

INNOCAN PHARMA CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2019

UNAUDITED

NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements of InnoCan Pharma Corporation (the "Company") have been prepared by and are the responsibility of management. These condensed interim consolidated financial statements as of September 30, 2019 have not been reviewed or audited by the Company's independent auditors.

INNOCAN PHARMA CORPORATION

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INNOCAN PHARMA CORPORATION
UNAUDITED CONDENSED INTERIM CONSOLIDATED
STATEMENTS OF FINANCIAL POSITION
(US Dollars in thousands)

	September 30, 2019	December 31, 2018
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	2,778	214
Other accounts receivable	140	443
Total current assets	2,918	657
NON-CURRENT ASSETS:		
Property, plant and equipment, net	100	3
Total non-current assets	100	3
TOTAL ASSETS	3,018	660

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

INNOCAN PHARMA CORPORATION
UNAUDITED CONDENSED INTERIM CONSOLIDATED
STATEMENTS OF FINANCIAL POSITION

(US Dollars in thousands)

	Note	September 30, 2019 Unaudited	December 31, 2018 Audited
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Research liability	1(3)	94	257
Other accounts payable		384	216
Warrants	4	2,427	60
Total current liabilities		2,905	533
NON-CURRENT LIABILITIES:			
Long term lease liability		44	-
Total non-current liabilities		44	-
SHAREHOLDERS' EQUITY:			
Share capital	5	*	*
Additional share capital		5,590	1,402
Accumulated deficit		(5,521)	(1,275)
Total Shareholders' equity		69	127
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,018	660

(signed) "Iris Bincovich"
Iris Bincovich
Chief Executive Officer,
Director

(signed) "Yoram Drucker"
Yoram Drucker
Audit Committee Chair,
Director

November 27, 2019
Date of approval of the
Financial statements

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

INNOCAN PHARMA CORPORATION
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE
LOSS

(US Dollars in thousands except loss per share)

	Nine months period ended September 30,		Three months period ended September 30,	
	2019	2018	2019	2018
	<u>Unaudited</u>		<u>Unaudited</u>	
Sales and marketing expense	401	110	215	44
Research and development expense	254	62	113	19
General and administrative expense	1,492	339	1,193	211
Operating loss	<u>2,147</u>	<u>511</u>	<u>1,521</u>	<u>274</u>
Finance income	-	(7)	-	(7)
Finance expense	2,099	19	2,097	17
Loss before income taxes	4,246	523	3,618	284
Income taxes	-	-	-	-
Total comprehensive loss	<u>4,246</u>	<u>523</u>	<u>3,618</u>	<u>284</u>
Basic and diluted loss per share (*)	<u>\$ (0.04)</u>	<u>\$ (0.006)</u>	<u>\$ (0.03)</u>	<u>\$ (0.003)</u>
Weighted average number of common shares (*)	<u>112,790,021</u>	<u>80,355,204</u>	<u>112,150,905</u>	<u>88,629,623</u>

(*) After giving effect to the Share Exchange.

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

INNOCAN PHARMA CORPORATION
UNAUDITED CONDENSED INTERIM CONSOLIDATED
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(US Dollars in thousands, except for number of shares)

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at January 1, 2019	*	1,402	(1,275)	127
Changes during the period:				
Issuance of common shares, net	*	141	-	141
Issuance of common shares and warrants to Solsken	*	1,802	-	1,802
Share issuance – Solsken pre IPO	*	1,000	-	1,000
Share issuance – February CLA conversion	*	304	-	304
Issuance of shares - IPO	-	693	-	693
Share based compensation	-	248	-	248
Total comprehensive loss for the period	-	-	(4,246)	(4,246)
Balance at September 30, 2019	*	5,590	(5,521)	69

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Prepayment on account of shares</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at January 1, 2018	*	24	6	(83)	(53)
Changes during the period:					
Issuance of common shares, net	*	862	(6)	-	856
Issuance of common shares to service providers	*	213	-	-	213
Issuance of shares and warrants	*	76	-	-	76
Share based compensation	-	57	-	-	57
Total comprehensive loss for the period	-	-	-	(523)	(523)
Balance at September 30, 2018	*	1,232	-	(606)	626

* Represents an amount lower than 1 thousand.

