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**Kanabo Group Plc**  
**(Formerly: Spinnaker Opportunities Plc)**  
**Annual Report & Financial Statements**  
**for the year ended 31 December 2021**

Company Registration No. 10485105 (England and Wales)

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**Kanabo Group Plc**  
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**Annual Report & Financial statements**  
**For the Year Ended 31 December 2021**

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***Company Information***

**Directors**

Mr. Andrew Morrison  
Mr. David Tsur  
Mr. Avihu Tamir  
Mr. Daniel Poulter  
Mr. Gil Efron

**Principal Bankers**

PayrNet Limited  
138 Holborn  
London  
England  
EC1N 2SW

**Company Secretary**

Mr. Howard Rubenstein

**Registrars**

Neville Registrars  
Neville House  
Steelpark Road  
Halesowen  
B62 8HD

**Registered Office**

Churchill House  
137-139 Brent Street  
London  
NW4 4DJ

**Registered Number**

10485105

**Brokers**

Peterhouse Capital Limited  
3<sup>rd</sup> Floor  
80 Cheapside  
London  
EC2V 6EE

**Independent Auditor**

PKF Littlejohn LLP  
Statutory Auditor  
15 Westferry Circus  
Canary Wharf  
London  
E14 4HD

**Solicitors**

Asserson  
Churchill House  
137-139 Brent Street  
London  
NW4 4DJ

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## ***Chairman's Statement***

I am pleased to present the audited financial statements to shareholders for the year ended 31 December 2021, which is our first annual report published as a publicly listed company since the completion of the acquisition of Kanabo Research Ltd via a reverse takeover ("RTO").

The period under review covers the reverse takeover of Spinnaker Opportunities Plc and re-listing onto the London Stock Exchange, with the Company successfully raising gross proceeds of £6 million from new and existing investors. Since the RTO, we made a number of exciting developments and met a number of key milestones that testifies to the rapid development of the business, delivering on several strategic milestones stated at the time of RTO.

As we outlined at the time of re-listing and subsequently in the June 2021 interim consolidated financial statements, the Board remains committed to executing our stated strategy of leading the global evolution of the cannabis industry by building a fully vertically integrated platform that will generate significant value from new product development, innovative production techniques and enhanced distribution direct to the user of cannabis-based products.

Since the completion of the RTO, we have witnessed huge developments in the cannabis industry and markets with a groundswell of growing acceptance of cannabis products for both overall wellbeing and specific medicinal applications.

With further investment and patient access to medical cannabis, we can now see a clear path towards medical cannabis and CBD products becoming mainstream products in the European market.

The cannabis market is now estimated to increase to a €3.2 billion market by 2025 in Europe with Germany forecasted to remain the dominant territory and with the UK market accelerating quickly. According to a UK-based cannabis consultancy, Prohibition Partners, the UK medical cannabis market is now expected to be worth around £1 billion by 2024, while in 2021, the UK-based real estate company Savills valued the CBD market alone at around £300 million a year.

The rising interest in the potential of cannabis in the UK, has seen consumer demand for products outstrip supply by some margin with patient numbers now growing at an unprecedented level.

We have also seen the level of hesitancy from healthcare professionals regarding prescribing medicinal cannabis products begin to wane, as the pace of education catches up to the demand from consumers and patients alike. Education has been vital at combatting the glacial pace of regulatory clarity, not only for consumers, but for consultants and policymakers as well as innovative businesses such as Kanabo.

We have also taken the opportunity during the period to strengthen our board with the appointment of Dr Daniel Poulter MP as a Non-Executive Director. Daniel's knowledge and insight into both UK health service provision and cannabis regulation continues to be invaluable to the Board.

Thanks to the steadfast commitment of our people, Kanabo has delivered significant progress in the execution of its strategy during the year. I therefore thank all our employees, advisors and our shareholders for their dedication and support during the period.

**David Tsur**  
**Chairman, Non – Executive Director**

1 June 2022

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## ***Chief Executive Officer's Review***

The period under review was a transformational one for the Company with both re-admission on the London Stock Exchange and the development of the vertically integrated supply chain and unique distribution channels.

Given the progress during the year and the post period acquisition (see note 27 for further commentary), the Group continues to work towards its stated strategy of becoming a leading Group within the CBD consumer and medical cannabis markets.

### ***Financial Review***

On 16 February 2021, the Company successfully completed its acquisition of Kanabo Research Ltd via a share-for-share swap ("Reverse takeover" or "RTO"). Since this acquisition falls outside the scope of IFRS 3, RTO accounting has been applied. As a result, the comparatives in the primary statements represent that of Kanabo Research Ltd. The current year figures within the primary statement represent the results of both the Company and Kanabo Research Ltd for the year and the assets and liabilities of both entities as at the year-end respectively. For further commentary on accounting for the RTO, see note 8.

In addition to share consideration issued on 16 February 2021 totaling £15,000K, under the terms of the agreements, an additional 38,461,492 shares at the fundraising price, 6.5p, were to issued providing a number of agreed upon milestones had been met in the year. As these milestones were met, as announced in the RNS released on 30 December 2021, shares for a value of £2,500k were to be issued as at the year-end. As at the approval date of this annual report, these shares have yet to be issued however, the Company will issue the shares in question once it has sufficient authorised share capital.

The Group remained predominantly pre-revenue during the period recording an operating loss of £3.4m. Included in the £3.4m of operating expenses were research and development, sales and marketing costs of £0.2m and £0.6m respectively. As in 2020, no research and development expenses incurred in the year have been capitalised. See note 4 for our justification. The operation loss includes a loss in the amount of £0.6m which was recorded as a net impairment loss over the loans granted to Materia.

The majority of operating expenses were salary related with the exceptional reverse acquisition costs of £1.2m resulting in a loss for the year of £4.6m.

Importantly, the balance sheet remained strong with the Group's cash and cash equivalents totalling £4.5m as at 31 December 2021, following a net cash outflow of £2.1m from operating activities and approximately £7.2m raised through share, warrants and options issuance during the period.

During the reporting period, as part of its strategic plan, the Company signed a head of agreement with 11157353 Canada Corp. a company incorporated in Canada ("Materia"). As part of this agreement the Group had advanced CAD 1,000K (£582K) to Materia. When assessing whether the loan receivable and accrued interest is recoverable or not, the Directors identified a number of impairment indicators. Whilst no repayments of the loan are due, or yet to have been received and whilst through communications with Materia the Directors understand Materia is willing to repay the balance, there is not sufficient evidence to demonstrate that it is probable that Materia has the ability to make full repayment of the balance. The Directors have therefore taken a prudent view and decided to fully impair the loan, however, the Company and Materia will continue to discuss their future collaboration and a strategic partnership through which the Company hope to recover the loan balance.

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***Chief Executive Review (Continued)***

***Financial Review (continued)***

Since the year-end, the Company has received strong investor support from both existing and new investors. On 21 February 2022, the Company successfully completed a £2.25 million fundraising ensuring Kanabo remains well funded to progress its strategic plans during 2022, as disclosed in the strategic report on page 15.

***Operational Review***

Kanabo launched its first medical cannabis product in the UK in July 2021, thereby demonstrating its fully operational supply chain from flower to production and through our extensive distribution network outlined at the time of re-listing at the beginning of the period.

This first shipment of medical cannabis cartridges not only marked a key milestone for Kanabo, but moreover for the medicinal cannabis industry across the UK.

***Production Capability***

Our production and supply agreement with PharmaCann Polska established Kanabo's first medical cannabis production line in the EU, with an initial production capacity of up to 36,000 cartridges per month. The Company can further increase this production line when necessary.

In addition, the agreement with Pure Origin to manufacture, package and deliver our wellness product line has introduced another dedicated production line with an initial capacity of 44,000 units a month. In this case too, Kanabo can further increase production capacity when necessary. These relationships add significant production capacity to Kanabo's CBD wellness business while we retain full control over product quality and distribution of our tamper proof cartridges.

Following the period-end, Kanabo signed a Memorandum of Understanding with Forbe Ltd, thereby taking the Company into the emerging CBD markets in Israel. We expect this to position the Company as a CBD market leader in this high growth market where the regulatory landscape for the sale of CBD products is on an increasingly positive trajectory; Israel's deregulated market is estimated to be worth up to US\$475 million by 2025.

***Sales and Distribution Capability***

During 2022, Kanabo's launched a UK eCommerce site. This clearly demonstrates how focused we are to bring our proprietary products to market and accelerate the path to commercial sales volumes.

Post year-end, we launched the Company's first dedicated eCommerce platform, 'The Kanabo Store', for the distribution of CBD products to consumers. The planned roll-out will have an initial focus on the UK before the website launches across Europe.

***Product Development***

During October 2021, Kanabo submitted a clinical trial protocol for approval at the Hadassah Medical Centre and review by the Helsinki Committee to test the impact on healthy volunteers of the inhalation of various medical cannabis formulas via a proprietary VapePod delivery device, which dispenses standardized and metered inhalations.

As the first of its kind, this trial is expected to position Kanabo as the new gold standard for medical cannabis inhalation within the global medicinal Cannabis community.

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## ***Chief Executive Officer's Review (Continued)***

### **Post Period Events**

Our long-term mission to enable greater patient access to medicinal cannabis products in the UK has already been advanced with our post-period acquisition of The GP Service Limited ("GPS"), a private primary care telemedicine provider, which uses an online-based consultation platform. The acquisition was closed for a net share issue consideration of £13.5m, see note 27.

The objective of our acquisition of GPS is to rapidly grow an existing digital and telemedicine business while establishing a fully compliant channel to market for our products for medical patients. By improving patient access, the Company hopes to make a substantial contribution to improving outcomes for thousands of patients across the UK and Europe and beyond.

Given the current market environment, I believe that Kanabo is well positioned to deliver attractive growth in revenue and margin as a result of this acquisition in 2022.

As part of strengthening the Group's financial position, on 21 February 2022, the Company raised £2.25 million by way of a placing of 28,125,000 new ordinary shares of 2.5 pence each in the Company ("placing shares") at a price of 8p per share, see note 27.

Most recently, the Company has announced that is no longer proceeding with the proposed acquisition of the European businesses of 11157353 Canada Corp., which trades under the name of Materia ("Materia"). The Company has now decided that the benefits of working with Materia, including its GMP facility in Malta, are now most effectively executed through a non-dilutive Strategic Partnership between the two independent companies, as opposed to the previously proposed all-share acquisition.

Kanabo and Materia are currently negotiating a partnership to directly support the Company's key strategy, which is the commercialisation of its medical cannabis products in the UK and Germany, with:

- Access to Materia's EU-GMP production facility in Malta via a contract manufacturing agreement
- Exclusive distribution rights in the UK for Materia's new products.

Arrangements for the servicing and repayment of the CAD\$1 million secured loan facility previously made available by the Company to Materia will be incorporated into the new strategic partnership.

### **Outlook**

The acquisition of GPS will prove to be transformational for Kanabo in 2022; reflecting our strategy to use M&A and organic growth to build a leading pan-European company to offer innovative medical solutions to patients suffering from conditions including chronic pain, anxiety and central nervous system diseases.

However, the full impact of our acquisition of GPS will only be realised once we can use this online channel to prescribe medicinal cannabis within a compliant digital framework. To that end, we intend to invest in additional sales capacity at GPS to further develop this recurring revenue stream to offer advanced telemedicine services to medium to large enterprises.

Cannabis legislation is evolving rapidly, and the Company is making significant progress along its product development roadmap with the CE Mark for its proprietary Vapepod expected this year. The CE Mark is a certification that our products meet all health, safety, and environmental protection standards and will pave the way for VapePod sales across the UK and EU.

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***Chief Executive Officer's Review (Continued)***

In addition, the Company is aiming to diversify its offering through the establishment of several new delivery methods for our cannabis products. This is expected to bring new and significant growth opportunities in this market as we extend our offering beyond vapourisation.

Furthermore, the Company is pursuing additional supply and production capacity in order to expand its routes to its key markets.

Therefore, I believe that Kanabo is well positioned to deliver attractive growth in 2022 for shareholders and, subject to legislation, remains on track to become one of Europe's first digitally led, legally compliant providers of both wellness CBD services and medicinal products.

**Avihu Tamir  
CEO, Executive Director**

1 June 2022

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*Avihu Tamir*  
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***Board of Directors and Senior Management***

**Andrew Morrison - Non-Executive Director**

Formerly Chairman of Spinnaker Opportunities Plc, Mr. Morrison is an active investor and maintains a portfolio of non-executive directorships amongst junior public companies, in the energy and other sectors. He has in the past acted as Chief Executive of companies including Xtract Energy Plc, Silvermere Energy Plc and Zeta Petroleum Plc.

Mr. Morrison began his career at Shell in oil products and in 1999, joined BG Group Plc as a New Ventures Director. Subsequently he held senior New Business Development roles for the industrial gases group BOC Group Plc until its acquisition in 2007. Mr. Morrison has a BSc in Chemical Engineering and Fuel Technology from the University of Sheffield and a Diploma in Company Direction from the Institute of Directors.

**David Tsur - Chairman, Non-Executive Director**

Mr. Tsur is the co-founder of Kamada Ltd, a public company listed on both NASDAQ and the Tel-Aviv Stock Exchange. He served as its Chief Executive Officer and on its board of directors from the company's inception in 1990 until July 2015. Mr. Tsur served as a Board member and Chairman of Collplant listed on the NASDAQ.

Prior to co-founding Kamada, Mr. Tsur was the Chief Executive Officer of Arad Systems and RAD Chemicals Inc. He has also held various positions in the Israeli Economic Ministry (formerly named the Ministry of Industry and Trade), including Chief Economist and Commercial Attaché in Argentina and Iran.

Mr. Tsur holds a BA degree in Economics and International Relations and an MBA in Business Management from the Hebrew University of Jerusalem.

**Avihu Tamir - Chief Executive Officer, Executive Director**

Mr. Tamir is a cannabis entrepreneur with over five years of hands-on experience in multiple cannabis ventures and vast experience in consulting for international cannabis projects. Mr. Tamir began his career and built his reputation as a senior strategy consultant at Accenture. He is also the founder of Teva Nature, the leading vaporiser company in Israel.

Mr. Tamir founded Kanabo Research in 2017 and since then has served as CEO of the company. His expertise includes biotechnology, new agriculture and agro-tech, and other breakthrough technologies in the dynamic field of medical cannabis.

Mr. Tamir holds a B.A. in Finance and Risk Management (Magna Cum Laude), and a M.A. in Political Science (Magna Cum Laude) from the IDC Herzliya.

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***Board of Directors and Senior Management (continued)***

**Dr. Daniel Poulter - Non-Executive Director**

Dr Poulter is a former U.K. health minister with a detailed knowledge of the medicines and drugs regulatory framework in the UK. and across Europe.

He studied law at Bristol University and has a degree in medicine from Guy's, King's and St Thomas' School of Medicine. Before retraining as an NHS psychiatrist, Dr Poulter previously worked as a hospital doctor specialising primarily in women's health. He continues to practice medicine as an NHS hospital doctor on a part-time basis.

Dr Poulter's medical experience and extensive knowledge of both healthcare policy and regulation makes him well placed to support the Company's approach to establishing medicinal cannabis markets.

