INNOCAN PHARMA CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019

INNOCAN PHARMA CORPORATION

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF

INNOCAN PHARMA CORPORATION

Opinion

We have audited the consolidated financial statements of InnoCan Pharma Corporation (the "Company") and its subsidiary - InnoCan Pharma Ltd. (collectively the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019 and 2018 and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1.6 in the consolidated financial statements, which indicated that the Group incurred a net loss of USD 3,335 thousands during the year ended December 31, 2019. As stated in Note 1.6, these events or conditions, along with other matters as set forth in Note 1.6, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the consolidated financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Lior Shahar.

Tel-Aviv, Israel

March 31, 2020

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INNOCAN PHARMA CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(US Dollar in thousands)

	Note	December 31, 2019	December 31, 2018
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		1,973	214
Other accounts receivable	4	514	443
Total current assets		2,487	657
NON-CURRENT ASSETS:			
Property, plant and equipment, net		9	3
Right-of-use asset, net	13	86	-
Total non-current assets		95	3
TOTAL ASSETS		2,582	660

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

INNOCAN PHARMA CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(US Dollar in thousands)

	Note	December 31, 2019	December 31, 2018
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Research liability	1.3	-	257
Trade accounts payable		27	-
Other accounts payable	5	443	216
Warrants	6	661	60
Total current liabilities		1,131	533
NON-CURRENT LIABILITIES:			
Long term lease liability	13	38	-
Total non-current liabilities		38	-
SHAREHOLDERS' EQUITY:	7		
Share capital		-	*
Additional share capital		6,023	1,402
Accumulated deficit	1.6	(4,610)	(1,275)
Total shareholders' equity		1,413	127
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,582	660

"Iris Bincovich"	"Yoram Drucker"	March 31, 2020
Iris Bincovich Chief Executive Officer	Yoram Drucker Audit Committee Chair	Date of approval of the Financial statements

* Represent an amount lower than USD 1 thousand.

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

INNOCAN PHARMA CORPORATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(US Dollar in thousands except loss per share)

	Note	Year ended December 31, 2019	Year ended December 31, 2018
Selling and marketing expenses	8	695	180
Research and development expenses	9	368	534
General and administrative expenses	10	1,938	452
Operating loss		3,001	1,166
Financial expense		334	26
Loss before income taxes		3,335	1,192
Tax expenses	11	-	-
Total comprehensive loss		3,335	1,192
Basic and diluted loss per share (*)	15	$ (0.03)	$ (0.01)
Weighted average number of common shares (*)		120,644,432	84,456,645

(*) After giving effect to the Share Exchange (see also Note 1.4).

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

INNOCAN PHARMA CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(US Dollar in thousands, except for number of shares)

	Ordinary share capital amount	Additional paid in capital	Prepayment on account of shares	Accumulated deficit	Total
Balance at December 31, 2017	*	24	6	(83)	(53)
Changes during 2018:					
Issuance of ordinary shares, net	*	1,004	(6)	-	998
Issuance of ordinary shares to service providers	*	241	-	-	241
Issuance of ordinary shares as part of an investment unit	*	76	-	-	76
Share based payment	*	57	-	-	57
Total comprehensive loss for the period	-	-	-	(1,192)	(1,192)
Balance at December 31, 2018	*	1,402	-	(1,275)	127
Changes during 2019:					
Issuance of common shares, net	*	141	-	-	141
Issuance of common shares and warrants to Tamar InnoVest	*	1,802	-	-	1,802
Share issuance – Tamar InnoVest pre IPO	*	1,000	-	-	1,000
Share issuance – February CLA conversion	*	304	-	-	304
Issuance of shares - IPO	(*)	693	-	-	693
Issuance of shares – post IPO	-	242			242
SPA Warrants exercise	-	13	-	-	13
Share based compensation	-	426	-	-	426
Total comprehensive loss for the period	-	-	-	(3,335)	(3,335)
Balance at December 31, 2019	-	6,023	-	(4,610)	1,413

***** Represent an amount lower than USD 1 thousand.

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

INNOCAN PHARMA CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(US Dollar in thousands)

