Panaxia Labs Israel Ltd.
(Formerly Herodium Investments Ltd.)

Consolidated Interim Financial Statements as of March 31, 2020

Unaudited

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Independent Auditors' Review Report to the Shareholders of

Panaxia Labs Israel Ltd. (formerly Herodium Investments Ltd.)

Introduction

We reviewed the attached financial information of Panaxia Labs Israel Ltd. and its subsidiaries (formerly: Herodium Investments Ltd.) (hereinafter: the "Company"), including the condensed consolidated statement of financial position as of March 31, 2020, and the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three month period then ended. The Board of Directors and management are responsible for the preparation and presentation of this interim financial information in accordance with the International Accounting Standard (IAS) 34, Interim Financial Reporting, and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion regarding this interim financial information, based on our review.

Scope of the review

We conducted our review in accordance with Review Standard 2410 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Conducted by the Entity's Auditor." A review of interim financial information consists of inquiries, mainly with the people responsible for financial and accounting matters, and the application of analytical and other review procedures. This review is significantly limited in scope compared to an audit prepared according to generally accepted auditing standards in Israel, and therefore does not allow us to achieve certainty that we have become aware of all material issues that may have be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention which would have caused us to believe that the aforementioned financial information was not prepared, in all material respects, in accordance with International Accounting Standard (IAS) 34.

In addition to that stated in the previous paragraph, based on our review, we have not become aware of any information which would have led us to believe that the aforementioned financial information is not compliant, in all material respects, with the disclosure provisions of Chapter D of the Securities Law Regulations (Periodic and Immediate Statements), 5730-1970.

Tel Aviv,
May 25, 2020

Kost Forer Gabbay and Kasierer
Certified Public Accountants

Consolidated Statements of Financial Position

	As of March 31		As of December 31
	2020	2019 *)	2019
	Unaudited		Audited
Current assets			
Cash and cash equivalents	17,582	845	14,329
Restricted deposit	183	83	183
Trade receivables	6,757	1,779	3,710
Other accounts receivable	3,629	1,811	4,508
Inventory of finished goods and packaging materials	4,074	225	3,089
Balances with related parties	97	-	1,188
	32,322	4,743	27,007
Non-current assets			
Property, plant and equipment, net	5,611	2,129	4,882
Right-of-use asset	1,327	702	536
Intangible assets, net	319	384	335
Goodwill	364	364	364
	7,621	3,579	6,117
	39,943	8,322	33,124
Current liabilities			
Trade payables	6,711	1,317	7,090
Other accounts payable	3,944	3,448	3,521
Liability for conversion option	-	11,768	-
Current maturity of lease liability	612	206	218
Loans and balances with related parties	6,270	8,721	13,174
	17,537	25,460	24,003
Non-current liabilities			
Liabilities in respect of lease	737	501	337
	737	501	337
Capital (capital deficit) attributable to the Company's shareholders			
Share capital	-	-	-
Share premium	98,505	2,361	79,299
Reserve for transactions with controlling shareholders	3,117	(107)	2,391
Other capital reserves	20,001	-	17,637
Accumulated deficit	(99,954)	(19,893)	(90,543)
	21,669	(17,639)	8,784
	39,943	8,322	33,124

*) Restated due to the implementation of a reverse acquisition, see Note 1B.

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

May 25, 2020			
Approval date of the financial statements	Jonathan Kolber Chairman of the Board of Directors	Dr. David (Dadi) Segal CEO and director	Gil Benyamini CFO

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the 3 months ended March 31		For the year ended December 31
	2020	2019 *)	2019
	Unaudited		Audited
	NIS in Thousands		
Revenues from sales	12,168	2,614	16,690
Cost of sales	11,755	2,327	18,592
Gross profit (loss)	413	287	(1,902)
Selling and marketing expenses	2,674	509	4,694
General and administrative expenses	7,019	1,285	22,406
Operating loss	(9,280)	(1,507)	(29,002)
Finance expenses, net	(131)	(9,210)	(9,592)
Listing expenses in reverse acquisition	-	-	(42,773)
Loss before taxes on income	(9,411)	(10,717)	(81,367)
Tax benefit	-	24	24
loss	(9,411)	(10,693)	(81,343)
Total comprehensive loss	(9,411)	(10,693)	(81,343)
Loss per share attributable to Company shareholders (in NIS)			
Basic and diluted loss per share	(0.09)	(0.13)	(0.93)

*) Restated due to the implementation of a reverse acquisition, see Note 1B.