**Gil Efron - Non-Executive Director**

Mr. Efron is serving as President and Chief Financial Officer of NASDAQ and TASE dual-listed Purple Biotech Ltd, a clinical-stage company since June 2021, having previously held the position of Deputy Chief Executive Officer and Chief Financial Officer from October 2018.

Between 2011 and 2017, Gil served as Deputy CEO and CFO of Kamada Ltd, a NASDAQ and TASE dual-listed plasma-derived protein therapeutics company between 2011-2017.

Mr. Efron holds a B.A. degree in Economics and Accounting and an M.A. degree in Business Administration from the Hebrew University of Jerusalem.

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## ***Directors' Report***

The Directors present their report with the audited financial statements of the Company for the year ended 31 December 2021. A commentary on the business for the year is included in the Chairman's Statement on page 4. A review of the business is also included in the Strategic Report on page 15.

The Company's Ordinary Shares were admitted to listing on the London Stock Exchange, on the Official List pursuant to Chapters 14 of the Listing Rules, which sets out the requirements for Standard Listings.

### **Directors**

The Directors of the Company during the year and their beneficial interest in the Ordinary shares of the Company at 31 December 2021 were as follows:

<b>Director</b>	<b>Position</b>	<b>Appointed</b>	<b>Resigned</b>	<b>Ordinary shares</b>	<b>Options</b>	<b>Warrants</b>	<b>Consideration shares (b)</b>
Andrew Morrison (a)	Non-Executive Director	17/11/2016	-	4,600,080	900,000	2,300,040	-
David Tsur	Chairman, Non-Executive Director	16/02/2021	-	9,061,102	2,700,000	-	1,513,542
Avihu Tamir	CEO, Executive Director	16/02/2021	-	97,263,870	-	-	16,246,722
Daniel Poulter	Non-Executive Director	19/07/2021	-	-	1,800,000	-	-
Gil Efron	Non-Executive Director	21/03/2022	-	-	-	-	-
Uziel Danino	Non-Executive Director	16/02/2021	21/03/2022	3,683,382	1,800,000	-	615,262
Anthony Harpur (c)	Non-Executive Director	21/02/2017	16/02/2021	-	-	-	-
Alan Hume (c)	Non-Executive Director	17/09/2018	16/02/2021	1,521,538	-	400,000	-

(a) 2,600,080 Ordinary Shares held by Mr. Andrew Morrison were held by Global Prime Partners Nominees Limited on behalf of his Self-Invested Personal Pension (SIPP).

(b) The consideration shares were not issued as of the reporting period; the amount presented in the schedule above is still subject to Board approval.

(c) Anthony Harpur and Alan Hume resigned during the year upon completion of the RTO.

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## ***Directors' Report (continued)***

### **Qualifying third party indemnity provision**

At the date of this report, the Company has a third-party indemnity policy in place for all five Directors.

### **Substantial shareholders**

As at 31 December 2021, the total number of issued Ordinary Shares with voting rights in the Company was 369,966,277. Details of the Company's capital structure and voting rights are set out in note 19 to the financial statements.

As of the date of the approval of the financial statements, the Company has been notified of the following interests of 3 per cent or more in its issued share capital as at the date of approval of this report.

<b>Name of shareholder</b>	<b>Number of ordinary shares</b>	<b>% of Share capital</b>
Avihu Tamir	97,263,870	23.00%
David Sack	16,191,080	3.83%

### **Financial instruments**

Details of the use of the Company's financial risk management objectives and policies as well as exposure to financial risk are contained in the accounting policies and note 24 of the financial statements.

### **Greenhouse gas (GHG) emissions**

The Group is aware that it needs to measure its operational carbon footprint in order to limit and control its environmental impact. However, since the Group, due to its limited activities in the year under review, did not consume more than 40,000kWh of energy, the Group's emissions are not disclosed for this reason.

In the future, the Group will only measure the impact of its direct activities, as the full impact of the entire supply chain of its suppliers cannot be measured practically.

### **Dividends**

The Directors do not propose a dividend in respect of the year ended 31 December 2021 (2020: nil).

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***Directors' Report (continued)***

**Future developments and events subsequent to the year-end**

Further details of the Company's future developments and events subsequent to the year-end are set out in the Strategic Report on page 15 and in note 27 in the financial statements.

**Corporate governance**

The Governance report forms part of the Director's Report and is disclosed on page 22.

**Going Concern**

As at 31 December 2021, the Group's cash position totaling £4,477k and it was in a strong net current asset position. Based on the Group's current cash reserves and detailed cash forecasts produced, the Directors are confident that the Group will be able to meet its obligations as they fall due over the course of the next 12 months. Whilst the Group may seek to raise further funds in the next 12 months, the Directors are confident that the Group would be able to meet its obligations as they fall due in the event that no further funding is obtained because of low level committed expenditure relative to the forecasted discretionary expenditure, which could be reduced or deferred.

The Directors also acknowledge that the COVID-19 pandemic has had, and will likely continue to have, adverse impacts on the global economy and capital markets. However, the Directors are confident that the Group will continue to remain a going concern as they do not believe the Group is dependent on raising further funds to remain a going concern.

**Auditors**

The Board appointed PKF Littlejohn LLP as auditors of the Company on 12 December 2018. As a result of the ethical breach detailed within the Auditors' Report, they will not be able to continue in office and thus the Board will be appointing new auditors in the foreseeable future.

**Statement of directors' responsibilities**

The Directors are responsible for preparing the annual report alongside the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors have prepared the financial statements in accordance with UK-adopted international accounting standards and in conformity with the requirements of the Companies Act 2006.

Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that year. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies with a standard listing.

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***Directors' Report (continued)***

**Statement of directors' responsibilities (continued)**

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether they comply with UK-adopted international accounting standards, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements and the Remuneration Committee Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are also responsible to make a statement that they consider that the annual report and accounts, taken as a whole, is fair, balanced, and understandable and provides the information necessary for the shareholders to assess the Group's position and performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

**Statement of directors' responsibilities pursuant to disclosure and transparency rule**

Each of the Directors, whose names and functions are listed on page 9 confirm that, to the best of their knowledge and belief:

- the financial statements prepared in accordance with UK-adopted international accounting standards and, give a true and fair view of the assets, liabilities, financial position, and loss of the Group; and
- the Annual Report and financial statements include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face.

**Disclosure of information to auditors**

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This directors' report was approved by the Board of Directors on 1 June 2022 and is signed on its behalf by:

**David Tsur**  
**Chairman, Non – Executive Director**

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## ***Strategic Report***

The Directors present the Strategic Report of the Company for the year ended 31 December 2021.

### **Section 172(1) Statement - Promotion of the Company for the benefit of the members as a whole**

The Directors believe they have acted in the way most likely to promote the success of the Company for the benefit of its members, as required by section 172 of the Companies Act 2006.

The requirements of section 172 are for the Directors to:

- Consider the likely consequences of any decision in the long term;
- Act fairly between the members of the Group;
- Maintain a reputation for high standards of business conduct;
- Consider the interests of the Group's employees;
- Foster the Group's relationships with suppliers, customers and others; and
- Consider the impact of the Group's operations on the community and the environment.

The Board recognise that their primary role is the representation and promotion of shareholders' interests. The Board makes every effort to understand the interests and expectations of the Group's shareholders and other stakeholders, and to reflect these in the choices it makes in its effort to create long-term sustainable value. Governed by the Companies Act 2006, the Company has adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code"). The Board recognises the importance of maintaining a good level of corporate governance which, together with the requirements of a main market listing, ensures that the interests of the Company's stakeholders are safeguarded.

As a Company, the Board seriously considers its ethical responsibilities to the communities and environment.

The application of the section 172 requirements can be demonstrated in relation to some of the key decisions made during the year:

- The acquisition of Kanabo Research Ltd via an RTO and the re-listing of the Company onto the London Stock Exchange was successfully executed in February 2021 alongside a significant fundraise
- Management entered into negotiations with GPs and Materia and made a significant investment in Hellenic, entities in the CBD and Medicinal Cannabis sector thus taking further steps towards its goal to become one of Europe's leading compliant providers of CBD and Medicinal Cannabis
- The Board recognises that it is key to its long-term success thus the Group invest in research activities within the subsidiary.

The Board considers that they have acted in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole in decisions taken during the year ended 31 December 2021.

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***Strategic Report (continued)***

**Review of Business in the Period**

**Operational Review**

The Group's principal activity is set out in the Directors' Report on page 11.

On 29 January 2021 the Company published the prospectus in relation to the acquisition of Kanabo and called for a General Meeting of shareholders on the 15 February 2021. The completion of the Kanabo transaction took place on 15 February 2021 with re-admission to trading on the London Stock Exchange the following day.

Following the RTO, the following actions were taken to help enhance the Group's product offering, production processes and supply chain:

- Production developments:
  - a. Signed a production and supply agreement with PharmaCann Polska in March 2021 for the supply of cartridges containing the Company's proprietary medicinal cannabis formulations for use with the VapePod inhalation device.
  - b. Secured a further manufacturing agreement on 20 May 2021 with Pure Origin Limited to supply Kanabo's CBD wellness product line from its facility in Wales.
  - c. Completed a certified EU-GMP production line in June 2021 in partnership with Pure Origin Group.
- Product Developments:
  - a. Kanabo's medicinal cannabis cartridges became available to UK patients.
  - b. Applied to undertake a bioavailability and efficacy trial of its proprietary Cannabis inhalation formulas used in conjunction with its VapePod delivery device.
- Supply Chain and Distribution Developments:
  - a. Launched the first medical cannabis product in the UK in July 2021, demonstrating the Company's fully operational supply, production, and distribution chain.
  - b. Delivered the first shipment of the Company's medical cannabis cartridges for distribution through LYPHE Group clinics and dispensaries.
  - c. In September 2021, the Company's CBD products became available for sale via a leading UK eCommerce site dedicated to CBD, HandpickedCBD.com.

**Business strategy**

After the reporting period the Group completed a strategic acquisition of GP Service (UK) Limited ("GPS"). As a result, through investment made by the Company, GPS will now be able to grow its primary care tele-medicine business and be at the leading edge of an emerging medicinal cannabis tele-medicine market. This market segment is expected to grow strongly during 2022 as legislation evolves and medicinal cannabis continues to gain acceptance as a treatment for more indications and become more mainstream.

The Company is committed to the development and acquisition of cannabis related businesses and production assets in UK and abroad (subject to compliance with applicable law), intellectual properties, technologies or other assets that are synergistic to the Company's UK and international strategies.



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***Strategic Report (continued)***

**Subsequent events**

On 21 February 2022, the Company acquired GP Service (UK) Limited ("GPS"), a UK-based private primary care telemedicine provider, for a net consideration of £13,498,634 ("net consideration"). The net consideration was satisfied by the allotment of 94,133,645 B ordinary shares of 0.00001p each in the capital of Kanabo GP Limited, a subsidiary of Kanabo Group Plc, at a price of 12.65p per share ("Consideration Shares"). It has been agreed as part of the acquisition that the principal and interest owed at completion by GPS to MEIF WM Debt LP (£1,590,729) will be repayable by the Company by the allotment of 12,574,931 ordinary shares within 18 months based on the same price of 12.65p per share, see note 27.a in the financial statements.

The acquisition of GPS is part of the Company's strategy to establish a new and fully compliant channel to market for the Company's products for medical patients. Through improved access to these patients, the Company hopes to make a substantial contribution to improving outcomes for thousands of patients in the UK and Europe.

On 21 February 2022, the Company successfully raised £2.25 million by way of a placing of 28,125,000 new ordinary shares of 2.5 pence each in the Company ("placing shares") at a price of 8p per share. The placing shares issued represented approximately 7% of the Company's enlarged ordinary share capital following the placing.

**COVID-19**

The impact of the Covid-19 pandemic had little effect on the business of the Group during 2021 as the work continued using phone communications and video conference facilities to minimise risk to participants. Due to the continued success of global vaccination programmes and the widespread existence of online purchasing, the Directors do not believe that COVID-19 will have a significantly adverse impact on the Group in the foreseeable future.

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***Strategic Report (continued)***

**Environment and Social**

The Group is committed to creating long-term value and sharing the benefits of its operations with all its stakeholders, including employees, and shareholders. The Group operations have the potential to provide a significant positive impact on the socio-economic development of its local communities, while minimising their impact on the environment. Environment, social and governance (“ESG”) policies, systems and practices are embedded throughout the business.

The Group is aware that it needs to measure its operational carbon footprint in order to limit and control its environmental impact. However, since the Group, due to its limited activities in the year under review, did not consume more than 40,000kWh of energy, the Group’s emissions are not disclosed for this reason.

In the future, the Group will only measure the impact of its direct activities, as the full impact of the entire supply chain of its suppliers cannot be measured practically.

**Financial review**

**Results for the year**

The Group incurred a loss for the year to 31 December 2021 of £4,633K (2020 – loss of £580K). The Group recorded an operating loss of £3,402K which included research and development, sales and marketing and general and administration costs of £242K, £569K and £2,000K respectively. The operating loss include also an impairment recorded over the loans granted to Materia in the total amount of £598K

The Company recorded a share-based payment expense of £1,172K resulting from the accounting treatment for the RTO.

**Cash flow**

The net cash increase for 2021 was £4,150K (2020: £29K inflow).

**Closing cash**

As at 31 December 2021, the Group held £4,477K of cash (2020: £380K).

**Key performance indicators**

After the reporting period, the Company adopted a KPI plan to its employees which is determined by company and personal performance.

The Company has not yet agreed upon KPIs upon at board level yet but that generally the performance of the Group is reviewed by considering factors such as the level of sales, completion of M&A deals, fundraising, clinical trials, and receiving CE mark.

During the year the sole KPI of the Company was to execute a successful RTO of a target company in the CBD/medicinal cannabis sector therefore this KPI was fully achieved.

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***Strategic Report (continued)***

**Position of Group's business**

At the year end the Group's Statement of Financial Position shows net assets totaling £5,184K (2020: £39K, deficit). As at the year end the Group were in a current net asset position of £4,392K (31 December 2020 – net current liability position of £66K) which is principally due to the Group's strong cash reserves.

*Environmental matters*

The Board contains personnel with a good history of running businesses that have been compliant with all relevant laws and regulations and there have been no instances of non-compliance in respect of environmental matters.

*Employee information*

At present, there are no female Directors in the Company. The Company has an executive director and four Non-Executive Directors. The Group are committed to gender equality and, if future roles are identified, a wide-ranging search would be completed with the most appropriate individual being appointed irrespective of gender.

*Social/Community/Human rights matters*

The Group ensures that employment practices take into account the necessary diversity requirements and compliance with all employment laws. The Board has experience in dealing with such issues and have sufficient training and qualifications to ensure they meet all requirements.

*Anti-corruption and anti-bribery policy*

The government of the United Kingdom has issued guidelines setting out appropriate procedures for companies to follow to ensure that they are compliant with the UK Bribery Act 2010. The Company has conducted a review into its operational procedures to consider the impact of the Bribery Act 2010 and the Board has adopted an anti-corruption and anti-bribery policy.

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***Strategic Report (continued)***

**Principal risks and uncertainties**

The Group operates in an uncertain environment and its business is subject to a number of risk factors. The Directors consider the following risk factors are of particular relevance to the Group's activities although it should be noted that this list is not exhaustive and that other risk factors not presently known or currently deemed immaterial may apply.

