

INNOCAN PHARMA CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2020

UNAUDITED

INNOCAN PHARMA CORPORATION

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	3,303	1,973
Other accounts receivable	<u>555</u>	<u>514</u>
Total current assets	<u>3,858</u>	<u>2,487</u>
NON-CURRENT ASSETS:		
Property, plant and equipment, net	7	9
Right-of-use asset, net	<u>68</u>	<u>86</u>
Total non-current assets	<u>75</u>	<u>95</u>
TOTAL ASSETS	<u><u>3,933</u></u>	<u><u>2,582</u></u>

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)

	<u>Note</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		120	27
Other accounts payable		696	443
Warrants	7	<u>1,231</u>	<u>661</u>
Total current liabilities		<u>2,047</u>	<u>1,131</u>
NON-CURRENT LIABILITIES:			
Long term lease liability		<u>20</u>	<u>38</u>
Total non-current liabilities		<u>20</u>	<u>38</u>
SHAREHOLDERS' EQUITY:			
Share capital	4	-	-
Additional share capital		8,576	6,023
Accumulated deficit		<u>(6,710)</u>	<u>(4,610)</u>
Total shareholders' equity		<u>1,866</u>	<u>1,413</u>
TOTAL LIABILITIES AND SHAREHOLDERS'			
EQUITY			
		<u>3,933</u>	<u>2,582</u>

<u>"Iris Bincovich"</u>	<u>"Yoram Drucker"</u>	<u>August 27, 2020</u>
Iris Bincovich Chief Executive Officer	Yoram Drucker Audit Committee Chair	Date of approval of the Financial statements

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

INNOCAN PHARMA CORPORATION
UNAUDITED CONDENSED INTERIM CONSOLIDATED
STATEMENTS OF COMPREHENSIVE LOSS
(US Dollars in thousands except for per share data)

	Note	Three months period ended June 30,		Six months period ended June 30,	
		2020	2019	2020	2019
Selling and marketing expenses		206	109	375	186
Research and development expenses	5	488	31	827	141
General and administrative expenses	6	720	181	1,102	299
Operating loss		1,414	321	2,304	626
Finance income		(2)	(26)	(294)	(29)
Finance expenses		353	31	90	31
Loss before income taxes		1,765	326	2,100	628
Income taxes		-	-	-	-
Total comprehensive loss		1,765	326	2,100	628
Basic and diluted loss per share		\$ 0.012	\$ 0.003	\$ 0.014	\$ 0.006
Weighted average number of common shares (*)		151,700,592	117,591,017	147,761,738	108,012,582

(*) After giving effect to the Share Exchange (see also Note 1.3).

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)

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at January 1, 2020	<u>-</u>	<u>6,023</u>	<u>(4,610)</u>	<u>1,413</u>
Changes during the period:				
Issuance of common shares, net	-	2,192	-	2,192
Exercise of warrants	-	15	-	15
Share based compensation	-	346	-	346
Total comprehensive loss	<u>-</u>	<u>-</u>	<u>(2,100)</u>	<u>(2,100)</u>
Balance at June 30, 2020	<u>-</u>	<u>8,576</u>	<u>(6,710)</u>	<u>1,866</u>

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at January 1, 2019	<u>*</u>	<u>1,402</u>	<u>(1,275)</u>	<u>127</u>
Changes during the period:				
Issuance of ordinary shares, net	*	141	-	141
Issuance of ordinary shares and warrants to Tamar InnoVest	*	1,802	-	1,802
Total comprehensive loss	<u>-</u>	<u>-</u>	<u>(628)</u>	<u>(628)</u>
Balance at June 30, 2019	<u>*</u>	<u>3,345</u>	<u>(1,903)</u>	<u>1,442</u>

* Represents an amount lower than USD 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)

	Six months period ended June 30, 2020	Six months period ended June 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the period	(2,100)	(628)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	20	*
Share based compensation	346	-
Change in fair value of a warrants	(293)	(29)
Interest charged on lease liabilities	3	-
Increase in other accounts receivable	(33)	(102)
Decrease in research liability	-	(189)
Increase in trade accounts payable	93	-
Increase (decrease) in other accounts payable	277	(71)
Financial expenses, net	56	(1)
Net cash used in operating activities	(1,631)	(1,020)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in lease deposit	-	(16)
Purchase of property, plant and equipment	-	(7)
Net cash used in investing activities	-	(23)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of ordinary shares, net	-	141
Issuance of common shares and warrants	3,021	2,000
Exercise of warrants	15	-
Principal paid on lease liabilities	(19)	-
Net cash provided by financing activities	3,017	2,141
Effects of exchange rate changes on cash and cash equivalents	(56)	-
Net increase in cash and cash equivalents	1,330	1,098
Cash and cash equivalents at the beginning of the period	1,973	214
Cash and cash equivalents at the end of the period	3,303	1,312

* Represents an amount lower than USD 1 thousand.