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

Consolidated Statements of Changes in Equity

	Share capital	Share premium	Reserve for transactions with controlling shareholders	Other capital reserves	Accumulated deficit	Total equity
	Unaudited					
	NIS in Thousands					
Balance as of January 1, 2020 (audited)	-	79,299	2,391	17,637	(90,543)	8,784
Issue of share capital and options (see Note 3A, D)	-	19,206	-	-	-	19,206
Capital benefit from option granted by the controlling shareholder (see Note 3D)	-	-	557	(557)	-	-
Share-based payment	-	-	-	2,921	-	2,921
Share-based payment of the Parent Company	-	-	61	-	-	61
Capital benefit from transactions with the controlling shareholder	-	-	108	-	-	108
Total comprehensive loss	-	-	-	-	(9,411)	(9,411)
Balance as of March 31, 2020	-	98,505	3,117	20,001	(99,954)	21,669

	Share capital	Share premium	Reserve for transactions with controlling shareholders	Other capital reserves	Accumulated deficit	Total equity
	Unaudited					
	NIS in Thousands					
Balance as of January 1, 2019 (Audited) *)	-	2,361	74	-	(9,200)	(6,765)
Capital benefit from transactions with the controlling shareholder	-	-	(181)	-	-	(181)
Total comprehensive loss	-	-	-	-	(10,693)	(10,693)
Balance as of March 31, 2019 *)	-	2,361	(107)	-	(19,893)	(17,639)

*) Balances and movements preceding the date of the merger were restated due to the implementation of a reverse acquisition, see Note 1B.

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

Consolidated Statements of Changes in Equity

	Share capital	Share premium	Reserve for transactions with controlling shareholders	Other capital reserves	Accumulated deficit	Total equity
	Audited					
	NIS in Thousands					
Balance as of January 1, 2019 *)	-	2,361	74	-	(9,200)	(6,765)
Share-based payment	-	-	-	13,000	-	13,000
Allocation of shares and options following the completion of the merger	-	1,621	-	4,637	-	6,258
Reverse acquisition (see Note 1B)	-	63,838	-	-	-	63,838
Share-based payment of the Parent Company	-	-	243	-	-	243
Exercise of conversion option (see Note 5B)	-	11,479	-	-	-	11,479
Capital benefit from transactions with the controlling shareholder	-	-	2,074	-	-	2,074
Total comprehensive loss	-	-	-	-	(81,343)	(81,343)
Balance as of December 31, 2019	-	79,299	2,391	17,637	(90,543)	8,784

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

*) Balances and movements preceding the date of the merger were restated due to the implementation of a reverse acquisition, see Note 1B.

Consolidated Statements of Cash Flows

	For the three months ended March 31		For the year ended December 31
	2020	2019 *)	2019
	Unaudited		Audited
	NIS in Thousands		
Cash flows from operating activities			
Loss	(9,411)	(10,693)	(81,343)
Adjustments required to present cash flows from operating activities:			
Adjustments to profit or loss items:			
Capital benefit from transactions with the controlling shareholder	108	205	2,063
Share-based payment	2,921	-	13,000
Share-based payment of the Parent Company	61	-	243
Listing expenses	-	-	35,967
Allocation of shares and options following the completion of the merger	-	-	6,259
Finance expenses on revaluation of conversion option liability	-	9,105	8,815
Finance expenses, net	41	13	175
Depreciation of property, plant and equipment and right-of-use assets and amortization	381	167	792
Tax benefit	-	(24)	(24)
	3,512	9,466	67,290
Changes in assets and liabilities items:			
Decrease (increase) in trade receivables	(3,237)	956	(975)
Decrease (increase) in other accounts receivable	1,069	(450)	(2,925)
Increase in inventory of finished goods and packaging materials	(985)	(59)	(2,922)
Increase (decrease) in trade payables	(379)	589	6,312
Increase (decrease) in other accounts payable	423	(1,002)	(1,282)
Increase (decrease) in current balances with related parties, net	624	1,173	3,981
	(2,485)	1,207	2,189
Cash which was paid during the year for:			
Interest paid	(41)	(13)	(175)
	(41)	(13)	(175)
Net cash used for operating activities	(8,425)	(33)	(12,039)
Cash flows from investing activities			
Purchase of property, plant and equipment	(940)	(181)	(3,345)
Change in restricted deposit	-	-	(100)
Payables in respect of acquisition of shares of a consolidated company	-	(230)	(230)
Net cash used in investing activities	(940)	(411)	(3,675)

*) Restated due to the implementation of a reverse acquisition, see Note 1B.