<b>Risks/uncertainties to the Group</b>		
<b>Issue</b>	<b>Risk/uncertainty</b>	<b>Mitigation</b>
<b>The Group may face significant competition in its chosen industry</b>	There may be significant competition faced by the Group. The Group is currently focussed on the cannabis processing industry which received considerable publicity in recent years. There is a risk that by the time the product is brought to market, there will be a large number of competitors. A number of these competitors may possess greater technical, financial and other resources than the Group.	The growth prospects in the cannabis industry are widely regarded as very strong, which may help to reduce the effect of competition. By consulting with knowledgeable experts in the industry, carrying out thorough due diligence on potential targets and extensive market research, the Group may reduce this risk.
<b>The Group relies on the experience and talent of its management and advisors</b>	The successful management and operations of the Group are reliant upon the contributions of directors and advisors. In addition, the Group's future success depends in part on its ability to continue to recruit, motivate and retain highly experienced and qualified directors and consultants.	The Group offers incentives to Directors through participation in share offerings, which makes them linked to the long-term success of the business.
<b>The Group may be subject to changes in regulation affecting its target industry</b>	The cannabis processing industry in which the Group is focussed is controversial and is highly regulated. Against a backdrop of overall liberalisation, the industry will likely continue to be the subject of regulatory oversight. Compliance with various laws and regulations may impose compliance costs and restrictions on the Group, with fines and/or sanctions for non-compliance.	The Group monitors legislative and regulatory changes and alters its business practices where appropriate. In the event that the Group becomes subject to specific regulation regarding its activities the Group will put in place such procedures as are necessary to ensure it complies with such regulation.
<b>The Group may not be able to raise future funds to support its activities before it becomes self-funding</b>	There is no guarantee that the Group will obtain adequate finance in the market in the future.	The directors have a reasonable expectation that they will secure additional funding when required to continue as took place after the reporting period.
<b>The Covid-19 pandemic</b>	The uncertainty and any future restrictions resulting from the Covid-19 pandemic may disrupt the Group's operations.	With the core of the Group's operations based in Europe and Israel, the Group is vigilantly monitoring the situation and the health of our staff. The Group have implemented appropriate policies to protect and best manage the health of our staff. The Group has experienced minor disruptions to parts of its raw materials supply chain, which is being managed on a daily basis to mitigate any disruption to manufacturing operations.

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***Strategic Report (continued)***

**Composition of the board**

A full analysis of the Board, its function, composition, and policies, is included in the Governance Report.

**Capital structure**

The Company's capital consists of ordinary shares which rank pari passu in all respects and which are traded on the Standard segment of the Main Market of the London Stock Exchange. There are no restrictions on the transfer of securities in the Company or restrictions on voting rights and none of the Company's shares are owned or controlled by employee share schemes. There are no arrangements in place between shareholders that are known to the Company that may restrict voting rights, restrict the transfer of securities, result in the appointment or replacement of Directors, amend the Company's Articles of Association or restrict the powers of the Company's Directors, including in relation to the issuing or buying back by the Company of its shares or any significant agreements to which the Company is a party that take effect after or terminate upon, a change of control of the Company following a takeover bid or arrangements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that may occur because of a takeover bid.

Approved by the Board on 1 June 2022 and signed on its behalf by:

**David Tsur**  
**Chairman, Non – Executive Director**

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## ***Governance Report***

### **Introduction**

The Company recognises the importance of, and is committed to, high standards of Corporate Governance. The Company is not formally required to comply with a corporate governance code; however, the Company has voluntarily applied the QCA Corporate Governance Code published in April 2018 (the QCA Code). As meeting the QCA code is not required, the Company did not fully comply with the any corporate governance code during the year, however, post year-end it has adopted the QCA code and will seek to meet its 10 principles.

### **Compliance with the QCA Code**

The QCA Code, as published by the Quoted Companies Alliance, is tailored for small and mid-size quoted companies in the UK. The QCA Code (through its ten principles) is designed to be the means through which companies can earn and maintain the confidence of shareholders and other stakeholders as they develop and mature. We note the following important principles included in the QCA Code:

#### The 10 principles of the QCA Code:

1	Establish a strategy and business model which promotes long-term value for shareholders
2	Seek to understand and meet shareholder needs and expectations
3	Take into account wider stakeholder and social responsibilities and their implications for long-term success
4	Embed effective risk management, considering both opportunities and threats, throughout the organisation
5	Maintain the board as a well-functioning, balanced team led by the chair
6	Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities
7	Evaluate board performance based on clear and relevant objectives, seeking continuous improvement
8	Promote a corporate culture that is based on ethical values and behaviours
9	Maintain governance structures and processes that are fit for purpose and support good decision-making by the board
10	Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Set out below are the Company's corporate governance practices for the year ended 31 December 2021.

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## ***Governance Report (continued)***

### **Leadership**

The Company is headed by an effective board of directors (the Board) which is collectively responsible for the long-term success of the Group.

*The role of the Board* - The Board sets the Group's strategy; ensuring that the necessary resources are in place to achieve the agreed strategic priorities, and reviews management and financial performance. It is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. To achieve this, the Board directs and monitors the Group's affairs within a framework of controls which enable risk to be assessed and managed effectively. The Board also has responsibility for setting the Group's core values and standards of business conduct and for ensuring that these, together with the Group's obligations to its stakeholders, are widely understood throughout the Group. The Board has a formal schedule of matters reserved which is provided later in this report.

*Board Meetings* - The core activities of the Board are carried out in scheduled meetings of the Board. These meetings are timed to link to key events in the Company's corporate calendar and regular reviews of the business are conducted. Additional meetings and conference calls are arranged to consider matters which require decisions outside the scheduled meetings. During the year, the Board met on 13 occasions. Outside the scheduled meetings of the Board, the Directors maintain frequent contact with each other to discuss any issues of concern they may have relating to the Company or their areas of responsibility, and to keep them fully briefed on the Company's operations. Where Directors have concerns which cannot be resolved about the running of the company, or a proposed action, they will ensure that their concerns are recorded in the Board minutes.

*Matters reserved specifically for Board* - The Board has a formal schedule of matters reserved that can only be decided by the Board. The key matters reserved are the consideration and approval of:

- Strategy and management including potential investment opportunities.
- Financial reporting and controls (to include oversight of the appointment of and communications with the Auditors and the overall audit process).
- Board membership and other appointments.
- Internal financial and operating controls.
- Ensuring compliance with the Listing Rules.
- Communication.
- Remuneration policy.
- Delegation and overall supervision of all delegated authorities.
- Corporate governance matters.
- Appointment of third-party advisers/service providers.

Certain other matters are delegated to the Board Committees, namely the Audit, Nomination and Remuneration Committees.

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***Governance Report (continued)***

**Leadership (continued)**

*Summary of the Board's work in the year* – During the year, the Board considered all relevant matters within its remit, but focused in particular on the establishment of the Company and the identification of suitable investment opportunities for the Company to pursue, the associated due diligence work as required and the decisions thereon.

Attendance at meetings:

<b>Member</b>	<b>Position</b>	<b>Meetings attended</b>
David Tsur	Chairman, Non-Executive Director	13 out of 13
Avihu Tamir	CEO, Executive Director	13 out of 13
Andrew Morrison	Non-Executive Director	13 out of 13 (*)
Uziel Danino	Non-Executive Director	10 out of 13
Daniel Poulter	Non-Executive Director	7 out of 7
Howard Rubenstein	Company Secretary	12 out of 13

(\*) In addition to the Company's 13 board meetings that were held during 2021, Andrew Morrison attended 3 board meetings of Spinnaker Opportunities Plc prior to the Company's admission on 16 February 2021.

The Board is pleased with the high level of attendance and participation of Directors at Board and Committee meetings. Attendance at Committee meetings is detailed in the respective Committee reports.

Directors appointed by the Board are subject to election by shareholders at the Annual General Meeting of the Company following their appointment and thereafter are subject to re-election in accordance with the Company's articles of association.

The terms and conditions of appointment of Non-Executive Directors will be made available upon written request.

**Remuneration Committee**

The Company has established a Remuneration Committee to assist the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the policy on remuneration.

The report of the Remuneration Committee is included in this Annual Report. Formal terms of reference for the Remuneration Committee have been documented and are made available for review at the AGM.

The members of the Remuneration Committee in the reporting year were Mr. Uziel Danino and Mr. Andrew Morrison. After the reporting period Mr. Uziel Danino resigned from his position and was replaced by Mr. Gil Efron.



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***Governance Report (continued)***

**Audit Committee**

The Audit Committee meets with the auditors at least twice a year and more frequently if required.

Terms of reference of the Audit Committee will be made available upon written request.

The Audit Committee report is included on page 33.

The members of the Audit Committee in the reporting year were Mr. Uziel Danino and Mr. Andrew Morrison. After the reporting period Mr. Uziel Danino resigned from his position and was replaced by Mr. Gil Efron.

**Nominations Committee**

The Nomination Committee meets as required to fulfil its duties of reviewing the Board structure and composition and identifying and nominating candidates to fill Board vacancies as they arise.

Terms of reference of the Nominations Committee will be made available upon written request.

The Nominations Committee report is included on page 35.

The members of the Nominations Committee in the reporting period were David Tsur, Avihu Tamir and Andrew Morrison.

*Other governance matters* - All of the Directors are aware that independent professional advice is available to each Director in order to properly discharge their duties as a Director. In addition, each Director and Board committee has access to the advice of the Company Secretary.

*The Company Secretary* - The Company Secretary is Howard Rubenstein who is responsible for the Board complying with UK procedures.

**Effectiveness**

For the period under review the Board comprised of a chairman, one Director and four Non-Executive Directors. Biographical details of the Board members are set out on page 9 of this report.

The Directors are of the view that the Board and its committees consist of Directors with an appropriate balance of skills, experience, independence and diverse backgrounds to enable them to discharge their duties and responsibilities effectively.

*Independence* - The non-executive Directors bring a broad range of business and commercial experience to the Company. The Board considers all the non-executive Directors to be independent in character and judgement. Despite the shares, options and warrants held by these Directors, they are not involved in the day-to-day operations of the Group and the executive directors deem them to be independent.

*Commitments* – All Directors have disclosed any significant other commitments to the Board and confirmed that they have sufficient time to discharge their duties.

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## ***Governance Report (continued)***

### **Effectiveness (continued)**

*Induction* - All new Directors received an informal induction as soon as practical on joining the Board. No formal induction process exists for new Directors, given the size of the Company, but the Chairman ensures that each individual is given a tailored introduction to the Company and fully understands the requirements of the role.

*Conflict of interest* - A Director has a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the interests of the Company. The Board had satisfied itself that there is no compromise to the independence of those Directors who have appointments on the Boards of, or relationships with, companies outside the Company. The Board requires Directors to declare all appointments and other situations which could result in a possible conflict of interest.

*Board performance and evaluation* – The Chairman will carry out periodic formal appraisals of the performance of the other Directors which takes into account the objectives set in the previous year and the individual's performance in the fulfilment of these objectives.

Although the Board consisted of five male Directors, the Board supports diversity in the Boardroom and the Financial Reporting Council's aims to encourage such diversity. Aside from the Directors, there are no employees in the Company. The following table sets out a breakdown by gender at 31 December 2021:

	<b>Male</b>	<b>Female</b>
Directors	5	-

The Board will pursue an equal opportunity policy and seek to employ those persons most suitable to delivering value for the Company.

### *Codes and Terms of Reference*

The Company has adopted the following documents:

- Audit Committee Terms of Reference
- Remuneration Committee Terms of Reference;
- Nomination Committee Terms of Reference;
- Share Dealing Code; and
- Code of Ethics.

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## ***Governance Report (continued)***

### **Accountability**

The Board is committed to providing shareholders with a clear assessment of the Group's position and prospects. This is achieved through this report and as required other periodic financial and trading statements. The Board has made appropriate arrangements for the application of risk management and internal control principles. The Board has delegated to the Audit Committee oversight of the relationship with the Group's auditors as outlined in the Audit Committee report on page 33.

*Going concern* – The preparation of the financial statements requires an assessment of the validity of the going concern assumption.

In making their assessment of going concern, the Directors have reviewed forecasts for the group, for a period of at least 12 months from the date of approval of these financial statements. The Directors recognise the modest committed cost base of the group relative to its current working capital. As a result the Directors consider that the Group has sufficient funds for the required timeframe and as such they consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

*Internal controls* - The Board of Directors reviews the effectiveness of the Group's system of internal controls. The internal control system is designed to manage the risk of failure to achieve its business objectives. This covers internal financial and operational controls, compliance and risk management. The Group had necessary procedures in place for the year under review and up to the date of approval of the Annual Report and financial statements. The Directors acknowledge their responsibility for the Group's system of internal controls and for reviewing its effectiveness. The Board confirms the need for an ongoing process for identification, evaluation and management of significant risks faced by the Group. The Directors carried out a risk assessment before signing up to any material commitments.

The Directors are responsible for taking such steps as are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

At the present, due to the size of the Group, there is no internal audit function. The requirement for internal audit will be considered as the Group grows.

### **Shareholder relations**

*Communication and dialogue* – Open and transparent communication with shareholders is given high priority and there is regular dialogue with institutional investors, as well as general presentations made at the time of the release of the annual and interim results. All Directors are kept aware of changes in major shareholders in the Company and are available to meet with shareholders who have specific interests or concerns. The Company issues its results promptly to individual shareholders and also publishes them on the Company's website. Regular updates to record news in relation to the Company and the status of its exploration and development programs is included on the Company's website. Shareholders and other interested parties can subscribe to receive these news updates by email by registering online on the website free of charge.

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***Governance Report (continued)***

**Shareholder relations (continued)**

The Directors are available to meet with institutional shareholders who wish to discuss any issues and gain an understanding of the Company's business, its strategies and governance.

*Annual General Meeting* - At every AGM, individual shareholders are given the opportunity to put questions to the Chairman and to other members of the Board that may be present. Notice of the AGM is sent to shareholders at least 21 working days before the meeting. Details of proxy votes for and against each resolution, together with the votes withheld are announced to the London Stock Exchange and are published on the Company's website as soon as practical after the meeting.

Approved by the Board on 1 June 2022 and signed on its behalf by:

**David Tsur**  
**Chairman, Non - Executive Director**

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## ***Remuneration Committee Report***

The Remuneration Committee presents its report for the year ended 31 December 2021.

### **Membership of the remuneration committee**

During the reporting period the Remuneration Committee is comprised of two Non-Executive Directors Mr. Andrew Morrison (Chair) and Mr. Uziel Danino. After the reporting period Mr. Uziel Danino resigned from his position and was replaced by Mr. Gil Efron.

During 2021 the Remuneration Committee met on 1 occasion.

Subject to what appears below, no other third parties have provided advice that materially assisted the Remuneration Committee during the year.

The items included in this report are unaudited unless otherwise stated.

### **Remuneration committee's main responsibilities**

- The Remuneration Committee considers the remuneration policy, employment terms and remuneration of the Board and advisors;
- The Remuneration Committee's role is advisory in nature and it makes recommendations to the Board on the overall remuneration packages;
- The Remuneration Committee, when considering the remuneration packages of the Company's Board, will review the policies of comparable companies in the industry.

### **Report approval**

A resolution to approve this report will be proposed at the AGM of the Company. The vote will have advisory status, will be in respect of the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration.