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

NOTE 1 - GENERAL:

1. InnoCan Pharma Corporation (the "Company") was incorporated as a corporation in Canada and commenced its operations in May 2018. The Company's registered office is in Calgary, Canada.
2. The Company is a publicly listed company on the Canadian Securities Exchange (the "CSE") trading under the symbol INNO and is the parent company of InnoCan Pharma Ltd. ("InnoCan") (together: the "Group") 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 endocannabinoid 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. In October 2019, InnoCan announced its plans to enter the CBD beauty market and to manufacture cannabidiol (CBD) cosmetic products. InnoCan is expected to be selling its cannabidiol (CBD) cosmetic products mainly in the US, Canadian and European markets.
3. 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 June 30, 2020, 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

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

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.

4. On May 11, 2020, the Company filed a preliminary short form prospectus in Canada, in connection with a marketed public offering (the "Offering"). On June 10, 2020, the Company closed the Offering, pursuant to which the Company issued 28,423,943 units of the Company (the "Units") at a price of CAD 0.18 per Unit for gross proceeds of CAD 5,116,310 (approximately USD 3,822 thousand). Each Unit is comprised of one common share and one warrant. Each warrant is exercisable into one common share at an exercise price of CAD 0.25 until June 10, 2023. If in the period commencing June 10, 2021, the closing daily volume weighted average trading price ("VWAP") of the common shares of the Company, is equal to or greater than CAD 0.50 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 (see also Note 7).

5. 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 2,100 thousand for the six-month period ended June 30, 2020 and generated USD 6,710 thousands of accumulated deficit since inception. These events and conditions, along with other matters as described in Note 3(A), indicate that a material uncertainty exists 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.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

Basis of preparation

These interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2019 annual report.

Significant accounting policies

The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2019 annual financial statements. Other new and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Impact of accounting standards to be applied in future periods

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective for periods beginning subsequent to December 31, 2020 (the date on which the Group's next annual financial statements will be prepared up to) that the Group has decided not to adopt early. The Group does not believe these standards and interpretations will have a material impact on the financial statements once adopted.

NOTE 3 - SIGNIFICANT EVENTS AND TRANSACTIONS:

A. Covid-19 effect

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

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NOTE 3 - SIGNIFICANT EVENTS AND TRANSACTIONS (CONT.):

A. Covid-19 effect (cont.)

its topical product lines through contracts including supply of packaging materials via Chinese companies. As packaging materials were delayed, the production of these products was subsequently delayed beyond the date of June 30, 2020. In addition, the Event and Measures taken by governments, substantially influence the Group's marketing abilities, especially of a new brand. These uncertainties may affect the future cash flow and sales of the Group, the amounts of which cannot be determined at this time.

The World Health Organization declared coronavirus and COVID-19 a global health emergency on January 30, 2020. Since then, the Group has experienced significant disruption to its operations in the following respects:

1. Disruptions in the manufacturing and supply of the Group's products from major manufacturers;
2. Significant uncertainty concerning when government lockdowns will be lifted, social distancing requirements will be eased and the long-term effects of the pandemic on the demand for the Group's primary products.

B. The "Ramot Research Agreement"

On April 17, 2020, InnoCan entered into a sponsored research agreement (the "Ramot Research Agreement") with Ramot at Tel Aviv University Ltd ("Ramot"). The Ramot Research Agreement allows InnoCan to receive the research results of Ramot in respect of the development of Cannabidiol loaded exosomes (the "CLX Research") and grants InnoCan an exclusive option to enter into an agreement to license, on a worldwide basis, the results of the CLX Research (the "Option"). Under the Ramot Research Agreement, InnoCan will provide financing for the CLX Research in the amount of USD 446 thousand over a period of 18 months in exchange for the Option. InnoCan may exercise the Option at any time during the Research until the date that is thirty days from InnoCan's receipt of the final report in respect of the CLX Research (which is due during the fourth quarter of 2021) by notifying Ramot in writing ("Option Exercise Notice"). Upon the Option Exercise Notice, InnoCan will negotiate with Ramot the terms and conditions of a license agreement. Between April 2020 and June 2020, InnoCan paid an amount of USD 60 thousand to Ramot. The total expense incurred during the period between April 2020 and June 2020 amounted to approximately USD 180 thousand.

