
Kanabo Group Plc

Annual Report

For the year ended 31 December 2022

Company Registration No. 10485105 (England and Wales)

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Directors and Professional Advisers

Directors

David Tsur
Avihu Tamir
Gil Efron

Company Secretary

Assaf Vardimon

Registered Number

10485105

Registered Address

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NW4 4DJ

Financial Adviser and Broker

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EC2V 6EE

Auditor

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London
EC2Y 5AU

Solicitors

Asserson
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NW4 4DJ

Principal Bankers

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Sackville House, 40 Piccadilly
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Chair's Statement

I am delighted to report on the significant strategic progress of the Company. Since the beginning of 2022 we have continued to further strengthen the business, with the development and launch of new products, acquisitive growth with the addition of The GP Service to the Group, and the launch of a Kanabo Agritec Ltd ("Agritec"), a new, partly owned subsidiary offering one-stop-shop consultancy services regarding the design, build, operation and management of the production of medicinal cannabis. The Group is now well positioned to leverage its skillset and products and capitalise on the market opportunity.

In February 2022, we announced the acquisition of The GP Service, and I would like to take this opportunity to welcome the team from The GP Service to our growing group – we look forward to working together to broaden our reach and leveraging The GP Service's platform to expand our overall accessible market. This collaboration will undoubtedly strengthen our position in the healthcare sector and benefit our stakeholders.

The acquisition of The GP Service has been immediately boosted earnings, contributing to an improved financial performance. We are pleased to report revenue growth of £603 thousands, compared to £73 thousands the previous year. This is before fully completing the post-merger integration, which concluded in Q1 2023.

The acquisition of The GP Service has expanded the Group's service offering in the healthcare space. With an existing network of over 40,000 patients and approximately 4,500 registered pharmacies, the platform presents an opportunity to leverage The GP Service to further promote the sales of the Group's cannabis-derived products for medical patients and other specialised treatment portfolios. We have already seen a significant increase in the number of monthly consultations and look forward to further driving the reach of the service.

In August, we announced the formation of a new subsidiary, Agritec, in which the Group has a 40% shareholding. Kanabo Agritec will provide consultancy services, leveraging the experience and knowledge of our team in areas such as cultivation, processing, and production of cannabis products to advise other cultivators on maximising their potential. Furthermore, these consultancy services enable the Group to enhance the security of its cannabis supply by diversifying its range of suppliers and generating a new revenue stream in the short term.

The Group was pleased to complete a £2,250 thousands oversubscribed Placing in February 2022, following strong demand from both new and existing shareholders. Following the well-supported fundraising in February 2022, our cash balance at 31 December 2022 was £3,204 thousands (31 December 2021: £4,477 thousands).

Following the acquisition of The GP Service, the Group strengthened the team with the appointment of Dr Mehran Afshar as Clinical Director of the Group. Dr Afshar's primary role is to manage compliance policies and procedures regarding the supply of medicinal cannabis through The GP Service.

Chair's Statement (*cont.*)

In March 2022, Uziel Danino retired from the Board of Directors and in December, it was announced that Andrew Morrison stood down as Non-Executive Director. Both Uziel and Andrew were instrumental in the successful listing of Kanabo on the London Stock Exchange. In March 2023, it was additionally announced that Daniel Poulter had stepped down as Non-Executive Director, with Kanabo confirming it was at an advanced stage of discussions regarding the appointment of a UK-based NED. I would like to thank Uziel, Andrew and Daniel for their support and contribution to Kanabo and wish them well with their future endeavours. Gil Efron, who has considerable capital markets and healthcare expertise was appointed to the Board of Directors in March 2022.

Following the year end, the Group was delighted to announce the launch of Treat It, a dedicated online clinic for pain management, which leverages our proprietary technology to extend our market reach for our medicinal cannabis products. Furthermore, we announced the appointment of MHA MacIntyre Hudson as the Group's auditors.

The Group remains focused on the following key strategic priorities:

- Continue to capitalise on demand for access to healthcare professionals to drive growth of the GP Services business;
- Leverage a number of cross sell opportunities of the GP Service;
- Ongoing development of the Group's healthcare services, including our recently launched online pain management clinic, to further grow market share;
- Maintain existing product development activities to further strengthen the Group's medicinal cannabis product footprint;
- Focus on achieving medical device CE mark approval for our inhaler product;
- Continue to explore opportunities to further expand Kanabo's sales reach and online distribution channels.

The Kanabo team continue to be critical to the success and drive of the business and to that end, I would like to extend my sincere thanks for their contribution over the past year. It is testament to the team and their continued drive that Kanabo is so well placed to capitalise on the market opportunity in the provision of digital health services and cannabis products across Europe.

The Chair's statement is an integral part of the Company's Strategic Repot.

David Tsur
Chair

27 April 2023

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Chief Executive Officer's Review

2022 has been a year of significant progress for Kanabo. Not only have we launched new products and seen further demand for our core products, but we have also extended the Group's capabilities with the addition of the telehealth services provided by The GP Service. Furthermore, we have leveraged our in-house expertise through Kanabo Agritec, which adds strength and depth to our supply chain for core products.

Having completed the acquisition of The GP Service, Kanabo is now uniquely placed to provide access to high-quality medical treatment for pain management. Kanabo combines a digital healthcare platform that allows patients access to healthcare professionals, with a treatment portfolio which includes medicinal cannabis and other products not usually available to patients.

The Group continues to provide a "product-to-patient" solution for cannabis-derived products, now with a platform to prescribe medicinal products directly to patients. The Group develops and commercialises high quality cannabis formulas that are delivered to the patient via medical grade vaporisers and non-combustible inhalation solutions, either through direct sales or via prescription. Following the acquisition of The GP Service, we see great potential to grow sales via the prescription channel. Furthermore, through the Group's advisory and consultation services in Kanabo Agritec, we are able to bolster and secure the supply of quality raw product. Our pharmaceutical grade production standards ensure high quality, high potency medical-grade products.

The corporate activity undertaken throughout the year demonstrates the Group's continued focus on our strategy to be a digital healthcare provider and leading supplier of innovative medical solutions to patients suffering from conditions including chronic pain, anxiety and central nervous system diseases.

The GP Service

We were delighted to announce the acquisition of The GP Service in February 2022. Utilising an online consultation platform, The GP Service offers the services of online doctors to help diagnose and treat common conditions. The system, already an approved provider on the NHS digital framework, allows patients to consult with qualified doctors, who then are able to provide prescriptions, referral letters and fit notes.

As well as providing access to GP appointments, The GP Service also partners with certain UK corporations to provide services to employees as part of benefits packages and in June 2022, it was confirmed it had extended its contract with one of the UK's largest group of retail businesses. The service now provides live video consultation appointments with registered GPs, and prescriptions are available through the platform's partner network of over 4,000 pharmacies across the UK. Given the increasing pressure experienced by the NHS, we anticipate seeing continued demand for our private GP appointments through The GP Service as individuals seek access to medical advice.

Following the acquisition, we have invested in technology to support its suite of digital tools, including video consultations, digital prescriptions and access to primary care services. This investment supported the service in seeing a steady growth in the number of monthly users of the digital health services, with more an 100% increase in the number of consultations on a monthly basis since the acquisition of the GP Service.

Chief Executive Officer's Review (*cont.*)

The GP Service (*cont.*)

Under the new management of Kanabo, The GP Service's core activities have shown a growth of over 100% in monthly revenue from acquisition to the end of the year. This growth is expected to continue as we add new treatments to the platform and invest in additional IT developments.

The acquisition of The GP Service has provided the Group with a solid foundation in the UK digital health market and presents an opportunity to capitalise on the footprint to expand our activities and further strengthen our UK market position.

Products

In March 2022, we unveiled our cutting-edge eCommerce platform, Kanabo.store. Initially targeting the UK market, the platform allows customers to purchase Kanabo's devices and pods directly. Our unique VapePod, a first-of-its-kind medical-grade vaporiser, offers users a convenient and precise dosing experience.

Since the launch, we have been dedicated to broadening our product offerings. We introduced two new medical cannabis extract formulas for inhalation, specifically designed for pain management and compatible with the VapePod. As the only products of their kind currently available in the UK market, these innovative solutions have garnered positive feedback from our customers.

We are making significant progress towards acquiring CE Mark approval for our proprietary VapePod MD delivery device. Once approved, the VapePod MD will become Europe's first medical device-certified cannabis inhaler of its kind, paving the way for increased sales throughout Europe and rapid expansion into Germany and other EU markets. In the coming months, we anticipate providing an update on this development.

Our partnership with Medocann, a leading premium cultivator in Israel, continues to strengthen as we collaborate on a unique, high-end product line of cannabis-based products for medicinal use. The products in development will target specific medical conditions, and Kanabo has exclusive distribution rights to the co-developed products in the German and UK markets.

Agritec

As a Group, we have acquired extensive expertise in designing, building, operating and managing medicinal cannabis facilities. By setting up Kanabo Agritec, we can leverage this expertise to boost and diversify the supply chain through key offtake agreements, reducing the risk of overreliance on any particular supplier. Alongside the launch of Kanabo Agritec, we announced our first contract for the subsidiary – an MoU for the design, build, and operation of a 4,000kg per annum indoor cultivation and processing facility in Madrid, Spain, dedicated exclusively to medicinal cannabis. The negotiations to formalise the MoU with a signed contract continue to progress well.

Chief Executive Officer's Review *(cont.)*

Corporate activity

Our Placing in February 2022 was well supported by both existing shareholders and new investors and we will use the £2,250 thousands proceeds to accelerate our strategy to become one of Europe's leading digital healthcare providers, with access to a broad treatment portfolio, including medicinal cannabis.

Early in 2022, we announced the decision not to proceed with the acquisition of the European businesses of Canada-based Materia, comprising the Maltese EU GMP certified facility, German medical cannabis wholesaler and a UK CBD eCommerce platform, with the preference to proceed with a strategic partnership instead. In March 2023, the Company received notice that 11157353 Canada Corp., which trades under the name Materia ("Materia"), has been put into receivership.

On 25 July 2021, Kanabo signed a head of terms agreement for the acquisition of Materia. As part of this agreement, the Group loaned Materia CAD\$1,000 thousands, as announced on 6 June 2022, the loan given to Materia by the Company was fully impaired based on the Directors' assessment of Materia's ability to repay the debt. The Company will continue to work to extract as much value as possible in the form of cash or assets for the benefit of Kanabo.

Kanabo, as a Group, explores acquisition opportunities and strategic partnerships that will help us improve our expertise, enhance our digital healthcare services, and speed up bringing our products to market. Our strategic preference is to acquire companies in the "last mile", which will help us increase our sales and profits when integrated to the broader Group.

Broader industry involvement

Kanabo continues to be highly respected within the industry, which is reflected in it being selected as a steering group member for the development of a British Standard for CBD non-tobacco Vape products. It is expected that a Publicly Available Specifications ("PAS") document will be published in 2023, with a standardisation document defining best practice in the industry. We firmly believe regulation and policy are critical as the use of cannabis for medical and wellness purposes continues to gain momentum. We want to ensure we remain at the forefront of the industry, guaranteeing the highest standards in both our production processes and final market products.

Post Period end

In March 2023, following the year end, we realised our plan to cross pollinate our business, through leveraging The GP Service's fully compliant digital framework to prescribe the Group's medicinal cannabis products with the launch of our Treat It platform. Treat It is a dedicated online pain management clinic, with access to a broad treatment portfolio including medicinal cannabis. The clinic affords patients suffering from chronic pain conditions greater access to our medicinal cannabis treatments.

In March 2023, the Group appointed MHA MacIntyre Hudson as the new auditors for the Group after the Group was informed that Jeffreys Henry – the previous auditor – was no longer eligible to undertake LSE audits.

Chief Executive Officer's Review (cont.)

Outlook

As we look forward to 2023, we believe the business is now well balanced with both our core cannabis capabilities and The GP Services division. Since we acquired The GP Service, we have seen a significant increase in demand for the services, with demand for services up 72% when comparing Q1 2023 versus Q1 2022. We believe this demand will not abate in the near future for various reasons including the continued pressure on nationalised services. We are also cognizant of the opportunity to leverage the established and extensive network within GP Service to expand the potential audience for our UK prescription products.

There is significant opportunity in the medicinal cannabis market for companies with innovative products, particularly as regulation is introduced across more European markets. The Group's proprietary VapePod MD system has been submitted for CE Mark approval and we hope to be in a position to announce progress on the certification in the coming months. There is also the potential for more markets – such as France and Spain, where any use of cannabis is currently prohibited – to open up. Furthermore, The GP Service platform has significant cross-selling potential for our wellness and medical products.

We continue to recognise the importance of developing new products to bring to market, and to that end, our scientists are focused on delivering innovative formulas aimed at both the medical and wellness markets. In addition to leveraging The GP Service platform, we are committed to introducing new treatments to both primary and secondary care, ensuring that we stay at the forefront of providing cutting-edge solutions to our customers.

We have made a positive start to 2023 and remain excited by the significant market opportunity ahead of us. We believe the Group now has the capabilities and potential to truly capitalise on it given our position as one of the leading providers of cannabis for medical and wellness services.

We believe there is significant potential to drive our market share in both the direct sale of cannabis products and our online GP platform, The GP Service, alongside our recently launched Treat It platform, which combines both elements of the business and provides access to medical professionals who can prescribe medicinal cannabis.

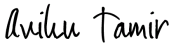
As we head into 2023, we have a more diverse business proposition. The combined expertise and offering presents a unified platform that uniquely combines a digital healthcare platform and treatment portfolio, connecting patients with accessible, affordable, and personalised healthcare.

The Board remains confident in both short-term and medium-term growth prospects for the Company and remains committed to developing a scaled business capable of fully exploiting a number of near-term growth opportunities.

The Chief Executive Officer's review is an integral part of the Company's Strategic Report.

Avihu Tamir
Chief Executive Officer

27 April 2023

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Chief Financial Officer's Review

Financial results for 2022 reflect a year of transition for Kanabo. Alongside investment in the underlying business, with the launch of new products, a dedicated online marketplace, and a more secure supply chain via Kanabo Agritec, we have undertaken a strategically important acquisition, bringing the GP Service into the Group. The acquisition not only provides an additional revenue stream to the Group, but a significant network of GPs and pharmacies which we can leverage to drive sales of our medicinal cannabis products. A summary of the financial performance for the year is given below.

Kanabo revenues in 2022 totaled £603 thousands (2021: £73 thousands), an increase of 726% compared to the previous year primarily due to the contribution of revenues generated from The GP Service.

Operating loss for 2022 was £6,781 thousands (2021: operating loss of £4,574 thousands), representing a 48% increase, largely due to one off expenses, including acquisition-related transaction costs which were expensed as incurred.

During the period, the Company invested £597 thousands (2021: £242 thousands) in Research and Development, £361 thousands of which was directly related to staff compensation, including salaries and share based payments.

Sales and Marketing expense increased during the period to £1,190 thousands (2021: £569 thousands), £752 thousands of which was directly related to staff compensation with the remainder due to the increased marketing costs for wellness products following the launch of the Company's UK eCommerce site.

General and administration expenses for 2022 were £3,804 thousands (2021: £2,000 thousands). General and administration expenses increased mainly due to the increase in the Group's activity following the acquisition of GP Service. Out of the General and administration expenses a total amount of £1,581 thousands (2021: £443 thousands) was for non-cash expenses (i.e., amortisation, depreciation, and other share-based payments expenses).

Net financing expenses for 2022 were £89 thousands (2021: £23 thousands gains), reflecting interest on interest bearing loans and finance cost over lease.

