessment of Agricultural Research Organization liability		(838)	(914)
Interest on liability for Agricultural Research Organization		506	574
Finance expense		80	7
Issuance of warrants		3	3
Share based compensation		456	269
Changes in operations assets and liabilities:			
Change in Inventory		80	40
Change in trade receivables		6	34
Change in other receivables		(42)	62
Changes in trade payables and accrued expenses		630	(193)
Cash from operations		**(2,348)**	(2,759)
Interest paid		(35)	-
Net cash used in operating activities		**(2,383)**	(2,759)
Cash flow from investing activities:			
Purchase of property and equipment		(34)	(53)
Net cash used in investing activities		**(34)**	(53)
Cash flow from financing activities			
Repayment of long term loan		(71)	(76)
Repayment of short term loan		(34)	-
Payments of lease liabilities		(246)	-
Loan from related party		-	22
Short term credit from bank		-	(135)
Net proceeds from issuance of a unit of securities in subsidiary		742	-
Transaction with Non-controlling interest	1a	-	2,227
Convertible loans received		1,731	1,973
Net cash provided by financing activities		**2,122**	4,011
Exchange rate differences on cash and cash equivalents		**7**	(7)
Increase (decrease) in cash and cash equivalents		**(295)**	1,199
Cash and cash equivalents at the beginning of the year		**1,199**	7
Cash at the end of the year		$ **911**	$ 1,199

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

NOTE 1- General:

a. Description of business and formation of the Company:

BioHarvest Ltd. (the "Company" or "BioHarvest"), an Israeli company, incorporated in January 2007 and commenced its activity in July 2007. The Company's official address is 3 Haim Pekris, Rehovot 7670210, Israel. In July 2014, the Company established a wholly owned subsidiary in the United States, BioHarvest Inc. (the "US subsidiary").

The Company is engaged in research and development in the food industry. BioHarvest produces red grape powder to be consumed as food that contributes red wine benefits, excluding the sugar and alcohol that is found in wine. The Company has conducted various clinical trials, in order to verify the effect of the powder. BioHarvest aims to market to end user via online marketing platform.

On February 26, 2018, the Company established a wholly owned subsidiary in Israel, Dolarin Ltd. ("Dolarin").

On September 27, 2018 the Company completed a transaction with CannaVCell Sciences Inc. ("CannaVCell") (the "Transaction"). CannaVCell issued 48,337,496 shares to BioHarvest in consideration for 100% of the issued share capital of Dolarin (1,000,000 shares). Following the transaction BioHarvest held 50.5% of the issued share capital of CannaVCell. As a result of the Transaction, Dolarin became a wholly-owned subsidiary of CannaVCell. Completion of the Transaction resulted in a Reverse Takeover and change of business for CannaVCell (the "RTO") and BioHarvest became the ultimate parent of CannaVCell and Dolarin.

The Transaction does not qualify as a business combination under IFRS 3, as CannaVCell does not meet the definition of a business. Therefore, The Company accounted for the transaction as an equity transaction with the Non-controlling interest without loss of control, in which it sold ownership interests in Dolarin in exchange for CannaVcell's net assets. The company recorded listing expenses of the shares of Dolarin in an amount of $2,732

Cash acquired	$	2,227
Accounts payable and accrued liabilities		(137)
Derivative liability - Warrants		(629)
Non-controlling interest		(4,193)
Listing expenses	$	**(2,732)**

CannaVCell's principal business is to develop and produce cannabis active ingredients based on BioHarvest's biopharming technology.

CannaVCell obtained final approval for the Transaction from the Exchange on October 2, 2018 and is traded on the Canadian Securities Exchange under the symbol "CNVC".

On December 5, 2019, CannaVCell established a wholly owned subsidiary in Israel, BioFarming Ltd. (hereafter "BioFarming" or "Merger Sub") see note 24a.

As December 31, 2019 BioHarvest held 46.8% of the issued share capital of CannaVCell. See also note 12.

These consolidated financial statements were authorized for issue by the Board of Directors on April 29, 2020.

NOTE 1- General (continued):

b. Going concern:

Since inception through December 31, 2019, the Company has generated a cumulative loss of $ 41,455. In addition, the Company generated negative cash flows from operating activities of $ 2,383, and loss in the amount of $ 5,310 for the year ended December 31, 2019. As of the date of the issuance of these financial statements, the Company has not yet commenced generating significant sales, and therefore depends on fundraising from new and existing investors to finance its activities.

These factors raise material uncertainties that cast substantial doubt about the Company's ability to continue as a going concern.

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 2- Significant accounting policies:

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

a. Basis of preparation:

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB). The financial statements have been prepared under the historical cost convention, except for the embedded derivative that is measured at fair value through profit or loss.

b. Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets,

liabilities, revenue and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates used by the Company that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in Note 3.

b. Functional and presentation currency:

The functional currency of the Company and its subsidiaries and the presentation currency of the consolidated financial statements is the U.S. dollar.

The Company and its subsidiaries determine the functional currency of each entity, and this currency is used to separately measure each Company entity's financial position and operating results.

NOTE 2- Significant accounting policies (continued):

c. Foreign currency transactions:

Transactions denominated in foreign currency (other than the functional currency) are recognized on initial recognition at the exchange rate as of the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate as of that date. Exchange differences are recognized in profit or loss. Non-monetary assets and liabilities measured at cost are translated at the exchange rate as of the date of the transaction.

d. New IFRSs adopted during the period:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases and related interpretations. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

See note 2 (u) for the accounting policy applied

e. Basis of consolidation:

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group owns less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over the investee, including: the contractual arrangement with the other vote holders of the investee, the Group's potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative translation differences recorded in equity. (ii) Recognizes the consideration received at fair value,

NOTE 2- Significant accounting policies (continued):

e. Basis of consolidation (continued):

recognizes any investment retained at fair value of and recognizes any surplus or deficit in profit or loss. (iii) reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities.

All inter–company balances, and transactions, have been eliminated upon consolidation.

f. Cash equivalents:

Cash equivalents are considered by the Company to be highly-liquid investments, including, short-term deposits with banks and the maturity of which do not exceed three months at the time of deposit and which are not restricted.

g. Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

Cost of inventories is determined as follows:

Raw materials - at cost of purchase using the "first-in, first-out" method.

Work in progress and finished goods - on the basis of average costs including materials, labor and other direct and indirect manufacturing costs based on normal capacity.

Purchased merchandise and products - using the weighted average cost method or using the "first-in, first-out" method.

h. Deferred taxation:

The Company accounts for income taxes in accordance with the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and losses carried forward.

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be

recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the date of enactment or substantive enactment.

Current income taxes are recognized for the estimated income taxes payable for the current year.

Deferred income tax assets are recognized to the extent that management believes that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

NOTE 2- Significant accounting policies (continued):

i. Impairment of non-financial assets:

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of the non-financial asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to dispose), the asset is written down and impairment charge is recognized accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the smallest Company of assets to which the asset belongs that generates cash inflow that are largely independent of cash inflows from other assets).

During the years, ended December 31, 2019 and 2018 no impairment charges of non-financial assets were recognized.

j. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

1. In the principal market for the asset or liability, or

2. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

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

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

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

Classification of fair value hierarchy

The financial instruments presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - Inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

NOTE 2- Significant accounting policies (continued):

k. Financial instruments:

1. Financial assets:

The Company classifies its financial assets into one of the following categories, based on the business model for managing the financial asset and its contractual cash flow characteristics. The Company's accounting policy for the relevant category is as follows:

Amortized cost

These assets arise principally from the provision of goods and services to customers (e.g. trade accounts receivable), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

2. Financial Liabilities:

The Company classifies its financial liabilities into one of the following categories:

Amortized cost

These liabilities include Accounts payable, accrued liabilities, bank loans, convertible loans and Liability to Agricultural Research Organization, initially recognized at fair value plus transaction costs that are directly attributable to the issue of the instrument, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss (convertible loan) and derivatives (Derivative liability – Warrants).

Financial liabilities at fair value through profit or loss are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Derivatives, including separated embedded derivatives, are classified as held for trading.

3. Issue of a unit of securities:

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

NOTE 2- Significant accounting policies (continued):

k. Financial instruments (continued):

4. Derivative liability - Warrants:

Warrants that are denominated in a currency other than the functional currency of the Company are considered a derivative liability and are classified as financial liabilities at fair value through profit or loss. Accordingly, these warrants are measured at fair value and the changes in fair value in each reporting period are recognized in profit or loss.

5. De-recognition:

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

6. Impairment of financial assets:

The Company assesses at the end of each reporting period whether there is any objective evidence of impairment of financial assets carried at amortized cost. For December 31, 2019 and 2018, there is no evidence of impairment.

m. Operating Segment:

An operating segment is a component of the Company that meets the following three criteria:

1. Is engaged in business activities from which it may earn revenues and incur expenses;
2. Whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about allocated resources to the segment and assess its performance; and
3. For which separate financial information is available.

Segment revenue and segment costs include items that are attributable to the relevant segments and items that can be allocated to segments. Items that cannot be allocated to segments include the Company's financial income and expenses and income tax.

n. Share-based compensation:

Where equity settled share options are awarded to employees, the fair value of the options calculated at the grant date is based on the share fair price is charged to the statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting

conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense charged is not adjusted for failure to achieve a market vesting condition.

NOTE 2- Significant accounting policies (continued):

o. Research and Development:

Research Costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset.
- How the asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.

During the years ended December 2019 and 2018 the Company did not meet these criteria, therefore all research and development expenditures were expensed as incurred in the following criteria therefore all research and development recognized as expenses.

p. Liability to Agricultural Research Organization:

Grants received from the Agricultural Research Organization - Volcany Center (henceforth "ARO") as support for a research and development projects include an obligation to pay back royalties conditional on future sales arising from the project. Grants received from ARO, are accounted for as forgivable

loans, in accordance with IAS 20 (Revised), pursuant to the provisions of IFRS 9. Accordingly, when the liability for the loan is first recognized, it is measured at fair value using a discount rate that reflects a market rate

of interest. The difference between the amount of the grants received and the fair value of the liability is accounted for upon recognition of the liability as a grant and recognized in profit or loss as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method.

Changes in the projected cash flows are discounted using the original effective interest and recorded in profit or loss in accordance with the provisions of IFRS 9.

At the end of each reporting period, the Company evaluates, based on its best estimate of future sales, whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid. If there is such reasonable assurance, the appropriate amount of the liability is derecognized and recorded in profit or loss as an adjustment of research and development expenses. If the estimate of future sales indicates that there is no such reasonable assurance, the appropriate amount of the liability that reflects expected future royalty payments is recognized with a corresponding adjustment to research and development expenses.

NOTE 2- Significant accounting policies (continued):

q. Property, plant and equipment:

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

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

The cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which the item is located.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Computers and others	33
Furniture and office equipment	7
Leasehold improvements	10-30
Laboratory equipment	10-15

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the expected life of the improvement.

p. Property, plant and equipment (continued):

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

r. Revenue recognition:

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services

Revenues from the sale of goods are recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery of the equipment.

Volume rebates give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred.

To estimate the variable consideration to which it will be entitled, the Company applied the ‘most likely amount method’ for contracts with a single volume threshold and the ‘expected value method’ for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract. The Company includes in the transaction price amounts of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. At the end of each reporting period, the Company updates its estimates of variable consideration.