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

INNOCAN PHARMA CORPORATION
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(US Dollars in thousands)

	Nine months period ended September 30, 2019	Nine months period ended September 30, 2018
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net comprehensive loss for the period	(4,246)	(523)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1	*
Share based compensation	248	57
Expenses due from issuance of common shares to service providers	-	85
Change in fair value of a warrants	2,053	18
Decrease (increase) in other accounts receivable	333	(143)
Decrease in research liability	(163)	-
Increase in other accounts payable	107	314
Net cash used in operating activities	<u>(1,667)</u>	<u>(192)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in restricted deposit	-	(19)
Purchase of property, plant and equipment	(19)	(2)
Net cash used in investing activities	<u>(19)</u>	<u>(21)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common shares, net	2,250	856
Issuance of common shares and warrants to Solsken	2,000	-
Issuance of shares and warrants for investment units	-	120
Net cash provided by financing activities	<u>4,250</u>	<u>976</u>
Effects of exchange rate changes on cash and cash equivalents	*	*
Net Increase in cash and cash equivalents	2,564	763
Cash and cash equivalents at the beginning of the period	<u>214</u>	<u>6</u>
Cash and cash equivalents at the end of the period	<u><u>2,778</u></u>	<u><u>769</u></u>

APPENDIX A - NON-CASH MATERIAL ACTIVITIES:

Issuance of common shares to service providers as prepaid issuance costs	-	128
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* Represents an amount lower than 1 thousand.

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

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(US Dollars)

NOTE 1 - GENERAL:

1. InnoCan Pharma Corporation (the "Company"), a Canadian company, was incorporated as a corporation in Canada and commenced its activity in May 2018. The Company's registered office is in Calgary, Canada.
2. The Company, a publicly listed company on the Canadian Securities Exchange (the "CSE") trading under the symbol INNO, is the parent company of Innocan Pharma Ltd. ("InnoCan") that was incorporated in Israel in October 2017 and commenced its operations in November 2017. InnoCan is a pharmaceutical company which specializes in integrating cannabinoids with existing proven drugs to enhance their capabilities by harnessing the cannabinoids healing properties and interaction with the human body's receptor system. InnoCan is at a pre-clinical stage (see also Note 1.5). InnoCan is expected to conduct activities mainly in the US, Canadian and European markets.
3. On August 26, 2018, InnoCan entered into a research and option agreement (the "Option Agreement") with the Yissum Research Development Company of the Hebrew University of Jerusalem Ltd. ("Yissum"). The Option Agreement allows InnoCan to receive the research results of Yissum (the "Research") and grants InnoCan an exclusive option to enter into an agreement to license, on a worldwide basis, the results of the Research (the "Option"). Under the Option Agreement, InnoCan agreed to finance the Research (to an amount of no less than USD 310 thousands and additional overhead expenses of USD 108 thousands) over a period of 18 months in exchange for the Option. InnoCan may exercise the Option at any time from August 26, 2018 until the date that is sixty days from InnoCan's receipt of the final report in respect of the research (which is due on March, 2020) (the "Option Exercise Period"), by notifying Yissum in writing (the "Option Exercise Notice"). Upon the date of Yissum's receipt of the Option Exercise Notice, Yissum and InnoCan will then negotiate the terms and conditions of a license agreement in good faith during a period of up to 120 days. All rights in the Research, including any patent applications in connection with the Research that may be filed, shall be owned by Yissum unless an employee of InnoCan is properly considered an inventor of any patent application so filed, in which event such patent application shall be owned jointly by Yissum and InnoCan. Between August 2018 and September 30, 2019, InnoCan paid an aggregated amount of USD 324 thousands as part of the Option Agreement and recorded USD 94 thousands as a research liability on behalf of the remaining Research expenses obligated to be paid.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 1 - GENERAL (CONT):