	The year ended December 31, 2019	The year ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net comprehensive loss for the period	(3,335)	(1,192)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	23	*
Share based compensation	426	57
Expenses due from issuance of common shares to service providers	-	85
Change in fair value of a warrants	294	16
Interest charged on lease liabilities	4	-
Increase in other accounts receivable	(63)	(263)
Increase (decrease) in research liability	(257)	257
Increase in trade accounts payable	27	-
Increase in other accounts payable	166	131
Net cash used in operating activities	(2,715)	(909)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(9)	(3)
Net cash used in investing activities	(9)	(3)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common shares, net	2,492	998
Issuance of common shares and warrants to Tamar InnoVest	2,000	-
Principal paid on lease liabilities	(38)	-
Issuance of shares and warrants for investment units	-	120
Net cash provided by financing activities	4,454	1,118
Effects of exchange rate changes on cash and cash equivalents	29	2
Net Increase in cash and cash equivalents	1,759	208
Cash and cash equivalents at the beginning of the period	214	6
Cash and cash equivalents at the end of the period	1,973	214

* Represents an amount lower than 1 thousand.

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

NOTE 1 - GENERAL:

1. InnoCan Pharma Corporation (the "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") (together: the "Group") that was incorporated in Israel in October 2017 and commenced its activity 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 endocannabinoid system. InnoCan is at a pre-clinical stage (see also Note 1.6). InnoCan is expected to conduct activities mainly in the US, Canadian and European markets. On October 2019, InnoCan announced its plans to enter the CBD beauty market and to manufacture cannabidiol (CBD) cosmetic products (see also Note 1.5). InnoCan is expected to be selling its cannabidiol (CBD) cosmetic products 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"). 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 December 31, 2019, InnoCan paid an aggregated amount of USD 418 thousands as part of the Option Agreement. As of December 31, 2019, the research was completed and on January 21, 2020, InnoCan exercised the Option and entered into a new research and license agreement (see also Note 17).

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 will 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 December 31, 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 thousands (approximately USD 829 thousands). 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. On October 21, 2019 and November 14, 2019 InnoCan entered into a manufacture and supply agreements (the "Manufacturing Agreements") with Fancystage Unipessoal LDA, a Portuguese company ("Fancystage"), and with Biogenesis Inc., a company incorporated in New Jersey ("Biogenesis"), respectively. According to the Manufacturing Agreements, Fancystage and Biogenesis will manufacture InnoCan's cannabidiol (CBD) cosmetic products, based on formulas provided to them by InnoCan (see also Note 17).
6. Since inception, the Group has not generated revenue and expects to continue to finance itself through raising adequate funds in the foreseeable future. The Group incurred a net loss of USD 3,335 thousands for the year ended December 31, 2019 and generated USD 4,610 thousands of accumulated deficit since inception. These events and conditions, along with other matters as described in note 17(3), indicate that a material uncertainty exists

NOTE 1 - GENERAL (CONT):

that may cast significant doubt on the Group's ability to continue as a going concern. This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

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 share exchange. 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:

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

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention. The Group has elected to present the statement of comprehensive loss using the function of expense method.

Use of estimates and assumptions in the preparation of the financial statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically and adjustments, if necessary, are made in the year which they are identified. Actual results could differ from those estimates. See also Note 3.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Principal of consolidation

The consolidated financial statements include the accounts of InnoCan Pharma Corporation and its subsidiary InnoCan Pharma Ltd. All intercompany balances and transactions have been eliminated upon consolidation.

Cash and cash equivalents

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

Share based compensation

The Group measures the share based expense and the cost of equity-settled transaction with employees by reference to the fair value of the equity instruments at the date at which they are granted. This approach is based on the Black Scholes (1973) and Merton (1974) models ("Black Scholes Merton", or "BSM"), which takes into account the terms and conditions upon which the instruments were granted.