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

Statements of Cash Flows

	For the three months ended March 31		For the year ended December 31
	2020	2019 *)	2019
	Unaudited		Audited
	NIS in Thousands		
Cash flows from financing activities			
Issuance of ordinary shares and options (after deducting issuance costs)	19,206	-	-
Repayment of lease liabilities	(151)	(50)	(202)
Cash from reverse acquisition (A)	-	-	28,051
Change in related party balances of a financial nature	(6,437)	904	1,759
Net cash from financing activities	12,618	854	29,608
Increase in cash and cash equivalents	3,253	410	13,894
Balance of cash and cash equivalents at beginning of period	14,329	435	435
Balance of cash and cash equivalents at end of period	17,582	845	14,329

*) Restated due to the implementation of a reverse acquisition, see Note 1B.

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

Statements of Cash Flows

	For the three months ended March 31		For the year ended December 31
	2020	2019 *)	2019
	Unaudited		Audited
	NIS in Thousands		
(A) Cash from reverse acquisition			
Working capital (excluding cash)	-	-	180
Recording of impact of reverse acquisition	-	-	63,838
Listing expenses	-	-	(35,967)
Total net cash from reverse acquisition	-	-	28,051
(B) Material non-cash operations			
Recognition of right-of-use asset against lease liability	945	757	757

*) Restated due to the implementation of a reverse acquisition, see Note 1B.

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

Note 1 - General

A. Panaxia Labs Israel Ltd. (formerly: Herodium Investments Ltd.) (hereinafter: the “Company”) was incorporated in Israel on April 4, 2005. The Company is a public company whose shares are listed on the Tel Aviv Stock Exchange.

In December 2018, the Company and the Company’s securities and interests holders signed a merger agreement (hereinafter: the “Merger Transaction” or the “Merger Agreement”) by way of a share exchange with Panaxia Pharmaceutical Industries Israel Ltd. (hereinafter: “Panaxia Industries Israel” or the “Subsidiary”) and Panaxia Pharmaceutical Industries Ltd. (hereinafter: the “Parent Company”) (hereinafter, jointly: the “Offerees”). In accordance with the agreement, the offerees will transfer their entire stake in Panaxia Industries Israel, in exchange for the allocation of 74.99% of the Company’s issued and paid-up capital, fully diluted. Another allocation of an additional up to 15% will take place upon the fulfillment of the following milestones:

1. If, within two years after the closing date of the transaction, a regulation has been issued which permits exporting raw cannabinoid material from Israel to Europe, 10% of the Company’s issued capital as of the closing date of the transaction will be allocated to the offerees, and in any case, no earlier than 6 months after the date when the law passes in the third reading.

2. If, on the closing date of the transaction, the value of the Company’s cash is less than NIS 22.2 million, the offerees will be entitled to the allocation of additional shares at a rate of up to an additional 5% of the Company’s issued and paid-up capital as of the closing date of the transaction (subject to the provisions of any applicable law and the legally required approvals). The allocation ratio will be calculated on a direct, pro-rata basis in respect of the difference between 16.5 million and 22.2 million which will be in the Company’s cash balance. The foregoing allocation will take place on the later of either one year after the closing date of the transaction, or the date of the first retail sale of a product which has been produced by the Group, to a customer in Europe, for a consideration (hereinafter: “Sale in Europe”) Insofar as a Sale in Europe does not take place within two years after the completion date of the merger transaction, the provisions regarding the allocation of the additional shares will expire.

On September 8, 2019, the tax authorities gave a tax ruling regarding the foregoing merger agreement, in accordance with the provisions of section 103T of the Income Tax Ordinance.

Note 1 - General (Cont.)

On October 1, 2019, the merger transaction was completed (hereinafter: the "Closing Date"), and the Company issued to the shareholders of Panaxia Industries Israel 82,268,927 ordinary Company shares, including 38,738,009 ordinary shares which were allocated in respect of the entitlement due to achievement of the first milestone. The Company also issued 27,029,976 rights for the receipt of shares, subject to the fulfillment of the conditions of the second milestone, as described above. As of the closing date of the merger, cash equivalents amounted to less than NIS 22.2 million, and therefore, insofar as the second milestone is achieved, the shareholders of Panaxia Industries Israel will become entitled, according to the terms of the merger transaction, to an allocation of additional shares, in accordance with the second milestone. The rights will expire two years after the closing date of the transaction.

In accordance with the merger agreement, Panaxia Industries Israel became a wholly owned subsidiary of the Company, and the Company's securities which were allocated to the shareholders of Panaxia Industries Israel constituted 81.91% of the Company's issued and paid-up share capital on the closing date.