4. On September 3, 2018, the Company's shareholders approved a share exchange agreement (the "Share Exchange Transaction") between the Company and InnoCan, according to which the Company intended to purchase by way of the issuance of common shares at a ratio of 735 common shares of the Company for each share of InnoCan, to the shareholders of InnoCan. Following the Share Exchange Transaction on September 25, 2019, the Company completed the initial public offering (the "IPO") of 6,111,112 units of the Company at a price of CAD 0.18 per unit. Each unit consists of one common share of the Company and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Unit Warrant"). Each Unit Warrant entitles the holder thereof to acquire one common share at an exercise price of CAD 0.30 for a period of 24 months following September 25, 2019. If in the period following the closing of the IPO until the end of the 24 months follows, the closing price of the common shares of the Company, is equal to or greater than CAD 0.35 for any 20 consecutive trading days, the Company may, upon providing written notice to the holders of warrants, accelerate the expiry date of the warrants to the date which is 30 days following the date of such written notice. By September 30, 2019 the Company did not reach the target share price. The warrants are transferable but are not be listed or quoted on any stock exchange or market. Concurrently with the closing of the transaction, the Company received gross proceeds of CAD 1,100 thousand (approximately USD 829 thousand). The Company allocated the incremental costs that were directly attributable to issuing new shares to equity and the costs that were related to the stock market listing or are otherwise not incremental and directly attributable to issuing new shares, were recorded as an expense in the statement of comprehensive loss. Costs that were related to both share issuance and listing were allocated between those functions based on the number of shares.
5. Since inception, the Company has not earned any revenue and expects to continue to finance itself through raising adequate funds in the foreseeable future. The Company incurred a net loss of 4,246 thousand for the nine months period ended September 30, 2019 and generated 5,521 thousand of accumulated deficit since inception. These events and conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 1 - GENERAL (CONT):

IPO and capital re-organization

On September 25, 2019, the Company commenced trading on the CSE, following the IPO, under the name "InnoCan Pharma Corporation" with the trading symbol: INNO. Prior to commencement of trading, the Company completed the acquisition of 100% of the issued capital in InnoCan.

In accordance with IFRS, the acquisition does not meet the definition of business combination as the Company was established for the sole purpose of facilitating the listing process and to acquire InnoCan by a way of equity swap. The shareholders of InnoCan received the same proportion of instruments in the Company.

The consolidated financial statements represent a continuation of InnoCan's financial statements as it is the accounting acquirer. The consolidated results reflect the full year of InnoCan plus the Company from the date of incorporation.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

These condensed interim consolidated financial statements of the Company are for the nine months period ended September 30, 2019 and are presented in US Dollars, which is the presentation and functional currency of the Company.

These condensed interim consolidated financial statements have been prepared in accordance with the requirements of International Accounting Standard IAS 34 "Interim Financial Reporting". They do not include all the information required in annual financial statements in accordance with IFRS, and should be read in conjunction with the financial statements of the Company for the period ended December 31, 2018.

The condensed interim consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the last annual financial statements of the Company for the period ended December 31, 2018, except for the adoption of new standards effective as of January 1, 2019.

New standards, interpretations and amendments effective from January 1, 2019

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT):

New standards, interpretations and amendments effective from January 1, 2019 (cont.)

IFRS 16 Leases (cont.)

recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the Right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the Company use the relief to initially measure Right of use assets at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognized where the Group is contractually required to dismantle, remove or restore the leased asset.

The impact on the interim statement of financial position as of May 14, 2019 (the lease commencement date)

	Under previous policy	The change	Under IFRS 16
US Dollars in thousands (unaudited)			
Non-current assets:			
Property, plant and equipment	9	71	80
Current liabilities:			
Other accounts payable	(143)	(18)	(161)
Non-current liability:			
Long term lease liability	-	(41)	(41)

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT):

New standards, interpretations and amendments effective from January 1, 2019 (cont.)

IFRS 16 Leases (cont.)

The Company recognized the right-of-use assets on behalf of car leasing based on the amount equal to the lease liabilities. Lease liabilities recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. As part of initial application, there was no impact on retained earnings. The weighted average incremental borrowing rate as of May 14, 2019 was 8%. The Company had no liability in respect of operating leases in the financial statements as of December 31, 2018.

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NOTE 3 - SIGNIFICANT EVENTS IN THE PERIOD:

A. Effective April 15, 2019, the Company and InnoCan entered into a number of arrangements with Solsken Limited ("Solsken"), the results of which are to provide to the Company, subject to the IPO, a cash amount of USD 3 million in an equity investment (including an amount of USD 2 million received by InnoCan on April 16, 2019).