NOTE 2- Significant accounting policies (continued):

r. Revenue recognition (continued):

Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

s. Severance pay:

The Company's liability for its Israeli employees regarding severance pay is pursuant to Section 14 of the Israeli severance pay law ("Section 14"). All the Israeli employees are included under this section, and entitled only to monthly deposits, at a rate of 8.33% of their monthly salary, made in the employee's name with insurance companies. Payments in accordance with Section 14 release the Company from any future severance payments in respect of those employees. The fund is made available to the employee at the time the employer-employee relationship is terminated, regardless of cause of termination. The severance pay liabilities and deposits under Section 14 are not reflected in the balance sheet as the severance pay risks have been irrevocably transferred to the severance funds.

t. Provisions:

The Company has recognized provisions for liabilities of uncertain timing or amount including those for onerous leases, warranty claims, leasehold dilapidations and legal disputes. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability. In the case of leasehold dilapidations, the provision takes into account the potential that the properties in question may be sublet for some or all of the remaining lease term.

u. Leases:

The accounting policy applied until December 31, 2018 in regards of financial instruments is as follows:

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

The accounting policy applied as from January 01, 2019 in regards of financial instruments is as follows:

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

The main impact of adopting the standard early is the elimination of existing requirement on lessees to classify leases as operating lease (off-balance sheet) or finance lease, and they are now required to use a single accounting model for all leases, similarly to how finance leases are currently accounted for. In agreements where the Group is the Lessee, it applies IFRS 16 using a single accounting model under which it recognizes a right-of-use asset and a lease liability upon inception of the lease contract. It does so for all leases in which the Group has right to control the use of identified assets for a period of time in exchange for consideration. Accordingly, the Group recognizes depreciation and depreciation charges on the right-of-use asset and tests the need for recognizing impairment of the right-of-use asset in compliance with IAS 36 "Impairment of Assets", and also recognizes finance expenses in relation to a lease liability. Therefore,

NOTE 2- Significant accounting policies (continued):

u. Leases (continued):

beginning on first-time adoption, rent expenses relating to properties rented under operating leases, are now presented as assets that are depreciated through depreciation and depreciation assets.

For all leases, the Group applied the transitional provisions such that it initially recognized a liability at the commencement day at an amount equal to the present value of the lease payments during the lease, discounted using the effective interest rate as of that date, and concurrently recognized a right-of-use asset at an amount identical to the liability. As a result, the standard had no impact on equity and the retained earnings of the Group as at initial application.

As part of the initial application, the Group elected to adopt the following practical expedients, as permitted by the standard:

a. The use of a single discount rate for a portfolio of leases with similar characteristics;

b. Not separating lease and non-lease components of a contract, and instead accounting for all components as a single lease;

c. Excluding initial direct costs from the measurement of the right-of-use asset as at initial application;

d. Use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;

The following new significant accounting policy for agreements in which the Group is the lessee was applied beginning on January 1, 2019 following initial application of the standard:

Right-of-use assets:

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets incurred, and lease payments made at or before the commencement date less any lease incentives received. The cost of right-of-use assets comprises the amount of the initial measurement of the lease liability; lease payments made at or before the commencement date less any lease incentives received; and initial direct costs incurred. The recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The right-of-use assets are presented within property, plant and equipment.

Lease liabilities:

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

NOTE 2- Significant accounting policies (continued):

u. Leases (continued):

Lease term:

The term of a lease is determined as the non-cancellable period for which a lessee has the right to use an underlying asset, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Depreciation of a right-of-use asset:

Subsequent to the inception of the lease, a right-of-use asset is measured using the cost method, less accumulated depreciation and accumulated impairment losses, and is adjusted for re-measurements of the lease liability. Depreciation is measured using the straight-line method over the useful life or contractual lease term, whichever ends earlier.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will recognize the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset, until the carrying amount is reduced to zero.

The following table presents a summary of the impact on the interim consolidated statement of financial position as of January 1, 2019, assuming that the previous accounting policy of the Group for leases would have continued in that period.

The impact on the *interim consolidated statement of financial position as of January 1, 2019 (Unaudited):*

	Under previous policy	The change	Under IFRS 16
	U.S. $ in thousands		
Non-current assets:			
Property, plant and equipment	201	747	948
Current liabilities:			
Other accounts payable	387	241	628
Non-current liabilities:			
Lease liabilities	-	506	506

Upon initial adoption, the Group measured the right-of-use assets in an amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. There was no impact on retained earnings upon initial adoption of the standard.

The following is a reconciliation of the Company's liabilities in respect of operating leases disclosed in the financial statements as of December 31, 2018, discounted at the incremental interest rate on the initial implementation date and lease commitments recognized on January 1, 2019 (Unaudited):

NOTE 2- Significant accounting policies (continued):

u. Leases (continued):

	U.S. $ in thousands
Operating lease commitments as of December 31, 2018	813
Weighted average incremental borrowing rate as of January 1, 2019	5.4%
Discounted operating lease commitments	747
Lease liabilities as of January 1, 2019	747

NOTE 3- Critical accounting estimates and judgements:

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

a. Share based compensation

The Company has a share based compensation plan for its employees. The estimated fair value of share options is determined using the binomial model and Black Scholes model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors, as well as internal estimates (see also Note 13).

b. Derivative liability - Warrants

The Company uses the Black-Scholes option-pricing model to estimate fair value at each reporting date. The key assumptions used in the model are the expected future volatility in the price of the Company's shares and the expected life of the warrants.

c. Liability to Agricultural Research Organization

The Company measured the Liability to Agricultural Research Organization, each period, based on discounted cash flows derived from Company's future anticipated revenues. The discount rate reflects the market rate.

NOTE 4- Inventories

	December 31,	
	2019	**2018**
Raw materials	41	51
Finished goods	10	80
	51	131

NOTE 5– Property, Plant and Equipment, net:

	Laboratory equipment	Furniture and office equipment	Leasehold improvements	Computers	Right of use assets	Other	Total
Cost:							
As of January 1, 2018	680	72	159	60	-	16	987
Additions	11	7	30	5	-	-	53
As of January 1, 2019	691	79	189	65	-	16	1,040
Recognition of initial application of IFRS 16	-	-	-	-	747	-	-
Additions	25	-	3	6	-	-	34
Disposals					(7)		
As of December 31, 2019	716	79	192	71	740	16	1,074
Accumulated depreciation:							
As of January 1, 2018	515	28	159	54	-	13	769
Additions	61	5	-	3	-	1	70
As of January 1, 2019	576	33	159	57	-	14	839
Additions	42	6	12	4	261	1	63
Disposals					(2)		
As of December 31, 2019	618	39	171	61	259	15	902
Net Book Value:							
As of December 31, 2019	98	40	21	10	481	1	651
As of December 31, 2018	115	46	30	8	-	2	201

NOTE 6 – Leases:

a) The Company's lease arrangement for office space in Rehovot, Israel ended in April 2019. In April 2019 the company signed a one-year new agreement for the same office space with an extension option for two more years. The annual lease commitment is approximately $241 plus common area maintenance charges.

b) The Company's leases several cars. The lease period is for 3 years. The annual lease commitment is approximately $40.

Lease liabilities	**Year ended December 31**
	2019
Interest expense	35
Total cash outflow for leases	246
Additions to right-of-use assets	-

December 31, 2019	**Less than one year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**> 4 years**	**Total**
Lease liabilities	253	249	83	-	-	585

NOTE 7 - Bank Loans:

The Company has the following loans outstanding as of December 31, 2019 and 2018:

	Effective interest rate	**Maturity date**	**December 31, 2019**	**December 31, 2018**
	%			
Current interest-bearing loans and borrowings:				
Current portion of Long Term debt			61	70
Bank loans			-	32
Total current interest-bearing loans and borrowings			61	102
Non-current interest-bearing loans and borrowings:				
Other non-current loans:				
$ 125 bank loan	3.7%	August 2020	-	20
$ 202 bank loan	3.23%	October 2020	-	37
Total non-current interest-bearing loans and borrowings			-	57
Total interest-bearing loans and borrowings			61	159

NOTE 8 - Convertible Notes:

	December 31,	
	2019	**2018**
Convertible loans at amortized cost	22,370	19,082
Convertible loans at fair value through profit or loss	1,042	-
	23,412	**19,082**

Convertible loans at amortized cost

a. In July 2013, the Company signed an agreement ("the Agreement") with some of its shareholders (the "Lenders"), according to which the Company authorized the sale and issuance to the Lenders of convertible promissory notes ("the First Loan") with aggregate principal amount of $ 3,000 ("Principal Loan Amount"). The First Loan was denominated in USD and bears accumulated interest at the rate of 8% per annum. The First Loan shall become due and payable upon the expiration of 36 months after the Initial Closing date (the "Maturity Date").

In the event that prior to the Maturity Date, the Company shall issue and sell its shares for at least $ 5,000 (the "Next Equity Round"), the Principal Loan Amount shall automatically be converted into the same class of shares issued by the Company upon the consummation of such equity round, with a discount ranging between 20-30%, depending on the time of the consummation of the Next Equity Round. In the event that prior to the Maturity Date the Company shall consummate an equity investment in the Company which does not qualify as a Next Equity Round, at the decision of the Lenders holding at least 75% of the then outstanding Principal Loan Amount (the "Majority of the Lenders") the Principal Loan Amount shall be converted into shares of the same class as shall be issued by the Company upon the consummation of such transaction, with a discount as mentioned above. In the event that prior to the Maturity Date the Company shall consummate an M&A event (the "M&A Event"), the Principal Loan Amount shall be converted into such number of the most senior class of equity securities of the Company then outstanding, at the lower of (i) $ 15.00 per share; or (ii) price per share representing 75% of the per-share value at such M&A Event.

In the event that the Company shall not consummate a Next Equity Round prior to the Maturity Date, then Majority of the Lenders shall have the option to require the Company to either: (i) repay to the Lenders the entire outstanding Principal Loan Amount and any accrued Interest; (ii) convert the Principal Loan Amount into the most senior class of equity securities of the Company then outstanding, at price per share equal to the most recent per share price paid for such most senior securities.; or (iii) extend the Maturity Date.

b. In March and July 2014, the Company signed an agreement ("the Agreement") with some of its shareholders (the "Lenders"), according to which the Company authorized the sale and issuance to the Lenders of convertible promissory notes ("the Second Loan") with aggregate principal amount of $ 1,500 and $3,000, respectively ("Principal Loan Amount"). The Second Loan were denominated in USD and bear accumulated interest at the rate of 8% per annum. The Second Loan shall become due and payable upon the expiration of 24 months after the Initial Closing date (the "Maturity Date"). The Second Loan bear the same terms and conditions as the First Loan.

c. On March 23, 2017 (the "Effective Date"), the Company signed an agreement with its existing lenders ("the Lenders"), according to which July 2013, March and July 2014, convertible promissory notes will be consolidated and extended into a new convertible loan ("the First Consolidated Loan"), with an aggregate principal amount of $ 7,750 ("Principal Amount"). The First Consolidated Loan shall become due and payable upon the expiration of 18 months after the Effective Date (“Maturity Date”) and bear accumulated interest of 8% per annum.

NOTE 8 - Convertible Notes (continued):

According to the First Consolidated Loan agreement, the Company shall immediately repay the entire loan amount upon the earlier to occur of (i) the consummation of an IPO or M&A event; (ii) upon event of default as define in the agreement; or (iii) Maturity Date.