### **Remuneration policy**

During the year ended 31 December 2021, the Company adopted a compensation policy as regards executive directors which included variable and non-variable elements together with long term incentives.

On 16 February 2021, the Company entered a service contract with its Chief Executive, Avihu Tamir on terms as set out in the prospectus published on 29 January 2021.

There was no vote taken during the last general meeting with regard to the Directors' remuneration policy.

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## **Remuneration Committee Report (continued)**

### **Non-executive directors**

The Company policy is that the Non-Executive Directors are expected to attend scheduled board meetings and attend committee meetings as required. The Company issued fresh letters of appointment to its Non-Executive Directors, effective 16 February 2021 on terms as set out in the prospectus published on 29 January 2021.

### **Other employees**

During the year ended 31 December 2021, there were no employees in the Company other than the Directors, so this policy only applies to the Board.

### **Terms of appointment**

The services of the Directors during the year ended 31 December 2021 were provided in accordance with their appointment letters. Directors were expected to devote such time as was necessary for the proper performance of their duties, but as a minimum they were expected to commit at least one day per month, which should include attendance at all meetings of the Board and any sub-committees of the Board.

<b>Director</b>	<b>Year of appointment</b>	<b>Number of years completed</b>
Andrew Morrison	2016	6
David Tsur	2021	1
Avihu Tamir	2021	1
Daniel Poulter	2021	1
Gil Efron(a)	2022	-
Uziel Danino (b)	2021	1
Anthony Harpur (c)	2017	2
Alan Hume (c)	2018	3

(a) Appointed after the reporting period.

(b) Resigned after the reporting period.

(c) Resigned during the reporting period.

### **Directors' emoluments and compensation (audited)**

Details of the directors' remuneration during the year ended 31 December 2021 are as follows:

<b>Name of Director</b>	<b>Salary and fees</b>	<b>Taxable benefits</b>	<b>Annual bonus and long-term benefits</b>	<b>Pension related benefits</b>	<b>Other</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Andrew Morrison (a), (e)	20,831	-	62,500	-	-	<b>83,331</b>
David Tsur	17,293	-	-	-	-	<b>17,293</b>
Avihu Tamir	93,698	-	40,000	15,847	-	<b>149,545</b>
Daniel Poulter	10,923	-	-	-	-	<b>10,923</b>
Gil Efron (c)	-	-	-	-	-	-
Uziel Danino (d)	17,293	-	-	-	-	<b>17,293</b>
Anthony Harpur (b), (e)	-	-	-	-	-	-
Alan Hume (e)	-	-	50,000	-	-	<b>50,000</b>

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***Remuneration Committee Report (continued)***

**Directors' emoluments and compensation (audited) (continued)**

- (a) An additional amount of £37,500 was paid to Spinnaker Management Resources Ltd, which is a company owned and controlled by Mr. Andrew Morrison.
- (b) An amount of £30,000 which was granted as a bonus for completion of the RTO, was paid to Peacock DDC Trading Ltd, which is a company owned and controlled by Mr. Anthony Harpur.
- (c) Appointed on 21 March 2022.
- (d) Resigned from his position on 21 March 2022.
- (e) The bonuses granted were for completion of the RTO.

Details of the directors' remuneration during the year ended 31 December 2020 are as follows:

Name of Director	Salary and fees £	Taxable benefits £	Annual bonus and long-term benefits £	Pension related benefits £	Other £	Total £
Andrew Morrison	-	-	-	-	-	-
Anthony Harpur	-	-	-	-	-	-
Alan Hume	-	-	-	-	-	-

**Pension contributions (audited)**

The Company does not currently have any pension plans for its non-executive Directors and does not pay pension amounts in relation to their remuneration.

The Company has not paid out any excess retirement benefits to non-executive Directors or past non-executive Directors.

**Payments to past directors (audited)**

As part of the RTO the Company paid an aggregate £80,000 in success bonuses to its directors prior to RTO (out of the total bonus pool of £200,000).

**Payments for loss of office (audited)**

No payments were made for loss of office during the year.

**UK Remuneration percentage changes**

As the remuneration for the preceding financial year is nil for all Directors, no percentage changes for remuneration have been set out in this report.

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***Remuneration Committee Report (continued)***

**UK 10-year performance graph**

The Directors have considered the requirement for a UK 10-year performance graph comparing the Company's Total Shareholder Return with that of a comparable indicator. The Directors do not currently consider that including the graph will be meaningful because the Company has only been listed since 2017, is not paying dividends, is currently incurring losses as it gains scale and its focus during the year ended 31 December 2021 was to seek an acquisition. In addition, and as mentioned above, the remuneration of Directors was not linked to performance, and we therefore do not consider the inclusion of this graph to be useful to shareholders at the current time. The Directors will review the inclusion of this table for future reports.

**UK 10-year CEO table and UK percentage change table**

The Directors have considered the requirement for a UK 10-year CEO table. The Directors do not currently consider that including these tables would be meaningful given that the Directors were remunerated for their services however it is not material to be presented under the table. The Directors will review the inclusion of this table for future reports.

**Relative importance of spend on pay**

The Directors have considered the requirement to present information on the relative importance of spend on pay compared to shareholder dividends paid. Given that the Company does not currently pay dividends we have not considered it necessary to include such information.

**UK Directors' shares (audited)**

The interests of the Directors who served during the year in the share capital of the Company at 31 December 2021 and at the date of this report has been set out in the Directors' Report on page 11.

Approved by the Board on 1 June 2022 and signed on its behalf by:

**Andrew Morrison**  
**Chairman of the Remuneration Committee**

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## ***Audit Committee Report***

After the completion of the reverse takeover, the company appointed Mr. Uziel Danino (Chair) and Andrew Morrison as members of the Audit Committee.

After the reporting period Mr. Danino resigned from his position as a director in the Company and was replaced by Mr. Gil Efron. Mr. Efron was appointed as a member of the Audit Committee (Chair).

### **Main responsibilities**

The Audit Committee acts as a preparatory body for discharging the Board's responsibilities in a wide range of financial matters by:

- monitoring the integrity of the financial statements and formal announcements relating to the Company's financial performance;
- reviewing significant financial reporting issues, accounting policies and disclosures in financial reports, which are considered to be in accordance with the key audit matters identified by the external auditors;
- overseeing that an effective system of internal control and risk management systems are maintained;
- ensuring that an effective whistleblowing, anti-fraud and bribery procedures are in place;
- overseeing the Board's relationship with the external auditor and, where appropriate, the selection of new external auditors;
- monitoring the statutory audit of the annual financial statements, in particular, its performance, taking into account any findings and conclusions by the competent authority;
- approving non-audit services provided by the external auditor, or any other accounting firm, ensuring the independence and objectivity of the external auditors is safeguarded when appointing them to conduct non-audit services; and
- ensuring compliance with legal requirements, accounting standards and the Listing Rules and the Disclosure and Transparency Rules.

### **Governance**

The Code requires that at least one member of the Audit Committee has recent and relevant financial experience. The audit members have vast experience working with a wide variety of companies. As a result, the Board is satisfied that the Audit Committee has recent and relevant financial experience.

Members of the Audit Committee are appointed by the Board and whilst shareholders, the Company believes they are independent in both character and judgement.

Due to an ethical breach, PKF Littlejohn LLP, the Company's external auditor, will be required to resign as auditors following the approval of this annual report. Once new external auditors have been appointed, the Audit Committee will monitor the level of audit and non-audit services they provide to the Company.

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***Audit Committee Report (continued)***

**Meetings**

In the year to 31 December 2021 the Audit Committee has met with the auditors on 3 occasions.

The key work undertaken by the Audit Committee is as follows:

- interview of external auditors and recommendation to the Board
- review of audit planning and update on relevant accounting developments;
- consideration and approval of the risk management framework, appropriateness of key performance indicators;
- consideration and review of full-year results;
- review of the effectiveness of the Audit Committee;
- review of internal controls; and
- consider whether an internal audit function is required and confirmed not considered necessary given the present size of the Company.

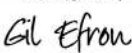
The Code states that the Audit Committee should have primary responsibility for making a recommendation on the appointment, reappointment or removal of the external auditor.

**External auditor**

The Group's external auditor is PKF Littlejohn LLP. The external auditor has unrestricted access to the Audit Committee Chairman. Despite the ethical breach as described in the Auditors' Report, the Committee is satisfied that auditor objectivity and independence is maintained. The external auditors report to the Audit Committee annually on their independence from the Group. Due to the aforementioned ethical breach, the external auditor will be required to resign and thus the Audit Committee shall seek to appoint a new external auditor in the foreseeable future

Approved by the Board on 1 June 2022 and signed on its behalf by:

**Gil Efron  
Chairman of the Audit Committee**

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## ***Nomination Committee Report***

The Nomination committee is comprised of Andrew Morrison (Chair), David Tsur and Avihu Tamir.

The committee considers potential candidates for appointment to the Company's Board who maintain the highest standards of corporate governance and have sufficient time to commit to the role.

### **Nomination committee evaluation**

The nomination committee evaluates the composition, skills, and diversity of the Board and its committees and identifies a requirement for a Board appointment.

### **Identify suitable candidates**

The nomination committee undertakes a review of each candidate and their experience in accordance with the Company's 'director's profile' and suitable candidates are identified.

For the appointment of a Chairman, the Nomination Committee will prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises.

### **Nomination committee recommendation**

Following interviews with a candidate conducted by the Chairman, and other members of the Board, the nomination committee makes a recommendation on a preferred candidate to the Board.

### **Due diligence**

After a candidate has been recommended to the Board by the nomination committee, the company secretary undertakes appropriate background checks on a candidate. The Board of directors meets any candidate recommended by the nomination committee and the candidate is given an opportunity to make a presentation to the Board prior to deciding on their appointment.

### **Board appointment**

The Board formally approves a candidate's appointment to the Board.

### **Approach to diversity**

The nomination committee believes in the benefits of diversity, including the need for diversity in order to effectively represent shareholders' interests. This diversity is not restricted to gender but also includes geographic location, nationality, skills, age, educational and professional background. The Board's policy remains that selection should be based on the best person for the role.

Approved by the Board on 1 June 2022 and signed on its behalf by:

**Andrew Morrison**  
**Chairman of the Nomination Committee**

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***Independent Auditors' Report to the Members of Kanabo Group Plc***

**Opinion**

We have audited the financial statements of Kanabo Group Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included reviewing cashflow forecasts covering the next 12 months, considering the levels of discretionary and non-discretionary expenditure forecasted, challenging and conducting sensitivity analysis using the key inputs and assumptions underpinning said forecasts, ascertaining the group's current cash position and reviewing the group's performance since the year end. Whilst the Group made a significant loss in the year and has forecasted significant growth in revenues over the going concern period, the Group has significant cash reserves and a significant proportion of the costs forecasted are discretionary

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therefore if forecasted growth targets are not met, discretionary costs could be reduced accordingly.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**Our application of materiality**

For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed, or influenced. We also determine a level of performance materiality which we use to assess the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Materiality for the group financial statements as a whole was set as £175,000 . This was calculated based upon 5% of loss before tax due to the group having incurred significant expenditure in the year and this expenditure, being an indicator as to how much revenue may have to increase in order for the group to reach profitability. Performance materiality and the triviality threshold for the consolidated financial statements was set at £122,500 and £8,750 respectively due to the assessed risk and our accumulated knowledge of the Company.

Materiality for the parent company financial statements as a whole was set as £170,000 (2020: £33,000). This was calculated based upon 5% of net assets (2020: 5% of net asset) but capped so as not to exceed group materiality, as required by ISA (UK) 600. Net assets was considered to be an appropriate basis due to the fact that the parent company is a holding company that holds a significant value of assets and the carrying value of these assets, and any impairment or fair value decreases recognised in respect of these assets in the year, provides an indicator of the value to be generated by the parent company from said assets. Since 5% of the Company's net assets far exceeds group materiality, it was deemed appropriate to set materiality for the parent company at £5,000 less than group materiality. Performance materiality and the triviality threshold for the parent company was set at £119,000 (2020: £19,600) and £8,500 (2020: £1,400) respectively due to the assessed risk and our accumulated knowledge of the Company.

We also agreed to report to those charged with governance any other audit misstatements below the triviality thresholds established above which we believe warranted reporting on qualitative grounds.

**Our approach to the audit**

The scope of our audit was influenced by our application of materiality. The quantitative and qualitative thresholds for materiality determine the scope of our audit and the nature, timing, and extent of our audit procedures.

In designing our audit, we considered areas involving significant accounting estimates and judgements by the directors as well as future events that are inherently uncertain. These included

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the recoverable value of the parent company's investment in its subsidiary and the amounts due to the parent company by its subsidiary, the financial asset held at fair value through other comprehensive income and the recoverable value of the loans advanced to the acquisition target. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We performed an audit of the financial information of the group's two components in order to obtain the assurance required for the group audit opinion. Both of the components were assessed as being significant due to their results for the year, the value of their assets, liabilities and capital and reserves as at 31 December 2021 and the assessed risks in respect of their results for the year and their assets, liabilities and capital and reserves.

Of the two reporting components of the group, one is located in both of the United Kingdom and Israel. PKF Littlejohn LLP audited the ultimate parent company, situated in the United Kingdom, and its subsidiary, situated in Israel. The Engagement Partner conducted audit work in the United Kingdom but interacted regularly with the Management team in Israel during all stages of the audit and was responsible for the scope and direction of the audit process. This, in conjunction with additional procedures performed, gave us appropriate evidence for our opinion on the group financial statements.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our scope addressed this matter
<p><b>Carrying value of the investment in subsidiary and intercompany receivables</b></p>	
<p>Following the reverse takeover acquisition in February 2021 (see the second Key Audit Matter below for further details), the carrying value of the parent company's investment in subsidiary as at 31 December 2021 was £17,951k (see note 12) and the balance due from the subsidiary (intercompany receivable) was £834k (see note 18).</p> <p>As the subsidiary has historically been loss making and also made a loss for the year ended 31 December 2021 of £4,035k, there is a risk that the investment and the intragroup receivable may not be fully</p>	<p>We performed the following procedures to address this identified risk:</p> <ul style="list-style-type: none"> <li>▪ Obtained management's recoverable value assessment in respect of both the investment in the subsidiary and the balances due from the subsidiary including all the supporting workings.</li> <li>▪ Reviewed the assessment, ascertained and challenged the method, data and key assumptions applied by management</li> <li>▪ Reviewed the post year-end performance, financial position,</li> </ul>

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Key Audit Matter	How our scope addressed this matter
<p>recoverable and are thus materially overstated.</p> <p>Refer to Note 2f of the financial statements for the disclosure of significant accounting judgements, estimates assumptions in respect of the recoverability of the investment in the subsidiary and the amounts due from the loan to the subsidiary.</p>	<p>projected cashflows and other sources of data to assess whether there were any indicators that the recoverable values were less than their carrying value; and</p> <ul style="list-style-type: none"> <li>▪ Agreed the intercompany balance due from the subsidiary to the corresponding creditor balance in the subsidiary's trial balance.</li> </ul> <p>Through the performance of the aforementioned procedures, it was ascertained that Management believe the investment in the subsidiary and the balance due from the subsidiary as at the year-end are fully recoverable due to the positive developments made and milestones met during the year and post year-end and the forecasts prepared. From our review and challenge of this assessment and supporting information, this assessment was found to be appropriate and thus assurance has been gained that the investment in subsidiary and balances due from the subsidiary are not materially misstated.</p>
<p><b>Reverse takeover treatment and disclosure</b></p>	
<p>On 16 February 2021, the parent company acquired the entire share capital of Kanabo Research Ltd via a share for share exchange.</p> <p>Due to the complexity of the accounting for reverse takeovers , and the material value of that acquisition, there was a significant risk that the acquisition may not have been accounted for correctly or disclosed appropriately within the financial statements.</p>	<p>We performed the following procedures to address this identified risk:</p> <ul style="list-style-type: none"> <li>▪ Obtained the agreements in respect of the transaction to ascertain the key terms of the transaction;</li> <li>▪ Reviewed the accounting treatment and accounting entries of the reverse transaction in the group financial statements against the requirements of the financial reporting framework;</li> </ul>

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Key Audit Matter	How our scope addressed this matter
<p>Refer to Note 2f and 8 of the financial statements for details on the acquisition, including key terms, and the accounting treatment applied.</p>	<ul style="list-style-type: none"> <li>▪ Reviewed and challenged the key assumptions, data and method applied in management’s fair value assessment;</li> <li>▪ Ensured disclosures in the financial statements were in accordance with the financial reporting framework; and</li> <li>▪ Confirmed that any consideration in respect of milestones had been accounted for appropriately.</li> </ul> <p>Through the performance of the aforementioned procedures, we found that that the RTO was correctly assessed as falling outside of the scope of IFRS 3. It was also found that the acquisition was accounted for in accordance with IFRS 2 with a share based payment charge being recognised equal to the difference between the deemed cost of the investment and the net assets of Kanabo Group Plc at the time of acquisition and a reverse acquisition merger being recognised.</p>

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the group and parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, 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.