After the closing date of the merger transaction, as stated above, the Company holds the entire share capital and voting rights of Panaxia Industries Israel, a wholly owned subsidiary (hereinafter, jointly: the "Group").

B. The consolidated financial statements comprise the reports of the Company and of Panaxia Industries Israel, notwithstanding the fact that, from the legal perspective, the Company is the buyer of the shares, as stated above. Due to the fact that the controlling shareholders of Panaxia Industries Israel received the control of the Company, it was determined that Panaxia Industries Israel is the accounting buyer of the activity, and therefore, the transaction was accounted for as a reverse acquisition which does not constitute a business combination. These consolidated financial statements (including comparative figures) reflect the subsequent financial position, operating results and cash flows of Panaxia Industries Israel (the accounting buyer).

The purchase consideration, in the amount of NIS 63,838 thousand, was determined according to the value of the Company's equity instruments (the legal buyer or the acquired entity for accounting purposes) as of the closing date of the transaction. The excess consideration beyond the carrying value of the Company's assets and liabilities, in the amount of NIS 35,967 thousand, was included as part of the expenses involving listing for trading in the statement of profit or loss and other comprehensive income for 2019. In addition to the excess consideration, additional costs were carried to the item for "listing expenses" in respect of the merger transaction, in the amount of approximately NIS 6,806 thousand, which mostly include payments to consultants in cash and through the allocation of shares and options, as well as fee payments.

Note 1 - General (Cont.)

The financial statements were presented under the Company's name, but were accounted for as the continuation of the financial statements of Panaxia Industries Israel, the accounting buyer in the transaction, and the comparative information presented in these reports refers to Panaxia Industries Israel, except for comparative information regarding earnings per share and share capital, which are presented in accordance with the data for the legal buyer.

The comparative figures in these reports were restated in order to reflect the Group's financial position and operating results according to the reverse acquisition method.

C. The Group is engaged, through the Subsidiary, in the production and distribution of cannabis-based medical products and drugs. As of March 31, 2020, the Company's activity is in Israel, and the Company has one operating segment.

D. On December 5, 2017, the Subsidiary formed, together with Pharmocann Ltd. (hereinafter: "Pharmocann"), Panaxia Logistics Ltd. (hereinafter: "Panaxia Logistics"), which was held by the parties 50% each. Panaxia Logistics is engaged in the provision and transportation of cannabis products to patients' homes, and commenced full activity in 2018.

On August 14, 2018 the Subsidiary signed with Pharmocann an agreement for the acquisition of its share in Panaxia Logistics, in consideration of a total of NIS 230 thousand, such that, after the acquisition, the Subsidiary wholly owns Panaxia Logistics.

E. In the past, the Company was engaged in the field of construction project initiation, mostly in the residential segment, and also held land for initiation and/or investment purposes, in Israel and abroad. The severe damage caused by the global crisis of 2008-2009 led to a significant reduction of the Company's activity, and until the date of the merger transaction, the Group's only real estate property was a property in the Affumati region, north of Bucharest, Romania. The Company also had an investment in a company in Africa which was engaged in the metals and minerals segment.

On October 27, 2019, Herodium Investments Ltd. changed its name to Panaxia Labs Israel Ltd.

Note 1 - General (Cont.)

In the merger transaction it was determined, inter alia, that the Company is required to implement a settlement in accordance with Section 350 of the Companies Law, to remove the Company's current activity to the trustee, and to repay the Company's debts and liabilities until the closing date of the merger transaction, as specified in the provisions of the settlement.

On March 4, 2019, the Company filed with the Court a motion to approve the convention of a general meeting of the Company's shareholders, in order to receive approval for the plan for the settlement in accordance with Section 350 of the Companies Law.

The settlement which was proposed in the motion included the following main components:

(A) Full repayment of the Company's debts and liabilities, and insofar as the Company's assets have not been sold, in their entirety, by the completion date of the settlement – transfer of the remaining prior assets and activities of the Company to a trustee, who will work to sell them and to divide the consideration to the Company's shareholders as of the effective date, as defined in the settlement;
(B) Addition of the activities of Panaxia Industries Israel into the Company, by way of a merger, through an exchange of shares between the Company and the shareholders of Panaxia Industries Israel.

On March 7, 2019, Court approval was received for the convention of a shareholders' meeting, with the agenda including approval of the merger transaction and the proposed settlement. On May 19, 2019, the shareholders' meeting convened and approved the merger transaction, in all of its components, as well as the proposed settlement. On July 17, 2019, the Court approved the proposed settlement, and clarification was given that the settlement does not include any exemption from any payment, fee, levy or tax, or from any procedure whatsoever.