Foreign currency

The financial statements are prepared in US Dollars which is the functional currency of the Group due to the fact that most of the Group's costs are dominated in USD. Transactions and balances in foreign currencies are converted into US Dollars in accordance with the principles set forth by International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates". Accordingly, transactions and balances have been converted as follows:

- Monetary assets and liabilities - at the rate of exchange applicable at the statements of financial position date.
- Exchange gains and losses from the aforementioned conversion are recognized in the statement of comprehensive loss.
- Expense items - at exchange rates applicable as of the date of recognition of those items.
- Non-monetary items are converted at the rate of exchange at the time of the transaction.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

Classification of financial instruments by fair value hierarchy

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Financial instruments

1. Financial assets

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

Amortized cost: these assets incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

2. Financial Liabilities

The Group classifies its financial liabilities based on the purpose for which the liability was acquired. The Group's accounting policy is as follows: Fair value through profit or loss: The Group measures its warrant financial liabilities at fair value through profit or loss. Amortized cost: other accounts payable are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

3. De-recognition

- Financial assets - The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows.
- Financial Liabilities - The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

4. Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset as follows. Financial assets carried at amortized cost: there is objective evidence of impairment of other accounts receivable if one or more events have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Loss per share

Basic earnings or loss per share are calculated as net profit or loss attributed to the Group, divided by the weighted average number of outstanding ordinary shares, during the period.

New and amended standards and interpretations adopted in the period

The Group adopted IFRS 16 with a transition date of January 1, 2019. The Group has chosen not to restate comparatives on adoption of the standard, and therefore, the revised requirements are not reflected in the prior year financial statements. Details of the impact this standard have had are disclosed below. Other new and amended standards and Interpretations issued by the IASB did not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies, such as the implementation of IFRIC Interpretation 23 disclosed below. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

<u>IFRS 16 Leases</u>

Effective January 1, 2019, IFRS 16 has replaced IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with exemptions to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low-value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Group does not have significant leasing acting as a lessor.

IFRS 16 provides for certain optional practical expedients, including those related to the initial application of the standard. The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application and do not contain a purchase option.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for all leases.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New and amended standards and interpretations adopted in the period (cont.)

IFRS 16 Leases (cont.)

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of lease commencement date (May 14, 2019), without restatement of comparative figures. On initial application of IFRS 16, the Group recognized right-of-use assets and lease liabilities in relation to leases of motor vehicles, which were new in 2019. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at May 14, 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 8%. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group had no liability in respect of operating leases in the financial statements as of December 31, 2018.

Significant accounting policies subsequent to transition

All leases are accounted for by recognising a right-of-use asset and a lease liability. Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate implicit in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favor of the Group if it is reasonably certain to exercise that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New and amended standards and interpretations adopted in the period (cont.)

IFRS 16 Leases (cont.)

Right-of-use assets are initially measured 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.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining useful life of the right of use asset, if rarely, this is judged to be shorter than the lease term. In the scenario of a purchase option, the Group amortizes the right of use asset over its useful life. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate or when there is a change in the assessment of the term of any lease the remeasurement being recognized in front of the right of use assets.

Use of estimates and judgements

There have been no material revisions to the nature and amount of estimates of amounts reported in prior periods except where the implementation of IFRS 16 discussed above requires a different approach to the accounting previously applied. Significant estimates and judgements that have been required for the implementation of the new standard are:

- The determination of whether an arrangement contains a lease;
- The determination of lease term for some lease contracts in which the Group is a lessee that include renewal options and termination options, and the determination whether the Group is reasonably certain to exercise such option; and
- The determination of the incremental borrowing rate used to measure lease liabilities;

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New and amended standards and interpretations adopted in the period (cont.)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

Effective January 1, 2019, the Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Interpretation did not have an impact on the consolidated financial statements of the Group.

New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The following amendments are effective for the period beginning January 1, 2020:

Amendments to IAS 1 and IAS 8: *Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New and amended standards and interpretations adopted in the period (cont.)

Amendments to IAS 1: *Presentation of Financial Statements*

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group is currently assessing the impact of these new accounting standards and amendments. The Group does not believe that the amendments to IAS 1 will have a significant impact on the Group's consolidated financial statements.

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:

The areas requiring the use of estimates and critical judgments that may potentially have a significant impact on the Group's financial position are the share based compensation expenses and the fair value valuation of warrants.

Share based compensation

The Group has a share based plan for its employees and service providers. The estimated fair value of share options is determined using the Black Scholes Merton model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors, as well as internal estimates (see also Note 7).

Fair value valuation of warrants

The Group measures the fair value of the warrants using the Black-Scholes model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the warrants (see also Note 6).