At 31 December 2022, the Company had £3,204 thousands in cash (31 December 2021: £4,477 thousands). The decrease in cash balances can be primarily attributed to the £3,776 thousands used in operating activities, offset by £2,250 thousands raised in February 2022.

2022 was a significant year of progress for Kanabo. The acquisition of The GP Service has created a second revenue stream for the business, but also bolstered our business model by creating a robust, established and legitimate route to market for our medicinal cannabis products through the significant GP and pharmacy network. We have also launched our dedicated online marketplace, and created Kanabo Agritec which seeks to both diversify and de-risk our supply chain. We believe the business now has strong foundations and is well placed to capitalise on the opportunity and provide access to GP services for those who need it, and also enable chronic pain sufferers more access to medicinal cannabis products. We have maintained the momentum as we have moved into 2023 and remain optimistic about the Group's prospects in the years ahead.

Chief Financial Officer's Review (*cont.*)

On 25 July 2021, Kanabo signed a head of terms agreement for the acquisition of 11157353 Canada Corp., which trades under the name Materia ("Materia"). As part of this agreement, the Group loaned Materia CAD\$1.0m, as announced on 6 June 2022, the loan given to Materia by the Company was fully impaired based on the Directors' assessment of Materia's ability to repay the debt.

Post-period end, the Company received notice that Materia, has been put into receivership. The Company will continue to work to extract as much value as possible in the form of cash or assets for the benefit of Kanabo.

The Chief Financial Officer's review is an integral part of the Company's Strategic Repot.

Assaf Vardimon
Chief Financial Officer

27 April 2023

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Board of Directors

The Board members on 27 April 2023 are as follows:

Mr. David Tsur

Chair, Non-Executive Director (DOB: 27 March 1950)

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 has also served as a Board member and Chair of Collplant, which is 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.

Mr. Avihu Tamir

Chief Executive Officer, Executive Director (DOB: 7 February 1981)

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 delivery methods, 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.

Board of Directors (*cont.*)

Mr. Gil Efron

Non-Executive Director (DOB: 21 December 1965)

Mr. Efron currently serves as President and Chief Financial Officer of the NASDAQ and TASE dual-listed company 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, Mr. Efron served as Deputy CEO and CFO of Kamada Ltd, a NASDAQ and TASE dual-listed plasma-derived protein therapeutics company.

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.

Directors' Report

The Directors present their report with the audited financial statements of the Company for the year ended 31 December 2022. A commentary on the business for the year is included in the Chair's Statement.

Principal activity

Kanabo Group Plc is a leading patient-focused healthtech ecosystem and provider of personalised medicinal treatments. Kanabo Group Plc was the first medicinal cannabis company to complete an Initial Public Offering on the London Stock Exchange and is made up of supply-chain specialist subsidiaries, from cultivation consultancy to R&D to formula development and distribution, including:

- Kanabo Agritec Ltd, a cultivation consultancy supporting cannabis businesses in developing new farms through infrastructural, research, and product guidance. These farms deliver high-quality raw materials for Kanabo's formulas and product line;
- Kanabo Research Ltd, a wholly owned subsidiary of Kanabo Group Plc, responsible for R&D, regulation, and quality assurance procedures;
- The GP Service (UK) Limited – a Kanabo Group Plc owned, NHS-approved online telehealth provider offering video consultations, online prescriptions, treatment forms and access to both Kanabo medical-cannabis and wellbeing CBD products.

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' shareholdings and interests

The Directors of the Company during the year and their beneficial interest in the Ordinary shares of the Company at 31 December 2022 were as follows:

Director	Position	Appointed	Resigned	Ordinary shares (c)	Options	Consideration shares (b)
David Tsur	Non-Executive Director, Chair	16/02/2021	-	9,061,102	2,700,000	1,513,542
Avihu Tamir	Executive Director, CEO	16/02/2021	-	97,263,870	-	16,246,722
Gil Efron	Non-Executive Director	21/03/2022	-	-	1,800,000	-
Daniel Poulter	Non-Executive Director	19/07/2021	31/03/2023	55,000	3,600,000	-
Andrew Morrison (a)	Non-Executive Director	17/11/2016	31/12/2022	4,600,080	900,000	-
Uziel Danino	Non-Executive Director	16/02/2021	21/03/2022	3,683,382	1,800,000	615,262

- (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's approval.
- (c) There is no requirement for Directors or Non-Executive Directors to hold shares in the Group.

Directors' Report (*cont.*)

Substantial shareholdings

As at 31 December 2022, the total number of issued Ordinary Shares with voting rights in the Company was 422,916,056 (2021: 369,966,277). Details of the Company's capital structure and voting rights are set out in note 27 to the financial statements.

As at 31 December 2022, the Company has been notified of, or is aware of, the shareholders holding 3% or more of the issued share capital of the Company, as detailed below:

Name of shareholder	Number of ordinary shares	% of share capital
Avihu Tamir	97,263,870	23.00%
David Sack	14,341,080	3.39%

As of the signature date the Company was not notified of any change on the holding of the substantial shareholdings.

Financial risk management

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 32 of the financial statements.

Dividends

The Directors do not propose a dividend in respect of the year ended 31 December 2022 (2021: £nil).

Future developments and subsequent events

Further details of the Company's future developments and subsequent events to the year-end are set out in the Strategic Report on this Annual Report and within the financial statements.

Corporate governance

The Governance report forms part of the Director's Report and is disclosed in this Annual Report.

Going concern

As at 31 December 2022, the Group's cash position totaled £3,204 thousands 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 if no further funding is obtained because of the low level of committed expenditure relative to the forecasted discretionary expenditure, which could be reduced or deferred.

The impact of the risk factors such as high interest rates and high inflation, declining consumer power, Russia's invasion of Ukraine, and supply chain disruptions had a little effect on the business of the Group during 2022 following that the Directors do not believe that these risks will have a significantly adverse impact on the Group in the foreseeable future.

Directors' Report (*cont.*)

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 with International Financial Reporting Standards (IFRS) as adopted for use in the United Kingdom 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.

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.

Directors' Report (*cont.*)

Responsibility statement

Each of the Directors, whose names and functions are listed on this Annual Report 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.

The Company acknowledges that it is responsible for all information drawn up and made public in this report and accounts for the period ended 31 December 2022.

Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Director's and officers' insurance

The Group maintains insurance cover for all Directors and officers of Group companies against liabilities which may be incurred by them while acting as Directors and officers.

Share capital

The company's capital consists of 422,916,056 ordinary shares of 2.5 pence each with voting rights. There are no restrictions on voting rights. There are no restrictions on the transfer of shares in the company and in particular there are no limitations on the holding of shares and no requirements to obtain the approval of the company, or of other shareholders, for a transfer of shares.

Significant agreements

There are no agreements between the company and its directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

There are no significant agreements to which the company is party that take effect, alter or terminate upon a change of control of the company following a takeover bid.

Directors' Report (*cont.*)

Auditors

PKF Littlejohn LLP had been appointed as statutory auditor for the company for a period of more than three consecutive financial years since the 31 December 2018 audit. As set out in paragraph 4.15 of the Financial Reporting Council's 2019 Revised Ethical Standard ("RES"), a cap on the level of fees from permitted non-audit services is established in the fourth financial period of the audit engagement. This cap came into effect for the financial year commencing 1 January 2021 and is applied to all permitted non-audit services which are not required by law or regulation.

During the financial year commencing 1 January 2021, PKF Littlejohn LLP provided a range of non-audit services to the company. These services involved a combination of those which are permitted, either as required by law or regulation or not, and those which were not permitted.

The provision of non-permitted non-audit services was assessed as an inadvertent breach as per the RES and reported as such within the audit report issued for the financial year ended 31 December 2021.

However, as the value of the non-audit services not required by law or regulation and those not permitted under the RES exceeded the fee cap, PKF Littlejohn LLP is unable to continue as the company's independent auditors.

As a result of the ethical breach PKF Littlejohn LLP performed, the Board decided to appoint the office of Jeffreys Henry LLP as auditors of the Company on 19 August 2022.

On 2 December 2022 Jeffreys Henry LLP resigned as the Company's independent auditor with immediate effect on the grounds that Jeffrey's Henry has taken the decision not to register itself with the Financial Reporting Council as an eligible auditor to undertake LSE audits.

Following the resignation of Jeffreys Henry LLP the Board appointed the office of MHA MacIntyre Hudson as auditors of the Company on 8 February 2023.

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 to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board,

David Tsur
Chair

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27 April 2023

Strategic Report

The Directors present the Strategic Report of the Company for the year ended 31 December 2022.

Section 172(1) Statement

The Directors are required to include a separate statement in the annual report that explains how they have had regard to wider stakeholder needs when performing their duty under Section 172(1) of the Companies Act 2006. This duty requires that a Director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the:

- 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 recognises that its 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 Corporate Governance Code, published by the Financial Reporting Council, as amended from time to time ('UK Corporate Governance 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(1) requirements can be demonstrated in relation to some of the key decisions made during the year:

- The acquisition of 100% of the voting rights of The GP Service (UK) Limited ("GPS") a non-listed company based in UK and specializing in care telemedicine provider in exchange for a net consideration of £13,999 thousands.
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.
- The foundation together with third-party partners of the entity, Kanabo Agritec Ltd. ("Agritec"). Agritec enters into agreements with third parties at minimal cost to leverage the Company's Intellectual Property for the cultivation, processing, and production of cannabis products.
- The Board recognises that the key to its long-term success is investment in research activities within the subsidiary. The Group is engaged in research and development of Unlicensed Medical Cannabis Oils and the VapePod Medical (together, the "Medical Cannabis Products") so that they are capable of being sold in the Primary Markets.

The Board believes 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 in decisions taken during the year ended 31 December 2022.

Strategic Report *(cont.)*

Review of Business During the Reporting Period

Operational review

The Group's principal activity is set out in the Directors' Report on this Annual Report.

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;
- Supply Chain and Distribution Developments:
 - a. Launched the first medicinal 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 medicinal cannabis cartridges for distribution through LYPHE Group clinics and dispensaries;
 - c. In March 2022, we launched the Group's eCommerce platform, Kanabo.store. Initially focused on the UK market, the site enables UK customers to directly purchase Kanabo's three proprietary CBD formula pods, that work with the Group's unique VapePod, the first of its kind medical grade vaporiser that provides easy-to-use metered dosing.
 - d. Launch of a new online medical cannabis clinic for pain management (Treat it) in April 2023.

Strategic Report (*cont.*)

Business strategy

During the reporting period the Group completed a strategic acquisition of The GP Service (UK) Limited ("GPS"). Following investment made by the Company, GPS successfully expanded its primary care tele-health business and is on track to be a leading provider in an emerging tele-health market, with access to alternative therapies, including medicinal cannabis. The telehealth market segment is expected to grow significantly during 2023 as legislation evolves, and as medicinal cannabis continues to gain acceptance as a treatment for more indications and becomes more mainstream.

On 21 February 2022, the Company successfully raised £2,250 thousands by way of a placing of 28,125,000 new ordinary shares of £0.025 each in the Company ("placing shares") at a price of £0.08 per share. The placing shares issued represented approximately 7% of the Company's enlarged ordinary share capital following the placing.

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.

Subsequent events

No subsequent events occur till the signature of the financial statements.

Impact of COVID-19

The impact of the COVID-19 pandemic had little effect on the business of the Group during 2022 as the Group continued using phone communications and video conference facilities to minimize 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.

Strategic Report (*cont.*)

Environmental, Social and Governance Considerations

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's 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.

Environmental

As ESG strategy for the Group evolves, the Group is proactively taking positive steps such as revising the travel policy with a greater emphasis on prioritising the use of public transport over private cars and minimising all travel (particularly overseas) wherever possible by using alternative technologies instead.

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

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.

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.

Social

The Board recognises the benefits that creating an inclusive and diverse workforce brings. Having a diverse range of experiences and identities within the Group's team helps the Group to better understand and cater for the needs of a wider stakeholder base. Having staff and directors with roots in other countries or cultures helps the Group build better cross-cultural relations with diverse range of partners, shareholders, and other stakeholders. Furthermore, the Board appreciates that encouraging equality and diversity in the workplace will help to attract, motivate, and retain team members.

At present, there are no female Directors in the Company. For the period under review, the Company had one Executive Director and three 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.

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.

Strategic Report (cont.)

Composition of the board

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

Governance

The Board is committed to high ethical standards and compliance with all applicable laws, regulations, and the Group's own internal policies.

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

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.

Employees

During the year ended 31 December 2022, the Company's employed only one employee other than the Directors so this policy.

The following table sets out a breakdown by the employee's gender at 31 December 2022:

	Male	Female	Non-binary
Non-Executive directors	3	-	-
Executive directors	1	-	-
Senior management	3	1	-
Other employees	4	11	-
	11	12	-

As of the reporting period the Groups achieved full gender balance in the Group.

Strategic Report (cont.)

Principal Risks and Uncertainties

The Group operates in an uncertain environment and its business is subject to several risk factors. The Directors consider the following risk factors are of 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.

Below are our principal risks and a summary of key mitigating factors:

Risk	Uncertainty	Mitigation
The Group may face significant competition in its chosen industry	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.
The Group relies on the experience and talent of its management and advisors	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. - The notice period of the CEO has been set for 6 months.
The Group may be subject to changes in regulation affecting its target industry	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. If 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.
The Group may not be able to raise future funds to support its activities before it becomes self-funding	There is no guarantee that the Group will obtain adequate finance in the market in the future. A failure to raise sufficient funds at a favourable time could lead to concerns for on-going viability of the Group.	- The Directors have a reasonable expectation that they will secure additional funding when required to continue as took place after the reporting period. - The Board continues to review the potential for business combinations with entities that will ultimately increase shareholder value. - Financial forecasting is closely monitored by the Board and strong financial controls operate over all areas of spend in efforts to extend existing resources.

Strategic Report (cont.)

Principal Risks and Uncertainties (cont.)

Risk	Uncertainty	Mitigation
The Group's supply chain lacks diversity at multiple levels	The Group's supply chain lacks diversity at multiple levels. The Directors note that the sales of medical cannabis products and Telehealth services in Europe are growing rapidly and, therefore, it is anticipated that they may become a commodity which is widely available, with multiple competing suppliers. GP Services is currently reliant upon suppliers which provide network infrastructure and access to NHS databases. In the event that these suppliers were unable to continue to provide services, GP Services would be unable to access patient records. This could have a negative effect on the competitiveness of GP Services. Should this take place, GP Services may be able to source network infrastructure and database access from alternative providers, but GP Services may not be able to do so quickly or with an identical service.	• The Directors act to diversify the Group's supply chain.
The Group may face software malfunctions and data breach	Any software malfunction or disruption or data breach of the Group's IT systems could adversely affect its business operations. This could be caused by a day-to-day IT issue or as a result of a cyber-attack on the business and its operations.	• The Directors note that GP Services mitigates this risk through regular backups and emergency testing. However, should GP Services' software malfunction or be disrupted or should third party service providers experience malfunctions or data breaches, this could mean restrict or prohibit the GP Services' ability to provide services, which could have an effect on its revenue.

Strategic Report (*cont.*)

Task Force on Climate-related Financial Disclosures (TCFD)

The Group has long recognised the scale of the climate emergency and considers this to offer both opportunities and risks to our future growth. The Directors actions to mitigate these risks as a core part of delivering our strategic Commitment to be Climate, Land and People positive.

In the following years, the Group will integrate the climate related disclosures throughout its Annual Report. The Annual Report will provide an opportunity to explain our approach in more detail and to provide case studies to illustrate the Group's working progress.