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**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the group and parent company financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group and parent company financial statements, the directors are responsible for assessing the group's and the parent 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives 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 (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

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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 financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, industry research and our cumulative audit knowledge and experience of the sector.
- We determined the principal laws and regulations currently relevant to the group and parent company in this regard to be those arising from UK Company Law, rules applicable to issuers on the LSE Standard List Main Market, including the FCA Listing Rules and the Disclosure Guidance and Transparency Rules.
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the group with those laws and regulations. These procedures included, but were not limited to:
  - Discussions with management regarding compliance with laws and regulations by the parent company and the component;
  - Review of board minutes; and
  - Review of regulatory news announcements made throughout and post year-end.
- We addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission, or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Other matters which we are required to address**

We were appointed by the audit committee on 26 June 2019 to audit the financial statements for the period ending 31 December 2018 and subsequent financial periods. Our total uninterrupted period of engagement is 4 years, covering the periods ending 31 December 2018 to 31 December 2021.

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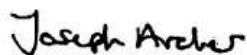
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During the period subject to audit, a non-audit service prohibited by the FRC's Ethical Standard was inadvertently provided by the Firm to the parent company. This involved the provision of due diligence services in respect of a transaction that did not require a reporting accountant report under the Prospectus Rules by the Firm's transaction services department. This non-permitted service was provided without the knowledge or approval of the Firm's central ethics function. As the consultation required by the Firm's policies and procedures did not take place in respect of this service, this was assessed as an inadvertent breach. In reviewing the nature of this inadvertent breach, specifically that it involved amounts that would not be subject to review or consideration in the current year's audit of these financial statements, no judgements were made in providing the service and that it was provided by a team separate from the audit engagement team, we concluded that this did not affect our professional judgement or our audit report. We obtained confirmation from those charged with governance that they agreed with our assessment and were in agreement that we could continue to act as auditor. In reporting the inadvertent provision of this prohibited non-audit service to those charged with governance, we determined that our independence had not been compromised and that we could continue to carry out the audit of the group and parent company for the year ended 31 December 2021.

Our audit opinion is consistent with the additional report to the audit committee.

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Joseph Archer (Senior Statutory Auditor)  
For and on behalf of PKF Littlejohn LLP  
Statutory Auditor**

15 Westferry Circus  
Canary Wharf  
London E14 4HD

**1 June 2022**

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***Consolidated Statement of Comprehensive Income***

	Note	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
<b>Continuing operations</b>			
Revenue from sales of goods	3	73	60
Cost of sales		66	26
<b>Gross profit</b>		<b>7</b>	<b>34</b>
Research and development	4	242	149
Sales and marketing	5	569	59
General and administration	6	2,000	389
Net impairment losses on financial assets	16	598	-
<b>Operating loss</b>		<b>(3,402)</b>	<b>(563)</b>
Reverse acquisition expenses	8	1,172	-
Finance (income)/expense		(23)	28
<b>Loss before taxation</b>		<b>(4,551)</b>	<b>(591)</b>
Taxation	9	-	-
<b>Loss for the year</b>		<b>(4,551)</b>	<b>(591)</b>
<b>Other comprehensive income for the year</b>			
Foreign exchange translation (loss)/gains		(82)	11
Total items that may be reclassified to profit or loss		(82)	11
<b>Total comprehensive loss for the year attributable to the equity owners</b>		<b>(4,633)</b>	<b>(580)</b>
<b>Earnings (basic and diluted) per share from continuing operations attributable to the equity owners</b>			
Basic and diluted loss per share (pence per share)	10	(1.40)	(0.26)

The notes to the financial statements form an integral part of these financial statements.


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**Consolidated Statement of Financial Position**

	Note	As at 31 December 2021 £'000	As at 31 December 2020 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant, and equipment	11	42	13
Long term deposit		-	14
Financial asset held at fair value through other comprehensive income	13	750	-
		<b>792</b>	<b>27</b>
<b>Current assets</b>			
Cash and cash equivalents	14	4,477	380
Short-term deposit		20	5
Inventories	15	63	27
Short term loan	16	-	-
Trade and other receivables	17	247	33
		<b>4,807</b>	<b>445</b>
<b>Total assets</b>		<b>5,599</b>	<b>472</b>
<b>Equity and Liabilities</b>			
<i>Equity attributable to shareholders</i>			
Share capital	19	9,249	-
Share premium	20	14,400	2,098
Share based payments reserve	21	758	805
Share to be issued reserve	8	2,500	-
Reverse acquisition reserve	8	(14,968)	-
Foreign currency reserve		(7)	75
Retained deficit		(6,748)	(3,017)
<b>Total equity</b>		<b>5,184</b>	<b>(39)</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	22	228	53
Employee and related payables	23	187	34
Borrowings		-	424
		<b>415</b>	<b>511</b>
<b>Total equity and liabilities</b>		<b>5,599</b>	<b>472</b>

The notes to the financial statements form an integral part of these financial statements.

This report was approved by the board and authorised for issue on 1 June 2022 and signed on its behalf by:



David Tsur

Chairman of board of directors

**Kanabo Group Plc**  
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**Parent Company Statement of Financial Position**

	Note	As at 31 December 2021 £'000	As at 31 December 2020 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant, and equipment	11	21	-
Investments in subsidiary	12	17,951	-
Financial asset held at fair value through other comprehensive income	13	750	-
		<b>18,722</b>	<b>-</b>
<b>Current assets</b>			
Cash and cash equivalents	14	4,148	359
Intercompany receivables	18	834	-
Inventories	15	63	-
Short term loan	16	-	-
Trade and other receivables	17	220	433
		<b>5,265</b>	<b>792</b>
<b>Total assets</b>		<b>23,987</b>	<b>792</b>
<b>Equity and liabilities</b>			
<i>Equity attributable to shareholders</i>			
Share capital	19	9,249	735
Share premium	20	14,400	592
Shares to be issued reserve	8	2,500	-
Share based payments reserve	21	750	33
Convertible loan notes		-	162
Retained deficit		(3,085)	(784)
<b>Total equity</b>		<b>23,814</b>	<b>738</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	22	173	54
		<b>173</b>	<b>54</b>
<b>Total equity and liabilities</b>		<b>23,987</b>	<b>792</b>

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the Parent Company statement of comprehensive income. The Parent Company loss for the period was £2,309K (2020: loss of £131K)

The financial statements of Kanabo Group Plc, company number 10485105, were approved by the Board of Directors and authorised for issue on 1 June 2022. They were signed on its behalf

by: DocuSigned by:



David Tsur

Chairman of board of directors

The notes to the financial statements form an integral part of these financial statements.

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**Consolidated Statement of Changes in Equity**

	Share capital(a) £'000	Share premium(b) £'000	Share based payments reserve(c) £'000	Share to be issued reserve (d) £'000	Reverse acquisition reserve (e) £'000	Foreign exchange reserve £'000	Retained deficit (f) £'000	Total equity £'000
Balance as at 1 January 2020	-	1,831	800	-	-	64	(2,506)	189
Total comprehensive loss for the year	-	-	-	-	-	11	(591)	(580)
Exercise of options	-	-	(80)	-	-	-	80	-
Exercise of warrants	-	267	-	-	-	-	-	267
Share base payment	-	-	85	-	-	-	-	85
Total transactions with owners, recognised in equity	-	267	5	-	-	11	(511)	(228)
<b>Balance as at 31 December 2020</b>	<b>-</b>	<b>2,098</b>	<b>805</b>	<b>-</b>	<b>-</b>	<b>75</b>	<b>(3,017)</b>	<b>(39)</b>
Total comprehensive loss for the year	-	-	-	-	-	(82)	(4,551)	(4,633)
Transfer to reverse acquisition reserve	-	(2,098)	-	-	2,098	-	-	-
Exercise of options	4	-	(820)	-	-	-	820	4
Recognition of plc equity at acquisition date	735	592	-	-	434	-	-	1,761
Issue of shares for acquisition of subsidiary	5,769	9,231	-	-	(15,000)	-	-	-
Shares issued	2,600	4,775	-	-	-	-	-	7,375
Shares to be issued	-	-	-	2,500	(2,500)	-	-	-
Exercise of warrants	126	411	-	-	-	-	-	537
Issue of shares in settlement of fees	15	25	-	-	-	-	-	40
Cost of share issue	-	(634)	-	-	-	-	-	(634)
Issue of warrants	-	-	113	-	-	-	-	113
Share based payment	-	-	660	-	-	-	-	660
Total transactions with owners, recognised in equity	9,249	12,302	(47)	2,500	(14,968)	(82)	3,731	5,223
<b>Balance as of 31 December 2021</b>	<b>9,249</b>	<b>14,400</b>	<b>758</b>	<b>2,500</b>	<b>(14,968)</b>	<b>(7)</b>	<b>(6,748)</b>	<b>5,184</b>

(a) Share capital - the ordinary issued share capital of the Company.

(b) Share premium - consideration less nominal value of issued shares and costs directly attributable to the issue of new shares.

(c) Share based payments - the value of equity settled share-based payments provided to employees, including key management personnel, and third parties for services provided.

(d) Shares to be issued - shares to be issued comprises of obligations at the year-end which are to be settled by a fixed number of shares for a fixed consideration.

(e) Reverse acquisition reserve - see note 8.

(f) Retained deficit - Cumulative net gains and losses recognised in the Consolidated Statement of Comprehensive Income

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**Parent Company Statement of Changes in Equity**

	Share capital(a) £'000	Share premium(b) £'000	Share based payments reserve(c) £'000	Convertible loan notes reserve(d) £'000	Shares to be issued reserve (e) £'000	Retained deficit (f) £'000	Total equity £'000
Balance as of 1 January 2020	735	592	59	-	-	(712)	674
Total comprehensive loss for the year	-	-	-	-	-	(131)	(131)
Shares options issued	-	-	33	-	-	-	33
Lapsed share options	-	-	(59)	-	-	59	-
Loan notes issued	-	-	-	165	-	-	165
Loan note issue costs	-	-	-	(3)	-	-	(3)
Total transactions with owners, recognised in equity	-	-	(26)	162	-	(72)	64
<b>Balance as at 31 December 2020</b>	<b>735</b>	<b>592</b>	<b>33</b>	<b>162</b>	<b>-</b>	<b>(784)</b>	<b>738</b>
Total comprehensive loss for the year	-	-	-	-	-	(2,309)	(2,309)
Issue of share for convertible loan	83	79	-	(162)	-	-	-
Issue of shares for acquisition of subsidiary	5,769	9,231	-	-	-	-	15,000
Issue of shares for cash	2,455	4,634	-	-	-	-	7,089
Shares options issued	53	49	(8)	-	-	8	102
Consideration shares to be issued	-	-	-	-	2,500	-	2,500
Exercise of warrants	139	424	(33)	-	-	-	530
Cost of share issue	-	(634)	-	-	-	-	(634)
Issue of shares in settlement of fees	15	25	-	-	-	-	40
Issue of warrants	-	-	113	-	-	-	113
Share based payment	-	-	645	-	-	-	645
Total transactions with owners, recognised in equity	<b>8,514</b>	<b>13,808</b>	<b>717</b>	<b>(162)</b>	<b>2,500</b>	<b>(2,301)</b>	<b>23,076</b>
<b>Balance as at 31 December 2021</b>	<b>9,249</b>	<b>14,400</b>	<b>750</b>	<b>-</b>	<b>2,500</b>	<b>(3,085)</b>	<b>23,814</b>

(a) Share capital - the ordinary issued share capital of the Company.

(b) Share premium - consideration less nominal value of issued shares and costs directly attributable to the issue of new shares.

(c) Share based payments - the value of equity settled share-based payments provided to employees, including key management personnel, and third parties for services provide. Retained deficit represents the cumulative retained losses of the Company at the reporting date.

(d) The convertible loan note reserve - consists of the fair value of convertible loan notes issued and outstanding which meet the definition of equity as per IAS 32.

(e) Shares to be issued - shares to be issued comprises of obligations at the year-end which are to be settled by a fixed number of shares for a fixed consideration.

(f) Retained deficit - Cumulative net gains and losses recognised in the Statement of Comprehensive Income.

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## **Consolidated Statement of Cash Flows**

		Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
	Note		
<b>Cash flow from operating activities</b>			
Loss before taxation		(4,551)	(591)
<b>Adjustments for:</b>			
Reverse acquisition share-based payment expense	8	1,172	-
Net impairment losses on financial assets	16	598	-
Share-based payment expense		658	85
Depreciation	21	7	5
Finance income, net		15	18
Loss from sale of property, plant, and equipment	11	-	1
<b>Net cash used in operating activities</b>		<b>(2,101)</b>	<b>(482)</b>
<b>Working capital changes:</b>			
Change in trade receivable and other accounts receivable		(204)	(16)
Change in inventories		(35)	9
Change in trade payable and other accounts payable		119	(17)
Change in employee and related payables		143	(28)
<b>Net cash used in operating activities</b>		<b>(2,078)</b>	<b>(534)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, and equipment	11	(35)	-
Investment in financial asset held at fair value through other comprehensive income	13	(750)	-
Cash acquired on acquisition	8	358	-
Investment in short term deposits		(2)	(5)
Short term loan	16	(582)	-
<b>Net cash used in investing activities</b>		<b>(1,011)</b>	<b>(5)</b>
<b>Cash flows from financing activities</b>			
Receipts on short term loan		-	300
Share Issue net of issuing cost	19	6,606	-
Exercise of warrants	21	529	268
Exercise of options	21	102	-
<b>Net cash generated from financing activities</b>		<b>7,239</b>	<b>568</b>
<b>Net increase in cash and cash equivalents</b>		<b>4,150</b>	<b>29</b>
<b>Cash and cash equivalents at 1 January</b>		<b>380</b>	<b>333</b>
Net foreign exchange difference		(53)	18
<b>Cash and cash equivalents at 31 December</b>	14	<b>4,477</b>	<b>380</b>

### **Major non-cash transactions:**

On 16 February 2021 the Company issued of 230,769,210 shares of £0.025 each at a price of £0.065 per share to the shareholders of Kanabo Research Ltd as part of the RTO acquisition for the total value of £15,000K.