In the event that prior to the Maturity Date, the Company consummates a transaction on which the Company issues and sells its shares for at least $ 3,000, the Principal Amount then outstanding, shall be automatically converted into the same class of shares as shall be issued by the Company in the transaction with a discount of 30% of the price per share.

In the event of consummation of a transaction on which the Company issues and sells its shares for less than $ 3,000, then each lender at his sole discretion shall be entitled to convert its portion of the aggregate principle amount into the same class of shares issued by the Company upon the consummation of such equity round, with a discount of 30%.

d. In addition, during July and October 2013, and February 2014, the Company assigned notes to two of the Company's advisors, on behalf of services given, in an amount of $ 310. These notes bear the same terms and conditions as the First Consolidated Loan.

e. In October 2015, the majority of the Company's shareholders signed an option agreement with Asiv Holdings, a Company holding 30% of a public Company 'Direct Capital' ("PPM"), according to which Asiv Holding will receive an option for a period of 4 months (“the Option Period”) to purchase all the Company's shares in consideration of 90% of the shares of 'Direct Capital' (“the Merger Transaction”). In consideration for the option, the Company will receive from Asiv Holding a convertible loan in the amount of $ 500. During the Option Period, the majority of the Company's shareholders are obligated to fund the Company through a convertible loan in the amount of $ 700, which will be converted to common shares upon the completion of the Merger Transaction. Additionally, upon the completion of the Merger Transaction, all the Company's convertible loans will be converted into shares and the loan from Asiv Holding will be returned. In the case the option is not exercised, the loan will be converted to 1% of the Company's shares.
In the beginning of 2016, and since the Merger Transaction was not consummated, the agreement with Asiv Holdings was amended, following which the loan was repaid.

f. In October 2015, the Company signed an agreement ("the Agreement") with some of its shareholders ("the Lenders"), according to which the Company authorized the sale and issuance to the Lenders of convertible promissory notes ("the Third Loan") with aggregate principal amount of $ 96 ("Principal Loan Amount").

In the event that prior to the Maturity Date, the Company shall consummate a transaction in which the Company will issue and sell its shares for equity financing purposes ("the Transaction") the Lenders are entitled to covert the Principal Loan Amount into shares of the same class as shall be issued by the Company upon the consummation of such Transaction, at the same price per share and on the same terms and conditions and having the same rights, preferences, restrictions, qualifications and limitations as the shares issued in the Transaction.

In the event that prior to the Maturity Date, the Company shall consummate a transaction by and between the Company and/or its shareholders and Direct Capital (“Direct Capital”), pursuant to which, among other things, Direct Capital shall issue its shares to the shareholders of the Company immediately prior to such transaction, in exchange for their outstanding shares of the Company, whether such transaction will be structured as a merger, share purchase, share exchange or any similar transaction , the Principal Amount shall, automatically be converted into Units, at the same price per Unit and on the same terms and conditions and having the same rights,

NOTE 8 - Convertible Notes (continued):

preferences, restrictions, qualifications and limitations as the Units issued by the Company under the PPM.

g. In November 2015, the Company signed an agreement ("the Agreement") with some of its shareholders ("the Lenders"), according to which the Company authorized the sale and issuance to the Lenders of convertible promissory notes ("the Fourth Loan") with aggregate principal amount of $ 700 ("Principal Loan Amount").

The loans were denominated in USD and bear accumulated interest at the rate of 8% per annum. The loans shall become due and payable upon the expiration of 12 months after the Initial Closing date (the "Maturity Date").

In the event that prior to the Maturity Date, the Company shall issue and sell its shares for at least $ 5,000 (the "Next Equity Round"), or In the event that prior to the Maturity Date the Company shall consummate an M&A event (the "M&A Event"), the Lenders have the option to convert the Principal Loan Amount into units comprised of: (a) one Ordinary Share of the Company NIS 0.01 par value each and (b) one warrant to purchase one Ordinary Share of the Company at an exercise price of US$ 4.00 per share (together, the "Units"), at the same price per Unit and on the same terms and conditions and having the same rights, preferences, restrictions, qualifications and limitations as the Units issued by the Company under the PPM.

In the event that prior to the Maturity Date, the Company shall consummate a transaction by and between the Company and/or its shareholders and Direct Capital ("Direct Capital"), pursuant to which, among other things, Direct Capital shall issue its shares to the shareholders of the Company immediately prior to such transaction, in exchange for their outstanding shares of the Company, whether such transaction will be structured as a merger, share purchase, share exchange or any similar transaction , the Principal Amount shall automatically be converted into Units, at the same price per Unit and on the same terms and conditions and having the same rights, preferences, restrictions, qualifications and limitations as the Units issued by the Company under the PPM.

In the event that the Company shall not consummate a Next Equity Round prior to the Maturity Date, then Majority of the Lenders shall have the option to require the Company to either: (i) repay to the Lenders the entire outstanding Principal Loan Amount and any accrued Interest; (ii) convert the Principal Loan Amount into the most senior class of equity securities of the Company then outstanding, at price per share equal to the most recent per share price paid for such most senior securities; or (iii) extend the Maturity Date.

h. On November 16, 2017 ("Effective Date"), the Company signed an agreement with its existing lenders ("the Lenders"), according to which October and November 2015 convertible promissory notes will be consolidated and extended into a new convertible loan ("the Second Consolidated Loan"), with an aggregate principal amount of $ 2,500 ("Principal Amount").

The Second Consolidated Loan shall become due and payable upon the expiration of 18 months after the Effective Date ("Maturity Date") and bear accumulated interest of 8% per annum. According to the Second Consolidated Loan agreement the Company shall immediately repay the entire loan amount upon the earlier to occur of (i) consummation of a transaction on which the Company issues and sells its shares for at least $ 3,000 ("the Transaction") (ii) the consummation of an IPO or M&A event, (iii) upon event of default as defined in the agreement; or (iv) Maturity Date.

NOTE 8 - Convertible Notes (continued):

In the event that prior to the Maturity Date the Company consummates a Transaction the Lenders are entitled to convert the loan into the same class of shares issued by the Company upon the consummation of the Transaction, with a discount of 30% of the price per share.

Moreover, according to the Second Consolidated Loan agreement, each lender extending his portion of the Principal Amount by January 30, 2018, will be granted by the Company warrants to purchase Ordinary Shares of the Company at an exercise price ("Exercise Price") equal to $ 1.34708 per

share. The number of warrants that will be issued equals to the particular Principal Loan Amount divided by the Exercise Price, multiplied by four. The warrants are exercisable until August 2020, regardless on whether the lender has converted his portion of the Principal Amount or not.

i. In February 2016, the Company signed a bridge loan agreement with some of its shareholders (the "Lenders"), according to which the Company will issue the Lenders a convertible promissory note up to an aggregate principal amount of $ 1,500. According to the Third Consolidated Loan agreement, the Company shall immediately repay the entire loan amount upon the earlier to occur of (i) consummation of a transaction on which the Company issues and sells its shares for at least $ 3,000 ("the Transaction") (ii) the consummation of an IPO or M&A event, (iii) upon event of default as defined in the agreement; or (iv) Maturity Date.

   In the event that prior to the Maturity Date the Company consummates a Transaction, the Lenders are entitled to convert the loan into the same class of shares issued by the Company upon the consummation of the Transaction, with a discount of 30% of the price per share.

j. On March 23, 2017 ("Effective Date"), the Company signed an agreement with its existing lenders ("the Lenders"), according to which February 2016, convertible promissory notes will be consolidated and extended into a new convertible loan ("the Third Consolidated Loan"), with an aggregate principal amount of $ 2,500 ("Principal Amount"). The Third Consolidated Loan shall become due and payable upon the expiration of 18 months after the Effective Date ("Maturity Date") and bear accumulated interest of 8% per annum.

   According to the Third Consolidated Loan agreement, the Company shall immediately repay the entire loan amount upon the earlier to occur of (i) consummation of a transaction on which the Company issues and sells its shares for at least $ 3,000 ("the Transaction") (ii) the consummation of an IPO or M&A event, (iii) upon event of default as defined in the agreement; or (iv) Maturity Date.

   In the event that prior to the Maturity Date the Company consummates a Transaction, the Lenders are entitled to convert the loan into the same class of shares issued by the Company upon the consummation of the Transaction, with a discount of 30% of the price per share.

k. In May 2018, the Company signed an agreement ("the Agreement") with some of its shareholders (the "Lenders"), according to which the Company authorized the sale and issuance to the Lenders of convertible loan (the "Loan") with aggregate principal amount of $ 2,500 ("Principal Loan Amount"). The Loan was denominated in USD and bears accumulated interest at the rate of 12% per annum. The Loan shall become due and payable upon the expiration of 18 months after the Initial Closing date (the "Maturity Date").

   In the event that prior to the Maturity Date, the Company shall: (i) issue and sell its shares for at least $ 3,000 (the "Next Equity Round") or (ii) consummate an IPO or M&A, the Principal Loan Amount shall automatically be converted into the same class of shares issued by the Company upon the consummation event, with a discount of 30% from the price share paid for the shares issued in such event.

NOTE 8 - Convertible Notes (continued):

Moreover, according to the Loan agreement, each lender will be granted by the Company warrants to purchase Ordinary Shares of the Company at an exercise price ("Exercise Price") equal to $1.34708 per share. The number of warrants that will be issued equals to the particular Principal Loan Amount divided by the Exercise Price. The warrants are exercisable until August 2020, regardless on whether the lender has converted his portion of the Principal Amount or not.

l. On April 30, 2019, the Company signed certain amendments to the Convertible Loans Agreement as follows:

- The Maturity Date for repayment of all the Convertible Notes has been revised to November 22, 2019.
- All convertible loans will bare an accumulated interest rate of 12% per annum, starting from September 23, 2018.
- The Next Equity Round was reduced to $2,000.
- In the event of the Next Equity Round prior to the Maturity Date, the principle amount owing, without taking into account any accrued interest, shall automatically be converted into shares of the Company upon at a discount to the share price of the Next Equity round, ranging between 39%-58%, depending on the time of the issuance of the particular Convertible Loan.
- Upon conversion of the Convertible Notes, the Lenders will receive a total of 23,368,009 warrants, to purchase 23,368,009 shares at an exercisable price of $1.347 per share. The warrants expire on August 23, 2020.

The Convertible Loans are denominated in US dollars and convertible into common shares and warrants based on the principal and interest balance. The conversion rate to common shares is variable as it depends both on the share price prevailing at the specific date of the equity round and the related discount on the share price.

Therefore, the convertible loans are hybrid instruments that include a debt host contract and an embedded derivative liability. The Company has bifurcated the embedded derivative and accounted for it at fair value through profit or loss. The debt host contract was initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

The Company has evaluated the modified terms of the loans following their modification on 23, March 2017, and concluded that they are substantially different from a qualitative standpoint. Therefore, the modification was accounted for as derecognition of the original liability and the recognition of a new liability at fair value, with differences recognized in profit or loss. According to the modified terms of the loans, the conversion rate is fixed, and therefore the modified convertible loans do not include an embedded derivative.

The Company has evaluated the modified terms of the loans following their modification on 30, April 2019, and concluded that they are not substantially different. Therefore, the Company recalculated the amortized cost of convertible loans as the present value of the estimated future contractual cash flows that are discounted at the convertible loans original effective interest rate, with differences recognized in profit or loss.