In the TCFD list below the Group summarised material climate related financial disclosures consistent with the four recommendations and the eleven recommended disclosures proposed by TCFD. Further detail of these can be found throughout our Annual Report. The Group continue to align our approach to the updated TCFD additional guidance which was released in October 2021 (Implementing the Recommendations of the Task Force on Climate related Financial Disclosures (2021 TCFD Annex)) there are some recommendations that the Group will consider how to more completely explain.

The Group work will continue throughout 2023-2024 with the intention of providing fuller disclosure in our 2023 Annual Report as required by the Listing Rules.

Governance

1. Describe the Board's oversight of climate related risks and opportunities.
2. Describe management's role in assessing and managing climate related risks and opportunities.

The Board's agenda for 2023 includes a full review of sustainability progress and externally provided sustainability education, both including climate related risks and opportunities.

Strategy

3. Describe the climate related risks and opportunities the organisation has identified over the short, medium, and long-term -
4. Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy, and financial planning.
5. Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.

The Board's will consider how to disclose our risks and opportunities in more detail in our 2023 Annual Report.

Strategic Report (cont.)

Task Force on Climate-related Financial Disclosures (TCFD) (cont.)

Risk management

6. Describe the organisations processes for identifying and assessing climate related risks.
7. Describe the organisations processes for managing climate related risks.
8. Describe how processes for identifying, assessing, and managing climate related risks are integrated into the organisation's overall risk management.

The Board plan to continue to support risk owners in managing risk with the support of the regional sustainability champions.

Metrics & targets

9. Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.
10. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.
11. Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.

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

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 2022 of £6,870 thousands (2021: loss of £4,551 thousands).

The Group recorded an operating loss of £6,781 thousands (2021: £4,574 thousands) which included research and development, sales and marketing and general and administration costs of £597 thousands, £1,190 thousands, and £3,804 thousands respectively.

The operating loss also includes acquisition-related exceptional costs, mainly related to the acquisition of GPS, of £1,308 thousands and is presented as 'other operating expenses' in the profit and loss statement.

Strategic Report (cont.)

Financial Review (cont.)

Cash flow

The net cash decrease for 2022 was £1,299 thousands (2021: increase of £4,150 thousands).

Closing cash

As at 31 December 2022, the Group held £3,204 thousands of cash (31 December 2021: £4,477 thousands).

Position of Group's business

At the year end the Group's Statement of Financial Position shows net assets totaling £12,445 thousands (2021: £5,184 thousands).

Key performance indicators

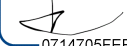
During the reporting period, the Company adopted a KPI plan for its employees that is determined by company and personal performance.

The Company's KPI related to 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 the receipt of the CE mark.

In addition to these key performance indicators analyses by the Board, wider financial information is reviewed to ensure the most important and relevant aspects of the Group's performance are measured and communicated, including research expenditure and costs remain within the approved budget.

On behalf of the Board,

David Tsur
Chair

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27 April 2023

Corporate Governance Report

The Board recognises its responsibility for the proper management of the Company and is fully committed to maintaining a high standard of corporate governance.

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 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:

	QCA Code Requirements	How the Group complies
1	Establish a strategy and business model which promotes long-term value for shareholders	As outlined in the CEO's review, the strategy is to build a fully vertically integrated cannabis-derived product company for the global health and wellness markets continues to be executed at an increasing pace. Perhaps most importantly, the acquisition of GPS has been transformational for the Group and fully aligned with our long-term mission to enable greater patient access to medicinal cannabis products across the UK.
2	Seek to understand and meet shareholder needs and expectations	The CEO and other members of the Board have met with shareholders throughout the period to discuss the Group's performance in delivering its strategy. The feedback from those meetings was invaluable in helping to shape the future of the business. The Board has sought to strengthen this engagement during the period, as demonstrated by the recent Investor Meet Company Q&A webinar on our programmes update and resourcing plans which took place during the reporting period.
3	Take into account wider stakeholder and social responsibilities and their implications for long-term success	The Board recognises its primary responsibility under UK corporate law is to promote the success of the Group for the benefit of its members. Engaging with our stakeholders improves our relationships and helps us to make more informed decisions to fulfil that responsibility.

Corporate Governance Report (cont.)

Compliance with the QCA Code (cont.)

The 10 principles of the QCA Code: (cont.)

	QCA Code Requirements	How the Group complies
4	Embed effective risk management, considering both opportunities and threats, throughout the organisation	Risk management is a core part of the business, with the activities of the Group subject to several risks (as set out in the CEO's Review). If any of these risks were to materialise there could be a materially adverse effect to the Group's business, financial condition, and the results of future operations. The Board of Directors is responsible for, and regularly reviews, the main risks that the Group is currently exposed to and any potential future risks that need to be considered. The discharge of this responsibility is intended to occur through an ongoing systematic review of the risk management framework, including the operational effectiveness of internal controls and procedures, designed to identify, manage and monitor all areas involving material risks to the Group.
5	Maintain the board as a well-functioning, balanced team led by the chair	The Board is responsible for the Group's objectives and business strategy and its overall supervision. To fulfil these responsibilities the Group has a team of highly skilled and experienced Board members.
6	Ensure that between them the Directors have the necessary up-to-date experience, skills, and capabilities	Both the Executive and Non-Executive Directors have and maintain the relevant skills for their roles.
7	Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	The ultimate measure of the effectiveness of the Board is the Company's progress against the long-term strategy and aims of the business. This progress is reviewed in Board meetings. The Chair's performance is reviewed once a year by the rest of the Board. The Board will either employ an external consultant, perform peer review or initiate Board questionnaires as is deemed necessary to ensure the Board's performance is adequately assessed.
8	Promote a corporate culture that is based on ethical values and behaviours	The Board set the tone for the Group's ethical values of respect, integrity, collaboration, fairness, and excellence. The Group is aware of its responsibilities under the General Data Protection Regulation and has implemented appropriate policies, procedures and safeguards to ensure it is compliant.
9	Maintain governance structures and processes that are fit for purpose and support good decision-making by the board	The Board sets the Group's strategic aims and ensures that necessary resources are in place for the Group to meet its objectives. All members of the Board take collective responsibility for the performance of the Group and all decisions are taken in the interest of the Group.
10	Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	The Board are actively engaged in ensuring that there is regular communication to the shareholders and wider stakeholders with material information about the Group's progress. Details of RNS announcements and copies of annual reports can be found on the Company's website. Social media is also used to provide regular updates to our stakeholders, and several webinars have been held throughout the period to keep shareholders informed about the Group's progress.

Corporate Governance Report (cont.)

Board leadership and company purpose

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 each other 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.

Corporate Governance Report (cont.)

Board leadership and company purpose (cont.)

Summary of the Board's work in the year – During the year, the Board considered all relevant matters within its remit, but focused 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:

Member	Position	Meetings attended
David Tsur	Chair, Non-Executive Director	10 out of 10
Avihu Tamir	CEO, Executive Director	10 out of 10
Gil Efron	Non-Executive Director	9 out of 10
Andrew Morrison	Non-Executive Director	10 out of 10
Daniel Poulter	Non-Executive Director	10 out of 10
Uziel Danino	Non-Executive Director	1 out of 1

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

The Remuneration Committee is responsible for determining, approving, and reviewing the Group's remuneration procedures to ensure that they support the Group's strategy and support long-term sustainable success. More details can be found on the Remuneration Committee Report which is included in this Annual Report.

The Remuneration Committee routinely reviews the Directors' Remuneration Policy to ensure they continue to promote the delivery of the long-term strategy and support the Group's ability to recruit and retain executive talent to deliver against that strategy. No Director is involved in determining their own remuneration arrangements or outcomes. The average industry salary, and overall remuneration is considered by the Board as part of the annual budget process.

Formal terms of reference for the Remuneration Committee have been documented and are made available for review at the AGM.

Corporate Governance Report (cont.)

Audit

The Audit Committee is responsible for reviewing the relationship and independence of the Company's external auditor, MHA MacIntyre Hudson. As part of the Scheme of Delegation, in order to ensure that the independence of the external auditor is not impaired, the Committee is responsible for the pre-approval of all audit and audit-related services undertaken by them. More details can be found on the Audit Committee Report which is included in this Annual Report.

The Board considers this Annual Report, taken as a whole, to be fair, balanced and understandable, and are satisfied that it provides the information necessary for shareholders to assess the Group's strategy, business model, and position and performance of the Company since listing on the London Stock Exchange. The Board and the Audit Committee review the Group's annual and interim financial results announcements to ensure that they present a fair, balanced and understandable assessment of the Company's position and prospects to shareholders.

Nomination

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. More details can be found on the Nomination Committee Report which is included in this Annual Report.

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

The Company's secretary

The Company Secretary is responsible to the Chair for ensuring that all Board and Committee meetings are properly conducted, that the Board receive appropriate information prior to meetings to enable them to make an effective contribution, and that governance requirements are considered and implemented. This area was considered in the period as part of the first internal review as referred to above, and initial feedback was positive, noting an improvement during the period.

The Company Secretary is Assaf Vardimon who is responsible for the Board's compliance with UK procedures.

Effectiveness

For the period under review the Board comprised of a Chair, one Executive-Director and three Non-Executive Directors. Biographical details of the Board members are set out on 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.

Corporate Governance Report (cont.)

Effectiveness (cont.)

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. All 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.

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

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 Chair 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 Chair will carry out periodic formal appraisals of the performance of the other Directors which considers the objectives set in the previous year and the individual's performance in the fulfilment of these objectives.

Although the Board consisted of four 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 is only one employee in the Company. The following table sets out a breakdown by Director's gender at 31 December 2022:

	Male	Female	Non-binary
Directors	4	-	-

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.

Corporate Governance Report (cont.)

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, through 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.

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 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 are 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.

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.

Corporate Governance Report (*cont.*)

Shareholder relations (*cont.*)

Annual General Meeting - At every AGM, individual shareholders are given the opportunity to put questions to the Chair 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.

On behalf of the Board,

David Tsur
Chair

DocuSigned by:

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27 April 2023

Directors' Remuneration Report

The Remuneration Committee reviews the remuneration policy and the performance of the Executive Directors, making recommendations to the Board on matters relating to their remuneration and terms of service. The Remuneration Committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any executive, non-executive or employee share option scheme or equity incentive plans in operation from time to time.

The Remuneration Committee is comprised of two independent Non-Executive Directors (Gil Efron (Chair) and David Tsur). The Committee has access to professional advice from internal and external advisers where relevant. During the reporting period, no other third parties have provided advice that materially assisted the Remuneration Committee during the year.

The Remuneration Committee met 3 times in the period to discuss the via other the Company's KPI schema, discussion the new engagement agreement of the Company's CEO, the recommendation of options grant and other items. There was full attendance at all meetings.

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.

At the AGM which took place on 30 June 2022, the resolution to approve the Directors' remuneration pass with the percentage of 99.7% votes for the approval of the directors' remuneration policy and directors' remuneration report.

Remuneration policy

The Company adopted a compensation policy as regards executive Directors which included variable and non-variable elements together with long term incentives.

The fees for the Non-Executive Directors are determined by the Board, the Non-Executive Directors do not receive bonuses or pension contributions.

Directors' Remuneration Report (*cont.*)

Agreement with the Company's CEO

On 16 February 2021, the Kanabo Research Ltd. entered a service contract with the Company's Chief Executive, Mr. Avihu Tamir ("employee") on terms as set out in the prospectus published on 29 January 2021.

On 31 October 2022, the committee recommended the new employment terms of Mr. Tamir with the effective date of commencement. The main employment terms are as follow:

- Salary - The annual salary will be £110,000. In addition to the basic salary, each month the employee will be entitled for expenses return of £1,200.
- Bonus - Upon the approval of the board the employee will be entitled to a yearly bonus of a maximum of 6 times the monthly salary.
- Termination – the parties may terminate the engagement by giving each other not less than 6 months' written notice.
- Relocating – to fulfil the agreement, the employee was required to relocate to UK. The Company approved an additional budget of up to £51,000. The budget includes, among other things, Immigration support, shipment, destination services, etc.

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.

The fees for the Non-Executive Directors are determined by the Board. The Non-Executive Directors do not receive bonuses (beside the bonuses granted for completion of the RTO) or pension contributions.

Directors' Remuneration Report (cont.)

Terms of appointment

The services of the Directors during the year ended 31 December 2022 were provided in accordance with their appointment letters.

Directors shall be appointed for an initial term of three years commencing, unless terminated earlier by either party giving to the other of one month's prior written notice.

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.

Director	Year of appointment	Number of years completed
David Tsur	2021	2
Avihu Tamir	2021	2
Daniel Poulter (d)	2021	2
Gil Efron (a)	2022	1
Uziel Danino (b)	2021	2
Andrew Morrison (c)	2016	7

- (a) Appointed on 21 March 2022.
- (b) Resigned from his position on 21 March 2022.
- (c) Resigned from his position on 31 December 2022.
- (d) Resigned from his position on 31 March 2023.

Key management personal compensation

Key management personal are those persons having authority and reasonability for planning, directing and controlling the activities of the Group, including the directors of the company listed on the Director's remuneration report, and the financial control of the company.

	2022	2021
	£ 000	£ 000
Wages and salaries	468	476
Share-based payment	239	225
Total	707	701

Directors' Remuneration Report (cont.)

Directors' remuneration (audited)

Details of the remuneration of the Directors for the financial period are set out in the tables below. The salaries include the salary paid to them through the Group as Directors. The tables exclude share options. No payments were made for loss of office during the period and no payments were made to past Directors during the period. The Directors' remuneration does not include any variable remuneration component.

Details of the Directors' remuneration during the year ended 31 December 2022 are as follows:

Name	Salary and fees	Taxable benefits	Bonus	Pension	Other benefits (e)	Total (a)
	£	£	£	£	£	£
David Tsur	42,000	-	-	-	-	42,000
Avihu Tamir (f)	100,828	-	6,750	14,765	42,568	164,911
Daniel Poulter	27,000	-	-	-	-	27,000
Gil Efron	21,580	-	-	-	-	21,580
Andrew Morrison	27,000	-	-	-	-	27,000
Uziel Danino	5,290	-	-	-	-	5,290
Total	223,698	-	6,750	14,765	42,568	287,781

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

Name	Salary and fees	Taxable benefits	Bonus (d)	Pension	Other benefits	Total (a)
	£	£	£	£	£	£
David Tsur	17,293	-	-	-	-	17,293
Avihu Tamir (f)	93,698	-	40,000	15,847	-	149,545
Daniel Poulter	10,923	-	-	-	-	10,923
Andrew Morrison (b)	20,831	-	62,500	-	-	83,331
Uziel Danino	17,293	-	-	-	-	17,293
Anthony Harpur (c)	-	-	-	-	-	-
Alan Hume	-	-	50,000	-	-	50,000
Total	160,038	-	152,500	15,847	-	328,385

- (a) The amounts exclude the Company's payment for national insurance and income tax.
- (b) An additional amount of £37,500 was paid to Spinnaker Management Resources Ltd, which is a company owned and controlled by Mr. Andrew Morrison.
- (c) 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.
- (d) The bonuses granted were for completion of the RTO.
- (e) Other benefits include expenses the Company made regarding Avihu Tamir relocation to UK (total £40,168) and expenses return without invoices (£2,400).
- (f) As of 31 December 2022, holds 23% of the Group's share capital.

Directors' Remuneration Report (cont.)

Pension contributions

During 2022, the Company complied with the employer pension duties in accordance with Part 1 of the Pensions Act 2008 to each employee.

The Company contributed an amount equal to 6% of each employee's basic salary to a pension scheme to be agreed with its employees.

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

UK Remuneration percentage changes

During the reporting period, the Board approve to increase of the basic non-Executive excluding the Chair's fees to £30,000 per annum from 1 July 2022. After the reporting period the board approve to increase the Chair's fees to £42,000 per annum retroactive from 1 November 2022. This is in recognition of inflation and higher than expected committee workloads.