The Company also issued 615,384 shares of £0.025 each at a price of £0.065 for the total value of £40K for the settlement of services rendered to the Company.

On 30 December 2021 the Company agreed to issue up to 38,461,492 shares of £0.025 each at a price of £0.065 per share to the shareholders of Kanabo Research Ltd for the achievement of the Company milestones according to the RTO agreement for the total value of £2,500K. As of 31 December 2021, these contingent consideration shares had not been issued.

The notes to the financial statements form an integral part of these financial statements.

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**Parent Company Statement of Cash Flows**

		Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
	Note		
<b>Cash flow from operating activities</b>			
Loss before taxation		(2,309)	(131)
<b>Adjustments for:</b>			
Net impairment losses on financial assets	16	598	-
Share-based payment expense		193	33
Depreciation	21	2	-
Finance income, net		(57)	-
<b>Net cash used in operating activities</b>		<b>(1,573)</b>	<b>(98)</b>
<b>Working capital changes:</b>			
Change in trade receivable and other accounts receivable		(210)	(20)
Change in inventories		(63)	-
Change in Intercompany receivable		(368)	-
Change in trade payable and other accounts payable		119	18
<b>Net cash used in operating activities</b>		<b>(2,095)</b>	<b>(100)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, and equipment	11	(23)	-
Investment in financial asset held at fair value through other comprehensive income	13	(750)	-
Short term loan	16	(582)	(300)
<b>Net cash used in investing activities</b>		<b>(1,355)</b>	<b>(300)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of convertible loan notes		-	162
Share Issue net of issuing cost	8	6,608	-
Exercise of warrants	21	529	-
Exercise of options	21	102	-
<b>Net cash generated from financing activities</b>		<b>7,239</b>	<b>162</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,789</b>	<b>(238)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>359</b>	<b>597</b>
<b>Cash and cash equivalents at 31 December</b>	14	<b>4,148</b>	<b>359</b>

**Major non-cash transactions**

On 16 February 2021 the Company issued of 230,769,210 shares of £0.025 each at a price of £0.065 per share to the shareholders of Kanabo Research Ltd as part of the RTO acquisition for the total value of £15,000K.

The Company also issued 615,384 shares of £0.025 each at a price of £0.065 for the total value of £40K for the settlement of services rendered to the Company.

On 30 December 2021 the Company agreed to issue up to 38,461,492 shares of £0.025 each at a price of £0.065 per share to the shareholders of Kanabo Research Ltd for the achievement of the Company milestones according to the RTO agreement for the total value of £2,500K. As of 31 December 2021, these contingent consideration shares had not been issued.

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## ***Notes to the Financial Statements***

### **1. General Information**

Kanabo Group Plc's (the "Company") and its subsidiaries' (together, "the Group") principal activities are the distribution and development of medical cannabis products and non-THC CBD products.

The Group has its research centre in Israel.

The Company is incorporated and domiciled in England and Wales as a public limited company and operates from its registered office at Churchill House 137-139 Brent Street London NW4 4DJ and is listed on the London Stock Exchange in the standard segment.

### **2. Summary of Significant Accounting Policies**

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

#### **a) Basis of Preparation**

The financial statements of Kanabo Group Plc have been prepared in accordance with UK-adopted international accounting standards.

The financial statements have been prepared under the historical cost convention, unless stated otherwise.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgment or complexity, or areas where assumptions or estimates are significant to the financial statements.

#### **b) Consolidation and Acquisitions**

The financial statements consolidate the financial information of the Group and companies controlled by the Group (its subsidiaries) at each reporting date. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity, has the rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The results of subsidiaries acquired or sold are included in the financial information from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the results of acquired subsidiaries to bring their accounting policies into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation. The financial statements of all Group companies are adjusted, where necessary, to ensure the use of consistent accounting policies.

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**2. Summary of Significant Accounting Policies (continued)**

**b) Consolidation and Acquisitions (continued)**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Please refer to note 8 for information on the consolidation of Kanabo Group Plc and the application of the reverse acquisition accounting principles.

The Group applies the acquisition method to account for business combinations that fall within the scope of IFRS 3. For commentary on how the acquisition of Kanabo Research Ltd, which falls outside the scope of IFRS 3, was accounted for, see below note 8.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

On 16 February 2021, the Company acquired Kanabo Research Ltd via a reverse takeover which resulted in the Company becoming the ultimate holding company of the Group. The transaction was accounted for as a reverse acquisition since it did not meet the definition of a business combination under IFRS 3. In accordance with IFRS 2, a share-based payment expense equal to the deemed cost of the acquisition less the fair value of the net assets of the Company at acquisition was recognised. The comparatives within the consolidated statement of financial position, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated cashflow statement represent that of the legal subsidiary and accounting acquirer, Kanabo Research Ltd. In the consolidated statement of financial position, the share capital and premium as at 31 December 2021 is that of Kanabo Group Plc with the reverse acquisition reserve representing the difference between the deemed cost of the acquisition and the net assets of Kanabo Group Plc as at 31 December 2020. The consolidated statement of comprehensive income for 2021 represents the results of both Kanabo Group Plc and Kanabo Research Ltd. For more details on the key terms of the reverse takeover and a breakdown of what the reverse acquisition reserve as at 31 December 2021 comprises of, see note 8.

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**2. Summary of Significant Accounting Policies (continued)**

**c) New Standards and Interpretations**

- i) New and amended standards adopted by the Group and Company  
No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2021 have had a material impact on the Group and Company.
- ii) New standards, amendments and Interpretations in issue but not yet effective or not yet endorsed and not early adopted  
The standards and interpretations that are issued, but not yet effective as at the date of issuance of the financial statements are listed below.

<b>Standard</b>	<b>Impact on initial application</b>	<b>Effective date</b>
IAS 1	Amendments – Presentation and Classification of Liabilities as Current or Non-current	TBC
IAS 16	Amendments - Property, Plant and Equipment	1 January 2022
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1 January 2022
IAS 8	Amendments - Definition of Accounting Estimates	1 January 2023
IAS 1	Amendments – Disclosure of Accounting Policies	1 January 2023
IFRS 3	Amendments – Business Combinations – Conceptual Framework	1 January 2022

The Group and Company intends to adopt these standards, if applicable, when they become effective. The Directors are evaluating the impact of the new and amended standards above. The Directors believe that these new and amended standards are not expected to have a material impact on the financial statements of the Group and Company.

**d) Going Concern**

The preparation of the financial statements requires an assessment on the validity of the going concern assumption.

As at 31 December 2021, the Group's cash position was £4,477K and it was in a strong net current asset position. Based on the above, the Group's current cash reserves and detailed cash forecasts produced, the Directors are confident that the Group will be able to meet its obligations as they fall due over the course of the next 12 months. Whilst the Group may seek to raise further funds in the next 12 months, the Directors are confident that the Group would be able to meet their obligations as they fall due in the event of no further funding being obtained due to the low level of committed expenditure relative to the forecasted discretionary expenditure, which could be reduced or deferred.

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**2. Summary of Significant Accounting Policies (continued)**

**d) Going Concern (continued)**

The Directors also acknowledge that the COVID-19 pandemic has had, and will likely continue to have, adverse impacts on the global economy and capital markets. However, the Directors are confident that the Group will continue to remain a going concern and they do not believe the Group is dependent on raising further funds to remain a going concern.

**e) Foreign Currency Translation**

**i) Functional and Presentation Currency**

The consolidated financial statements are presented in Pounds Sterling (£000), which is also the Company's functional and presentation currency.

**ii) Transactions and Balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

**(iii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and the fair value adjustments arising on acquisition, are translated to GBP at exchange rates at the reporting date. The income and expenses of foreign operations are translated to GBP at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve except to the extent that the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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**2. Summary of Significant Accounting Policies (continued)**

**f) Significant Accounting Judgements, Estimates and Assumptions**

The preparation of the financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

Estimates and judgements are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group consider the significant accounting judgements, estimates and assumptions used within the financial statements to be:

**Recoverability of the investment in subsidiary (note 12)**

At 31 December 2021 the carrying value of the Company's investment in Kanabo Research Ltd was £17,951K. The recoverable value of this investment is not considered to be less than its carrying value as at 31 December 2021 and therefore no impairment has been recognised. The Directors have made this assessment through reviewing forecasts, other available financial information available and developments during the year and since the year-end. The key inputs within the forecast include revenue growth, gross profit margins and overheads.

**Recoverability of amounts due from the subsidiary (note 18)**

By 31 December 2021 the parent Company had advanced £400K as a loan to Kanabo Research Ltd and £368K as an ongoing operational balance. The Directors expect this balance to be fully recoverable and have thus not recognised any IFRS 9 expected credit loss charges. They made this assessment through reviewing forecasts, other financial information available and developments during the year and since the year-end.

**Recoverability of amounts due from Materia (note 16)**

By 31 December 2021 the Group had advanced CAD 1,000K (£582K) to Materia Ventures ("Materia), a company incorporated in Canada.

When assessing whether the loan receivable and accrued interest is recoverable or not, the Directors identified a number of impairment indicators. Whilst, no repayments of the loan are due, or yet to have been received and whilst through communications with Materia the Directors understand Materia is willing to repay the balance, there is not sufficient evidence to demonstrate that it is probable that Materia has the ability to make full repayment of the balance. The Directors have therefore taken a prudent view and decided to fully impair the loan, however, the Company and Materia will continue to discuss their future collaboration and a strategic partnership through which the Company hope to recover the loan balance.

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**2. Summary of Significant Accounting Policies (continued)**

**f) Significant Accounting Judgements, Estimates and Assumptions (continued)**

**Share Based Payments (note 21)**

During 2021, 16,408,102 share options, and 19,051,774 warrants were granted by the Company. When accounting for the share-based payment expense in respect of those share options granted, Management must calculate the fair value of the share options issued. Management have done so using the Black-Scholes model. However, several of the inputs into this model, including the risk-free rate, the dividend yield, the expected life of the instrument where it is not a defined period and the volatility, are subjective and thus management has made estimates in respect of these inputs.

**Financial assets at fair value through other comprehensive income (note 13)**

During 2021 shares were purchased from a private company incorporated in the UK called Kanabi Ltd. The shares purchased did not give the Company a controlling stake nor did it allow the Company to have a significant influence on the operating activities of the company. Additionally, an agreement was entered into with Kanabi Ltd that ensured that in the event of the successful completion of a reverse takeover of a listed company by Hellenic Dynamics S.A, a subsidiary of Kanabi Ltd, the Company would receive shares in the listed company. The number of shares to be received by the Company would be £750K divided by the IPO share price less a 30% discount.

Under IFRS 9 this asset has been classified as a financial asset at fair value with any gains or losses going through other comprehensive income. As a result, the Directors are required to assess the fair value of the asset on acquisition and at the year-end.

Through discussions with management of the investee and the Company's corporate advisors, who are assisting with the proposed transaction, they are confident that the proposed transaction will take place. To take a prudent view and account for the fact that whilst probable, the transaction has not yet taken place, the Directors have not recognised a gain equal to the discounted price they will receive and therefore the fair value of the financial asset as at 31 December 2021 remained at £750K.

**Reverse takeover accounting (note 8)**

When considering how the acquisition of Kanabo Research Ltd via a reverse takeover should be accounted for, the Directors have been required to make a judgment on whether the acquisition falls within the scope of IFRS 3 or not. The directors assessed the accounting acquiree, Kanabo Group Plc, at the time of acquisition to not be a business as defined by IFRS 3. As a result, the acquisition was assessed as falling outside the scope of IFRS 3. See note 2b for commentary on how the reverse takeover was accounted for.



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**2. Summary of Significant Accounting Policies (continued)**

**g) Financial Assets**

**Classification**

The Group classifies its financial assets in the following categories: at amortised cost (including trade receivables and other financial assets at amortised cost) fair value through other comprehensive income or fair value through profit or loss. The classification depends on the financial asset's contractual cash flow characteristics and the business model for managing them. Management determines the classification of its financial assets at initial recognition.

**Financial assets at amortised cost**

**(i) Classification of financial assets at amortised cost**

The Company classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest

Financial assets at amortised cost are initially measured at fair value and subsequently measured using the effective interest rate method less impairment.

**(ii) Impairment and risk exposure**

All of the financial assets at amortised cost are denominated in Pounds Sterling. As a result, there is no exposure to foreign currency risk. There is also no exposure to price risk.

For the Directors' justification for there being no expected credit loss charge required in respect of the loan due from Materia and the amounts due from the subsidiary, see note 16.

There is no definition of default at present. This will be reassessed as and when repayments are due in respect of financial assets at amortised cost held.

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**2. Summary of Significant Accounting Policies (continued)**

**h) Financial Liabilities**

**Trade and other Payables**

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method.

**i) Convertible Loan Notes**

Convertible loan notes are classified as either equity, financial liabilities or a mixture of both in accordance with the contractual agreement.

Where a convertible loan note is deemed to meet the definition of equity as per IAS 32, the proceeds receive less any associated issue costs are recognised directly within equity and is not subsequently remeasured.

**j) Taxation**

**Current Tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

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**2. Summary of Significant Accounting Policies (continued)**

**j) Taxation (continued)**

**Deferred Tax**

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investment in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled, and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the statement of comprehensive income.

**k) Segmental Reporting**

Although the Group comprises of two entities in two different jurisdictions, the directors and senior management appraise the performance of the Group as a whole rather than on a company level. They view the group's activities as that of a Cannabinoid research and sales Group and this is the only operating/reportable segment.

As such, the financial information of the single segment is the same as that set out in the consolidated statement of comprehensive income and the consolidated statement of financial position.

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**2. Summary of Significant Accounting Policies (continued)**

**l) Share-Based Payments**

The Company has applied the requirements of IFRS 2 Share-based payments.

The Company issues equity settled share-based payments to the directors and to third parties for the provision of services. Equity settled share-based payments are measured at fair value at the date of grant, or the date of the service provided. The fair value determined at the grant date or service date of the equity settled share-based payment is recognised as an expense or recognised against share premium where the service received relates to assistance in raising equity, with a corresponding credit to the share base payment reserve. The fair value determined at the grant date of equity is expensed on a straight-line basis over the life of the vesting period, based on the company's estimate of shares that will eventually vest. Once an option vests, no further adjustment is made to the aggregate expensed.

The fair value is measured by use of the Black-Scholes model as the Directors view this as providing the most reliable measure of valuation. The expected life used in the model has been adjusted, based on management's best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations. The market price used in the model is the issue price of Company shares at the last placement of shares immediately preceding the calculation date. The fair value calculated is inherently subjective and uncertain due to the assumptions made and the limitations of the calculation used.