The arrangements with the Company and InnoCan are as follows:

- a) Solsken SPA – pursuant to which Solsken purchased 28,840 ordinary shares of InnoCan for a purchase price of USD 2 million, at a price per share of USD 69.348 together with the issuance by InnoCan to Solsken of the following:
 1. 19,023 Solsken A Warrants exercisable at a price per share of USD 91.875 (following the Share Exchange 13,981,916 warrants with an exercisable price of CAD 120.34 per share), for a period of 24 months from April 15, 2019, subject to an accelerated exercise expiry at any time following April 15, 2020, should the weighted average volume trading price over a consecutive 30 day period exceed CAD 0.25 (based on 1:735 Share Exchange Agreement ratio between InnoCan and the Company) in Common Shares following the Closing; and
 2. 2,721 Solsken B Warrants exercisable at a price per share of USD 128.63 (following the Share Exchange 2,000,000 warrants with an exercisable price of CAD 168.48 per share), for a period of 28 months from April 15, 2019, subject to an accelerated exercise expiry following July 31, 2020, should the weighted volume trading price over a consecutive 30 day period exceed CAD 0.335 (based on 1:735 Share Exchange Agreement ratio between InnoCan and the Company) in Common Shares following Closing.

The Company assessed the accounting for the transaction, and due to the fact that the exercise price of the warrants after the Share Exchange is stated in CAD, both Solsken A and B warrants, does not meet the criteria for a fixed number of equity instruments in exchange for a fixed amount of cash since the exercise price is stated in CAD while the Company's functional currency is the USD. The Company recognized a derivative liability and finance expense which represents the fair value of the warrants on the transaction date. Upon the Share Exchange Transaction, all of Solsken A and B Warrants were converted into warrants exercisable to the Company's Common Shares based on 1:735 ratio which is the same ratio as the Share Exchange.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 3 - SIGNIFICANT EVENTS IN THE PERIOD (CONT):

A. (Cont.):

- b) Solsken Private Placement Agreement – pursuant to which Solsken agreed to purchase 4,000,000 Common Shares of the Company at a price of USD 0.125 per Common Share (an aggregate amount of USD 500 thousand). The principal amount of USD 500 thousand was put into a separate trust which is not controlled by the Company until the IPO occurred. On September 25, 2019, once the IPO was completed, the Company received the cash from the trustee and issued 4,000,000 Common Shares to Solsken.
- c) Solsken Private Placement Agreement - pursuant to which Solsken purchased a USD 500 thousand, non-interest-bearing convertible note from the Company which was convertible to Common Shares at a price of USD 0.09435 per Common Share by Solsken at any time following Closing and prior to maturity. The subscription amount for the note was held in escrow. On September 25, 2019, once the IPO was completed, the Company received the cash from the escrow and issued 5,299,417 Common Shares to Solsken.

B. On January 15, 2019, the Company entered into convertible notes private placement agreements ("the Convertible Notes") in the amount of USD 300 thousand. The cash was put into trust and according to the agreement the Company could not receive the cash unless an IPO was completed by the end of September 2019 (see also Note 1(4)), at a share price of at least CAD 0.15. In such an event, the Convertible Notes will be mandatorily converted into Common Shares at a conversion price of CAD 0.12 per share. The IPO was completed in accordance with the conditions stated above, therefore the Company received the cash from the trustee and issued 3,317,250 Common Shares of the Company to the investors at September 25, 2019.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 4 - WARRANTS:

1. In the period between May and June 2018, InnoCan signed Share Purchase Agreements (the "SPAs") with six different investors (the "Investors") according to which, InnoCan issued an investment unit which contained 1,826 ordinary shares of InnoCan and 1,826 warrants (the "SPA Warrants"), exercisable into 1,826 of InnoCan's ordinary shares. Each SPA Warrant has an exercise price equal to 50% of the price per share at the closing of the IPO (see also Note 1(4)). The warrants are exercisable during the period commencing at the date of the SPA and ending on the earlier of:
 - a. 18 months following the date of the agreement;
 - b. InnoCan's liquidation; or
 - c. An investment that will be made in InnoCan during the warrant term at a company valuation which is at least USD 20 million.