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, and is currently incurring losses as it gains scale. 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.

Directors' Remuneration Report (cont.)

Recruitment

The Group's recruitment policy is based on a number of key principles:

1. The Group's aim to provide a remuneration package which is sufficient to attract, retain and motivate key talent, while at all times ensuring that we pay no more than is necessary, with due regard to the best interests of the company and our shareholders; and
2. The committee will take a number of factors into account in determining the appropriate remuneration package. For example, these may typically include the candidate's experience and calibre, their circumstances, external market influences and arrangements for existing executive directors.

In addition, to facilitate recruitment, the committee may make awards to buy out variable incentives which the individual would forfeit at their current employer. The committee will give consideration to any relevant factors, typically including the form of the award (e.g., cash or shares), the proportion of the performance/vesting period outstanding and the potential value of the forfeited remuneration, including performance conditions attached to the awards, the likelihood of those conditions being met, and the timing of any potential payments.

Where an executive director is appointed from within the organisation, the company will honour legacy arrangements in line with the original terms and conditions.

In the event of the appointment of a new NED, remuneration arrangements will be in line with those for existing NEDs.

UK Directors' shares (audited)

The interests of each person who has served as a Director of the Company during the period as at 31 December 2022 (together with interests held by his or her persons closely associated) are has been set out in the Directors' Report in the Annual Report.

Non-Executive directors are eligible to participate in the share option place, which forms the long-term variable element of executive remuneration. Awards are discretionary and normally vest, subject to continued employment, in three equal tranches over three years. Status of options granted to Directors as of 31 December 2022:

Director	Total options	Vested	Not vested
David Tsur	2,700,000	2,025,000	675,000
Avihu Tamir	-	-	-
Gil Efron	1,800,000	-	1,800,000
Andrew Morrison	900,000	675,000	225,000
Daniel Poulter	3,600,000	1,650,000	1,950,000

Directors' Remuneration Report (*cont.*)

Directors' letters of appointment

Copies of Directors' letters of appointment are available on the Company's registered office Churchill House, 137-139 Brent Street, London, NW4 4DJ, United-Kingdom.

On behalf of the Board,

David Tsur
Chair

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27 April 2023

Audit Committee Report

The Audit Committee is responsible for monitoring and challenging the quality of internal controls and ensuring that the financial performance of the Group is properly managed, risk-assessed and reported on. It receives and reviews reports from the Group's management and external auditor relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group.

As of the signature date of the Annual report, the Audit Committee is comprised of one independent Non-Executive Directors (Gil Efron (Chair)), with key attendees including the external auditor and other Executive Directors as and when required.

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.

Meetings

During the period there were 5 meetings, with attendance of 100% at each one. Matters covered by the meetings during the period included:

- 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 annual results;
- Review of internal controls; and
- Review of the effectiveness of the Audit Committee;
- Consideration of whether an internal audit function is required and confirmation that it is unnecessary 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.

Audit Committee Report (*cont.*)

Governance

The Code requires that at least one member of the Audit Committee has recent and relevant financial experience. The current members of the Audit Committee 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.

Change of the Company's external auditor

PKF Littlejohn LLP had been appointed as statutory auditor for the company for a period of more than three consecutive financial years since the 31 December 2018 audit. As set out in paragraph 4.15 of the Financial Reporting Council's 2019 Revised Ethical Standard ("RES"), a cap on the level of fees from permitted non-audit services is established in the fourth financial period of the audit engagement. This cap came into effect for the financial year commencing 1 January 2021 and is applied to all permitted non-audit services which are not required by law or regulation.

During the financial year commencing 1 January 2021, PKF Littlejohn LLP provided a range of non-audit services to the company. These services involved a combination of those which are permitted, either as required by law or regulation or not, and those which were not permitted.

The provision of non-permitted non-audit services was assessed as an inadvertent breach as per the RES and reported as such within the audit report issued for the financial year ended 31 December 2021.

However, as the value of the non-audit services not required by law or regulation and those not permitted under the RES exceeded the fee cap, PKF Littlejohn LLP is unable to continue as the company's independent auditors.

As a result of the ethical breach PKF Littlejohn LLP performed, the Board has decided to appoint the office of Jeffreys Henry LLP as auditors of the Company on 19 August 2022.

On 2 December 2022 Jeffreys Henry LLP resigned as the Company's independent auditor with immediate effect on the grounds that Jeffrey's Henry has taken the decision not to register itself with the Financial Reporting Council as an eligible auditor to undertake LSE audits.

As a result of the resignation of Jeffreys Henry LLP the Board appointed the office of MHA MacIntyre Hudson as auditors of the Company on 8 February 2023.

The Audit Committee will monitor the level of audit and non-audit services they provide to the Company.

Audit Committee Report (*cont.*)

External auditor

The Group's external auditor is MHA MacIntyre Hudson. The external auditor has unrestricted access to the Audit Committee Chair. 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.

On behalf of the Board,

David Tsur
Chair

DocuSigned by:

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27 April 2023

Nominations Committee Report

The Committee assists the Board in the process of selection and appointment of any new Director, as and when required, and recommends to the Board the appointment of any new Director. 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.

The Audit Committee is comprised of two independent Non-Executive Directors (Gil Efron (Chair) and David Tsur), and Avihu Tamir.

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 Chair, 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 Chair, 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 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.

Nominations Committee Report (*cont.*)

Changes in the board of Directors during the reporting period

During the 2022 the Nomination Committee recommended the appointment of Mr. Gil Efron as a non-executive Director. Mr. Efron replaced Mr. Danino, who has retired as a non-executive Director in order to focus on his other business interests. Mr. Efron is currently serving as President and Chief Financial Officer of NASDAQ and TASE dual-listed Purple Biotech Ltd., a clinical-stage company (PPBT) since June 2021, having previously held the position of Deputy Chief Executive Officer and Chief Financial Officer from October 2018. Prior to his current tenure at Purple Biotech, Gil served as Deputy CEO and CFO of Kamada Ltd., a NASDAQ and TASE dual-listed plasma-derived protein therapeutics company between 2011 and 2017.

Mr. Efron therefore brings Kanabo a wealth of experience across both healthcare and equity capital markets.

On 31 December 2022, Mr. Andrew Morrison resigned from his position as non-executive Director of the Company.

On 31 March 2023, Mr. Daniel Poulter resigned from his position as non-executive Director of the Company.

On behalf of the Board,

David Tsur
Chair

DocuSigned by:

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27 April 2023

Independent auditor's report to the members of Kanabo Group Plc

For the purpose of this report, the terms "we" and "our" denote MHA MacIntyre Hudson in relation to UK legal, professional and regulatory responsibilities and reporting obligations to the members of Kanabo Group Plc (the "Parent Company") and its subsidiaries (the "Group"). For the purposes of the table on pages 51 to 52 that sets out the key audit matters and how our audit addressed the key audit matters, the terms "we" and "our" refer to MHA MacIntyre Hudson. The relevant legislation governing the Group is the United Kingdom Companies Act 2006 ("Companies Act 2006").

Opinion

We have audited the individual and consolidated financial statements of Kanabo Group Plc for the year ended 31 December 2022. The financial statements that we have audited comprise:

- the Consolidated Statement of Profit or Loss
- the Consolidated Statement of Comprehensive Loss
- the Consolidated Statement of Financial Position
- the Company's Statement of Financial Position
- the Consolidated Statement of Changes in Equity
- the Company's Statement of Changes in Equity
- the Consolidated Statement of Cash Flows
- the Company's Statement of Cash Flows
- Notes 1 to 36 of the financial statements, including significant accounting policies.

The financial reporting framework that has been applied in the preparation of these financial statements is applicable law and UK-adopted international accounting standards.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2022 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our opinion is consistent with our reporting to the Audit Committee.

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 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 ethical responsibilities in accordance with those 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 basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- Liquidity considerations throughout the year and post year end.
- Review of the future forecasts and comparisons of the past forecasts to actuals, sensitivity analysis of the key assumptions and review of cash position.
- Review of post year end board minutes, management accounts and developments in relation to any new business activities.
- Review the inherent risks of the business and evaluate how this may impact financial resources.
- Consider whether additional funding may be required to meet the minimum operating costs to continue as a going concern.

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 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.

Overview of our audit approach

Scope	The Group is made up of the Parent Company, Kanabo Group Plc, and four subsidiaries: the operating companies Kanabo Research Ltd and The GP Service (UK) Limited; and the inactive companies Kanabo GP Limited and Kanabo Agritec Ltd, whose balances are eliminated upon consolidation. Our audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.		
Materiality	2022	2021	
Group	£307k	£175k	2% of net assets (2021: 5% of loss before tax)
Parent Company	£304k	£170k	2% of net assets (2021: 5% of net assets) capped so as not to exceed group materiality, as required by ISA (UK) 600
Key audit matters			
Recurring	• Carrying value of the investment in subsidiary and intergroup receivables (Parent Company only) • Revenue recognition (Group and Parent Company)		
Event driven	• GP Service acquisition treatment and disclosure (New for 2022 – Group and Parent Company)		

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, 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) that we identified. These matters included those matters 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.

Carrying value of the investment in subsidiary and intergroup receivables

Key audit matter description	Following the reverse takeover acquisition in February 2021, the Parent Company holds a significant investment in subsidiary and has an intergroup receivable due from that subsidiary. As the subsidiary has been historically loss making, there is a risk that the investment and the intragroup receivable may not be fully recoverable and are therefore materially overstated. The valuation and potential impairment of subsidiaries involves estimations and judgement, and therefore is an area that can be subject to management bias.
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How the scope of our audit responded to the key audit matter	Our work included, but was not restricted to: • Obtaining management's recoverable value assessment in respect of both the investment and the balances due, including the support workings; • Reviewing the assessment, including ascertaining and challenging the method, data and key assumptions applied by management; • Reviewing the post year-end performance, financial position, projected cashflows and other sources of data to assess whether there were any indicators that the recoverable values were less than their carrying value; • Agreeing the intragroup balance due from the subsidiary to the corresponding creditor balance in the subsidiary's trial balance; and • Confirm that the investment and receivable are measured and disclosed in accordance with the relevant accounting standards.
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Key observations communicated to the Group's Audit Committee	Based on the audit procedures above, nothing has come to our attention that causes us to believe that any material misstatement is present in respect of the carrying value of the investment or intergroup receivables in the Parent Company financial statements.
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GP Service acquisition treatment and disclosure

Key audit matter description	In February 2022, the Parent Company acquired the entire share capital of GP Service (UK)Ltd, via the issuance of shares to the previous owners. Due to the complexity of the accounting for the fair value, there is a significant risk that the acquisition may not have been accounted for correctly or disclosed appropriately in the financial statements.
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How the scope of our audit responded to the key audit matter	Our work included, but was not restricted to: • Obtaining the agreements in respect of the transaction and identifying the key terms of the transaction; • Reviewing the accounting treatment and accounting entries included in the current year in relation to the transaction against the requirements of the financial reporting framework; • Reviewing and challenging the key assumptions, data and method applied in management's fair value assessment; • Ensuring that disclosures in the financial statements are in accordance with the financial reporting framework; and
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	Confirming that any consideration in respect of milestones has been appropriately accounted for.
Key observations communicated to the Group's Audit Committee	Based on the audit procedures above, nothing has come to our attention that causes us to believe that any material misstatement is present in respect of the treatment or disclosure of the GP Service acquisition in the Parent Company or Group financial statements.
Revenue recognition	
Key audit matter description	Under ISA (UK) 240 there is a rebuttable but presumed risk that revenue may be misstated due to improper recognition of revenue. We have not rebutted this presumption and identified revenue recognition to be a significant risk area. Incorrect recording of revenue could result in revenue being misstated or recorded in the incorrect accounting period.
How the scope of our audit responded to the key audit matter	Our work included, but was not restricted to: - Assessing the design and implementation of key controls over the group's processes related to revenue, including documenting and performing walkthroughs of these controls; - Performing year end cut-off testing to ensure revenue is recognised in the appropriate accounting period; - Agreeing a sample of transactions to support to ensure the correct valuation; - Reviewing bank statement receipts to check for completeness of revenue; and - Confirm that the revenue recognition is measured and disclosed in accordance with the relevant accounting standards.
Key observations communicated to the Group's Audit Committee	Based on the audit procedures above, nothing has come to our attention that causes us to believe that any material misstatement is present in respect of the recognition of revenue in the Group financial statements.

Our application of materiality

Our definition of materiality considers the value of error or omission on the financial statements that, individually or in aggregate, would change or influence the economic decision of a reasonably knowledgeable user of those financial statements. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. Materiality is used in planning the scope of our work, executing that work and evaluating the results.

Materiality in respect of the Group was set at £307k (2021: £175k) which was determined on the basis of 2% of the Group's net assets (2021: 5% of the Group's loss before tax). Materiality for the Parent Company financial statements was set at £304k (2021: £170k), which was determined on the basis of 2% (2021: 5%) of the Parent Company's net assets, capped so as not to exceed Group materiality as required by ISA (UK) 600. This was deemed to be the appropriate benchmark for the calculation of materiality as this is a key area of the financial statements with which the users of the financial statements are principally concerned. As the group is seeking to establish market share for their product, there is a significant amount of expenditure and comparatively small revenue. Due to year on year volatility in the reported revenue and profit values, net assets was selected as the materiality benchmark, as this was regarded as an indicator of the company's health and considered appropriate to the financial information needs of the users of the financial statements.

Performance materiality is the application of materiality at the individual account or balance level, set at an amount 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.

Performance materiality for the Group was set at £184k (2021: £123k) which represents 60% (2021: 70%) of the above materiality levels. Performance materiality for the Parent Company was set at £182k (2021: £119k), being 60% (2021: 65%) of the materiality level.

The determination of performance materiality reflects our assessment of the risk of undetected errors existing, the nature of the systems and controls and the level of misstatements arising in previous audits.

We agreed to report any corrected or uncorrected adjustments exceeding £15k (2021: £9k) to the Board as well as differences below this threshold that in our view warranted reporting on qualitative grounds.

Overview of the scope of the Group and Parent Company audits

Our assessment of audit risk, evaluation of materiality and our determination of performance materiality sets our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. This assessment takes into account the size, risk profile, organisation / distribution and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the consolidated financial statements, and to ensure we had adequate quantitative and qualitative coverage of significant accounts in the consolidated financial statements, of the 5 reporting components of the group, we identified 3 components in the UK and Israel which represent the principal business units within the Group.

Full scope audits - Audits of the complete financial information of all 3 components were undertaken. Of the three full scope components, audit procedures were performed on two of these directly by the primary audit team and one by the component audit team.

As a result, the audit team has covered 100% of revenue, 100% of profit and 99% of total assets of the Group.

The group audit team was involved in the audit work performed by the component auditors in Israel through a combination of group planning meetings and calls, provision of group instructions, review and challenge of related component interoffice reporting and of findings from their working papers.

Apart from the above, for the year 2022 audit, the group audit team intensified the interaction with local teams through video conferences to review and direct the audit approach taken in respect of significant and a number of other relevant risks of material misstatement, including assessing the appropriateness of conclusions and consistency between reported findings and work performed.

Climate-related risks

In planning our audit, we considered the potential impacts of climate change on the Group's business and its financial statements. We held discussions with management to understand the Group's process for identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements.

We then engaged internal specialists to assess, amongst other factors, the nature of the Group's business activities, its processes and the geographic distribution of its activities.

We have agreed with managements' assessment that climate-related risks are not material to these financial statements.