NOTE 4 - OTHER ACCOUNTS RECEIVABLE

	December 31, 2019	December 31, 2018
	USD in thousands	
Prepaid expenses	426	342
Tax authorities	50	59
Restricted deposits	31	29
Related party	-	13
Others	7	-
Total	514	443

NOTE 5 - OTHER ACCOUNTS PAYABLE

	December 31, 2019	December 31, 2018
	USD in thousands	
Accrued expenses	314	90
Payroll and related liabilities	95	126
Short term lease liability	34	-
	443	216

NOTE 6 - 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 December 31, 2019, two of the six Investors exercised their SPA Warrants. As for the SPA Warrants that were not exercised as of this date, the aforementioned 18 months period following the date of the agreement has ended, therefore they were expired.

2. In respect of Tamar InnoVest Limited's (formerly Solsken Limited, name was changed on October 31, 2019) ("Tamar InnoVest") arrangements with the Group (see also Note 7), the Group recorded a derivative financial liability which represents the fair value of the Tamar InnoVest 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 December 31, 2019 amounted to USD 536 thousands. The amount was recorded according to its fair value according to valuation performed by an independent third party appraiser with respect to the traded price share.

3. 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, 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 convertible notes options did 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 US dollars. The Company recognized a derivative financial liability.

NOTE 6 – WARRANTS (CONT.):

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. The derivative was eliminated upon receiving the cash.

4. As part of the IPO, the Company issued Unit Warrants (see also Note 1.4). 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 December 31, 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. 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 December 31, 2019 amounted to USD 125 thousands. The amount was recorded according to its fair value according to valuation performed by an independent third party appraiser.

The fair value measurement of the warrants as of December 31, 2019 in the table below was measured using the Black-Scholes model. The key inputs that were used in measuring the fair value of the warrants were: risk free interest rate - 1.7%, expected volatility - 66%, year and Expected dividend yield - 0.

	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
As of December 31, 2019				
Derivative liability – warrants	-	-	(661)	(661)

NOTE 6 – WARRANTS (CONT.):

The key inputs that were used in measuring the fair value of the warrants as of December 31, 2018 below were: risk free interest rate - 1.87%, expected volatility - 53%, year and Expected dividend yield - 0.

	Fair value measurements using input type			
	Level 1	**Level 2**	**Level 3**	**Total**
As of December 31, 2018				
Derivative liability – warrants	-	-	(60)	(60)

The derivative financial liabilities as at December 31, 2019 and 2018 are as follows:

	Fair Value of warrants
	US Dollars in thousands
balance at January 1, 2018	-
Changes during 2018:	
Additions	
SPA Warrants	40
Changes in FV	
SPA Warrants	20
balance at December 31, 2018	60
Changes during 2019:	
Additions	
Tamar InnoVest A and B Warrants (formerly Solsken A and B Warrants)	198
Unit Warrants	115
Convertible notes options	18
Changes in FV	
Tamar InnoVest A and B Warrants	338
Unit Warrants	10
Convertible notes options	69
SPA Warrants	12
Exercise	
Convertible notes options	(87)
SPA Warrants	(6)
Expirations	
SPA Warrants	(66)
balance at December 31, 2019	661

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

(US Dollars)

NOTE 7 - SHAREHOLDERS' EQUITY:

Composition:

	Number of shares as of December 31, 2019	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	143,866,169

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

Movement in number of shares:

	Number of shares
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
Issuance of shares in InnoCan (i)	22,726,935
Issuance of shares to InnoCan's shareholders upon Share Exchange (See also Note 1.4)	98,161,455
Issuance of shares to Tamar InnoVest (See also Note 5 hereunder)	9,299,417
Issuance of shares (See also Note 5 hereunder)	3,317,250
Share based compensation	-
Issuance of shares - IPO	6,111,112
SPA Warrants exercise (ii)	-
Closing balance at December 31, 2019	143,866,169

(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.

(ii) Due to technical reasons, the issuance of shares did not occur by the balance sheet date due to the fact that the exercise price cash consideration was in transit at the balance sheet date.