As part of the foregoing settlement, the Company undertook to indemnify former corporate officers of the Company, and additional parties, in a derivative claim against them.

F. These financial statements were prepared in a summary framework as of March 31, 2020, and for the three month period then ended (hereinafter: the "Consolidated Interim Financial Statements"). These reports should be reviewed in the context of the Company's annual financial statements as of December 31, 2019 and for the year then ended, as well as the accompanying notes (hereinafter: the "Consolidated Annual Financial Statements").

Note 1 - General (Cont.)

G. Impact of the coronavirus crisis

In December 2019, the outbreak of the novel coronavirus (COVID-19) began in China. The virus then began spreading throughout the entire world, including Israel. The potential damage and the materialization of risks affecting the Israeli and global economy, in terms of growth and the global economy, depend on many factors, based on the current circumstances and publicly available information, the dynamic nature of the events, and the uncertainty in connection with the spread of the virus and the methods implemented by various countries to deal with the pandemic, as stated above.

In light of encouraging results in containment of the virus, and in the scopes of infection, beginning in mid April 2020 the Israeli government began initiating deconfinement measures to ease the restrictions which had been imposed, including, inter alia, opening stores, opening shopping malls and markets, and allowing more employees at workplaces.

At this stage, it is not possible to estimate whether the event will be short term, or an ongoing crisis which could result, inter alia, in a global recession. Given the current state of affairs, the scope and significance of the exposure to credit risks and financial risks depends on the development of the event, and its impact on the business environment in Israel and around the world.

The Company's activity was defined by the Ministry of Health as essential, and the Company continued operating fully, while complying with the special instructions which were published from time to time. According to the Company's estimate, the results for the first quarter of 2020, in which high revenues were recorded relative to previous periods, were not significantly affected by the coronavirus outbreak.

Company management is evaluating, inter alia, the sources of financing and liquidity, and believes that it is sufficiently financially robust in order to handle the crisis, both in the short term and in the medium term, inter alia, in light of the actions it has taken, the nature of its sold products, and its scope of liquid balances.

Note 1 - General (Cont.)

As of the publication date of the financial statements, the demand from the Company's customers for the Company's medical cannabis products has been stable, and the Company is also prepared to increase the scope of production in order to respond to the aforementioned possible increase in demand in the short to medium term, and the Company has sufficient raw materials for this purpose. On the distribution side, the Company is prepared for an expansion of home distribution services, including for customers who usually purchase its products at pharmacies. The Company ensures that instructions issued by the government, by the Ministry of Health and by the local authorities, are implemented at the production plant and at the Company's offices fully and stringently, including on all matters associated with the work methods and the scope of activity in the workplace, maintaining full protection and sanitation conditions, distancing between employees in the production and packaging rooms, maintaining full separation during shift changes, etc.

However, in light of the coronavirus outbreak, and its inherent risk, due to the fact that it is highly contagious, the foregoing may in the future have implications, inter alia, regarding the orderly staffing of positions and/or pollution at the plant, and as a result, on the Company's production capabilities at the production plant, and/or on the distribution of the Company's products to its customers. The coronavirus outbreak may also affect the actions of various medical regulatory authorities in Israel and abroad with which the Company is engaged, whose responses to regulatory requests could be slower. The Company therefore expects, inter alia, that requests to register new products which were submitted in connection with various products which the Company produces and/or intends to produce will be responded to over a longer timeframe than initially expected.

Additionally, according to the Company's estimate, as of the reporting date, the above should not affect the recoverable value of non-financial assets (property, plant and equipment, right-of-use assets, goodwill and other intangible assets), provision for expected credit losses and the net realizable value of the inventory components.

Note 2 - Significant Accounting Policies

Framework for preparation of consolidated interim financial statements

The consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", and in accordance with the provisions regarding disclosure in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The accounting policy which was applied in the preparation of the consolidated interim financial statements was consistent with that which was applied in the preparation of the consolidated annual financial statements.

Note 3 - Events During the Reporting Period

A. On January 5, 2020, the Company issued to several investors, as part of a shelf offering, 631,000 ordinary shares with no par value, for a total consideration of NIS 2,524 thousand (NIS 2,504 thousand after deducting issuance costs).

B. On January 8, 2020, the Subsidiary entered into a binding memorandum of understanding with Seach Sarid Ltd. ("Seach"), regarding the establishment of a joint venture intended to engage in exporting from Israel, to countries in Europe, of medical cannabis-based extracts and oils (the "Venture"). As part of the venture, the Company will be responsible for producing the products (at its own expense) and selling them to third parties, subject to the receipt of all regarding approvals. Seach will be responsible for growing (at its own expense) the medical cannabis. A ratio for the division of profits between the parties to the Joint Venture was also determined. The agreement will be in effect for two years, or until a certain predetermined quantity of products has been sold, whichever is earlier.