The Group has stated on page 26 that further work will be undertaken in 2023-2024 to better define the physical and transition risks to the Group from climate change.

The control environment

We evaluated the design and implementation of those internal controls of the Group which are relevant to our audit, such as those relating to the financial reporting cycle.

Reporting on 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 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.

Strategic report and directors report

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.

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

Directors' remuneration report

Those aspects of the director's remuneration report which are required to be audited have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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, or returns adequate for our audit have not been received by branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns; 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 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 financial statements, the directors are responsible for assessing the Group'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 to cease operations, or have no realistic alternative but to do so.

Auditor 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 considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

Identifying and assessing potential risks arising from irregularities, including fraud

The extent of the procedures undertaken to identify and assess the risks of material misstatement in respect of irregularities, including fraud, included the following:

- We considered the nature of the industry and sector, the control environment, business performance including remuneration policies and the Group's own risk assessment that irregularities might occur as a result of fraud or error. From our sector experience and through discussion with the directors, we obtained an understanding of the legal and regulatory frameworks applicable to the Group focusing on laws and regulations that could reasonably be expected to have a direct material effect on the financial statements, such as provisions of the Companies Act 2006 or UK tax legislation.
- We enquired of the directors and management concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with the laws and regulations and whether they were aware of any instances of non-compliance;

- detecting and responding to the risks of fraud and whether they had any knowledge of actual or suspected fraud; and
- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included utilising the spectrum of inherent risk and an evaluation of the risk of management override of controls. We determined that the principal risks were related to management bias in accounting estimates, particularly around valuation of investments and the related goodwill and intangible asset.

Audit response to risks identified

In respect of the above procedures:

- we corroborated the results of our enquiries through our review of the minutes of the Group's board meetings;
- audit procedures performed by the engagement team in connection with the risks identified included:
 - reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations expected to have a direct impact on the financial statements.
 - testing journal entries, including but not limited to those processed late for financial statements preparation, those posted to infrequent or new accounts or on non-working days, and those with a round sum value;
 - evaluating the business rationale of significant transactions outside the normal course of business, and reviewing accounting estimates for bias;
 - enquiry of management and legal advisors around actual and potential litigation and claims.
 - challenging the assumptions and judgements made by management in its significant accounting estimates; and
 - obtaining confirmations and other third party documentation to confirm existence of a sample of transactions and balances.
- the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities; and
- we communicated relevant laws and regulations and potential fraud risks to all engagement team members, including experts, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Other requirements

We were appointed by the Directors on 5 March 2023; this is our first year of engagement.

We did not provide any non-audit services which are prohibited by the FRC's Ethical Standard to the Group, and we remain independent of the Group in conducting our audit.

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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared

Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.



Rakesh Shaunak FCA
(Senior Statutory Auditor)
for and on behalf of MHA MacIntyre Hudson, Statutory Auditor
London, United Kingdom
28 April 2023

Consolidated Statement of Profit or Loss

For the year ended 31 December		2022	2021
	Note	£ 000	£ 000
Revenue	7	603	73
Cost of sales	8	404	66
Gross profit		199	7
Research and development expenses	9	597	242
Sales and marketing expenses	10	1,190	569
General and administration expenses	11	3,804	2,000
Impairment (reverse impairment) of financial assets carried at amortised cost	24	(59)	598
Other expenses – including acquisition and listing costs	13	1,448	1,172
Operating loss		(6,781)	(4,574)
Net finance income (expenses)	14	(89)	23
Loss for the year		(6,870)	(4,551)
<u>Attributable to:</u>			
Equity holders of the parent		(6,867)	(4,551)
Non-controlling interests		(3)	-
		(6,870)	(4,551)
Loss (basic and diluted) per share from operations attributable to the equity owners			
Basic and diluted loss per share (pence per share)	16	(1.65)	(1.40)

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

Consolidated Statement of Comprehensive Loss

For the year ended 31 December		2022	2021
	Note	£ 000	£ 000
Loss for the year		(6,870)	(4,551)
Other comprehensive income (loss) for the year			
Foreign operations - foreign currency translation differences	21	(82)	(82)
Total items that may be reclassified to profit or loss		21	(82)
Total comprehensive loss		(6,849)	(4,633)
<u>Attributable to:</u>			
Equity holders of the parent		(6,846)	(4,551)
Non-controlling interests		(3)	-
		(6,849)	(4,551)

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

Consolidated Statement of Financial Position

As at 31 December		2022	2021
	Note	£ 000	£ 000
ASSETS			
Non-current assets			
Intangible assets and goodwill	17	10,044	-
Property, plant, and equipment	18	96	42
Right-of-use asset	31	282	-
Long-term deposit	31	31	-
Financial asset through profit or loss	20	-	750
		10,453	792
Current assets			
Inventories	21	81	63
Trade receivables	22	43	10
Other receivables	23	156	237
Financial asset through profit or loss	20	491	-
Short-term deposits		24	20
Cash and cash equivalents	26	3,204	4,477
		3,999	4,807
Total assets		14,452	5,599
EQUITY AND LIABILITIES			
Equity			
Issued capital	27	10,573	9,249
Share premium account	27	6,850	(*) 5,169
Merger reserve	27	11,393	(*) 9,231
Share-based payments reserve	28	1,715	758
Share to be issued reserve	6.a, 6.c	10,476	2,500
Reverse acquisition reserve		(14,968)	(14,968)
Foreign currency translation reserve		10	(7)
Retained deficit		(13,605)	(6,748)
Equity attributable to equity holders of the parent		12,448	5,184
Non-controlling interests		(3)	-
Total equity		12,445	5,184
Non- current liabilities			
Interest-bearing loan and borrowings	29	509	-
		509	-
Current liabilities			
Trade payables		153	42
Other payables	30	1,147	373
Interest-bearing loan and borrowings	29	198	-
		1,497	415
Total liabilities		2,007	415
Total equity and liabilities		14,452	5,599

(*) Reclassified, see note 27.

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

The financial statements were approved and authorised for issue by the Board of Directors on 27 April 2023 and were signed on their behalf by:

David Tsur
Chair

DocuSigned by:

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Company's Statement of Financial Position

As at 31 December		2022	2021
	Note	£ 000	£ 000
ASSETS			
Non-current assets			
Property, plant, and equipment	18	17	21
Investments in subsidiary	19	23,746	14,676
Intercompany receivables	25	1,097	-
Financial asset through profit or loss	20	-	750
		24,860	15,447
Current assets			
Inventories	21	81	63
Trade receivables	22	35	10
Other receivables	23	69	210
Intercompany receivables	25	3,192	834
Financial asset through profit or loss	20	491	-
Cash and cash equivalents	26	937	4,148
		4,805	5,265
Total assets		29,665	20,712
EQUITY AND LIABILITIES			
Equity			
Issued capital	27	10,573	9,249
Share premium account	27	6,850	(*) 5,169
Merger reserve	27	11,393	(*) 9,231
Share-based payments reserve	28	1,715	750
Share to be issued reserve	6.a, 6.c	10,476	2,500
Retained deficit		(12,326)	(6,360)
Total equity		28,681	20,539
Current liabilities			
Trade payables		79	24
Other payables	30	905	149
		984	173
Total liabilities		98	173
Total equity and liabilities		29,665	20,712

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

As permitted by section 408 of the Companies Act 2006, the parent company's income statement has not been included in these financial statements. The loss for the parent Company was £5,976 thousands (2021: loss of £5,584 thousands).

The financial statements were approved and authorised for issue by the Board of Directors on 27 April 2023 and were signed on their behalf by:

David Tsur
Chair

Company Registration No. 10485105

DocuSigned by:



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Consolidated Statement of Changes in Equity

Attributable to owners of the Company												
		Share capital	Share premium account	Merger reserve	Share based payments reserve	Shares to be issued reserve	Reverse acquisition reserve	Foreign currency translation reserve	Retained deficit	Total	Non-controlling interests	Total equity
	Note	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
As at 1 January 2021		-	2,098		805	-	-	75	(3,017)	(39)	-	(39)
Loss for the year		-	-	-	-	-	-	-	(4,551)	(4,551)	-	(4,551)
Other comprehensive loss		-	-	-	-	-	-	(82)	-	(82)	-	(82)
Total comprehensive loss		-	-	-	-	-	-	(82)	(4,551)	(4,633)	-	(4,633)
Transfer to reverse acquisition reserve	6.c	-	(2,098)	-	-	-	2,098	-	-	-	-	-
Recognition of plc equity at acquisition date	6.c	735	592	-	-	-	434	-	-	1,761	-	1,761
Acquisition of a subsidiary	6.c	5,769	-	9,231	-	-	(15,000)	-	-	-	-	-
Issue of shares in settlement of fees		15	25	-	-	-	-	-	-	40	-	40
Issue of share capital	27	2,600	4,775	-	-	-	-	-	-	7,375	-	7,375
Shares to be issued	27	-	-	-	-	2,500	(2,500)	-	-	-	-	-
Cost of share issue		-	(634)	-	-	-	-	-	-	(634)	-	(634)
Exercise of options	28	4	-	-	(820)	-	-	-	820	4	-	4
Exercise of warrants	28	126	411	-	-	-	-	-	-	537	-	537
Issue of warrants	28	-	-	-	113	-	-	-	-	113	-	113
Share-based payments	28	-	-	-	660	-	-	-	-	660	-	660
As at 31 December 2021		9,249	5,169	9,231	758	2,500	(14,968)	(7)	(6,748)	5,184	-	5,184
Loss for the year		-	-	-	-	-	-	-	(6,867)	(6,867)	(3)	(6,870)
Other comprehensive income		-	-	-	-	-	-	21	-	21	-	21
Total comprehensive loss		-	-	-	-	-	-	21	(6,867)	(6,846)	(3)	(6,849)
Acquisition of a subsidiary	6.a	533	-	2,162	-	7,976	-	-	-	10,671	-	10,671
Issue of share capital	27	703	1,434	-	-	-	-	-	-	2,137	-	2,137
Exercise of options	28	7	5	-	(10)	-	-	-	10	12	-	12
Exercise of warrants	28	81	242	-	-	-	-	-	-	323	-	323
Share-based payments	28	-	-	-	967	-	-	-	-	967	-	967
As at 31 December 2022		10,573	6,850	11,393	1,715	10,476	(14,968)	14	(13,605)	12,448	(3)	12,445

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

Company's Statement of Changes in Equity

		Share capital	Share premium account	Merger reserve	Shares based payments reserve	Shares to be issued reserve	Convertible loan notes reserve	Retained deficit	Total equity
	Note	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
As at 1 January 2021		735	592	-	33	-	162	(784)	738
Total comprehensive loss		-	-	-	-	-	-	(5,584)	(5,584)
Acquisition of a subsidiary	6.c	83	79	-	-	-	(162)	-	-
Issue of shares in settlement of fees		15	25	-	-	-	-	-	40
Issue of share capital	27	5,769	-	9,231	-	-	-	-	15,000
Shares to be issued	6.c	-	-	-	-	2,500	-	-	2,500
Cost of share issue		-	(634)	-	-	-	-	-	(634)
Exercise of options	28	2,455	4,634	-	-	-	-	-	7,089
Exercise of warrants	28	192	473	-	(41)	-	-	8	632
Issue of warrants	28	-	-	-	113	-	-	-	113
Share-based payments	28	-	-	-	645	-	-	-	645
As at 31 December 2021		9,249	5,169	9,231	750	2,500	-	(6,360)	20,539
Total comprehensive loss		-	-	-	-	-	-	(5,976)	(5,976)
Acquisition of a subsidiary	6.a	533	2,162	2,162	-	7,976	-	-	10,671
Issue of share capital	27	703	1,434	-	-	-	-	-	2,137
Exercise of options	28	7	5	-	(10)	-	-	10	12
Exercise of warrants	28	81	242	-	-	-	-	-	323
Share-based payments	28	-	-	-	975	-	-	-	975
As at 31 December 2022		10,573	6,850	11,393	1,715	10,476	-	(12,326)	28,681

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

Consolidated Statement of Cash Flows

For the year ended 31 December		2022	2021
	Note	£ 000	£ 000
Operating activities			
Loss before tax		(6,870)	(4,551)
Adjustments to reconcile profit before tax to net cash flows:			
Reverse acquisition share-based payment expense	13,6.c	-	1,172
Net impairment (reverse) losses on financial assets	24	(59)	598
Share-based payment expense	28	967	660
Depreciation of property, plant and equipment and right-of-use assets	18,31	69	7
Amortisation of intangible assets and impairment of goodwill	17	1,109	-
Impairment charge on receivables	22	3	-
Loss on current financial asset	13,20	259	-
Net finance expenses		56	13
Working capital changes:			
Change in trade receivables		(3)	(10)
Change in other receivables		155	(194)
Change in inventories		(18)	(35)
Change in trade payables		92	6
Change in other payables		677	256
Change in long-term deposit		(31)	-
		(3,727)	(2,078)
Interest paid		(52)	-
Net cash flows used in operating activities		(3,779)	(2,078)
Investing activities			
Purchase of property, plant, and equipment	18	(68)	(35)
Purchase of financial asset	20	-	(750)
Acquisition of a subsidiary, net of cash acquired	6	235	358
Investment in short term deposits		(4)	(2)
Development expenditures	17	(86)	-
Net cash flows from/ (used in) investing activities		77	(429)
Financing activities			
Share issue net of issuing cost	27	2,137	6,608
Proceeds from exercise of warrants	27	323	529
Proceeds from exercise of share options	27	12	102
Receipts of long-term loans	29	68	-
Repayment of borrowings		-	(582)
Repayment of lease liability	31	(37)	-
Repayment of borrowings	29	(100)	-
Net cash flows from financing activities		2,403	6,657
Net increase (decrease) in cash and cash equivalents		(1,299)	4,150
Net foreign exchange difference		26	(53)
Cash and cash equivalents at 1 January		4,477	380
Cash and cash equivalents at 31 December	26	3,204	4,477

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

Company's Statement of Cash Flows

For the year ended 31 December		2022	2021
	Note	£ 000	£ 000
Operating activities			
Loss before tax		(5,976)	(*) (5,584)
Adjustments to reconcile profit before tax to net cash flows:			
Net impairment (reverse) losses on financial assets	24	(59)	598
Share-based payment expense	28	205	193
Depreciation of property, plant, and equipment	18	4	2
Impairment charge on receivables	22	3	-
Loss on current financial asset	13,20	259	-
Net finance (expenses) income		54	(57)
Share of loss of an associate	19	2,371	(*) 3,275
Working capital changes:			
Change in trade receivables		(28)	(10)
Change in other receivables		141	(200)
Change in inventories		(18)	(63)
Change in trade payables		55	9
Change in other payables		756	110
Change in intercompany receivables		(3,509)	(368)
Net cash flows used in operating activities		(5,742)	(2,095)
Investing activities			
Purchase of property, plant, and equipment	18	-	(23)
Purchase of financial asset	20	-	(750)
Net cash flows used in investing activities		-	(773)
Financing activities			
Share issue net of issuing cost	27	2,137	6,608
Proceeds from exercise of warrants	27	323	529
Proceeds from exercise of share options	27	12	102
Repayment of borrowings		-	(582)
Receipts of short-term loans	29	59	-
Net cash flows from financing activities		2,531	6,657
Net increase (decrease) in cash and cash equivalents		(3,211)	3,789
Cash and cash equivalents at 1 January		4,148	359
Cash and cash equivalents at 31 December	26	937	4,148

(*) Reclassification of the share of loss Kanabo research Ltd.

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

Notes to the Financial Statements

1. Corporate information

The consolidated financial statements of Kanabo Group Plc and its subsidiaries (collectively, the Group) for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Directors on 27 April 2023.