As of September 30, 2019 none of the above events occurred.

In the event of the following, the Investors will be required to exercise the warrants or waive their rights therein:

- a. If an investment of USD 8 million or more will be completed during the term of the SPA Warrant at a pre-money company valuation of least 18 million.
- b. If the Company completes an IPO at a pre-money company valuation of at least USD 20 million.

The SPA Warrants were recorded as a derivative financial liability and will be re-measured at each reporting date, with changes in fair value recognized in finance expense (income), net. The derivative financial liability as at September 30, 2019 amounted to USD 213 thousand. The amount was recorded according to its fair value appraisal which was performed by an independent third party appraiser.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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(US Dollars)

NOTE 4 – WARRANTS (CONT.):

2. In respect of Solsken's arrangement with the Company (see also Note 3.A), the Company recorded a derivative financial liability which represents the fair value of the Solsken A and B Warrants. The derivative financial liability is re-measured at each reporting date, with changes in fair value recognized in finance expense (income), net. The derivative financial liability as at September 30, 2019 amounted to USD 1,845 thousand. The amount was recorded according to its fair value appraisal which was performed by an independent third party appraiser with respect to the traded price share.

3. As part of the IPO, the Company issued Unit Warrants (see also Note 1(4)). The Company recorded the Unit Warrants as a derivative financial liability which represents the fair value of the warrants on the transaction date due to the fact that they do not meet the criteria for a fixed number of equity instruments in exchange for a fixed amount of cash since the exercise price is stated in CAD while the Company's functional currency is the USD. The derivative financial liability is re-measured at each reporting date, with changes in fair value recognized in finance expense (income), net. The derivative financial liability as at September 30, 2019 amounted to USD 369 thousand. The amount was recorded according to its fair value appraisal which was performed by an independent third party appraiser.

The derivative financial liabilities as at September 30, 2019 are as follows:

	Fair Value as at September 30, 2019 *
	US Dollars in thousands
SPA Warrants	213
Solsken A and B Warrants	1,845
Unit Warrants	369
Total	2,427

* All amounts were recorded according to their fair value, according to a third party appraisal.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 5 - SHAREHOLDERS' EQUITY:

Composition:

	Number of shares as of September 30, 2019	
	Authorized	Issued and outstanding
Common shares without nominal par value	143,866,169	143,866,169

	Number of shares as of December 31, 2018	
	Authorized	Issued and outstanding
Common shares without nominal par value	4,250,000	4,250,000

Movement in number of shares:

	Number of shares	Share Capital (USD in thousands)
Balance as at May 31, 2018 (inception)	-	-
Issuance of shares in the Company	4,250,000	-
Closing balance as at December 31, 2018	4,250,000	1,402
Issuance of shares in InnoCan (i)	22,726,935	1,943
Issuance of shares to InnoCan's shareholders upon Share Exchange (See also Note 1(4))	98,161,455	-
Issuance of shares to Solsken (See also Note 3.A)	9,299,417	1,000
Issuance of shares (See also Note 3.B)	3,317,250	304
Share based compensation	-	248
Issuance of shares - IPO	6,111,112	693
Closing balance at September 30, 2019	143,866,169	5,590

- (i) For transactions prior to the IPO, the number of shares and unit price are adjusted to the number of shares received in the Company in consideration for the shares in InnoCan.

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NOTE 5 - SHAREHOLDERS' EQUITY (CONT.):

1. Between January and March 2019, InnoCan issued 2,081 ordinary shares with a par value of NIS 0.01 to different investors for an approximately USD 141 thousand at the same terms as the Brokered Private Placement.
2. On April 15, 2019, InnoCan issued 28,840 ordinary shares with a par value of NIS 0.01 per value as part of the Solsken transaction (see also Note 3.A).
3. On September 25, 2019, as part of the IPO (See also Note 1(4)), the Company issued 98,161,455 common shares to the former InnoCan shareholders.
4. On September 25, 2019 the Company issued 9,299,417 common shares to Solsken, see also Note 3.
5. On September 25, 2019 the Company issued 3,317,250 common shares in connection with the Convertible Notes conversions, see also Note 3.B.
6. On September 25, 2019 the Company issued 6,111,112 common shares as part of the IPO, see also Note 1(4).