INNOCAN PHARMA CORPORATION
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(US Dollars)

NOTE 4 - SHAREHOLDERS' EQUITY:

Composition:

	Number of shares as of June 30, 2020	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	175,342,521
	Number of shares as of December 31, 2019	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	143,866,169

On June 10, 2020, the Company closed the Offering (see also Note 1.4), pursuant to which the Company issued 28,423,943 units of the Company. Each Unit is comprised of one common share and one warrant. Each warrant is exercisable into one common share at an exercise price of CAD 0.25 until June 10, 2023, subject to a warrant acceleration clause. As part of the Offering, the Company issued to the agents and advisers that facilitated the Offering an additional 2,826,549 shares of the Company, 1,691,121 warrants and 1,848,003 options to purchase units.

Total issuance expenses incurred amounted to approximately CAD 1,901 thousand (approximately USD 1,409 thousand), that included cash payments and issuance of shares, warrants and options to purchases Units. Total issuance expenses of approximately CAD 1,235 (approximately USD 916 thousand) were paid in cash.

The fair value of the 2,826,549 shares of the Company issued was recognized as approximately CAD 441 thousand (approximately USD 327 thousand).

The fair value of 1,691,121 warrants issued to the agents and advisors that facilitated the Offering was recognized as approximately CAD 74 thousand (approximately USD 54 thousand). Each warrant is exercisable onto one common share at an exercise price of CAD 0.25 until June 10, 2023.

The fair value of 1,848,003 options to purchase Units was recognized as approximately CAD 151 thousand (approximately USD 112 thousand). Each option entitles the holder thereof to acquire one unit (the "Compensation Unit") at an exercise price of CAD 0.18 until June 10, 2022. Each Compensation Unit is comprised of one common share and one warrant ("Compensation Warrant"). Each Compensation Warrant entitles the holder thereof to acquire one common share at an exercise price of CAD 0.25 until June 10, 2023.

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NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

June 2020 issuance expenses (USD in thousands)	
Issuance expenses paid in cash	916
Fair value of common shares of the Company	327
Fair value of warrants	54
Fair value of option to purchase Units	112
Total issuance expenses	1,409

The fair value measurements of the shares, warrants and options described 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 as of June 30, 2020 were as follows:

- A risk free interest rate of 0.28%,
- an expected volatility of 75% year and
- expected dividend yield of 0.

Changes in the number of issued Common Shares from December 31, 2019 to June 30, 2020 are as follows:

	Number of Common Shares
Balance December 31, 2019	143,866,169
Shares issued – warrants exercised	225,860
Shares issued – June 2020 Offering	31,250,492
Balance June 30, 2020	175,342,521

INNOCAN PHARMA CORPORATION
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NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation for service providers, directors and employees

1. On January 25, 2020, the Company granted 100,000 options to a service provider of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.14 per share. The options are fully vested at grant, and expire 2 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%

2. On April 19, 2020, the Company granted 400,000 options to a director of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.16 per share. The options are fully vested at the grant date and expire 5 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 75%

– The dividend growth rate is 0%

3. On June 11, 2020, the Company granted an aggregated amount of 1,520,000 options to several directors and consultants of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.16 per share. The options are fully vested at the grant date and expire 5 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 75%

– The dividend growth rate is 0%

In the six-month period ended June 30, 2020, the Company recorded share-based compensation expenses of USD 346 thousand, which is included in selling and marketing expenses, research and development expenses, or general and administrative expenses, based on the grantee.

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NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation for service providers, directors and employees (cont.)

	Six months period ended June 30, 2020	
	Number of options	Weighted average exercise price (CAD)
Options outstanding at beginning of period	12,106,477	0.18
Granted – exercise price CAD 0.14	100,000	0.14
Granted – exercise price CAD 0.16	1,920,000	0.16
Expired – exercise price CAD 0.30	(100,000)	0.30
Expired – exercise price CAD 0.18	(1,058,769)	0.18
Options outstanding at end of period	12,967,708	0.18
Exercisable options	8,938,472	0.18

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

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NOTE 5 - RESEARCH AND DEVELOPMENT EXPENSES:

	Three months period ended June 30,		Six months period ended June 30,	
	2020	2019	2020	2019
	(USD in thousands)			
Research expenses	409	-	640	64
Salary and related expenses	49	27	122	55
Share based compensation	15	-	36	-
Others	15	4	29	22
	<u>488</u>	<u>31</u>	<u>827</u>	<u>141</u>

NOTE 6 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Three months period ended June 30,		Six months period ended June 30,	
	2020	2019	2020	2019
	(USD in thousands)			
Issuance expenses	321	-	321	-
Share based compensation	108	-	210	-
Salary and related expenses	152	71	225	136
Professional and legal services	76	82	190	120
Others	63	28	156	43
	<u>720</u>	<u>181</u>	<u>1,102</u>	<u>299</u>

INNOCAN PHARMA CORPORATION
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NOTE 7 - FINANCIAL INSTRUMENTS:

The Company accounts for warrants issued to investors under IFRS 9 and they are treated as a liability since the exercise price is not denominated in the functional currency of the Company. Warrants issued to service providers such as underwriters, selling agents, etc. are accounted for under IFRS 2 and are treated as equity.