Kanabo Group Plc (the Company or the parent) is a limited company incorporated and domiciled in England and whose shares are publicly traded on the London Stock Exchange in the standard segment. The registered office is located at Churchill House 137-139 Brent Street London NW4 4DJ, United Kingdom.

The Group's principal activities are the distribution and development of cannabis derived medical and wellness products.

2. 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.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the United Kingdom and those parts of the Companies Act 2006 applicable to companies reporting IFRS, except as otherwise stated.

The consolidated financial statements are prepared under the historical cost convention with the exception of certain investments which are carried at fair value.

The consolidated financial statements are presented in GBP (£) and all values are rounded to the nearest thousand (£000), except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.2 Basis of consolidation (*cont.*)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest, and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.3 Going concern

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

The Directors are required to satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare the financial statements on a going concern basis, and as part of that process they have followed the Financial Reporting Council's guidelines ("Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risk" issued April 2016).

As at 31 December 2022, the Group's cash position was £3,204 thousands 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.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.3 Going concern (*cont.*)

The impact of the risk factors such as high interest rates and high inflation, declining consumer power, Russia's invasion of Ukraine, and supply chain disruptions had a little effect on the business of the Group during 2022 following that the Directors do not believe that these risks will have a significantly adverse impact on the Group in the foreseeable future.

2.4 Estimates and assumptions

Significant accounting estimations

The Group's consolidated financial statements includes the use of estimates and assumptions. The significant accounting estimates with a significant risk of a material change to the carrying value of assets and liabilities within the next year in terms of IAS 1 are:

- Depreciation of PPE and amortisation of intangible assets

The directors are required to review the estimated useful of PPE and amortisation periods of intangible assets. Were useful lives and amortisation periods to be shorter, or were there impairments of PPE or intangible assets, this would cause an acceleration in depreciation and amortisation charges in future periods. See note 17 for further information.

Other areas of judgement and accounting estimates

While these areas do not meet the definition under IAS 1 of significant accounting estimates or critical accounting judgements, the recognition and measurement of certain material assets and liabilities are based on assumptions and/or are subject to longer term uncertainties. The other areas of judgement and accounting estimates are:

- Share-based payments

In respect of service conditions, the company is required to assess how many share options will eventually vest. As this estimation changes over time this may require a re-estimation of share-based payment charges reflected in profit or loss. The cumulative charge will reflect the amount of share options that ultimately vest. See note 28 for more details including the company's approach to valuing share options and the inputs to the valuations model.

- Impairments of financial and non-financial assets

See disclosures in note 2.5.o.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances, and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Notes to the Financial Statements *(cont.)*

3. Significant accounting policies *(cont.)*

2.5 Summary of significant accounting policies *(cont.)*

a) Business combinations and goodwill *(cont.)*

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) Reverse takeover accounting

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.

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 6.c.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

c) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle.
- Held primarily for the purpose of trading.
- Expected to be realised within twelve months after the reporting period.
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle.
- It is held primarily for the purpose of trading.
- It is due to be settled within twelve months after the reporting period.
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

d) 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 minimising the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorised 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). |

On 21 February 2022, the Company acquired 100% of the voting rights of GP Service (UK) Limited ("GPS") a non-listed company based in UK. The acquisition price was determined based on the closing bid prices which are level 1 fair value measurements.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

e) Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the procurement services below, because it typically controls the goods or services before transferring them to the customer.

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.

Revenue from consultations:

The Group is providing online medical services. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a service to a customer. Revenue is recognised at a point in time (i.e., upon receipt of the customer of the equipment) because this is when the customer benefits from the Group's consultation services.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

f) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

g) Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates (England's statutory income tax rate of 19% and Israel: 23%) and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised in full using the balance sheet liability method on temporary differences except:

When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, when 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.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

g) Taxes (*cont.*)

Deferred tax (*cont.*)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

In assessing the recoverability of deferred tax assets, the Group relies on the same forecast assumptions used elsewhere in the financial statements and in other management reports, which, among other things, reflect the potential impact of climate-related development on the business, such as increased cost of production as a result of measures to reduce carbon emission.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

g) Taxes (*cont.*)

Deferred tax (*cont.*)

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

h) Foreign currencies

The Group's consolidated financial statements are presented in British Pound (£). For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI, or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense, or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

h) Foreign currencies (*cont.*)

(ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into British Pound (£) at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions or average for the required period. The exchange differences arising on translation for consolidation are recognised in OCI and recognised in a separate reserve - foreign currency translation reserve.. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(iii) 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 32.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

i) Property, plant, and equipment

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

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 estimated to write off the cost of assets to their residual value on straight line basis over the estimated useful lives of the assets as follows:

	%
Leasehold improvements	15%
Equipment and furnishing	15%
Computers and electronic equipment	15%-33%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

j) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee The Group applies a single recognition and measurement approach for all leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life of the asset.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

j) Leases (*cont.*)

Lease liabilities

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

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Group's lease liabilities are included in Interest-bearing loans and borrowings.

k) Financial assets at fair value through profit and loss

Financial assets are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Financial assets are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

l) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is recognised in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

m) 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 on the principal amount outstanding.

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, note 24.

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.

n) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost on a first-in/first-out basis.
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

Initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognised in OCI, in respect of the purchases of raw materials. 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.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

o) Impairment of non-financial assets

The Group assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill and intangible assets are tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Depreciation of PPE and amortisation of intangible assets

The directors are required to review the estimated useful of PPE and amortisation periods of intangible assets. Were useful lives and amortisation periods to be shorter, or were there impairments of PPE or intangible assets, this would cause an acceleration in depreciation and amortisation charges in future periods. See notes 6.a and 17 for further information

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

o) Impairment of non-financial assets (*cont.*)

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

The Group assesses where climate risks could have a significant impact, such as the introduction of emission-reduction legislation that may increase manufacturing costs. These risks in relation to climate related matters are included as key assumptions where they materially impact the measure of recoverable amount, these assumptions have been included in the cash-flow forecasts in assessing value-in-use amounts.

Recoverability of the investment in subsidiary (note 19)

As at 31 December 2022 the carrying value of the Company's investment in Kanabo Research Ltd was £14,142 thousands (2021: £17,951 thousands). The recoverable value of this investment is not considered to be less than its carrying value as at 31 December 2022 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 25)

By 31 December 2022 the parent Company had advanced £506 thousands (including interest) as a loan to Kanabo Research Ltd and £2,686 thousands 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. The Board assessed the loan on individual basis to examine impairment.

By 31 December 2022 the parent Company had advanced £1,097 thousands (including interest) as a loan to GPS. 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. The Board assessed the loan on individual basis to examine impairment.

Recoverability of amounts due from Materia (note 24)

By 31 December 2022 the Group had advanced CAD 1,000 thousand (£582 thousands) 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 can 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.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

p) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

q) 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.

r) 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.

s) Share-based payments

Employees (including Directors senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

That cost is recognised in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

s) Share-based payments (*cont.*)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

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.

t) Equity

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

u) 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 issued within equity and are held at fair value.

Notes to the Financial Statements (*cont.*)

3. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

v) Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. Leave obligations are calculated by multiplying the average days of outstanding leave at the period end by the daily salary rate of the employee concerned. The liabilities are presented as current employee benefit obligations in the balance sheet.

Other long-term employee benefit obligations

There are no other long-term employee benefit obligations.

Post-employment obligations

The Group operates one post-employment scheme, a defined contribution pension plan available to all employees. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based payments

Share-based compensation benefits are provided to employees via the Group Employee Option Plan, an employee share scheme, the executive short term incentive scheme and share appreciation rights. Information relating to these schemes is set out in note 28.

Employee options

The fair value of options granted under the Group Employee Option Plan is recognised as an employee benefit expense, with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (e.g. the Company's share price);
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or hold shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Notes to the Financial Statements (*cont.*)

2. Significant accounting policies (*cont.*)

2.5 Summary of significant accounting policies (*cont.*)

w) Employee benefits (*cont.*)

Employee options (*cont.*)

The Employee Option Plan is accounted for as detailed in note 28. When the options are exercised, the appropriate amount of shares are transferred to the employee. The proceeds received, net of any directly attributable transaction costs, are credited directly to equity.

Bonus plans

Where contractually obliged or where there is a past practice that has created a constructive obligation to give staff bonuses, the Group recognises a liability and an expense for bonuses based on a formula that takes into consideration certain financial and operational objectives.

3. Segment information

Following the acquisition of The GP Service (UK) Limited ("GPS") (see note 6.a), For management purposes, the Group is organised into business units based on its products and services and has three reportable segments, as follows:

- Primary Care - Tele pharma services provided by GPS.
- Secondary Care - Development and distribution of cannabis derived medical and wellness products.

No operating segments have been aggregated to form the above reportable operating segments.

The Executive Management Committee is the Chief Operating Decision Maker (CODM) and monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. Also, the Group's financing (including finance costs, finance income and other income) and income taxes are managed on a Group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.

Notes to the Financial Statements (cont.)

3. Segment information (cont.)

Year ended 31 December 2022:

	Primary care	Secondary care	Total segments	Adjustments and eliminations	Consolidated
	£ 000	£ 000	£ 000	£ 000	£ 000
Revenue					
External customers	505	98	603	-	603
Inter-segment	-	-	-	-	-
Total revenue	505	98	603	-	603
Expenses					
Cost of sales	(349)	(55)	(404)	-	(404)
Depreciation and amortisation	(90)	(955)	(1,045)	-	(1,045)
Segment loss	(1,185)	(5,685)	(6,870)	-	(6,870)
Total assets	496	13,956	14,452	-	14,452
Total liabilities	609	1,398	2,007	-	2,007

The Group's operation does not include any reconciling items.

Geographical location:

	Primary care	Secondary care	Total segments
	£ 000	£ 000	£ 000
Assets			
United Kingdom	496	11,558	12,054
Israel	-	2,398	2,398
Total assets	496	13,956	14,452
Liabilities			
United Kingdom	609	987	1,596
Israel	-	411	411
Total liabilities	609	1,398	2,007

Notes to the Financial Statements (cont.)

4. Capital management

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash, and short-term deposits.

	2022	2021
	£ 000	£ 000
Interest-bearing loan and borrowings (note 29)	198	-
Trade payables	153	42
Other payables (note 30)	1,147	373
Less: cash and short-term deposits	(3,228)	(4,497)
Net asset	(1,730)	(4,082)
Total equity	12,445	5,184
Gearing ratio	-14%	-79%

There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies, or processes for managing capital during the years ended 31 December 2022 and 2021.

5. Group information

The consolidated financial statements of the Group include:

Name	Principal activities	Country of incorporation	% equity interest	
			2022	2021
Kanabo Research Ltd.	R&D	Israel	100	100
Kanabo Agritec Ltd.	Consulting	Israel	40	-
The GP Service (UK) Limited	Telemedicine	UK	100	-
Kanabo GP Limited	Holding company	UK	100	-

(*) The Company holds 40% of the equity in Kanabo Agritec Ltd. but consolidates 100% of this entity. See note 6.b for details on interest held in Kanabo Agritec Ltd.

Notes to the Financial Statements (cont.)

6. Business combinations and acquisition of non-controlling interests

(a) Acquisition of The GP Service (UK) Limited

On 21 February 2022, the Company acquired 100% of the voting rights of GP Service (UK) Limited ("GPS") a non-listed company based in UK and specialising in care telemedicine provider in exchange for a net consideration of £13,499 thousands ("Net Consideration") with a fair value of £10,671 thousands. The Net Consideration was satisfied by the allotment of 94,133,645 B ordinary shares of 0.00001 pence each in the capital of Kanabo GP Limited, a subsidiary of Kanabo Group Plc, at a price of 12.65 pence 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 (£1,591 thousands) will be repayable by the Company by the allotment of 12,574,931 ordinary shares within 18 months based on the same price of £0.1265 per share.

The Group's acquisition of the GPS will facilitate the rapid growth of its existing digital and telemedicine business and will establish a new and fully compliant channel to market for THE Group's products for medical patients. Through improved access to these products, the Group hopes to make a substantial contribution to improving outcomes for thousands of patients in the UK and Europe.

As of the signature date of the report, total amount of 85,406,117 shares have not yet been issued and the contingent consideration has been included in the "shares to issued" reserve within equity.

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

	Fair value recognised on acquisition
	£000
Assets	
Property, plant, and equipment	11
Intangible assets	116
Cash and cash equivalents	235
Trade receivables	33
Other receivables	74
	469
Liabilities	
Interest-bearing loan	(500)
Trade payables	(19)
Other payables	(97)
	(616)
Total identifiable net liabilities at fair value	(147)
Other intangible assets arising on acquisition	6,763
Goodwill arising on acquisition	4,055
Fair value of purchase consideration transferred	10,671

Notes to the Financial Statements (cont.)

6. Business combinations and acquisition of non-controlling interests (cont.)

(a) Acquisition of The GP Service (UK) Limited (cont.)

Other intangible assets arising on acquisition include the technology which was acquired through business combinations. The management assessment the lifetime of these assets for a minimum of 7 years and as a result recorded amortisations expenses in the amount of £891 thousands.

As agreed between the parties, the net liabilities recognised on the acquisition date were based on GPS results as of 31 January 2022, starting 1 February 2022 the results of GPS are being consolidated in the Group's financial statements.

The revenue of GPS and net loss for the period since acquisition were £505 thousands and £1,185 thousands respectively.

(b) Investment in an associate

In March 2022, Kanabo Research Ltd ("KNR") (a wholly owned subsidiary of the Company) and a third-party partner formed an entity, Kanabo Agritec Ltd. ("Agritec"), to enter into agreements with third parties at minimal cost to leverage the Company's Intellectual Property for the cultivation, processing, and production of cannabis products. KNR holds 40% of the voting shares in this entity. The third-party hold the remaining 60% of the voting shares. KNR committed to finance Agritec up to an amount equal to 75% of the principal amount requested by Agritec, the other Founders, together, will lend up to the remaining 25% of the principal amount in equal portions among them. As of the reporting period KNR loaned Agritec total amount of ILS 100 thousand (£24 thousands).

Under the contractual arrangement with the third-party partners, KNR has a majority representation on the entity's board of Directors and the KNR's approval is required for all major operational decisions, the KNR assessed that the voting rights in Agritec are not the dominant factor in deciding who controls the entity. Therefore, KNR concluded Agritec is a structured entity under IFRS 10 Consolidated Financial Statements and that KNR controls it with non-controlling interests. Therefore, Agritec is consolidated in the Group's consolidated financial statements. The shares of the third-party partner are recorded under the equity as non-controlling interests and the return on investment is recorded as non-controlling interests under the profit and loss.

(c) Reverse acquisition

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

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

In substance, the shareholders of KNR 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 KNR 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.

Notes to the Financial Statements (cont.)

6. Business combinations and acquisition of non-controlling interests (cont.)

(c) Reverse acquisition (cont.)

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 KNR’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 KNR 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 KNR is valued at £15,000 thousands prior to the consideration of contingent consideration and share based payments charges for the year recognised in the subsidiary – see note 2 for further commentary regarding this component of the carrying value of the investment in the subsidiary as at 31 December 2022.

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 £2,500 thousands which increases the total investment to £17,500 thousands. The Company had not issued the shares as at 31 December 2022 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, KNR, 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 KNR was calculated at £1,911 thousands based on an assessment of the purchase consideration for a 100% holding of Kanabo Group Plc

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.

	£ 000
Deemed cost	1,911
Trade and other receivables	434
Cash and cash equivalents	359
Trade and other payables	(54)
Total identifiable net liabilities at fair value	739
Total RTO expenses	1,172

Notes to the Financial Statements (cont.)

