

INNOCAN PHARMA CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 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>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	1,027	1,973
Other accounts receivable	<u>607</u>	<u>514</u>
Total current assets	<u>1,634</u>	<u>2,487</u>
 NON-CURRENT ASSETS:		
Property, plant and equipment, net	8	9
Right-of-use asset, net	<u>77</u>	<u>86</u>
Total non-current assets	<u>85</u>	<u>95</u>
 TOTAL ASSETS		
	<u>1,719</u>	<u>2,582</u>

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

INNOCAN PHARMA CORPORATION
UNAUDITED CONDENSED INTERIM CONSOLIDATED
STATEMENTS OF FINANCIAL POSITION

(US Dollars in thousands)

	Note	March 31, 2020	December 31, 2019
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		16	27
Other accounts payable		381	443
Warrants	8	39	661
Total current liabilities		436	1,131
NON-CURRENT LIABILITIES:			
Long term lease liability		30	38
Total non-current liabilities		30	38
SHAREHOLDERS' EQUITY:			
Share capital	4	-	-
Additional share capital		6,199	6,023
Accumulated deficit	1.5	(4,946)	(4,610)
Total Shareholders' equity		1,253	1,413
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,719	2,582

(signed) "Iris Bincovich"

 Iris Bincovich
 Chief Executive Officer

(signed) "Yoram Druker"

 Yoram Druker
 Audit Committee Chair

May 27, 2020

 Date of approval of the
 Financial statements

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

INNOCAN PHARMA CORPORATION
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS
OF COMPREHENSIVE LOSS

(US Dollars in thousands except loss per share)

	Note	Three months period ended March 31,	
		2020	2019
Selling and marketing expenses		169	77
Research and development expenses	5	340	110
General and administrative expenses	6	382	117
Operating loss		891	304
Financial income		(622)	(3)
Financial expense		67	1
Loss before income taxes		336	302
Tax expenses		-	-
Total comprehensive loss		336	302
Basic and diluted loss per share (*)		0.002	0.003
Weighted average number of common shares (*)		143,866,169	98,420,026

(*) After giving effect to the Share Exchange.

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

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

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at January 1, 2020	-	6,023	(4,610)	1,413
Changes during the period:				
Additional amount investment - post IPO	-	4	-	4
Share based compensation	-	172	-	172
Total comprehensive loss for the period	-	-	(336)	(336)
Balance at March 31, 2020 (unaudited)	-	6,199	(4,946)	1,253

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at January 1, 2019	*	1,402	(1,275)	127
Changes during the period:				
Issuance of common shares, net	-	141	-	141
Total comprehensive loss for the period	-	-	(302)	(302)
Balance at March 31, 2019 (unaudited)	*	1,543	(1,577)	(34)

* Represents an amount lower than 1 thousand.

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

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

	Three months period ended March 31, 2020	Three months period ended March 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net comprehensive loss for the period	(336)	(302)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	10	*
Share based compensation	172	-
Change in fair value of a warrants	(622)	(4)
Interest charged on lease liabilities	1	-
Decrease (increase) in other accounts receivable	(93)	37
Increase (decrease) in other accounts payable	(73)	51
Financial expenses, net	72	(1)
Net cash used in operating activities	(869)	(219)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	-	-
Net cash used in investing activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additional amount investment - post IPO	4	141
Principal paid on lease liabilities	(9)	-
Net cash provided by (used in) financing activities	(5)	141
Effects of exchange rate changes on cash and cash equivalents	(72)	1
Net Increase in cash and cash equivalents	(946)	(77)
Cash and cash equivalents at the beginning of the period	1,973	214
Cash and cash equivalents at the end of the period	1,027	137

* Represents an amount lower than 1 thousand.

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

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 (see also Note 3.B). 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 March 31, 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 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

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

NOTE 1 - GENERAL (CONT):

3. Cont.:

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. 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 may affect the future cash flow and sales of the Company, the amounts of which cannot be determined at this time.
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 336 thousands for the three months period ended March 31, 2020 and generated USD 4,946 thousands of accumulated deficit since inception. These events and conditions, along with other matters as described in note 1.4, 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:

These condensed interim consolidated financial statements of the Company are for the three months period ended March 31, 2020 and are presented in US Dollars, which is the presentation and functional currency of the Company.

These condensed interim consolidated financial statements have been prepared in accordance with the requirements of International Accounting Standard IAS 34 "Interim Financial Reporting". They do not include all the information required in annual financial statements in accordance with IFRS, and should be read in conjunction with the financial statements of the Company for the period ended December 31, 2019.

The condensed interim consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the last annual financial statements of the Company for the period ended December 31, 2019, except for the adoption of new standards effective as of January 1, 2020.

New standards, interpretations and amendments effective from 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. The amendments to the definition of material does not have significant impact on the Company’s consolidated financial statements.

NOTE 3 - SIGNIFICANT EVENTS IN THE PERIOD:

- A. 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 allowed InnoCan to receive the research results of Yissum (the "Research") and granted InnoCan an exclusive option to enter into an agreement to license, on a worldwide basis, the results of the Research (the "Option").