The fair value of the Convertible Notes, including the increase thereto, has been determined using a combination of the Black- Scholes option pricing model for the equity conversion portion and the discounted cash flow method for the loan portion. The following assumptions were used to determine the fair value of the Convertible Notes:

	May 22, 2018
Risk- free interest rate	2.34%
Expected volatility	50%

NOTE 8 - Convertible Notes (continued):

Convertible loans at fair value through profit or loss

In December 2019, the Company signed an agreement ("the Agreement") with some of its shareholders (the "Lenders"), according to which the Company authorized the sale and issuance to the Lenders of convertible loan (the "Loan") with aggregate principal amount of $ 3,000 ("Principal Loan Amount"). The Loan was denominated in USD and bears accumulated interest at the rate of 8% per annum. The Loan shall become due and payable upon the expiration of 12 months after the Initial Closing date (the "Maturity Date").

In the event that prior to the Maturity Date, the Company shall: (i) issue and sell its shares (the "Next Equity Round") or (ii) consummate an IPO or M&A, the Principal Loan Amount shall automatically be converted into the same class of shares issued by the Company upon the consummation event, with a discount of 10% from the price share paid for the shares issued in such event.

Notwithstanding the above, if a merger transaction with Canna-V-Cell takes place before December 1st, 2020, the Principal Loan amount will be converted into shares of BioHarvest such that after the merger, the number of shares in the merged entity will equal the Principal Amount divided by 92% of the share price of Canna-V-Cell used for the merger itself.

The Convertible Notes are denominated in USD and bear accumulated interest at the rate of between 8%-12% per annum.

The Convertible Loan is denominated in US dollars and convertible into common shares and warrants based on the principal and interest balance. The conversion rate to common shares is variable as it depends both on the share price prevailing at the specific date of the equity round and the related discount on the share price.

Therefore, the convertible loan is a hybrid instruments that include a debt host contract and an embedded derivative liability.

As the instrument contains an embedded derivative, it has been designated at fair value through profit or loss on initial recognition and as such the embedded conversion feature is not separated. All transaction costs related to financial instruments designated as fair value through profit or loss are expensed as incurred.

The component of fair value changes relating to the company’s own credit risk is recognized in other comprehensive income. Amounts recorded in OCI related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realized. Fair value changes relating to market risk are recognized in profit or loss. There was no change in the company company’s own credit risk since the issuance of the convertible notes.

The fair value of the Convertible Note has been determined using the Black- Scholes model. The following assumptions were used to determine the fair value of the Convertible Notes:

	December 31, 2019	December 1, 2019
Risk- free interest rate	2.43%	2.41%
Expected volatility	50%	50%

NOTE 9 - Derivative liability - Warrants:

Following the Transaction, on September 27, 2018, CannaVCell issued 20,890,148 warrants to third party shareholders and brokers ("CNVC Warrants"). The CNVC Warrants entitles the holder to purchase one common share of the Company at an exercise price of CAD$0.17 per share and expire on September 26, 2020. As the CNVC warrants have an exercise price denominated in Canadian dollars which differs from the Company's functional currency they do not qualify for classification as equity. These CNVC Warrants have been classified as warrant liability and are recorded initially at the fair value and revalued at each reporting date, using the Black-Scholes valuation method. Changes in fair value for each period are included in comprehensive profit and loss for the period.

The Company uses the Black-Scholes option pricing model to estimate fair value of the warrant liability at the end of each reporting period. The following assumptions were used to estimate the fair value of the derivative warrant liability on:

	December 31, 2019	December 31, 2018	September 27, 2018
Expected life of warrants	0.74 years	1.74 years	2 years
Expected volatility	100%	100%	100%
Expected dividend yield	0%	0%	0%
Risk-free interest rate	1.69%	1.85%	1.8%
Market price of Common share	CAD 0.15	CAD 0.185	CAD 0.11
Exercise price	CAD 0.23	CAD 0.23	CAD 0.23

The Company considers expected volatility of the shares of comparable companies and its common shares in estimating its future stock price volatility. The risk-free interest rate for the expected life of the options was based on the yield available on Canadian government benchmark bonds with an approximate equivalent remaining term at the time of the grant. The expected life is based on the contractual term.

NOTE 10 – Other payables:

	December 31,	
	2019	2018
Institutions	132	98
Lease liability	229	-
Employees	212	197
Repayment checks	143	131
Others	1	3
	717	429

NOTE 11 - Share Capital:

	Number of shares	
	December 31, 2019 Issued and outstanding	**December 31, 2018 Issued and outstanding**
Ordinary shares of NIS 0.01 par value	9,431,638	9,431,638
Ordinary A share of NIS 0.01 par value	1	1
Preferred A-1 share of NIS 0.01 par value	4,006,542	4,006,542
Preferred A-2 share of NIS 0.01 par value	2,227,043	2,227,043

Ordinary Shares:

Ordinary Shares confer upon their holders, the right to receive notice of, and to participate in, all general meetings of the Company, to vote in such meetings, to receive dividends, and to participate in the distribution of the surplus assets of the Company in the event of liquidation of the Company. Ordinary A share shall have no voting rights in the Company. The Ordinary A share confers upon its holder the right to receive the Ordinary A Share Amount plus 8% per annum in the event of liquidation of the Company (the "Ordinary A share Payment").

Preferred Shares:

The Preferred shareholders (A-1, A-2) are entitled to the same rights conferred by the Ordinary Shares in addition to the following rights:

Liquidation preference - In the event (i) of any dissolution, liquidation or winding-up of the Company; (ii) of any bankruptcy, insolvency or reorganization proceeding under any bankruptcy or insolvency or similar law, whether voluntary or involuntary, is properly commenced against the Company and is not annulled or revoked within 90 days or is commenced by the Company, or (iii) a receiver or liquidator is appointed to all or substantially all of the Company's assets and such appointment is not withdrawn or vacated within 90 days, then the assets or proceeds available for distribution to the Shareholders shall be distributed among the Shareholders according to the order of preference.

The holders of the Preferred A-1 and A-2 shares shall be entitled to receive prior to and in preference to any payment to any of the holders of any other classes of shares of the Company, an amount of $ 1.23335 per share with respect to Preferred A-1 and an amount of $ 1.49497 per share with respect to Preferred A-2, plus 8% per annum of such amount from the date of issuance compounded annually.

After full payment to the holders of the Preferred and Ordinary A shares, the entire remaining assets and funds of the Company legally available for distribution (the "Remaining Distributable Proceeds"), if any, shall be distributed among all shareholders of the Company on a pro rata as if converted to Ordinary Shares basis.

In the event of that the Remaining Distributable Proceeds fall below twice the Ordinary A Payment, then 50% of such Remaining Distributable Proceeds shall be distributed to the Ordinary A Share as described above and 50% shall be distributed among all shareholders of the Company on a pro rata as if converted to Ordinary Shares basis.

Conversion rights **-** the holders of the Preferred A-1 and A-2 are entitled, at their option, to convert the Preferred A-1 and A-2 shares into ordinary shares by dividing the applicable original issue price for such series

NOTE 11 - Share Capital (continued):

of preferred shares by the conversion price. The initial conversion price shall be the respective original issue price for such share. The conversion price shall be subject to adjustment in accordance with any Recapitalization Event and pursuant to the other adjustment provisions defined in the Articles of Association. The preferred shares also include a down-round feature, which reduces the conversion price if the Company issues any equity securities at a price lower than the applicable conversion price, as defined in the Articles. The Company classified the convertible preferred shares as equity because the issuance of new shares, which is the trigger for the down-round feature, is within the Company's control. The shares shall be automatically converted upon an initial public offering or a written resolution of at least 51% of the preferred A-1 and A-2 shares holders.

During the years ended December 31, 2019 and 2018 there were no issuance of ordinary or preferred shares.

NOTE 12 - Issue of a unit of securities in subsidiary

On September 23, 2019, CannaVCell completed a private placement financing (the "Private Placement Financing") by issuing 6,666,667 units at a price of CAD 0.15 (approximately USD 0.11) per unit for gross proceeds of CAD 1,000,000 (approximately USD 755) (CAD 985,000 after payment of commissions and finder's fees). Each unit consists of one common share of CannaVCell and one non-transferable share purchase warrant. Each warrant will be exercisable to purchase an additional common share at a price of CAD 0.30 (approximately USD 0.23) share for a period of two years from closing of the Private Placement Financing ("CNVC Warrants").

Following the private placement, BioHarvest holds 46.82% (including vested warrants - 49.05%) of the issued share capital of CannaVcell. However, the Company has concluded that it retained control over CannaVcell, as it has the right to appoint the majority of the board members. Appointment of board members is carried out at the general meeting, in which the Company has a clear majority, considering the wide dispersion of holdings of the other vote holders.

NOTE 13 - Share based compensation:

a. Options granted under the Company's 2008 Israeli Share Option Plan ("Plan") are exercisable in accordance with the terms of the Plan, within 10 years from the date of grant, against payment of an exercise price.

b. At September 27, 2018, CannaVCell granted 9,655,105 options to the CEO and to the employees of CannaVCell, the options exercisable to ordinary shares on 1:1 basis and with a vesting schedule of 12.5% in each quarter over the period of two years.

   The options are valued using the Black Scholes option valuation methodology based on the following data and assumptions: Share price - CAD 0.11 (representing approximately $0.09), Exercise price - CAD 0.20 (representing approximately $0.15), Expected volatility - 100%, Risk-free interest rate – 2.3%, and expected average life of options 5.6 year.

NOTE 13 - Share based compensation (continued):

c. A summary of activity of options granted to purchase the Company's Shares under the Company's share option is as follows:

	For the year ended December 31, 2019		2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding as beginning of year	10,386,453	0.21	731,348	0.99
Changes during the period:				
Granted	750,000	0.15	9,655,105	0.15
Options outstanding at end of year (*)	11,136,453	0.21	10,386,453	0.21
Options exercisable at year-end	9,887,166		4,011,498	
Weighted-average fair value of options Granted during the year	$ 65		$ 710	

(*) The options outstanding at December 31, 2019 had a weighted-average contractual life of 4.3 years (December 31, 2018: 5.3 years).

NOTE 14 - Income tax:

a. Tax rates:

i) The Company received final tax assessments in Israel through tax year 2017.

ii) The corporate tax rate in Israel is 23% for 2018 and 2019.

iii) The Law for the Amendment to the Income Tax Ordinance, New Version, 1961 (hereafter – "the Ordinance") (Amendment 216 to the Ordinance) (hereafter – "the amendment") was published in the official gazette in January 2016; the said law stipulated the reduction of the rate of corporate tax from 26.5% to 25% commencing January 1, 2016. On December 2016, the Israeli government published the Economic Efficiency Law (2016) (legislative amendments to accomplish budget goals for the years 2017 and 2018) According to which, in 2017 the tax rate will decrease by 1% and starting 2018 by 2%; so that the tax rate will be 24% in 2017 and 23% in 2018 and onwards.

b. Net operating losses carry forward:

As of December 31, 2019, the Company has estimated carry forward tax losses of approximately $41 million, which may be carried forward and offset against taxable income for an indefinite period in the future. Deferred tax asset on the Company's losses was not recognized since it is not probable that taxable profit will be available in the foreseen future.

c. Reconciliation of effective tax rate:

The adjustments for the difference between the actual tax charge for the year and the standard rate of corporation tax in Israel applied to profits for the year are as follows:

For the Year ended December 31,	**2019**	**2018**
Loss before income tax	(5,310)	(7,526)
Tax computed at the corporate rate in Israel – 23%	(1,221)	(1,731)
losses for which no deferred tax asset is recognized	1,221	1,731
Total income tax expense	**-**	**-**

NOTE 15 - Financial instruments and risk management

The Company is exposed to a variety of financial risks, which results from its financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Company's financial performance and position. The Company's financial instruments are its cash, trade and other receivables, trade payables and other liabilities. The main purpose of these financial instruments is to raise finance for the Company's operation. The Company actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from the Company's financial instruments are mainly currency risk and liquidity risk. The Company has no interest rate risk as the balances exposure to interest is minimal. The risk management policies employed by the Company to manage these risks discussed below.

a. Foreign currency risk:

Foreign exchange risk arises when the Company enters into transactions denominated in a currency other than its functional currency. The Company is exposed to currency risk to the extent that there is a mismatch between the currency in which it denominated and the respective functional currency of the company.