6. Business combinations and acquisition of non-controlling interests (cont.)

(c) Reverse acquisition (cont.)

The difference between the deemed cost (£1,911 thousands) and the fair value of the net assets assumed per above of £739 thousands resulted in £1,172 thousands being expensed within “reverse acquisition expenses” in accordance with IFRS 2, Share Based Payments, reflecting the economic cost to KNR’s shareholders of acquiring a quoted entity.

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

	£ 000
Pre-acquisition equity (a)	(739)
Kanabo Research Ltd share capital at acquisition (b)	2,099
Investment in Kanabo Research Ltd (c)	(17,500)
Reverse acquisition expense (d)	1,172
Total	(14,968)

- (a) Recognition of pre-acquisition equity of Kanabo Group Plc as at 1 January 2021.
- (b) KNR had issued share capital of £2,099 thousands. As these financial statements present the capital structure of the legal parent entity, the equity of KNR is eliminated.
- (c) The value of the shares issued by the Company in exchange for the entire share capital of KNR, the 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 2022. 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”.

7. Revenues

	2022	2021
	£ 000	£ 000
Services	505	-
Sale of products	98	73
Total	603	73

During 2022 and 2021 the revenues were generated only from the sale of products (sale of CBD and THC products) and services (primary care) and were made to customers in the United Kingdom.

All revenues were recognised at a point in time.

Notes to the Financial Statements (cont.)

8. Cost of sales

	2022	2021
	£ 000	£ 000
Salaries and related expenses	317	-
Share-based payment expense	13	-
Cost of sales	48	55
Depreciation	-	2
IT Development and licenses	12	1
Impairment changes on receivables	3	-
Other	11	8
Total	404	66

9. Research and development expenses

	2022	2021
	£ 000	£ 000
Salaries and related expenses	293	163
Share-based payment expense	68	6
IT development	181	-
Lab expenses	-	9
Rent and related expenses	39	36
Professional services	2	26
Other	14	2
Total	597	242

The GPS capitalise research and development expenses incurred during 2022 as Management have taken the prudent view that it is probable that the technology and products upon which the research and development expenditure related to will bring in future economic benefits to the Group.

Notes to the Financial Statements (cont.)

10. Sales and marketing expenses

	2022	2021
	£ 000	£ 000
Salaries and related expenses	403	144
Share-based payment expense	349	218
Subcontractors	60	14
Marketing expenses	364	129
Professional services	-	31
Conferences	14	12
Business development	-	16
Other	-	5
Total	1,190	569

11. General and administration expenses

	2022	2021
	£ 000	£ 000
Salaries and related expenses	778	676
Share-based payment expense	537	436
Insurance	82	100
Professional services	1,005	599
Rent and related expenses (*)	81	52
Depreciation	69	7
Amortisation (note 17)	975	-
IT Development and licenses	45	12
Travel and accommodation	128	54
Patent	-	13
Other	104	51
Total	3,804	2,000

(*) Rent and related expenses refer to expenses which are out of the scope of IFRS 16, see note 31.

Notes to the Financial Statements (cont.)

12. Auditor's remuneration

During the reporting period, the Company incurred the following costs in respect of services provided by the current and previous auditor:

	2022	2021
	£ 000	£ 000
Fees payable to the Company's auditor for:		
- The audit of parent company and consolidated financial statements	155 (a)	43 (c)
- Due diligence services in respect of acquisition targets	-	15 (c)
- Interim review of the Group for the six-month period ended 30 June 2022 and 30 June 2021 in accordance with ISRE 2410	8 (b)	15 (c)

(a) The services for audit in 2022 were provided by MHA MacIntyre Hudson.

(b) The services for interim review in 2022 were provided by Jeffreys Henry LLP.

(c) The services for audit and interim review in 2021 were provided by PKF Littlejohn LLP.

13. Other operating expenses

	2022	2021
	£ 000	£ 000
Acquisition and listing costs	1,189	-
Reverse acquisition expenses (note 6.c)	-	1,172
Loss on current financial asset (note 20)	259	-
Total	1,448	1,172

Other expenses comprise acquisition-related transaction costs which were expensed as incurred and included (note 6.a) as other expenses and expenses generated from the preparations of the Group's prospectus.

Notes to the Financial Statements (*cont.*)

14. Net finance expenses (income)

	2022	2021
	£ 000	£ 000
Finance income		
Interest on loans to related parties	-	(15)
	-	(15)
Finance costs		
Bank charges	15	4
Interest on interest bearing loans	32	-
Interest on finance lease (note 31)	24	-
	71	4
Net foreign exchange (gain) losses	18	(12)
Net finance (income) expenses recognised in profit or loss	89	(23)

Notes to the Financial Statements (*cont.*)

15. Income tax

a. Analysis of charge in the year

Reconciliation of tax expense and the accounting profit multiplied by United Kingdom's domestic tax rate for 2022 and 2021:

	2022	2021
	£ 000	£ 000
Accounting loss before income tax	(6,870)	(4,551)
At England's statutory income tax rate of 19% (2021: 19%)	(1,305)	(865)
<u>Non-deductible expenses for tax purposes:</u>		
Non-deductible expenses	(11)	336
Amortisation of intangible assets	169	-
Effect of higher tax rates in Israel	(47)	(43)
Current year losses for which no deferred tax asset is recognised	1,194	572
Income tax benefits reported in the statement of profit or loss	-	-

Notes to the Financial Statements (cont.)

15. Income tax (cont.)

b. Reconciliation of deferred tax liabilities, net

	Group		Company	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
As at 1 January	-	-	-	-
Deferred taxes acquired in business combinations (note 6.a)	1,651	-	-	-
Deferred tax asset on losses recognised due to offset of liability under IAS 12	(1,651)	-	-	-
As at 31 December	-	-	-	-

The Group has accumulated tax losses of approximately £10,099 thousands (2021: £4,646 thousands) 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 of the Company due to the uncertainty of future profits. The amount of the deferred tax asset not recognised is approximately £2,448 thousands (2021: £715 thousands).

16. Earnings per share (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

	2022	2021
Loss attributable to ordinary equity holders of the parent (£000)	(6,870)	(4,551)
Weighted average number of ordinary shares for basic EPS	415,187,814	324,287,001
Basic and diluted loss per share (pence per share)	(1.65)	(1.40)

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

Notes to the Financial Statements (*cont.*)

17. Intangible assets and goodwill

Group:

	Development costs	Intangible asset	Goodwill	Total
	£ 000	£ 000	£ 000	£ 000
Cost				
At 1 January 2022	-	-	-	-
Additions – internally developed	85	-	-	85
Acquisition of a subsidiary (note 6.a)	1,352	6,764	5,959	14,075
Deduction against deferred tax asset on losses recognised due to offset of liability under IAS 12	-	-	(1,904)	(1,904)
At 31 December 2022	1,437	6,764	4,055	12,256
Amortisation and impairment				
At 1 January 2022	-	-	-	-
Amortisation	85	891	-	976
Acquisition of a subsidiary (note 6.a)	1,236	-	-	1,236
At 31 December 2022	1,321	891	-	2,212
Net book value				
<i>At 31 December 2022</i>	<i>116</i>	<i>5,873</i>	<i>4,055</i>	<i>10,044</i>
<i>At 31 December 2021</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

Notes to the Financial Statements (cont.)

17. Intangible assets and goodwill (cont.)

Acquisition during the year

Intangible asset arising on acquisition include the technology which was acquired through business combinations. The management assessment the lifetime of this asset for a minimum of seven (7) years and as a result recorded amortisations expenses in the amount of £891 thousands.

Impairment review disclosures

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. The carrying amounts of goodwill by segment as at 31 December 2022 and 2021 are as follows:

	2022	2021
	£ 000	£ 000
	PFS	PFS
Goodwill	4,055	-

During the year, the acquired goodwill was tested for impairment in accordance with IAS 36 on the basis of the relevant CGUs. Following the impairment tests there has been no change to the carrying values. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on current business plans. The key assumptions for the value-in-use calculations are those regarding revenue growth rates, discount rates & long-term growth rates over a period of five years from the Statement of Financial Position date and thereafter. Management determined revenue growth based on past performance and its expectations for the market development. Discount rates were determined using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Terminal value is calculated as cash flows beyond the five-year period extrapolated using estimated long-term growth rates. Additionally, these value-in-use calculations were stress tested on a more prudent basis (assuming a mixture of 75% or 95% of revenue growth dependent upon the relevant CGU) and gave rise to no change in the carrying value of goodwill. There are no reasonably possible changes to any key assumptions used within the impairment reviews that would cause the carrying value of a CGU to exceed its recoverable amount.

The revenue growth rate does not exceed the long-term average growth rate for the businesses in which the CGUs operate.

	2022	2021
	%	%
Post-tax discounted rates	28.3%	-
Pre-tax discounted rates	37.7%	-
Long-term growth rates	2%	-

Notes to the Financial Statements (cont.)

18. Property, plant, and equipment

Group:

	Computers and electronic equipment	Equipment and furnishing	Leasehold improvement	Total
	£ 000	£ 000	£ 000	£ 000
Cost				
At 1 January 2021	12	17	-	29
Additions	13	21	1	35
Exchange differences	1	1	-	2
At 31 December 2021	26	39	1	66
Acquisition of subsidiary (note 6.a)	13	16	-	29
Additions	18	19	31	68
Exchange differences	-	(2)	(1)	(3)
At 31 December 2022	57	72	31	160
Depreciation				
At 1 January 2021	9	7	-	16
Depreciation charge for the year	3	4	-	7
Exchange differences	1	-	-	1
At 31 December 2021	13	11	-	24
Acquisition of subsidiary (note 6.a)	7	11	-	18
Depreciation charge for the year	11	7	4	22
At 31 December 2022	31	29	4	64
Net book value				
<i>At 31 December 2021</i>	13	28	1	42
<i>At 31 December 2022</i>	26	43	27	96

Notes to the Financial Statements (*cont.*)

18. Property, plant, and equipment (*cont.*)

Company:

	Computers and electronic equipment	Total
	£ 000	£ 000
Cost		
At 1 January 2021	-	-
Additions	23	23
At 31 December 2021	23	23
Additions	-	-
At 31 December 2022	23	23
Depreciation		
At 1 January 2021	-	-
Depreciation charge for the year	2	2
At 31 December 2021	2	2
Depreciation charge for the year	4	4
At 31 December 2022	6	6
Net book value		
<i>At 31 December 2021</i>	<i>21</i>	<i>21</i>
<i>At 31 December 2022</i>	<i>17</i>	<i>17</i>

Notes to the Financial Statements (cont.)

19. Investment in subsidiaries

Company:

	2022	2021
	£ 000	£ 000
As at 1 January	14,676	-
Additions	11,441	17,951
Equity results	(2,371)	(3,275)
As at 31 December	23,746	14,676

On 21 February 2022, the Company acquired 100% of the voting rights of The GP Service (UK) Limited ("GPS"), an UK-based private company specialising in care telemedicine, via a share-for-share exchange. The carrying value of investment comprises of £13,499 thousands in respect of share consideration (carry a fair value of £10,671 thousands), of which £2,135 thousands remains unissued as at 31 December 2022.

During 2022, £122 thousands was recognised in respect of share-based payment charges recognised in the subsidiary during the reporting period. As there is no agreement in place for GPS to reimburse the Company for share options issued to and exercised by employees of GPS, 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 it is carrying value.

The Company owns 100% of the share capital of GPS and the subsidiary's registered address is Coventry University Technology Park the Technocentre, CV1 2TT, Coventry, United Kingdom.

On 16 February 2021, the Company acquired 100% of the voting rights of Kanabo Research Ltd ("KNG"), an Israeli-based private company operating the CBD industry, via a share-for-share exchange. The carrying value of investment comprises of £17,500 thousands in respect of share consideration, of which £2,500 thousands remains unissued as at 31 December 2022.

During 2022, £648 thousands was recognised in respect of share-based payment charges recognised in the subsidiary during the reporting period. As there is no agreement in place for KNG to reimburse the Company for share options issued to and exercised by employees of KNG, 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 it is carrying value.

The Company owns 100% of the share capital of KNG and the subsidiary's registered address is 21A Habarzel street, Tel-Aviv, Israel.

Notes to the Financial Statements (cont.)

20. Financial asset through profit or loss

	Group		Company	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
As at 1 January	750	-	750	-
Additions	-	750	-	750
Loss on financial asset at fair value through profit or loss (note 13)	(259)	-	(259)	-
As at 31 December	491	750	491	750
Current	491	-	491	-
Non-current	-	750	-	750

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 £750 thousands 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 £750 thousands divided by the RTO valuation share price less a 30% discount.

On 15 November 2022, the Financial Conduct Authority ("FCA") has approved the prospectus issued by UK SPAC in connection with its acquisition of Hellenic and the proposed re-admission of UK SPAC (to be renamed Hellenic Dynamics Plc) to the standard listing segment of the Official List and to trading on the London Stock Exchange's Main Market.

Following the RTO, the Company received 357,142,857 shares in Hellenic representing 2.9% of Hellenic share capital.

The fair value of the quoted notes is based on price quotations at the reporting date.

21. Inventories

	Group		Company	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
Finished goods	61	49	61	49
Raw materials	20	17	20	17
Write-down of slow moving and obsolete inventory	-	(3)	-	(3)
Total	81	63	81	63

During 2021, £3 thousands was recognised as an expense for provision of slow moving and obsolete inventory. The obsolete inventory has been eliminated during 2022.

Notes to the Financial Statements (*cont.*)

22. Trade receivables

	Group		Company	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
Trade receivables	48	10	38	10
Allowance for expected credit losses	(5)	-	(3)	-
Total	43	10	35	10

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

23. Other receivables

	Group		Company	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
Prepaid expenses	17	172	5	165
VAT recoverable	66	55	64	45
Tax receivables	73	10	-	-
Total	156	237	69	210

Notes to the Financial Statements (cont.)

24. Short term loan

Group and the Company:

			31 December	31 December
			2022	2021
	Interest rate	Currency	£ 000	£ 000
Fixed rate loan	10%	CAD	611	583
Accumulated interest			15	15
			626	598
Less impermeant allowance/ECL			(626)	(598)
Total			-	-

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 1,000 thousand (£582 thousands) in three tranches. As of the reporting period the Company recorded interest income in the total amount of £15 thousands. The loan receivable has been impaired in full.

After the reporting period, the Group received notice that Materia, has been put into receivership process in Canada.

Notes to the Financial Statements (cont.)

25. Intercompany receivables

Company:

			31 December	31 December
			2022	2021
	Interest rate	Currency	£ 000	£ 000
The GP Service (UK) Limited	9%	GBP	1,097	-
Kanabo Research Ltd.	-	GBP	3,192	834
Total			4,289	834
<i>Current</i>			3,192	834
<i>Non-current</i>			1,097	-

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.

26. Cash and cash equivalents

	Group		Company	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
Cash at bank and in hand	3,204	4,477	937	4,148
Total	3,204	4,477	937	4,148

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

Notes to the Financial Statements (cont.)

27. Issued capital

a. Authorised shares

As at 31 December 2022 the Company had 422,916,056 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.