C. On February 4, 2020, the Subsidiary entered into a binding memorandum of understanding with Seach and Rafa Laboratories Ltd. ("Rafa"), for the purpose of creating a joint venture in the field of production, marketing and sale in the local market of medical cannabis products produced by Rafa, including the Axiban series of oils, which are produced by the Company and marketed by Rafa. In accordance with the memorandum of understanding, the responsibilities were divided between Seach, Panaxia and Rafa, such that the Company will be responsible for producing the products in accordance with the IMC-GMP standard, and for providing part of the raw materials. The duration of the commitment was set as three years, beginning on January 1, 2020.

Note 3 - Events During the Reporting Period (Cont.)

D. On February 27, 2020, the Company signed investment agreements with several investors, according to which the Company issued 6,319,703 ordinary Company shares with no par value, for a total consideration of NIS 17 million, reflecting a price per share of NIS 2.69. Additionally, under the agreement, 5,055,762 options were issued and are exercisable for three years following the grant date, at an exercise price of NIS 4 per share. On March 12, 2020, the suspensory conditions for the completion of the investment transaction were met, and the consideration, in the amount of NIS 17 million, was received in its entirety (NIS 16,702 thousand, after deducting issuance costs).

As part of the investment agreements, the interested parties of the Company and of the Parent Company undertook, through an irrevocable undertaking, to invest a total of NIS 6 million under similar conditions as the investment agreements with the investors, in other words, according to a price per share of NIS 2.69, in exchange for the receipt of 2,230,483 ordinary shares with no par value of the Company, and 1,784,387 options exercisable into additional ordinary shares of the Company at an exercise price of NIS 4 per share. The aforementioned undertaking of the interested parties will be in effect until June 3, 2020.

After the balance sheet date, in April 2020, additional interested parties of the Company undertook to invest approximately 1.3 million in the Company under similar conditions, such that the total undertaking to invest in the Company amounts to approximately NIS 7.3 million, in consideration for the issuance of 2,702,230 ordinary Company shares with no par value, and 2,161,784 options exercisable into additional Company shares at an exercise price of NIS 4 per share. The completion of the investments is subject to the approval of the shareholders' meeting which has been scheduled for June 1, 2020.

E. On March 10, 2020, the Subsidiary engaged with Stenocare S/A, a Danish company specialized in the distribution of medical cannabis products, in a non-exclusive agreement for the distribution, marketing and sale of medical cannabis-based products which are produced by the company in Denmark. The distribution agreement is in effect for five years, during which time the distributor will sell and distribute the products (at its own expense) to licensed pharmacies in Denmark, where in respect of some of the products which are included in the agreement, the agreement provides a non-competition undertaking by the distributor, in a manner which prevents it from distributing competing products in the region. The distributor also undertook to work (at its own expense) towards receiving and completing all of the regulatory authorizations and registrations which are required in order to market and sell the products. The implementation of the agreement is subject to the receipt and completion of the authorizations and registrations in Denmark, and subject to the receipt of a permit for exporting the products from Israel to Denmark.

Note 3 - Events During the Reporting Period (Cont.)

F. On March 25, 2020, the Subsidiary and the Parent Company reached understandings regarding an engagement between them (the "Agreement"), according to which the Subsidiary will be entitled, in its exclusive discretion, to make use of a facility dedicated to the research and development of medical cannabis, of the controlling shareholder in Europe (Malta), for the purpose of producing the Subsidiary's medical cannabis products, and marketing them in Europe, in exchange for reimbursement of costs plus a margin of 5.2% on the costs, as described in the agreement, with payment terms of 30 days. The agreement will be in effect until the earlier of either: (1) December 31, 2021; (2) The Subsidiary's receipt of an export license; (3) The termination of the lease for the facility in Malta. Additionally, each party is entitled to terminate the agreement by giving written notice 60 days in advance.

The Subsidiary's engagement in the agreement with the controlling shareholder is expected to allow it to expand its activities to the European market, which, as of the publication date of the financial statements, is not accessible to the Company (or to the other local Israeli companies wishing to export medical cannabis-based products outside of Israel), due to non-completion of the regulation in the local market regarding the exporting of medical cannabis products from Israel. The Subsidiary will continue producing and marketing products for the Israeli market. The Subsidiary is currently in the process of registering its products in additional European countries, and once completed, it believes that it will be able to produce the products in the Malta facility (insofar as may be required), and market them to additional countries in Europe.