NOTE 7 - SHAREHOLDERS' EQUITY (CONT.):

1. On August 8, 2018 the Company issued 2,250,000 common shares without nominal par value to service providers.
2. On September 30, 2018, the Company issued 1,500,000 common shares without nominal par value to directors.
3. On December 21, 2018, the Company signed a consulting agreement according to which the Company issued 500,000 common shares without nominal par value to its chief financial officer ("CFO") in consideration of USD 7 thousands (CAD 10 thousands).
4. Between January and March 2019, InnoCan issued 2,081 ordinary shares with a par value of NIS 0.01 (which were exchanged upon the Share Exchange Transaction into 1,529,535 common shares without nominal par value of the Company) to different investors for an approximately USD 141 thousands.
5. On January 15, 2019, the Company entered into convertible notes private placement agreements ("the Convertible Notes") in the amount of USD 300 thousands. 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.
6. On April 15, 2019, InnoCan issued 28,840 ordinary shares with a par value of NIS 0.01 per value (which were exchanged upon the Share Exchange Transaction into 21,197,400 common shares without nominal par value of the Company) as part of the Tamar InnoVest transaction (see also Note 7 below).
7. On September 25, 2019 the Company issued 6,111,112 common shares as part of the IPO.
8. On September 25, 2019, as part of the Share Exchange Transaction (See also Note 1.4), the Company issued 98,161,455 common shares without nominal par value to the former InnoCan shareholders.
9. On September 25, 2019 the Company issued 9,299,417 common shares to Tamar InnoVest, see also Note 7 below.
10. Following the IPO, several shareholders invested in the Company an additional amount of USD 242 thousands due to a demand from the Canadian securities administrators for completion of the price per share to CAD 0.5.

NOTE 7 - SHAREHOLDERS' EQUITY (CONT.):

Tamar InnoVest transaction

A. Effective April 15, 2019, the Company and InnoCan entered into a number of arrangements with Tamar InnoVest (formerly Solsken Limited, name was changed on October 31, 2019), 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) Tamar InnoVest SPA – pursuant to which Tamar InnoVest 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 Tamar InnoVest of the following;

1. 19,023 Tamar InnoVest 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 0.125 per share), for a period of 24 months from April 15, 2019, subject to an accelerated exercise expiry at any time following
2. 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
3. 2,721 Tamar InnoVest 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 0.175 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 Tamar InnoVest 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 Tamar InnoVest 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.

NOTE 7 - SHAREHOLDERS' EQUITY (CONT.):

Tamar InnoVest Investment (cont.):

b) Tamar InnoVest Private Placement Agreement – pursuant to which Tamar InnoVest 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 Tamar InnoVest.

c) Tamar InnoVest Private Placement Agreement - pursuant to which Tamar InnoVest purchased a USD 500 thousands non-interest-bearing convertible note from the Company, convertible to Common Shares at a price of USD 0.09435 per Common Share by Tamar InnoVest 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 Tamar InnoVest.

Share based compensation

A. On September 25, 2019, the Group granted 12,226,477 options to its employees, directors and service providers, each exercisable for one ordinary share of the Group, as part of the Group'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%

During 2019, 200,000 options were forfeited.

B. On October 6, 2019, the Group granted 80,000 options to a service provider, each exercisable for one common share of the Group. 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. 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%,

NOTE 7 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.)

In the year ended December 31, 2019, the Group recorded share based compensation expense of USD 426 thousands, which is included in selling and marketing expenses, research and development expenses, or general and administrative expenses, based on the grantee.

	The year ended December 31, 2019	
	Number of options	Weighted average exercise price (CAD)
Outstanding at beginning of period	-	-
Granted - exercise price 0.30	300,000	0.30
Granted - exercise price 0.32	80,000	0.32
Granted - exercise price 0.18	11,926,477	0.18
Forfeited	(200,000)	-
Outstanding at end of period	12,106,477	0.18
Exercisable options	3,865,492	0.18

NOTE 8 - SELLING AND MARKETING EXPENSES:

	Year ended December 31, 2019	Year ended December 31, 2018
	(USD in thousands)	
Salary and related expenses	380	124
Service providers	187	34
Share based compensation	121	17
Others	7	5
	695	180

NOTE 9 - RESEARCH AND DEVELOPMENT EXPENSES:

	Year ended December 31, 2019	Year ended December 31, 2018
	(USD in thousands)	
Salary and related expenses	147	74
Materials	117	15
Share based compensation	57	11
Patents	44	13
Research expense	-	419
Others	3	2
	368	534

NOTE 10 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31, 2019	Year ended December 31, 2018
	(USD in thousands)	
Issuance expenses	555	-
Salary and related expenses	359	162
Professional services	311	173
Legal fees	232	37
Share based compensation	248	29
Travel abroad	69	-
Others	164	51
	1,938	452

NOTE 11 - TAXES ON INCOME:

A. Tax rate applicable to income in Canada

Canadian federal and provincial statutory tax rate was 27% in 2019 and in 2018. The Company has not received a final tax assessment since inception.