**m) Financial Risk Management Objectives and Policies**

The Company does not enter into any forward exchange rate contracts. The main financial risks arising from the Company's activities are market risk, interest rate risk, foreign exchange risk, credit risk, liquidity risk and capital risk management. Further details on the risk disclosures can be found in note 24.

**n) Equity**

Equity instruments issued by the Company are recorded at the value of net proceeds after direct issue costs.

**o) Shares to be issued**

Obligations which are to be settled via the issue of the Company's shares at the year-end which meet the definition of equity per IAS 32 are classified as shares to be issue within equity and are held at fair value.

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**2. Summary of Significant Accounting Policies (continued)**

**p) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash held in bank. This definition is also used for the Statement of Cash Flows.

The Company considers the credit ratings of banks in which it holds funds in order to reduce exposure to credit risk. The Company only keeps its holdings of cash and cash equivalents with institutions which have a minimum credit rating of 'A-'.

The Company considers that it is not exposed to major concentrations of credit risk.

**q) Investments in Subsidiaries**

Investments in Group undertakings are stated at cost, which is the fair value of the consideration paid, less any impairment provision.

**r) 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:

	<u>%</u>
Leasehold improvements	15%
Equipment and furnishing	15%
Computers and electronic equipment	15%-33%

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**2. Summary of Significant Accounting Policies (continued)**

**s) Inventory**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realisable 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.
- Finished goods - on the basis of average costs including materials, labour 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.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**t) Revenue Recognition**

Revenue from contracts with customers is recognised when the control over the goods is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

In determining the amount of revenue from contracts with customers, the Company evaluates whether it is a principal or an agent in the arrangement. The Company is a principal when the Company controls the promised goods or services before transferring them to the customer. In these circumstances, the Company recognises revenue for the gross amount of the consideration. When the Company is an agent, it recognises revenue for the net amount of the consideration, after deducting the amount due to the principal.

Revenue from the sale of goods:

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods have transferred to the buyer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue from selling agreements is recognised when the revenue recognition criteria have been met and only to the extent the consideration is not contingent upon other deliverables in the agreements

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**2. Summary of Significant Accounting Policies (continued)**

**u) Research and Development Expenses**

Research expenses are recognised as an expense. The costs incurred during the development projects are recognised as intangible assets if the following occurs:

- The product or process is technically and commercially feasible
- The company intends to and has sufficient resources to complete development and to use or sell the asset.
- The product or process is ready for use or sale.
- Future economic benefits are likely.
- Development costs can be measured reliably.
- The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, as well as capitalised borrowing costs.
- Capitalised development expenditure can be measured fairly.

**v) Fair Value Measurement**

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

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

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

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.

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**2. Summary of Significant Accounting Policies (continued)**

**v) Fair Value Measurement (continued)**

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable directly or indirectly.
- Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

**w) Provisions**

A provision in accordance with IAS 37 is recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense is recognised in the statement of profit or loss net of any reimbursement.

**3. Revenues**

	<b>Year ended 31 December 2021 £'000</b>	<b>Year ended 31 December 2020 £'000</b>
Revenue from sales of products	73	60
	<b>73</b>	<b>60</b>

During 2021 and 2020 the revenues were generated only from the sale of products and were made to customers in the United Kingdom. All revenues were recognised at a point in time.



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**4. Research and Development Expenses**

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Salaries and related expenses	163	73
Share-based payment expense	6	21
Lab expenses	45	44
Professional services	26	6
Other	2	5
	<b>242</b>	<b>149</b>

The Group did not capitalise any research and development expenses incurred during 2021 and 2020 as Management have taken the prudent view that it is not yet probable that the technology and products upon which the research and development expenditure related to will bring in future economic benefits to the Group.

**5. Sales and Marketing Expenses**

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Salaries and related expenses	151	19
Share-based payment expense	211	(8)
Subcontractors	14	4
Marketing expenses	141	44
Professional services	31	-
Business development	16	-
Other	5	-
	<b>569</b>	<b>59</b>

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**6. General and Administration Expenses**

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Salaries and related expenses	676	139
Share-based payment expense	436	72
Insurance	100	8
Professional services	599	71
Rent and related expenses	52	33
Depreciation	5	5
Licenses	12	2
Travel and accommodation	54	11
Business development	-	25
Patent	13	16
Other	53	7
	<b>2,000</b>	<b>389</b>

**7. Auditors' Remuneration**

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Fees payable to the Company's auditor for:		
- The audit of parent company and consolidated financial statements	43	27
- Due diligence services in respect of acquisition targets	15	-
- Interim review of the Group for the six-month period ended 30 June 2021 in accordance with ISRE 2410	15	-

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**8. Reverse Acquisition**

On 16 February 2021, Kanabo Group Plc ("Company") formerly known as Spinnaker Opportunities Plc, acquired through a share for share exchange the entire share capital of Kanabo Research Ltd, whose principal activity is the provision of THC-Free retail CBD products and Vaporization devices.

Although the transaction resulted in Kanabo Research Ltd becoming a wholly owned subsidiary of the Company, the transaction constituted a reverse acquisition, as the previous shareholders of Kanabo Research Ltd own a substantial majority of the Ordinary Shares of the Company and the executive management of Kanabo Research Ltd became the executive management of Kanabo Group Plc.

In substance, the shareholders of Kanabo Research Ltd acquired a controlling interest in the Company and the transaction has therefore been accounted for as a reverse acquisition. As the Company's activities prior to the acquisition were purely the maintenance of the LSE Listing, acquiring Kanabo Research Ltd and raising equity finance to provide the required funding for the operation of the acquisition, it did not meet the definition of a business in accordance with IFRS 3.

Accordingly, this reverse acquisition does not constitute a business combination and was accounted for in accordance with IFRS 2 "Share-based Payments" and associated IFRIC guidance. Although, the reverse acquisition is not a business combination, the Company has become a legal parent and is required to apply IFRS 10 and prepare consolidated financial statements. The Directors have prepared these financial statements using the reverse acquisition methodology, but with the result that rather than recognising goodwill, the difference between the equity value given up by Kanabo Research Ltd's shareholders and the share of the fair value of net assets gained by these shareholders, is charged to the consolidated statement of comprehensive income as a share-based payment on reverse acquisition and represents in substance the cost of acquiring an LSE listing.

On 16 February 2021, the Company issued 230,769,231 ordinary shares to acquire the 237,261 ordinary shares of Kanabo Research Ltd. Based on a share price of £0.065 (the price at which those shares issued as part of the placing that day were issued at), the Company's investment in Kanabo Research Ltd is valued at £15,000K prior to the consideration of contingent consideration and share based payments charges for the year recognised in the subsidiary – see note 12 for further commentary regarding this component of the carrying value of the investment in the subsidiary as at 31 December 2021.

On 16 November 2021, the Company achieved two of its deferred consideration share milestones under the terms of the share purchase agreement. The achievement entitles the sellers to 38,461,492 deferred consideration shares with a total value of £2,500K which increases the total investment to £17,500K. The Company had not issued the shares as at 31 December 2021 and as this obligation met the 'fixed for fixed' rule under IAS 32, the contingent consideration has been included in the "shares to issued" reserve within equity.

Because the legal subsidiary, Kanabo Research Ltd, was treated on consolidation as the accounting acquirer and the legal Parent Company, Kanabo Group Plc, was treated as the accounting subsidiary, the fair value of the shares deemed to have been issued by Kanabo Research Ltd was calculated at £1,911K based on an assessment of the purchase consideration for a 100% holding of Kanabo Group Plc.

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**8. Reverse Acquisition (continued)**

According to the IFRS 2 the value of the share-based payment is calculated as the difference between the deemed cost and the fair value of the net assets as at the acquisition date. During the period between 1 January 2021 to 16 February 2021 several shareholders exercised their warrants. The exercised warrants indicated that in the event the RTO acquisition would not be completed the funds would be returned to the shareholders. For that reason, it was decided that it would be more appropriate to use the Company's value of the net assets as of 1 January 2021.

	£
Deemed cost	1,911,007
Trade and other receivables	433,781
Cash and cash equivalents	358,726
Trade and other payables	(53,631)
	<u>738,876</u>
<b>RTO expenses</b>	<b><u>1,172,131</u></b>

The difference between the deemed cost (£1,911K) and the fair value of the net assets assumed per above of £738,876 resulted in £1,172,131 being expensed within "reverse acquisition expenses" in accordance with IFRS 2, Share Based Payments, reflecting the economic cost to Kanabo Research Ltd's shareholders of acquiring a quoted entity.

The reverse acquisition reserve which arose from the reverse takeover is made up as follows:

	£
Pre-acquisition equity (a)	(738,876)
Kanabo Research Ltd share capital at acquisition (b)	2,098,889
Investment in Kanabo Research Ltd (c)	(17,500,000)
Reverse acquisition expense (d)	1,172,131
	<b><u>(14,967,856)</u></b>

(a) Recognition of pre-acquisition equity of Kanabo Group Plc as at 1 January 2021.

(b) Kanabo Research Ltd had issued share capital of 2,098,889. As these financial statements present the capital structure of the legal parent entity, the equity of Kanabo Research Ltd is eliminated.

(c) The value of the shares issued by the Company in exchange for the entire share capital of Kanabo Research Ltd. The above entry is required to eliminate the balance sheet impact of this transaction.

(d) The shares to be issued to the vendors upon the meeting of two of the agreed milestones had not been issued as at 31 December 2021. Since the obligation in question is to be settled by the Company through an issue of a fixed number of shares for a fixed consideration, this obligation has been treated as an equity instrument and has been included within equity under the "shares to be issued reserve".

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**9. Income Tax**

**Analysis of charge in the year**

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Current tax	-	-
Deferred tax	-	-
<b>Total tax</b>	<b>-</b>	<b>-</b>
<b>Accounting profit before tax from continuing operations</b>	<b>(4,551)</b>	<b>(591)</b>
<b>Analysis of charge in the year:</b>		
Tax using the company's domestic tax rate 19% (2020: 19%)	(865)	(112)
Non-deductible expenses	331	47
Current year losses for which no deferred tax asset is recognised	534	64
<b>Total tax</b>	<b>-</b>	<b>-</b>

The Group has accumulated tax losses of approximately £6,472K (2020: £3,691K) that are available, under current legislation, to be carried forward indefinitely against future profits.

A deferred tax asset has not been recognised in respect of these losses due to the uncertainty of future profits. The amount of the deferred tax asset not recognised is approximately £1,377K (2020: £849K).

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## 10. Earnings per Share

The basic earnings per share is calculated by dividing the (loss)/profit attributable to the ordinary shareholders of the Company by the weighted average number of Ordinary shares in issue during the period, excluding Ordinary shares purchased by the Company and held as treasury shares.

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Loss for the year from continuing operations	(4,551)	(591)
Weighted average number of shares in issue	324,287,000	230,984,943
Basic and diluted earnings per share (pence per share)	(1.40)	(0.26)

There is no difference between the basic and diluted earnings per share as a loss has been made in the year.

## 11. Property, Plant, and Equipment

Group:

	<b>Computers and Electronic equipment £'000</b>	<b>Equipment and Furnishing £'000</b>	<b>Leasehold improvement £'000</b>	<b>Total £'000</b>
<b>Cost</b>				
At 1 January 2020	13	16	-	29
Additions	-	-	-	-
Disposals	(1)	-	-	(1)
Exchange differences	-	1	-	1
<b>At 31 December 2020</b>	<b>12</b>	<b>17</b>	<b>-</b>	<b>29</b>
Additions	13	21	1	35
Exchange differences	1	1	-	2
<b>At 31 December 2021</b>	<b>26</b>	<b>39</b>	<b>1</b>	<b>66</b>
<b>Accumulated depreciation</b>				
At 1 January 2020	7	4	-	11
Additions	2	3	-	5
Disposals	(1)	-	-	(1)
Exchange differences	1	-	-	1
<b>At 31 December 2020</b>	<b>9</b>	<b>7</b>	<b>-</b>	<b>16</b>
Additions	3	4	-	7
Exchange differences	1	-	-	1
<b>At 31 December 2021</b>	<b>13</b>	<b>11</b>	<b>-</b>	<b>24</b>
<b>Net book value</b>				
At 31 December 2020	3	10	-	13
At 31 December 2021	13	28	1	42

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**11. Property, Plant, and Equipment (continued)**

Company:

	<b>Computers and Electronic equipment £'000</b>	<b>Total £'000</b>
<b>Cost</b>		
At 1 January 2020	-	-
Additions	-	-
Disposals	-	-
<b>At 31 December 2020</b>	<b>-</b>	<b>-</b>
Additions	23	23
<b>At 31 December 2021</b>	<b>23</b>	<b>23</b>
<b>Accumulated depreciation</b>		
At 1 January 2020	-	-
Additions	-	-
<b>At 31 December 2020</b>	<b>-</b>	<b>-</b>
Additions	2	2
<b>At 31 December 2021</b>	<b>2</b>	<b>2</b>
<b>Net book value</b>		
At 31 December 2020	-	-
At 31 December 2021	<b>21</b>	<b>21</b>

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**12. Investment in subsidiary**

	<u>£'000</u>
<b>Cost</b>	
At 1 January 2020	-
Additions	-
Disposals	-
<b>At 31 December 2020</b>	<b>-</b>
Additions	17,951
<b>At 31 December 2021</b>	<b>17,951</b>

On 16 February 2021, the Company acquired Kanabo Research Ltd, an Israeli-based private company operating the CBD industry, via a share-for-share exchange. The carrying value of investment comprises of £17,500k in respect of share consideration, of which £2,500k remains unissued as at 31 December 2021, at £451k in respect of share based payment charges recognised in the subsidiary during the year. As there is no agreement in place for Kanabo Research Ltd to reimburse the Company for share options issued to and exercised by employees of Kanabo Research Ltd, the share-based payment charged recognised in the subsidiary in the year is recognised as a capital contribution in the subsidiary and thus an investment in the Company.

No impairments have been recognised in the year as the Directors do not believe the recoverable value of the investment to be below its carrying value. See note 2.f for further commentary on how the Directors made this estimate.

The Company owns 100% of the share capital of Kanabo Research Ltd and the subsidiary's registered address is Habarzel 21 st, Tel-Aviv, Israel.

**13. Financial Asset Held at Fair Value through other Comprehensive Income – non-current assets (Group and Company)**

On 24 May 2021, the Company entered into an agreement to receive shares in Hellenic Dynamics S.A ("HD") following a reverse takeover by HD of a listed company. HD is a company incorporated in Greece and is a medical cannabis cultivator which is in the process of securing admission to the London Stock Exchange through a Reverse Take Over ("RTO").

As part of the agreement, for consideration of £750K the Company has acquired 5,000 shares in HD's parent company, Samos Investments Ltd, and will be entitled to receive shares in HD as part of HD's proposed listing on the London Stock Exchange. The number of HD shares that will be issued to the Company shall be calculated as £750K divided by the RTO valuation share price less a 30% discount.

As of the date of approving the financial statements, the RTO has not yet been completed. See note 2.f. for commentary on the Directors' assessment of the fair value of this financial asset as at the year-end.



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**14. Cash and Cash Equivalents**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>
Cash at bank	4,477	380	4,148	359
	<b>4,477</b>	<b>380</b>	<b>4,148</b>	<b>359</b>

The Directors consider the carrying amount of cash and cash equivalents approximates to their fair value.