The agreement with the controlling shareholder was presented to the required organs for approval, including the approval of the general meeting of the Company's shareholders, which was received on May 18, 2020.

G. On March 29, 2020, the Company's Compensation Committee and Board of Directors approved a framework plan regarding the granting of options to employees, consultants, service providers, directors and officers, for the purpose of submitting the plan to the tax authorities.

Note 3 - Events During the Reporting Period (Cont.)

H. On March 31, 2020, the Company signed a binding memorandum of understanding (the "Memorandum of Understanding") with the German pharmaceutical company Neuraxpharm Arzneimittel GmbH ("Neuraxpharm"), which is engaged in the development, sale, marketing and distribution of drugs.

The memorandum of understanding includes the main commercial arrangements which will be included in the exclusive collaboration agreement (the "Agreement") regarding the production of cannabis-based drugs and products for medical purposes, and the distribution thereof in Germany (the "Products" and the "Territory", respectively). The parties may expand the scope of the agreement to certain other countries in Europe (the "Additional Territories"), subject to a right of first offer which will be granted to each of the parties, according to conditions which will be agreed upon. Each of the parties also has the right of first offer regarding a collaboration in the territory with respect to additional medical cannabis-based products which may be developed in the future by either of the parties.

In accordance with the agreement, the Company or Panaxia, as applicable, will produce the products and purchase the raw materials from a third party of its choice, which will meet a quality level and standards which are suitable for the European market. Neuraxpharm will be responsible for the branding, penetration and marketing of the products in the territory, in accordance with a marketing strategy which will be determined jointly by the parties.

Each of the companies will be entitled to a certain determined rate out of the quarterly revenues from the sale of the products in the territory in practice, after certain deductions which were determined (depending on the actual profit margins relative to the sales forecast specified in the agreement), and to cover its expenses.

The agreement period is 5 years (subject to an early termination option in case of certain events, as specified in the agreement), and its entry into effect will be conditional upon the receipt of all relevant regulatory approvals which are required for the collaboration.

Note 4 - Class Action Lawsuits

A. On August 15, 2019, a motion was filed with the Tel Aviv District Court to approve a class action against Panaxia Ltd., the holder of a drug dispensary license, and against 16 additional companies in the medical cannabis industry, in the amount of approximately NIS 686 million. According to the assertion in the motion, the companies provide drugs to patients under deficient conditions, in a manner which constitutes prohibited discrimination pursuant to the Equal Rights for Persons with Disabilities Law, 5758-1998. It was also asserted, towards the companies, that they operate under a restrictive arrangement in breach of the provisions of the Economic Competition Law, 5748-1988, by inadequately specifying the components of their products, while limiting the quantity and/or quality and/or type of services in their business.

The Company is not a defendant in the class action; however, the Company may be affected by the results of the class action, due to the services agreement from February 2019 between the Subsidiary, Panaxia Logistics Ltd. and Panaxia Ltd., under which the Subsidiary will indemnify Panaxia Ltd. for any liability which has arisen for it, or any third party claim against it, in connection with the agreement (see also Note 16C2 above).

The formal deadline for submitting a response to the motion to approve was set as May 24, 2020.

A preliminary hearing of the motion to approve was scheduled for July 5, 2020.

In consideration of the fact that the Company's actions which form the subject of the claim were performed in accordance with the regulator's instructions; and in consideration of the many deficiencies tainting the claim, already at this preliminary stage, and before the Company has filed its response to the motion to approve, according to the estimate of Company management and its legal advisors, the chance that the Court will accept the motion to approve, and that the class action against the Company will be accepted, is lower than the chance that the motion to approve will be dismissed and/or that the class action will be summarily dismissed.

Note 4 - Class Action Lawsuits (Cont.)

B. In October 2019, a motion was filed with the District Court of Tel Aviv to approve a class action against Panaxia Ltd., the holder of a drug dispensary license, and against 7 additional companies in the medical cannabis industry, in the amount of approximately NIS 657 million, in respect of the discontinuation of their direct marketing of the medical cannabis products which they allegedly provide to medical cannabis patients in Israel. The causes of action in the claim include the existence of a restrictive arrangement in breach of the Economic Competition Law, 5748-1998, and a cause of action involving discrimination in breach of the Equal Rights for Persons with Disabilities Law, 5758-1998.

The formal deadline for submitting a response to the motion to approve was set as June 16, 2020.

A preliminary hearing of the motion to approve has been scheduled for October 25, 2020.