B. Tax rate applicable to income in Israel

Israeli corporate tax rates are 23% in 2019 and 2018.

InnoCan has not received a final tax assessment since inception.

C. Net operating losses carry forwards

As of December 31, 2019, the Group has estimated carry forward tax losses of approximately USD 3,436 thousands, which may be carried forward and offset against taxable income for an indefinite period in the future. The Group did not recognize deferred tax assets relating to carry forward losses in the financial statements because their utilization in the foreseeable future is not probable.

D. Reconciliation of statutory rate income tax to the Group's effective tax rate

	Year ended December 31, 2019	Year ended December 31, 2018
	(USD in thousands)	
Loss before income tax	(3,335)	(1,192)
Theoretical tax at applicable statutory tax rate (27%)	(900)	(322)
Deferred tax asset that cannot be recognized due to uncertainty	900	322
Income tax expenses	-	-

NOTE 12 - RELATED PARTIES:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's making of financial or operational decisions, or if both parties are controlled by the same third party. The Group has transactions with key management personnel and directors.

Key management personnel compensation

Key management personnel compensation and directors fee comprised the following:

Transaction - expense	Year ended December 31, 2019 (USD in thousands)	Year ended December 31, 2018 (USD in thousands)
Salary and related expenses	693	287
Share based compensation	332	57

Assets related to related party

Name	Nature of transaction	December 31, 2019 (USD in thousands)	December 31, 2018 (USD in thousands)
Other accounts receivable	Current assets	-	13

Liabilities to related party

Name	Nature of transaction	December 31, 2019 (USD in thousands)	December 31, 2018 (USD in thousands)
Other accounts payable	Short term employee benefits	12	46
Warrants	Tamar InnoVest A and B Warrants	536	-

NOTE 13- LEASES:

The Group has lease contracts for motor vehicles used in its operations. Leases of motor vehicles generally have lease terms of 3 years. The Group also has certain leases of office facilities with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemption for these leases.

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

	Motor vehicles (USD in thousands)
As at January 1, 2019	-
Additions	106
Depreciation expense	(20)
As at December 31, 2019	86

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	Motor vehicles (USD in thousands)
As at January 1, 2019	-
Additions	87
Accrued interest	4
Payments	(19)
As at December 31, 2019	72
Current	34

At December 31, 2019	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	(USD in thousands)				
Lease liabilities	9	25	38	-	-

NOTE 13 - LEASES (CONT.):

The following are the amounts recognized in profit or loss:

	Year ended December 31, 2019 (USD in thousands)
Depreciation expense of right-of-use assets	20
Interest expense on lease liabilities	4
Total amount recognized in profit or loss	24

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES:

1. As part of the Board of Directors ongoing regulatory compliance process, the Board of Directors continues to monitor legal and regulatory developments and their potential impact on the Group.
2. The Group is currently disputing the amounts invoiced by its former legal counsel in December 2019 as they significantly exceed the amounts previously proposed and agreed upon between the parties. As of the approval date of the reports, no legal claims have been filed and partial amounts have been paid by the Group. The Group has included an accrual for the disputed amounts in other accounts payable.

NOTE 15 - LOSS PER SHARE:

Loss per share has been calculated using the weighted average number of shares in issue during the relevant financial period, the weighted average number of equity shares in issue and loss for the period as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Loss for the year attributed to shareholders (USD in thousand)	(3,335)	(1,192)
Weighted average number of ordinary shares (*)	120,644,432	84,456,645
Basic and diluted loss per share (*)	$ (0.03)	$ (0.01)

(*) After giving effect to the Share Exchange.

NOTE 16 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

The Group is exposed to a variety of financial risks, which results from its financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Group's financial performance and position. The Group's financial instruments are its cash and other accounts payable. The main purpose of these financial instruments is

NOTE 16 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

to raise finance for the Group's operation. The Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals.