Share based compensation

On September 25, 2019, the Company granted 12,026,477 options (the "Options") to its employees, directors and service providers, each exercisable for one ordinary share of the Company, as part of the Company's stock option plan. The Options have an exercise price of CAD 0.18-0.30 per share. The vesting period for the Options is up to 3 years, which begins on the grant date. The Options have a maximum term of five years from the date of issue. The fair value of the Options was obtained using the Black Scholes (1973) on the date of the grant based on certain unobservable inputs, including:

- The expected volatility of the existing business is 66%
- The dividend growth rate is 0%,

In the nine months period ended September 30, 2019, the Company recorded share based compensation expenses of USD 248 thousand, which is included in general and administrative expense.

INNOCAN PHARMA CORPORATION
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NOTE 5 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.)

	Nine months ended September 30, 2019	
	Number of options	Weighted average exercise price (CAD)
Outstanding at beginning of period	-	-
Granted	12,026,477	0.18
Forfeited	(69,846)	-
Outstanding at end of period	11,956,631	0.18
Exercisable options	4,094,826	0.18

INNOCAN PHARMA CORPORATION
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NOTE 6 - FINANCIAL INSTRUMENTS:

The following table compares the carrying amounts and fair values of the Company's financial assets and financial liabilities as at September 30, 2019.

	As at September 30, 2019		As at December 31, 2018	
	USD in thousands Carrying Amount	USD in thousands Fair Value	USD in thousands Carrying Amount	USD in thousands Fair Value
Financial liabilities:				
Derivative (warrants) financial liability	(2,427)	(2,427)	(60)	(60)
Total	<u>(2,427)</u>	<u>(2,427)</u>	<u>(60)</u>	<u>(60)</u>

The following table sets out the Company's liabilities that are measured and recognized at fair value in the financial statements:

	Fair value measurements using input type			
	September 30, 2019			
	USD in thousands			Total
	Level 1	Level 2	Level 3	
Derivative (warrants) financial liability	-	-	(2,427)	(2,427)
	Fair value measurements using input type			
	US Dollars in thousands			
	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Derivative (warrants) financial liability	-	-	(60)	(60)

The fair value measurements of the warrants presented in the table above, were estimated using a Monte Carlo simulation analysis, based on a variety of significant unobservable inputs and thus represent a level 3 measurement within the fair value hierarchy.

The key inputs that were used in measuring the fair value of the warrants derived from the:

- SPA's (see also Note 4.1); the
- Solsken transaction (see also Note 4.2); and the
- Unit Warrants (see also Note 4.3)

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(US Dollars)

NOTE 6 - FINANCIAL INSTRUMENTS (CONT.):

were as follows: a risk free interest rate of- 1.46%, an expected volatility of- 66% and a CAD/USD exchange rate of- 0.755.

NOTE 7 - SUBSEQUENT EVENTS:

1. On October 6, 2019, the Company granted 80,000 options to a service provider, each exercisable for one common share of the Company. The options have an exercise price of CAD 0.32 per share. The options will be vested over a period of one year, which begins on the grant date, and expire 3 years following the grant date.
2. On October 21, 2019, InnoCan entered into a manufacture and supply agreement (the "Fancystage Agreement") with Fancystage Unipessoal LDA, a Portuguese company ("Fancystage"). According to the Fancystage Agreement, Fancystage will manufacture InnoCan's cannabidiol (CBD) cosmetic products, based on formulas provided to Fancystage by InnoCan.
3. On October 25, 2019, the Company granted 200,000 options to a service provider, each exercisable for one common share of the Company. The options have an exercise price of CAD 0.30 per share. The options will be vested 25% at the grant date, and 25% each month thereafter, and will expire 2 years following the grant date.
4. On November 14, 2019, InnoCan entered into a manufacture and supply agreement (the "Biogenesis Agreement") with Biogenesis Inc., a company incorporated in New Jersey ("Biogenesis"). According to the Biogenesis Agreement, Biogenesis will manufacture InnoCan's cannabidiol (CBD) cosmetic products, based on formulas provided to Biogenesis by InnoCan.