**15. Inventory**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>
Raw materials	17	5	17	-
Finished goods	49	22	49	-
	66	27	66	-
Provision for slow moving and obsolete inventory	(3)	-	(3)	-
	<b>63</b>	<b>27</b>	<b>63</b>	<b>-</b>

During 2021, £3K was recognised as an expense for provision of slow moving and obsolete inventory.

**16. Short Term Loan**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>
Loan	583	-	583	-
Accumulated interest	15	-	15	-
	598	-	598	-
Provision for impairment loss on financial asset	(598)	-	(598)	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**16. Short Term Loan (continued)**

On 25 July 2021 the Company signed a head of agreement with 11157353 Canada Corp. a company incorporated in Canada ("Materia").

As part of the agreement the Company agreed to extend Materia a £1.7 million (CAD 3 million) credit facility which was to be drawn down in tranches based upon agreed uses.

Under the agreement, amounts loaned are due for repayment twelve months after the drawdown date. No repayments were received in the year, and none have been received post year-end.

According to the loan agreement, Materia is obliged to receive the Company's approval for any additional investment from a 3rd party (excluding current investors). The loan is secured by a General Security Agreement under which all the Materia's assets from time to time constitute a floating collateral for the Loan. The collateral is shared equally with another lender to Materia (unconnected to the Group) and the relationship between the two lenders is regulated by an inter-creditor agreement.

Additionally, the agreement states that should the proposed transaction not complete within six months of the signing of the heads of terms, interest of 10% per annum would be charged on amounts drawn down from the date of drawdown. As at the year-end the Directors believed the transaction would not complete by 25 January 2022, and therefore, interest income at 10% per annum has been recognised for the period from drawdown to the year-end.

As of 31 December 2021, the Company transferred Materia CAD 1,000K (£582K) in three tranches. As of the reporting period the Company recorded interest income in the total amount of £15K.

The loan receivable has been impaired in full. See note 2.f for commentary regarding the assessment made by the Directors.

**17. Trade and Other Receivables**

	<b>Group</b>			<b>Company</b>
	<b>As at</b>	<b>As at</b>	<b>As at</b>	<b>As at</b>
	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade receivables	10	-	10	-
Prepaid	172	15	165	4
Other	65	18	45	5
Loan	-	-	-	(*) 424
	<b>247</b>	<b>33</b>	<b>220</b>	<b>433</b>

(\*) After the completion of the RTO the company reclassified the loan to intragroup receivables.

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**18. Intercompany receivables**

Amounts due to the Company from its subsidiary as at 31 December 2021 totalled £834K. When conducting their IFRS 9 expected credit loss assessment, the Directors have assessed there are no indications that an impairment is required to be recognised and thus the intercompany receivables remain at carrying value. See note 2.f for further commentary on how the Directors have made this assessment.

The amounts due to the Company from its subsidiary are repayable on demand and are denominated in GBP.

**19. Called up Share Capital**

As at 31 December 2021 the Company had 369,966,277 allotted and fully paid ordinary shares.

The ordinary shares have attached to them full voting, dividend, and capital distribution rights (including on a winding up). The ordinary shares do not confer any rights of redemption.

	<b>Number of Ordinary Shares of £0.025 each</b>
<b>As at 1 January 2021</b>	<b>29,400,120</b>
Shares issued in the year for RTO (a)	230,769,210
Shares issued in placing and subscriptions 16 February 2021 (c)	92,307,693
Shares issued to settled debt	615,384
Share issued in placing and subscriptions 24 May 2021(d)	4,545,454
Shares issued due to option and warrant exercises	9,028,416
Shares issue to settle convertible loans	3,300,000
<b>As at 31 December 2021</b>	<b>369,966,277</b>

(a) On 16 February 2021, the company completed its reverse takeover ("RTO") process with Spinnaker Opportunities Plc ("SOP"). The RTO was completed in the form of a share for share exchange and the ratio was approximately 1:972.64.

(b) As of 31 December 2021, 38,461,492 consideration shares still need to be issued.

(c) On 16 February 2021, the Company issued 92,307,693 shares raising £6,000K before costs.

(d) On 24 May 2021, the Company issued 4,545,454 shares raising £1,000K before costs.

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**20. Share premium**

	<b>£000</b>
<b>As at 1 January 2021</b>	<b>592</b>
Shares issued in the year for RTO	9,231
Shares issued in placing and subscriptions	4,634
Shares issued to settled debt	21
Shares issued to settle convertible loan notes	83
Share issue costs	(634)
Shares issued due to option and warrant exercises	473
<b>As at 31 December 2021</b>	<b>14,400</b>

**21. Share Based Payments**

a. Warrants

	<b>Number of awards</b>	<b>Weighted average exercise price</b>
As at 1 January 2021	-	-
Granted	19,051,774	0.09
Exercised	(5,545,843)	0.10
<b>Exercisable at 31 December 2021</b>	<b>13,505,931</b>	<b>0.09</b>

On 17 February 2021 ("date of admission") the Group granted a warrant over one new Ordinary Share for every two Ordinary Shares registered in the name of an existing Shareholder of the Company as at the date of the RTO. The warrants granted under the terms of the RTO Warrant Instrument shall be exercisable in the period commencing on the date of Admission until the date 12 months after the date of Admission. The warrants are exercisable at 10 pence per Ordinary Share. Total warrants issued sum to 14,700,055. The warrants were not issued for goods or services provided and therefore fall outside the scope of IFRS 2 and do not require fair valuing.

On 27 January 2021, the Company entered into a financial adviser warrant deed entitling Peterhouse Capital Limited to warrants over a number of ordinary shares, representing approximately 0.75 per cent. of the enlarged Issued Share Capital (the share capital on the date of the RTO) in accordance with their engagement letter. The warrants are exercisable at the fundraising price, exercisable for a period of 7 years from the date of admission. Total warrants issued sum to 2,701,719. As the warrants were issued to the brokers assisting with the raise upon re-listing, the fair value of these warrants, £113K, was treated as a share issue cost and debited against share premium

On 17 February 2021 ("date of admission") the Group granted a warrant to the noteholders to subscribe for one Ordinary Shares for every two Conversion Shares issued to the noteholder. The warrants are exercisable at the Conversion Price (5 pence) and will be valid for a period of three years. Total warrants issued sum to 1,650,000. The warrants were not issued for goods or services provided and therefore fall outside the scope of IFRS 2 and do not require fair valuing.

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**21. Share Based Payments (continued)**

a. Warrants (continued)

The fair value of the warrants was determined using the Black-Scholes calculation model. The parameters used are detailed below:

<u>Grant Date</u>	<u>27 January 2021</u>
Life (years)	7
Exercise price (pence per share)	6.5
Risk free rate	0.32
Expected volatility	70%
Expected dividend yield	-
<b>Total fair value (£'000)</b>	<b>113</b>

b. Stock option

- During the period ended 31 December 2018, the Company had a share-based payment plan. The plan was approved in February 2018 and has a 10-year duration. The terms of vesting vary according to the grant agreement subject to approval by the Board of Directors. Some grants mature immediately, and others vest over up to 4 years.
- On 28 March 2021, the Group approved an Israeli appendix to the share-based payment plan ("The Israeli new plan"). The plan will include a replacing of existing options granted by Kanabo Research Ltd to three of its employees and consultants and for future grants for Kanabo Research Ltd employees. The plan is for 10 years forming the date of approval.

Further details regarding the Company's share option plans

	<b>For the year ended 31 December 2021</b>	
	<b>Number of options</b>	<b>Weighted average of the exercise price in £</b>
Are in circulation at the beginning of the year	20,612	0.62
Granted during the year	-	
Forfeited during the year	-	
Exercised during the year	(18,407)	0.62
Expired during the year	2,205	0.62
<b>At the end of the year</b>	<b>-</b>	<b>-</b>

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**21. Share Based Payments (continued)**

b. Stock option (continued)

Further details regarding the Group's share option plans

	<b>For the year ended 31 December 2021</b>	
	<b>Number of options</b>	<b>Weighted average of the exercise price in £</b>
Are in circulation at the beginning of the year	1,960,000	0.05
Granted during the year	16,408,102	0.15
Forfeited during the year	(273,555)	-
Exercised during the year	(2,105,652)	-
Expired during the year	-	-
<b>Are in circulation at the end of the period</b>	<b>15,988,895</b>	<b>0.16</b>

The fair value of the share options was determined using the Black-Scholes calculation model. The parameters used are detailed below:

Grant Date	27 January 2021	27 January 2021	28 April 2021	19 July 2021	24 October 2021
Life (years)	3	3	10	10	10
Exercise price (pence per share)	6.5	10	27.21	19.7	16.5
Risk free rate	0.18	0.18	1.63	1.19	1.66
Expected volatility	70%	70%	70%	70%	70%
Expected dividend yield	-	-	-	-	-
<b>Total fair value (£'000)</b>	<b>40</b>	<b>91</b>	<b>703</b>	<b>198</b>	<b>378</b>

The risk-free rate of return is based on zero yield government bonds for a term consistent with the option life.

During the period the Group recognised total amount of £653K (2020: £33K) for share-based payment expenses.

The amount was recorded in the profit and loss under research and development expenses (£6K), sales and marketing expenses (£211K) and the general and administration expenses (£436K).

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**22. Trade and Other Payables**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>
Trade payables	36	19	24	15
Credit card	6	1	-	-
Accrued expenses	186	33	149	39
	<b>228</b>	<b>53</b>	<b>173</b>	<b>54</b>

**23. Employees and Related Payables**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>
Employees	110	14	-	-
Provision for accrued vacation and convalescence	48	15	-	-
Employee's related tax	29	5	-	-
	<b>187</b>	<b>34</b>	<b>-</b>	<b>-</b>

Average number of people employed, including Directors:

	<b>Group</b>		<b>Company</b>	
	<b>2021 Number</b>	<b>2020 Number</b>	<b>2021 Number</b>	<b>2020 Number</b>
Office and management	10	3	5	3

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**24. Financial Instruments**

The following table sets out the categories of financial instruments held by the Group as at 31 December 2021 and 31 December 2020:

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>
<b>Financial assets held at amortised cost</b>				
Other loans	-	-	834	-
Cash and cash equivalents	4,477	380	4,148	359
<b>Financial assets held at fair value</b>				
Financial assets held at fair value	750	-	750	-
<b>Financial liabilities held at amortised cost</b>				
Trade and other payables	228	53	173	54
Employee and related payables	139	19	-	-
Borrowings	-	424	-	-
	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2021 £'000</b>	<b>As at 31 December 2020 £'000</b>
<b>Financial assets held at amortised cost</b>				
GBP	4,350	165	4,982	359
ILS	105	51	-	-
Other currencies	22	164	-	-
<b>Total</b>	<b>4,477</b>	<b>380</b>	<b>4,982</b>	<b>359</b>
<b>Financial assets held at fair value</b>				
GBP	750	-	750	-
<b>Total</b>	<b>750</b>	<b>-</b>	<b>750</b>	<b>-</b>
<b>Financial liabilities held at amortised cost</b>				
GBP	174	53	173	54
ILS	193	443	-	-
<b>Total</b>	<b>367</b>	<b>493</b>	<b>173</b>	<b>54</b>



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**24. Financial Instruments (continued)**

**a) Market risk**

The Group is not materially exposed to market risk as it has yet to commence trading. Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

**b) Interest rate risk**

The Group is not materially exposed to interest rate risk because it does not have any funds at either fixed or floating interest rates.

The Group does not have any borrowings at either fixed or floating interest rates and whilst it does have loan receivables at a fixed rate, interest generated from this loan is immaterial.

**c) Foreign currency risk**

The Directors do not believe that the Group have a material exposure to foreign currency risk. The only notable foreign currency risk is that of the loan receivable due from Materia. The loan receivable due from Materia does represent a foreign currency risk as the balance is denominated in Canadian Dollars. See note 16 for further commentary on the terms of this loan.

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**24. Financial Instruments (continued)**

**d) Credit risk**

The Group's maximum exposure to credit risk in relation to each class of recognised asset is the carrying amount of those assets as indicated in the balance sheet. At the reporting date, there was no significant concentration of credit risk. Receivables at the year-end were not past due, and the Directors consider there to be no significant credit risk arising from these receivables.

**e) Liquidity risk**

Cash flow working capital forecasting is performed for regular reporting to the directors. The directors monitor these reports and forecasts to ensure the Group has sufficient cash to meet its operational needs.

**f) Capital risk management**

The Company defines capital based on the total equity of the Company. The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

In order to maintain or adjust the capital structure, the Company may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt, in the future.

**25. Ultimate Controlling Party**

The Directors have determined that there is no controlling party as no individual shareholder holds a controlling interest in the Company. Controlling party is defined as a shareholder which holds more than 25% ownership of shares in the Company.

**26. Related Party Transactions**

During 2021, as a result of the RTO completion, the Company paid bonuses to the Directors Alan Hume, Andy Morrison and Anthony Harpur totaling £180K. The bonuses were paid directly to the directors and to entities which are wholly owned by them.

During 2020, 165 convertible loan notes issued to Mr. Anthony Harpur, a director of the Company contributed 50 loan notes for consideration totaling £50K. During 2021 all the 165 convertible loan notes were converted into shares.

For the details of the Directors' remuneration in 2021 and 2020, please see the Remuneration Committee Report on page 29.

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**27. Post Balance Sheet Events**

- a. On 21 February 2022, the Company acquired GP Service (UK) Limited ("GPS"), a UK-based private primary care telemedicine provider, for a net consideration of £13,498K ("Net Consideration"). The Net Consideration was satisfied by the allotment of 94,133,645 B ordinary shares of 0.00001p each in the capital of Kanabo GP Limited, a subsidiary of Kanabo Group Plc, at a price of 12.65p per share ("Consideration Shares"). It has been agreed as part of the acquisition that the principal and interest owed as at completion by GPS to MEIF WM Debt LP (£1,591K) will be repayable by the Company by the allotment of 12,574,931 ordinary shares within 18 months based on the same price of 12.65p per share.

The provisional fair values of the identifiable assets and liabilities of GPS as at the date of acquisition were:

	<b>Fair value on acquisition date £'000</b>
Cash and cash equivalents	234
Trade and other receivables	20
Property and equipment	54
<b>Total assets</b>	<b>308</b>
Trade payables	(85)
Employees and related payables	(19)
Accrued expenses and other accounts payables	(98)
Long term loan	(3,428)
<b>Total liabilities</b>	<b>(3,630)</b>
<b>Total identifiable net liabilities at fair value</b>	<b>(3,322)</b>
Goodwill arising on acquisition	16,820
<b>Purchase consideration transferred</b>	<b>13,498</b>

The goodwill of £16,820K comprises the value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

A Purchase Price Allocation exercise has not yet been conducted and thus the fair values of the assets and liabilities disclosed are subject to change.

- b. On 21 February 2022, the Company raised £2.25 million by way of a placing of 28,125,000 new ordinary shares of 2.5 pence each in the Company ("placing shares") at a price of 8p per share. The placing shares issued represent approximately 7% of the Company's enlarged Ordinary Share capital following the placing.

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**28. Copies of the Annual Report**

Copies of the annual report are available on the Company's website at [www.kanabogroup.com](http://www.kanabogroup.com) and from the Company's registered office Churchill House, 137-139 Brent Street, London, NW4 4DJ.