	2022	2021
	Number of ordinary shares of £0.025 each	
As at 1 January	369,966,277	29,400,120
Shares issued in the year for RTO (a)	-	230,769,210
Shares issued in placing and subscriptions (b)	-	92,307,693
Shares issued to settled debt	-	615,384
Share issued in placing and subscriptions (c)	-	4,545,454
Shares issued due to option and warrant exercises	3,522,319	9,028,416
Shares issue to settle convertible loans	-	3,300,000
Share issued in placing and subscriptions (d)	28,125,000	-
Issue of shares for acquisition of subsidiary (e)	21,302,460	-
As at 31 December	422,916,056	369,966,277

	2022	2021
	£ 000	£ 000
As at 1 January	9,249	734
Shares issued in the year for RTO (a)	-	5,769
Shares issued in placing and subscriptions (b)	-	2,308
Shares issued to settled debt	-	15
Share issued in placing and subscriptions (c)	-	114
Shares issued due to option and warrant exercises	88	226
Shares issue to settle convertible loans	-	83
Share issued in placing and subscriptions (d)	703	-
Issue of shares for acquisition of subsidiary (e)	533	-
As at 31 December	10,573	9,249

Notes to the Financial Statements (cont.)

27. Issued capital (cont.)

a. Authorised shares (cont.)

- (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) On 16 February 2021, the Company issued 92,307,693 ordinary shares raising £6,000 thousands before costs.
- (c) On 24 May 2021, the Company issued 4,545,454 ordinary shares raising £1,000 thousands before costs.
- (d) On 21 February 2022, the Company issued 28,125,000 ordinary shares raising £2,250 thousands before costs.
- (e) On 21 February 2022, the Company acquired 100% of the voting rights of The GP Service (UK) Limited ("GPS"), note 6.a.
- (f) As of 31 December 2022, 38,461,492 consideration shares and 85,406,117 share for the acquisition of GPS still need to be issued.

b. Share premium account

	2022	2021
	£ 000	£ 000
As at 1 January	5,169	592
Shares issued in placing and subscriptions	1,434	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	247	473
As at 31 December	6,850	5,169

Notes to the Financial Statements (cont.)

27. Issued capital (cont.)

c. Merger reserve

	2022	2021
	£ 000	£ 000
As at 1 January	9,231	-
Shares issued in the year for RTO	-	9,231
Shares issued in the year for subsidiary purchase	2,162	-
As at 31 December	11,393	9,231

Restatement – Group and Company

The directors have reviewed the accounting treatment of the shares issued in the prior year reverse takeover and have concluded that on the basis that this was an acquisition of at least 90% of the equity shares of an undertaking for the issue of equity shares, then under section 612 Companies Act 2006 the excess of the fair value of the shares issued over their nominal value should have been recorded in a merger reserve and that the prior recording of that excess in the share premium account was precluded under that section of the Companies Act 2006. This restatement has reduced the share premium account by £9,231 which has been recorded in a merger reserve instead. There was no other impacts on the financial statements.

Nature and purpose of each reserve in equity – disclosure under SOCIEs

The merger reserve arises when the company acquires at least a 90% interest in the shares of another company and under s612 Companies Act 2006 the excess of fair value of the shares issued in excess of their nominal value is precluded from being recognised in the share premium account. This reserve is not distributable.

28. Share-based payments

Warrants

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, the granted warrants during the year:

	2022		2021	
	Number	WAEP	Number	WAEP
Outstanding at 1 January	13,505,931	0.09	-	-
Granted	28,125,000	0.20	19,051,774	0.09
Realised	(3,231,501)	0.10	(5,545,843)	0.10
Expired	(6,422,711)	0.10	-	-
Outstanding at 31 December	31,976,719	0.43	13,505,931	0.09
<i>Exercisable at 31 December</i>	<i>31,976,719</i>	<i>0.43</i>	<i>13,505,931</i>	<i>0.09</i>

Notes to the Financial Statements (*cont.*)

28. Share-based payments (*cont.*)

Warrants (*cont.*)

- a. On 21 February 2022 ("admission date"), the authorised share capital was increased by £2,250 thousands (before costs) by the issue of 28,125,000 ordinary shares of £0.025 each. On the admission date, the Group additionally granted a half warrant to the noteholders to subscribe for an additional half a new ordinary share at an exercise price of £0.16 for period of 18 months following Admission Date. And additional half warrant to the noteholders to subscribe for an additional half a new ordinary share at an exercise price of £0.24 for period of 18 months following Admission Date. Total warrants issued sum to 28,125,000. 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.
As of 31 December 2022, none of the warrants have been converted into shares.
- 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 £0.1 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.
During the reporting period part of the warrants have been exercised and the remaining has expired, following which as of 31 December 2022 the remaining granted warrants is nil.
- c. 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 (£0.05) 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.
As of 31 December 2022, 1,150,000 warrants have not been yet converted into shares.
- d. On 27 January 2021, the Company entered 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, £113 thousands, was treated as a share issue cost and debited against share premium.
As of 31 December 2022, none of these warrants have been converted into shares.

Notes to the Financial Statements (cont.)

28. Share-based payments (cont.)

Warrants (cont.)

The following table list the inputs to the model used for the warrants plan for the year ended 31 December 2021:

	27 January 2021
Weighted average fair values at the measurement date	£0.042
Dividend yield	0%
Expected volatility	70%
Risk-free interest rate (%)	0.32
Expected life of warrant (years)	7
Weighted average share price	£0.065
Model used	Black-Scholes

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

Share options

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2022		2021	
	Number	WAEP	Number	WAEP
Outstanding at 1 January	15,988,895	0.16	1,960,000	0.05
Granted	22,759,150	0.08	16,408,102	0.15
Forfeited and expired	(1,555,211)	-	(273,555)	-
Exercised	(290,818)	-	(2,105,652)	-
Outstanding at 31 December	36,902,016	0.12	15,988,895	0.16
<i>Exercisable at 31 December</i>	<i>13,733,577</i>	<i>0.11</i>	<i>2,728,865</i>	<i>0.07</i>

- 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.

Notes to the Financial Statements (cont.)

28. Share-based payments (cont.)

Share options (cont.)

- b. 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.
- c. During the reporting period 290,818 options exercise to shares, the net proceeds summed to £12 thousands.
- d. On 30 August 2022, 22,759,150 share options were granted to employees and senior executives under the options plans.
- e. The following tables list the inputs to the models used for the three plans for the years ended 31 December 2022 and 2021, respectively:

Year ended 31 December 2022

	30 August 2022	30 August 2022	30 August 2022	30 August 2022	30 August 2022
Weighted average fair values at the measurement date	£0.023	£0.022	£0.025	£0.022	£0.021
Dividend yield	0%	0%	0%	0%	0%
Expected volatility	91.3%	91.3%	91.3%	91.3%	91.3%
Risk-free interest rate (%)	2.7	2.7	2.7	2.7	2.7
Expected life of share option (years)	10	10	10	10	10
Weighted average share price	£0.065	£0.08	£0.025	£0.1015	£0.1265
Model used	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes

Notes to the Financial Statements (cont.)

28. Share-based payments (cont.)

Share options (cont.)

e. (cont.)

Year ended 31 December 2021

	27 January 2021	27 January 2021	28 April 2021	19 July 2021	24 October 2021
Weighted average fair values at the measurement date	£0.03	£0.022	£0.173	£0.11	£0.12
Dividend yield	0%	0%	0%	0%	0%
Expected volatility	105%	105%	105%	105%	105%
Risk-free interest rate (%)	0.18	0.18	1.63	1.19	1.66
Expected life of share option (years)	3	3	10	10	10
Weighted average share price	£0.065	£0.1	£0.2721	£0.197	£0.165
Model used	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

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

- f. During the period the Group recognised total amount of £739 thousands (2021: £660 thousands) for share-based payment expenses.

The amount was recorded in the profit and loss as follows:

	2022	2021
	£ 000	£ 000
Cost of sales (note 8)	13	-
Research and development expenses (note 9)	68	6
Sales and marketing expenses (note 10)	349	218
General and administration expenses (note 11)	537	436
Total	967	660

Notes to the Financial Statements (cont.)

29. Interest-bearing loans and borrowings

Group:

				2022	2021
	Interest rate	Currency	Maturity	£ 000	£ 000
Current interest-bearing loans and borrowings					
Lease liability (note 31)	7.5%	ILS	2023	65	-
CBILS loan	9%	GBP	2023	133	-
Total				198	-
Non-current interest-bearing loans and borrowings					
Lease liability (note 31)	7.5%	ILS	2024-2028	233	-
CBILS loan	9%	GBP	2024-2025	267	-
Loans from a third parties' investors in subsidiary (note 6.b)	3.23%	ILS	No maturity date was set	9	-
Total				509	-
Total interest-bearing loans and borrowings				707	-

CBILS loan

On 22 January 2021, The GP Service (UK) Limited received a Coronavirus Business Interruption Loan Scheme (CBILS) which carry a fixed rate interest of 9% and repayable by instalments over a 3-year period commencing March 2022.

The loan is recognised as a financial liability at amortised cost. Interest is calculated under the effective interest method. The initial recognition at fair value was not materially different to the proceeds received.

Notes to the Financial Statements (cont.)

30. Other payables

	Group		Company	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
Payroll and related expenses	41	82	-	-
Accrued expenses	991	186	859	149
Provision for accrued bonus	56	57	22	-
Provision for accrued vacation and convalescence	43	48	24	-
Other	16	-	-	-
Total	1,147	373	905	149

31. Leases

On 22 December 2021, Kanabo Research Ltd ("KNR") (a wholly owned subsidiary of the Company) signed a lease agreement with a third party to rent space in Israel, in exchange for a total ILS 24 thousand per month linked to the Consumer Price Index. The start date of the rental agreement was agreed between the parties on 17 March 2022. The lease agreement is for three years and includes an extension option for three more years. If KNR exercising the rent extension option, the monthly rent will be updated with an increase of 6%. KNR exercises significant discretion in examining whether it is reasonably certain that extension option will be exercised. At date the lease began, the company recognised a right of use in the property against a lease obligation in the amount of £327 thousands (ILS 1,399 thousand). To secure the lease agreement, the company provided a deposit in the amount of £31 thousands (ILS 132 thousand). The deposit is being classified as long-term deposit in the Group's statements of financial position.

During 2022, the KNR recognised depreciation expenses in the amount of £47 thousands as well as financing expenses in the amount of £24 thousands. The annual interest rate for capitalisation that was applied for the purpose of calculating the obligation at the start of the lease was 7.5%.

Set out below are the carrying amounts of right-of-use asset recognised and the movements during the period:

	2022	2021
	£ 000	£ 000
As at 1 January	-	-
Additions	327	-
Depreciation expense	(47)	-
Exchange differences	2	-
As at 31 December	282	-

Notes to the Financial Statements (*cont.*)

31. Leases (*cont.*)

Set out below are the carrying amounts of lease liability (included under interest-bearing loans and borrowings) and the movements during the period:

	2022	2021
	£ 000	£ 000
As at 1 January	-	-
Additions	327	-
Accretion of interest	24	-
Payments	(57)	-
Effect of movement in exchange rate	4	-
As at 31 December	298	-
<i>Current</i>	65	-
<i>Non-current</i>	233	-

32. Financial instruments risk management objectives and policies

The Group's principal financial liabilities, comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured, and managed in accordance with the Group's policies and risk objectives. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience, and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Notes to the Financial Statements (cont.)

32. Financial instruments risk management objectives and policies (cont.)

The following table sets out the categories of financial instruments held by the Group as at 31 December 2022 and 31 December 2021:

	Group		Company	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
Financial assets				
<u>Financial assets held at amortised cost</u>				
Intercompany receivables	-	-	4,289	834
Trade receivables	43	10	35	10
Long term deposit	31	-	-	-
Short-term deposits	24	20	-	-
Cash and cash equivalents	3,204	4,477	937	4,148
<u>Financial assets held at fair value</u>				
Financial asset through profit or loss	491	750	491	750
Total financial assets	3,793	5,257	5,752	5,742
<i>Current</i>	<i>3,762</i>	<i>4,507</i>	<i>5,752</i>	<i>4,992</i>
<i>Non-current</i>	<i>31</i>	<i>750</i>	<i>-</i>	<i>750</i>

	Group		Company	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
Financial liabilities				
<u>Financial liabilities held at amortised cost</u>				
Trade payables	153	42	79	24
Other payables	1,147	373	905	149
Interest-bearing loan and borrowings	707	-	-	-
Total financial liabilities	2,007	415	984	173
<i>Current</i>	<i>1,498</i>	<i>415</i>	<i>984</i>	<i>173</i>
<i>Non-current</i>	<i>509</i>	<i>-</i>	<i>-</i>	<i>-</i>

Notes to the Financial Statements (*cont.*)

32. Financial instruments risk management objectives and policies (*cont.*)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits, debt and equity investments and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December in 2022 and 2021.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2022.

The analyses exclude the impact of movements in market variables on the carrying values of provisions, and the non-financial assets and liabilities of foreign operations. The Group is not materially exposed to market risk as it has yet to commence trading.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group is not materially exposed to interest rate risk because it does not have any funds at floating interest rates, all the Group borrowings are at fixed interest rate.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

The Group doesn't hedge its exposure to fluctuations on the translation into British Pound of its foreign operations.

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 24 for further commentary on the terms of this loan.

Notes to the Financial Statements (cont.)

32. Financial instruments risk management objectives and policies (cont.)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

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.

Liquidity risk

The Group monitors its risk of a shortage of funds using a liquidity planning tool. 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.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2022

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Interest-bearing loans and borrowings	-	-	133	267	9	409
Lease liability	-	11	36	251	-	298
Trade payables	153	-	-	-	-	153
Other payables	1,147	-	-	-	-	1,147
Total	1,300	11	169	518	9	2,007

Year ended 31 December 2021

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Trade payables	42	-	-	-	-	42
Other payables	373	-	-	-	-	373
Total	415	-	-	-	-	415

Notes to the Financial Statements (cont.)

32. Financial instruments risk management objectives and policies (cont.)

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.

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.

33. Related party transactions

The Group is headed by Kanabo Group Plc, the ultimate parent entity. There is no 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.

Key management personnel compensation

For the details of the Directors' remuneration in 2022 and 2021, please see the Director's Remuneration Report on the annual report.

The amounts outstanding at the period end due to Non-Executive Directors was £nil (2021: £nil).

During 2021, following the completion of the RTO, the Company paid bonuses to the Directors Alan Hume, Andrew Morrison and Anthony Harpur totalling £180 thousands. The bonuses were paid directly to the Directors and to entities which are wholly owned by them.

Trading transactions

During the year Group companies did not enter any transactions with related parties who are not members of the Group.

Transactions with Group undertaking

	2022	2021
	£ 000	£ 000
With Kanabo Research Ltd:		
Purchase of services	729	576
Purchase of inventories	-	46
Total	729	622

Sale and purchases to the Group undertaking were carried out on commercial terms and conditions based on the transfer price work.

Notes to the Financial Statements *(cont.)*

34. Employees

The monthly average number of employees in the Group was 20 (2021: 10), which excludes Non-Executive Directors and portion allocation between the different departments.

	Group		Company	
	2022	2021	2022	2021
	Number	Number	Number	Number
Research and development	2	2	-	-
Sales and marketing	3	3	-	-
General and administration	15	5	2	-
Total number of employees	20	10	2	-

Their aggregate remuneration, including Executive Directors' remuneration, comprised:

	Group		Company	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
Wages and salaries	1,345	396	116	-
Pension	51	19	6	-
Social security costs	113	24	18	-
Share-based payment	783	472	17	-
Total number of employees	2,292	911	157	-

Notes to the Financial Statements (cont.)

35. Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Newly effective EU-endorsed standards for 1 January 2022 to 31 December 2022

Standard	Impact on initial application	Effective date
Amendment to IFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
IFRS Standards	Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022

Standards available for early adoption

Standard	Impact on initial application	Effective date
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimate	1 January 2023

36. Copies of the annual report

Copies of the annual report are available on the Company's website at www.kanabogroup.com and from the Company's registered office Churchill House, 137-139 Brent Street, London, NW4 4DJ, United-Kingdom.