The currencies in which some transactions are primarily denominated are CAD, US dollars and NIS.

The company's policy is not to enter into any economic hedging transactions to neutralize the effects of foreign currency fluctuations. The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	As of December 31, 2019			
Assets	**US dollar**	**CAD**	**NIS**	**Total**
Cash And cash equivalents	807	51	53	911
Restricted cash	30	-	98	128
Trade receivables	-	-	38	38
Other accounts receivables	87	-	156	243
	924	51	345	1,320
Liabilities				
Bank loans	-	-	61	61
Convertible loans	23,412	-	-	23,412
Accounts payable and accrued liabilities	1,366	-	176	1,542
Liability to Agricultural Research Organization	2,197	-	-	2,197
	26,975	-	237	27,212

	As of December 31, 2018			
Assets	**US dollar**	**CAD**	**NIS**	**Total**
Cash And cash equivalents	92	822	282	1,196
Restricted cash	30	-	88	118
Trade receivables	-	-	44	44
Other accounts receivables	11	-	190	201
	133	822	604	1,559
Liabilities				
Bank loans	-	-	159	159
Convertible loans	19,082	-	-	19,082
Accounts payable and accrued liabilities	873	18	247	1,138
Liability to Agricultural Research Organization	2,529	-	-	2,529
	22,484	18	406	22,908

NOTE 15 - Financial instruments and risk management (continued):

a. Foreign currency risk (continued):

Analysis:
A 5% appreciation of the USD against the following currencies would have increased (decreased) equity and the income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

For a 5% depreciation of the USD against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	December 31, 2019	December 31, 2018
Linked to CAD	51	804
	5%	5%
	(3)	(40)
Linked to NIS	45	198
	5%	5%
	(5)	(10)

* Represents an amount lower than 1 thousand.

b. Liquidity risks:

Liquidity risk is the risk that arises when the maturity of assets and the maturity of liabilities do not match. An unmatched position potentially enhances profitability but can also increase the risk of loss. The Company has procedures with the object of minimizing such loss by maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities. The Company has no material obligation beyond one year (the liabilities for governmental institutes depends on achieving future revenues) and has a positive working capital and cash in bank to finance its working capital in the near future. The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the repayment forecast of the management of the company.

December 31, 2019 :

	Amortized cost						
	Book value	**Less than one year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**> 5 years**	**Total**
Liability to Agricultural Research Organization	(2,197)	(60)	(217)	(464)	(841)	(3,917)	(5,498)
Bank Loans	(61)	(61)	-	-	-	-	(61)
Convertible loans	(23,412)	(23,412)	-	-	-	-	(23,412)
Accounts payable and accrued liabilities	(1,366)	(1,366)	-	-	-	-	(1,366)
Total	**(26,793)**	**(24,656)**	**(217)**	**(464)**	**(841)**	**(3,917)**	**(30,094)**

NOTE 15 - Financial instruments and risk management (continued):

b. Liquidity risks (continued):

December 31, 2018 :	Amortized cost						
	Book value	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	> 5 years	Total
Liability to Agricultural Research Organization	(2,529)	(34)	(265)	(526)	(881)	(4,764)	(6,470)
Bank Loans	(159)	(102)	(57)	-	-	-	(159)
Convertible loans	(19,082)	(19,082)	-	-	-	-	(19,082)
Accounts payable and accrued liabilities	(1,053)	(1,053)	-	-	-	-	(1,053)
Total	**(22,823)**	**(20,271)**	**(322)**	**(526)**	**(881)**	**(4,764)**	**(26,764)**

c. Fair value of financial assets and liabilities:

The fair value of the Company's current financial assets and liabilities approximates their carrying amounts as their maturity date is less than 1 year and they do not bear a fixed interest rate.
The following table summarizes the information about the level 3 fair value measurements:

Item	Fair value	Valuation technique	Fair value hierarchy level	Significant unobservable inputs
Derivative liability - Warrants	1,254	Black-Scholes model	level 3	Volatility of firm's assets returns*
Convertible loan	1,042	Black-Scholes model	level 3	Volatility of firm's assets returns**

* A change in the volatility measure by 5% results in a change of +/- $63 of the fair value

** A change in the volatility measure by 5% results in a change of +/- $34 of the fair value

Reconciliation of fair value measurements that are categorized within Level 3 of the fair value hierarchy:

Derivative liability - Warrants	**2019**	**2018**
Balance as of January 31	1,254	-
Amounts recognized on transaction with CannaVCell (note 1a)	-	629
Issuance of Warrants	172	-
Loss (income) recognized in Profit or loss:	(692)	625
Balance as of December 31	**734**	**1,254**

Convertible loan	**2019**	**2018**
Balance as of January 31	-	-
Issuance of Convertible loan	1,036	-
Loss (income) recognized in Profit or loss:	6	-
Balance as of December 31	**1,042**	**-**

NOTE 15 - Financial instruments and risk management (continued)

d. Financial instruments not measured at fair value:

Financial instruments not measured at fair value includes cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, Liability to Agricultural Research Organization and convertible loans.
Due to their short-term nature, the carrying value of cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables approximates their fair value.

The fair value of Liability to Agricultural Research Organization for December 31, 2019 and December 31, 2018 is not materially different to the carrying amount, since the interest rate used in the initial recognition is close to current market rates.

e. Capital management:

Company's objective is to maintain, as much as possible, a stable capital structure. In the opinion of Company's management its current capital structure is stable. Consistent with others in the industry, the Company monitors capital, including others also, on the basis of the gearing ratio.
This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

NOTE 16 - Related Party Transactions:

a. Related parties including the Company's CEO and the Chairman of the BOD as well as Directors.

b. The Company's CEO, is entitled to receive $12.5 per month.

Related party transactions:

For the year and period ended December,	**2019**	**2018**
Compensation of key management personnel of the Company:		
Management fees for the CEO (b)	225	170
Share base payment to CEO (note 13)	178	108
Other related party transactions:		
Share base payment (note 13)	262	133
Investment in Convertibles loans	150	562
Loan from related party	-	22

Balance with related parties:

For the year and period ended December,	**2019**	**2018**
Convertible loans	11,850	9,979
Loan from related party	7	22

NOTE 17 - Revenues:

The Company derives its revenue from the transfer of goods at a point in time. See note 22 regarding geographical and segment information.

NOTE 18 – Research and development expenses:

	For the year ended December 31,	
	2019	2018
Wage and salaries	1,007	490
Professional fees	14	14
Patents	16	28
Depreciation	301	-
Others	8	21
	1,346	553

NOTE 19 - General and administration expenses:

	For the year ended December 31,	
	2019	2018
Wages and salaries	182	456
Share based compensation	457	268
Office maintenance, communication and Travel	416	343
Professional fees and legal	281	308
Related party (Note 16)	225	170
Re-assessment Liability to Agricultural Research Organization (Note 2o)	(838)	(914)
Write- off Intangible assets	-	13
Rent	-	195
Depreciation	-	68
Warrants	3	3
Finder fees	19	-
Merger expenses	70	-
Other	33	63
	848	973

NOTE 20 - Financial expenses, Net:

	For the year ended December 31,	
	2019	2018
Interest on convertible loans	1,683	1,408
Fair value adjustments of convertible loans	767	-
Loss (income) recognized from Derivative liability - Warrants	(758)	653
Exchange rate differences	239	(66)
PPM- penalty	502	58
Interest on liability for Agricultural Research Organization	506	574
Bank commission	12	32
Interest and others	48	5
	2,999	2,664

NOTE 21 - Commitments and Contingencies:

a. The Company's lease arrangement for office space in Rehovot, Israel ended in April 2019. In April 2019 the company signed a one-year new agreement for the same office space with an extension option for two more years. The annual lease commitment is approximately $ 241 plus common area maintenance charges.

b. The Company's leases several cars. The lease period is for 3 years. The annual lease commitment is approximately $40.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows:

	2018
Within one year	281
After one year but not more than five years	605
More than five years	-
	886

c. In March 2007, the Company entered into a Research and Exclusive License Agreement with the Volcany Center (ARO). According to the agreement, the Company received the right to develop, market and sell the product "Vinia™". The Volcany center is entitled to royalties at the amount of 3% of the Vinia sales. Future products are not included in this agreement. Furthermore, if the Company sells the license or grants a sub-license to a third party, the Volcany Center will be entitled to 5% of the total amount of the consideration received by the Company.

d. In May 2015 the Company signed a private placement with investors (the "PPM Agreement"). According to the PPM agreement, in the occurrence of Registration Default Event (as define in the private placement agreement), each investor is entitled to liquidation damage of 1.5% of the purchase price per unit paid by him, for each full 30-day period during which the Registration Default Event continues.

In December 23, 2019 the Company signed on a statement of conversion agreement (the "conversion agreement") with the PPM investors. According to the conversion agreement, the PPM investors agrees that effective as of immediately prior to, and subject to the closing of the merger transaction of CannaVCell and BioFarming, the liquidation damages will be converted into a total number of 10,621,421 shares of CannaVCell. The conversion shall effect full, final and complete discharge and satisfaction of all of the company's obligations under the PPM Agreement.

As of December 31, 2019, and 2018 the Company recorded a provision in a total amount of $ 1,207 and $ 650, respectively.

NOTE 22 - Operating segments:

The Company and its subsidiaries are engaged in the following segments:

- Vinia: development, design, manufacture and marketing of "Vinia" for the privet sectors.
- Cannabis: development, design, manufacture and marketing of medical Cannabis.

1) Segment information

	For the year ended December 31, 2019			
	Vinia	**Cannabis**	**Adjustment & Elimination**	**Total**
Revenues				
External	218	-	-	218
Inter-segment	-	-	-	-
Total	218	-	-	218
Segment loss (income)	(349)	2,659	-	2,310
Finance expense, net				3,000
Tax expenses				-
Loss				5,310

	For the year ended December 31, 2018			
	Vinia	**Cannabis**	**Adjustment & Elimination**	**Total**
Revenues				
External	449	-	-	449
Inter-segment	-	-	-	-
Total	449	-	-	449
Segment loss	1,106	3,702	-	4,808
Finance expense, net				2,664
Tax expenses				-
Loss				7,472

NOTE 22 - Operating segments (continued):

	As of December 31, 2019			
	Vinia	**Cannabis**	**Adjustment & Elimination**	**Total**
Segment assets	2,226	5,308	(5,512)	2,022
Segment liabilities	28,325	3,073	(2,406)	28,992

	As of December 31, 2018			
	Vinia	**Cannabis**	**Adjustment & Elimination**	**Total**
Segment assets	160	6,850	(5,116)	1,894
Segment liabilities	23,806	2,548	(1,771)	24,583

2) Entity wide disclosures:

	For the year ended December 31,			
	External revenue by location of customers		**Non-current assets by location of assets**	
	2019	**2018**	**2019**	**2018**
Israel	214	439	779	319
Other	4	10	-	-
	218	449	779	319

3) Additional information about revenues:

There is no single customer from which revenues amount to 10% or more of total revenues reported in the financial statements.