1. Tamar InnoVest A Warrants

During April 2019, the Company issued 13,981,916 warrants (after giving effect to the Share Exchange, see also Note 1.3) to Tamar InnoVest Limited (formerly Solsken Limited) (the "Tamar InnoVest A Warrants"). Each Tamar InnoVest A Warrant is exercisable at a price of USD 0.125 (based on a 1:735 share exchange agreement ratio between InnoCan and the Company) for a period of 24 months from April 15, 2019, subject to acceleration in certain cases.

2. Tamar InnoVest B Warrants

During April 2019, the Company issued 2,000,000 warrants (after giving effect to the Share Exchange, see also Note 1.3) to Tamar InnoVest Limited (formerly Solsken Limited) (the "Tamar InnoVest B Warrants"). Each Tamar InnoVest B Warrant is exercisable at a price of USD 0.175 (based on a 1:735 share exchange agreement ratio between InnoCan and the Company) for a period of 28 months from April 15, 2019, subject to acceleration in certain cases.

3. September 2019 Unit Warrants

In connection with September 25, 2019 IPO (see also Note 1.3), the Company issued 3,055,556 warrants (the "September 2019 Unit Warrants") to investors. Each September 2019 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, subject to acceleration in certain cases.

4. June 2020 Unit Warrants

In connection with June 10, 2020 Offering (see also Note 1.4), the Company issued 28,423,943 warrants (the "June 2020 Unit Warrants") to investors. Each June 2020 Unit Warrant entitles the holder thereof to acquire one common share at an exercise price of CAD 0.25 for a period of 36 months following June 10, 2020, subject to acceleration in certain cases.

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NOTE 7 - FINANCIAL INSTRUMENTS (CONT.):

The following table compares the carrying amounts and fair values of the Company's financial liabilities as at June 30, 2020:

	<u>As at June 30, 2020</u>		<u>As at December 31, 2019</u>	
	<u>US Dollars in thousands</u>		<u>US Dollars in thousands</u>	
	<u>Carrying</u>		<u>Carrying</u>	
	<u>Amount</u>	<u>Fair Value</u>	<u>Amount</u>	<u>Fair Value</u>
Financial liabilities:				
Tamar InnoVest A Warrants	(275)	(275)	(488)	(488)
Tamar InnoVest B Warrants	(27)	(27)	(48)	(48)
September 2019 Unit Warrants	(32)	(32)	(125)	(125)
June 2020 Unit Warrants	(897)	(897)	-	-
Total	<u>(1,231)</u>	<u>(1,231)</u>	<u>(661)</u>	<u>(661)</u>

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

	<u>Fair value measurements using input type</u>			
	<u>June 30, 2020</u>			
	<u>US Dollars in thousands</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Derivative financial liability (warrants)	-	-	(1,231)	(1,231)
	<u>December 31, 2019</u>			
	<u>US Dollars in thousands</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Derivative financial liability (warrants)	-	-	(661)	(661)

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 as of June 30, 2020 were as follows:

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- A risk free interest rate of 0.28%,

NOTE 7 - FINANCIAL INSTRUMENTS (CONT.):

- an expected volatility of 75% year and
- expected dividend yield of 0.

The key inputs that were used in measuring the fair value of the warrants as of December 31, 2019 were as follows:

- A risk free interest rate of 1.7%,
- expected volatility of 66% and year and
- expected dividend yield of 0.

NOTE 8 - SUBSEQUENT EVENTS:

1. On July 2, 2020, the Company granted an aggregated amount of 825,000 options to several directors, employees and consultants of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.16 per share. The options expire 5 years following the grant date.
2. On August 6, 2020, InnoCan entered into a manufacturing & distribution agreement ("ESI Agreement") with Endless Sky Incorporated ("ESI"). According to the ESI Agreement, ESI will serve as the exclusive distributor of InnoCan's products in Canada under a license granted by InnoCan. ESI will pay InnoCan a one-time license fee in an amount of approximately USD 50 thousand, and royalties on products sold, ranging between 8%-12%.