In consideration of the fact that the actions of the Company which form the subject of the claim were performed in accordance with the regulator's instructions; and in consideration of the many deficiencies tainting the claim, already at this preliminary stage, and before the Company has filed its response to the motion to approve, according to the estimate of Company management and its legal advisors, the chance that the Court will accept the motion to approve, and that the class action against the Company will be accepted, is lower than the chance that the motion to approve will be dismissed and/or that the class action will be summarily dismissed.

Note 5 - Financial Instruments

A. The balances in the financial statements of cash and cash equivalents, trade receivables, other accounts receivable, trade payables and other accounts payable correspond to or approximate their fair value.

B. In January 2019, the Parent Company and the Subsidiary entered into investment agreements with external investors, for a total consideration of NIS 4 million, which was invested in the Parent Company. Under the investment agreements, it was determined that if the Company completes the merger with the Subsidiary by the end of 2019 (as specified in Note 1A above), the consideration for the investment in the Parent Company will be converted automatically into shares of the Company, according to the mechanism which was determined in the investment agreement. If the aforementioned merger has not been completed by the determined date, the consideration for the investment in the Parent Company will be converted into shares of the Parent Company, in accordance with the mechanism which was determined in the investment agreement.

Note 5 - Financial Instruments (Cont.)

The Company classified the conversion option as a liability in its financial statements, which was measured, in each reporting period, at fair value. As of March 31, 2019, the fair value of the conversion option was estimated at a total of NIS 11,768 thousand. For the three month period ended March 31, 2019, financing expenses with respect to the revaluation of the conversion option amounted to a total of NIS 9,105 thousand.

Upon the completion of the merger on October 1, 2019, the balance of the investment was converted into 3,173,529 ordinary shares of the Company with no par value, and the liability was converted to share capital and premium of the Company. Until the completion date of the merger, the financing expenses in respect of the revaluation of the conversion option amounted to a total of NIS 8,815 thousand.

NOTE 6 - Subsequent Events

A. In April and May 2020, 1,050,000 warrants (Series A) were exercised into 629,689 ordinary Company shares with no par value. The options were exercised on a cashless basis, reflecting only the bonus component between the Company's share price on the stock exchange on the exercise date, and the exercise price of NIS 1.273.

B. In April 2020, the subsidiary signed a sublease agreement with a third party (which has a lease agreement with the lessor, hereinafter: the "Lessor"), regarding the lease of areas in the Company's complex in consideration of approximately NIS 100 thousand per month, including rent and management fees. The lease period is until May 31, 2024, and the Company has an option to extend the lease period until May 31, 2026. The sublease agreement will be subject to the signing of an agreement to extend the lease period, which was signed with the Lessor, the Parent Company and related companies, according to which all of the lease agreements which were signed with the Lessor, and whose lease period concludes on May 31, 2022, will be extended to May 31, 2024, and the Parent Company and the related companies were given the option to extend the lease period to May 31, 2026, provided that the Parent Company and the related companies exercise the extension option.

C. On April 6, 2020, the Company signed investment agreements with several investors, according to which the Company issued 1,000,000 ordinary shares with no par value, for a total consideration of NIS 2,770 thousand, reflecting a price per share of NIS 2.77. Additionally, under the agreement, 800,000 options were issued and are exercisable for three years following the grant date, at an exercise price of NIS 4 per share.

Note 6 - Subsequent Events (Cont.)

D. On April 30, 2020, the Company signed an investment agreement with an investor, according to which the Company issued 71,685 ordinary shares with no par value, for a total consideration of NIS 200 thousand, reflecting a price per share of NIS 2.79. Additionally, under the agreement, 56,548 options were issued and are exercisable for three years following the grant date, at an exercise price of NIS 4 per share. As of the reporting date, the suspensory conditions for the completion of the transaction have not yet been fulfilled.

E. On May 13, 2020, the Company signed an investment agreement with an investor, according to which the Company issued 500,000 ordinary shares with no par value, for a total consideration of NIS 1,395 thousand, reflecting a price per share of NIS 2.79. Additionally, under the agreement, 400,000 options were issued and are exercisable for three years following the grant date, at an exercise price of NIS 4 per share. As of the reporting date, the suspensory conditions for the completion of the transaction have not yet been fulfilled.

Note 7 - Revenue from Contracts with Customers

	For the 3 months ended March 31		For the year ended December 31
	2020	2019	2019
	NIS in Thousands		
Sale of finished products	9,151	188	6,539
Production, storage and distribution services	3,017	2,426	10,151
	12,168	2,614	16,690

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