NOTE 23 - Changes in liabilities arising from financing activities:

Reconciliation of the changes in liabilities for which cash flows have been, or will be classified as financing activities in the statement of cash flows

	Loans and borrowings	Lease liabilities	Convertible loans	Derivative liability – warrants	Liability to Agricultural Research Organization
At 1 January 2019	**159**	**-**	19,082	1,254	2,529
Changes from financing cash flows:					
Receipts of convertible loans	-	-	1,731	-	-
Issuance of Warrants	-	-		172	-
Payments of lease liabilities	-	(246)	-	-	-
Repayment of long-term loans from banks	(105)	-	-	-	-
Total changes from financing cash flows	**54**	**(246)**	**20,813**	**1,426**	**2,529**
Recognition of initial application of IFRS 16	-	747	-	-	-
Leases cancelled before maturity	-	(6)	-	-	-
Changes in fair value	-	-	767	(758)	(838)
Interest expense	7	35	1,683	-	506
Interest paid	-	(35)	-	-	-
Other	-	-	149	-	-
Effects of foreign exchange	-	54	-	66	-
At 31 December 2019	**61**	**549**	**23,412**	**734**	**2,197**

	Loans and borrowings	Convertible loans	Derivative liability – warrants	Liability to Agricultural Research Organization
At 1 January 2018	242	16,094	-	2,869
Changes from financing cash flows:				
Amounts recognized on transaction (note 1a)	-	-	629	-
Receipts of convertible loans	-	1,973	-	-
Repayment of long-term loans from banks	(108)	-	-	-
Total changes from financing cash flows	**134**	**18,067**	**629**	**2,869**
Changes in fair value	-	-	625	(914)
Interest expense	25	1,404	-	574
Other		(389)	-	-
Effects of foreign exchange	-	-	-	-
At 31 December 2018	**159**	**19,082**	**1,254**	**2,529**

NOTE 24 - Subsequent events:

a. On December 9, 2019 the company signed on a merger agreement with BioFarming (hereafter "Merger Transaction"). Upon the terms and subject to the closing conditions set forth in the Merger Agreement, the Merger Sub shall be merged with and into the company in accordance with sections 314 through 327 of the Israeli Companies Law, and the separate corporate existence of the Merger Sub shall hereupon cease. Following the Merger, the company shall become a wholly owned subsidiary of CannaVCell, which will become the record and beneficial owner of all of the issued and outstanding shares of the company's share capital, and there shall be no outstanding shares, options, warrants or rights of any kind to subscribe for or purchase any shares of the company's share capital. According to the merger agreement, the closing of the merger transaction is subjected to the following closing conditions:

- Shareholder approval at meetings called for that purpose.
- Approval of the Israeli Securities Authority
- The indebtedness of BioHarvest at closing not exceeding $500
- Approval of the Canadian Securities Exchange
- The Agreement of Convertible Debt holders of BioHarvest to accept warrants of CannaVCell to replace their warrants in BioHarvest
- Termination of BioHarvest director, officer, employee or consultant options outstanding.
- CannaVCell is required to complete a financing round of $4 million. This amount is subject to adjustment at the option of CannaVCell depending on the financial position of BioHarvest at closing.

On March 31, 2020 all terms of the merger transaction were met. Following is the merger consideration:

- Issuance of 299,057,739 common shares of CannaVCell to the shareholders of BioHarvest at a deemed price of $0.11 ($0.15 CAD) per share.
- Issuance of 39,565,579 creditor warrants to purchase an additional common share of CannaVCell at $0.76 ($1 CAD). Each warrant is exercisable until August 31, 2020. These warrants replace the existing warrants that the convertible debt holders have.

In addition, 11,910,000 share based compensation of CannaVCell were granted to BioHarvest's Chief technology officer Dr. Yochi Hagai exercisable for a period of two years, at an exercise price of $0.11 ($0.15 CAD) per share. The options granted vest as to 12.5% in each quarter of the 2-year period.

b. As part of the closing of the merger transaction, all of BioHarvest's convertible debt holders signed a statement of conversion (hereafter "Statement of Conversion). According to the statement of conversion, each lender agrees that effective as of immediately prior to, and subject to the closing of the merger transaction, the loan amount shall be converted into CannaVCell shares and each existing warrants to purchase an additional common share of BioHarvest shall be converted to approximately 1.7 warrants to purchase an additional common share of CannaVCell at $0.76 ($1 CAD).

c. In conjunction with closing the merger transaction, CannaVCell completed a private placement of 8,000,000 shares at a price of $0.11 ($0.15 CAD) per share for gross proceeds of $851,154 ($1,200,000 CAD).

d. Since January 2020, the Coronavirus outbreak has dramatically expanded into a worldwide pandemic creating macro-economic uncertainty and disruption in the business and financial markets. Many countries around the world, including Israel, have been taking measures designated to limit the continued spread of the Coronavirus, including the closure of workplaces, restricting travel, prohibiting assembling, closing international borders and quarantining populated areas. Such measures present concerns that may

NOTE 24 - Subsequent events (continued):

dramatically affect the Company's ability to conduct its business effectively, including, but not limited to, adverse effect relating to employees' welfare, slowdown and stoppage of manufacturing, commerce, shipping, delivery, work, travel and other activities which are essential and critical for maintaining on-going business activities. Given the uncertainty around the extent and timing of the future spread or mitigation of COVID-19 and around the imposition or relaxation of protective measures, the Company cannot reasonably estimate the impact to its future results of operations, cash flows or financial condition.

Infections may become more widespread and the limitation on the ability to work, travel and timely sell and distribute products, as well as any closures or supply disruptions, may be extended for longer periods of time and to other locations, all of which would have a negative impact on the Company's business, financial condition and operating results. In addition, the unknown scale and duration of these developments have macro and micro negative effects on the financial markets and global economy which could result in an economic downturn that could affect demand for the Company's products and have a material adverse effect on its operations and financial results, earnings, cash flow and financial condition.

The primary impact of the COVID-19 worldwide pandemic is on our R&D delivery schedule. Since we completed the initial R&D program in September 2019 and announced the results, we have been waiting to complete the Merger Transaction and Concurrent Financing in order to settle how the next phase will be developed. Despite having completed the Merger transaction and Concurrent Financing, we still face the impact of the COVID-19 pandemic. Given the extensive lab work required and physical presence of the scientists and engineers in the labs, it is difficult to make any significant progress due to the strict confinement regulations imposed by the government of Israel. We cannot yet assess the impact in terms of delay in delivering the second phase until we understand what restrictions may remain in place that could hinder the work required in the labs.

BioHarvest Ltd.

Management's Discussion and Analysis

For the year ended December 31, 2019
(U.S. dollars in thousands)

INTRODUCTION

The following Management Discussion and Analysis ("MD&A"), prepared as of April 30, 2020 has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board (IASB). The Company's comparatives amounts in this MD&A have been presented in accordance with IFRS. All amounts are stated in U.S dollars in thousands unless otherwise indicated.

The following information should be read in conjunction with the consolidated financial statements for the year ended December 31, 2019, and the related notes to those financial statements.

Statements in this report that are not historical facts are forward looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward looking statements.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain information that may constitute forward-looking information and forward-looking statements within the meaning of applicable securities laws (collectively, "Forward-Looking Statements"), which are based upon the Company's current internal expectations, estimates, projections, assumptions and beliefs. All information contained herein that is not clearly historical in nature may constitute Forward-Looking Statements. In some cases, Forward-Looking Statements can be identified by the use of forward looking terminology such as "expect", "likely", "may", "will", "should", "intend", "anticipate", "potential", "proposed", "estimate" and other similar words, expressions and phrases, including negative and grammatical variations thereof, or statements that certain events or conditions "may" or "will" happen, or by discussions of strategy. Forward-Looking Statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, or other statements that are not statements of historical fact.

Certain of the Forward-Looking Statements contained herein concerning the cannabis industry are based on estimates prepared by us using data from publicly available governmental sources, market research, industry analysis and on assumptions based on data and knowledge of this industry, which we believe to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. While we are not aware of any misstatement regarding any industry or government data or other information presented herein that is based on such data, the cannabis industry involves risks and uncertainties that are subject to change based on various factors.

NATURE OF BUSINESS AND OVERVIEW OF OPERATIONS

General

BioHarvest Ltd. (the "Company" or "BioHarvest"), an Israeli Company, was incorporated in January 2007 and commenced its activity in July 2007. In July 2014, the Company established a wholly owned subsidiary in the United States, BioHarvest Inc. (the "US subsidiary").

The Company is engaged in research and development in the food industry. BioHarvest produces red grape powder to be consumed as food that contributes red wine benefits, excluding the sugar and alcohol that is found in wine. The Company has conducted various clinical trials, in order to verify the effect of the powder. BioHarvest aims to market to end user via online marketing platform.

In February 26, 2018, the Company established a wholly owned subsidiary in Israel, Dolarin Ltd. ("Dolarin").

On September 27, 2018 the Company completed a transaction with CannaVCell Sciences Inc. ("CannaVCell") (the "Transaction"). CannaVCell issued 48,337,496 shares to BioHarvest in consideration for 100% of the issued share capital of Dolarin (1,000,000 shares). Following the transaction BioHarvest held 50.5% of the issued share capital of CannaVCell. As a result of the Transaction, Dolarin became a wholly-owned subsidiary of CannaVCell. Completion of the Transaction resulted in a Reverse Takeover and change of business for CannaVCell (the "RTO") and BioHarvest became the ultimate parent of CannaVCell and Dolarin.

The Transaction does not qualify as a business combination under IFRS 3, as CannaVCell does not meet the definition of a business. Therefore, The Company accounted for the transaction as an equity transaction with the Non-controlling interest without loss of control, in which it sold ownership interests in Dolarin in exchange for CannaVcell's net assets. The Company capitalized listing expenses of the shares of Dolarin in an amount of $2,732

Cash acquired	$	2,227
Accounts payable and accrued liabilities		(137)
Derivative liability - Warrants		(629)
Non-controlling interest		(4,193)
Listing expenses	$	**(2,732)**

CannaVCell's principal business is to develop and produce cannabis active ingredients based on BioHarvest's biopharming technology.

CannaVCell obtained final approval for the Transaction from the Exchange on October 2, 2018 and is traded on the Canadian Securities Exchange under the symbol "CNVC".

On December 5, 2019, CannaVCell established a wholly owned subsidiary in Israel, BioFarming Ltd. (hereafter "BioFarming" or "Merger Sub"). See subsequent events.

On September 23, 2019, CannaVCell completed a private placement financing (the "Private Placement Financing") by issuing 6,666,667 units at a price of CAD 0.15 (approximately USD 0.11) per unit for gross proceeds of CAD 1,000,000 (approximately USD 755) (CAD 985,000 after payment of commissions and finder's fees).