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 3 - SIGNIFICANT EVENTS IN THE PERIOD (CONT.):

Under the Option Agreement, InnoCan paid an aggregate amount of USD 418 thousands to finance the research over a period of 18 months in exchange for the Option. 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. As of December 31, 2019, the research was completed and on January 21, 2020, InnoCan exercised the Option and entered into a research and license agreement (the "Research & License Agreement") with Yissum.

As part of the Research & License Agreement, InnoCan agreed to finance additional research in a total amount of approximately USD 1.4 million, over a period of 18 months, in six installments. Between January 2020 and March 2020, InnoCan paid the first installment, in the amount of USD 233 thousands.

The Research & License Agreement grants InnoCan an exclusive license to make commercial use, in order to develop, manufacture, market, distribute or sell, on a worldwide basis, the results of the Research, for a period of twenty years, unless terminated earlier. As part of the Research & License Agreement, InnoCan has also agreed to pay Yissum royalties of 3-5% on future sales of products sold under the Research & License Agreement and an annual license fee of USD 35 thousands.

- B. On October 21, 2019 and November 14, 2019 InnoCan entered into 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. 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. As a result of the Coronavirus and the resulting lockdown in many countries, causing a delay in the manufacturing process (see also Note 1.4), there is uncertainty as to the timing of when these products may be distributed and sold.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 4 - SHAREHOLDERS' EQUITY:

Composition:

	Number of shares as of March 31, 2020	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	143,866,169
	Number of shares as of December 31, 2019	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	143,866,169

Following the IPO, several shareholders invested in the Company an additional amount of USD 4 thousands due to a demand from the Canadian securities administrators for completion of the price per share to CAD 0.5.

Share based compensation

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%

In the three months period ended March 31, 2020, the Company recorded share based compensation expenses of USD 172 thousands, which is included in selling and marketing expenses, research and development expenses, or general and administrative expenses, based on the grantee.

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

NOTE 4 - SHAREHOLDERS' EQUITY (CONT):

Share based compensation (cont.)

	Three months period ended March 31, 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
Forfeited	-	-
Options outstanding at end of period	12,206,477	0.18
Exercisable options	7,977,241	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

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 5 - RESEARCH AND DEVELOPMENT EXPENSES:

	Three months period ended March 31, 2020	Three months period ended March 31, 2019
	(USD in thousands)	
Research expenses	229	-
Salary and related expenses	73	27
Share based compensation	22	-
Others	16	83
	<u>340</u>	<u>110</u>

NOTE 6 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Three months period ended March 31, 2020	Three months period ended March 31, 2019
	(USD in thousands)	
Share based compensation	102	-
Professional services	77	20
Salary and related expenses	73	65
Legal fees	37	18
Travel abroad	19	-
Others	74	14
	<u>382</u>	<u>117</u>

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 7 - FINANCIAL INSTRUMENTS:

The following table compares the carrying amounts and fair values of the Company's financial assets and financial liabilities as at March 31, 2020:

	As at March 31, 2020		As at December 31, 2019	
	US Dollars in thousands		US Dollars in thousands	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Derivative financial liability (warrants)	(39)	(39)	(661)	(661)
Total	(39)	(39)	(661)	(661)

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

	Fair value measurements using input type			
	March 31, 2020			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Derivative financial liability (warrants)	-	-	(39)	(39)
	December 31, 2019			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
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 March 31, 2020 were as follows:

A risk free interest rate of 0.6%, an expected volatility of 70% 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.

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

NOTE 8 - SUBSEQUENT EVENTS:

1. 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 "ICLX Research") and grants InnoCan an exclusive option to enter into an agreement to license, on a worldwide basis, the results of the ICLX Research (the "Option"). Under the Ramot Research Agreement, InnoCan will provide financing for the ICLX Research in the amount of USD 446 thousands 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 ICLX 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.
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.
3. On April 26, 2020, the Company issued 1,437,661 common shares to Green Times Consulting Ltd, a consultant of the Company, in consideration for consulting fees rendered in the amount of approximately CAD 250 thousands.
4. On May 11, 2010, the Company filed a preliminary short form prospectus in Canada, in connection with a marketed public offering (the "Offering") for gross proceeds of up to CAD \$10,000,000 in units plus a 15% over-allotment option to be co-led by Mackie Research Capital Corporation and Canaccord Genuity Corp. (the "**Lead Agents**") together with a syndicate that includes Haywood Securities Inc. and PI Financial Corp. (together with the Lead Agents, the "**Agents**").
5. On May 14, 2020, the Company announced that it had priced the Short Form Prospectus Offering at a price of CAD 0.20 per unit. Each unit shall be comprised of one common share and one warrant. Each warrant is exercisable into one common share at an exercise price of CAD 0.25 for a period of 36 months following completion of the Short Form Prospectus Offering subject to a warrant acceleration clause.