The risks arising from the Group's financial instruments are mainly credit risk and currency risk. The risk management policies employed by the Group to manage these risks are discussed below.

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Group closely monitors the activities of its counterparties and controls the access to its intellectual property, which enables it to ensure the prompt collection of customer's balances. The Group's main financial assets are cash and cash equivalents and represent the Group's maximum exposure to credit risk in connection with its financial assets. Wherever possible and commercially practical the Group holds cash with major financial institutions in Israel.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	December 31, 2019	December 31, 2018
	(USD in thousands)	
Cash and cash equivalents	1,973	214
Total	1,973	214

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the New Israeli Shekel ("NIS") and the Canadian Dollar ("CAD"). The Group's policy is not to enter into any currency hedging transactions.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

NOTE 16 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

	December 31, 2019		
	Assets	**Liabilities**	**Total**
	(USD in thousands)		
NIS	132	(399)	(267)
CAD	678	-	678
EURO	6	-	6

	December 31, 2018		
	Assets	**Liabilities**	**Total**
	(USD in thousands)		
NIS	221	(130)	91

Sensitivity analysis

A 10% strengthening of the United States Dollar against the following currencies would have increased (decreased) equity and the income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the United States Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	December 31, 2019 (USD in thousands)
Linked to NIS	42

	December 31, 2018 (USD in thousands)
Linked to NIS	9

Liquidity risks

Liquidity risk is the risk that arises when the maturity of assets and the maturity of liabilities do not match. An unmatched position potentially enhances profitability but can also increase the risk of loss. The Group has procedures with the object of minimizing such loss by maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

NOTE 16 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	December 31, 2019	December 31, 2018
	(USD in thousands)	
Short term liability	-	257
Other accounts payable	443	216
Total	443	473

Capital management

The Group considers its capital to be comprised of shareholders' equity. The Group's objectives in managing its capital are to maintain its ability to continue as a going concern and to further develop its business. To effectively manage the Group's capital requirements, the Group has a planning and budgeting process in place to meet its strategic goals. In order to facilitate the management of its capital requirements, the Group prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. Management reviews the capital structure on a regular basis to ensure the above objectives are met. There have been no changes to the Group's approach to capital management during the year ended December 31, 2019. There are no externally imposed restrictions on the Group's capital.

NOTE 17 - SUBSEQUENT EVENTS:

1. On January 21, 2020, InnoCan exercised the Option in its Option Agreement (see note 1.3) and entered into a research and license agreement (the "License Agreement") with Yissum. The License Agreement grants InnoCan an exclusive license to make commercial use, on a worldwide basis, of the results of the Research. As part of the License Agreements, InnoCan agreed to finance additional research in a total amount of approximately USD 1.4 million, over a period of 15 months. InnoCan has also agreed to pay Yissum royalties of 3-5% on sales of products sold under the License Agreement and an annual license fee of USD 35 thousands.
2. On January 27, 2020, InnoCan entered into an exclusive distribution agreement (the "Distribution Agreement") with Active Therapeutics Ltd, a company based in the UK ("Active Therapeutics"). According to the Distribution Agreement, Active Therapeutics will distribute InnoCan's cannabidiol (CBD) cosmetic products exclusively in the United Kingdom and Ireland (see also Note 17.3).
3. The world is currently experiencing an event with macroeconomic consequences, originating from the spread of the Corona virus (COVID-19) in many countries around the world (hereinafter - the "Coronavirus" or the "Event"). Following the Event, many countries are taking significant measures to try to prevent the spread of the Coronavirus, such as restrictions on civilian movement, gatherings, transit restrictions on passengers and goods, closing borders between countries, etc. (hereinafter – the "Measures"). As a result, the Event and the actions taken by the various countries have significant implications on many economies worldwide.

   InnoCan had commenced manufacturing and production of its topical product lines through contracts including supply of packaging materials via Chinese companies. As packaging materials are already delayed, the production of these products will likely be delayed for an unknown period which will create uncertainty as to the timing of when these products may be distributed and sold in the future. In addition, the Event and Measures taken by governments, substantially influence the Group's marketing abilities, especially of a new brand. These Measures and general circumstances are expected to influence the ability of the Group to raise additional funds either privately or in the public markets in the future. These uncertainties shall affect the future cash flow and sales and revenue of the Company, the amounts of which cannot be determined at this time.