Following the private placement, BioHarvest holds 46.82% (including vested warrants - 49.05%) of the issued share capital of CannaVcell. However, the Company has concluded that it retained control over CannaVcell, as it has the right to appoint the majority of the board members. Appointment of board members is carried out at the general meeting, in which the Company has a clear majority, considering the wide dispersion of holdings of the other vote holders.

As December 31, 2019 BioHarvest held 46.8% of the issued share capital of CannaVCell.

Licensing and Service Agreement

On April 19, 2018, BioHarvest and Dolarin entered into a license agreement, which has an effective date of the closing of the Transaction ("License Agreement"). Pursuant to the license agreement Dolarin acquired certain worldwide, non-transferable, royalty bearing license in perpetuity from BioHarvest for the use of BioHarvest's biotechnology for the production and sale of cannabis products for the medical and recreational markets (the "License").

Dolarin acquired the licenses for the following consideration:

a) The issuance of 900,000 common shares of Dolarin to BioHarvest.

b) The payment of $160 in 16 equal monthly payments of $10 commencing on the effective date.

c) The payment to BioHarvest of a milestone payment comprising $840 upon the commencement of construction of the first manufacturing facility for relevant licensed product.

On April 19, 2018, BioHarvest and Dolarin also entered into a services agreement with an effective date of the closing of the Transaction ("Service Agreement"). Pursuant to the Service Agreement, Dolarin contracted BioHarvest to perform certain limited research, development and commercialization of BioHarvest's technology in the field of cannabis including the equipment, materials, facilities and personnel.

The initial period of the agreement shall be for 16 months, from closing of the transaction at a budgeted cost of US$1,538. Further expenditures may be required if the objectives of the research are not met during the initial period.

Merger Agreement

a. On March 31, 2020, The company completed a merger with CannaVCell, pursuant the Company became a 100% subsidiary of CannaVCell ("Merger Transaction"). CannaVCell changes its name to BioHarvest Sciences Inc. ("BSI") (CSE: BHSC). In terms of the Merger Transaction, the Company's security holders were issued the following: (1) 299,057,739 common shares of the Company; (2) 39,565,579 warrants exercisable at a price of $0.76 ($1.00 CAD) per share which expire on August 31, 2020; and (3) 11,910,000 options to BioHarvest's Chief Technology Officer, Yochi Hagay. The options will be exercisable at a

price of $0.11 ($0.15 CAD) per share for a period of two years and will vest quarterly over the two year period.

b. As part of the closing of the merger transaction, all of BioHarvest's convertible debt holders signed a statement of conversion (hereafter "Statement of Conversion). According to the statement of conversion, each lender agrees that effective as of immediately prior to, and subject to the closing of the merger transaction, the loan amount shall be converted into CannaVCell shares and each existing warrants to purchase an additional common share of BioHarvest shall be converted to approximately 1.7 warrants to purchase an additional common share of CannaVCell at $0.76 ($1 CAD).

c. BSI Completed a private placement concurrent with the Merger Transaction and raised $851 ($1.2 million CAD) ("Concurrent Financing"), which will be used to fund the Company's operations.

Overview of the business

The first product developed by BioHarvest, called VINIA ™, made of red grape (Vitis vinifera) cells grown in the vertical reactors (BioFarms) proprietary facility, is in a form of a fine dry pink-purple powder containing the whole matrix of polyphenols (with a high concentration of Piceid Resveratrol) in their natural state, that have additive and synergistic benefits. These polyphenols can be found in red wine. The composition is natural and patent protected. One of the main active ingredients in VINIA™ is Piceid-resveratrol, maintaining the quality and inherent benefits present in nature without any solvent extraction or genetic modification. VINIA™ is very soluble when integrated with various liquids or cosmetics.

BioHarvest conducted several clinical trials at independent institutions (following rigorous protocols) showing that Vinia is the first ever natural vasodilator without sugar or calories (see below details). Vinia's major mechanism is the increase of NO's (Nitric Oxide) and decrease of ET1's (Endothelial protein) resulting in the vasodilation of blood vessels (arterial and capillary) and blood perfusion. The following 4 FDA reviewed functional claims supported by the clinical trials clearly state the benefits: improving blood flow, inhibiting oxidation of LDL cholesterol, keeping arteries flexible and maintaining blood pressure within normal range.

Vinia is food and went through the regulatory necessary approvals both in the US and in Japan. As such the functional claims do not require a disclaimer as is the case for all dietary supplements. The Company also applied for similar approvals in Europe and planning to do so in some parts of Asia and Latin America. The recommended dose of Vinia varies by application. For example, for support of healthy cardiovascular functioning, it is recommended to use 400mg per day.

The Company has invested over US$25M, primarily in R&D. Such investment has resulted in the development of the biofarming platform technology which also created significant IP in the form of patents and know-how. The list of patents is available below.

In terms of manufacturing capacity, the Company currently has a two tons/year production facility (with an inventory of 1 ton) and has plans to expand the manufacturing to 20 tons/year and subsequently 100 tons/year. BioHarvest plans to introduce 3 new products based on the biofarming

technology over the next 5 years. These products are based on olives, pomegranates and blueberries.

The Company has successfully completed a B2C (on-line based) pilot marketing and sales program in Israel. The results (to be described below in the document) are very encouraging and provide for the base to continue into a full scale sales plan in Israel as well as in the US starting in 2020. Revenue projections based on such pilot are also described below.

The Company is also negotiating agreements with multiple strategic distribution partners in order to commercialize its biofarming platform based products starting with Vinia. The goal is to secure a multi-year partner/s based on need, volume, price, format of usage and geography in order to maximize both revenues and brand awareness while taking into account the supply capacity constraints. With a longer term orientation, we are also aiming to build a secondary distribution channel with CPG (consumer package goods) for the integration of our ingredients into products from fortune 500 players such as Nestle, Coca Cola and Conagra.

We believe that this partnership approach including B2B and B2C is the best way towards the rapid commercialization and adoption of BioHarvest's technology and Vinia.

SELECTED ANNUAL INFORMATION

	Year ended December 31,		
	2019	**2018**	**2017**
Revenues	$ **218**	$ 449	$ 325
Net loss and comprehensive loss	$ **(5,310)**	$ (7,472)	$ (1,846)
Net loss attributable to:			
Owners of the Company	$ **(4,270)**	$ (6,673)	$ (1,846)
Non-controlling interests	$ **(1,040)**	$ (799)	$ -
Earnings per share attributable to the shareholders of the Company:			
Basic	**(0.34)**	(0.48)	(0.12)
Diluted	**(0.34)**	(0.48)	(0.12)

	Year ended December 31,		
	2019	**2018**	**2017**
Total Assets	$ **2,022**	$ 1,894	$ 1,694
Total non-current liabilities	$ **2,524**	$ 2,608	$ 19,702

The Company operates in two segments: Vinia and the development or medical Cannabis. The medical Cannabis segment is in the research and development stage.

Our revenues were $218 for the year ended December 31, 2019, as compared to $449 during the same period in the prior year. The decrease in 2019 is due to a decrease in selling and marketing expenses during the same period. All our revenues in both periods relate to Vinia.

Our cost of revenues were $189 for the year ended December 31, 2019, as compared to $463 during the same period in the prior year. The decrease is due to a decrease in revenues during the period. All our cost of revenues in both periods relate to Vinia.

Our research and development expenses relate to our medical Cannabis segment only, and were $1,346 for the year ended December 31, 2019, as compared to $553 during the same period in the prior year. The increase is due to an increase in the expenses related applying the Company's know-how to the Cannabis industry.

Our selling and marketing expenses relate to Vinia and were $145 for the year ended December 31, 2019, as compared to $484 during the same period in the prior year. Due to the focus on the Cannabis R&D process, during 2019 the company had less cash resources to apply to selling and marketing expenses, which also led to decrease in revenues.

Our Listing expenses were nil for the year ended December 31, 2019 as compared to $2,784 during the same period in the prior year. The Listing expenses is due RTO from September 27, 2018.

Our general and administrative expenses decreased to $848 for the year ended December 31, 2019 as compared to $973 during the same period in the prior year. The decrease is due to a decrease in the company's wages and salaries and the Liability to Agricultural Research Organization. Our general and administrative expenses are incurred to support both our business segments.

Our net finance expenses increased to $2,999 for the year ended December 31, 2019 as compared to $2,664 during the same period in the prior year. The increase in due to interest expenses related to the convertible loans. Our finance expenses are incurred to support both our business segments.

Financial instruments and risk management

The Company is exposed to a variety of financial risks, which results from its financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Company's financial performance and position. The Company's financial instruments are its cash, trade and other receivables, trade payables and other liabilities. The main purpose of these financial instruments is to raise finance for the Company's operation. The Company actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from the Company's financial instruments are mainly currency risk and liquidity risk. The Company has no interest rate risk as the balances exposure to interest is minimal. The risk management policies employed by the Company to manage these risks discussed below.

FOREIGH CURRENCY RISK:

Foreign exchange risk arises when the Company enters into transactions denominated in a currency other than its functional currency. The Company is exposed to currency risk to the extent that there is a mismatch between the currency in which it denominated and the respective functional currency of the company.
The currencies in which some transactions are primarily denominated are CAD, US dollars and NIS.
The company's policy is not to enter into any economic hedging transactions to neutralize the effects of foreign currency fluctuations.

LIQUIDITY AND CAPITAL RESOURCES

The Financial Statements have been prepared on a going concern basis whereby the Company is assumed to be able to realize its assets and discharge its liabilities in the normal course of operations. The Financial Statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern assumption was not appropriate for the Financial Statements, then adjustments of a material nature would be necessary in the carrying value of assets such as petroleum and natural gas licenses, liabilities, the reported expenses, and the balance sheet classifications used. Management continues to pursue financing opportunities for the Company to ensure that it will have sufficient cash to carry out its planned program beyond the next year.

At December 31, 2019 the Company held cash of $911 (December 31, 2018 $1,199). The Company had current liabilities of $26,468, including convertible loans of $23,412 (December 31, 2018 - $21,975 and $19,082, respectively). At December 31, 2019, the Company's working capital was negative $25,225 (December 31, 2018 – negative $20,400).

During the year ended December 31, 2019, the Company's overall position of cash and cash equivalents decreased by $295. This decrease in cash can be attributed to the following:

The Company's net cash used in operating activities during the year ended December 31, 2019 was $2,383 as compared to net cash used of $2,759 for the year ended December 31, 2018. The amount is primarily a result of the losses incurred in the operations of the Company.

Cash used in investing activities for the year ended December 31, 2019 was $34 as compared to cash used of $53 for the year ended December 31, 2018. The amount used in 2019 relates primarily to the purchase of property, plant and equipment.

Cash generated from financing activities during the year ended December 31, 2019 was $2,122 as compared $4,011 for the year ended December 31, 2018. The amount in 2019 is primarily from convertible loans received.

Since the Company will not be able to generate cash from its operations in the foreseeable future, the Company will have to rely on the issuance of shares or the exercise of options, warrants and loans to fund ongoing operations and investment. The ability of the Company to raise capital will depend on market conditions and it may not be possible for the Company to issue shares on acceptable terms or at all.

OFF BALANCE SHEET ARRANGEMENTS

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations or arrangements with respect to any obligations under a variable interest equity arrangement.

TRANSACTIONS WITH RELATED PARTIES

The Company's key management personnel have the authority and responsibility for overseeing, planning, directing and controlling the activities of the Company. Key management personnel

include members of the Board of Directors, the Chief Executive Officer and the Chief Financial Officer. Compensation earned by key management for year ended December 31, 2018 was as follows:

Related party transactions:

For the year and period ended December,	2019	2018
Compensation of key management personnel of the Company:		
Management fees for the CEO (b)	225	170
Share base payment to CEO	178	108
Other related party transactions:		
Share base payment	262	133
Investment in Convertibles loans	150	562
Loan from related party	-	22

Balance with related parties:

For the year and period ended December,	2019	2018
Convertible loans	11,850	9,979
Loan from related party	7	22

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Share based compensation

The Company has a share based compensation plan for its employees. The estimated fair value of share options is determined using the binomial model and Black Scholes model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors, as well as internal estimates.

Derivative liability – Warrants

The Company uses the Black-Scholes option-pricing model to estimate fair value at each reporting date. The key assumptions used in the model are the expected future volatility in the price of the Company's shares and the expected life of the warrants. Significant estimates used in the preparation of the Company's Financial Statements include, but are not limited to impairment of exploration license costs capitalized in accordance with IFRS, stock based compensation and future income taxes.

Liability to Agricultural Research Organization

The Company measured the Liability to Agricultural Research Organization, each period, based on discounted cash flows derived from Company's future anticipated revenues. The discount rate reflects the market rate.

NEWLY ADOPTED ACCOUNTING STANDARDS

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will recognize the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset, until the carrying amount is reduced to zero. Any remaining amount of re-measurements will be recognized in profit or loss. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16, which is

effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

According IFRS 16 the lessees will be implemented retrospectively in one of two ways:

- Cumulative effect method, without restatement of comparative information.
- Retrospectively to each prior reporting period presented

The Company plans to apply IFRS 16 initially from its effective adoption date of 1 January 2019, using the modified retrospective approach. Accordingly, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The following are the Company's estimates regarding the expected effects:

Leases in which the Company is the lessee, which are currently classified as operating leases, the Company is required to recognize on the initial implementation date a right of use and lease liability for all leases in which it is found to have the right to control the use of identified assets for a specified period of time. These changes are expected to result in an increase of approximately $747 in the balance of the right to use assets at the date of initial implementation and an increase of about $747 in the balance of the lease liability as at the date of initial implementation.

At the initial implementation date, the lease liability will be recognized in the present value of the future lease fees. The Company intends to measure the right to use asset at that date in accordance with the amount equal to the lease liability at the initial application date, adjusted for the amount of any prepaid or accrued lease payments relating to this lease, which were recognized in the statement of financial position immediately prior to the initial implementation date.

The range of nominal discount rates used to measure the liability described above in respect of a lease ranges from 3.9% to 5.4%, which, as at the date of the interim financial statements, constitutes the incremental interest of the lessee. The Company intends to continue examining the range of nominal interest rates.

In the statement of cash flows, lease payments in respect of leases to be recognized as an asset of a right to use and a lease undertaking will no longer be presented as part of current operations, and therefore an increase in cash flow from operating activities is expected. Instead, the principal repayment component of the lease liability and the interest component on the liability will be presented in the financing activity.

The Company expects a change in the main financial ratios, such as: an increase in the leverage rate, a decrease in the ratio of capital to the balance sheet and a decrease in working capital.

With respect to all of the above, the principal leases expected to be affected as a result of the implementation of the new standard derive mainly from the leasing of vehicles and office used for the Company's operations.

COMMON SHARE DATA

As at the date of this MD&A, the Company had the following securities issued and outstanding securities:

a) 166,476,144 ordinary shares of NIS 0.01 par value

b) As part of the merger transaction, on March 31, 2020 the company replaced the 23,368,009 creditor warrants to purchase an additional common share of the Company by issuance of 39,565,579 warrants to purchase an additional common share of CannaVCell at $0.76 ($1 CAD). Each warrant is exercisable until August 31, 2020.

c) 731,348 outstanding options to purchase the Company's shares under the Company's share option plan.

INVESTOR RELATIONS CONTRACTS

There are no investor relations contacts outstanding.

CONTRACTUAL OBLIGATIONS

The Company has no contractual obligations that have not been disclosed.

RISKS AND UNCERTAINTIES

Limited Operating History

The Company is in the early stages of its business activities. As a result, it is difficult to evaluate the Company's prospects, and its future success is more uncertain than if it had a longer or more proven history of operations.

History of Losses

The Company has incurred net losses every period since inception and as of December 31, 2019, had an accumulated deficit of $41,455.

No History of Dividends

Since incorporation, the Company has not paid any cash or other dividends on its common stock and does not expect to pay such dividends in the foreseeable future, as all available funds will be invested primarily to finance the Company's operations. The Company will need to achieve profitability prior to any dividends being declared.

Dilution

The Company does not generate significant revenues from operations and does not have sufficient financial resources to undertake by itself all of its planned activities. The Company has limited financial resources and has financed its operations primarily through the sale of securities such as common shares. The Company will need to continue its reliance on the sale of such securities for future financing, resulting in dilution to the Company's existing shareholders.

Capital and Liquidity Risk

The amount of financial resources available to invest for the enhancement of shareholder value is dependent upon the size of the treasury, profitable operations, and a willingness to utilize debt and issue equity.

Due to the size of the Company, financial resources are limited and if the Company exceeds growth expectations or finds investment opportunities it may require debt or equity financing. There is no assurance that the Company will be able to obtain additional financial resources that may be required to successfully finance transactions or compete in its markets on favourable commercial terms.

Dependence on Key Personnel

Loss of certain members of the executive team or key operational leaders of the Company could have a disruptive effect on the implementation of the Company's business strategy and the efficient running of day-to-day operations until their replacement is found. Recruiting personnel is time consuming and expensive and the competition for professionals is intense.

The Company may be unable to retain its key employees or attract, assimilate, retain or train other necessary qualified employees, which may restrict its growth potential.

SUBSEQUENT EVENTS

a. On December 9, 2019 the company signed on a merger agreement with BioFarming (hereafter "Merger Transaction"). Upon the terms and subject to the closing conditions set forth in the Merger Agreement, the Merger Sub shall be merged with and into the company in accordance with sections 314 through 327 of the Israeli Companies Law, and the separate corporate existence of the Merger Sub shall hereupon cease. Following the Merger, the company shall become a wholly owned subsidiary of CannaVCell, which will become the record and beneficial owner of all of the issued and outstanding shares of the company's share capital, and there shall be no outstanding shares, options, warrants or rights of any kind to subscribe for or purchase any shares of the company's share capital. According to the merger agreement, the closing of the merger transaction is subjected to the following closing conditions:

   - Shareholder approval at meetings called for that purpose.
   - Approval of the Israeli Securities Authority
   - The indebtedness of BioHarvest at closing not exceeding $500
   - Approval of the Canadian Securities Exchange
   - The Agreement of Convertible Debt holders of BioHarvest to accept warrants of CannaVCell to replace their warrants in BioHarvest
   - Termination of BioHarvest director, officer, employee or consultant options outstanding.
   - CannaVCell is required to complete a financing round of $4 million. This amount is subject to adjustment at the option of CannaVCell depending on the financial position of BioHarvest at closing.

On March 31, 2020 all terms of the merger transaction were met. Following is the merger consideration:

- Issuance of 299,057,739 common shares of CannaVCell to the shareholders of BioHarvest at a deemed price of $0.11 ($0.15 CAD) per share.
- Issuance of 39,565,579 creditor warrants to purchase an additional common share of CannaVCell at $0.76 ($1 CAD). Each warrant is exercisable until August 31, 2020. These warrants replace the existing warrants that the convertible debt holders have.

In addition, 11,910,000 share based compensation of CannaVCell were granted to BioHarvest's Chief technology officer Dr**.** Yochi Hagai exercisable for a period of two years, at an exercise price of $0.11 ($0.15 CAD) per share. The options granted vest as to 12.5% in each quarter of the 2-year period.

b. As part of the closing of the merger transaction, all of BioHarvest's convertible debt holders singed a statement of conversion (hereafter "Statement of Conversion). According to the statement of conversion, each lender agrees that effective as of immediately prior to, and subject to the closing of the merger transaction, the loan amount shall be converted into CannaVCell shares and each existing warrants to purchase an additional common share of BioHarvest shall be converted to approximately 1.7 warrants to purchase an additional common share of CannaVCell at $0.76 ($1 CAD).

c. In conjunction with closing the merger transaction, CannaVCell completed a private placement of 8,000,000 shares at a price of $0.11 ($0.15 CAD) per share for gross proceeds of $851,154 ($1,200,000 CAD).

d. Since January 2020, the Coronavirus outbreak has dramatically expanded into a worldwide pandemic creating macro-economic uncertainty and disruption in the business and financial markets. Many countries around the world, including Israel, Canada and the United states, have been taking measures designated to limit the continued spread of the Coronavirus, including the closure of workplaces, restricting travel, prohibiting assembling, closing international borders and quarantining populated areas. Such measures present concerns that may dramatically affect the Company's ability to conduct its business effectively, including, but not limited to, adverse effect relating to employees' welfare, slowdown and stoppage of manufacturing, commerce, shipping, delivery, work, travel and other activities which are essential and critical for maintaining on-going business activities. Given the uncertainty around the extent and timing of the future spread or mitigation of COVID-19 and around the imposition or relaxation of protective measures, the Company cannot reasonably estimate the impact to its future results of operations, cash flows or financial condition;

Infections may become more widespread and the limitation on the ability to work, travel and timely sell and distribute products, as well as any closures or supply disruptions, may be extended for longer periods of time and to other locations, all of which would have a negative impact on the Company's business, financial condition and operating results. In addition, the unknown scale and duration of these developments have macro and micro negative effects on the financial markets and global economy which could result in an economic downturn that

could affect demand for the Company's products and have a material adverse effect on its operations and financial results, earnings, cash flow and financial condition.

The primary impact of the COVID-19 worldwide pandemic is on our R&D delivery schedule. Since we completed the initial 16 months' program in September 2019 and announced the results, we have been waiting to complete the Merger Transaction and Concurrent Financing in order to settle how the next phase will be developed.

Despite having completed the Merger transaction and Concurrent Financing, we still face the impact of the COVID-19 pandemic. Given the extensive lab work required and physical presence of the scientists and engineers in the labs, it is difficult to make any significant progress due to the strict confinement regulations imposed by the government of Israel. We cannot yet assess the impact in terms of delay in delivering the second phase until we understand what restrictions may remain in place that could hinder the work required in the labs.

The second area which suffers from the pandemic is the sales of Vinia. The plan was to commence marketing and sales in the US starting in March 2020, however, this has been postponed by at least a few months. In Israel sales of Vinia are also impacted severely due to the pandemic and related the restrictions.

The third impacted area is the readiness for large scale manufacturing for Vinia and for the Cannabis products. We have experienced significant work interruptions in our existing factory and we are limited in our ability to bring in third party experts to assist in preparations for higher volume production.

Management is fully engaged in assessing the impact and adjusting its operations accordingly.

MD&A PREPARATION

This MD&A is intended to assist the reader's understanding of BioHarvest Ltd and its operations, business, strategies, performance and future outlook from the perspective of management.